## AUDIT OBSERVATIONS AND RECOMMENDATIONS

**1. Balances of certain accounts are not fairly presented in the Statement of Financial Position as at December 31, 2015 since these include the balances transferred from the abolished Air Transportation Office (ATO) in CY 2008 for which no adequate accounting records are available**

As of December 31, 2015, some of the accounts presented in the Statement of Financial Position are still doubtful as no reconciliation was made in CY 2015 for the accounts containing balances transferred from the abolished ATO. Consequently, no significant adjustments were made in the books of accounts as recommended in the Annual Audit Reports (AARs) since CY 2008.

Receivables

The Accounts Receivables' net balance of P8.732 billion in CY 2015 is overstated due to the inadequacy of Allowance for Doubtful accounts, considering that there are debtor's unsettled accounts which date back to 1997 in the total amount of P4.693 billion in the Head Office and P882.994 million in the Area Centers.

Also, there are still substantial variance between the total Accounts Receivable (AR) per General Ledger and per aging schedules of AR amounting to P744.729 million in the Head Office and P7.239 million in the Area Centers and negative balances in the Head Office SL totaling P67.677 as of December 31, 2015.

| PARTICULARS | Amount in millions |
|---|---|
| **Debtor's unsettled long overdue accounts:** | |
| Head Office | 4,692.521 |
| Area Center I | 45.390 |
| Area Center II | 5.236 |
| Area Center IV | 67.599 |
| Area Center VI | 764.769 |
| | 882.994 |
| | **5,575.515** |
| **Variance between the GL and the Aging schedule:** | |
| Head Office | 744.729 |
| Area Center I | 4.405 |
| Area Center III | 2.080 |
| Area Center IV | 0.754 |
| | 7.239 |
| | **751.968** |
| **Negative Balances in the SL** | |
| Head Office | **67.677** |

Similarly, 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, minimal adjustments were made to these accounts, which show significant balances of P112.193 million and P42.647 million, respectively.

Likewise*, Receivables - Disallowances/Charges* account with a P63.573 million balance, include a carried forward account from ATO amounting to P25.955 million in the Head Office. The persons liable for most of these disallowances in the Head Office were still not established/determined to date.

Property and Equipment (PE)

The Reports of Physical Count of Property, Plant and Equipment (RPCPPE) as of December 31, 2015 in the Head Office were reported by type of PE as recognized in the books. Moreover, all the columns like unit value, quantity per card and shortage/overage columns were filled in completely and the RPCPPEs were certified correct by the Inventory Committee and approved by the Agency Head, though, the reports were submitted only on February 10, 2016, past the January 31 deadline.

Moreover, no reconciliation of records was done between the Property and Accounting Divisions because the latter does not maintain Equipment Ledger Cards. Hence, the reliability, validity, existence and accuracy of the PE accounts in the Head Office in the total net amount of P1.510 billion continue to be doubtful.

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

| **Area Center** | **Amount in millions** | **Reasons/Issues** |
|---|---|---|
| Area I | 139.338 | Existing assets not recognized in the books, such assets include Land, Land Improvements, Buildings, Runways/Taxiways, etc. |
| Area II | 63.244 | No physical inventory taking and reconciliation with accounting records |
| Area III | 22.596 | No physical inventory taking |
| Area IV | 90.354 | Not supported with accurate RPCPPE and property cards |
| Area VII | 141.590 | No physical inventory taking and not supported with accurate RPCPPE and property cards |
| Area X | 324.680 | No physical inventory and non-maintenance of property cards and PPE ledger cards |
| | **781.802** | |

Other Assets

Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets transferred from ATO books that were temporarily lodged under the account “Other Assets” in CY 2008 pending verification, remain undocumented in the total amount of P4.684 billion as at December 31, 2015. No significant adjustments were made during the year.

In the Head Office, reclassification to Land account was drawn amounting to P73.756 million for a parcel of land situated in Davao City. However, in June 2015, reclassification from Due to Regional Offices account to the Other Assets account of the unidentified infrastructure assets of the Area Centers in the total net amount of P95.588 million has no basis and is undocumented.

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 that since the transfer from the ATO books, this have been outstanding in the books. Likewise, details of the account could not be substantiated in the absence of subsidiary records and documents.

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 Management reconcile records between the Property and Accounting Divisions and exert effort to submit the RPCPPE not later than January 31 of each year.

We also recommended that Management revise their policy on the computation of Allowance for Doubtful account as there are debtor's unsettled accounts which date back to 1997.

Management commented that they really need to create a separate Unit to focus on the documentation and reconciliation of the ATO accounts as the Accounting Division's time are all consumed in the current year's transactions.

**2. Overpayment of P1.205 million to Bayan Telecommunications, Inc. (BayanTel)**

In the Schedule of Services and Charges of the Two Renewal Agreements for the Provision of Voice and Data Circuits of several Air Control Centers and Addendum I (additional equipment bandwidth and services), entered into by and between BayanTel and the Authority, monthly recurring charge, inclusive of VAT, are provided in separate contracts for seven destination points, Manila as the originating point.

In the course of our audit we noted that the monthly payment for the cited destination points were over and above the contracted amount by more or less 12 per cent or a total of P1.205 million, as shown in Annex A. There is no explanation for the additional costs in the statement of account. The overpayment resulted in the loss of government funds.

We recommended that the Authority:

a) Submit an explanation for the payment of the overbilling of BayanTel; and

b) Cause the recovery of the overpaid amount from BayanTel.

Management informed that CAAP and BayanTel conducted a reconciliation of the account on May 13, 2016 and a valid revenue reversal was established. BayanTel gave an assurance that once the amount for reversal is finalized, the succeeding billings of the circuits will be adjusted accordingly.

**3. Errors in the recording of transactions resulted in the overstatement and/or understatement of affected accounts**

**3.1 Fair value totaling P9.851 million of the two units of aircraft H-295 and one unit of aircraft H-391B donated by the Department of Education was recorded to Income from Grants and Donations account instead of Other Deferred Credits account**

On August 1, 2014, the Authority received two units of aircraft H-295 (tail # 43 & 526) and one unit of aircraft H-391B (tail # 39) from the Department of Education (DepEd) with total fair value of P9.851 million. The donation of the aircrafts was recorded in the books as Income from Grant and Donations in CY 2014.

However, based on the Philippine Accounting Standard (PAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, the donation should be recorded as deferred income and amortized over the useful life of the asset to compensate for the related depreciation expense.

The Authority has not adhered with the provisions of PAS 20 resulting in the overstatement of the Prior Year Retained Earnings by P9.482 million (net of the amount of P369,426.29 earned in CY 2014), understatement of the Other Deferred Credit account by P8.595 million and understatement of the Income from Grants and Donations account by P0.887 million as of December 31, 2015.

We recommended and the Accounting Division agreed to strictly comply with PAS 20 and prepare the necessary adjusting entry to correct the balances of the accounts Other Deferred Credits and Retained Earnings and record the succeeding yearly amortization over the useful life of the asset.

**3.2 Collections pertaining to the issuance of various certificates and the cost of the related travel expenses were not fully accounted as Income, contrary to Paragraph 95 of the Framework for the Presentation of Financial Statements**

Paragraph 95 of the Framework for the Preparation and Presentation of Financial Statements provides the principle for matching of costs with revenues in recognizing transactions in the income statement.

CAAP Memorandum Circular No. 13-15 authorizes the payment of per diems for local travels of inspectors in accordance with UNDP Daily Subsistence Allowance (DSA) rates as adjusted based on International Civil Service Commission's DSA Report as of July 01, 2015 which also states that *travel related expenses such as food and accommodations for the Inspector/s are included in the DSA/UNDP rates*.

In our audit of the collections from client companies for the Certificates being issued by CAAP such as: a) Aircraft Registration Certificate; b) Aircraft Airworthiness Certificate; c) Air Agency Certificate or Approved Maintenance Certificate; d) Aviation Training Organization Certificate; e) Air Material Distributor's

Certificate; and f) Air Carrier Operating Certificate, we noted that only the Certification fees and Administrative fees were recognized as income in the books.

Upon receipt of payment, the certification and administrative fees are recorded as Income while all the travel related charges such as the Daily Subsistence Allowance (DSA), VISA fee, Pre-travel expenses, travel taxes and terminal fees are debited to Deferred Credits account. Upon payment of the DSA and other related travel expenses to the Inspector, the account is credited.

Such practice is not in accord with Paragraph 95 of the Framework as all collections from client companies should be recognized as Income of the Authority while all expenses related to the issuance of the Certificate including the air fare of the Inspectors should be recognized as travelling expenses of the Authority.

Since the issuance of certificates is a regulatory function of the Authority, we recommended that all charges billed to the client companies including the air fare of the Inspectors related to the issuance of Certificates be recognized as Income and all expenses of the Inspectors be recognized as Travelling Expense.

Management commented that DSAs are not operating costs of the Authority but money given by operators who shoulders the DSAs of CAAP inspectors, some of whom are consultants.

COA's rejoinder:

We stand by our recommendation that as a regulatory body all related revenue and expenses in the issuance of the certificates be recognized in the books to establish the independence of the Authority and refrain from having conflict of interest.

**3.3 Expenses for the technical assistance amounting to P11.885 million was recognized in the books as Other Professional Services instead of Consultancy Services and the same was not supported with the documents required in the Agreement (NAT-1-3186-5-3)**

The Authority had entered into an Agreement (Appendix 3 to Annex 5 to Memorandum of Agreement NAT-I-3186 as amended), on June 4, 2013 with the Federal Aviation Administration (FAA) of the Department of Transportation of the United States of America.

