

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. The balance of Property and Equipment (PE) account amounting to P80.337 billion is doubtful due to: a) non-conduct of physical count and/or non-submission of report on the physical count of PE costing P28.648 billion; b) unreconciled variance between the balances of accounting and property records in Head Office and Area Center IV amounting to P5.320 billion; c) non-maintenance of PPE Ledger Cards and Property Cards; d) erroneous recording of some transactions to PE account amounting to P18.937 million; e) non-capitalization of major repairs of P1.496 million and other unrecorded PE in AC XII; and f) non-derecognition of unserviceable PE with a net book value of P7.552 million.

1.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 requires the fair presentation of the financial statements.

1.2 Moreover, the Philippine Financial Reporting Standards (PFRS) provides for the following qualitative characteristics of useful information:

QC2 *“Financial reports provide information about the reporting entity’s economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims.”*

QC21 *“Comparability enables users to identify and understand similarities in, and differences among items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.”*

QC26 *“Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.”*

1.3 Analysis of the PE account disclosed the following observations:

- a. ***Non-conduct of physical count and/or non-submission of Report on the Physical Count of Property, Plant and Equipment (RPCPPE) in four Area Centers resulting in doubtful balance of the account – P28.648 billion***

1.4 Physical inventory taking as provided in COA Circular No. 80-124 is an indispensable procedure for checking the integrity of the property custodianship, hence, has to be regularly enforced and a corresponding report shall be submitted to the Auditor not later than January 31 of each year unless extended by the Chairman upon prior request of the head of agency concerned. Moreover, all inventory reports shall be reconciled with accounting records.

- 1.5 Audit disclosed that the four Area Centers of CAAP were not able to conduct physical count and/or submit the RPCPPE which precluded the Auditor from establishing or ascertaining the accuracy of the PE balances in the books.

Table 1. Area Centers without RPCPPE			
Location	PE balance per Books as of December 31, 2020		
AC V	P	3,681,275,374	
AC VI		16,316,847,421	
AC IX		6,246,207,535	
AC XII		2,403,998,784	
TOTAL	P	28,648,329,114	

b. Unreconciled variance between accounting and property records - P5.320 billion

- 1.6 In CAAP-HO and AC IV, the corresponding RPCPPE were submitted, however, balances per books/GL do not tally with the balances per RPCPPE:

Table 2. Comparison between GL and RPCPPE				
Location	Total PE			Variance
	per GL	per RPCPPE		
Head Office	P 2,269,805,362	P 7,577,661,545		P 5,307,856,183
AC IV	4,487,266,968	4,499,139,851		11,872,883
TOTAL	P 6,757,072,330	P 12,076,801,396		P 5,319,729,066

- 1.7 Some of the causes of the variance between the GL and the RPCPPE are:
- Different costing used by the Accounting Division and Supply Division beginning CY 2019. Accounting Division (GL) records the cost of the PE net of input Tax, while the Supply Division (RPCPPE) records the same based on gross amount - VAT included;
 - Cost of repair of aircraft in CY 2010 amounting to P87.210 million was recognized in the books but not in the RPCPPE;
 - Some equipment that were delivered/transferred to various ACs were still included in the RPCPPE of CAAP-HO;
 - Some items recorded in the RPCPPE were not reflected in the books;
 - Misclassification of accounts used and erroneous computations; and
 - Tangible items costing below the capitalization threshold of P15,000 were recorded or classified as PE.

c. Non-maintenance of Property, Plant, and Equipment Ledger Cards (PPELC) and Property Card (PC)

- 1.8 Section 114 of Presidential Decree No. 1445 provides that “The government accounting system shall be on a double entry basis with a general ledger in

which all financial transactions are recorded. Subsidiary records shall be kept where necessary.”

- 1.9 Thus, Accounting Units are required to maintain PPELC which shall contain the details of the General Ledger accounts. For check and balance, the Property and Supply Office/unit shall maintain PC and the balance per PC should always reconcile with the ledger card of the Accounting Unit. The maintenance of PPELC and PC are required to facilitate the reconciliation between the accounting and property records.
- 1.10 The reconciliation of inventory and accounting records cannot be done due to the continuous non-maintenance by the Accounting Divisions/units and Supply Offices of CAAP of PPELC and PCs, or if maintained, were not prepared in the prescribed form, not updated, and lacked the necessary information needed for the application of alternative audit procedures.

d. Transactions in HO erroneously recorded under PE accounts –P18.937 million

- 1.11 The Accounting Division in CAAP-HO committed error in recording some transactions resulting in the overstatement of the PE account and misstatements of other affected accounts:

Table 3. Misstatements in PE accounts

Particulars	Amount	Remarks
15 per cent advance payment as per sales Inv#0059523 dated 8/4/2020	P 13,042,082	Should be recorded as <i>Advances to Contractors</i> instead of <i>Airport Equipment</i> account
Payment of sales inv. no 3258 for the supply, delivery, and installation of radio repeaters for CSIS	390,168	Double Recording, affecting <i>Communication Equipment</i> account
Purchase of Thermal Paper roll and Easy tab Mouthpiece	25,448	Does not meet the capitalization threshold of P15,000. Should be recorded as <i>Medical, Dental and Laboratory Supplies Expenses</i> instead of <i>Medical Equipment</i> account
Cost of repair of transportation equipment erroneously charged to Disaster Response and Rescue Equipment	90,000	Should be <i>Repairs and Maintenance - Transportation Equipment</i> instead of <i>Disaster Response and Rescue Equipment</i> account
Purchase of the Instrument Flight Rule (IFR) Procedure Design Software	5,388,860	Recorded under <i>Information and Communication Equipment</i> , should be reclassified to <i>Computer Software</i> account (<i>Intangible asset</i>)
TOTAL	P 18,936,558	

e. Non-capitalization of major repairs of P1.496 million and other unrecorded PE

- 1.12 In AC XII, two major repairs/improvements totaling P1.496 million were not capitalized or reclassified to the respective PE account.

Table 4. Summary of capitalizable repairs	
Description	Amount
Provision of new electrical installation at the Passenger Terminal Building of Bislig Airport	P 996,353
Repair and maintenance of Hino Firetruck at Tandag Airport	500,000
TOTAL	P 1,496,353

- 1.13 Also, the repair of the Siargao Airport Extension project and the donated 28 K9 dogs with undetermined amounts were not recorded in the books due to insufficiency of documents.

f. Non-derecognition of unserviceable PE in HO with net book value of P7.552 million

- 1.14 Paragraph 67 of PAS 16 provides that the carrying amount of an item or property, plant, and equipment shall be derecognized: a) on disposal; or b) when no future economic benefits are expected from its use or disposal.
- 1.15 As of year-end, various unserviceable properties amounting to P99.897 million with net book value of P7.552 million have not been derecognized in the books. These were also not reflected in the Inventory and Inspection Report of Unserviceable Property (IIRUP).
- 1.16 This issue was already raised in the previous audit report but has remained unacted. The continuous non-derecognition of the unserviceable properties overstate the PE account balance.
- 1.17 **We recommended and Management agreed to instruct the:**
- a. **Respective Supply Divisions/inventory Committees to conduct a complete physical count of PE and submit to the Auditor, the RPCPPE pursuant to COA Circular No. 80-124 dated January 18, 1980. In conducting the physical count, the provisions of COA Circular 2020-006 for the one time cleansing of PE account balances should be considered;**
 - b. **Accounting Division and Supply Division of CAAP-HO and AC IV, to reconcile their receipts and issuances of property/ies, determine the cause of the variances, and effect the proper adjustments/corrections;**

