

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

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### 1. 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 inadequacy of 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, 2014 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:

#### Receivables

The accuracy, validity and collectability of the balance of *Accounts Receivable (AR)* account as of December 31, 2014 in the total net amount of P8.457 billion cannot be ascertained due to the following:

PARTICULARS	Amount in millions
<b>Variance between the GL and the Aging schedule:</b>	
Head Office	797.912
Area Center I	3.935
Area Center IV	1.745
Area Center VI	4.296
Area Center IX	4.464
	<u>14.440</u>
Total	<u><b>812.352</b></u>
<b>Debtor's unsettled long overdue accounts:</b>	
Head Office	4,468.383
Area Center I	48.833
Area Center V	32.864
Area Center VI	776.188
	<u>857.885</u>
Total	<u><b>5,326.268</b></u>
<b>Negative Balances in the SL</b>	
Head Office	<u><b>37.744</b></u>

The reliability and accuracy of *Due from National Government Agencies* and *Due from Local Government Units* 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, 2014, the balances of the respective accounts are P86.945 million and P42.614 million, respectively.

Likewise, *Receivables - Disallowances/Charges* account with a P30.117 million balance as of December 31, 2014, include a carried forward account from ATO amounting to P25.973 million in the Head Office. The persons liable for most of these disallowances were still not established/determined to date.

### Property and Equipment

In the course of our audit of the CY 2014 transactions in the Head Office, we noted that the submitted Reports on the Physical Count of Property, Plant and Equipment (RPCPPE) as of December 31, 2014 are submitted by Office/Service Group and not reported by type of PE as recognized in the books. Moreover, not all the columns like unit value, quantity per card and shortage/overage columns were filled in completely, thus do not show if the result of the count reconcile with the balances of the property cards as of December 31, 2014. The RPCPPEs were not certified correct by the Inventory Committee, not approved by the Agency Head, and were submitted only on March 26, 2015, past the January 31 deadline.

Furthermore, the record maintenance over Property and Equipment by the Property Division is inefficient as the Property/Equipment Cards are not updated and some major equipment has no property cards. The Accounting Division does not maintain the Equipment/Equipment Ledger Cards, thus no reconciliation of records was done between the Property and Accounting Divisions.

The deficiencies in the RPCPPE 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 the proper maintenance of the Property/Equipment Cards and the Property/Equipment Ledger Cards. Hence, the reliability, validity, existence and accuracy of the PE accounts in the Head Office in the total net amount of P1.099 billion are doubtful, which include the transferred PE from ATO books amounting to P134.011 million (Annex A).

In the Area Centers the validity, existence and correctness of the PE accounts are also doubtful due to the following:

<b>Area Center</b>	<b>Amount in millions</b>	<b>Reasons/Issues</b>
Area I	301.691	No physical inventory taking and the non-recognition of Land, Land Improvements, Runways/taxiways, Communications and Airport Equipment, etc.
Area II	51.502	No physical inventory taking and no TCT for land
Area III	16.674	No physical inventory taking
Area IV	64.819	Not supported with accurate RPCPPE and property cards.
Area VI	392.730	Land not recognized in the books RPCPPE cannot be reconciled with accounting records
<b>Total</b>	<b>827.416</b>	

### Other Assets

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. No adjustment was made in the Head Office for CY 2014 which still has a balance of P4.362 billion while the remaining P0.223 billion represents the balances in the Area Centers. As of December 31, 2014, the account balance is P4.585 billion. Details of the Other Assets account are shown in Note 9 of the Notes to Financial Statements.

### 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 these 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 and Due to Regional Offices

The validity and existence of the balances of the *Due from Regional Offices account* and the *Due to Regional Offices account* presented under Receivables are doubtful. Due from Regional Offices did not tally by P76.652 million to its reciprocal account, Due to Central Office and Due to Regional Offices did not tally by P81.735 million to its reciprocal account, Due from Central Office. The variances can be attributed to the accounts transferred from the abolished ATO to the CAAP books of account in CY 2008 which could not be substantiated due to inadequacy of accounting records.

### Taxes Withheld Pertaining to Prior Years' Transactions

Our verification disclosed that Management was able to remit all withheld taxes for CY 2014 within the reglementary period provided under Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 and Revenue Regulation No. 2-98 dated April 17, 1998. However, there are still prior period carry-over transactions from the ATO books amounting to P3.363 million that had remained unreconciled.

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 by creating a special committee who shall focus on the validation, reconciliation and documentation tasks 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.

Further, we reiterated our prior years' recommendation that proper inventory taking with complete and correct RPCPPE must be done by the Authority. That is, classify the PE in the RPCPPE by type of property and provide totals for each type to aid in the reconciliation and be able to support the balances presented in the Financial Statements and exert effort to submit the RPCPPE not later than January 31 of each year.

Management stated that the difference in the GL and SL of the Accounts Receivable account already existed since ATO days in which they are trying their best to reconcile, but they are having difficulties locating needed documents.

With regards to the Property and Equipment accounts, Management informed COA that there have been several discussions between the Accounting and Supply Divisions. On the part of the Supply Division, they have already started updating the property cards as recommended by COA, although having difficulties due to lack of manpower and the absence of documents.

**2. We have audited the Cash accounts of the Authority as at December 31, 2014 and we have noted the following deficiencies:**

**2.1 The Cash in Bank accounts in the Head Office is understated by P348.269 million due to unrecorded reconciling items as of December 31, 2014.**

In our verification of the Authority's Bank Reconciliation Statements as of December 31, 2014, we noted that reconciling items identified from CYs 2008 to 2014 for various bank accounts in the total amount of P348.269 million were not recognized in the books as follows:

Particulars	Reconciling Items
GL 111 – Cash in Bank–Local Currency, Current Account	6,422,347.05
GL 112b – Cash in Bank, Savings Account	79,183,802.04
GL 116a – Cash in Bank–Foreign Currency, Savings Account	175,097,422.64
GL 116b – Cash in Bank–Foreign Currency, Savings Account	87,565,336.34
Total	<u><u>348,268,908.07</u></u>

The reconciling items include unrecorded remittances, bank debits/credits and credit/debit memos (Annex **B**). This has resulted in the understatement of the Cash in Bank accounts and the overstatement/understatement of the related accounts.

**2.2 Erroneous recording of liquidations of Petty Cash Fund (PCF) at year-end has resulted in the understatement of Cash account and overstatement of the Other Receivable account both by P0.934 million.**

In our audit of the liquidations made by all the Petty Cash Custodians (PCCs) at year-end, we noted that the unexpended balance in the total amount of P0.934 million (Annex **C**) were erroneously recognized in the Other Receivables account.

The unexpended balance of the PCF which were not refunded or returned by the PCCs at the end of the year shall continue to be treated as PCF until such time that the PCCs refunded the unexpended balances to the Collecting Officer who will issue the necessary official receipt.

The erroneous recognition as receivables of the unexpended balance of PCCs at year end resulted in the overstatement of the Other Receivable account and the understatement of the PCF account both by P0.934 million.

**2.3 The balance of the PCF account includes the unliquidated cash advances amounting to P0.757 million of former PCCs.**

We noted in our audit of the PCF account that the balance includes unliquidated PCF of seven former PCCs totaling P0.757 million. COA Circular No. 97-002 requires PCF to be liquidated within 20 days after the end of the year; thus the former PCCs should have liquidated their PCF as soon as they ceased to be PCCs. Because of this impropriety, the total unreturned PCF may now be considered as personal liabilities of the erring accountable officials and should be recognized as Advances to Officers and Employees.

**2.4 Erroneous reversal of total outstanding checks amounting to P72.713 million at year-end overstated the Cash in Bank and Accounts Payable account balances as of December 31, 2014.**

Basic accounting principle requires the restoration to the cash account of all unreleased check and to recognize the corresponding liability accounts at year-end.

Our analysis of the cash accounts revealed that all outstanding checks as of December 31, 2014 in the total amount of P72.713 million were reverted back to cash.

Outstanding checks represent disbursements already recorded in the books but not yet presented to the bank for payment which include checks already released to the creditors and those unreleased checks at the end of the year. For checks already released but still in the hands of the creditor, the obligation of the Authority is deemed extinguished. However, the unreleased checks are deemed not yet paid to creditors, thus, should be adjusted at the end of the year since obligation of the Authority still exist and cash has not yet been reduced.