The FAA, as provided in Section II of the Agreement, shall provide safety specialists and observers with backgrounds in airworthiness, operations, and/or other expertise as required, who are competent in applying the standards and recommended practices set forth in International Civil Aviation Organization (ICAO) Annexes 1, 6, 8, to perform technical assistance from June 2013 to June 2015.

Section III. B. of the Agreement also provides that the estimated cost for up to three specialists for the referenced period is US$280,908.00. It further states that: *"Discrepancies in the actual expense of providing the technical assistance and estimated expenses paid by the CAAP would be handled with paragraph D of Article V of the Agreement."*

The Agreement further provides among others that the specialist will render a final Technical Assistance Report for the CAAP Director General following the completion of the technical assistance and the comprehensive review of the specialists' report.

In our verification, US$280,908.00 was remitted to the US Treasury on June 18, 2013 under Reference No. NAT-1-3186-5-3 and recognized in the CAAP books as a debit to Deferred Charges amounting to P11.885 million per Journal Entry Voucher (JEV) No. F 13-06-04 dated June 14, 2013.

In June 2015, JEV No. 15-06-52 was drawn to charge the full remittance to Other Professional Services account instead of Consultancy Services account as the amount paid was for specialists who provided technical services not available in the Authority.

Examination of the supporting documents attached to the JEV revealed that there was no evidence that the Technical Assistance Report of the specialists has been submitted to the CAAP Director General and that Notification of the FAA to the CAAP that the services described in the Appendix to the Agreement have been completed. Furthermore, no document showing the total actual expenses for the provision of the technical assistance was attached to the JEV.

We recommended that the Authority provide evidence on the submission of the: 1) Notification from FAA that the services have been completed; 2) Final Technical Assistance Report of the specialists from FAA were provided to the Director General; and the actual expenses of providing the technical assistance. Further, treat the expenses for similar technical assistance as Consultancy Services in the future.

Management informed COA that they will submit the required documents as soon as they receive the required the reports from FAA.

**3.4 Prior years' rental income of P2.075 million recognized in the books as income of the current year, contrary to Philippine Accounting Standards (PAS) 1**

PAS 1 provides the guidelines in using the Accrual method of accounting.

Our audit disclosed that rental income from Cargohaus, from June 2012 to November 30, 2014; Alphaland Corporation, from April 2014 to December 2014 for electric bills; and Bank of the Philippines Island from September 2014 to December 2014 amounting to P1.125 million, P0.920 million and P30,000, respectively, were recorded in the books as income for the current period. This resulted in the overstatement of Rental Income account and understatement of the Retained Earnings account both in the amount of P2.075 million.

The Cash Basis of accounting was used since no billing statements are being sent to the named lessees. This is contrary to the generally accepted standards of recognizing income in the period it was earned under PAS 1.

We recommended that the Authority require:

a) The Aerodrome Development Management Services (ADMS) and/or the Legal Department to furnish the Accounting Division of all contracts with rental fees; and

b) The Flight Inspection and Calibration Group (FICG) to notify the Accounting Division of the utilities expense for the Alphaland lease for timely billing of the same.

We also reiterated our prior year's recommendation for the Accounting Division to issue monthly billing statements to all the lessees so that income are properly recognized and reported in the FS.

According to Management, CAAP has started billing AlphaLand on their monthly utilities.

**3.5 The accounts Traveling Expenses – Foreign and Training Expenses were used interchangeably in recognizing the liquidation of Cash advances (CAs) for foreign travel**

COA Circular No. 2004 – 008 dated September 20, 2004 provides for the description of Traveling Expenses and Training Expenses. It likewise gives guidance when these accounts are to be debited or credited in the books. This is complemented in Paragraph 33 of the Framework for the Preparation and Presentation of Financial Statement, which states that:

> *"To be reliable, information must present faithfully the transactions and other events it either purports to present or could reasonably be expected to represent. xxx"*

In our audit of the liquidation of CAs for foreign travel, we noted that the accounts Traveling Expenses – Foreign and Training Expenses were used interchangeably to recognize expenses in the books.

The Authority has no written guidelines to date, on how foreign travel for attendance to meeting and seminar/workshop afterwards will be recognized. The misclassification/erroneous recording of the liquidation will result in the misstatement of the expense accounts affected.

We recommended that the Authority require the Accounting Division to strictly observe the description of accounts provided in the Chart of Accounts prescribed in COA Circular No. 2004 – 008 dated September 20, 2004, to ensure correctness of the expense account that should be charged based on the nature of the transaction.

Management commented that henceforth, all expenses related to training will be charged to Training Expense account.

**3.6 Income from the use of CAAP's communication facilities by carriers/airline companies in the total amount of P3.271 million covering the period from January to March 2011 recognized in the books of the Authority as revenue of the current year**

Our verification disclosed that revenue earned on the use of CAAP's communication facilities by carriers/airline companies for the additional flights for the period January to March 2011 in the total amount of P3.271 million was recorded as revenue of the current year. Thus, Income for Communication Facilities account is overstated and Prior Years' Adjustment – Retained Earnings account is understated both by the said amount.

We reiterated our recommendation that the Income from Communication Facilities and Prior Years' Adjustments – Retained Earnings be adjusted accordingly.

Management explained that this pertains to unidentified coordinates that were not recorded in the books. Future computerization of billing and collection process will address the issue.

**3.7 Expenditures for honoraria and repair of equipment and machineries erroneously charged to Other Professional Services account**

In our examination, we noted that the following expenses from January to December 2015 were charged to Other Professional Services account:

| Nature of Transaction | Amount |
|---|---|
| Hearing and Adjudication Board honorarium | P 1,073,512.00 |
| Resource speaker honorarium | 558,264.00 |
| Cost of maintenance of elevator | 139,950.00 |
| | **P1,771,726.00** |

In order for the information in the financial statements to be useful and reliable, the conceptual framework of accounting provides that *"it must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent."* In this regard, the expenditures mentioned above should be recognized in the appropriate expense accounts.

We recommended and management concurred that proper charging of expense will be strictly implemented starting CY 2016.

**3.8 Erroneous pro-forma entries for intercompany transactions in the Accounting Manual for Branch Accounting of the Authority**

In our review of the Accounting Manual for Branch Accounting of the Authority, we noted that the pro-forma entries for collection by the Head Office (HO) of accounts receivable of Area Centers (ACs) is incorrect. The Accounts Receivable account is credited in the books of the HO upon collection of ACs' accounts receivable instead of using the reciprocal account Due from Regional Offices, hence, not in accordance with the Home Office and Branch Accounting Concept.

The accounts receivable of the HO is different and separate from that of the ACs. The use of the Accounts Receivable account of the HO in recording intercompany transactions will result in the understatement of the said account and the overstatement of the Due from Regional Offices account.

On the other hand, the Manual provides entries for the refund to ACs for CAs granted in the Head Office and refund of CAs granted at ACs collected by the HO. This practice of the Authority is incorrect. Refund and liquidation of cash advance should only be processed and recorded in the unit where the cash advance was granted since the records are maintained there.

We recommended the following:

a) Revise the pro-forma entries in the Manual for intercompany transactions to reflect the proper journal entries in accounting for intercompany collections of revenue and delete the proposed entries in the collection of refunds and liquidation of CAs where it was not granted;

b) Stop the practice by the HO of collecting and recording of refunds and liquidation of cash advances granted at ACs, and vice versa.

Management stated that discussion with Area Accountants nationwide is needed for their comments and inputs regarding the recommended revisions of the pro-forma entries in the Manual for intercompany transactions.

**4. Audit recommendations on several audit observations in the CY 2014 Annual Audit Report (AAR) on the Authority were not acted upon in CY 2015; hence our reiteration as follows:**

**4.1 Land valued at P0.533 million under the jurisdiction of Area Center III remained in the books of the Head Office as at December 31, 2015, while the 23 parcels of land with a total land area of 20,716 square meters remained unrecorded in the books**

The Land account in the Head Office books shows a balance of P0.533 million which pertains to the payment of a parcel of land covered by Transfer Certificate of Title (TCT) No. T 30672 that form part of Baler Airport, Area Center III.

As previously observed, CAAP claimed ownership of 23 parcels of lot situated in Barangay Ibayo and Vitales both in Parañaque City with areas measuring 7,415 square meters and 13,301 square meters, respectively. These lots were titled in the name of the Philippine Government and Civil Aeronautics Administration and remained unrecorded in the books due to the absence of records to prove the ownership, validity, recognition and correct valuation.

We reiterated our recommendations for the Accounting Division to make the necessary adjustment in the books to transfer the value of the land that belongs to Area Center III and for Management to exert more effort to expedite the transfer of title on the 23 parcels of land in the name of CAAP and consequently recognize the same in the books upon determination of proper valuation.

Management commented that they will refer the matter to the Inventory Team to help settle the issue.

**4.2 Various Cash in Bank accounts as of December 31, 2015 are understated and Accounts Receivable are overstated both by P125.025 million due to unrecorded reconciling items**

In our verification of the Authority's submitted Bank Reconciliation Statements as of December 31, 2015, we noted that some reconciling items included in our CY 2014 AAR were adjusted, however, other reconciling items from CYs 2008 to 2015 for various bank accounts in the total amount of P125.025 million are still not recorded as follows:

| Cash In Bank (CIB) | Reconciling Items |
|---|---|
| CIB, Local Currency, Current Account (net) | 5,083,973.70 |
| CIB, Local Currency Savings Account | 30,373,199.65 |
| CIB, Foreign Currency Savings Account | 89,568,077.73 |
| | **125,025,251.08** |

The reconciling items include unaccounted deposits, unrecorded remittances, bank debit and credit memos.