- c. **Accounting Division/units and Supply Office of CAAP-HO and ACs to maintain updated/complete PPELCs and PCs, and to regularly reconcile their records;**
- d. **Accounting Division of CAAP-HO to make the necessary adjusting entries for the erroneously recorded transactions of P18.937 million;**
- e. **Accounting Unit of AC XII to prepare the necessary adjusting entry to capitalize the major repairs of P1.496 million and to exert efforts to obtain the records and documents on the repair of the Siargao Airport extension and the donation of K9 dogs, and expedite its appraisal, and recording in the books; and**
- f. **Supply Officer of CAAP-HO to report all the unserviceable properties in the IIRUP and initiate its proper disposal. Likewise, direct the Accounting Division to prepare the necessary adjusting entries to derecognize the unserviceable properties from the books of accounts.**

1.18 Management commented that:

- a. For CAAP-HO, the Accounting Division has started reconciling their records with Supply Division parallel to the maintenance of PPELC and PC. Also, the advance payment of P13.042 million which was erroneously recorded to PE account has already been adjusted under JEV No. F-21-01-052 dated January 31, 2021.
- b. For AC IV, Management committed to comply with the recommendations and has already started the reconciliation of the accounting records and RPCPPE.

- 2. **The balance of Accounts Receivable amounting to P4.700 billion is unreliable due to: a) variance of P1.688 billion between the balances per General Ledger (GL) and Subsidiary Ledger (SL); b) existence of past due accounts aged more than one year totaling P4.484 billion; c) unbilled Air Navigation Charges (ANCs) for transient/non-scheduled flights amounting to P20.184 million; d) discrepancies and over/under billing of ANCs for scheduled flights with net overstatement of P19.939 million; e) variance of P138.062 million between the SL balances and the amount confirmed by the 11 airline companies; f) unsupported prior years' adjustment amounting to P4.056 million; and g) negative balance of P1.953 million due to erroneous recording of advance/overpayments.**

2.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 states that:

“xxx. 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. xxx”

2.2 Also, Title III, Chapter 2, Section 111 of Presidential Decree (PD) No. 1445 – General Ledger provides that:

Section 111. Keeping of accounts

(1) “The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.”

(2) “The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.”

2.3 The *Accounts Receivable* balance of P4.700 billion pertains to the amount due from airline companies and CAAP’s tenants/concessionaires for fees and charges consisting of Air Navigational Charges (ANC), landing and take-off fees, parking fees, rental income from concessionaires, and similar others. ANCs are imposed on airline companies for the use of communication facilities owned by CAAP. The ANC, being the primary source of revenue of the Authority covers a huge portion of the receivable balance.

2.4 Analysis of the accounts disclosed the following:

a. Variance of P1.688 billion between the balance per GL and SL

2.5 Comparison of the General Ledger (GL) and Subsidiary Ledger (SL) balances of CAAP-Head Office (HO) and Area Centers (ACs) disclosed a total variance of P1.688 billion, to wit:

Table 5. Comparison between GL and SL of Accounts Receivables

Location		per GL		per SL	Variance
CAAP-HO	P	2,389,350,617	P	3,900,288,857	P 1,510,938,240
AC I		35,257,025		41,399,941	6,142,916
AC II		35,895,322		38,464,348	2,569,026
AC III		80,855,636		84,019,524	3,163,888
AC IV		133,924,280		134,136,361	212,081
AC V		39,733,369		39,733,369	0
AC VI		857,010,017		858,644,167	1,634,150
AC VII		227,042,870		244,147,432	17,104,562

Location	per GL	per SL	Variance
AC VIII	158,051,687	178,874,400	20,822,713
AC IX	134,855,993	147,191,064	12,335,071
AC X	146,432,439	220,841,258	74,408,819
AC XI	403,055,896	441,631,558	38,575,662
AC XII	58,302,065	58,302,065	0
Total	P 4,699,767,216	P 6,387,674,344	P 1,687,907,128

- 2.6 Audit disclosed that one of the main causes of the variance in CAAP-HO is the payments made by the international and/or foreign-based airline companies through telegraphic/bank transfers which were already recorded in the GL but not in their respective SLs. Accounting Division has yet to identify the airline companies who made the fund transfers and/or which corresponding billings are settled. Said office did not require the airline companies to submit a Remittance Advice or any equivalent document as a reference of payment. Hence, individual SLs were not timely updated resulting in substantial discrepancy with the GL balance. Management likewise attributed the variance to the improper turn-over to CAAP of the Air Transportation Office (ATO) accounts and supporting documents, or lack thereof.

b. Past due accounts aged more than one year totaling P4.484 billion or 70 per cent of the total receivable (SL) balance

- 2.7 Paragraph 66 of PAS 1, Presentation of Financial Statements, provides that:

“An entity shall classify an asset as current when:

- (a) It expects to realize the asset or intends to sell or consume it, in its normal operating cycle;*
- (b) It holds the asset primarily for trading;*
- (c) It expects to realize the asset within twelve months after the reporting period; xxx”*

- 2.8 Schedule on Aging of Accounts Receivable as of December 31, 2020, is summarized below:

Table 6. Aging of Accounts Receivables						
Location	Total SL Balance	CURRENT Less than 1 year	Past Due			Total Past Due
			Over 1 year to 3 years and onwards	ATO	Uncollected PAL accounts	
CAAP-HO	P3,900,288,857	P1,443,442,546	P1,017,712,715	P156,248,966	P1,282,884,630	P2,456,846,311
AC I	41,399,941	10,157,323	18,808,046	12,434,572	0	31,242,618
AC II	38,464,348	7,862,494	29,546,264	1,055,590	0	30,601,854
AC III	84,019,524	20,254,260	44,020,427	19,744,837	0	63,765,264
AC IV	134,136,361	41,429,811	91,969,120	737,430	0	92,706,550
AC V	39,733,369	6,911,615	27,330,578	5,491,176	0	32,821,754
AC VI	858,644,167	104,240,507	747,927,846	6,475,814	0	754,403,660
AC VII	244,147,432	61,652,393	161,293,153	21,201,886	0	182,495,039
AC VIII	178,874,400	24,080,947	154,793,453	0	0	154,793,453

Location	Total SL Balance	CURRENT Less than 1 year	Past Due			Total Past Due
			Over 1 year to 3 years and onwards	ATO	Uncollected PAL accounts	
AC IX	154,107,379	17,370,352	129,820,712	*6,916,315	0	136,737,027
AC X	220,841,258	50,999,107	151,702,847	18,139,304	0	169,842,151
AC XI	441,631,558	110,777,630	279,069,075	51,784,853	0	330,853,928
AC XII	58,302,065	11,693,337	6,637,368	0	39,971,360	46,608,728
TOTAL	P6,394,590,659	P1,910,872,322	P2,860,631,604	P300,230,743	P1,322,855,990	P4,483,718,337
Percentage	100%	30%	45%	5%	20%	70%

