

AUDIT OBSERVATIONS AND RECOMMENDATIONS

The observations and recommendations herein discussed include those reported in the Management Letters issued to 12 Area Centers.

Financial and Compliance Audit

Philippine Accounting Standards (PAS 1) Par. 15 of PFRS provides that – *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

The reported balances of the accounts in the Financial Statements showed various accounting errors and deficiencies which affected the fair presentation of the reported Assets, Liabilities and Equity as discussed in the succeeding paragraphs.

Unreliable balance of Cash and Cash Equivalents account

1. **Various Cash in Bank accounts in the amount of P2.7 billion as of December 31, 2016 is understated by P133 million due to unrecorded reconciling items. Furthermore, book balances of Cash Accounts in Area Center III is unreliable due to non-preparation of Bank Reconciliation Statements (BRS).**

- 1.1 Verification of Bank Reconciliation Statements disclosed that reconciling items from CYs 2008 to 2016 amounting to P133,070,842.44 remained unrecorded/unadjusted in the books, details shown below:

Cash in Bank	Reconciling Items
GL 111 - CIB, Local Currency, Current Account	4,610,943.70
GL 112 - CIB, Local Currency, Savings Account	8,034,448.11
GL 116 - CIB, Foreign Currency, Savings Account	120,425,450.63
Total	133,070,842.44

- 1.2 Reconciling items pertained to unaccounted deposits, unrecorded remittances, bank and debit memos. It also included unaccounted differences, details as follows:

GL 111 - CIB, Local Currency, Current Account	
Unaccounted deposits	293,490.45
Credit Memo	4,473,879.94
Unaccounted difference	212,488.33
Unrecorded bank debit	(368,490.45)
Total	4,610,943.70

GL 112 - CIB, Local Currency, Savings Account

Unrecorded remittances	6,881,024.10
Unrecorded bank debits	(84,073.82)
Difference per Bank to GL	1,237,497.83
Total	8,034,448.11

GL 116 - CIB, Foreign Currency, Savings Account

Unrecorded Remittances	115,038,910.21
Difference per SL and GL	5,386,540.42
Total	120,425,450.63

1.3 Moreover, the balances amounting to P19,161,639.17 cash accounts of Area Center 3 are unreliable due to non-preparation of BRS. BRS were not prepared religiously as provided in Paragraphs 2.1.2 and 4.0 of COA Circular No. 92-125-A dated March 4, 1992, which require the preparation of the BRS within 15 days after receipt of the bank statements and the immediate preparation of correcting/adjusting entries for discrepancies/errors or other reconciling items by Agency's Chief Accountant immediately after the BRS were made and after these items were properly analyzed and verified. The latest BRS on file is for the month of March 2014. The reconciling items that require adjustments and corrections in the GL were not made/effectuated.

1.4 **We recommended that Management instruct:**

- a. **The Chief Accountant to prepare the necessary adjusting journal entries for bank reconciling items which understates various cash account and exert extra effort to identify those unidentified bank reconciling items and differences; and**
- b. **The Accountant of Area Center 3 to prepare the Bank Reconciliation Statements and to recognize reconciling items in the Area Center books to provide correct and reliable amount of cash accounts.**

1.5 Management commented that out of P133 million unrecorded deposits/remittances, 83.14 per cent or P110,779,129.74 were already adjusted and issued with official receipts. For other reconciling items, they are still in coordination with the depository banks for details and/or copy of bank credit memo.

Auditor's rejoinder:

1.6 We have yet to receive the copies of the journal entry vouchers (JEV) for the remaining unadjusted reconciling items of 16.86 per cent or P22,291,712.70.

Unreliable balance of Accounts Receivable account

2. Unreconciled balance of Accounts Receivable (AR) account in the General Ledger (GL) and the Subsidiary Ledger (SL) amounting to P734.902 million and P7.788 million in the Head Office and in three Area Centers, respectively.

2.1 Section 111(2) of Presidential Decree (PD) No. 1445 states that the highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information, whereas, Section 114 of the same PD relative to the general ledger provides that:

(1) The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.

(2) Subsidiary records shall be kept where necessary.

2.2 Paragraph 15 of PAS 1 states that- xxx. *Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRS, with additional disclosure when necessary, presumed to result in the financial statements that achieve a fair presentation.*

2.3 Verification of the AR balance per GL and per Aging Schedule (SL) disclosed a discrepancy of P734.902 million in the Head Office and P7.788 million in three Area Centers.

Variance between the GL and the SL:	Amount in Millions
Head Office	734.902
Area Center I	3.421
Area Center IV	0.832
Area Center VI	3.536
	7.788
Total	742.690

2.4 Furthermore, the AR with negative/abnormal balances in the Head Office have significantly increased from P64,366,141.85 as of December 31, 2015 to P123,027,206.71 as of December 31, 2016. The increase was due to advance payments which were more than the billed amounts and erroneous postings and balances of accounts assumed from the previous Air Transportation Office (ATO) in 2008 which cannot be identified and accounted for.

Negative balances in the SL:	Amount in Millions
Head Office	123.027
Area Center VI	1.176

2.5 The discrepancy departs from the provisions of Sections 111 (2) and 114 of PD No. 1445 and Paragraph 15 of PAS 1, thereby, casting doubt on the accuracy and reliability of the account balance as of December 31, 2016.

- 2.6 Inquiry revealed that the difference is still in the process of reconciliation since this account included transactions prior to the creation of CAAP in 2008 and there was no proper turn-over of all the supporting documents.
- 2.7 **We recommended that Management instruct the Chief Accountant to assign additional personnel to assist in locating the pertinent documents to reconcile the difference between the GL and SL balances and clear the abnormal/negative balances of the account and effect the necessary adjustments on the discrepancies noted.**
- 2.8 During the Exit Conference, Management commented that they are trying to identify the ATO transactions from the CAAP books.

Auditor's rejoinder:

- 2.9 We stand by our recommendation that Management should prioritize its action to reconcile discrepancies and abnormal balances.
- 3. Discrepancy of P611.879 million between the accounting records and confirmation replies due to the delay in the implementation of the automated billing collection information.**
- 3.1 Qualitative Characteristics (QC) 4 of the Conceptual Framework establishes that- *If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.*
 - 3.2 QC 29 of the same framework provides the definition of Timeliness as- *Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because for example, some users may need to identify and assess trends.*
 - 3.3 Confirmations were sent to the nine debtors selected based on their balances which were the highest as of June 30, 2016. Comparison of the SL with the confirmation replies showed a total discrepancy of P611.879 million.
 - 3.4 It was learned that the delay in the preparation of billing statements is mainly due to the absence of an automated billing and collection information system that can expedite the preparation of billing statements by the Accounting Division. As of date, the Accounting Division and Management Information System (MIS) Division are in the process of preparing the Terms of Reference (TOR) for the automation. Thus, the correctness of the AR balance as of December 31, 2016 could not be relied upon due to the discrepancy of P611,878,910.03 between the SL and confirmation replies.

3.5 **We recommended that Management instruct the Chief Accountant and the OIC - MIS Division to:**

a. **Expedite the automation project for billing, invoicing and collection system; and**

b. **Formulate a policy wherein penalty shall be imposed on late payments and initiate legal action against delinquent debtors.**

3.6 During the Exit Conference, Management said that they will present the proposal for the automation project to the Director General. Also, they will implement a cut-off in billing preparation wherein the transactions for the 1st 15 days of the month will be served on the 3rd week of the month while transactions for that last 15 days will be billed on the 1st week of the following month in 2017.

4. **Accounts Receivable balance amounting to P5.045 billion in the Head Office and P129.963 million in the three Area Centers are considered past due accounts wherein objective evidence that an impairment loss has been incurred and that the AR balance needs to be assessed for write-off. Also, the provision for Allowance for Doubtful Accounts is grossly insufficient.**

4.1 Paragraph 58, 59 and 63 of PAS No. 39 provides that:

An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;*
- (b) a breach of contract, such as default or delinquency in interest or principal payments;*
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;*
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;*
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or*
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:*
 - (i) adverse changes in the payment status of borrowers in the group (eg an increased number of delayed payments or an increased number of*

credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or

- (ii) national or local economic conditions that correlate with defaults on the assets in the group (eg an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

- 4.2 Review of the schedule of AR as of December 31, 2016 showed that P5,044,964,150.50 in the Head Office and P129,962,597.83 in the Area Centers remained in the books for more than 1 year or are considered as past due accounts.

Particulars	Amount in Millions
Debtor's unsettled long overdue accounts:	
Head Office	5,044.964
Area Center I	46.651
Area Center II	6.107
Area Center IV	77.204
	129.963
	<u>5,174.927</u>

- 4.3 Of the amount of P5,044.964 million, P4,739.079 million pertains to PAL's past due accounts which remained inactive, non-moving and uncollected since 1977.

- 4.4 The collections for the PAL's accounts for the last ten years were only as follows:

OR No.	Date	Amount
1540128	Nov. 28, 2012	100,000,000.00
1502540	May 31, 2012	283,718,524.22
9274846	June 18, 2013	50,000,000.00
1137419	Sept. 2, 2016	102,870,221.76
1137421	-do-	4,950,601.31
113240	-do-	7,344,999.56
113422	-do-	65,357,884.77
Total		<u>614,242,231.62</u>

- 4.5 Section 73 and 74 of RA No. 9497 or the Civil Aviation Authority Act of 2008 provides that-

The Director General after complying with the required legal formalities provided by law, shall have the power to impose lien on aircraft and machinery: a) if the charges and other fees are not paid in full on due date or any part of the charges or the late payment, penalty thereto remains unpaid; xx.

The Director General shall have the power to impose lien on personal and real properties and other assets of persons, corporations, partnerships, and other assets of persons corporations, partnerships, and such other entities that shall be default, or fail to perform their obligations, or fail to perform their obligations or fail to pay the fines and other penalties imposed for violations of the law, rules and regulations of the Authority. Properties and assets levied upon maybe sold and the proceeds thereof shall be applied to the satisfaction of the obligation after due notice and hearing.

- 4.6 The abovementioned provisions were not exercised and the Authority continues to provide for the navigation services to PAL and bills them accordingly despite its huge amount of unpaid accounts.
- 4.7 Moreover, the Allowance for Doubtful Accounts is derived from computations based on percentage and Aging of AR.

Age of Accounts	Percentage
1 – 60 days	1%
61 – 180 days	2%
181 days – 1 year	3%
More than 1 year	5%

- 4.8 It is noted that the Allowance for Doubtful Accounts is only P483 million or 4 per cent of the total AR balance and is clearly insufficient due to the existence of objective evidences that the AR is impaired.

- 4.9 **We recommended that Management instruct the Chief Accountant to:**

- a. **Assign additional personnel to assist in locating the pertinent documents to reconcile the difference between the GL and SL balances and clear the abnormal/negative balances of the account and effect the necessary adjustments;**
- b. **Coordinate with the OIC-MIS Division to expedite the automation project for billing, invoicing and collection system;**
- c. **Determine the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition) as provided in Paragraph 63 of PAS No. 39; and**

- d. **Make a thorough review of the accounts which remained in the books for 1 year or more and if found to be dormant, initiate action to file a request from COA an authority to write off said accounts following the provisions under COA Circular No. 2016-005 dated December 19, 2016.**

4.10 **Moreover, the Director General should exercise the powers granted in Sections 73 and 74 of RA 9497 with regard to the collection of PAL’s long outstanding accounts.**

4.11 During the exit conference, Management informed that an inter-agency panel of negotiators through Authority Order No. 149-17 was created to initiate settlement talks with PAL, to reconcile the accounts, to validate the data/records and to prepare a payment plan proposal which will be submitted to CAAP Board.

4.12 Management also commented that they will review and evaluate the provision for allowance for doubtful account.

Unreconciled balances of PE accounts between Accounting and Property Records in the Head Office

5. The accuracy and validity of the Property and Equipment (PE) account with a carrying amount of P1.423 billion in the Head Office is unreliable due to the discrepancy amounting to P2.784 billion between the book balances of accounting records and inventory report/property records.