We reiterated our recommendation that the Authority prepare adjusting entries for the unrecorded reconciling items which understated the Cash accounts and overstated the Accounts Receivable account both by P125.025 million.

Management has already issued various official receipts for unrecorded collections in the total amount of P5.227 million for CIB, Local Currency, Current Account and P28.575 million for CIB, Local Currency Savings Account, both in CY 2016.

**4.3 Absence of documents to support the propriety and correctness of the Deferred Charges account amounting to P93.800 million renders the said balance of the account doubtful**

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

| Particulars | Balance |
|---|---|
| Trust Fund (PHI 9501) | P 93,146,669.55 |
| ICAO – Technical Library for ANSOO | 209,739.88 |
| CRV Network | 443,540.00 |
| | **P93,799,949.43** |

Charges to the Trust Fund, PH195901, were recognized in the books based solely on the Statement of Fund Balance submitted by the International Civil Aviation Organization (ICAO). The Statement does not have any specific or detailed documents supporting the propriety of the charges. Moreover, in CY 2013 Annual

Audit Report, it was reported that the account's year-end balance differed from ICAO's Statement of Fund Balance by as much as P21.66 million, which was recommended for reconciliation. Instead of reconciling the records, the variance was eliminated by recognizing unrealized loss on foreign exchange (forex) of P20.66 million in CY 2014 and unrealized forex gain of P5.071 million in CY 2015. On the other hand, other remittances/transactions since CY 2010 with ICAO other than the Trust Fund account amounting to P209,739.88 have remained outstanding/unliquidated as of December 31, 2015. 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, 2015.

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.

Hence, we reiterated our previous years' recommendations that the Accounting Division:

a) Conduct 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; and

c) Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries.

Management explained that the ICAO refused to submit the documents on the belief that the action is tantamount to an audit.

COA's rejoinder:

Reconciliation by CAAP of the Trust Fund (PH195901) with ICAO is necessary as millions of government money is involved and proper accounting of the fund should be reflected in the books of accounts of the Authority.

**4.4 P1.871 billion or 52 per cent of the total income as of December 31, 2015 remains uncollected**

Our audit disclosed that out of the total revenue of P3.605 billion in CY 2015 in the Head Office, only P1.734 billion or 48 per cent have been collected. This leaves an uncollected revenue of P1.871 billion.

Verification also disclosed that billing statements delivered/sent to or picked up by customers as of December 31, 2015 were only up to September 2015. Likewise, collections as of December 31, 2015 were up to August 2015 only. Thus, assessment and billings of operational charges that were not issued to airline companies as of December 31, 2015 amounted to P961.175 million, which income is already earned and recognized in the books.

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 its operation. The delay in the assessment and issuance of billings deprived the Authority the opportunity to collect and use the proceeds to finance its operations and capital expenditures of the Authority.

We reiterated our recommendation that Management adopt an effective billing and collection system which include among others the following features:

a) Automation of billing data, invoicing and collection; and

b) Formulation of policy on imposition of fee/penalty for late payments and initiation of legal action on delinquent customers.

Management explained that they are already considering the use of existing third party-billing system and they have already received proposals from two parties.

**4.5 The balance of the Other Prepaid Expenses account amounting to P33.004 million as of December 31, 2015 in the Head Office remains doubtful due to non-conduct of physical count and non-reconciliation of the report thereon with accounting records**

Validation of the existence and validity of the inventories recorded in the Other Prepaid Expenses account in the total amount of P33.004 million in the Head Office cannot be completed as there was no physical count conducted on the various inventory accounts. Accordingly, no reconciliation of the report thereon was made with the accounting records.

Verification of the Supply Division’s stock cards (SCs) for individual supplies and the corresponding stock ledger cards (SLCs) in the Accounting Division disclosed that these were not updated.

In the audit of the account, it was noted that all the transactions were for Office Supplies Inventory, Accountable Forms Inventory and Gas, Oil & Lubricants Inventory only. Thus, 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.

We reiterated our recommendations that Management require:

a) Concerned officials and employees to conduct physical count of all inventories once every semester and submit 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 and update SLCs and conduct regular reconciliation with the Supply Division;
- exert extra effort to reconcile, document and adjust the unaccounted balance of Drugs and Medicines Inventory, 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 under their accountability.

Management stated that they will adhere to the recommendations.

**4.6 Cash Advances (CAs) for Officers and Employees of P3.308 million and P5.540 million granted in CY 2015 and prior years, respectively, remain outstanding at year end, in addition to the unsettled outstanding receivables of P6.337 million from former officers and employees. Moreover, the general ledger (GL) balance and totals of the subsidiary ledger (SL) balances and Aging Schedule of the Advances to Officers and Employees and Other Receivable accounts are still not reconciled**

During our audit, we noted that out of the P15.914 million CAs for travel granted to officers and employees for CY 2015, P3.308 million or 20.80 per cent remain unliquidated at year end. Moreover, P5.540 million prior years' CAs remain outstanding as of December 31, 2015. These prior years' CAs pertain to those granted before and up to December 31, 2014. Likewise, a total of P6.337 million of uliquidated cash advances from former officers and employees who have retired, resigned or died was transferred to the Other Receivables account.

Verification disclosed that submission of most of the liquidation reports by the concerned officers and employees of the Head Office and Area Centers were way beyond the reglementary period. Furthermore, despite our previous years' observations, the Authority still grant cash advances to employees with unliquidated CAs. The existence of past due unliquidated cash advances, the non-liquidation within the prescribed period and the granting of CAs to employees who still have unliquidated cash advances are contrary to COA Circular No. 97-002 dated February 10, 1997.

We also noted that negative balances in the Schedule of Prior Year's Unliquidated Cash Advances in the total amount of P0.317 million remained unadjusted as of December 31, 2015.

Non-liquidation of cash advances that have already been utilized resulted in the overstatement of the Advances to Officers and Employees account and the understatement of Travelling Expense and Training Expense accounts. Cash account may also be understated for failure to refund the unused portion of the cash advance.

Moreover, our analysis of Advances to Officers and Employees account disclosed 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, 2015 have differences of ₱2,355,688 and P2,673,389, respectively. On the other hand, the GL balance of Other Receivables account has a difference of P5.593 million as compared to the balance of the Aging Schedule and SLs of P6.337 million. This renders doubtful the balance of the accounts.

We reiterated our recommendation that the Authority:

a) Require all officers and employees to strictly adhere to the provisions of 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 the officers and employees with long outstanding cash advances and strictly enforce the deduction from the salary of the employees in case of failure to liquidate their current CAs within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers;

c) Exert best efforts to reconcile the differences noted between the GL, SL and Aging Schedule and prepare the corresponding adjusting entries; and

d) Exert best efforts to recover the outstanding accountabilities by:

- Requiring those who left without being cleared or proper resignation to claim their terminal leaves benefits in order for the Authority to offset their accountabilities;

- Where there are no terminal benefits available, have the separated employees or the next of kin of the deceased settle the amount through refund; and

- Should the aforementioned methods prove to be futile, the Authority should resort to legal remedies.

Management stated that they will comply with the recommendations of COA. Likewise, they will continue working on reconciling the GL, SLs and corresponding Aging Schedules.

**4.7 Dividends payable for CY 2015 equivalent to 50 per cent of CAAP's Net Profit not recognized in the books**

For the year 2015, the Authority again failed to recognize the dividends due to the National Government equivalent to 50 per cent of the net profit, contrary to RA No. 7656. As a result, the Due to National Treasury and Retained Earnings accounts are understated and overstated, respectively, as of December 31, 2015.

We recommended that dividends payable equivalent to 50 per cent of the Authority's net profit for CYs 2013 to 2015 be recognized in the books.

Management said that they are waiting for the opinion of the Department of Justice on their position that they are exempt from the requirement of RA No. 7656. However, if the Board decides to declare dividend, they will do so.

**4.8 Donated Flight check A/C RP-178 Cessna U206F was not recognized as Aircraft and Aircraft Ground Equipment in the accounting books, however, the installation of a new engine and other major repairs thereon were recognized in the books**

In the course of our audit of the PE account, we noted that the CAAP Flight Check A/C RP-178 Cessna U260F was still not included in the Aircraft and Aircraft Ground Equipment accounts (GL-243), though repairs and maintenance for the aircraft amounting to P0.863 million were recognized in May 2015. Moreover, the KT-76C dual transponder system installed in December 2014 amounting to P0.329 million that was recorded as repairs and maintenance was not reclassified as Aircraft and Aircraft Ground Equipment.

The non-recognition of RP-178 Cessna U260F under Aircraft and Aircraft Ground Equipment account and the incorrect recording of the installation of the dual transponder system bring into question the accuracy and reliability of the balance of the said account. Moreover, the incorrect recording also cast doubt on the accuracy of the recorded expense of the Authority for CY 2015.

We reiterated our recommendation that the Accounting Division exert best efforts to record immediately the donated RP-178 Cessna U260F and effect adjustment to capitalize the installation of KT-76C dual transponder system.

Management is waiting for updates from the Flight Inspection and Calibration Group (FICG) on the documentation of the donated RP-178 Cessna U260F.

**4.9 CAAP failed to achieve its objective of procuring a total of 116 infrastructure projects for CY 2015**

In its Annual Procurement Plan (APP) for 2015, CAAP listed 116 infrastructure projects nationwide and other infrastructures which are for various unidentified end users, excluding GAD projects, for an estimated budget of P1.2 billion and P32.5 million, respectively.

At the end of CY 2015, the Aerodrome Development and Management Services (ADMS) disclosed that it has procured 26 identified projects with an estimated cost of P387.75 million or 31 per cent of the budgeted cost. While there is a significant improvement in CY 2015 in the procurement of the infrastructure projects, the variance between the planned and completed procurement still reflects the Authority's inefficient procurement system. Moreover, the inclusion of other infrastructures for unidentified various end users also shows that Management failed to exercise prudence in planning its procurement activities specifically for infrastructure projects.