The total amount of P72.713 million includes those checks which were already paid to the creditors, thus should have not been included in the reversal. The schedule of unreleased checks as of December 31, 2014 which should have been prepared by the Cashiering Division should have been the basis in the preparation of the reversal entry.

We recommended that Management:

- a. Prepare the necessary adjusting entries for the: 1) unrecorded reconciling items amounting to P348.269 million; 2) erroneous recording as receivable or the year-end liquidation of PCF in the total amount of P0.934 million; and 3) erroneous reversal of the total outstanding checks;
- b. Instruct the Cashiering Division to henceforth, prepare and submit the schedule of unreleased checks at year-end to the Accounting Division for the preparation of the JEV to restore the cash equivalent of the unreleased checks; and

- c. Require the Accounting Division to reclassify the unliquidated cash advances of former PCCs to Advances to Officers and Employees account in order to reflect the correct balance of the PCF account, and the seven former PCCs to immediately liquidate/return their unused PCF.

Management informed that as of April 2015, they have recognized 79 per cent or P275.268 million of the unrecorded reconciling items and corresponding JEVs were prepared for the book errors, however said documents were not yet submitted to COA.

The Chief of Cashiering Division has issued a memorandum to the Chief of Checking Section regarding submission of the Schedule of Unreleased checks at year end for the use of the Accounting Division in the reversal entry.

The Accounting Division stated that they will prepare the adjusting journal entry to reclassify the unliquidated CAs of former PCCs to Advances to Officers and Employees account and will require the former PCC to return their unused PCF.

**3. Audit recommendations on several audit observations in the CY 2013 Annual Audit Report (AAR) on the Authority were not acted upon in CY 2014; hence our reiteration as follows:**

**3.1 The correctness, validity and reliability of the Accounts Payable account in the Head Office is doubtful due to unadjusted/unreconciled prior years' obligated transactions amounting to P22.269 million as of December 31, 2014.**

Our analysis of the Aging Schedules for Accounts Payable account in the Head Office disclosed that obligated transactions for the years 2010 to 2012 in the total amount of P22.269 million remained unadjusted/unreconciled as of December 31, 2014. These transactions should have been closed in the succeeding year upon payment of the obligated transactions.

In Area Center IV, there are also dormant and undocumented payables totaling P2.554 million.

We reiterated our recommendation that Management analyze and validate the unadjusted/unreconciled prior years' balance in the amount of P22.269 million in the Head Office and P2.554 million in Area Center IV and prepare the necessary adjusting entries.

Management informed us that they will reconcile and adjust those paid obligated transactions.

**3.2 The balance of the Other Prepaid Expenses account amounting to P34.044 million as at December 31, 2014 remains doubtful due to non-conduct of physical count, improperly maintained stock cards and stock ledger cards and the non-reconciliation of the property and accounting records.**

We cannot validate the existence and validity of the inventories as there was no physical count conducted on the various types of inventories.

Verification of the stock cards (SCs) in the Supply Division and Stock Ledger Cards (SLCs) in the Accounting Division disclosed that these are not properly maintained such that the SCs for the Office Supplies are not updated and no separate SC is maintained for each type of accountable form, Drugs and Medicines, and Gas, Oil and Lubricants. Likewise, no SLC is maintained for each type of office supplies and accountable forms. Therefore, no reconciliation was done between the Supply and Accounting Divisions' records for the Office Supplies Inventory amounting to P6.126 million, Gas, Oil and Lubricants of P9.600 million and the Accountable Forms Inventory's negative balance.

The Drugs and Medicines Inventory, Other Supplies Inventory and Other Prepaid Expenses with balances of P97,000.26, P6.492 million and P11.806 million, respectively, remained dormant since the transfer of accounts from the defunct ATO to CAAP in 2008; hence, all the purchases and withdrawals since the opening of the CAAP books were not recorded in the SCs and SLCs.

Accountable Forms Inventory still has a negative balance of P76,377.52 which needs to be reconciled.

We reiterated our recommendations and Management concurred that they will require:

- a. Concerned officials and employees to conduct physical count of all inventories once every semester and submit to COA the Report of Physical Count of Inventories (RPCIs) 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 properly SLCs and reconcile the same with the GL balance;
  - exert extra effort to reconcile, document and adjust the unaccounted balance of Other Supplies Inventory and Other Prepaid Expense accounts to the proper accounts; and
- c. The Supply Section and Office of the Flight Surgeon and Aviation Medicine (OFSAM) to prepare/maintain/update the SCs for all inventory accounts.

### **3.3 The propriety and correctness of the Deferred Charges account totaling P100.041 million are doubtful.**

Our verifications disclosed that charges to the Trust Fund were recognized based solely on the Statement of Fund Balance PH195901 submitted by the International Civil Aviation Organization (ICAO). The Statement does not have any specific or detailed documents supporting the propriety of the charges, which, in CY 2014 amounted to P9.833 million. On the other hand, other remittances/transactions with ICAO and Federal Aviation Administration (FAA) other than the Trust Fund account in the total amount of P12.094 million have remained outstanding as of December 31, 2014. 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, 2014.

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

- a. Submit the supporting documents for all the recorded disbursements of the Trust Fund; and
- b. Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries.

We were informed by Management that coordination with ICAO will be made thru the International Civil Aviation Coordinating Staff (ICACS) on the submission of supporting documents.

Management will prepare the liquidation reports of the remittances to ICAO and FAA.

**3.4 Outstanding unliquidated cash advances (CAs) as of December 31, 2014 of P3.177 million out of the cash advances granted in CY 2014 and P7.93 million from prior years' cash advances.**

Our audit revealed that the CAs for travel granted to officers and employees in CY 2014 totaled P15.055 million, of which P11.878 million or 79 per cent were liquidated as of December 31, 2014. Out of the P3.177 million unliquidated cash advances, P2.291 million are already past due. Moreover, P7.933 million prior years' CAs remain unliquidated as of December 31, 2014.

The prior years' unliquidated CAs include those granted prior to and up to December 31, 2011 which still has a balance P6.060 million or 49 per cent of the total unliquidated CAs, even with the issuance of COA Circular No. 2012-004 which serves as the final notice and demand.

Our audit further disclosed that most of the liquidation reports submitted by the concerned officers and employees were way beyond the reglementary period of submission, in violation of COA Circular No. 97-002. Despite our previous observations, the Authority still grants cash advances to employees with unliquidated CAs. The existence of past due unliquidated cash advances, non-liquidation within the prescribed period and granting of CAs to employees who still have unliquidated cash advances clearly shows the Authority's violation of the above-cited COA Circulars.

We also noted that negative balances in the total amount of P307,526 remained unadjusted as of December 31, 2014.

Moreover, CAs granted to officials and employees of several Area Centers were not liquidated within the prescribed as follows:

<b>Area Center</b>	<b>Amount</b>
Area Center II	59,129.00
Area Center IV	153,916.32
Area Center V	55,909.55
Area Center X	<u>573,692.74</u>
<b>TOTAL</b>	<b><u>842,647.61</u></b>



Non-liquidation of CAs in accordance with COA Circular Nos. 2012-004 and 97-002 resulted in the overstatement of the Advances to Officers and Employees account and the understatement of Travelling Expense and Training Expense accounts.

We reiterated our recommendations that the Authority:

- a. Require strict adherence to the provisions of: 1) COA Circular No. 2012-004 to compel its officers and employees to immediately liquidate their long outstanding cash advances; and 2) COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances;
- b. Cause or order the withholding of payment of any money due to officers and employees who have long outstanding cash advances; and
- c. Require the Accountant to strictly monitor the liquidation of CAs and enforce deduction from the salary of employees in cases of failure to liquidate within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers in compliance to Authority Order No. 111-10 dated May 7, 2010.

Management stated that they will closely monitor the unliquidated cash advances and will implement the deduction from salary of employees in cases of failure to liquidate within the prescribed period as stated in the signed "Authority to Deduct".

**3.5 Differences amounting to P1.47 million and P1.19 million between the General Ledger balance of the Advances to Officers and Employees account as against its Subsidiary Ledger total and Aging Schedule total as of December 31, 2014, and the unsettled cash advance from the Intelligence Fund amounting to P5.000 million granted in CY 2012.**

During our audit, we noted that the GL balance and totals of the SL balances and Aging Schedule of the Advances to Officers and Employees account as of December 31, 2014 have differences of P1,466,348 and P1,189,394, respectively, as shown below:

<b>Particulars</b>	<b>Amount</b>	
Balance per GL		<u>P44,176,471</u>
SL Total		
Current Year Cash Advance for Travel	3,176,831	
Prior Year Cash Advance for Travel	<u>7,933,292</u>	11,110,123
Intelligence Fund	<u>31,600,000</u>	<u>42,710,123</u>
<b>Difference</b>		<b><u>P 1,466,348</u></b>
Balance per GL		P44,176,471
Aging Schedule Total		<u>P42,987,077</u>
<b>Difference</b>		<b><u>P 1,189,394</u></b>

Further verification disclosed that the submitted Aging Schedule as of December 31, 2014 does not include all the CAs granted and the processed liquidation reports in December 2014.