5.1 COA Circular No. 80-124 provides that *all inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency. The reports shall be properly reconciled with accounting and property records.*

5.2 Section 491 of GAAM, Vol. I provides that *all discrepancies between physical and book inventories must be investigated and cleared immediately. If necessary, written explanations shall be required from persons responsible. Further, Section 12, Appendix 8 of the NGAS Manual, Vol. II requires that the physical inventory of the asset shall be reconciled with the property, plant and equipment ledger cards and the control accounts and any discrepancies shall be immediately verified and adjusted.*

5.3 Examination showed that the total carrying amount of the PE accounts amounted to P1,423,150,149.03 as of December 31, 2016. However, the reported total amount of PE as shown in the Report on Physical Count of Property, Plant and Equipment (RPCPPE) was ₱3,149,507,627.90 or a discrepancy of ₱2,784,669,590.11 or 195 per cent over the total carrying amount. Comparison between the actual physical count of PE as reported in the RPCPPE and the recorded PE in the books of accounts showing the discrepancy is summarized in the table below:

Account No.	Account	Per GL	Per RPCPPE	Discrepancy
202	Land Improvements	9,877,455.28	-	9,877,455.28
211	Buildings	111,183,653.91	465,335,570.61	354,151,916.70

Account No.	Account	Per GL	Per RPCPPE	Discrepancy
215	Other Structures	1,984,375.41	-	1,984,375.41
221	Office Equipment	105,481,024.59	39,173,967.54	66,307,057.05
222	Furniture and Fixtures	21,712,861.38	-	21,712,861.38
223	IT Equipment and Software	217,161,995.16	170,804,607.73	46,357,387.43
228	Airport Equipment	164,262,366.51	-	164,262,366.51
229	Communication Equipment	447,249,468.67	715,224,345.30	267,974,876.63
231	Firefighting Equipment and Accessories	223,263,191.56	26,458,240.18	196,804,951.38
233	Medical, Dental and Laboratory Equipment	5,046,391.00	-	5,046,391.00
240	Other Machinery and Equipment	17,723,749.84	150,367,786.52	132,644,036.68
241	Motor Vehicles	50,068,879.59	1,348,672,959.39	1,298,604,079.80
243	Aircraft and Aircraft Ground Equipment	48,122,736.13	31,319,525.95	16,803,210.18
250	Other Property, Plant and Equipment	12,000.00	202,150,624.68	202,138,624.68
TOTAL		1,423,150,149.03	3,149,507,627.90	2,784,669,590.11

5.4 The audit team was not able to apply alternative audit procedures to establish the accuracy of the recorded accountabilities due to the absence of documents/records and the required Property, Plant and Equipment Ledger Cards (PPELC) that should be maintained by the Accounting Section.

Area Centers-

Area Center	Amount in millions	Reasons/Issues
Area I	139.498	Existing assets, such as Land, Land Improvements, Buildings, Runways/Taxiways, Equipment etc., being used in operations by the Area are still unrecorded in the books due to lack of documents and financial records.
Area III	93.575	The inventory report submitted was not reported by type, does not include unit value per property account, and has only one signatory without proper designation.
Area IV	88.794	Non-conduct of physical inventory, no property cards maintained, and property acknowledgement receipt not updated.
Area VI	624.274	No inventory report submitted for the last three years from 2014 to 2016.

- 5.5 **We recommended that Management in the Head Office direct the Accounting and Property/Supply Divisions to reconcile fully the discrepancy and to strictly prepare/maintain and update PPELCs and Property Cards (PC) for effective control and reconciliation of PE accounts.**
- 5.6 During the Exit Conference, Management commented that they will create an inventory team to conduct physical inventory of the assets of the agency including those located at the area centers.

Non-disposal of unserviceable property

6. Unserviceable property in the Head Office and in Area Centers 1 and 5 were not disposed, thus, could be subject to possible pilferages and further deterioration.

- 6.1 Section 79, PD No. 1445 provides that- *When government property has become unserviceable for any cause, or is no longer needed, it shall be inspected and if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder in accordance with the prescribed procedure. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*
- 6.2 COA Circular No. 89-296 dated January 27, 1989 provides that *the full and sole authority and responsibility for the disposal of property and other assets shall be lodged in the head of the agency who shall constitute the appropriate committee or body to undertake the same.*
- 6.3 Verification of records in the Head Office disclosed that except for the motor vehicles acquired from 2011 to 2016 and the crash, fire and rescue vehicle acquired in May 2010, all the other vehicles of CAAP are already fully depreciated with ages ranging from 12 to 48 years and considered to be unserviceable/obsolete property. These property marked to be beyond economical repair are as follows:

Particulars	Net Book Value as of 12/31/2016
Motor Vehicles	3,562,280.38
Firefighting Equipment and Accessories	16,435,569.31
TOTAL	19,997849.69

- 6.4 In Area Centers I and V, ocular inspection conducted by the audit team assigned thereat showed that several unserviceable property were not yet disposed despite its unusable and beyond economic repair condition.
- 6.5 The prolonged non-disposal of these property may result in further deterioration, loss and continue to occupy space. Likewise, the government is deprived of additional income from the disposal of these unserviceable properties.

6.6 **We recommended that Management instruct the Property Officer to prepare the necessary Inventory and Inspection Report of Unserviceable Property (IIRUP) for inspection and determine the proper mode of disposal pursuant to Section 79 of PD No. 1445 in order to obtain the best recoverable value from its disposition.**

6.7 Management commented that they will coordinate with the Supply Division.

Non-recognition of 16 motor vehicles

7. Sixteen CAAP motor vehicles with a total cost of P11.959 million were not recorded in the books of the Head Office as of December 31, 2016.

7.1 A review of the List of Vehicles at the CAAP HO as of December 31, 2016 showed that 16 motor vehicles are not recorded in the books of accounts, details as shown below:

TYPE OF VEHICLE	PLATE NO.	ACQUISITION COST
Honda Civic	TYQ 307	988,000.00
Honda Civic	TMQ 226	988,000.00
Honda ANF100MDP Motorcycle	SL 2683	75,000.00
Hyundai Starex	SJH 573	1,428,000.00
Hyundai Starex	SJH 555	1,428,000.00
Isuzu Hi-Lander	SHL 486	485,000.00
Kia Ambulance	SFG 723	485,000.00
Mitsubishi L-200	SFX 757	770,000.00
Mitsubishi Strada	SJD 855	979,000.00
Mitsubishi Lancer	URK 681	510,000.00
Mitsubishi Lancer	URK 180	510,000.00
Nissan Terrano	LDL 453	240,000.00
Nissan Cefiro	VCR 168	770,000.00
Nissan Sentra	SHL 916	670,000.00
Nissan Pathfinder	TGU 314	670,000.00
Toyota Fortuner	SLF 842	963,383.93
Total		11,959,383.03

7.2 This is a reiteration of the previous audit observations embodied in the prior years' AAR of CAAP.

7.3 **We recommended that Management instruct the Chief Accountant to effect the appropriate adjusting entries to recognize/record in the books the 16 motor vehicles and its related accumulated depreciation.**

7.4 Management commented that of the sixteen (16) motor vehicles, five (5) were already recorded in the books in 2017.

7.5 As of to date, no JEV has been furnished to COA for validation.

Various completed projects not reclassified to appropriate asset account

8. The Construction in Progress (CIP) - Other Public Infrastructure account with a total carrying amount of P1.06 billion in the Head Office as of December 31, 2016, include completed projects and unclassified disbursements amounting to P720.658 million and P1.615 million, respectively.

- 8.1 COA Circular No. 2004-008 dated September 20, 2004 describes the Construction in Progress - Other Public Infrastructure account as the cost/appraised value of other public infrastructure which are still under construction.
- 8.2 Upon completion of the infrastructure assets, the account shall be reclassified to its proper PE accounts.
- 8.3 Examination of the Construction in Progress - Other Public Infrastructure account as of December 31, 2016, disclosed that completed projects amounting to P720,657,868.38 were not reclassified to its appropriate Infrastructure Assets accounts.
- 8.4 Failure to reclassify the cost of the completed projects resulted in the overstatement of the CIP account and understatement of the appropriate Infrastructure Assets account as of year-end. Likewise, the non-adjustment to the appropriate PE account resulted in the understatement of depreciation expense and its related accumulated depreciation, and overstatement of income for the completed projects. The Accountant explained that they were not able to verify the status of the projects and transfer the completed projects to appropriate accounts and area centers due to time constraints.
- 8.5 It was also disclosed that there were unidentified disbursements amounting to P1,615,198.46 which were recorded under this account. The Accountant explained that he could not verify the veracity of the amount due to the absence of documents/records. This observation has been reported since 2009 Annual Audit Report, however, as of to date, no action has been done by the Authority.
- 8.6 **We recommended that Management direct the Chief Accountant to:**
 - a. **Prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Other Public Infrastructure to appropriate PE and Due from Regional Offices accounts;**
 - b. **Recognize and record the corresponding depreciation and accumulated depreciation for the completed projects; and**
 - c. **Produce/locate the documents pertaining to the unidentified disbursements amounting to ₱1,615,198.46 and prepare the necessary adjusting entries.**
- 8.7 Management commented that they are completing the documents pertaining to the completed projects in order to remove them from the CIP account and will submit to COA the JEVs.

Undocumented/unsubstantiated Other Assets account

9. The existence and correctness of the Other Assets account as of December 31, 2016, totaling P4,383.499 million in the Head Office and P56.067 million in Area Center I, are doubtful due to undocumented/unsubstantiated balances of all items under the said account.

9.1 As presented in Par. 8 of the Notes to Financial Statements, Management disclosed that the amount P4,383,499,161.88 representing the whole amount of the Other Assets account pertains to the following accounts:

Land Improvements	1,140,535,858.67
Land	1,045,829,500.98
Buildings	920,451,399.13
Office Equipment	266,406,324.57
Due from Regional Offices	254,895,140.07
Construction in Progress-Agency Assets	194,249,975.70
Communication Equipment	136,106,503.48
Due from National Government Agencies	109,385,689.59
Airport Equipment	99,385,689.59
Due from National Treasury	54,623,403.26
Other Current Assets	44,747,097.98
Advances to Officers and Employees	37,607,280.62
Cash in Bank-Local Currency, CA	34,572,823.97
IT Equipment & Software	11,680,588.66
Furniture & Fixtures	10,678,978.79
Deposits on Letters of Credit	9,741,460.96
Construction in Progress-Other Public Infra	5,673,437.70
Runways/Taxiways	4,027,000.00
Other Assets-Unserviceable	2,667,277.62
Total Other Assets - CAAP Head Office	4,383,499,161.48
Area Center I	56,067,155.82
Total Other Assets	4,439,566,317.30

9.2 It was likewise stated in the Notes that the account pertains to dormant, undocumented, non-moving and unidentified assets and included the amount of P2,667,277.62 representing unserviceable assets awaiting final disposition.

9.3 Despite the lapse of eight years from the transfer of the accounts from the abolished Air Transportation Office (ATO) to the Civil Aviation Authority of the Philippines (CAAP), these remain in the Other Assets account as of December 31, 2016.

9.4 The absence of supporting documents relative to these dormant and undocumented accounts has precluded the audit team to conduct further verification of its validity and propriety.

9.5 This is a reiteration of the previous audit observations embodied in the prior years' AARs of CAAP due to the failure of Management to properly address the deficiency.