We reiterated our recommendation that CAAP adopt a policy geared towards maximizing its resources to attain its objectives such as but not limited to the creation of additional Bids and Awards Committee (BAC) in the Head Office and the decentralization of the BAC in the Area Centers. Further, in the preparation of the APP, for Management to take into account the activities which can be achieved during the period.

Management admitted that there is a problem in implementation and they will see to it that better planning and implementation will be made in the coming year.

**4.10 The accuracy of the valuation of the recorded cost of Motor Vehicles and Firefighting Equipment and Accessories of P16.116 million and P32.294 million respectively, are doubtful due to the inclusion of non-existing vehicles and the unrecognized 20 motor vehicles**

As of December 31, 2015, the net book value of Motor Vehicles account totaled P16.116 million while that of the Firefighting Equipment and Accessories account for the same period is P32.294 million (Annex B).

With the exception of the lone motorcycle acquired in October 2013 and the crash, fire and rescue vehicle acquired in May 2010 and the vehicles acquired in CY 2015, all other vehicles recorded in the books are already fully depreciated with ages ranging from 10 years to 47 years. On the other hand, with the exception of the fire extinguishers acquired in CY 2012, the firefighting equipment and accessories are also fully depreciated as of December 31, 2015. The inclusion of these vehicles and firefighting equipment in the books of accounts casts doubt to its existence and accuracy.

A review of the List of Vehicles at the CAAP Central Office as of December 31, 2015 showed that 20 motor vehicles, which consumed P0.950 million worth of fuel during the year, are not included in the 2015 Lapsing Schedule of CAAP Motor Vehicles, therefore, not recorded in the books of accounts.

Likewise, it was also noted that majority of the vehicles in the 2015 Lapsing Schedule with a total net book value of P3.047 million, or 84.94 per cent (Annex C) are not in the list of vehicles being used by CAAP, therefore, did not incur gasoline expenses. This is an indication that these vehicles are not being used/functional or already unserviceable, or already disposed but not yet dropped from the books of accounts of CAAP.

It is necessary to have these vehicles inspected and inventoried to verify its existence, location and condition in order to assess whether or not, the benefits derived therefrom, outweighs its cost to operate.

We reiterated our recommendations that the Authority:

a) Conduct a physical inventory of motor vehicles and firefighting equipment and prepare the required report; and

b) Book the unrecognized vehicles and equipment and de-recognize those included in the 2015 Lapsing Schedules but could no longer be located, in accordance with existing rules and proper documentations.

**4.11 Not all insurable properties of the Authority are insured with the Government Service Insurance System (GSIS). Moreover, the unexpired portion of insurance premiums was recorded under the Insurance Expense account**

In the course of our audit, we noted that there are still CAAP properties not insured with the GSIS, contrary to Section 5 of RA No. 656. Thus the risk is high that the Authority will suffer for non-compensation from any damages and loss due to man-made calamities and force majeure on these properties.

As at December 31, 2015, the Authority has three insurance policies. Properties with a market value of P10.118 billion were insured under the fire industrial all risk insurance and the sabotage and terrorism insurance for a premium amounting to P20.235 million and P4.870 million, respectively. The Authority insured 47 additional airports under the airport liability insurance. Out of the 82 airports a total of 68 amounting to P4.950 billion are insured at a premium of P9.900 million.

There are still 14 airports that are not insured under airport liability insurance of the GSIS or with any private insurance company. Moreover, 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.

We also noted that, as at December 31, 2015, the unexpired portion of the premiums for the fire industrial all risk and airport liability insurance were recorded under Insurance Expense account. No adjusting entries were made to recognize the unexpired premiums to the Prepaid Insurance account, contrary to the matching principle of accounting.

The coverage period of the fire industrial all risk insurance is from April 14, 2015 to April 14, 2016, while airport liability insurance is from October 14, 2015 to October 14, 2016. The fire industrial all risk insurance has an unexpired premium amounting to P5.901 million, equivalent to 3.5 months while the airport liability insurance has an unexpired premium amounting to P7.837 million, equivalent to 9.5 months. These resulted in the overstatement of insurance expense by P13.739 million and the understatement of prepaid insurance by the same amount.

We reiterated our recommendation that the Authority endeavor to come up with the complete physical inventory of all properties and equipment in the Head Office and all the Airports under the twelve Area Centers and determine accordingly, all the insurable properties and its corresponding market value so that the same can be insured with the GSIS and if not approved, with any private insurance company in accordance with RA No. 656, for protection against any insurable risk.

The Authority should also require the Accounting Division to make the necessary adjusting journal entries to reclassify the unexpired portion of the insurance premiums of the fire industrial all risk and airport liability insurance.

Management stated that they will endorse the uninsured airports to CAAP task force for inventory and valuation of all properties within the airports to have basis in processing the insurance of the same.

### 4.12 Remittances from AEROTHAI amounting to $1.064 million recorded in the books are without supporting documents

CAAP entered into an Agreement with AEROTHAI on December 5, 2001 for the installation, maintenance and operation of air/ground VHF data link ground stations 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 was renewed in CY 2009.

The Agreement provides that AEROTHAI shall remit to CAAP every 30th day of the month the revenue share of 33.3 per cent of the total revenues generated per month, less all costs pertaining to trainings, meetings, and conferences attended by Air Navigation Services (ANS) specialists and the costs/funding/payment of upgrade of Equipment including but not limited to duties, taxes, freight and insurance, if any.

Our verification showed the following remittances recorded in the books of the Authority.

| OR Number | OR Date | Remittance Date | Amount in US$ |
|---|---|---|---|
| 0409166 | 11 May 2015 | 02 March 2015 | 277,429.39 |
| 0409170 | 11 May 2015 | 16 March 2015 | 277,429.39 |
| 0409228 | 19 May 2015 | 10 May 2015 | 350,400.88 |
| **Recorded in May 2015** | | | **905,259.66** |
| 0690869 | 14 October 2015 | 09 October 2015 | 78,915.79 |
| 0690875 | 20 October 2015 | 09 July 2015 | 79,873.91 |
| **Recorded in October 2015** | | | **158,789.70** |
| | | | **1,064,049.36** |

These remittances which were recorded under the Miscellaneous Income account were evidenced solely by the Official Receipts issued upon information that telegraphic transfers from AEROTHAI were received. The determination of the sufficiency or shortage of the recorded remittances cannot be substantiated due to the absence of supporting documents.

We reiterated our recommendation that the Authority submit monthly reports showing the total revenues generated; trainings, meetings and conferences attended by ANS specialists, and costs/funding/payment of upgrade of Equipment including but not limited to duties, taxes, freight and insurance, if any, as supporting documents to the remitted amount to the Office of the Auditor for audit.

In their reply, management said that they had already requested the necessary documents from AEROTHAI and it will be submitted to COA upon receipt.

**4.13 Majority of the accountable forms are procured from private printers and not from the National Printing Office (NPO)**

Verification disclosed that the Accountable Forms being procured from the NPO are the Certificate of Registration, Certificate of Airworthiness, Pilot Proficiency Report – Fixed Wing and Single Engine. These Accountable Forms were issued starting only in November 2014. Accountable Forms for all other licenses are procured from private printers thru Petty Cash Custodians (PCC) acting as the supply officer who orders and distributes them.

During the CY 2014 audit, there was an on-going discussion with all Flight Standards and Inspectorate Service (FSIS) Department Heads regarding certificate issuances and that certificates such as Air Operator Certificate, Approved Training Organization Certificates and Approved Maintenance Organization Certificates can be procured from NPO. However, to date, these certificates are still being procured from private printers thru the PCCs. The FSIS also expressed their plans to request for exemption to allow the Authority to tap private providers but there have been no concrete steps taken to date.

We reiterated our recommendation that the Authority procure Accountable Forms from NPO or from other qualified private printers provided that the procurement complies with the requirements laid down in Memorandum Circular No. 180 dated August 13, 2009 of the Office of the President.

We also reiterated that Management 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.

Furthermore, plans for obtaining prior written waiver from the NPO for certificates/ permits that cannot have a pre-printed form be done at the soonest possible time.

Management commented that the NPO has no capability to print the licenses that are contracted out to private printers. They concurred to secure waiver from the NPO and to consider other government printers like the APO Production Unit Inc. for their printing needs.

**4.14 Monthly Reports of Accountability for Accountable Forms (RAAF) are not prepared**

The designated Accountable Forms Custodians (AFCs) for the Certificate of Registration, Certificate of Airworthiness and Pilot Proficiency Check Report (both fixed wing and single engine) as per Service Order No. 471-15 dated March 25, 2015, have not submitted the monthly RAAF since their assumption on March 25, 2015.

All other Accountable Forms, which are procured from private printers, do not have designated custodians and their respective RAAFs are likewise not prepared and submitted to the Office of the Auditor.

We reiterated our recommendation that the Authority require the AFCs to prepare and submit the monthly RAAF covering the period from the date of their assumption to present and for the Authority to immediately assign AFCs to handle all other Accountable Forms.

Management commented that they will comply with the submission of RAAF on a monthly basis and that they will assign additional AFCs for all other accountable forms.