Moreover, in our verification of the individual SL of employees, we noted that the transactions are not chronologically recorded. Balances shown are per travel order instead of the total amount of the cash advances as of a certain date.

Non-reconciliation of entries in the GL and SL and the failure of the Authority to maintain proper and correct SL for the Advances of Officers and Employees account resulted in differences between the balances in the GL, SL, and Aging Schedule, rendering the Advances to Officers and Employees account doubtful.

We reiterated our recommendation and concurred Management that they will:

- a. Exert effort to reconcile the differences between the GL, SL and Aging Schedule for the financial records of the Authority to be reliable to the users; and
- b. Cause the submission of the liquidation papers for the P5.00 million cash advance from intelligence fund to the COA Chairman's Office.

### **3.6 Outstanding receivables of P6.429 million from officers and employees who have died, retired, resigned as of December 31, 2014**

We noted in our audit that the Authority has substantial outstanding receivables from separated officers and employees who were granted cash advances for local and foreign travels and as Special Disbursing Officers (SDOs). The details of which is shown below:

<b>Particulars</b>	<b>Amount</b>
Local and Foreign Travel	3,905,628.90
Special Disbursing Officers	<u>2,523,006.40</u>
<b>Total Outstanding Receivables and Unliquidated Cash Advances</b>	<b><u>6,428,635.30</u></b>

Cash advances for travel should have been liquidated or accounted for within 30 days and 60 days after return from the travel for local and foreign travel, respectively, while the SDOs' cash advances should have been reported on as soon as the purpose for which it was given has been served or must have been returned or refunded immediately to the collecting officer when the same is no longer needed or has not been used for a period of two months.

We recommended that the Authority submit explanation/justification why those retired and separated employees were able to leave CAAP without settling all their accountabilities. Likewise, exert efforts to recover the outstanding accountabilities thru legal remedies.

Management informed that some of the accountable officers left CAAP without having been cleared and others left without filing their proper resignation papers. They will exert best efforts to require them to liquidate their outstanding receivables.

### **3.7 Difference of P6.493 million between the general ledger balance of the Other Receivables account as of December 31, 2014 as compared to the aging schedule**

Our analysis of the Other Receivables account disclosed that there is a discrepancy of P6.439 million between the total amount of the submitted aging schedule of P6.429 million and the GL balance of P12.922 million. The difference include several erroneous entries in the total amount of P0.934 million wherein the Other Receivables account was debited for the liquidation of SDOs' cash advances. Hence, the total remaining unaccounted difference is P5.559 million.

We recommended and Management agreed that they will exert best efforts to reconcile the differences and prepare immediately the corresponding adjusting entries.

### **3.8 The Authority is still maintaining an active combo account with a balance of P5.068 million with the Philippine National Bank (PNB), a non-government depository bank.**

We noted in our validation that a PNB bank account, which is in the name of Air Transportation Office, was reactivated since September 01, 2013 as the depository account for collections for bid bonds in compliance to the condition given by the bank for reactivation.

The PNB, being a private bank is no longer considered as an Authorized Government Depository Bank (AGDB). It is for this reason that our prior years' recommendations include the closure of the PNB account and the transfer of the account balance to the Authority's mother account with the Land Bank of the Philippines (LBP), an AGDB in order to comply with the provisions of Section 69 of P.D. 1445.

We reiterated our prior years' recommendation that the Authority close the above-mentioned account and transfer its balance to the Authority's LBP mother account.

Management commented that in letter of the Assistant Governor of the Centralized Supervisory support sub-Sector of the Bangko Sentral ng Pilipinas, PNB was allowed by the Monetary Board in CY 2007 to accept government deposits on a continuing basis subject to conditions.

Reading thru the above cited letter, conditions include, among others, the government entity intending to deposit with PNB shall secure necessary approval from the Department of Finance (DOF) in compliance with DOF Department Order No. 27-05 dated December 9, 2005, thus we have requested a copy of the DOF approval which to date has not been furnished to COA.

**3.9 The balance of Construction in Progress (CIP) - Other Public Infrastructure account as of December 31, 2014 amounting to P536.272 million includes two completed projects in the total amount of P53.804 million and unclassified disbursements of P1.615 million.**

The Construction in Progress account represents the cost of public infrastructure projects which are still under construction. Our analysis of the account shows that the balance includes unclassified disbursements of P1.615 million and two completed projects in Area Center III and IX with a total amount of P53.804 million.

The inclusion of completed infrastructure projects has overstated the CIP account in the Head Office and understated the Asset account of the Area Centers. Also, the unidentified disbursements amounting to P1.615 million affected the reliability and correctness of the CIP account.

We recommended that the Authority transfer the completed infrastructure projects to the Area Centers concerned through the Due from Regional Offices account.

Further, for the Authority to exert effort in identifying to which project the amount of P1.615 million is related to, and prepare the corresponding adjusting entries.

Management commented that they have already adjusted the completed Area Center projects on February 2015. In addition, validation and reconciliation will be made regarding the P1.615 million unidentified disbursements and necessary adjusting entries will be prepared.

**3.10 Dividends payable for CY 2014 equivalent to 50 per cent of CAAP's Net Profit, were not recognized in the books.**

For the year 2014, the Authority again did not recognize dividends payable to the National Government equivalent to 50 per cent of the Authority's net profit as required under RA No. 7656. As a result, the Due to National Treasury (GL403) and Retained Earnings (GL510) accounts are understated and overstated, respectively as of December 31, 2014.

We recommended that dividends payable equivalent to 50 per cent of the Authority's net profit for CY 2014 be recognized in the books.

Management reiterated their comment 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.

**3.11 Audit of the procurement, maintenance and issuance of Accountable Forms by the Flight Standards and Inspectorate Service (FSIS) disclosed the following:**

- **Various Accountable Forms (AFs) were not procured from the National Printing Office (NPO), contrary to Sections 1 & 4 of the Office of the President Memorandum Circular No. 180, s.2009.**

In general, the printing services requirements of government agencies are mandated by law to be sourced from the National Printing Office (NPO). Printing services outside the NPO may be allowed but subject to certain conditions.

Our verification disclosed that only the following Accountable Forms were procured from the NPO effective October 2014:

- 1) Certification of Registration of Aircraft (CAAP Form No. 9497-2);
- 2) Certificate of Airworthiness (CAAP Form No. 1064);
- 3) Pilot Proficiency Report – Fixed Wing; and
- 4) Pilot Proficiency Report – Single Engine

Further, AFs such as plastic cards/polyvinyl chloride cards used for issuing licenses, certificates and clearances are procured from private printers thru Petty Cash Custodian (PCC) acting as the supply officer who orders and distributes various accountable forms (Annex D). However, it was observed that CAAP failed to obtain a waiver from the NPO before it contracted out the printing services, a clear violation of the provisions of Memorandum Circular No. 180, s.2009 of the Office of the President.

- **Weakness in the controls and custodianship of accountable forms at the Flight Standards and Inspectorate Service (FSIS) Office is evident.**

In the Airworthiness Department, the following breakdowns of controls over accountable forms were noted:

- A Job Order (JO) employee is assigned for the processing and issuance of Certificate of Airworthiness;
- The custody of AFs is assigned to a JO employee;
- No Accountable Form Custodians (AFCs) were assigned to maintain the records of receipt and issuance of licenses, certificates and clearances and safe keeping of accountable forms;
- The AFs are not kept in a safe and secured place; and
- Outsourced AFs forms are not sequentially pre-numbered.

A government office operating with limited regular employees generates strains in their internal controls creating opportunities for fraud and abuse. That is why it is important to correct any perceived or actual weakness or flaw in the internal control system in place such as those mentioned above.

The JOs have limited responsibilities, have no security of tenure and are considered as high risk in their current sensitive assignment. A regular AFC is necessary for the proper maintenance of record, handling and safekeeping of

AFs. Pre-numbering of accountable forms is a basic control to prevent unauthorized duplication and alterations. For proper monitoring of the AFs, a record should be maintained to account for the receipt and issuance of the forms.