- 9.6 COA Circular No. 92-375 dated March 9, 1992, provides for the Accounting guidelines and procedures for the closing of books of accounts of abolished/transferred/merged/consolidated/converted/sub-divided agencies and the opening of books of accounts for agencies affected by such abolition/transfer/merger/consolidation/conversion/subdivision pursuant to provisions of law.
- 9.7 The unreconciled/undocumented balance of the Other Asset account comprises 14 per cent of the total assets, hence, should be given priority attention by Management to ensure reliable financial statements.
- 9.8 **We recommended that Management-**
- a. **Revisit the provisions embodied in COA Circular No. 92-375 and coordinate/make representation with the Government Accounting Sector of COA for proper implementation; and**
 - b. **Take serious steps to validate the existence of these accounts by re-creating a committee to include Accounting and Property personnel and require the said committee to submit a comprehensive report together with the recommendations.**

Unliquidated/unreconciled Advances to Officers and Employees and Other Receivables

10. Cash advances (CA) granted to officers and employees for travels recorded under *Advances to Officers and Employees* account amounting to P7.838 million in the Head Office remained unliquidated at the end of the year, due to Management's failure to strictly enforce the provisions of COA Circular No. 96-004; Executive Order No. 248, as amended by EO 298; and Presidential Decree No. 1445, thus casting doubts on whether the purpose of these cash advances have been served.

10.1 The *Advances to Officers and Employees* account (GL 148) is used to recognize amount advanced to officers and employees for official travel. The account is credited for liquidation of advances.

10.2 Section 89 of Presidential Decree No. 1445 provides that, *A cash advance shall be reported on as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*

10.3 *The accountable officer shall liquidate his cash advance for official travel- within sixty (60) days after return to the Philippines in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel, pursuant to EO 248, as amended by EO 298, and COA Circular No. 96-004.*

10.4 Cash advances granted for foreign and local travels recorded under account *Advances to Officers and Employees* has a year end balance of P7,838,019.01. The balance include accounts which have been outstanding for 30 days to 11 years. The aging of the accounts is shown below:

Nature	Amount (12.31.16)	Not Yet Due	No. of days Past Due					
			Less than 30 days	31-90 days	91-365 days	Over 1 year	Over 2 years	3 Years & above
Foreign	5,188,768.20	353,820.03	5,579.19	206,365.73	1,141,688.80	740,513.11	226,370.43	2,514,430.91
Local	2,649,250.81	158,800.44	23,966.00	11,605.00	188,728.64	164,369.25	118,831.00	1,982,950.48
Total	7,838,019.01	512,620.47	29,545.19	217,970.73	1,330,417.44	904,882.36	345,201.43	4,497,381.39
Percent age	100%	6.54%	93.46%					

10.5 Examination revealed that the P7,325,398.54 or 93.46 per cent of the unliquidated cash advances as of year-end have been past due for 30 days to more than 3 years. The past due accounts include advances granted to officers and employees who have resigned or are no longer connected with the Authority. Also included are additional cash advances granted to several Accountable Officers (AOs) despite non-liquidation of their previous CAs.

10.6 Section 3 of COA Circular No. 96-004 dated April 19, 1996 provides that *The Accountant shall be responsible in the monitoring of the grant and liquidation of the advances for travel. He shall send within 10 days before the expiration of the 30 or 60 days period prescribed under Section 14 of EO 298, a written reminder duly signed by the Agency head or his authorized representative, enjoining the official or employee concerned to liquidate his travel cash advance. In case of failure to liquidate the cash advance within the prescribed period, delete the name of the official or employee from subsequent payrolls until such time that the travel cash advance has been fully liquidated.*

10.7 The existence of the past due accounts showed Management's failure to strictly enforce the provisions of applicable laws, rules and regulations on the grant and liquidation of cash advances, and resulted in the misstatement of traveling expenses in the period they were actually incurred

10.8 It was also noted that abnormal balances amounting to P289,503.57 remained unadjusted as of December 31, 2016.

10.9 This is a reiteration of the audit observations embodied in the prior year's Annual Audit Report on CAAP.

10.10 We recommend that Management:

- a. **Revisit its practices in the grant, utilization and liquidation of cash advances and henceforth stop the practice of granting additional cash advance/s to accountable officers and employees unless their previous cash advances have been fully accounted for/liquidated;**
- b. **Direct the Chief Accountant to strictly enforce the submission of liquidation documents as soon as the purpose of the CA has been served;**

- c. **Adopt stricter measure to enforce settlement of long outstanding/unliquidated CAs including imposition of sanctions against accountable officers and employees who continue to neglect their obligations in accordance with the provision of COA Circular No. 96-004, EO 248, as amended by EO 298 and PD 1445.**

10.11 Management commented that they will start to issue demand letters and impose salary deduction to personnel, officers and employees who have unliquidated cash advances.

11. Discrepancies between the General Ledger balance as compared to the Prior Year and Current Year Cash Advances and Aging Schedule totals (SLs) as of December 31, 2016 amounting to P4.422 million and P4.718 million, respectively.

11.1 The General Ledger (GL) is book of final entry containing the totals of special journals (journals designed to record transactions which are repetitive in nature) and individual entries that are directly posted in the account. On the other hand, the Subsidiary Ledger (SL) is book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL. The totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.

11.2 Section 114 of Presidential Decree (PD) No. 1445 provides that:

(1) The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.

(2) Subsidiary records shall be kept where necessary.

11.3 Analysis of Advances to Officers and Employees account disclosed that the GL, SLs and Aging Schedule balances showed discrepancies amounting to P4,422,147.00 and P4,717,707.00, respectively, as of December 31, 2016, details as shown below:

Balance per GL				40,062,634.00
Balance per SL-	Current Year	1,902,241.00		
	Prior Years	<u>5,640,218.00</u>	7,542,459.00	
	Reclassification		659,322.00	
	Intelligence Fund		<u>36,283,000.00</u>	44,484,781.00
Discrepancy				4,422,147.00
Balance per GL				40,062,634.00
Balance per Aging Schedule				44,780,341.00
Discrepancy				4,717,707.00

11.4 Failure of the Authority to reconcile the discrepancies casts doubt on the reliability of the account- Advances to Officers and Employees.

11.5 **We recommended that Management instruct the Chief Accountant to exert extra effort to verify the discrepancies noted and reconcile the same in order to provide reliable financial records.**

11.6 Management commented that they will check the balances and exert extra effort to resolve the discrepancies.

12. The balance of Other Receivables (149) account as of December 31, 2016 amounting to P28.360 million is unreliable due to: a) inclusion of balances of cash advances granted to officers and employees who have already died, retired and resigned amounting to P6.195 million; and b) unreconciled discrepancy between the GL and SL balances amounting to P20.326 million.

a. Balances of accounts of officers and employees no longer with the Authority - P6,195,575.66

12.1 Section 89 of Presidential Decree No. 1445 provides that *A cash advance shall be reported on as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.*

12.2 *The accountable officer shall liquidate his cash advance for official travel- within sixty (60) days after return to the Philippines in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel, pursuant to EO 248, as amended by EO 298, and COA Circular No. 96-004.*

12.3 Section 6.0 of COA Circular No. 2012-004, regarding demand for the immediate liquidation and settlement of all cash advances outstanding as of December 31, 2011, provides that *the transfer, separation or retirement from the government does not operate to discharge the said person from coverage of the definition and corresponding duty to account for the unliquidated advances.*

12.4 Further, COA Circular No. 2016-005 dated December 19, 2016 provides the Guidelines and Procedures on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of National Government Agencies (NGAs), Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs).

12.5 Review of the Other Receivables schedule as of December 31, 2016 showed that it includes long outstanding receivables from officers and employees who have already died, retired and resigned. These receivables pertain to cash advances granted for local and foreign travels and for operating expenses as Special Disbursing Officers (SDOs), details as follows:

Nature of Cash Advance	Amount
Local and Foreign Travel	3,798,390.08
Special Disbursing Officers	2,397,185.58
Total	6,195,575.66

- 12.6 Considering the length of time that has lapsed, it is presumed that the purpose for which the cash advances were granted were already consummated, hence, the non-liquidation of the same resulted in the overstatement and understatement of assets and prior years' adjustments – retained earnings accounts, respectively.
- 12.7 This also shows that the Authority failed to strictly enforce the provisions in the proper liquidation of cash advances until such time that employees have died, retired and resigned.
- 12.8 This is a reiteration of the audit observations embodied in the prior year's Annual Audit Report on CAAP.

b. Unreconciled discrepancy - P20,326,878.71

- 12.9 Comparison between the General Ledger (GL) and Subsidiary Ledger (SL) balances disclosed a discrepancy amounting to P20,326,878.71 as of December 31, 2016, details as shown below:

Balance per GL		28,360,932.97
Balance per SLs:		
Local and Foreign Travel	3,798,390.08	
SDOs	2,397,185.58	
Inspectors	1,838,478.60	8,034,054.26
Discrepancy		20,326,878.71

- 12.10 **We recommended that Management:**

- a. **Instruct the Chief Accountant to exert extra efforts to demand the liquidation of these cash advances granted to those who are no longer connected with the Authority;**
- b. **Consider requesting for Authority to write off in accordance with the guidelines set forth under COA Circular No. 2016-005 for those already determined to be dormant receivables; and**
- c. **Assign Accounting personnel to conduct detailed examination on the discrepancy and prepare the necessary adjustments.**

- 12.11 Management commented that they will prioritize the accounts of the deceased personnel since they just need a Death Certificate. They also stated that they are making a template of the demand letter which will be sent to those who have outstanding balances.

Doubtful validity of recorded Accounts Payable in the Head Office

- 13. The balance of the Accounts Payable (AP) account as of December 31, 2016 amounting to P131.657 million is unreliable due to: a) inclusion of balances that have been outstanding for more than 2 years amounting to P27.284 million; b)**

unreconciled/unsubstantiated balance amounting to P22.463 million; c) erroneous entries of transactions amounting to P51.405 million.

a. Balances outstanding for more than 2 years - P27,284,210.64

13.1 Paragraph 3.1 of DBM and COA Joint Circular No. 99-6 dated November 13, 1999 provides that- *All documented A/Ps of all funds which have remained outstanding for two (2) years, shall be reverted to the Cumulative Results of Operations - Unappropriated (CROU), except on-going capital outlays projects.*

13.2 Paragraph 3.3 of the same Joint Circular also provides that- *All undocumented A/Ps regardless of the year they were incurred, shall be immediately be reverted to the CROU.*

13.3 Verification of the transactions recorded in the Schedule of Accounts Payable account as of December 31, 2016 showed that it includes the amount of P27,284,210.64 which has been outstanding for more than 2 years.

13.4 Considering the length of time that these have been outstanding and no valid claims have been filed with the Authority, these should be adjusted pursuant to the provisions of DBM and COA Joint Circular No. 99-6.

13.5 According to the Accounting Division, they are still completing the necessary documents of some of the accounts from 2012 and prior years.

b. Unreconciled/unsubstantiated balance - P22,463,587.92

13.6 Further review also showed that the balance amounting to P22,463,587.92 could not be reconciled/validated due to the absence of details or Subsidiary Leger (SL) which should provide the name of the creditor, nature of obligation and other pertinent data. Likewise, the non-maintenance of SL caused difficulty in the control and monitoring of the correct balances of the individual SLs.

13.7 Section 4 (6) of PD No. 1445 provides that-

Section 4. Fundamental principles. Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit: x x x.

1. Claims against government funds shall be supported with complete documentation.

13.8 The Accounting Division cannot provide supporting documents for the said recorded liability, thus verification of its validity could not be facilitated.

c. Erroneous entries - P51,405,142.30

13.9 Moreover, audit of AP transactions for CY 2016 revealed that the account is understated in the amount of P51,405,142.30 as shown in **Annex A**. This is due to erroneous recording, double recording of claims, and debits to account without appropriate credits.

13.10 **We recommended that Management instruct the Chief Accountant to:**

- a. **Prepare the necessary adjusting journal entry to revert the AP balances which have remained in the books and no actual and valid claims have been filed for 2 years or more pursuant to the aforecited regulations;**
- b. **Maintain the required SL and ensure that payments to creditors will be posted therein to facilitate validation/verification; and**
- c. **Conduct a thorough analysis/examination of the erroneous entries made and effect the necessary correcting entries.**

13.11 Management has already furnished COA copies of the JEVs on the partial adjusting entries made.

Auditor's rejoinder:

13.12 The partial adjusting entries made on the outstanding balance of P27,284,210.64 and on the erroneous entries amounting to P51,404,142.30 were incorrect. Management should reverse the incorrect entries made and effect accurate adjusting entries.