**4.15 The Authority still uses the schedule of fees and charges prescribed in the Addendum dated October 5, 1998 to Department Order No. 94-762, Series of 1993 of the abolished Air Transportation Office (ATO), contrary to Section 17 of R.A. No. 9497**

Since the creation of the Authority in 2008, there were only three types of fees and charges that were revised namely: Revised Schedule of Fees and Charges for New Iloilo and New Silay (Bacolod) Airports per CAAP Circular No. 001 (2008), New Air Navigation Charges per CAAP Circular No. 03-11, Series of 2011 and Passenger Service Charges (Terminal Fees). All other fees and charges of the Authority are still based on the Addendum to Department Order No. 94-762, Series of 1993 of the abolished ATO under the Department of Transportation and Communications (DOTC). This is contrary to Section 17 of R.A. No. 9497, requiring CAAP to adopt and publish updated schedule of fees and charges.

Considering the time value of money and inflation for the past eight years, most of the fees and charges being applied are significantly low in value. As a consequence, the Authority is losing potential revenue for using the rates adopted by ATO way back in 1998. According to Management, a Revision of Fees Committee has already been created but no new fees and revised rates have been approved to date.

We reiterated our recommendation that the Authority adopt and publish an updated schedule of fees and charges that are reasonable and in accordance with Section 17 of Republic Act No. 9497.

Management informed that the Committee continues to process the revision of fees and committed to finish the revised schedule of fees and charges and have it approved by the Board.

**4.16 Unidentified disbursements included in the balance of Construction in Progress (CIP) – Other Public Infrastructure account amounting to P1.615 million remains unadjusted as of December 31, 2015**

As previously observed, the CIP-Other Infrastructure account still includes unclassified disbursements in the amount of P1.615 million.

We reiterated our recommendation that the Authority identify this amount with the projects to which they are related and make the corresponding adjusting entries.

Management stated that they are having a hard time identifying the projects to where the unclassified disbursements were related but will try to exert effort to comply with the recommendation.

**4.17 Deficiencies in internal control throughout the billing, collection and requisition of accountable forms**

Our verification showed that the recommendations given in the CY 2014 Annual Audit Report on the Authority's billing, collection and requisition of accountable forms internal controls to address the following deficiencies were not yet implemented.

a. Flight strips and Daily Traffic Logs are not serially numbered.
b. Billing statements are pre-numbered but not considered as accountable forms.
c. The preparation of the billing statements are late, thus delivery to the clients are delayed.
d. The terms of payment per CAAP Circular 03-11 is within ten (10) working days while it is within thirty (30) calendar days per billing statements.
e. Billing statements are received late by clients due to lack of centralized delivery/pick-up system.
f. The processing of errors noted in the billing statements by clients is inefficient and time consuming.
g. Order Payment Slip (OPS) numbers were not written on the "Particulars" section of the Official Receipts (OR).
h. The issuance of ORs for collections through telegraphic transfers are not immediate.
i. The requesting personnel do not prepare the Supplies Availability Inquiry (SAI).

We reiterated our recommendation that Management evaluate its current practices, and formulate and issue written policy guidelines to guide its personnel on laws, rules and regulations pertaining to the billing of revenue, receipt and deposit of collections and requisition of accountable forms.

Management admitted the deficiencies in the internal control system and will be addressing the issue by establishing a robust Information Technology system.

**4.18 An active combo account with a balance of P7.300 million is still maintained with the Philippine National Bank (PNB), a non-government depository bank, contrary to DOF Department Order No. 001-2015**

Section 5.2 of DOF Department Order No. 001-2015 dated June 1, 2015 provides that: "As part of the Government's effort to strengthen its overall fiscal position, all NGAs, GOCCs, and LGUs specifically allowed by law, rules and regulations to retain income and/or for operations and/or working balances shall deposit and maintain accounts with GFIs with a universal bank license and a CAMELS rating of at least "3"."

As stated in our previous years' observations, the PNB, being a private bank is no longer considered an Authorized Government Depository Bank (AGDB) or a Government Financial Institution (GFI). However, our validation revealed that the combo account of CAAP with PNB is still active and being used. As at year end the account has a balance of P7.300 million.

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

Management said that they are just waiting for the Board Secretary Certification which is required in the closure of the account.

**4.19 The correctness, validity and reliability of the Accounts Payable (AP) in the amount of P215.603 million as of December 31, 2015 is doubtful**

Examination of CY 2015 transactions disclosed that AP in the Head Office are still being recognized even in the absence of valid and fully supported claims for payment which include the setting up of accounts payable to different contractors under CIP-Agency Assets and CIP-Other Public Infrastructure accounts in total amount of P74.853 million and P72.876 million, respectively. Likewise, Subsidiary Ledgers of suppliers/contractors were not maintained.

Alternative means to verify the correctness, validity and reliability of the balance of P215.603 million of the account could not be applied because the required Aging Schedule of Accounts Payable was not submitted by Management.

We reiterated that Management:

a) Certify accounts payable only if there is a valid claim duly supported by valid, proper and sufficient documents;

b) Maintain and regularly update subsidiary ledgers for contractors, suppliers and other payees; and

c) Timely submit the Aging Schedule of Accounts Payable.

**4.20 Delayed submission of Year-end Financial Statements and related schedules and the Monthly Trial Balance and all related reports, schedules and documents**

In the CY 2014 AAR, it was reported that the Authority has been continually late in their submission of the year-end financial statements and related schedules including the monthly Trial Balance and all other related reports, schedules and documents, contrary to Section 41 (2) of PD 1445. We noted the improving trend in the submission of the year-end financial statements but it is still way beyond the February 14 deadline as shown below:

| Calendar Year | Date FS was completely submitted |
|---|---|
| 2010 | September 26, 2011 |
| 2011 | August 2, 2012 |
| 2012 | July 23, 2013 |
| 2013 | June 10, 2014 |
| 2014 | May 29, 2015 |

For CY 2015, the Authority submitted the year-end financial statements only on May 10, 2016. The same is true for the required monthly Trial Balance, Report of Collections and Deposits, Bank Reconciliation Statements, Reports of Checks Issued, paid Disbursement Vouchers and all the other related schedules and documents. As a result, we were not able to perform the timely audit of the transactions that could have provided opportunity for early detection of error, including possible misuse of funds and violation of laws, rules and regulations, hence, corrections/adjustments could have been recommended immediately.

We reiterated our prior years' recommendation that Management require all officials and employees concerned to submit the reports and related schedules and documents within the reglementary period.

Management admitted that they cannot meet the February 14 reglementary submission because their accounting system is on a manual basis. They are looking into a simple automated system that they can use for the FY 2016 operation. Nevertheless, they took note of the recommendations and will try their best to submit on time.

5. **Deficiencies noted in the implementation of the prescribed billing procedures for CAAP Inspections**

The Authority issued an unnumbered Memorandum dated February 1, 2013 providing the Billing Procedures for all CAAP inspections.

On the other hand, Department Order No. 94-762, series of 1993 of the Department of Transportation and Communication (DOTC) provides the Revised Schedule of Fees and Charges of the Air Transportation Office (ATO) for Licenses/Permits/Certificates and Other Services.

In our walkthrough of the actual process in the issuance of certificates, we noted that the type of certificate applied for by the client company were not indicated in the Pro Porma Invoices (PPIs) prepared by Flight Standard Inspectorate Services (FSIS)/Aerodrome and Air Navigation Safety Oversight Office (AANSOO) and in the Invoices prepared by the Administrative and Finance Services (AFS) Billing Section.

Likewise, the certification fees being charged to the client company for Air Agency Certificate/Approved Maintenance Certificate (AMC) are either in Peso or US Dollar while in the above cited DOTC Department Order, all the fees and charges are in Peso.

Furthermore, all other certification fees are not included in the PPI since payments by the client company are made upon release of the Certificate. This is contrary to the Billing Procedures for CAAP Inspections which requires payments before any inspection is conducted.

Per our verification, charging in US Dollars has no basis and is not the equivalent amount of the rate prescribed in the above cited DOTC Department Order.

Likewise, the administrative fees, pre-travel fees, VISA fee, travel tax and terminal fee charges being charged in the Invoice have no basis.

In the Invoice that the AFS Billing Section prepares, no due date was indicated, however, it is stated in the second condition therein that interest of one per cent per month or fraction thereof (compounded monthly) will be imposed upon failure to settle the bill on due date.

Moreover, the AFS failed to set up Accounts Receivable for Daily Subsistence Allowance (DSA) and related travel expenses of the Inspectors upon issuance of the Invoice to the client company.

We recommended that FSIS/AANSOO and/or AFS:

a) Indicate in the PPI/Invoice the type of certificate applied for by the client company for proper recording in the books;

b) Include the certification fees in all PPI as provided in the Memorandum on the Billing Procedures for CAAP Inspections;

c) Indicate the due date in the AFS Invoice;

d) Submit basis for charging the client company the administrative fees, pre travel fees, VISA fee, travel tax and terminal fee which are included in the Invoice; and

e) Set up Receivables DSA and related travel expenses upon issuance of the Invoice to client companies.

Management commented that the DSA are not revenue of the agency and the inspectors are consultants who are not allowed to receive per diems.

COA's Rejoinder:

As stated in our rejoinder in 3.2, we stand by our recommendation that as a regulatory body all related revenue and expenses in the issuance of the certificates be recognized in the books to establish the independence of the Authority and refrain from having conflict of interest. With regards to the consultant inspectors, these will be corrected upon approval of the proposed CAAP Reorganization, wherein all Inspectors will be regular employees.

**6. Failure of Management to comply with the requirements under Sections 13.1 and 34.2 of the IRR of RA 9184 in the procurement of goods/services by way of small value procurement**

Section 13.1 of the Revised Implementing Rules and Regulations (RIRR) of RA 9184 provides that in addition to the representative of COA, at least two observers who shall not have the right to vote shall be invited.

Section 34.2 of the RIRR states that within three calendar days from receipt by the bidder of notice from the BAC that their bid is the Lowest Calculated Bid or Highest Rated Bid, the bidder shall submit documentary requirements to the BAC such as tax clearance and latest income and business tax returns.