*ATO accounts of AC IX amounting to P6.916 million were recorded as Other Non-Current Assets in the Financial Statements. Total SL Balance exclusive of this amount is P6.388 billion as presented in Table 5

- 2.9 The past due account of Philippine Airlines (PAL) in CAAP-HO amounting to P1.283 billion is the difference between the total unpaid fees and charges covering the period CY 1977 to CY 2017 and the amount paid by the said airline company, to wit:

Table 7. Uncollected PAL accounts in CAAP-HO	
Particulars	Amount
Total unpaid fees and charges of PAL per CAAP records (CY 1977- CY 2017)	P 6,960,772,245
Less: Payment of PAL on 11/13/2017	(5,677,887,615)
Balance/Difference	P 1,282,884,630

- 2.10 Per accounting records, PAL has unpaid fees and charges totaling P6.961 billion from CY 1977 to CY 2017. In its letter dated October 6, 2017, PAL offered the payment of P6 billion as full and final settlement of its accounts to MIAA and CAAP, without the need for any further reconciliation and resubmission of additional documents. The proposal was concurred and accepted both by MIAA and CAAP. Based on the Official Receipt issued on November 13, 2017, the payment of PAL to CAAP was only at P5.678 billion, hence, a difference of P1.283 billion.
- 2.11 Moreover, the past due accounts of AC XII amounting to P39.971 million were also due from PAL. However, the same was not duly transferred to the books of the CAAP-HO at the time of the consolidation of all the unpaid fees and charges of the said airline company.
- 2.12 Guidance was also sought on how to derecognize or write-off the said uncollected/unaccounted balances due from PAL. Management was previously advised to prepare and submit a request for condonation to Congress through the Commission on Audit (COA). Management was also instructed to conduct a thorough review and reconciliation of the PAL's accounts and to prepare the proper documents in support of the request. However, as of year-end, no such request for condonation has been prepared/submitted by CAAP.

2.13 The Accounting Division had already recognized the full impairment of the uncollected/unaccounted PAL accounts as well as the ATO balances.

2.14 Management further claimed that some of the past due accounts are from airline companies that were no longer in operation, thus, the probability of collection was uncertain.

c. Unbilled ANCs for transient/non-scheduled flights amounting to P20.184 million resulting in understatement of Accounts Receivable by the same amount

2.15 As of December 31, 2020, unbilled ANCs for transient/non-scheduled international flights accumulated to P20.184 million, with breakdown as follows:

Table 8. Unbilled ANCs for Transient/Non-Scheduled International flights	
Year	Amount
2019	P 2,728,390
2020	17,455,244
Total	P 20,183,634

2.16 ANCs are imposed to airline companies for the use of communication facilities owned by CAAP in conformity with CAAP Circular No. 03-11 series of 2011 dated April 11, 2011.

2.17 Section 2, Part III of CAAP Circular No. 03-11 provides for the formula for the computation of Operational Charges for the Overflight and Domestic Commercial and Domestic General Aviation Flights, as follows:

Section 2 Overflight

“A charge in U.S. Dollar or its peso equivalent at the time of payment based on the derived formula for calculating Air Navigational Charges (ANC) which is equal to the distance (D) flown by an aircraft in kilometer divide by 100 (hundred) and multiplied by its weight factor (W).”

$$ANC (US \$) = D/100 \times W$$

2.18 Billing and collection process of Air Navigation Charges (ANCs) for transient/non-scheduled flights is different from the scheduled flights. As provided in CAAP Circular No. 03-11, the ANCs for transient/non-scheduled flights shall be payable upon filing of the flight plan and issuance of the Operational Flight Permit (OFP). While for the scheduled/regular flights, the ANCs shall be payable within 10 working days upon receipt of the bill from CAAP.

- 2.19 Part of the process on the application of OFP for transient/non-scheduled flights are the issuances of an Order of Payment Slip (OPS) and accounting clearance for the advance payment of the ANC. These documents likewise serve as a cross-reference of the Billing Section for the flight details of the airline companies/operators and being compared to the Flight Statistics Report (FSR), generated from the data captured by the system of CAAP under Communication, Navigation and Surveillance – Air Traffic Management (CNS-ATM).
- 2.20 However, since the start of the COVID-19 pandemic/lockdown, the regular processes for issuance of the OPS and accounting clearances were temporarily suspended. OFPs were continuously issued even without the OPS and/or accounting clearance for the advance payment of ANCs of transient/non-scheduled flights.
- 2.21 Further, the Flight Operations Division (FOD) which is in charge of the issuance of OFP did not likewise provide the Accounting Division/Billing Section with the list of airline companies/operators and/or handlers who were issued OFPs, hence, the corresponding ANCs were not billed and recorded in the books.
- 2.22 Similarly, the unbilled ANCs prior to the pandemic pertain to OFPs issued after office hours, holidays and/or weekends, where no OPS and/or accounting clearance for the advance payment of ANCs has been processed and the Accounting Division/Billing Section had not been provided with the necessary data to record and bill the same.
- 2.23 The unbilled ANCs for transient/non-scheduled international flights amounting to P20.184 million as of December 31, 2020 resulted in the understatement of *Accounts Receivable* balance by the same amount.

d. Discrepancies and over/under billings of ANCs for scheduled flights with net overstatement of P19.939 million

- 2.24 Detailed review of the issued Billing Statements, Abstract of Bills Rendered, Journal Entry Vouchers and other related reports revealed that the Accounting Division/Billing Section had committed multiple errors in the computation and posting of the amounts resulting in the net overstatement of the recorded ANC by P19.939 million, with details as follow:

Table 9. Summary of Discrepancies and Over/Under Billings of ANCs for Scheduled International flights									
2020	ANC per Abstract of Bills A		ANC per Billing Statements B		ANC per audit C	Discrepancies D (A-B)	Over/Under billing E (B-C)	Net Effect (D+E) or (A-C)	
Jan.	P	546,922,268	P	547,960,177	P	548,618,855	P (1,037,909)	P (658,678)	P (1,696,587)
Feb.		368,075,712		368,075,662		368,075,662	50	0	50
Mar.		224,066,264		224,057,020		224,072,708	9,244	(15,688)	(6,444)
April		94,086,568		94,086,568		94,106,981	0	(20,413)	(20,413)
May		141,503,663		113,182,126		113,182,126	28,321,537	0	28,321,537
June		105,182,374		111,322,944		111,362,426	(6,140,570)	(39,482)	(6,180,052)
July		120,440,823		120,440,741		120,442,173	82	(1,432)	(1,350)

2020	ANC per Abstract of Bills A	ANC per Billing Statements B	ANC per audit C	Discrepancies D (A-B)	Over/Under billing E (B-C)	Net Effect (D+E) or (A-C)
Aug.	135,415,644	136,104,250	136,104,250	(688,606)	0	(688,606)
Sept.	132,660,381	132,659,899	132,223,400	482	436,499	436,981
Oct.	146,409,629	146,899,275	146,899,275	(489,646)	0	(489,646)
Nov.	147,229,169	147,233,993	147,269,324	(4,824)	(35,331)	(40,155)
Dec.	162,072,193	162,072,193	161,768,986	0	303,207	303,207
Total	P 2,324,064,688	P 2,304,094,848	P 2,304,126,166	P 19,969,840	P (31,318)	P 19,938,522

e. Variance of P138.062 million between the Subsidiary Ledger (SL) balances and the amounts confirmed by eleven (11) airline companies

2.25 QC4 and QC29 of the Conceptual Framework of the Philippine Financial Reporting Standards state that:

QC4 – “If the financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of the financial information is enhanced if it is comparable, verifiable, timely, and understandable.”