- **Licenses have no distinct security features which give way to possible counterfeiting. In addition, voided licenses are not safely kept, properly controlled and clearly marked.**

The FSIS is responsible in the issuance of licenses, permits and certifications as prescribed in Department Order No. 94-762, series of 1993 of the DOTC.

We noted that licenses issued by FSIS have no distinct or unique security features making them susceptible to counterfeiting. Even the PVC cards used in the issuance of license have no noticeable mark distinguishing them from other PVC cards available in the market. In addition, voided licenses are not clearly marked or destroyed. We noted that FSIS keeps void licenses having all the features of a valid ID in an unsecured room susceptible to misuse, fraud or theft which affects the safety of the flying public.

We have included these observations in the CY 2012 Annual Audit Report (AAR) and already gave ample time for the Authority to comply with the requirements in the procurement of Accountable Forms.

For proper handling, custody and disposition of Accountable Forms in the FSIS, we recommended that Management:

- a. Procure the printing of Accountable Forms only from the National Printing Office or duly authorized private printing office, pursuant to Sections 1 and 4 of MC No. 180 of the Office of the President;
- b. Discontinue immediately the practice of procuring Accountable Forms from private printers thru the PCC who also acts as the supply officer who orders and distributes the Forms. Procurement of Accountable Forms shall be coursed thru the Supply Division;
- c. Designate regular AFCs who will be accountable for the control, security and safekeeping of forms so as not to assign JO employees in sensitive positions;
- d. Require FSIS AFCs to properly monitor the accountable forms entrusted to them and to prepare the monthly Report of Accountability for Accountable Forms (RAAF) and promptly submit the same to COA;
- e. Expedite review of the design of various licenses and incorporate distinct security features to prevent possible counterfeiting; and
- f. Implement strictly proper measures in the issuances of licenses, permits and certification forms.

Management informed that they have secured four types of accountable forms from the NPO while other certificates/ permits such as the Aviation Material Distributor's

Certificate (AMDC), type validation certificate, overfly, entry-exit permits in pre-printed forms are not advisable to be procured from NPO since the terms and conditions indicated in the certificate may vary in lengths.

Further, they stated that they have designated two AFCs to maintain the records of receipt and issuance of licenses, certificates and clearances and safe keeping of accountable forms.

Management stated that there is an on-going discussions regarding the design of various licenses and the incorporation of distinct security features to prevent possible counterfeiting.

We reminded Management their adherence to Sections 4 of the Memorandum Circular and requested the submission of the written waiver by the NPO allowing them the use of the services of private printers/providers. We also reminded Management to designate additional AFCs for the other accountable forms which were not assigned to the two designated AFCs and the submission of the monthly RAAF.

### **3.12 Non-compliance of the Authority to the provision of Republic Act No. 9497 to adopt and publish the updated schedule of fees and charges.**

The CAAP was created under Republic Act No. 9497. Its Charter mandated the Authority to adopt and publish its schedule of fees and charges, subject to revision once every three years.

In the examination of the revenue accounts, we observed that the schedule of fees and charges being applied by the Authority in charging its services were those prescribed under the Addendum to Department Order No. 94-762 dated October 5, 1998 of the DOTC.

The rates of the fees and charges used presently by the Authority are deemed outdated and unreasonable considering the difference in the purchasing power of money in 1998 and 2014. The Authority is losing potential revenue from using outdated schedule of fees and charges.

We recommended that the Authority adopt and publish an updated schedule of fees and charges in compliance with the provisions of Section 17 of Republic Act No. 9497.

We were informed that there is an on-going process by the Committee on the revision of fees and charges.

### **3.13 The Authority failed to cover all insurable government properties with the Government Service Insurance System (GSIS)**

In the course of our audit, we noted that, not all of the government properties owned by the Authority like buildings, equipment and other insurable properties were insured with the GSIS. The uninsured properties are not protected against loss resulting from man-made calamities and force majeure.

The Authority's government properties with a market value of P10.118 billion were insured in the amount of P12.308 million under fire industrial all risk insurance. Only 21 out of 82 airport facilities were insured under airport liability insurance in the amount of P4.200 million.

The total amount of insurable properties of the Authority could not be determined due to the non-submission of the complete Physical Inventory Report of all insurable properties and equipment.

The observation was included in our CY 2013 AAR, hence we reiterated our recommendation that the Authority exert effort to come up with the complete physical inventory of all properties and equipment in the Head Office and all the Airports under the 12 Area Centers and determine accordingly, all the insurable properties and their corresponding market value so that all can be insured with the GSIS and if not approved, with any private insurance company in accordance with Section 5 of RA 656, for protection against any insurable risk.

Management commented that they are in the process of validating other properties owned by CAAP that were not insured.

### **3.14 The Authority incurred additional expenditures due to the inclusion of Overhead, Contingencies, Miscellaneous cost (OCM) on the bid price of the equipment to be supplied by the contractor**

In our audit of the CY 2014 infrastructure contracts, we have found that the Authority has continued to allow its bidder/contractor to charge OCM on equipment to be supplied for the project.

In the auditorial review of the contract for the expansion of Passenger Terminal Building at General Santos Airport, we noted that under Item of Works: Temporary Facilities, the contractor's estimate include a 6-12% OCM on the digital camera to be supplied by them.

This equipment is a finished product that is commercially available in the open market. It will be supplied by the contractor to the project without undergoing enhancement or modification that would justify the add-on cost.

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. The deficiency has resulted in an unnecessary increase in the project cost.

We reiterated our recommendation and Management concurred that payment for the provision of equipment for construction project be made on a reimbursable basis upon submission of valid official receipt and that the provision be clearly stipulated in the appropriate contract documents.



### **3.15 Management did not attain its objective of procuring a total of 86 infrastructure projects (capital outlay) for CY 2014.**

Based on the CY 2014 Annual Procurement Plan (APP), CAAP has programmed to undertake the procurement of 86 infrastructure projects nationwide, GAD projects excluded, with a total estimated budget of P983.30 million.

A comparison of the APP with the Report submitted by the Aerodrome Development and Management Services (ADMS) and the Procurement Monitoring Report as of December 31, 2014, disclosed that at the end of CY 2014, the Authority was able to undertake the procurement of 11 projects only amounting to P189.596 million or 19.28 per cent of the budgeted cost. The considerable variance between the planned and the completed procurements signifies the inefficiency of the Authority's procurement system.

The APP is presumed to be the result of a careful, methodical and prudent process of selecting suitable goods, services and infrastructure projects to be procured by the Agency. The crucial factor in the successful implementation of the APP is the Bids and Awards Committee (BAC). The BAC is primarily responsible in carrying out the procurement process of the Agency.

Generally, a procuring Agency is required to establish a single BAC to execute its procurement program. However, in order to fast-track the procurement process, the Head of the Procuring Agency is not precluded from creating additional BACs if circumstances warranted.

We reiterated our recommendation that Management adopt a policy geared towards maximizing its resources to attain its objective such as creation of separate BACs in the Head Office and if necessary, in the Area Centers.

Management commented that they only have one BAC but will try by next year to decentralize the BAC. Moreover, they have already assigned ADMS engineers in the implementation of the projects in the Area Centers.

COA reminded Management that in case of BAC decentralization, Management has to look into the required qualifications for each member.

### **4. Parcels of land owned by CAAP are not recognized in the books and not registered in its name.**

Analysis of the Land account showed that only lots located in two Area Centers are recognized in the books of accounts of the Head Office. These are part of Baler Airport in Area Center I, covered by TCT No. T30672 amounting to P0.533 million and the agricultural land at Barangay Kibaghot, Laguindingan, Misamis Oriental for Laguindingan Airport in Area Center X in the amount of P1.801 million.

CAAP claims ownership of 23 parcels of land located in Barangay Ibayo and Vitales in Paranaque with an area of 7,415 square meters and 13,301 square meters, respectively. However, these lots are titled in the name of the Philippine Government and Civil Aeronautics Administration. These are not recorded in the books because the transfer

of title in the name of CAAP has not yet been consummated and there are no available records to establish cost.

Area Centers II and V have no Land account in their books of accounts.

As defined by the International Financial Reporting Standards (IFRS) Framework, an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

We recommended that Management:

- a. Transfer the recognized lots in the Head Office books to the books of accounts of Area Centers I and X;
- b. Expedite the transfer of titles for all the land owned by CAAP to legalize ownership; and
- c. Recognize all land owned by CAAP in the books of the Head Office and Area Centers.