14. The CAAP Employees Multi-Purpose Cooperative (CEMPC) is earning from its canteen operation at CAAP's expense because of non-payment of concession privilege fee (CPF) and utilities which is not in accordance with Article 62, No. 2 of the Philippine Cooperative Code of 2008 (Republic Act 9520) and earns additional income through sub-lease, contrary to Item No. 2.12 of the Contract of Lease.

14.1 Republic Act 9520, Article 62, No. 2

Cooperatives organized among government employees, notwithstanding any law or regulation to the contrary, shall enjoy the free use of any available space in their agency, whether owned or rented by the Government.

14.2 Item 2.12 on the Responsibilities of the Second Part/Lessee states that:

The Lessee shall not transfer, assign, sell or mortgage his/her right, in whole and or any part of the occupied premise to a third party.

14.3 CEMPC is a primary cooperative registered under the Cooperative Development Authority, Manila Extension Office, with principal address at MIA Road, Pasay City.

14.4 On June 30, 2016, CAAP represented by former Director General William K. Hotchkiss and CEMPC entered into a Contract of Lease for the CAAP Canteen building for the period of six (6) years subject to extension/renewal under such terms and conditions as agreed upon in writing by both parties.

14.5 CAAP's responsibilities under the Contract states that the leasing/occupancy of the canteen facility shall be free from payment of rental fees, electricity and water charges for the consideration of CEMPC to undertake the canteen operation servicing CAAP employees, customers and clients. CAAP will not earn any income for the use of the Canteen building but would shoulder all utility expenses for the benefit of the CEMPC.

14.6 The Canteen building was constructed and finished on September 20, 2013 at a cost of P4,375,502.80. Verification disclosed that on July 2015 CEMPC started to occupy the CAAP canteen building but the contract of lease was signed only on June 2016, one (1) year after its operation. The Cooperative was provided with free use of the canteen facilities, water dispenser, gas stove, tables and chairs as well as free electricity and water consumption as provided in the Contract, but are not included in the privileges for a Cooperative under Article 62, No. 2 of R.A. 9520.

14.7 CAAP's payment of utilities for CY 2016 are as follows:

Water	3,671,677.32
Electricity	34,677,925.31
Telephone-Landline	3,214,209.64
Total	41,563,812.27

14.8 Moreover, it was further observed that there are other small businesses occupying spaces selling fruit shakes, loading stations with herbal oils, donuts and ice creams which also consume water, electricity and telephone without any overhead costs accruing to CEMPC but earning additional income instead for the Cooperative, contrary to Item 2.12 of the Contract.

14.9 Thus, CAAP is incurring additional expenses for utilities without any rental income from canteen operation. Likewise, the canteen building is depreciating every year without earning any income for its maintenance.

14.10 **We recommended that:**

- a. **The Authority and CEMPC should make a concession agreement/contract for the total number of square meters occupied in the CAAP canteen building;**
- b. **The Accounting Division should bill and collect from CEMPC monthly Concession Privilege Fee (CPF), consumption of utilities such as water, light and telephone incurred, and**
- c. **Require CEMPC to stop sub-leasing spaces in the canteen building to third parties.**

14.11 Management informed that they have referred our observation to the Chairman of the Cooperative for their comments/actions. A meeting with CAAP management and the cooperative will be scheduled to address the concerns for mutual understanding and benefit of both parties. Further, Management commented that they will comply with the recommendations but with certain variations depending on the negotiation with the cooperative.

15. Basis for the computation of Air Navigational Charges (ANC) billed to airline operators/customers and recorded in the books as Income from Communication Facilities not in accordance with CAAP Circular No. 03-11, series of 2011.

15.1 Verification in the Head Office disclosed that the conversion to kilometers of the actual distance flown in nautical miles shown in the Flight Statistics Thales was not used as the basis for the computation of ANC by the Billing Section, contrary to CAAP Circular No. 03-11, series of 2011. Instead, the computation was based on the Air Traffic Services (ATS) directive to use a distance calculator as informed by the Billing Section.

15.2 Comparison of the computation of conversion of distance between CAAP Circular No. 03-11 and Billing Statements for random samples disclosed total estimated understatement of income by P89,909,434.44:

Name of Airline	Income from Communication Facilities	Understatement
Cathay Pacific Airlines	163,994,791.98	1,257,865.60
Eva Airways	54,957,143.57	1,483,105.12
Garuda Indonesia	64,001,325.76	2,295,751.73
Philippine Airlines	172,546,912.32	3,527,912.12
Cebu Pacific Airlines	108,221,264.34	3,171,138.04
Total	563,721,437.97	11,735,772.61
Average % of understatement		2.08%
Estimated understatement		89,909,434.44

15.3 Review of the transactions for the airports under Area Center VI revealed that:

- a. ANC of Roxas Airport is overstated by P1,834,992.92 because the formula used in the computation of ANC is that for international flights as provided for in Section 2, instead of Section 4 for Domestic Flights, Part III of CAAP Circular No. 03-11.
- b. In accordance with the guidelines, ANC for each flight should be at least P400.00 unless otherwise provided, however, some charges in Kalibo International Airport are lesser than the minimum charge of P 400.00 which resulted in the understatement of income recognized in the books and the corresponding accounts receivable billed to the concessionaires.
- c. Early Opening Charges and Extension Charges were classified as Income from Communication Facilities from January to April 2016 but in later periods, income from these services were classified as Other Business Income without reclassifying the previous accounts used, hence consistency in the classification of income was not observed.

15.4 We recommended that Management:

- a. Instruct the ATS to use the actual distance flown as per Flight Statistics Thales as the basis for the computation of the ANC pursuant to the provision of CAAP Circular No. 03-11, series of 2011, subject to the distance cap provided in Board Resolution No. 2013-003;
- b. Direct the Billing Section of the Accounting Division to recompute the amount billed to all the airlines and immediately send the revised billing statement for collection of income due the Authority if found to be not in accordance with the regulation;
- c. Direct the Billing Section of the Accounting Division to comply with Section 4, Part III of CAAP Circular No. 03-11, series of 2011 which states that, *For each flight at any airport in the Philippines, a charge equivalent to one half (1/2) of the charge computed based on the derived formula of Section 2 of this part shall be imposed.*;
- d. Direct the Billing Section of the Accounting Division to strictly observe Section 4, Part III of CAAP Circular No. 03-11, series of 2011 which further states that, *Unless otherwise provided, charges for Domestic Commercial (Scheduled/ Non-scheduled) and Domestic General Aviation Flights, however, shall not be less than Four Hundred Pesos (Php 400.00).*; and
- e. Require the Accountant to observe consistency in recognizing income from early opening charges and extension charges.

15.5 Management commented that they will coordinate with ATS regarding this finding and will instruct the billing staff to coordinate with COA in order to validate the understatement.

16. Deficiencies in internal control for billing, collection and requisition of accountable forms are still prevalent.

16.1 Our verification showed that the following internal control deficiencies noted and recommendations given on the Authority's billing, collection and requisition of accountable forms in CY 2014 have not yet been implemented, as follows:

- a. The preparation of the billing statements are late, thus delivery to the clients are delayed. In Area Center VII, the manual recording of the data relative to the landing and take-off of all aircrafts using the navigational equipment in a logbook/monitoring report resulted in delayed recognition of income. We recommended for the automation of billing data, invoicing and collection and for Management to formulate policy on imposition of fee/penalty for late payments and initiation of legal action on delinquent customers.
- b. Billing statements are received late by clients due to lack of centralized delivery/pick-up system. We recommended that the billing statements should be delivered to the clients in the earliest possible time after they are prepared.

Scanned copies of the billing statements are recommended to be sent to clients through email.

- c. The processing of errors noted in the billing statements by clients is inefficient and time consuming. We recommended that serial numbers be put in the flight strips and daily traffic logs to serve as the basis for any verification of errors noted by clients.

16.2 Results of the CY 2016 Internal Control Questionnaire (ICQ) issued to Management revealed weaknesses that corroborated our audit observations as follows:

- a. The billing statements were sent out late due to unidentified name of operators/customers;
- b. The schedule of overdue accounts or the Quarterly Aging of Accounts Receivable are not reviewed by the Director General or his authorized representative, therefore no action was instituted for the collection of these accounts; and
- c. The allowance for doubtful accounts is computed using Section 66 of the NGAS Manual, Volume I which render it insufficient due to the existence of objective evidence that an impairment loss on the receivable account has been incurred.

16.3 **We recommended that Management instruct the Chief Accountant to:**

- a. **Properly identify the name and addresses of the operators/ customers in the billing statements to expedite the sending out of the same;**
- b. **Prepare the schedule of overdue accounts receivable on a quarterly basis and for the Director General or his authorized representative to examine, review and sign thereafter and indicate the actions instituted or future actions to be taken for their collection as provided in Section 64 (2) of GAAM, Volume I; and**
- c. **Make an assessment of the Impairment Losses on the accounts receivable, if any, and prepare a request for write-off as provided in COA Circular No. 2016-005 dated December 19, 2016 and/or provide an allowance for the identified uncollectible accounts.**

16.4 **We also reiterated our prior year's recommendation that Management direct the Internal Audit Service and Administrative and Finance Service to expedite their review and evaluation of its current practices including the preceding recommendations and formulate and issue written policy guidelines to guide its personnel on existing laws, rules and regulations pertaining to the billing of revenue, receipt and deposit of collections and requisition of accountable forms.**

17. The absence of the electronic linkage between CAAP's flight operating system to the Billing Section of the Accounting Division cause delays in the generation of flight data capture processes and adversely affects the timely, efficient and effective billing system and accurate recording of transactions.

17.1 Verification disclosed that the system output, which is the data extracted/downloaded from the equipment being used by the Manila Area Control Center, Air Traffic Service (ATS), is not transmitted electronically to the Accounting Division. The flights data which are the bases for the preparation of the billing statements are manually reported and submitted monthly by the Operations Division to the Accounting Division. Due to the said practice, there is a delay in preparing and sending out billing statements. Likewise, recording of the billing in the books of accounts takes three months.

17.2 The delay in preparing and sending out of the billing statements causes the inaccurate recognition of income at a given month and affects the timeliness and faithful representation of income in the financial statements.

17.3 In Area Center VII, submission of the logbook/report on aircraft operations of Mactan Tower and CAAP Bantayan resulted in the delayed assessment and preparation of the billing statements for the period. In effect, the income was not timely recognized in the books of the agency as at reporting date, contrary to Management's assertion of completeness. Moreover, the billing statements are delivered/mailed late or around a month from the time of receipt from Accounting Unit.

17.4 **We recommended that Management instruct the ATS to link the automatic flight operating system to the Accounting Division to expedite the preparation of the billing statements and its recording in the books of accounts.**

Insurance of government property with GSIS

18. The Authority failed to complete the inventory of physical assets, thus, as a consequence not all insurable risks were covered by the General Insurance Fund of the GSIS, contrary to Republic Act (RA) No. 656 known as the "Property Insurance Law" as amended by Presidential Decree No. 245 dated July 13, 1973, exposing various property to unnecessary risk of not being indemnified for any damage or loss to any fortuitous events such as fire, earthquake, typhoon and/or flood.

18.1 Section 2 of RA 656 provides that *in order to indemnify or compensate the Government as defined in this Act for any damage to, or loss of its properties due to fire, earthquake, storm, or other casualty, there is hereby established the "Property Insurance Fund, which shall consist of all moneys resulting from the liquidation of the insurance constituted in section three hundred forty of the Revised Administrative Code and from premium of other incomes.*

18.2 Section 5 of RA 656 further provides that *every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: x xx.*

18.3 Verification of the insurance policies paid by the Authority disclosed that there are various property of the Authority which were not insured with the Government Service Insurance System (GSIS) as required by Republic Act No. 656.