QC29 – “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.”

2.26 Confirmation letters were sent out to 87 selected debtors in CAAP-HO and the results are summarized below:

Table 10. Results of Confirmation		
Particulars	No. of Debtors	Amount per Books
Confirmed a different balance	11	P 340,954,649
Returned by Post Office (marked as “moved-out”, “unknown”, “closed” and “no one to receive”)	18	569,629,310
No replies	58	1,550,106,058
Total	87	P 2,460,690,017

2.27 Comparison of the SL balances and results of confirmation of eleven (11) airline companies showed a total discrepancy of P138.062 million, to wit:

Table 11. Variance between SL balances and Results of Confirmation					
Name of Debtor		Per SL	Per Confirmation	Variance	
All Nippon Airways Co. Ltd.	P	34,087,290	P 27,659,576	P 6,427,714	
Beijing Capital Airlines		5,622,084	2,588,475	3,033,609	
China Airlines		132,615,320	68,600,125	64,015,195	
Korean Airlines		95,432,699	67,690,171	27,742,528	
Kuwait Airways		497,878	0	497,878	
Japan Airlines		37,254,983	30,969,433	6,285,550	

Name of Debtor	Per SL	Per Confirmation	Variance
Saudi Arabian Airlines	11,925,577	2,822,398	9,103,179
Oman Airlines	7,213,660	0	7,213,660
Turkish Airlines	12,453,980	2,562,112	9,891,868
Mactan-Cebu International	2,575,000	0	2,575,000
Ethiopian Airlines	1,276,178	0	1,276,178
Total	P 340,954,649	P 202,892,290	P 138,062,359

- 2.28 The difference of the amounts between the SL and the confirmed balances can be primarily attributed to the payments made thru telegraphic/bank transfers. As discussed in Observation No. 2.6 of this report, payments from international and/or foreign-based airline companies are not timely recorded/posted in the respective SLs until such time that the payor and billing statement corresponding to the said payment had been identified.
- 2.29 It was also noted that some of the confirmed balances pertain only to records of the airlines' present ground handlers. As the ground handlers of international airline companies frequently change, the unreconciled balances from clients' previous ground handlers remained outstanding and accumulate over time, hence, generating a substantial amount of variance upon confirmation.
- 2.30 Moreover, the SLs maintained by the Accounting Division in CAAP-HO (Head Office) and Area Center (AC) XI did not contain and/or had an incomplete record of the airline companies' specific legal addresses and/or local operators'/handlers' contact information precluding the confirmation of the balances.

f. Unsupported prior years' adjustment amounting to P4.056 million

- 2.31 In AC V, an adjustment of P4.056 million was made to the receivable account reducing the balance. The adjustment was neither reflected in the corresponding SLs nor was it supported with documents that would establish the validity of the deduction made. The same was merely presented as a deduction in the Aging Schedule. The adjustment had been existing since CY 2012.
- 2.32 The lack of sufficient documentation on the adjustment made casts doubt on its validity.
- 2.33 AC V commented during the Exit Conference that the negative balance of P4.056 million pertains to the absorption of Air Transportation Office (ATO) accounts by CAAP wherein the said amount was considered as a collection but the particular accounts involved and corresponding SLs has yet to be ascertained/identified, hence the same was merely presented as deduction in their Aging Report.

g. Negative balance of P1.953 million due to erroneous recording of over/advance payments

2.34 In AC V & VI, total negative/abnormal balances amounting to P182,020 and P1.771 million respectively were noted, representing overpayments and/or advance payments received from their clients.

2.35 The advance payments should have been recorded under the Other Unearned Income account instead of the *Accounts Receivable*.

2.36 **We recommended and Management agreed to instruct:**

1. The Chief Accountant and/or AC Accountants:

- a. To analyze the variances between the GL and the SL balances and prepare the necessary adjusting entries;
- b. To send demand letters and/or Statement of Accounts (SOA) to all the clients with unpaid balances; and thereafter, initiate the regular issuance of SOA at least every quarter, in addition to the monthly billing statements for periodic reconciliation of records;
- c. To require client's submission of Remittance Advice for every payment made via telegraphic/bank transfer and compel them to specify the corresponding reference billing statements that have been paid/settled;
- d. To continue the reconciliation/documentation of the P1.323 billion PAL accounts to facilitate the filing of the request for condonation should Management pursue its request;
- e. To reconcile the variances between accounting records and confirmation replies and coordinate with both the client's current and previous local ground handlers/airline operators;
- f. To regularly update client's SL and indicate the latest and specific airline legal addresses and/or the local operator's/handler's contact information;

2. The Flight Standards Inspectorate Service (FSIS):

- g. To submit to the Accounting Division/Billing Section the necessary data to identify the respective operators/ground handlers of the airline companies from the list of unbilled flights to which the Operational Flight Permits (OFPs) for CYs 2019 and 2020 have been duly issued;

- h. To regularly submit a monthly summary report to serve as additional reference in the preparation of billing statements for the current and succeeding year's issuance of OFPs;**

3. The Accounting Division and/or Billing Section:

- i. To immediately act on the data to be provided by the FSIS; expedite the preparation and sending out of the billing statements to the concerned airline companies for the unbilled flights amounting to P20.184 million;**
- j. To prepare the necessary adjusting entries for the discrepancies and over/under billings of Air Navigational Charges (ANCs) with net overstatement of P19.939 million;**
- k. To assign additional personnel to tediously review and recheck the accuracy of data in the billing statements in order to avoid the recurrence of errors;**

4. The Area Center (AC) Accountant of AC V to locate/trace the Journal Entry Voucher/s and the supporting documents on the adjustment/deduction made from the Accounts Receivable (AR) amounting to P4.056 million otherwise, restore the said amount to AR, if the adjustment cannot be documented; and

5. The Area Center Accountants of AC V & VI to analyze the abnormal/negative balances and prepare the appropriate adjusting entries.

2.37 Management commented that the Accounting Division (i) will conduct reconciliation of the balances between the GL and SL parallel to the reconciliation of accounts with the respective airline companies; (ii) will issue Statement of Account (SOA) every quarter vis-à-vis to require their clients to notify/advise the Authority of the payments made thru telegraphic transfers; (iii) prepare an adjusting entry for the errors amounting P19.939 million; and, (iv) establish additional controls throughout the process by having multiple verification stages to ensure the accuracy of the ANC data recorded in the books.

2.38 Likewise, the Internal Audit Service (IAS) committed to take the lead in coordination with the Enforcement and Legal Service (ELS) and other concerned CAAP Offices regarding the preparation of the request for condonation of uncollected/unaccounted PAL accounts.

2.39 During the Exit Conference, the Chief Accountant further commented that they will be closely coordinating with the FSIS regarding the updated list of

addresses of the airline companies to be used primarily in issuing the billing statements. In addition, FSIS gave an assurance that they will conform and comply with the stated recommendations.