In the course of our auditorial review of the contracts, we noted that the proof of invitation to observers other than COA, latest income and business tax returns and tax clearance from the winning bidder were not submitted. We have sent letters requesting submission of the aforementioned documents but no response was received from the Authority to date.

The RIRR of RA 9184 has adopted the provisions stated above to serve as controls in the procurement process. By overriding or disregarding these controls, Management has been remiss in promoting an open and fair procurement undertaking.

We recommended and Management agreed to submit the lacking documents in compliance with the provisions of the IRR of RA 9184.

**7. Payments amounting to P62.568 million to various consultants for CY 2015 not sufficiently supported by pertinent documents**

Section 3 of DBM National Budget Circular No. 433 dated March 1994 includes the following as guidelines on hiring consultants:

- The consultants to be hired shall be known expert in his field as manifested by his work experience and/or training.

- The consultant shall be hired to perform specific vital or services which cannot be provided by the regular staff of the agency.

For CY 2015, the Authority spent a total of P62.568 million for services of 129 consultants. Management was able to submit to the Office of the Auditor copies of the related contracts but the relevant supporting documents such as Personal Data Sheet/Resume, training certificates and other documents upon which the expertise of the consultant is highlighted were not included. Because of this, we were unable to perform the required auditorial and legal review of the Contracts of Service of the 129 consultants. Furthermore, the propriety and validity of claims were not established due to the absence of above-mentioned supporting documents.

We recommended and Management obliged to submit the required documents.

**8. Deficiencies observed in the handling, maintenance and recording of petty cash fund (PCF)**

The general principles provided in COA Circular No. 97-002 dated February 10, 1997 provides among others that only payments in small amounts may be made through the petty cash fund.

Furthermore, Section 3.1.4 of the Circular provides that: *“Petty operating expenses consisting of small payments for maintenance and operating expenses which cannot be paid conveniently by check or required to be paid immediately.”*

In the course of our audit of the replenishments of the PCFs of several Petty Cash Custodians (PCCs) for the period January to September 2015, we took notice of the procurement of various office and communication equipment worth P0.329 million which include 24 printers, two units PC system, two electric typewriters, a projector, painting and other equipment (Annex D). These items are capital in nature therefore incorrectly recognized as Office Supplies, Other Supplies Expense and Repairs and Maintenance-Other Machineries and Equipment.

In addition to the aforesaid items, common-use supplies like inks and toners worth P0.467 million were also procured from January to September 2015 thru emergency procurement using the PCF.

The convenience of procuring equipment by way of the petty cash fund is evident. It is quick with less procedures and documentation. However, it is unmistakably a way to circumvent compliance with the provisions of RA 9184, the Procurement Reform Act, which requires procurement to be generally done through competitive bidding.

These transactions are also not compliant to Administrative Order No. 17, Series of 2011 which directs all government agencies to procure their common-use supplies from the Procurement Service (PS) without need for public bidding.

Moreover, some Area Centers' petty operating expenses totaling P0.175 million were replenished and recorded in the Central Office books as Other Supplies Expense, Repairs and Maintenance-Other Machineries and Equipment and Gasoline, Oil and Lubricant Expenses instead of Due from Regional Offices account.

On the other hand, in our conduct of cash examination of several PCCs, we noted that they do not record their transactions in their cashbook daily and entries therein are not in chronological order. Likewise, they failed to reconcile their cashbook balances with cash on hand daily. These practices are contrary to Section 6 of COA Circular No. 97-002 which provides the guidelines on the handling, custody and disposition of the cashbook.

We also noted that majority of the PCCs do not replenish their PCFs when their disbursements reach at least 75 per cent; hence, they resorted to using their personal funds or on account purchases, contrary to Section 4.3.1 which provides that cash advances shall be sufficient for the recurring expenses of the agency for one month and the AO may request replenishment of the cash advance when the disbursements reach at least 75 percent.

These deficiencies cast doubt on the reliability and accuracy of the balances of these accounts in the financial statements. Moreover, the non-compliance of the PCCs to the guidelines on PCF may result to misuse or improper handling of moneys of the Authority.

We recommended that Management strictly comply with the provisions of:

a) RA 9184, particularly the use of the alternative methods of procurement; and

b) Administrative Order No. 17, series of 2011 in procuring common-use supplies from the PS.

We likewise recommended that Management prepare the necessary adjusting entries to reclassify erroneous recording of the procured equipment and recording in the Head Office books of Area Center procurements.

We also reiterated our recommendation that the Authority reduce the number of PCCs and instruct them to strictly adhere to the provisions of COA Circular No. 97-002 specifically in limiting the PCFs to payments of petty operating expenses and maintaining of cashbook.

Management commented that the described conditions happened because they had to address emergency cases. However, they are looking into strengthening the Procurement Division and the possibility of designating only one SDO. Further, Management informed that the corresponding adjusting entries will be effected in CY 2016.

**AREA CENTERS**

**9. The book balances of Cash accounts of several Area Centers are unreliable due to non-preparation/delayed submission of bank reconciliation statements (BRS)**

In Plaridel Airport, Area Center III, the balance of the Cash in Bank account used in the BRS for the month of July 2014 does not tally with the cash in bank balance per books. Notwithstanding the Accountant's effort to reconcile the balance per books and bank reconciliation reports by working back from January 2014, the balance per bank statement and the book balance are still not reconciled, resulting in the non-preparation of the BRS to date.

Area Center VIII had not prepared and submitted the required BRS for Cash in Bank LCCA (0102-1110-82) and Cash in Bank LCSA (0102-1120-03) since 2013. The Area Accountant had not given a satisfactory reason for her failure to prepare and submit the pertinent BRS.

In Area Center X, the submission of CY 2015 BRS by the Area Accountant to the Office of the Auditor for review and verification has been consistently delayed by periods ranging from 1 month to 12 months. Moreover, no BRS for CY 2015 was prepared for Cash in Bank account of Ozamis City Airport. It was also noted that the GL and SL balances of the Cash in Bank accounts do not reconcile, particularly those pertaining to balances carried over from the previous accountant's records in CY 2013. Reliability of the Cash balance totaling P69.429 million reflected in the books could therefore not be ascertained.
We recommended that Management:

Area Center III
a) Direct the Area Accountant to prioritize the submission of the corrected BRS for CYs 2014 and 2015 and henceforth submit the monthly BRS within 10 days after the end of each month.

Area Center VIII
b) Strictly observe the required preparation and submission of BRS to prove the reliability of the reported Cash in Bank balances.

Area Center X

c) Require the Area Accountant to prepare and submit to COA without delay the BRS for all Cash in Bank accounts and fast-track the reconciliation of the GL and SL balances pertaining thereto.

Management comments:

Area Center III

Management explained that the Accountant is still in the process of tracing all transactions pertaining to the Cash in Bank account, nevertheless, they will take action on the matter taking into consideration the auditor's recommendation.

Area Center VIII

The Area Manager informed that he has issued Area/Airport Order No. 2016-01, dated January 8, 2016 designating his personnel to perform other functions for smooth flow of transactions that will cause the timely submission of reports to the Office of the Auditor including the preparation of monthly BRSs.

Area Center X

The Acting Accountant of Ozamis Satellite Airport stated that the non-preparation of BRS for CY 2015 is due to the lack of manpower in their Accounting Unit. As of February 26, 2016, BRS for CY 2015 were already completed and submitted to the Area Accountant for review before submission to the Office of the Auditor.

The Area Accountant likewise informed that the delay in the submission of BRS was mainly due to the delayed receipt of bank statements. Management however committed to exert more effort to get the bank statements at an earlier date in order to submit the BRSs promptly.

**10. Daily collections of Collecting Officers (COs) of Area Centers not deposited intact on the banking day following the date of collection**

In Area Center VIII, review of collections and deposits showed that the Acting COs of CAAP-Catarman and Calbayog oftentimes would not deposit intact their daily collections on the next banking day. It was observed that both collectors would always retain a certain amount from their respective collections.

The same is true for Area Center X. Collections of Laguindingan, Ozamis and Camiguin Airports were not deposited intact within the prescribed period. Collections of terminal fees, parking fees, taxi fees, overnight parking, outside parking and refunds at Laguindingan and Camiguin Airports averaging P3.592 million and P17,114.31 per week, respectively, were deposited/picked up by the bank only once a week, while similar collections at Ozamis Airport averaging P0.101 million per day were not deposited daily.

We recommended that Management:

Area Centers VIII and X

a) Require the COs to deposit their collections intact and within the prescribed period.

Area Center X-Laguindingan

b) Make arrangements with the depository bank for a daily pick up of collections. In case daily deposit is not possible due to distance and security, request for a more frequent pick up of collections than the weekly schedule considering the accompanying risk in keeping in vault an average of P3.592 million worth of collections for a week before these are picked up. Moreover, Management should ensure that necessary controls are in place and strictly followed to avoid loss or misuse of undeposited funds.

Management comments:

Area Center VIII

The CAAP Calbayog Collecting Officer admitted the practice of using collections in payment of some agency expenses while their petty cash are not yet replenished.

Area Center X

The OIC in Camiguin Airport mentioned that the weekly deposit of collections is due to the depository bank's system which frequently went offline, during which, daily deposits were not accepted.

The management nevertheless committed to deposit all collections intact and within the prescribed period. In the case of Laguindingan Airport where daily deposit is not possible due to distance and security concerns, Management agreed to coordinate and further request from the depository bank to increase the frequency of pick-up of collections.

Likewise, Management committed to provide safety vault for the COs of Ozamis and Camiguin Airports the soonest time possible.