18.4 As at December 31, 2016, the Authority has three (3) insurance policies. The Authority's property with a market value of P10,117,707,958.39 were insured under the fire industrial all risk insurance and the sabotage and terrorism insurance for a premium amounting to P15,175,550.00 and P1,811,069.72 respectively. Out of the 82 airports 68 were insured with a total sum insured of P4,950,000,000.00 for a premium of P9,900,000.00.

18.5 However, records showed that there are still 14 airports which are not insured with the GSIS airport liability insurance, details as shown below:

No.	Region	Airports/Office/ Facilities	Classification	Location
1	Region III	Iba	Community	Iba, Zambales
2		Baler	Community	Baler, Aurora
3	Region IV	Calapan	Community	Calapan, Oriental Mindoro
4		Pinamalayan	Community	Pinamalayan, Oriental Mindoro
5		Wasig	Community	Wasig, Mansalay, Oriental Mindoro
6	Region VIII	Godofredo P. Ramos Airport (Caticlan)	Principal Class 2	Malay, Aklan
7	Region VIII	Baliran	Community	Catmon, Biliran, Sub-province
8		Borongon	Community	Punta Maria, Borongan, E. Samar
9		Catbalogan	Community	Buri, Catbalogan, W. Samar
10	Region IX	Guiuan	Community	Guiuan, Eastern Samar
11		Cag. De Sulu	Community	Mapun, Cag. De Sulu, Zambo. Del Sur
12		Ipil	Community	Ipil, Zambo. Del Sur
13	Region X	Malabang (ARMM)	Community	Malabang, Lanao Del Sur
14		Wao	Community	Wao, Lanao Del Sur

18.6 Moreover, the total amount of insurable properties of the Authority could not be determined due to the non-submission of complete Physical Inventory Report of all insurable property and equipment. The non-coverage of all insurable physical assets to the GSIS is not in accordance with the provisions under RA 656, which requires every government agency to insure all of its insurable property with the GSIS.

18.7 The failure of Management to insure the subject property will result in the non-recovery of the value of the property in case of loss/damage due to fortuitous events.

18.8 This is a reiteration of the previous audit observations embodied in the prior year's AAR of the CAAP.

18.9 **We recommended and Management agreed to revisit RA No. 656 and instruct the Property Officer to prepare and submit inventory reports of all insurable property to GSIS to ensure that all insurable assets and property are adequately covered/insured with the General Insurance Fund of the GSIS.**

Gender and Development (GAD)

19. CAAP did not fully meet its commitment to pursue women empowerment and gender equality due to: (a) non-allocation of at least five percent of agency's total appropriation for the implementation of the GAD program, contrary to RA No. 9710 and paragraph 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01; (b) non-implementation of several GAD projects due to non-inclusion in the APP; and (c) review and endorsement with the Philippine Commission on Women (PCW) of the agency's GAD plan and budget was not obtained.

a. **Non-allocation of at least five percent of agency's total appropriation for the implementation of GAD programs/activities/projects (PAPs)**

19.1 RA No. 9710, otherwise known as the Magna Carta for Women (MCW) provides that *all government agencies including GOCCs shall formulate their annual GAD Plan and Budget (GPB) within the context of their mandates to mainstream gender perspectives in their policies, programs, activities and projects (PAPs). GAD planning shall be integrated in the regular activities of the agencies and the cost of the implementation of which shall be at least five per cent of the Agency's total budget. The GAD budget does not constitute an additional budget over the agency's total appropriations.*

19.2 For CY 2016, CAAP had appropriated a total of P208.795 million for GAD which is only 1.17 per cent of the P17,813.406 million Corporate Operating Budget (COB) approved by the DBM. While the mandatory budget for GAD is P890,670.300 million, actual disbursements for GAD related activities is only P23.976 million or 11.483 per cent of the P208.795 million for the FY 2016. The table below shows the details.

Particulars	GAD Budget	Expenditures	Accomplishment in %
Client-focused projects (CFPs)	74.495	16.471	
Organization-focused projects (OCPs)	134.300	7.505	
Total	208.795	23.976	11.483

19.3 This percentage of accomplishment is lower by 1.324 per cent as compared with that of last year's 12.807 per cent. The extremely low percentage of management accomplishments on the implementation of the proposed PAPs indicates Management was unable to address the gender issues mentioned in the FY 2016 GAD Plans and Programs (GPBs). The inability of Management to fully utilize their GAD allocation also indicates that there was poor planning on the proposed activities.

b. Non-implementation of several GAD projects due to non-inclusion in the APP

19.4 Section 3.2 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides that *GAD planning and budgeting shall be conducted annually as part of all programming and budgeting exercises of agencies. The PAPs in the GPB shall be included in the agency budget proposal and they shall be reflected in the Annual Work and Financial Plan (WFP) of concerned offices or unit within the agency or department.*

19.5 Verification disclosed that the following projects included in the GAD Plan for FY 2016 were not implemented:

- a. Provision of breastfeeding station in Calbayog
- b. Provision for kids' play area in Calbayog
- c. Construction of covered area in Iloilo

19.6 These projects were considered as Client Focused projects with the following objectives: a) to provide nursing mothers a place where they can breastfeed comfortably and privately; b) to alleviate the burdens of mothers in caring for young children by providing learning tools and toys to keep the children entertained and pacified while waiting for their flights; and c) to provide a covered pathway and a covered waiting area with seats, good ventilation and entertainment (TV) for clients.

19.7 The non-implementation of the projects will not only result in a very low GAD accomplishment rate but will also deprive the intended beneficiaries to fully achieve the benefits that maybe derived from the PAPs.

c. Review and endorsement with the PCW of the agency's GAD plan and budget was not obtained

19.8 Section 8.6 of PCW-NEDA-DBM Joint Circular No. 2012-01 states that-

PCW shall endorse agency GPBs only under the following conditions:

- if they are reviewed by the mother or central office;*
- if the requested revisions or additional information in answer to questions about the GPB are accepted by PCW within the prescribed deadline; and*
- if they are accompanied by the GAD AR.*

19.9 The review and endorsement with the PCW of the agency's GPB as required in the above-mentioned joint circular was not obtained, although the GPB for FY 2016 was submitted to DOTr.

19.10 **We recommended and Management agreed to:**

- a. Provide/allocate at least five per cent of the DBM approved COB for the formulation of the annual GAD Plan and Programs to address the gender issues raised for the benefit of the riding public and their employees and in accord with the provisions set in the above-mentioned Joint Circular;**

b. Instruct the GAD focal person to coordinate with the proper officials to make sure that the proposed PAPs are included in the APP; and

c. Submit on time the GPB to PCW to facilitate its review and endorsement.

19.11 Management promised to improve their performance this 2017, and gave an assurance that the CAAP GFPS Planning and Monitoring Committee will be in constant coordination with the officials involved in the agency budget planning to ensure the inclusion of the fund for GAD PAPs in the CAAP APP. Further, the Committee Head will present the GAD budget during the agency budget deliberation and regularly update the Office of the Director General on the implementation of the GAD projects.

19.12 Management also commented that the budget for breastfeeding station and kids' play area for Calbayog were used for Catarman instead. Also, the budget for construction of covered area of Bacolod was used to fund the project in Iloilo. They claimed that these projects in Calbayog and Iloilo are priority projects.

20. Compliance with Tax Laws

20.1 The CAAP HO and 12 Area Centers complied with the requirements on the withholding and remittances of taxes on gross compensation income from officials and employees and on government purchases and contract of services from private entities under Revenue Regulation No. 10-2008 dated July 8, 2008, as shown in the table:

Offices	Balances as of January 1, 2016	Taxes During CY 2016		Balances as of December 31, 2016
		Withheld	Remitted	
Head Office	32,630,903.07	172,699,346.75	180,146,514.75	25,183,735.07
Area Centers:				
Area Center I	-	8,610,337.28	8,215,321.08	395,016.20
Area Center II	5,595.72	4,306,315.40	4,184,799.84	127,111.28
Area Center III	6,659,405.59	14,345,789.23	14,063,839.40	6,941,355.42
Area Center IV	923,440.43	6,757,208.28	6,556,994.12	1,123,654.59
Area Center V	205,019.61	9,968,678.83	9,948,078.84	225,619.60
Area Center VI	2,240,310.17	32,537,638.28	32,065,536.22	2,712,412.23
Area Center VII	817,302.69	26,064,649.18	24,812,070.88	2,069,880.99
Area Center VIII	516,489.33	7,120,516.33	6,549,842.86	1,087,162.80
Area Center IX	1,840,043.46	15,209,201.23	16,025,819.35	1,023,425.34
Area Center X	941,765.28	10,067,873.63	9,706,940.34	1,302,698.57
Area Center XI	2,483,907.62	23,236,585.11	22,993,545.29	2,726,947.44
Area Center XII	173,570.14	10,366,170.03	10,372,941.00	166,799.17
TOTAL AREA CENTERS	16,806,850.04	168,590,962.81	165,495,729.22	19,902,083.63
TOTAL	49,437,753.11	341,290,309.56	345,642,243.97	45,085,818.70

21. Withholding and remittance of GSIS premiums and loans for FY 2016

21.1 The Government Service Insurance System (GSIS) personal share and loans of employees and Social Insurance Fund (SIF) and Employees Compensation Insurance Fund (ECIF) premiums as government shares were deducted and remitted to the GSIS, in accordance with RA No. 8291, the GSIS Act of 1997.

Offices	Balances as of January 1, 2016	GSIS Premiums		Balances as of December 31, 2016	Remarks
		Deductions	Remittances		
Head Office	17,257,089.12	111,366,621.64	119,973,504.57	8,650,206.19	
Area Centers:					
Area Center I	-	11,578,603.07	10,649,618.90	928,984.17	
Area Center II	172,683.27	3,059,692.77	3,202,196.44	30,179.60	
Area Center III	3,047,345.91	10,738,667.78	10,751,771.06	3,034,242.63	
Area Center IV	406,804.26	5,594,410.28	5,503,735.14	497,479.40	
Area Center V	136,899.54	7,257,693.40	7,266,355.61	128,237.33	
Area Center VI	583,912.93	19,636,179.05	19,802,452.40	417,639.58	
Area Center VII	1,053,083.64	17,003,236.79	18,151,873.57	(95,553.14)	The negative balance was due to an erroneous entry made in CY 2016. For reconciliation and adjustment in 2017.
Area Center VIII	918,459.98	5,786,322.97	5,926,672.66	778,110.29	
Area Center IX	(300,421.93)	12,749,124.80	12,303,792.11	144,910.76	Beginning balances of Dipolog, Pagadian and Jolo Airports showed abnormal balances since 2008, however no analysis on these abnormal balances has been made by the accounting unit .
Area Center X	1,409,674.22	6,783,544.79	6,750,378.35	1,442,840.66	
Area Center XI	(8,100.78)	14,852,173.32	14,851,175.28	(7,102.74)	
Area Center XII	224,484.72	6,750,607.47	6,967,787.19	7,305.00	
Total Area Centers	7,644,825.76	121,790,256.49	122,127,808.71	7,307,273.54	
TOTAL	24,901,914.88	233,156,878.13	242,101,313.28	15,957,479.73	

22. Enforcement of COA Audit Suspension, Disallowances and Charges

HEAD OFFICE

22.1 The total audit suspensions, disallowances and charges found in the audit of transactions as of December 31, 2016, based on the Notice of Suspension (NS)/Notice

of Disallowance(ND)/Notice of Charge(NC)/Notice of Settlement of Suspensions and Disallowances/Charges (NSSDC) issued by this Commission, is summarized below:

Particulars	Beginning Balance (As of 01/01/2016)	This period January 1 to December 31, 2016		Ending Balance (As of 12/31/2016)
		NS/ND/NC	NSSDC	
Notice of Suspension	81,058,104.88	50,000.00	51,129,043.32	29,979,061.56
Notice of Disallowance	204,892,766.77	6,151,643.59	24,885.00	211,019,525.36
Notice of Charge	30,912.65	-	-	30,912.65
Total	285,981,784.30	6,201,643.59	51,153,928.32	241,029,499.57
% of settlement			18%	

22.2 The disallowances issued pertain to the payment of gasoline consumption and claims for flying risk pay by officials and employees.