3. **The balance of Construction in Progress (CIP) account of P1.630 billion is overstated by P504.928 million covering the cost of the 24 completed projects recorded in CAAP-HO books which were not reclassified to its respective Property and Equipment account. Moreover, the validity, accuracy, and valuation of the CIP balance of P26.372 million in AC IX could not be ascertained due to inadequate accounting records to validate ongoing and completed projects.**

- 3.1 PAS 16 states that:

“Items of property, plant, and equipment should be recognized as assets when:

- a) it is probable that the future economic benefits associated with the asset will flow to the entity, and*
- b) the cost of the asset can be measured reliably.”*

- 3.2 In addition, paragraph 6.2 of Annex “E” of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 states that *“The total “retention money” shall be due for release upon final acceptance of the works. Xxx.”*

- 3.3 *Construction in Progress (CIP)* account is used to record the accumulated cost or other appropriate value of a property/equipment which are still in process of acquisition, construction or, completion.

- 3.4 As of December 31, 2020, the balance of the CIP account of the Authority is P1.630 billion, of which P1.514 billion is for CAAP-HO while P115.299 million are the balances of the 12 Area Centers.

- a. 24 Completed projects in CAAP-HO books amounting to P504.928 million were not reclassified from CIP to its respective PE account.**

- 3.5 Audit of the Disbursement Vouchers (DVs) and the related reports and schedules in CAAP-HO revealed that there were 24 completed projects from CY 2016 to CY 2020 with a total contract cost of P504.928 million which were not reclassified to the respective PE account. Most of these projects are located in the Area Centers/regions but were bidded or procured at the CAAP-HO. The non-reclassification of the CIP to PE accounts resulted in the understatement of *Depreciation Expense* and *Accumulated Depreciation* amounting to P43.955 million and P116.731 million, respectively, and

overstatement of CIP and *Retained Earnings* accounts by P504.928 million and P72.776 million, respectively.

Table 12. Summary of 24 Completed Projects that were not yet reclassified to PE accounts

Project		Contract Amount	Date Completed
A. Completed projects with paid retention money/with Certificate of Final Acceptance			
Resurfacing/rehabilitation of damaged portion of runway at Butuan Airport	P	19,500,334	March-16
Development of Passenger Terminal Building at Camiguin Airport		31,722,586	February-17
Waterproofing of selected buildings at Davao International Airport		25,037,415	June-17
Rehabilitation of AFC Bldg. including Control Tower & other works at Mactan Airport		10,683,110	October-17
Repair of eroded riprap at Bacolod-Silay Airport		4,735,180	December-17
Continuation of asphalt overlay of taxiway & upgrading of runway and taxiway shoulders at Plaridel Airport		8,675,640	March-18
Rehabilitation of Passenger Terminal Building at Virac Airport		4,500,000	April-18
Improvement of Passenger Terminal Building at Tacloban Airport		18,382,197	April-18
Asphalt overlay of runway project at Sangley Airport		29,279,478	May-18
Rehabilitation of Virac Airport		39,453,025	May-18
Completion of CHB perimeter fence at Zamboanga International Airport		4,717,722	June-18
Development of Borongan Airport		20,863,295	July-18
Development of Virac Airport		157,224,756	August-18
Civil Aviation Training Center (CATC) Covered Parking Project		6,807,875	March-19
Subtotal	P	381,582,613	
B. Completed projects awaiting final acceptance/with Certificate of Initial Acceptance			
Improvement of Manila Transmitter	P	7,767,889	June-16
Rehabilitation of powerhouse and other works at Manila Transmitter Facility		6,783,412	September-16
CAAP Compound Beautification Project		5,137,442	December-16
Improvement of PTB at Tacloban Airport		18,382,197	April-18
Development project in Borongan Airport		20,126,316	July-18
Completion of Concreting of Runway project in Marinduque Airport		12,750,430	November-18

Project	Contract Amount	Date Completed
Construction of Admin Building at Tandag Airport	4,890,642	January-19
Construction of Admin Building at Ormoc Airport	4,945,227	October-19
Development of Drainage System at Pagadian Airport	6,224,461	December-19
Subtotal - Due for issuance of Certificate of Final Acceptance	87,008,016	
Asphalt Overlay of Runway at Lingayen Airport	36,337,724	August-20
Subtotal	P 123,345,740	
TOTAL- At Contract Amount	P 504,928,353	

- 3.6 The CAAP-HO Accountant explained that the delay in the reclassification is due to the Authority's practice of reclassifying completed projects only upon the availability/issuance of the Certificate of Final Acceptance (CFA). The CFA is issued after a year from the completion date of the project or at the end of the defects liability period, for which the contractor may request for the release of the retention payment.
- 3.7 In CY 2019 audit, the accountant suggested that reclassification of completed projects from CIP to PE be allowed immediately upon completion of projects since the two criteria for initial recognition under PAS 16 are met. The Audit Team agreed on the condition that there is sufficient documentation and the Certificate of Project Completion (CPC), Inspection and Acceptance Report (IAR) and Certificate of Initial Acceptance (CIA) are available. The CPC, IAR, and CIA are issued by the Aerodrome Development and Management Services (ADMS) and are approved by the Director General. These documents are attachments to the full/final billing of the contractor except for the required retention fee.
- 3.8 However, as of year-end, despite the availability of the CPC, IAR, and CIA, the Accountant has not reclassified the 24 projects resulting in the overstatement of the CIP balance by P504.928 million.
- 3.9 It can also be noted from the table that there were nine projects which were not yet issued with a Certificate of Final Acceptance despite the lapse of one year from the completion date or defect liability period.

b. Inadequate accounting records of CIP account in AC IX with a balance of P26.372 million

- 3.10 As of December 31, 2020, the CIP account in AC IX has a balance of P26.372 million. However, the balances per accounting records have not been

reconciled with the Project Monitoring Reports (PMR) to determine which projects recorded under the CIP accounts have already been completed.

- 3.11 The report submitted by the Accounting Unit as of year-end is lacking in material substance, with the following deficiencies noted in the report: a) the balance carried over as of CY 2013 amounting to P8.034 million did not have a breakdown, and b) some projects included in the CIP which were implemented during CY 2015-2017 lack complete details and have negative ending balances. Moreover, the Accounting Unit does not maintain subsidiary ledgers by project name to facilitate reconciliation with the PMR prepared by the Airport Maintenance Section (AMS). Thus, the validity, accuracy, classification, and valuation of the balances were doubtful.

- 3.12 **We recommended and Management agreed to direct the:**

- a. **CAAP-HO Chief Accountant to prepare the adjusting entries for the reclassification of the 24 completed projects amounting to P504.928 million, including the provision for depreciation expense and other affected accounts;**
- b. **ADMS to facilitate the issuance of the Certificate of Final Acceptance for the nine completed projects with cost totaling P87.008 million; and**
- c. **AC IX Accounting unit to locate pertinent records to support prior years' CIP accounts and closely monitor the account thru the maintenance of updated subsidiary ledgers and other accounting records.**

- 3.13 Management commented that:

- a. The Accounting Division had already reclassified completed projects totaling P295.936 million per JEV Nos. F-21-01-39 to F-21-01-50 dated January 31, 2021;
- b. The ADMS was not able to conduct the final inspection on the 2019 completed projects due to the pandemic and/or enforcement of the community quarantine but will nonetheless expedite the conduct of the final inspection of the projects; and
- c. AC IX had already made necessary adjustments as recommended and has committed to coordinate with the AMS about the projects reported as completed in the PMR for purposes of recording in the books and improve the recording of details in the subsidiary ledgers.