Management commented that they will take COA's recommendations into account once complete documents and/or proofs of ownership are with the Authority. Management also stated that land problems existed since 2008. They already started with the inventory of properties; subsequently they will be addressing the issue on land titling. Further, they are planning on creating a new Office to take charge of the land titling.

**5. The accuracy of the valuation of the recorded cost of Motor Vehicles and Firefighting Equipment and Accessories of P3.587 million and P39.511 million respectively, are doubtful due to the inclusion of non-existing vehicles and the unrecognized 24 motor vehicles.**

Lapsing Schedules as of December 31, 2014 revealed that there are 90 motor vehicles and 80 fire trucks recognized in the books with a combined net book value of P43.098 million.

In our examination of the Lapsing Schedules, we noted that, with the exception of the lone motorcycle acquired in October 2013 and the crash, fire and rescue vehicles acquired in May 2010, all other vehicles are already fully depreciated with ages ranging from 10 years to 46 years. Random ocular inspections of the fully depreciated vehicles revealed that the same could no longer be located and no fuel and repairs expenses were incurred for these vehicles.

Further, a review of the List of Motor Vehicles at the CAAP Head Office as of December 31, 2014, submitted by the Motorpool Section showed that there are 24 motor vehicles (Annex E) being utilized as service vehicles of the Authority but are not recognized in the books.

The non-existence of motor vehicles and firefighting equipment which are recognized in the books and the non-recognition of in-service vehicles in the books, cast doubt on the accuracy of the valuation of the accounts.

We recommended the following:

- a. Conduct a physical inventory of motor vehicles and firefighting equipment and prepare the required report; and
- b. Accordingly, book the unrecognized vehicles and equipment and derecognize those included in 2014 Lapsing Schedules that could no longer be located in accordance with existing rules and proper documentations.

Management stated that for the Lapsing Schedule prepared by the Accounting Division, they have already coordinated with the Supply Division regarding the RPCPPE and will submit to COA as soon as the updated Lapsing Schedule is prepared.

With regard to the vehicles which are not registered under the name of CAAP, they stated that some of the vehicles are part of the projects and that they will recognize those vehicles in the books upon completion of the documentations.

We informed Management that there are also motor vehicles in the Area Centers that are not recorded in the books; hence, it is suggested that they confirm with the Area Centers the existence and source of motor vehicles in their possession. These may be the motor vehicles which may have been transferred to the Area Centers without proper documentation.

**6. Flight inspection aircraft, RP-178 (Cessna U206F) was not recognized as Aircraft and Aircraft Ground Equipment in the books of the Authority, however, the installation of its new engine and its other major repairs were recognized in the books.**

In the course of our audit of the Property, Plant and Equipment (PPE) account, we have noted that the procurement of a brand new engine for CAAP Flight Check A/C RP-178 Cessna U206F amounting to P3.440 million was capitalized as Aircraft and Aircraft Ground Equipment. In addition, a KT-76C dual transponder system was also installed in the aircraft but the cost was erroneously charged to repairs and maintenance. Further verification disclosed that the main aircraft is not recognized in the books.

Considering that the aircraft is being maintained and upgraded, it is evidently controlled by the Authority. The International Accounting Standards Board (IASB) Framework defines asset as a “resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.”

The non-recognition of flight inspection aircraft in the books and the incorrect recording of the installation of dual transponder system bring into question the accuracy and reliability of the balance of the Aircraft and Aircraft Ground Equipment account.

We recommended that Management exert best efforts to secure documents and accordingly record immediately the RP-178 Cessna U206F and effect the necessary adjustment to capitalize the installation of KT-76C dual transponder system.

According to the Chief Accountant, the aircraft may have been donated to the ATO in 1990s and that they cannot immediately record the asset in the books as it may be part of those undocumented assets which were lumped in the Other Assets account.

**7. The New Salary Structure (NSS) adopted for Technical positions has no approval from the President of the Philippines and various personal services transactions in the total amount of P175.674 million were paid without approved budget.**

In our audit, we observed that the salary rates of CAAP employees holding technical positions were adjusted based on the New Salary Structure (NSS) of Technical Positions approved by the CAAP Board on September 28, 2012 under Resolution No. 2012-053. The NSS has no approval from the President of the Philippines which is contrary to Chapter III, Section 8 of R.A. No. 10149, the “GOCC Governance Act of 2011”. This also has resulted in the disapproval by the Department of Budget and Management (DBM) of the excess provision for 3,577 positions in the CAAP’s CY 2014 Corporate Operating Budget (COB) in the total amount of P296.933 million.

Out of the P321.320 million payments for salaries and wages in CY 2014, P261.192 million were paid to CAAP employees holding technical positions.

Moreover, we noted that payments were made for various personal services transactions even if these were not included in the DBM-approved COB for CY 2014 as follows:

<b>Particulars</b>	<b>Amount</b>
Occupational Specialty Pay	18,925,000
Monetization	21,576,000
CAAP Achievement Bonus	116,974,000
Longevity Award	60,000
Terminal Leave	18,049,000
Honoraria/Per diem Compensation	<u>90,000</u>
<b>Total</b>	<b><u>175,674,000</u></b>

This is clearly not in accordance with Section 6 of Executive Order No. 518 (Government Corporate Budget Executive Order of 1978) requiring the operating budget of the Government Owned and/or Controlled Corporations (GOCCs) to be approved by the President, which has been delegated to the DBM.

We recommended that Management:

- a. Secure the approval of the President, thru the GCG, for new salary structure adopted for Technical positions to support the payments effective October 1, 2012; and
- b. Submit the approved supplemental budget for the P175,674,000 expenditures incurred in CY 2014, which were not included in the DBM approved CAAP COB for CY 2014.

Management informed that they have already written the President of the Philippines on July 31, 2014 requesting for the approval of the new salary scale being adopted by CAAP for technical positions.

Furthermore, they believed that they are allowed to realign savings even without the approval of the DBM because they are just using the revenues that CAAP earned, which is not part of the GAA.

We reminded Management that the rules on realignment of savings under Section 70, Paragraph 2 of the GAA require prior approval of the DBM.

**8. The Miscellaneous Income and Honoraria accounts were understated by P2.85 million and P2.21 million, respectively, as of December 31, 2014, due to non-recognition in the books of the income from sale of bid documents and the payment of honoraria for successfully bid procurements.**

In our analysis of the transactions pertaining to the procurement process, we observed that the collections from the sale of bid documents in the total amount of P2.847 million (Annex F), were credited to the Performance/Bidders/Bail Bonds Payable account and the account was debited for the payments of honoraria to the members of the Bids and Awards Committee (BAC), Special BAC (SBAC), Technical Working Group (TWG) and BAC Secretariat amounting to P2.209 million (Annex G).

A liability, as laid down by the Conceptual Framework for Financial Reporting “is a present obligation of the entity arising from past events, x x x.” Thus, the sale of bid documents did not signify a present obligation of the Authority resulting from past events. In contrast, the assets of CAAP have increased by way of cash receipts from the sale in the same way that its cash also decreased upon payment of honoraria.

Due to erroneous recognition of the sale of bid documents and the payment of honoraria, the Miscellaneous Income and Honoraria accounts are understated and accordingly overstated the Performance/Bidders/Bail Bonds Payable account; thus at year-end, the Miscellaneous Income account is understated by P637,800 and the Performance/Bidders/Bail Bonds Payable account is overstated by the same amount.

We recommended that the Accounting Division prepare the necessary adjusting entry and henceforth, recognize in the books the income from sale of bid documents in the Miscellaneous Income account and the payment of honoraria for successfully bid procurements in the Honoraria account.

Management informed COA that they will prepare the adjusting entries upon validation of the P637,800 understatement in Miscellaneous Income account.

**9. The Authority has been continually late in the submission of the Year-end Financial Statements and related schedules and the Monthly Trial Balance and all related reports, schedules and documents.**

We noted that the submission of the year-end financial statements were way beyond the February 14 deadline as provided in Section 41 (2) of P.D. 1445, the Government

Auditing Code of the Philippines. Also, the monthly Trial Balance, Report of Collections and Deposits, Bank Reconciliation Statements, Reports of Checks Issued, Disbursement Vouchers, and all other related schedules and documents were delayed from four to six months; hence, not in accord with Section 450 of the Government Accounting and Auditing Manual (GAAM), Vol. II.