COA's rejoinder:

Area VIII

The use of collections for disbursements is not allowed, thus, must be discontinued. On the other hand, the Area Center may increase the PCF from P5,000.00 to P10,000.00 as suggested in the prior year's audit.

**11. The value of the land occupied by the Davao International Airport (DIA) and the four satellite airports are not recorded in the books of Area Center XI due to lack of proofs of ownership**

In the review of Land account of Area Center XI, we noted that it includes the value of the land located in Bislig Airport amounting to P25.770 million and an unaccounted amount of P3.679 million. Bislig Airport is grouped under Area XII, hence, the value of the land it occupies should be recorded in Area Center XII and not Area Center XI.

The land being occupied by CAAP - General Santos City with a lot area of 5,943,468 square meters and market value of P52 million in the name of the abolished ATO is not recorded in the books.

Further scrutiny of records such as General Ledger and Schedule of Property, Plant and Equipment revealed that the DIA, Mati Airport, Allah Valley Airport and Cotabato Airport have no recorded value of the land they are occupying.

Verbal and written requests for the production of the documents pertaining to the land occupied by the airports concerned, such as Transfer Certificate of Title, Deed of Donation or any proof of ownership, from Management did not produce positive results. They were only able to furnish the Audit Team with the related Journal Entry Voucher (JEV) and Subsidiary Ledger. Thus, land ownership cannot be established for DIA, Allah Valley, Cotabato Airport and Mati Airport.

Due to failure to establish land ownership of the four airports, non-recognition of the land value of the General Santos Airport and non-transfer of the value of land occupied by Bislig Airport to Area Center XII, the reliability of the land account as of December 31, 2015 is doubtful.

Management informed that actual titles of DIA land were not acquired pending final payment of the government to some affected landowners that refused to accept payments. The airport is owned by CAAP but the land is still under expropriation proceedings.

We recommended that Management:

a) Prepare the necessary adjusting entries to record the transfer of the Land in Bislig Airport amounting to P25.770 million to Area Center XII where it should be booked up;

b) Exhaust all means to cause the reconciliation of the un-accounted land amount of P3.679 million;

c) Secure a copy of the Declaration of Real Property/Deed of Donation/Transfer Certificate of Title for the DIA, Mati Airport, Allah Valley Airport and Cotabato Airport from CAAP Head Office, if any, to properly book-up the land owned by CAAP Area Center XI; and

d) Recognize in the books the land value of the General Santos Airport.

**12. The Other Assets account of several Area Centers is doubtful due to lack of supporting documents, non-conduct of physical inventory, and non-transfer of unserviceable assets to the account**

In Area Center I, audit of the Other Assets account revealed that the value of assets still used in operations are recorded under the said account due to inadequate financial records and documents.

Verification of available documents disclosed that some assets classified under Other Assets account should have been transferred to Area Center II but remained recorded in

the books of Area Center I due to lack of pertinent records. Further, no physical inventory was conducted.

In Area Center VI, inspection of properties of the Area Center and satellite airports revealed that unserviceable properties, some of which have scrap value were not disposed of. Properties like old computers, filing cabinets, motorcycles, electrical supplies, car batteries and tires etc., were found inside a congested stockroom and were not properly accounted for. Said properties are exposed to elements, possible losses and even pose as fire hazards. Unserviceable motor vehicles are also left exposed to the elements such as heat and rain that cause their rapid deterioration.

The Area Center could have timely disposed of the said properties to prevent further deterioration, obsolescence and decline in value. Failure to get rid of the unserviceable items promptly also deprived the Area Center of the income from the disposal of these assets.

In Area Center VIII, agency assets damaged by Typhoon Yolanda in November 2013 are still included in the Property, Plant, & Equipment (PPE) accounts instead of recording them under the Other Assets account while awaiting disposal, thus misstating both accounts.

Both the Air Navigation Service (Electro-Mechanical/Powerhouse Section) Chief as well as the Acting Supply Officer produced lists of damaged equipment as well as buildings and structures. On the other hand, the Area Accountant's Office was not able to produce its own list of damaged PPE with the corresponding costs. The Accountant alleged that the files got lost due to the November 8, 2013 super typhoon. The Area Center had requested for relief from property accountability to the Audit Team but said request was returned due to lack of documentary requirements which the Management has not complied to date.

We recommended that Management:

Area Center I

a) Exert best effort in securing pertinent documents and records pertaining to Other Assets account and adjust the same so that the account would be properly presented in the financial statements, in accordance/adherence to COA Circular No. 2004-008;

b) Conduct physical inventory and appraisal of other assets to determine the proper classification of the accounts and accordingly effect the necessary adjustments and transfer/turnover of accounts pertaining to Area Center II in line with the pertinent provisions of COA Circular No. 92-375;

c) Properly document those assets determined for disposal in accordance with policies, procedures and guidelines.

Area Center VI

d) Require the disposal committee to prepare an inventory and inspection report and appraisal of all unserviceable property for appropriate disposal. It was further recommended that timely disposal be done as soon as the assets of the Area Center become unserviceable.

Area Center VIII

e) Transfer to the Other Assets account all damaged assets including those awaiting disposal. Also exhaustive means must be adopted in the seeking of source as basis in assigning the book value of every affected asset.

Management comments:

Area Center I

Management assured the Audit Team that they will comply with the recommendations.

Area Center VI

Management commented that disposal of unserviceable assets was put on hold due to a series of activities that required more attention. The disposal committee will be reconstituted to conduct the activity to ensure that unserviceable assets are secured from theft.

Area Center VIII

The Area Manager informed that he has issued a Memorandum dated February 9, 2016 to the Acting Area Accountant and other concerned personnel to focus on the physical inventory taking of the properties and equipment and assess which damaged assets will be transferred to the Other Assets accounts as well as those subject for disposal.

**13. Area Centers' Accountable Officers and Collectors, including Job Order (JO) employees assigned to perform collection functions and technical and highly classified work in several Area Centers, are not bonded**

In Area Center IV, verification disclosed that there are three JO employees and one regular employee assigned as terminal fee collectors at the Puerto Princesa Airport are not bonded. Thus, recovery of funds in case of misapplication or loss is not ensured.

JO employees performing the duties and responsibilities of collecting officers contravene the provisions of Sections 65 and 66 of Government Accounting and Auditing Manual (GAAM), Volume I that the head of the agency may designate such number of collecting officers or agents as may be deemed necessary and every designated officer whose duties require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law and shall be properly bonded in accordance with law.

The above practice had been the subject of prior years' audit observations but was not favorably acted upon by the Management primarily due to lack of permanent employees.

In Area Center V, examination of the cash and accounts of the Acting Disbursing Officer was made on October 23, 2015. Verification showed that the Disbursing Officer's fidelity bond for a maximum accountability of P5 million was not renewed. The latest fidelity bond with Risk No. 32-14-001830N issued by the BTr for the period October 6, 2014 to October 7, 2015 has already expired as of the date of cash examination.

In Area Center X, 15 JO employees who are not bonded are performing collection functions. As a general rule, the collection of revenues and receipts shall be done by the regular appointed Collecting Officers who are adequately bonded in order to provide protection and security to the agency's resources against loss or misuse.

Although economically beneficial with the lower compensations given to JOs, the policy of vesting upon the JOs the authority 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. Neither could the set up assure that public resources will be adequately safeguarded against losses or misuse as by the nature of the JOs' employment, they bear no employer-employee relations with the entity.

During the conduct of annual cash examination at DIA and the satellite airports of Area Center XI for the year 2015, we noted that the 16 accountable officers/collectors are not bonded.

We recommended that Management:

Area Center IV

a) Require the regular employee designated as terminal fee collector to apply for fidelity bond immediately;

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

c) Until regular/permanent accountable officers are assigned as terminal fee collectors, ensure that all other internal controls on collections are in place and strictly followed to avoid misapplication or loss of funds.

Area Center V

d) Expedite the renewal of the Acting Disbursing Officer's fidelity bond in accordance with law, in order to safeguard government funds/properties against possible loss and/or misappropriation.

Area Center X

e) Refrain from assigning JO employees to perform collection and other sensitive and critical functions. Only properly designated and adequately bonded officers must be allowed to perform collection functions.

Area Center XI

f) Immediately direct the Accountable Officers/Collectors to apply for fidelity bond and subsequently, ensure that the renewal of their bonds is in accordance with Treasury Circular No. 02-2009 even if the status of employment of those not yet bonded is temporary or on a job order basis.

Management comments**:**

Area Center IV

According to Management, they cannot properly designate bonded officers to perform collection functions due to lack of permanent position. However, in May 2015, they have requested the CAAP Head Office for supplemental positions to address the above audit observations which have been previously noted.

Moreover, Management assured the Audit Team adherence to the other audit recommendations given.

Area Center V

Management committed to expedite the renewal of the Acting Disbursing Officer's fidelity bond in accordance with law.

Area Center X

Management stated that they recognized that the observation is indeed a matter of concern that is why it is being closely monitored. A manpower complement plantilla has already been submitted to the Head Office to address the problem and while waiting for the approval of the proposed plantilla, the following control measures had been undertaken to protect and secure CAAP's resources and avert loss and misuse of such:

- Technical Function - JO personnel authorized and assigned by the Air Traffic Service Central Office to perform functions in the Tower Control underwent rigid training and were highly qualified prior to deployment for the position and are strictly supervised and managed by regular appointed ATC employees during their tour of duty.

- Collection Function - Collectors are closely monitored and supervised by the Air Terminal Supervisor and the Collections Officer-In-Charge who are both regular employees. The Collections Officer-In-Charge logs, secures and deposits the collections daily except on weekends where they will be secured inside a safety vault to be deposited the following Monday. Moreover, Terminal Fee Collectors are escorted by Security (CSI) personnel every time they remit collections to the Collections Officer-In-Charge.