4. The existence of Inventories totaling P116.045 million and the accuracy and reliability of the balance cannot be ascertained due to: a) the variance between accounting and property records amounting to P42.758 million; b) the non-maintenance of Supplies Ledger Cards (SLC) and Stock Cards (SC); and c) various accounting errors and misstatements.

4.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 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 application of PFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.”

4.2 Analysis of the Inventories account disclosed the following observations:

a. Variance between accounting and property records – P42.758 million

- 4.3 Section 10.1.6 of the Internal Control Standards for the Philippine Public Sector (ICSPPS) provides that the financial records should be reconciled with appropriate documents on a regular basis, as part of the agency’s control activities.
- 4.4 Comparison of the recorded balances in the books of accounts and the submitted Report on the Physical Count of Inventories (RPCI) of the CAAP Head Office (HO) and Area Centers (ACs) III, V, VIII, and IX disclosed a variance totaling P42.758 million, details are as follows:

Table 13. Comparison of GL and RPCI Balances

Location	Total Inventory		Variance
	Per GL	Per RPCI	
HO	P 50,793,083	P 37,877,064	P 12,916,019
Area Centers			
III	673,674	248,150	425,524
V	25,131,838	366,106	24,765,732
VIII	6,141,125	1,628,371	4,512,754
IX	137,740	0	137,740
TOTAL	P 82,877,460	P 40,119,691	P 42,757,769

- 4.5 The variance of P42.758 million could be attributed to the incomplete submission of the RPCI by the Accounting and Property Division of CAAP-HO, ACs III, V, VIII, and IX and their inability to conduct periodic reconciliation between their records despite the continued reiteration in the prior years’ Annual Audit Reports (AAR) on the importance of this procedure to ascertain

the existence of assets and to determine the accuracy of the corresponding balances in the books of accounts.

b. Non-maintenance of Supplies Ledger Cards (SLC)

- 4.6 Audit further noted that the Accounting Division of CAAP-HO, ACs III, V, VIII, and IX were not able to maintain the Supplies Ledger Cards (SLC) which should be used for each type of supplies to record all receipts and issuances made by the agency. The SLCs shall be used, along with the Stock Cards maintained by the Supply Division and the RPCI, to reconcile the balance of the inventory accounts. Any discrepancy shall then be immediately verified and adjusted accordingly.
- 4.7 The semi-annual conduct of physical count, the maintenance of appropriate records such as the RPCI and SLCs, and the subsequent reconciliation of accounting and property records, are all vital internal controls to ensure that Management's assertions as to the existence of its inventories, along with the reliability of its corresponding inventory balances, are indeed complete and accurate. The lack or absence thereof resulted in the difficulty in ascertaining these assertions as reported in the Authority's financial statements.

c. Various accounting errors and misstatements

- c.1 *Some medical, office, and other supplies of the CAAP-HO and AC VI were recorded as outright expense resulting in the understatement of the Medical, Dental and Laboratory Supplies Inventory (MDLSI), Office Supplies Inventory, and Other Supplies and Materials Inventory (OSMI) accounts and overstatement of the corresponding expense accounts.***
- 4.8 Annex C of COA Circular 2020-002 dated January 28, 2020, provides that the *Medical, Dental and Laboratory Supplies Inventory* (MDLSI), Office Supplies Inventory, and OSMI accounts are debited to recognize the cost of the supplies purchased/received for government operations and credited for issuances to end-users, transfers, losses, other disposals, and/or adjustments.
- 4.9 During the year, the CAAP-HO purchased various medical supplies in response to the COVID-19 pandemic. Audit revealed that these purchases were recorded as an outright expense in the books of accounts, instead of recording the same under the MDLSI account. Physical inventory at year-end showed that out of the total purchases, medical supplies totaling P26.553 million remained on hand as of December 31, 2020.
- 4.10 In AC VI, it was observed that *Accountable Forms, Plates and Stickers Inventory, Drugs and Medicines Inventory, Supplies Inventory, MDLSI, Fuel, Oil, and Lubricants Inventory* reflected a zero balance. However, upon

verification/confirmation by the Team, many of these items were still found in the Supply Office.

c.2 *Overstatement of the Other Supplies and Materials (OSM) account of the CAAP-HO by P5.831 million, while the accuracy of the remaining balance of the account amounting to P21.145 million is doubtful.*

4.11 As reported in the 2019 AAR, various inventories of the CAAP-HO totaling P5.831 million which were already issued to respective end-users and with proof of issuance were still recorded under the OSMI account, instead of the appropriate expense account, thereby overstating the OSMI account and overstating the *Retained Earnings* account by P5.831 million.

4.12 Further, since the Accounting Division does not maintain SLCs, said Office does not have a detailed breakdown or details of the account. The Supply Division also claimed that procured supplies and materials were already issued to respective end-users as of the report date, rendering the accuracy of the remaining balance of P21.145 million in the OSMI account doubtful.

c.3 *Dormant balance of the MDLSI account of the CAAP-HO - P97,000*

4.13 The recorded balance of the MDLSI account in the CAAP-HO amounting to P97,000 has been outstanding for more than four years. The 2018 AAR already pointed out that these items are no longer in the custody of the Office of the Flight Surgeon and Aviation Medicine (OFSAM) and according to the Medical Staff, they can no longer locate the Report on Supplies and Materials Issued (RSMI) to support the issuances. No further action has been made on the matter to date, hence the same remained outstanding in the books.

c.4 *Overstatement of the Fuel, Oil and Lubricant Inventory (FOLI) account of the CAAP-HO and AC VIII by an estimated amount of P13.527 million*

4.14 Annex C of COA Circular No. 2020-002 dated January 28, 2020, defined *Fuel, Oil and Lubricants Inventory* (FOLI) account as an account used to recognize the cost of fuel and oil in government depots and lubricants for use in government vehicles and other equipment in connection with government operations/projects, including the cost or fair value of refined/processed fuel utilized in running power plants.

4.15 In CAAP-HO, fuel and oils used for generators/power plants are paid in advance to Petron Corporation. The Air Navigation Service (ANS), the office responsible for maintaining the power plants of the Authority, notifies the supplier to deliver sufficient amount of fuel/lube oil needed to operate generators for regular maintenance and during contingency in case of power failure. The consumption of its generators is then monitored periodically by the ANS. The ANS in AC VIII also conducts the periodic monitoring of fuel consumption and preparation of the monthly Generators Operation Record

and Fuel Report while the Supply Section monitors the purchases and issuances of gasoline at the motor pool.

- 4.16 Records maintained by the ANS and Supply Section in CAAP-HO and AC VIII showed the following fuel and oil inventory as of December 31, 2020:

Location	Diesel/Gasoline Fuel (in liters)	Lube Oil (in liters)
HO	42,722.73	236
AC VIII	6,407.83	30.86

- 4.17 The RPCI submitted by the Supply Division in CAAP-HO only includes the diesel fuel as of year-end and does not include the lube oils on hand. As such, the Audit Team referred to the monthly report (Generators Operation Record and Fuel Report) prepared by the ANS, to determine the actual liters of lube oil on hand as of year-end. On the other hand, the Supply Section in AC VIII did not conduct a physical count of inventory nor maintain stock cards.