Consequently, the issue also existed in Area Centers I, II, III, VII, VIII, IX, X, XI, and XII.

The Authority was deprived of the benefits from a timely financial reports and information which is vital in their management decisions and the opportunity for a prompt review and early detections and corrections of errors.

Had the above cited reports and related documents been submitted on time, the timely audit of the transactions will provide the opportunity for early uncovering of errors; hence corrections/adjustments will be done immediately. Likewise, early detection of the misuse of funds and other violations of laws, rules and regulations may be discovered and prevented at its early stage.

We recommended that Management require all concerned officials and employees to submit all required reports and related schedules and documents to COA within the reglementary period.

According to Management, delays were inevitable because of the inadequate billing system and unqualified personnel doing bookkeeping works in the satellite airports. They hope that this problem will be resolved upon automation of the Billing/Accounting System.

**10. Transactions emanating from the Agreement between CAAP and Aeronautical Radio of Thailand Ltd. (AEROTHAI) were not recognized in the books as of December 31, 2014.**

In CY 2001, CAAP and AEROTHAI entered into an Agreement for the installation, maintenance and operation of air/ground VHF data link ground station in the Philippines. The stations are used to deliver air traffic services which include Controller–Pilot Data Link Communications (CPDLC) and Future Air Navigation System (FANS1/A) messages as Airline Operational Control (AOC) data link messages to airline customers.

The Agreement for the Operation and Maintenance of VHF Air-Ground Data Link Stations in the Philippines between CAAP and AEROTHAI was renewed in CY 2009 which provide among others that:

- CAAP's Air Navigation Service (ANS) shall operate and maintain the VHF data link ground stations in conjunction with AEROTHAI's Network Management and Data Processing Systems (NMDPS) and Network Operations Center (NOC) both located in Bangkok, Thailand;
- AEROTHAI shall remit to CAAP every 30<sup>th</sup> day of the month monthly revenue share for the Remote Ground Stations (RGS) of 33.3 percent of the total revenues generated per month, less all costs pertaining to trainings, meetings

and conferences to be attended by ANS Specialists of the CAAP that concerns the AEROTHAI's existing RGS Stations paid in advance by AEROTHAI; and

- AEROTHAI shall provide the equipment and its upgrade which is deductible to the 33.3 per cent monthly share of the revenue until such time that the equipment are fully paid and the ownership shall be transferred to CAAP.

In the review of the Agreement and other related transactions, we have noted the following:

- a. Non-recognition in the books of the VHF data link ground stations equipment which ownership was transferred to the Philippines on October 2007;
- b. Revenue shares of CAAP were remitted on October 17, 2008 and March 09, 2010 in the amount \$149,958.00 and \$257,271.00, respectively, in CAAP's Land Bank Foreign Currency Savings account and no advice from AEROTHAI was sent to CAAP regarding the fund transfers;
- c. Revenue was not recorded in the books since no Official Receipt (OR) was issued by CAAP to AEROTHAI for the above cited remittances, accordingly, no OR was submitted to the Office of the Auditor for verification;
- d. No monthly report was submitted by AEROTHAI to CAAP since 2009;
- e. No records in the books for the disbursements made for the maintenance of VHF Air Ground Station in the total amount of \$44,561.84 and for the seminars, trainings, and conferences attended by ANS personnel which were deducted from the Fund transfers made by AEROTHAI to CAAP LBP Account, therefore, no documents related thereto were submitted to the Office of the Auditor for audit.

In accordance with the accrual basis of accounting, the revenue and expenses generated from the Agreement between CAAP and AEROTHAI should have been recorded in the years that these were earned and expended, rather than when cash or its equivalent was received or paid.

Moreover, all the documents pertaining thereto should have been submitted to COA for audit, in accord with the existing auditing rules and regulations.

We recommended that Management:

- a. Immediately record all transactions pertaining to the Agreement between CAAP and AEROTHAI and accordingly, submit all the documents to COA for audit; and
- b. Submit explanation/justification why all the transactions pertaining to the Agreement were not recorded in the years that these were earned and expended.

Management acknowledged our observations and informed us that they have started accumulating information and documents relative to the agreement and assured us that repetition will be avoided in any similar business transaction of CAAP in the years ahead.

Likewise, they have coordinated with the AEROTHAI counterparts and are currently conducting reconciliation and collating documents and have already issued several Official Receipts in CY 2015 for the recognition in the books of past remittances made by AEROTHAI.

## **Revenue Audit**

We have conducted a Revenue Audit for CY 2014 with the following audit objectives:

To determine whether:

- a. revenue/receipts are generated from sources expressly authorized by law and that policies, practices, rules and regulations contribute to the realization of the goals/targets through efficient and economical means;
- b. controls operating in the system provide adequate safeguards against error and irregularities;
- c. revenues/receipts are promptly and correctly assessed, billed, and collected in full when due; and
- d. revenues/receipts are accurately recorded and properly classified in the accounts.

### **11. The following observations were noted in the course of our revenue audit:**

#### **11.1 Deficiencies in the Internal Control system throughout the billing, collection, recording and reporting on the accountability for Accountable Forms (AFs) were noted.**

In the evaluation of the billing process, we noted the following deficiencies:

- Flight strips and Daily Traffic Logs are not serially numbered;
- Billing statements are pre-numbered but not considered as AFs;
- The preparation of the billing statements are done manually; hence, are late, thus delivery to the clients are delayed;
- The terms of payment per CAAP Circular 03-11 is within 10 working days while it is within 30 calendar days per billing statements; and
- The processing of errors noted in the billing statements by clients is inefficient and time consuming.

Moreover, in the collection process we observed that:

- Order Payment Slip (OPS) numbers were not written on the “Particulars” section of the Official Receipts (OR);
- OPS are prepared by two Divisions, FSIS and Accounting instead of only one for control purposes;
- Collecting Officers (COs) do not properly maintain their respective Cash Receipts Record (CRR) as errors were noted;
- Late issuance of ORs for remittances/collections through telegraphic transfers;
- Instances when dollar collections were not deposited intact or within the next banking day; and



- Several ORs were not sequentially issued.

Likewise, the recording process disclosed the following deficiencies:

- Late recognition of revenue;
- Late recording of payments thru telegraphic transfers; and
- Erroneous recording of collections.

In the submission of the monthly Report of Accountability for Accountable Forms (RAAF), we noted that various issuances of ORs were erroneously reported.

As provided under Section 34, Book III of the Government Accounting and Auditing Manual (GAAM), an adequate internal control system ensures that controls are in place to achieve the organization's objectives, safeguard its resources and promote efficiency and economy in the use thereof. Unless Management improves its internal controls, the Authority may ultimately suffer losses, either intentional or unintentional.

We recommended that Management strengthen its Internal Control system by adopting the standards prescribed in Title 2, Book III of the GAAM.

Management acknowledged that policies and procedures in the internal controls are really lacking and they will convene in order to address the issues noted.

#### **11.2 Due to the cited deficiencies in Item 11.1, we specifically noted the following:**

- **P2.401 billion or 76 per cent of the total income earned from communication facilities for CY 2014 were not collected as of year-end. Moreover, prior years' uncollected income amounted to P762.176 million.**

In our audit of the Income from Communication Facilities account, we noted that the total recognized income from communication facilities for CY 2014 totaled P3.168 billion. Out of that amount, P767.422 million or 24 per cent was actually collected in CY 2014. In addition to the uncollected income of P762.176 million from prior year's transactions, the considerable amount of uncollected revenue for CY 2014 of more or less P2.401 billion signify inefficiency in the billing and collection system of the Authority.

It was verified that billing statements delivered/sent to or picked up by customers as of December 31, 2014 covers only transactions up to August 2014. Thus, assessment and billings of operational charges were delayed for four months.

We also noted that there were also delays in the payment of the Airlines. Delays in the payment may be attributed to the non-provision of a penalty clause in CAAP Circular 03-11, which only provided that collection suit will be filed for non-payments.

This has long been an issue of the Authority and included in the Annual Audit Reports (AARs) since 2011 when the Billing and Collection Information System

(BACIS) broke down and ceased operation. The delay in the assessment and issuance of billings deprived the Authority of the income that should have been collected and finance the operations and capital expenditures of the Authority.

We recommended that Management adopt an effective billing and collection system which include among others, the automation of billing data, invoicing and collection and imposition of fee/penalty/legal action on delinquent customers.