22.3 NS/ND/NC issued prior to the effectivity of the 2009 Rules and Regulations on the Settlement of Accounts (RRSA) amounting to ₱25.973 million were issued to then Air Transportation Office (ATO) employees and recorded in the books. There are no subsidiary records for some audit disallowances, hence, the difficulty in implementing the settlement of the same.

22.4 According to the Chief Accountant, disallowances for the payment of bonuses and allowances were filed for automatic review of COA Commission Proper while the disallowances for payment of flying risk pay were appealed to the Director, Cluster 4.

AREA CENTERS I TO XII:

Particulars	Beginning Balance (As of 01/01/2016)	This period January 1 to December 31, 2016		Ending Balance (As of 12/31/2016)
		NS/ND/NC	NSSDC	
Notice of Suspension				
Area I	0.00	2,108,640.47	2,108,640.47	0.00
Area II	0.00	0.00	0.00	0.00
Area III	0.00	0.00	0.00	0.00
Area IV	0.00	0.00	0.00	0.00
Area V	2,903,548.74	32,047.00	19,280.00	2,916,315.74
Area VI	797,123.80	52,277,952.78	52,277,952.78	797,123.80
Area VII	0.00	0.00	0.00	0.00
Area VIII-Tacloban	4,950,106.67	256,479.72	2,865,137.23	2,341,449.16
-Catarman	221,695.24	2,156,734.93	637,198.30	1,741,231.87
-Calbayog	2,475,052.14	1,350,458.70	3,099,987.17	725,523.67
Area IX	92,812.50	0.00	92,812.50	0.00
Area X	18,447,514.09	0.00	6,503.50	18,441,010.59
Area XI	0.00	2,069,197.85	2,069,197.85	0.00
Area XII	3,885,143.26	5,513,699.34	1,812,535.64	7,586,306.96
Total	33,772,996.44	65,765,210.79	64,989,245.44	34,548,961.79
% of settlement			65%	
Notice of Disallowance				
Area I	16,352,705.70	0.00	0.00	16,352,705.70
Area II	8,627,335.03	161,455.00	0.00	8,788,790.03
Area III	17,676,773.84	0.00	0.00	17,676,773.84
Area IV	11,176,831.78	0.00	0.00	11,176,831.78
Area V	20,331,578.51	1,360.00	21,000.00	20,311,938.51
Area VI	64,661,977.47	722,982.47	0.00	65,384,959.94
Area VII	40,308,833.09	768,793.64	0.00	41,077,626.73
Area VIII- Tacloban	9,355,382.28	0.00	0.00	9,355,382.28
Catarman	420.00	1,360.00	960.60	819.40
Calbayog	150.00	2,800.00	2,950.00	0.00
Area IX	26,711,093.01	92,812.50	0.00	26,803,905.51
Area X	93,407,657.24	0.00	79,362.79	93,328,294.45
Area XI	39,262,815.32	657,080.00	157,154.71	39,762,740.61
Area XII	7,277,177.49	112,289.19	4,000.00	7,385,466.68
Total	355,150,730.76	2,520,932.80	265,428.10	357,406,235.46
% of settlement			0%	

AREA CENTERS

Variance in Revenues

Area Center VI

23. The evident laxity in monitoring controls coupled with red flags signaling some indications of fraud had deprived the government of revenues from sales of Terminal Fee Tickets amounting to more or less P17.922 million for the period October 1, 2015 to March 31, 2016.

23.1 Section 2 of P.D. 1445 otherwise known as the Government Auditing Code of the Philippines, states that- *It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of the government.*

23.2 CAAP guidelines in the collection of terminal fees specifically Item 4 states that- *after each flight, a summary of passengers on board should be secured from the airline's representatives by a designated airport personnel (one who has no access on the Collection of Terminal fees) using the Airlines Summary of Outgoing Passengers Form.*

23.3 The summary of passengers is recorded in the Flight Monitoring Report prepared by the Flight Data Recorders to monitor, among others, the number of departing passengers boarding the outgoing flights. These outgoing passengers pass through the passenger terminal before their flights and are required to pay terminal fees of P700.00 each for international and P200.00 for domestic passengers. The fees are collected by the terminal fee collectors, who issues terminal fee tickets equivalent to the amount received. The passengers then surrender the Inspector's copy of the terminal fee tickets to the CAAP designated inspector.

23.4 On the other hand, the collectors record the number of tickets issued/sold and collected in the Teller's Accountability Report (TAR) and submit the report together with the amount collected to the designated Collecting Officer who will issue an Official Receipt (OR) in favor of "various passengers". The monthly summary of the total tickets issued to passengers are summarized in the Terminal Ticket Control Sheet.

23.5 To ensure that all departing passengers paid terminal fees, the audit team compared the data as reflected in the Flight Monitoring Reports and the Terminal Ticket Control Sheet for the period October 1, 2015 to March 31, 2016 and discovered the following significant variances:

Month/Year	No. Of Passengers per Flight Monitoring Reports	No. of Terminal Tickets sold/ issued based on TAR /Report of Collections	Difference	Total (difference x 700.00 for International passengers)
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Month/Year	No. Of Passengers per Flight Monitoring Reports	No. of Terminal Tickets issued based on TAR /Report of Collections	Difference	Total (difference x 700.00 for International passengers)
International				
October 2015	43,546	41,022	2,524	1,766,800.00
November 2015	39,443	40,045	-602	(421,400.00)
December 2015	48,595	43,972	4,623	3,236,100.00
January 2016	56,640	50,253	6,387	4,470,900.00
February 2016	69,554	61,879	7,675	5,372,500.00
March 2016	56,244	53,197	3,047	2,132,900.00
Sub-total	314,022	290,368	23,654	16,557,800.00
Domestic				
October 2015	44,690	43,863	827	165,400.00
November 2015	48,751	47,803	948	189,600.00
December 2015	54,398	53,067	1,331	266,200.00
January 2016	64,209	63,573	636	127,200.00
February 2016	65,247	64,257	990	198,000.00
March 2016	57,105	55,015	2,090	418,000.00
Sub-total	334,400	327,578	6,822	1,364,400.00
TOTAL				17,922,200.00

23.6 The variance of P17,922,200.00 represents the amount of revenues that the government is deprived due to lack of monitoring controls in the revenue process, particularly in the issuance of terminal fee tickets.

23.7 Further, the following observations, which indicate laxity in monitoring revenue collections were likewise noted:

- a. Flight Monitoring Reports do not at times indicate the number of non-revenue passengers such as transit passengers, children two (2) years of age and below, OFWs, CAAP employees on official travel, deadhead and off-loaded passengers. These passengers are exempted from paying terminal fees in accordance with the guidelines. While the number involved may not be too significant, it affects the correctness of the number of paying/revenue passengers declared in the Flight Monitoring Reports.
- b. Some of the data recorded in the Flight Monitoring Reports were not written clearly and/or showed some alterations considering that the information is written manually by the Flight Data Recorder.

- c. The Pre-Departure Passenger Tally Sheets prepared by the Terminal Fee Inspector/s, which reflects the data of inspected passengers, were not attached to TAR. These data include the number of non-revenue passengers such as infants, OFWs, CAAP employees on official travel, dead-heads and off-loaded passengers and the corresponding proof or certifications of the mentioned non-revenue passengers were also not attached.
- d. CAAP failed to integrate categorically in the guidelines the responsibility of the Collecting Officer and the Accounting Unit to reconcile the sales on terminal tickets vis-à-vis the number of outgoing passengers as reported in the Flight Monitoring Reports, taking into consideration the non-revenue passengers in the process of reconciliation.
- e. The volume of collections was enormous to be handled by one Collecting Officer as the airport operates on a 24-hour basis while the Collecting Officer's duty is 8am to 5pm office hours, thus correctness of collections and supporting documents of the TAR was not properly monitored.
- f. Rotations of schedule of duties of Terminal Fee Collectors and Inspectors were not properly observed. This may result in too much familiarity among employees where the risk of collusion to commit fraud and concealment thereof is high.
- g. The Terminal Fee Collectors are on Job Order status and are not properly bonded, thus exposing government funds to possible losses with a very low percentage of recovery in case of theft and misappropriation.

23.8 In our analysis however, the significant disparities between the sales of the terminal tickets vis-à-vis the actual number of departing passengers will not amount that much if only the foregoing deficiencies are considered. More than that, we cannot discount the indications of "red flags on fraud", such as the possible recycling of tickets which were already issued tickets in a syndicated manner or whatever means that may have been employed with intent to defraud the government, thus, depriving the Authority of revenues amounting to P17,922,200.00.

23.9 At this point in time, the working papers will show that the difference was established based on available records, except for reports on non-revenue passengers, which management has yet to submit.

23.10 **We recommended that the Area Manager make the necessary explanation/justification on the noted observations and support the same with all pertinent documents necessary for an intelligent evaluation of the facts and circumstances relevant to the finding.**

23.11 **We further recommended that the Area Manager:**

a. Submit the:

- 1. Flight Monitoring Reports showing the number of revenue and non-revenue passengers such as transit passengers, children**

two (2) years of age and below, OFWs, CAAP employees on official travel, deadhead and off-loaded passengers;

- 2. Pre-Departure Passenger Tally Sheet with appropriate documents to support the identification of non-revenue passengers together with the TAR; and**
- 3. Documents on non-revenue passengers duly validated and approved by the proper authorities.**

A. in order that paying and non-paying passengers could be properly monitored and reconciled with revenues collected;

- b. Obtain machine generated flight information from airline companies and correctly record the data in the Flight Monitoring Reports to ensure the correctness of the data to be reconciled with the Teller's Accountability Report.**
- c. Designate personnel other than the collectors to reconcile the collected amount with the number or revenue passengers for proper monitoring.**
- d. Hire additional Collecting Officer so that the efficiency and effectiveness in handling revenue collections will be achieved.**
- e. Rotate concerned employees to prevent the possible risk of collusion in the commission of fraud and concealment thereof.**
- f. Designate a properly bonded personnel to perform the collection of terminal fees to mitigate the inherent risks on revenue collection.**

Management Comment

23.12 Management alleged that CAAP Central Office took over the terminal ticket issue. A team was created to check and verify the procedures being followed on the collection of terminal fee at Kalibo International Airport. Management also informed that a memorandum was issued to all concerned to strictly observe the correct procedures in the collection of terminal fees.

Auditor's Rejoinder:

23.13 Submission of the required documents needed in the evaluation of the passengers exempted from paying terminal fees is requested. Follow up results of investigation made by CAAP Central Office on the subject issue and file appropriate charges against erring employees, if necessary.

Missing / Unaccounted Terminal Fee Tickets

Area Center XII

24. Terminal Fee tickets totaling 5,768 pieces with a face value of P75/100 per ticket or a total of P574,300.00 are missing and unaccounted due to the failure of the Agency to install control measures to safeguard accountable forms from unauthorized access, thus posing a risk of possible fraudulent use or issuance thereof.

24.1 Section 123 of PD1445 defines internal control as- *the plan of organization and all the coordinate methods and measures adopted within an organization or agency to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies.*

24.2 During the conduct of cash examination on the cash and accounts of the Acting Collecting Officer of CAAP Area Center XII, Butuan Airport on June 24, 2016, covering the period from May 26, 2015 to June 24, 2016, the audit team noted that various accountable forms with money/face value, particularly the terminal fee tickets were not presented for audit.

24.3 The team could not determine yet the exact quantity of terminal fee tickets and the corresponding serial numbers at that time as the latest Report of Collection and Deposit (RCD) together with the Report of Accountability for Accountable Forms (RAAF) submitted by the Agency as of June 24, 2016, was for the month of January 2016. It was some time in July 2016 only that the team verbally informed the AO of the said deficiency.