- 4.18 The Audit Team used the Prevailing Retail Pump Price in Manila as of December 29, 2020, by the Department of Energy to get the estimated price for diesel during the period, which is P36.95 per liter. Based on this fuel cost and excluding the cost of lube oils for which the Audit Team does not have any reliable estimate, the FOLI account of CAAP-HO should have an estimated value of P1.578 million, whereas the computed estimate in AC VIII amounted to P295,289. Both are significantly lower than the year-end balance of the account by P11.935 million and P1.592 million, respectively.

c.5 Understatement in the Accountable Forms Inventory (AFI) account of the CAAP-HO by P1.550 million due to erroneous recording of inventory issuance in CY 2019 which remained uncorrected as of December 31, 2020

- 4.19 Upon issuance of accountable forms to respective users, the Supply Division shall prepare the Report on Supplies and Materials Issued (RSMI). This will be submitted to the Accounting Division for proper costing and recording in the book of accounts. However, audit revealed that in CY 2019 the Accountant committed errors when assigning the costs of the Accountable forms issued resulting in the overvaluation of the inventories issued by P1.550 million. Thus, AFI account was understated and the Accountable Forms Expenses account was overstated by the same amount. Had the Accounting Division maintained SLCs for each inventory item, the Accountant could have correctly assigned the correct cost and avoid the erroneous recording.

- 4.20 The inability to reconcile the balances between accounting and property records as well as the non-maintenance of the necessary records resulted in

various uncorrected accounting errors and misstatements and the non-inclusion of inventory items in the RPCI which the Accountant could have easily identified.

4.21 We recommended that Management direct the:

- a. Accounting Division and Supply Division of CAAP-HO and ACs III, V, VIII, and IX to conduct a thorough validation and reconciliation of the property and accounting records to establish the true balance of the inventory accounts;**
- b. Accounting Division of CAAP-HO and ACs III, V, VIII, and IX to prepare and maintain SLCs for all inventory items/accounts and regularly coordinate and reconcile with the Supply Division; and**
- c. Chief Accountant of the CAAP-HO and the Accountant-in-Charge of ACs VI and VIII to prepare the necessary adjusting entries for the errors and misclassifications in the MDLSI, Office Supplies Inventory, AFI, FOLI, and OSMI accounts.**

4.22 The Management commented that the Accounting and Supply Divisions are in the process of validating and reconciling their records and the necessary documents are being gathered to support the adjustments of the noted errors and misstatements. Allowance for Impairment shall be recorded for the obsolete accountable forms, and the Accounting and the Supply Divisions are directed to maintain the Supply Ledger Card/Stock Card,

5. The existing processes and procedures adopted by the Authority in accounting and recording of Fuel, Oil, and Lubricants in CAAP-HO result in errors and misstatements of account balances and do not ensure safeguard from wastage, theft, or misappropriation. Likewise, the advance payments made to its supplier for fuel, oil, and lubricants were not in accordance with the provisions of Republic Act (RA) No. 9184.

5.1 The Authority procures from Petron Corporation fuel, oil and lubricants for use of the three offices/units of CAAP – Motorpool, for fuel of CAAP service vehicles; Air Navigation Service (ANS), for fuel to power the nine power plants and/or generator located in Metro Manila and Tagaytay; and Flight Inspection and Calibration Group (FICG) for aviation fuel loaded in the aircrafts used during inspection and calibration.

5.2 Fuel for the CAAP service vehicles is withdrawn from the designated Petron station thru an approved trip ticket. CAAP is billed for the fuel withdrawals, and upon payment, these are directly recorded under account *Fuel, Oil, and Lubricant Expense*.

- 5.3 On the other hand, the aviation fuel and the fuel and lubricants for use of the generators are delivered and/or loaded to the generators and aircraft. Aviation fuel loaded to the aircraft is on a per flight basis, hence no fuel inventory is maintained by the FICG. For the generators, the ANS maintains an inventory as to the quantity of the fuel requested and delivered by Petron for a certain period.
- 5.4 Unlike fuel for motor vehicles, fuel for the generators and aviation fuel are procured thru advance payment with Petron. These purchases were not covered by a contract/purchase order, which they claimed, has been the practice of CAAP over the years. The Accounting Division initially records the advances to Petron under the *Other Prepayment* account and reclassifies the same to the *Fuel, Oil, and Lubricants Inventory* (FOLI) account at year-end, resulting in a zero balance of the advances. However, our audit disclosed that these advances were not fully utilized/consumed each year. As of December 31, 2020, CAAP's balance, per the Statement of Account by Petron, is still at P2.123 million, hence, the *Other Prepayment* account is understated and the FOLI account is overstated by the same amount.
- 5.5 Audit disclosed that the Accounting Division made the reclassification of the account, even without the delivery receipts or invoices from Petron showing the quantity and amount of the fuel delivered. Said Office should have requested/demanded from the FICG and ANS, thru the Supply office, the submission of the said documents including the corresponding inspection and acceptance report, before the reclassification.
- 5.6 Furthermore, ANS monitors the receipt and fuel consumption of each generator by preparing a monthly Generators Operation Record and Fuel Report (GORFR). The Audit Team requested copies of the monthly GORFR for CY 2020 and the summary is provided hereunder:

Power plant Station	Balance, Jan. 1, 2020	Fuel Received from Petron	Fuel Consumed for Generators/ Power plants	Fuel transferred to Service Vehicle	Fuel Received From or (Transferred to) other Facilities	Additions or (Deductions) to Balance of unknown nature	Balance, Dec. 31, 2020
CAAP Main Power Plant Station	7,830	0	*(32,242)	0	*29,351	0	4,940
Manila CNS/ATM Facility Power Plant	9,976	0	(2,321)	0	2,400	(350)	4,905
Manila AFC Power Plant Station	7,853	7,000	(7,058)	(400)	7,837	(9,885)	5,347
NAIA 1 Power Plant Station	4,005	6,000	(2,984)	(90)	0	0	6,931
NAIA 2 Power Plant Station	1,924	0	(630)	0	0	0	1,294

Power plant Station	in number of liters						Balance, Dec. 31, 2020
	Balance, Jan. 1, 2020	Fuel Received from Petron	Fuel Consumed for Generators/ Power plants	Fuel transferred to Service Vehicle	Fuel Received From or (Transferred to) other Facilities	Additions or (Deductions) to Balance of unknown nature	
Manila Tower Power Plant Station	2,704	0	(399)	(47)	0	0	2,258
Manila Transmitter Station	2,838	5,000	(1,4940)	0	0	(662)	5,682
Tagaytay Radar Remote Communication Air0to0Ground Receiver	1,178	0	(29)	0	0	0	1,149
Tagaytay Radar ANF Radar Power Station	4,035	10,000	(3,123)	(695)	0	0	10,217
Total	42,343	28,000	(50,279)	(1,232)	34,789	(10,898)	42,723

**These include receipt and consumption of fuel needed to power the generators rented by the CAAP Main Office during the power failure from January 20, 2020 to February 29, 2020 as mentioned in the MGORAFR*