Management informed that once the Communication, Navigation and Surveillance/Air Management System (CNS/ATM) is completed and becomes operational, the billing system of the Authority will be updated.

- **The income account was overstated by P19.999 million due to late recognition of revenues earned from additional flights of several airlines for the period June to December 2010.**

Our audit disclosed that the additional flights of several airlines for the period June 2010 to December 2010 amounting to P19.999 million were billed and recognized in the books in CY 2014 only.

The basic principle in recognizing income is at the time it was earned. In this case, the additional billable flights happened in CY 2010 but the customers were only billed in 2014. The late recognition of prior years' income in CY 2014 overstated the Income from Communication Facilities account and understated the Retained Earnings account.

We recommended and management agreed that henceforth, all income from additional flights of the Airlines be billed and collected in the period it was earned. This will also be corrected upon the completion of the Communication, Navigation and Surveillance/Air Management System (CNS/ATM)

- **Official Receipts (ORs) were not immediately issued for collections received through telegraphic transfers.**

Section 68 of Presidential Decree (P.D.) No. 1445 provides that *“No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgment thereof. The receipt may be in the form of postage, internal revenue or documentary stamps and the like, officially numbered receipts, subject to proper custody, accountability, and audit.”*

During our analysis of Cash accounts, we noted that in CY 2014, there were ORs issued for collections received through telegraphic transfers for the years 2010 to 2013 which totaled P292.126 million and \$21.709 million.

The Accounting Division is only informed about payments received by telegraphic transfers through the Authority's bank statements and credit advices which are only received at the end of the month. There are telegraphic transfers which do not bear the payee's name and/or the billing statement numbers; thus, issuance of ORs are delayed. These telegraphic transfers are booked as bank reconciling items until ORs are finally issued.

The late recording of collections received through telegraphic transfers resulted in the understatement of Cash account and the overstatement of Accounts Receivable account.

We recommended and Management concurred that they will coordinate with the depository banks to have access to their bank accounts/bank statements online so that telegraphic transfers received can be tracked in real time and ORs can be issued immediately. Also, we recommended that clients be reminded that the details of their payments through telegraphic transfer such as the bank, billing statement number and amount should at all time be properly disclosed.

- **Income from Communication Facilities is understated by P5.246 million due to erroneous recording.**

In the audit of Income from Communication Facilities account, there were errors detected in the footings of the supporting Schedule of Bills Rendered, which was the basis of the Journal Entry Voucher (JEV) recognizing operational income from domestic/international flights.

The actual income earned by the Authority for April 2014 was P15.465 million, however, the amount recognized was P10.219 million only, resulting in an understatement of income and receivable accounts by P5.246 million.

We recommended that Management prepare the adjusting entry to adjust the Income from Communication Facilities and Accounts Receivable accounts.

Adjustment was already effected on March 2015 in JEV No. F-15-03-21 per information of Management, but the JEV was not yet submitted to COA for audit.

## **VALUE FOR MONEY AUDIT**

### **12. We have undertaken the Value for Money Audit of the Marinduque Airport Development Project and noted the following:**

#### **12.1 The Authority could earn an estimated P4.5 million in annual gross income from the Marinduque Domestic Airport (MDA), if the runway becomes operational.**

In CY 2011, the Sangguniang Panlalawigan of Marinduque Province had requested, thru Resolution No. 464 (Annex H), the DOTC thru the CAAP to consider as priority the improvement of the MDA. On March 16, 2012 DOTC endorsed the aforementioned resolution to CAAP, requesting for updated information and to submit the action taken and recommendation.

With the objective of improving/rehabilitating the airport and complying to the request of the Sangguniang Panlalawigan of Marinduque Province, CAAP carried out two projects, the Marinduque Airport Development Project (Concreting of

Runway Extension) in CY 2012 with final project cost of P3.531 million and the Marinduque Airport Development Project (Continuation of Improvement of Runway) in CY 2014 with revised project cost of P25.354 million

In our coordination with the Office of the Supervising Auditor of the DOTC, we were informed that the DOTC has also implemented its own Marinduque Airport Development Project and provided us with the documents consisting of the following contracts:

- 1) Concreting of Runway (363 meters) for P19.929 million;
- 2) Improvement of Existing Perimeter Fence for P6.061 million; and
- 3) Continuation of Concreting of Runway for P8.951 million

The DOTC had already completed the first two projects while the last one is still on-going, the same with the second CAAP project. Both agencies are expecting that after the completion of all the projects, the airport will become operational and the airlines would resume their flight operations.

However, the DOTC's third project encountered operational and logistical problem, resulting in indefinite delay in its completion. It was noted that the contractor, Sargasso Construction and Development Corporation could not secure a quarry permit from the Provincial Mining Regulatory Board of Marinduque Province, which compelled DOTC to issue a work suspension order effective May 8, 2014 (Annex I). The suspension affected a section of the runway measuring about 87.78 meters x 30 meters (Annex J). In contrast, the CAAP project is on schedule.

The delay in the completion of the rehabilitation works of the runway has extremely affected, not only the target for the re-opening of the Marinduque Domestic Airport (MDA) for commercial flights but also impaired its earning power.

In CY 2012, when the airport was in full operation, it earned P4.899 million from operation. On the contrary, in CY 2013, the airport's gross income dropped to P2.016 million due to the discontinuation of commercial flight operation. In 2014, MDA only earned P127,800.00 from rent and other income.

Had the rehabilitation of the runway been completed in accord with the contract period, the commercial flight operations can resume and the Authority stand to earn, more or less, P4.5 million annually from the operation of MDA.

Management stated that they will coordinate with the DOTC on the issue of unfinished project at the MDA.

## **12.2 There was an overlapping in the scope of works of CAAP and DOTC projects in Marinduque Domestic Airport.**

On May 6, 2014, the contract for the Marinduque Airport Development Project (Continuation of Improvement of Runway) between CAAP and GEA Construction Corporation was approved. A part of the scope of work is the concreting of the runway from Sta. 0 + 180 – Sta. 0 + 327.78 or approximately 147.78 meters.

However, it was noted that the project of the DOTC with similar scope of work is already on-going in Marinduque Airport. The Continuation of Concreting of Runway Project will cover Sta. 0 + 323 to Sta. 0 + 236, roughly 87 meters long stretch of the runway. Based on the given boundaries, it was clear that the two projects had overlapped. To remedy the situation, CAAP issued a variation order for its project, deleting the concreting works that overlapped the boundaries of the DOTC project.

This predicament could have been avoided if there was proper coordination between the Authority and DOTC. The Authority should have provided the specific information on its projects when DOTC previously requested them for information and action taken and corresponding recommendation thru the DOTC letter dated March 16, 2012.

If the Authority and the DOTC has a policy/guidelines on specific projects that each agency will procure or undertake, the overlapping and delays in the completion of the much needed development and rehabilitation projects of the airport will be prevented and the flying public will be benefited.

We recommended that Management:

- a. Discuss/coordinate with the DOTC regarding the continuation of the suspended project. Explore all possible legal ways to resolve the issue; and
- b. Make a proposal to the DOTC to adopt a policy delineating the responsibilities of the two agencies over procurement involving capital asset of the Authority. If it will not come about, then the Authority should ensure that no duplication or overlapping of project works will occur. Management should be more circumspect in implementing its infrastructure project, considering that the DOTC is also implementing project within CAAP's jurisdiction.

Management agreed that there really should be a policy delineating the duties and responsibilities of DOTC and the Authority. Likewise, they will be presenting the matter to the Board of Directors in order to come up with a policy addressing the issue.

## **AREA CENTERS**

**13. Overtime services totaling P2.203 million were incurred despite the absence of budget for the same in the approved Corporate Operating Budget of Area Center I.**

Verification and analysis of financial records pertaining to the account Overtime and Night Pay accounts disclosed that a total of P3.269 million were expended for Overtime Services and night differentials in the CY 2014. Details of the said account are shown below:

<b>Particulars</b>	<b>Actual Disbursements</b>	<b>Accrued Expenses</b>	<b>Total</b>
Night Differential	1,048,341.02	18,103.02	1,066,444.04
Overtime	2,146,011.56	56,969.91	2,202,981.47
<b>TOTAL</b>	<b>3,194,352.58</b>	<b>75,072.93</b>	<b>3,269,425.51</b>

However, we noted that based on the approved Corporate Operating Budget (COB) for CY 2014 of Area Center I, only Night Differential (ND) was budgeted therein in the amount of P1.806 million. There were no provisions whatsoever for Overtime Services.