24.4 Review and verification of the RCDs, RAAF's and other supporting documents such as the Teller's Accountability Report for the period covering February to June 2016, that were submitted disclosed the following:

24.4.1 The terminal fee tickets totaling 100 pieces covering serial numbers 775001-775100, with face value of P75 or a total amount of P7,500 were reported as on hand in the RAAF with money value ending June 30, 2016, but these were not presented to the team on June 24, 2016.

24.4.2 The terminal fee tickets totaling 50,000 pieces covering serial numbers 4500001-4550000 with a face value of P100 or equivalent to P5,000,000 disclosed the following deficiencies:

- a. The aforesaid accountable forms were reported as balance in the RAAF with money value for the month of May 2015. However, it was not forwarded as part of the beginning balance of June 2015 nor issued for the period covering July 2015 to June 2016. Thus, the said accountable forms were not accounted in the RAAF with money value covering the period May 2015 to June 2016.

- b. Of the 50,000 pieces, 5,668 pieces of terminal tickets were not presented to the Team for audit neither reported as issued in the Teller's Daily Accountability Report for terminal fee tickets for the period May 26, 2015 to June 24, 2016, as follows:

Serial Numbers	No. of Pieces	Denomination	Amount
4520001-4525000	5000	100.00	500,000.00
4531301-4531350	50	100.00	5,000.00
4531601-4531650	50	100.00	5,000.00
4531651-4531700	50	100.00	5,000.00
4533101-4533150	50	100.00	5,000.00
4540451-4540500	50	100.00	5,000.00
4542951-4543000	50	100.00	5,000.00
4544301-4544350	50	100.00	5,000.00
4544351-4544400	50	100.00	5,000.00
4544401-4544450	50	100.00	5,000.00
4544451-4544454	4	100.00	400.00
4544487-4544500	14	100.00	1,400.00
4544751-4544800	50	100.00	5,000.00
4544851-4544900	50	100.00	5,000.00
4544951-4545000	50	100.00	5,000.00
4546951-4547000	50	100.00	5,000.00
Total	5,668		566,800.00

- 24.5 With the foregoing deficiencies, the Team issued a demand letter dated December 29, 2016 to the Acting Collecting Officer, requiring her to present the 5,668 pieces of terminal fee tickets and submit an explanation for not presenting the said AFs in audit on June 25, 2016. In her letter-reply dated January 5, 2017, she commented and we quote:

Ms. Imelda Macuno was the former Collecting Officer of CAAP for many years. When she became a Job Order employee, I was designated as the Acting Collecting Officer on top of my present duties and responsibilities as CNSSO III. Nevertheless, she was still the one doing the actual duties and responsibilities of a Collecting Officer except when signing documents pertaining thereto.

- 24.6 Some time in June 2015, terminal fee collection was increased from P100.00 to P150.00. So, after the last audit in 2015, she stored the boxes of terminal fee tickets of P75.00 and P100.00 at the k-9 quarters. Unfortunately, in the first week of July 2016, during the audit of accountable forms, it was discovered that the terminal fee tickets stored at the k-9 quarters were moved outside said quarters without her knowledge. As a result, some tickets were damaged. She then informed the Area Manager of the incident and asked assistance for their retrieval.

- 24.7 Based on the letter-reply of the AO, the terminal tickets were not kept properly as the boxes of terminal fee tickets were just covered by plastic cellophane and placed on an elevated area at the k-9 quarters. Anybody could access the same, such as moving them out without the knowledge and consent of the AO, as these were not placed in a storage cabinet which can only be accessed by the designated AO.
- 24.8 The Agency's failure to install control measures in safeguarding its accountable forms with money value, resulted in the loss of the 5,668 pieces of terminal fee tickets with face/money value of P75/100 per ticket or a total of P574,300.00, thus, posing a risk for possible fraudulent use or issuance of the said accountable forms.
- 24.9 **We recommended that Management:**
- a. **Install/adopt control measures in safeguarding its accountable forms by providing a locked storage cabinet so that access will be limited only to authorized employees, in compliance with Section 123 of PD 1445.**
 - b. **Exert extra effort in locating the 5,668 pieces of missing or unaccounted terminal fee tickets. If the said tickets could not be found, issue a notice of loss to prevent the possible fraudulent use of the same, as provided under COA Circular No. 84-233 dated August 2, 1984. Thereafter, file a request for relief from accountability, subject to evaluation of this Commission.**

Management Comment:

- 24.10 Management informed that since the incident, control measures had been in-place. Collection Unit has now its own secure office at the terminal building. Steel cabinets with individual locks and vault had been provided for safekeeping of accountable forms. A separate Supply Building is now functional and a former storage room used by the said Supply Unit is now being used as storage room for the Collection Unit.
- 24.11 The Accountable Officer is finalizing the list of missing and unaccounted for tickets since ample time had already been given to locate them. After which, the request for the relief of accountability will be filled as required under COA Circular No. 84-233 dated August 21, 1984.
- 24.12 Management said that they were deeply distraught with the incident and also strongly desires for the resolution of this unfortunate event.

PROJECTS

Area Center IX

25. Non-implementation and delays in the implementation of projects with estimated project cost totaling P115.549 million deprived the intended beneficiaries of the benefits that could be derived therefrom.

25.1 Review of status of implementation of Programs, Activities and Projects (PAPs) as of December 31, 2016 showed that there are nine (9) PAPs with estimated project cost totaling P96,544,000 that were not implemented. Of this amount, 78 million was supposed to be implemented by CAAP Head Office particularly the Aerodrome Development Management Service (ADMS) and Air Navigation Service (ANS). PAPs not implemented are the following:

PAPs	Estimated Project Cost	Implementing Unit	Reason for Non-Implementation
Provision of Halfway House	10,000,000	ADMS-HO	
Construction of covered waiting area	3,000,000	ADMS-HO	
Construction of GAD Centers	30,000,000	ADMS-HO	
Construction of New Control Tower Bldg-ZIA	35,000,000	ANS	
Feeder line from Genset to main distribution and construction of fuel day tank-Dipolog	2,400,000	Area IX	No fund transfer from HO
Baggage Carousel-Dipolog but realigned to ZIA	6,000,000	Area IX	Awaiting approval from HO for realignment
Feeder line from Genset to main distribution and construction of fuel day tank-Pagadian	2,400,000	Area IX	No fund transfer from HO
Provision of Persons With Disability (PWD) ramp	544,000	Area IX	With fund transfer in CY 2016. However, the feasibility of constructing a ramp in the pre-departure area going to the 2 nd floor was not allowed for security reason. Moreover, it would entail a bigger space for the construction of the ramp.
Installation of Apron lights-ZIA	7,200,000	Area IX	Failure of bidding. Included in the APP of CY 2015, and should have been implemented in 2015
TOTAL	96,544,000		

25.2 Relative to the aborted plan for the provision of PWD ramp, it is imperative that Management, in the preparation of its plans and programs, has to consider the viability and feasibility of the project so as not to waste time, effort and money.

25.3 There were also delays in the implementation of six (6) PAPs with total project cost of P19,004,962 as follows:

PAPs	Project Cost	Status
Repair of DVOR Equipment	1,801,600	100% accomplished in CY 2016 however, this should have been implemented in CY 2015 per APP of CY 2015
Construction of communal toilets- Dipolog and Pagadian	4,403,362	Completed in March 2017 and February 2017, respectively
Construction of Admin Bldg in Dipolog (H.O Project)	4,500,000	On-going as of December 31, 2016
Const. of FSS perimeter fence- Pagadian	2,000,000	Completed in March 2017
Const. of New Power Plant Bldg.- Pagadian	5,000,000	Completed in March 2017
Restoration of PAPI system - Pagadian	1,300,000	100% accomplished in CY 2016 however, this should have been implemented in CY 2015 per APP of CY 2015
TOTAL	19,004,962	

25.4 Non-completion and delays in the implementation of PAPs consequently delays the benefit that the end-users could have obtained from the same.

25.5 Moreover, it was noted during the review/verification of the status of implementation of PAPs that Management has poor monitoring on status of project implementation. Data on the status of PAP is not readily available because there was no point who could give data/documents needed. Documents and data were sourced from three (3) different departments which sometimes had conflicting data on status of implementation.

25.6 **We recommended that management:**

- a. **Re-evaluate and expedite procedures in project implementation and strictly observe timelines/target dates for timely delivery of benefits; and**
- b. **Assign a person who will monitor status of implementation of all PAPs.**

- 25.7 Management commented that most of the unimplemented PAPs are those to be implemented by CAAP Head Office or by DOTr, for which the Area Center who is the end user, was not made part of the preparation of Program of Work (POW) to the implementation. This issue has been raised by the Area Centers in the management meeting and the Head Office committed to make appropriate actions to address the issue.
- 25.8 Further, Management commented that the delays were due to the late conduct of bidding. The BAC Chairman then, went on leave. As to project monitoring, the Area Manager will designate a person to coordinate with COA on the status of project implementation.

Auditor's rejoinder:

- 25.9 Projects to be implemented by CAAP H.O should have proper coordination with the Area Centers, as end users, from the planning stage to its implementation.

Area Center X

26. Various projects amounting to P2.453 million not in the APP or supplemental APP were implemented, contrary to Sections 7.1, 7.2 and 7.4, Rule II of the 2016 Revised IRR of R.A. 9184, an a project with estimated project cost of 20 million was not implemented.

- 26.1 The pertinent provision of Section 7, Rule II of the Revised IRR of R.A. 9184 (pursuant to GPPB Resolution Nos. 03-2009 and 13-2016 for procurements before October 28, 2016 and thereafter, respectively) states that:

- a. *All procurement shall be within the approved budget of the Procuring Entity and should be meticulously and judiciously planned by the Procuring Entity.*
- b. *No procurement shall be undertaken unless it is in accordance with the approved APP, **including approved changes thereto**. The APP must be consistent with the duly approved yearly budget of the Procuring Entity and shall bear the approval of the HoPE or second-ranking official designated by the HoPE to act on his behalf.*
- c. *Updating of/**changes to** the individual PPMPs and the consolidated APP may be undertaken every six (6) months or as often as may be required by the HoPE. The respective end-user **or implementing units** of the Procuring Entity shall be responsible for the changes to the PPMPs, while the BAC Secretariat shall be responsible for the consolidation of these PPMPs into an APP, which shall be subject to the approval of the HoPE. (emphasis ours)*

- 26.2 Review of transactions disclosed that repairs and maintenance projects totaling P2,453,340.45 were implemented even though these are not in the Annual Procurement Plan (APP) or supplemental APP contrary to Section 7 of the Revised IRR of R.A. 9184.

- 26.3 On the other hand, verification showed that the project construction of Control Tower amounting to P20 million was not implemented despite being included in the APP.
- 26.4 Management's practice of not closely monitoring its APP led to the implementation of various projects which are neither included in the APP nor supported by supplemental APP. Moreover, due to such practice, a project included in the APP was not implemented, thus depriving the agency of the benefits that can be derived therefrom.
- 26.5 **We recommended that Management:**
- a. **Ensure that all procurements are within the PPMP/APP or supplemental APP; and**
 - b. **Closely monitor all the projects listed in the APP for 100 per cent implementation.**
- 26.6 During the exit conference, Management committed to comply with the audit recommendations. Repairs and Maintenance projects implemented at the Ozamis Airport in CY 2016, which are not in the CY 2016 APP/PPMP, refer to projects included in the CY 2015 APP but were implemented only in CY 2016 since funds pertaining thereto were only released in December 2016.
- 26.7 Delays in the implementation of projects in CY 2016 are due to the following factors:
- a. Overlay project of DOTr delayed the Repainting of runways at Camiguin Airport;
 - b. Construction of Control Tower at Ozamis Airport was delayed because there is still no budget for the lot acquisition for the proposed site of the Control Tower; and
 - c. Budgets for some projects were downloaded only in the last quarter of the year.