Area Center XI

Management commented that the applications for fidelity bond were not allowed by the Bureau of the Treasury (BTr) since their collectors are JOs.

**14. Management failed to provide depreciation for agency serviceable assets in several Area Centers**

In Area Center I, verification of the year-end trial balance of the Area Center disclosed that two accounts under the Property, Plant and Equipment, namely Runways/Taxiways and Office Buildings amounting to P29.941 million and P18.302 million, respectively, have no provision for depreciation.

In Area Center VIII, financial records disclosed that the recorded cost of PPE worth P217.532 million was not provided with depreciation since CY 2013. On the otherhand, the Accumulated Depreciation of the PPE as of CY 2012 amounted to P107.845 million and such was carried over per the agency's financial statements from year to year.

It is the practice of Management to provide depreciation at year-end. However, they stopped providing depreciation expenses in CY 2013 due to the onslaught of typhoon Yolanda last November 8, 2013, which caused the destruction of many of the recorded depreciable assets, but are still carried in the books since relief from property accountability has not yet been settled to date.

We recommended that Management:

Area Center I

a) Compute periodically depreciation for all the properties of the Area Center except Land, to ensure fair presentation of depreciation and related accounts in the financial statements.

Area Center VIII

b) Strictly observe the policies and guidelines on the provision of depreciation values for all pertinent PPE components.

Management comments:

Area Center I

Management explained that in previous years, said PPEs were part of the DOTC transferred assets to Area Center I which were misclassified as Other Assets due to incomplete and/or inadequate financial records. When the Accountant made the necessary adjusting entries to reclassify the same to the appropriate PPE account, computation of depreciation was overlooked. Nevertheless, the Accountant said that such error will be rectified and depreciation of the said accounts will be recognized in CY 2016.

Area Center VIII

Management commented about the provision of depreciation expenses to pertinent assets by the Accountant as shown in the December 31, 2015 Financial Reports. For CY 2016 and onwards, Management committed to implement said requisite on depreciation and that proper monitoring on all tangible assets of the Area Center shall be religiously carried out.

## COMPLIANCE WITH TAX, GSIS AND PAG-IBIG LAWS

**15. Unremitted taxes withheld in CY 2015 and Prior Years' in the total amount of P11.758 million and P6.350 million, respectively**

Based on our analysis of available records, the unremitted taxes are as follows:

| | |
|---|---|
| Prior Years' Unremitted Withheld Taxes | 6,350,493 |
| Unremitted Withheld Taxes for the months of January to November 2015 | 11,758,094 |
| | **18,108,587** |

The data shows that there were taxes withheld but not remitted in violation of Revenue Memorandum Circular No. 23-2007 dated March 20, 2007, which requires the following:

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

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

We reiterated our recommendation that Management analyze and validate the unremitted taxes in order to facilitate remittance to the BIR and to strictly comply with Revenue Memorandum Circular No. 23-2007.

Management said that there was 2-month delay in the remittance of withheld taxes due to late payments made for overtime, flying pay and other claims of employees.

COA's Rejoinder:

Our evaluation shows that delays in the remittance of withheld taxes are not only for two months considering that there are CY 2014 and earlier withheld taxes that are still unremitted.

**16. GSIS premiums and loan payments and Pag-IBIG Fund contributions withheld from employees amounting to P2.555 million and P0.419 million, respectively, were not remitted within the prescribed period**

Section 14 of RA No. 8291 (Revised Government Insurance Act of 1997) mandates among others that each government agency shall remit directly to the GSIS the employee's and government agency's share contribution and the loan amortizations, and other amounts due the GSIS within the first ten days of the calendar month following the month to which the contribution apply.

Section 3, Rule VII of the Implementing Rules and Regulations of RA No. 9679 (Home Development Mutual Fund of 2009) provides that all employers shall remit to the Fund their contributions and the contributions of their covered employees as well as the latter's loan amortizations or payments to the Fund within fifteen days from date the same were collected unless another period is previously agreed upon between the employer and the Fund, or within such periods as the Fund may prescribe otherwise.

In our examination, we noted that GSIS premiums including loan amortizations and Pag-IBIG Fund contributions that were withheld by the Authority from their employee's salaries amounting to P2.555 million and P0.419 million, respectively, were remitted beyond the reglementary period. RA Nos. 8291 and 9679 have prescribed penalties to erring employers ranging from two to three per cent per month of the amounts due the GSIS and Pag-IBIG Fund, without prejudice to the filing of necessary and appropriate legal action.

We recommended and Management agreed to strictly adhere to the provisions of RA Nos. 8291 and 9679 pertaining to remittance of amounts withheld.

17. **STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

**Head Office**

For CY 2015, we have issued 14 Notices of Suspension in the total amount of P51.713 million and three Notices of Disallowance in the total amount of P13.127 million. Details are shown in the following Summary of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2015:

| | **Beginning Balance (As of Dec. 31, 2014)** | **This Period Jan. 1 to Dec. 31, 2015** | | **Ending Balance (As of Dec. 31, 2015)** |
|---|---|---|---|---|
| | | **NS/ND/NC** | **NSSDC** | |
| Notice of Suspension | 67,622,075.17 | 51,712,582.27 | 38,276,552.56 | 81,058,104.88 |
| Notice of Disallowance | 192,787,445.74 | 13,126,829.34 | 1,021,508.31 | 204,892,766.77 |
| Notice of Charge | 19,537.80 | 11,374.85 | 0 | 30,912.65 |
| | **260,429,058.71** | **64,850,786.46** | **39,298,060.87** | **285,981,784.30** |

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, 2015, the balances of the Notices of Suspension and Disallowance for the Area Centers are shown below.

| Area Center | As of December 31, 2015 | |
|---|---|---|
| | **Notices of Suspension** | **Notices of Disallowance** |
| Area Center I | 0 | 16,352,705.70 |
| Area Center II | 0 | 7,806,719.10 |
| Area Center III | 0 | 17,676,773.84 |
| Area Center IV | 0 | 11,176,831.78 |
| Area Center V | 3,100,328.15 | 21,389,260.43 |
| Area Center VI | 797,123.80 | 64,661,977.47 |
| Area Center VII | 0 | 40,308,833.09 |
| Area Center VIII | 7,646,854.05 | 9,355,792.28 |
| Area Center IX | 92,812.50 | 26,711,093.01 |
| Area Center X | 18,447,514.09 | 68,145,756.76 |
| Area Center XI | 0 | 39,262,815.32 |
| Area Center XII | 3,885,143.26 | 7,277,177.49 |
| | **33,969,775.85** | **330,125,736.27** |

Issuance of Notices of Suspension are attributable to non-submission of the required documents in the payment of the nationwide appraisal of CAAP properties and the payment of salaries to technical position employees which lacks the presidential approval. 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 Disallowance. The Office of the Cluster Director has already affirmed the total amount disallowed pertaining to the above allowances and other financial benefits.

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.

Management informed our Office that the Office of the President has issued the post-facto approval of the additional allowances and other financial benefits to all employees of CAAP and are currently waiting for the certified true copies they have requested from the Office of the President's Record Division to be attached to the Petitions for Review for those disallowed benefits and to the letter in settlement of the notices of suspension issued for the salaries of the technical position employees.

**GENDER AND DEVELOPMENT (GAD)**

**18. Only P29.894 million or 12.81 per cent of the P233.421 million appropriated for GAD Projects/Activities/Programs (PAPs) was utilized**

GAD's PAPs budget of P233.421 million is allocated into two major categories: client–focused activities (CFA) and organization-focused activities (OFA). In our verification, we noted that the Authority was able to spend only 12.8 per cent or P29.894 million from its budget for the implementation of GAD PAPs, as shown in the following table:

| GAD PAPs | No. of PAPs | Approved Budget | No. of PAPs Implemented | Total Expenditure | Per cent |
|---|---|---|---|---|---|
| CFA | 19 | 65,120,568.00 | 5 partially implemented | 27,603,819.93 | 42.39 |
| OFA | 13 | 168,300,000.00 | 6 partially implemented | 2,290,673.08 | 1.36 |
| | **32** | **233,420,568.00** | | **29,894,493.01** | **12.81** |

The very low rate of implementation of the proposed PAPs signifies the failure of Management to address the gender issues raised in the CY 2015 Annual GAD Plan and Budget.

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

**19. Several GAD projects included in the GAD Plan and Budget in the total amount of P9.513 million were not included in the Annual Procurement Plan (APP)**

The Revised Implementing Rules and Regulations of Republic Act No. 9184, provides that *"No procurement shall be undertaken unless it is in accordance with the approved APP of the procuring entity."*

In our examination, we noted that the following proposed and implemented projects in the CY 2015 GAD Plan and Budget were not included in the CY 2015 APP:

| GAD Project | Location | Cost |
|---|---|---|
| Installation of GAD Facilities (Breastfeeding Station, etc.) | Cotabato | P 350,000.00 |
| Provision of Covered Pathway from Terminal Bldg. to Admin Bldg. | Bacolod<br>Davao (Right side) | 300,000.00<br>7,000,000.00 |
| Construction of Communal Toilet and Rehabilitation of Existing Comfort Rooms | Head Office<br>Puerto Princesa | 500,000.00<br>1,362,568.00 |
| | | **P9,512,568.00** |

This deficiency is indicative of lapses in the preparation of GAD Plan and Budget.

We reiterated our recommendation that the Authority observe proper planning, as provided in the RIRR of RA 9184 in the preparation of the GAD Plan and Budget vis-à-vis the APP.