It was also gathered that out of the total P2.146 million paid for overtime services, only P1.165 million were covered by Fund Transfer Advices, which, according to the Accountant, constituted Other Releases from CAAP Head Office to Area Center I. Notwithstanding this condition, we are of the view that Overtime Services should have been budgeted/provided in the Corporate Operating Budget (COB) of Area Center I.

The non-provision Overtime Services in the COB may render the disbursements thereof in the amount of P2.146 million irregular as defined in COA Circular No. 2012-003 dated October 29, 2012.

Further analysis disclosed that in May 2014, disbursements for Overtime Services totaling P468,107 were made for Overtime Services rendered in CY 2012.

It was also observed that claims for Overtime Services by personnel of several offices/work areas were on a monthly basis. This practice could have been minimized, if not totally avoided, through proper scheduling and adequate planning of work assignments and/or activities, especially so if such overtime services rendered were by nature regular routine works.

We recommended that Management:

- a. Provide budget for Overtime Services in the COB of the Area Center in consonance with the COA Circular No. 2012-003;
- b. Require concerned offices to adequately and properly plan work assignments and/or activities or to hire sufficient number of personnel to meet the rigorous work details of the Area; and

- c. Adhere strictly to the provision of Section 119 of Presidential Decree No. 1445 as well as the use of modified accrual basis of accounting on the proper recognition and reporting of expenses.

The Area Center I Management asserted that they are not disbursing funds without allotment and that they have not incurred overdraft because they have two sources of funds, the COB transfer and fund transfer augmentation. The CY 2012 overtime services which were paid in CY 2014 were already adjusted as of March 2015.

We reminded Management that the Unnumbered Memorandum dated October 31, 2012 issued by the Office of the Director General did not cover the specific provisions/guidelines on the budget for overtime services, what was provided in the Memorandum was only the computation and approval of the authority to render overtime, among others. Moreover, the Area Center should have been the one to recognize their liability.

We further recommended that the Area Center I Management request reconsideration from the CAAP Head Office that budget for Overtime Services be provided in their COB.

#### **14. Job Order (JO) employees were assigned to perform collection functions and technical and highly classified work in several Area Centers**

In Area Center IV, four JO employees who were not designated and bonded were allowed to perform collection functions, contrary to the provisions of Section 65 and 66 of GAAM Volume I. Verification of records revealed that the JO employees were assigned as terminal fee collectors, whose duties are to collect terminal fees and to issue terminal fee tickets to the passengers departing from Puerto Princesa Airport. However, based on the Contract of Personal Services of JO personnel, only one was hired as terminal fee collector. The two employees were hired as Office Assistant I, and the other one as Airport/Facility Cleaner I.

In Area Center VIII, the office has a total personnel complement of 218. Out of that, 72.5 per cent or 158 are JO employees. The JO's functions include working in sensitive and critical areas such as airport control tower and in Administrative and Finance Units. Four of them are even serving as Officers-In-Charge of satellite offices, namely Guiuan, Borongan, Catbalogan and Biliran.

Although economically beneficial, with the lower compensations given to JOs, the policy of vesting upon JOs authorities to perform sensitive functions, including the administration of public resources, put at risk the successful implementation of the mandates of CAAP and the efficient, effective and economical utilization of the Authority's resources towards that end. Neither could the set up assure that public resources will be adequately safeguarded against losses or misuses as by the nature of their employment, JOs bear no employer-employee relations with the entity.

We recommended to Management the following:

- a. Refrain from assigning JO employees to perform collection functions. Only properly designated and adequately bonded officers must be allowed to perform collection functions; and

- b. Until regular/permanent accountable officers are assigned as terminal fee collectors, Management should ensure that necessary controls on collections are in place and strictly followed to avoid misapplication or loss.

Management commented that they cannot properly designate bonded officers to perform collection functions due to lack of permanent positions. However, they assured the Audit Team that until regular/permanent accountable officers are assigned as terminal collectors, all internal controls on collections are in place and strictly followed to avoid any misapplication or loss.

## 15. STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES

### Head Office

For CY 2014, we have issued seven Notices of Suspension in the total amount of P54.409 million, six Notices of Disallowance in the total amount of P136.542 million. Details are shown in the Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2014:

	Beginning Balance (As of Dec. 31, 2013)	This Period Jan. 1 to Dec. 31, 2014		Ending Balance (As of Dec. 31, 2014)
		NS/ND/NC	NSSDC	
Notice of Suspension	118,407,556.20	54,409,289.83	105,194,770.86	67,622,075.17
Notice of Disallowance	56,271,758.83	136,542,181.87	26,494.96	192,787,445.74
Notice of Charge	19,537.80	0	0	19,537.80
<b>Total</b>	<b>174,698,852.83</b>	<b>190,951,471.70</b>	<b>105,221,265.82</b>	<b>260,429,058.71</b>

Disallowances prior to the implementation of COA Circular No. 2009-006 dated September 15, 2009 amounted to P25.973 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, 2014, the balance of the Notices of Suspension and Disallowance follows:

Area Center	As of December 31, 2014	
	Notices of Suspension	Notices of Disallowance
Area Center I	0	10,330,031.18
Area Center II	1,559,210.55	3,113,505.07
Area Center III	0	7,198,034.83



Area Center	As of December 31, 2014	
	Notices of Suspension	Notices of Disallowance
Area Center IV	0	3,434,049.36
Area Center V	705,241.92	13,903,741.73
Area Center VI	2,063,104.37	39,906,237.66
Area Center VII	236,878.25	23,981,133.22
Area Center VIII	1,065,487.09	4,272,431.19
Area Center IX	0	16,674,175.77
Area Center X	18,447,514.09	83,845,950.74
Area Center XI	0	24,199,326.50
Area Center XII	3,518,723.71	538,068.86
<b>TOTAL</b>	<b>27,596,159.98</b>	<b>231,396,686.11</b>

Issuances of Notice of Suspension are attributable to non-submission of the required documents in the payment of the nationwide appraisal of CAAP properties and the payment to consultants and contractual employees in the Head Office. The lack of legal basis for the payment of the Performance Enhancement Allowance, Year-end Financial Assistance, Recognition Pay and the Achievement Bonus accounted for most of the issued Notices of Disallowances. Management has submitted to the Office of the Cluster Director their Memoranda of Appeal where in Cluster IV Decisions were already rendered to Appeals for Performance Enhancement Allowance, Year-end Financial Assistance and Recognition Pay.

We recommended that Management submit the required documents on the suspended transactions and secure the Authority from the Office of the President or DBM on the payment of additional allowances and other financial benefits to all employees of CAAP and include in the COB the budget thereof.

## **GENDER AND DEVELOPMENT (GAD)**

### **15. Only P6.927 million or 5.70 per cent of the GAD Projects/Activities/Programs (PAPs) were implemented out of the total amount of P121.520 million appropriated for CY 2014**

In the CY 2014 Annual GAD Plan and Budget, the Authority has appropriated the amount of P121.520 million for both Client and Organization focused projects.

In our audit, we noted that only P6.927 million or 5.70 per cent were utilized for the different projects and GAD related activities for CY 2014.

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

- Launched/Inaugurated the GAD facilities in six Airports;
- Purchased monoblock chairs for four Airports;
- Purchased gang chairs for the Priority Card/ID holders for two Airports;
- Purchased Portable Air Conditioning units for distribution to nine Airports;
- Construction of covered pathway at the Zamboanga International; and
- Purchased IT equipment and laptops, LCD projectors, etc for use of four airports.

On the other hand, the Organization Focused Projects conducted/completed for the year are as follows:

- Conduct of Gender Sensitivity Training to ATS-CATS Batch 7
- Conduct of GST Trainers' Enhancement Program
- Orientation on GAD of Top Management of CAAP
- Conduct of seminars on Sexual Harassment Law, Solo Parent Act and Magna Carta for Women at Butuan and Davao International Airports
- Three GAD members represented CAAP to the 1<sup>st</sup> DOTC Gender and Transportation Pre-Summit Workshop held at Clark
- Six TWG members attended the DOTC National Planning in Batangas City
- Conduct of Annual CAAP-GAD Assessment and Planning conference

A very low rate of implementation of the proposed PAPs signifies that the gender issues raised in the Annual GAD Plan and Budget were not addressed by Management in CY 2014.

We reiterated our recommendation and Management concurred that they will exert best efforts to implement the proposed PAPs to address the gender issues raised for the benefit of both the riding public and the employees.