Area Center XI

27. Delayed/non-implementation of 11 infrastructure projects with an approved budget for the contract (ABC) of P65.186 million for CY 2016 did not only deprive the employees, riding passengers, general public and the intended users of the benefits to be derived therefrom but also violated Section 2 of Presidential Decree (PD) 1445.

- 27.1 This is a reiteration of prior year's audit observation.
- 27.2 Review of the APP for CY 2016 of CAAP AC XI disclosed a total approved budget of P209,437,300. Of this amount, P66,421,000 was allocated for infrastructure projects. Upon verification of related records and reports, and ocular inspection of various projects located at CAAP AC XI and its satellite airports, it was learned that only P1.235 million representing a measly 1.86 per cent of the approved budget for infrastructure projects was utilized as of December 31, 2016, leaving an unspent balance of P65.186 million.

27.3 Moreover, six (6) infrastructure projects including two (2) GAD projects with a budget allocation of P17 million, set for implementation in the 2nd semester of 2016 for Davao International Airport, have not yet been started as of December 31, 2016. These projects are as follows:

Item No.	Name of Project	Budget
1634	Provision of Halfway House	10,000,000
1635	Provision of Covered Pathway (PTB to Admin. Office)	7,000,000
Total		17,000,000

27.4 In addition to the unimplemented GAD projects, the other four projects assigned to ADMS-HO and ANS-HO which were not implemented are as follows:

No.	Name of Project	Approved Budget for the Contract (Php)
Davao International Airport		
1	Rehabilitation of centralized airconditioning unit	12,000,000.00
2	Rehabilitation of chillers & handling unit	7,586,000.00
3	Construction of waterproofing of selected building	6,500,000.00
4	Rehabilitation of Passenger Conveyance System	15,000,000.00
Total		41,086,000.00

27.5 Moreover, the following five (5) carry-over infrastructure projects funded out of the approved 2015 APP/COB were validated as unimplemented as of December 31, 2016:

No.	Name of Project	Approved Budget for the Contract	Status of Implementation in CY 2016
1	Rehab. of Chillers & Handling Unit (ADMS)	7,586,000.00	Not yet implemented
2	Construction of Pedestrian Walkway (GAD-Davao), ADMS	7,000,000.00	Not yet implemented
3	Construction of 5,000 gal water tank (ADMS-Cotabato)	1,200,000.00	Not yet implemented
4	Genset 200kVA (Cotabato)	1,400,000.00	Awarded to Applied Systems Marketing Corp. on 12/7/2016
5	Construction of Power House (Cotabato)	1,200,000.00	Failure of bidding 3 times
TOTAL		18,386,000.00	

27.6 The unnecessary delay in the implementation of the 11 infrastructure projects was caused by the following factors:

- Absence of approved Program of Work (POW) from the CAAP Head Office for projects over ₱5 Million;
- Failure of bidding thus, re-bidding/procurement process is undertaken all over again like for the project Construction of Power House;
- GAD project on the Provision of Halfway House amounting to ₱10 million was realigned to another project, Sangley Airport Development;
- Projects to be implemented by ADMS and ANS of the Head Office were not properly monitored and coordinated to concerned units; and
- CAAP AC XI does not have enough manpower complement who will assist ADMS in the preparation of all the required documents needed such as plans and drawings, detailed Bill of Quantities (BOQ) and Cost Estimates and other necessary data/information prior to the conduct of public bidding.

27.7 The delayed implementation of the 11 projects with an ABC of ₱65.186 million is not in conformity with Section 2 of PD 1445 which stipulates that:

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

The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

27.8 As a result, the target number of projects to be implemented for the year was not achieved, thereby, posting a low percentage of completion and low utilization of the approved budget. More importantly, the intended users were deprived of availing the benefits to be derived from the use of these targeted projects.

27.9 **We recommended that Management :**

- a. Make representations with the Head Office to fast track the implementation of the priority projects that would improve services of the airports for the benefit of the employees/riding public/general public and their intended users;**
- b. Hire a licensed civil engineer/architect for the Area Center to assist the ADMS in the preparation of the Plans and Drawings, Program of Work and the Detailed Bill of Quantities for infrastructure projects with an ABC of more than ₱5 million in order to expedite the preparation of the documents needed/required for the conduct of the procurement**

process and their timely implementation and, subsequently, act as project-in-charge; and

- c. Require the Bids and Awards Committee together with the Technical Working Group and BAC Secretariat of the respective airports to work hand in hand with Management for the immediate implementation of various projects.**

27.10 CAAP General Santos City (GSC) Management commented that they cannot implement projects if the budget has not yet been downloaded to them. It took some time before the funds reached the implementer. CAAP has a highly Centralized Fiscal Control which is one of the factors that contributed to the delayed implementation of projects.

Auditor's rejoinder:

27.11 It is a prevailing practice that CAAP Head Office will only transfer money if there is already a Notice of Award. Thus, as long as projects are included in the Approved Annual Procurement Plan, the same must be implemented, taking into consideration the timelines of the procurement process under RA 9184. Further, strict observance/compliance to Section 2 of PD No. 1445 must be enforced.

28. Three completed infrastructure projects undertaken by administration amounting to P1,309 million could not be verified properly due to the absence of detailed plans and drawings, and detailed program of work, contrary to Section 7.1, Rule II of the 2016 Revised IRR of R.A. 9184, otherwise known as the "Government Procurement Reform Act".

28.1 Review of the Quarterly Report on the Status of Implementation of Infrastructure Projects of Cotabato Airport for the quarter ending December 31, 2016, disclosed that the following projects were completed and implemented by administration:

Title of Project/Project-in-Charge	Approved Budget for the Contract (ABC)	Actual Project Cost			Date Completed/Remarks
		Materials	Labor	Total	
Improvement of Vehicular Parking Area Project-in-Charge – Alfran C. Seblon	499,058.00	377,310.00	138,450.00	515,760.00	1/8/2016 Utilization exceeds the ABC by P16,702.00
Runway Repainting of Marker Sign Project-in-Charge-Mauricio C. Calubia, Jr.	400,000.00	293,281.75	44,450.00	337,731.75	3/2/2016 Utilization is within the ABC
Repair of Fireshed Building Project-in-Charge- Alfran C. Seblon	500,000.00	394,772.00	60,500.00	455,272.00	8/25/2016 Utilization is within the ABC
TOTAL		1,065,363.75	243,400.00	1,308,763.75	

28.2 All the foregoing projects were validated based on the ocular inspection conducted on November 24, 2016. These projects were included in the 2015 Corporate Operating Budget (COB).

28.3 Further review revealed the following deficiencies:

a. The mode of procurement for the above-mentioned infrastructure projects was not in accordance with the approved APP.

28.4 In the approved APP for CY 2015, the mode of procurement for these projects is through Small Value Procurement. However, these were undertaken by administration without securing approval from the Head of the Procuring Entity in violation of Section 3.1, Appendix 11 of R.A. 9184 on the Guidelines on Implementation of Infrastructure Projects by Administration which clearly stipulates that:

Section 3.1 Projects undertaken by Administration shall be included in the approved Annual Procurement Plan (APP) of the procuring entity concerned. If the original mode of procurement recommended in APP was Public Bidding but cannot be ultimately pursued, or the project to be undertaken by administration has not been previously included, the BAC, through a resolution shall justify and recommend the change in the mode of procurement or the updating of the APP to be approved by the Head of the Procuring Entity.

b. The actual project cost for Improvement of Vehicular Parking Area exceeded by P16,702.00

28.5 As shown in the preceding table, the ABC of the project is P499,058.00 while the actual project cost was P515,760 or an excess of P16,702.00. The excess was charged to the savings from the two (2) other projects for which actual expenditures were lower than the ABC.

c. Non-receipt of the approved Program of Work, Detailed Plans and Drawings from Area Center XI.

(i) For an infrastructure project with an ABC of more than ₱5 million, the detailed engineering activities shall be performed by the CAAP Central Office, otherwise, these shall be performed by the Area Center concerned. The above-mentioned infrastructure projects had an ABC of below ₱5 million. Thus, the detailed engineering activities shall be performed by Area Center XI with the assistance of the satellite airport concerned.

(ii) The approved POW, together with the Bill of Materials and Cost Estimates, and detailed plans and drawings prepared by the ADMS-HO, being the implementing unit, were forwarded to the Area Center. However, the Area Center failed to forward them to the Cotabato Airport to serve as bases in the implementation of the projects. It was only the notice of fund transfer that was given to the Cotabato Airport.

(iii) In order to implement the projects, the Airport hired a skilled laborer who was paid to prepare the POWs. They did not contain other information as to the detailed works to be done, the contract duration and the number of workers to be hired. Likewise, there were no detailed plans and drawings.

(iv) Management hired workers to implement the civil works based on the POW prepared by the skilled laborer.

28.6 The absence of the detailed engineering documents is contrary to the provisions of Sec. 7.1, Rule II of the 2016 Revised IRR of R.A. 9184, otherwise known as the "Government Procurement Reform Act":

RULE II – PROCUREMENT PLANNING

Section 7. PROCUREMENT PLANNING AND BUDGET LINKAGE

7.1 All procurement shall be within the approved budget of the procuring entity and should be meticulously and judiciously planned by the procuring entity.....

d. Absence of subsidiary ledger for each project for recording and monitoring purposes

28.7 We noted that there was no proper recording and accounting of materials received and issued per project by the Supply Officer, hence, accountability for the same and whether these were completely used for the intended project cannot be established.

e. Presence of idle materials worth P72,971.25

28.8 Physical inventory of unused materials from all completed projects as of December 31, 2016 amounting to P72,951.25 remain idle. These appears to be coming from the project Repair of Fire Shed Building.

f. Non-segregation of incompatible functions and lack of expertise

28.9 The Budget Officer was designated as Project in-charge and acted as Disbursing Officer. Budgeting, custody of assets and disbursing functions shall not be assigned to one individual in order to reduce the likelihood that errors will remain undetected. Moreover, as a non-technical personnel, he does not possess the necessary expertise required of a Project in-charge.

28.10 As a result, the implementation of the three (3) infrastructure projects costing ₱1.3 million did not only violate RA 9184 but also raised doubt as to the reasonableness of their cost of labor and materials due to failure of the Area Center to submit copy of the approved Program of Work and Detailed Plans and Drawings.

28.11 We recommended that Management:

- a. Ensure that the implementation of infrastructure projects will be in accordance with the approved APP. Under justifiable circumstances, the use of other mode of procurement shall be approved by the HoPE.**
- b. If practicable, hire a licensed civil engineer for the Area Center to assist the satellite airport like Cotabato Airport or utilize the services of the existing civil engineer to ensure that detailed plans and drawing and detailed program of works are prepared and approved prior the implementation of projects.**
- c. Require the Airport Manager to request from the Area Center copy of the approved POW and detailed plans and drawings for the proper implementation of projects.**
- d. Require the Supply Officer to maintain a ledger card for each project to ensure the proper recording of receipt and usage of materials and serve as basis for reporting, monitoring and evaluation purposes.**
- e. Avoid assigning a Project In-charge that lacks technical expertise and who will have incompatible functions of allocation and disbursement of funds and custody of materials for sound internal control.**

28.12 Management's comments:

- The projects were included in the APP for CY 2015 and falls under Small Value Shopping mode of procurement since the cost of each project is not more than P500,000.00 and funds was forwarded/transferred only on January 26, 2016. The projects were posted on PhilGEPS as required under RA 9184, but no bidders signified their bids, thus the BAC issued Request for Quotation (RFQ).
- The implementation of the said projects were undertaken by administration since no bidders signified interest to undertake the project. Also, we did not change the procurement mode of said projects.
- The actual project cost for the Improvement of Vehicular Parking exceeded the ABC by P16,702.00 because we failed to monitor the labor expenses. Our Accounting Department will henceforth prepare a ledger for every project purposely to monitor the actual expenses.

Auditor's rejoinder:

28.13 Although there were no changes on the mode of procurement for the acquisition of materials, for the labor it was done by Administration without a BAC Resolution recommending approval by the HoPE.