- 5.7 Audit also disclosed that the fuel consumption/utilization of ANS and FICG were not recorded in the books. The ending balance of the FOLI account, excluding the cost of lube oils, has an estimated value of only P1.578 million, which is significantly lower than the year-end inventory balance of P13.513 million, or a difference of P11.935 million. Similar to the delivery receipts, the Audit Team learned that the Accounting Division was not furnished with a copy of the GORFR, nor were they provided with the Report of Supplies and Materials Issued (RSMI) or its equivalent record. Nonetheless, considering the glaring absence of any recorded utilization in the FOLI account, the Accounting Division should have demanded from the Supply Division/ANS the aforementioned documents so that the fuel utilization/consumption could have been recorded in the books.
- 5.8 The Supply Division, as embodied in the Description of CAAP Services published on its official website, is the office responsible for the storage, control, and distribution of supplies, materials and, office equipment as well as maintenance of inventory of supplies and equipment and records of property accountabilities of all CAAP employees. Thus, the ANS and the FICG should have submitted to the Supply Division the delivery receipts/invoices from Petron, including the GORFR and the RSMI, for the latter to monitor these transactions and forward the documents to the Accounting Division for recording.
- 5.9 Furthermore, in the analysis of the GORFRs of ANS for CY 2020, the Audit Team noted the following:

- a) There were transfers of fuel from one generator to another where the number of liters appearing in the source generator differs from the recipient generator:
 - January report submitted by the Manila CNS/ATM Facility Power Plant showed a transfer of 1,000 liters of fuel to CAAP Main Power Plant on January 25, 2020, however, only 400 liters are reflected/received by the CAAP Main Power plant on the same date.
 - February report submitted by the Manila CNS/ATM Facility Power Plant revealed that it has transferred 400 liters to Manila AFC Power Plant Station on February 4, 2020, however, no receipt was reflected in the report submitted by the Manila AFC on the aforesaid date.
 - b) The deductions from the inventory of 10,897.72 liters are for unknown/unclear reasons.
 - c) Transfer of fuel from the generators to service vehicles of 1,232 liters, when fuels for service vehicles are supposed to be withdrawn directly from the Petron Station thru an approved vehicle trip ticket.
- 5.10 The existing practice of the Authority in accounting and recording of FOL resulted in errors and misstatements in the *Other Prepayments*, FOLI, FOL Expenses, and *Retained Earnings* account. Further, the processes and procedures do not also ensure adequate safeguard against wastage, theft, and misappropriation of the asset.
- 5.11 Moreover, it is to be emphasized that payment of fuel and oil which are yet to be delivered violates the provisions under Presidential Decree (PD) No. 1445 and the RIRR of RA No. 9184, which states that advance payment for goods procured by the Authority shall be made only after prior approval of the President, and shall not exceed fifteen (15) per cent of the contract amount, except for contracts entered into by for services where requirement of down payment is a standard industry practice, to which an advance payment not to exceed 50 per cent shall be allowed, without the need for prior approval from the President.
- 5.12 The practice of making advance payments to Petron without proper monitoring only led to the accumulation of funds in the coffers of the Supplier. Likewise, the Team cannot find a good reason as to why Management did not negotiate with Petron to allow the delivery of purchased fuel without the need of an advance payment when Petron allows such payment/billing system for fuel procured for service vehicles of the Authority. In CY 2020, deliveries of fuel for generators and aviation fuel amounted only to P1.227 million as compared to P3.118 million for motor vehicle fuel. Given the above, it is imperative that the Authority negotiates with Petron to avoid any further advance payments which is contrary to the above-mentioned provisions.

5.13 **We recommended that Management direct the:**

- a. **Accounting Division to immediately stop the practice of reclassifying advances to supplier to inventory without the necessary supporting documents;**
- b. **ANS and FICG, thru the Supply Division, to submit all delivery receipts, invoices, inspection and acceptance reports, GORFR and RSMLs or its equivalent record to the Accounting Division for the proper recording of deliveries and issuances;**
- c. **Accounting Division and the Supply Division to coordinate with the ANS and FICG and reconcile its records to correct the erroneous recording in the books and correct the balances of the FOLI, FOL expenses and Other Prepayment accounts;**
- d. **ANS to submit to the Audit Team for evaluation, the necessary documents to support the transfer of fuel from one facility to another as well as the documents explaining the nature of various deductions in the GORFR totaling 10,897.72 liters;**
- e. **ANS to provide basis and/or justifiable reasons as to why some vehicles were allowed to load fuel from the generators/power plants maintained by them and submit documents to support its usage to the Audit Team for review; and**
- f. **Accounting Division to exhaust the remaining prepaid balance to Petron by charging therefrom the succeeding requests of the ANS/FICG for diesel and aviation fuel and henceforth, refrain from making advance payments for the needed fuel and oil in compliance with the provisions cited under the RIRR of RA No. 9184.**

5.14 Management commented that the Accounting Division is now coordinating with the Supply Division, ANS and FICG for the submission of documents to correct the expenses and *Other Prepayments* account.

5.15 On the observations noted on the GORFR, the ANS explained that the discrepancies were due to errors in the reporting of fuel utilization and adjustments, while the use/transfer of the fuel from generator to service vehicles without proper request/authorization was due to the immediate need, the work-from-home arrangement and other logistics issue. The transfers of fuel from one generator to another were due to the power outage in CAAP Head Office in January to February 2020.

5.16 The Audit Team's initial verification revealed that the submitted documents relative to the transfer of fuel between generators and to service vehicles

were incomplete and insufficient to support the approval and authority granted to the ANS to transfer the fuel to service vehicles and other generators. While the Team understands that these were done in response to the immediate need, we maintain our position that there should be a detailed and well documented process to authorize these transactions since it involves vulnerable assets which are prone to wastage, theft, loss and/or misappropriation.

- 5.17 Moreover, the Audit Team could not ascertain the validity and correctness of the adjustments made to the report submitted by the ANS as it was not duly validated by the Supply Division which is necessary to ensure the check and balance of the transaction. As such, we recommend that the ANS submit these documents to the Supply and Accounting Division for validation and proper recording.

6. The balance of Accounts Payable of P738.789 million is overstated due to: a) inclusion of withholding taxes totaling P21.510 million; and b) dormant/long outstanding payables amounting to P2.706 million.

- 6.1 We have noted the following causes of the overstatement of the AP accounts in CAAP-HO and AC V books:

a. *Inclusion of withholding taxes totaling P21.510 million in the Accounts Payable in CAAP-HO books*

- 6.2 Non-withholding of taxes on purchases of goods and services contrary to Bureau of Internal Revenue (BIR) Revenue Memorandum Circular (RMC) No. 10-2018 dated January 31, 2018.
- 6.3 BIR RMC No. 10-2018 dated January 31, 2018 states that the obligation to withhold already arises when an expense or asset is already recorded whether or not the same has been paid.
- 6.4 As of December 31, 2020, the balance of the *Accounts Payable* of CAAP-Head Office is at P435.405 million. Audit disclosed that of the said amount, the Accounting Division did not recognize the necessary withholding taxes totaling P21.510 million.
- 6.5 We learned that it has been the practice of the Accounting Division to recognize withholding taxes in the books only upon payment to the suppliers/contractors. This practice is not in accordance with the aforementioned guidelines which specifically require withholding agents to withhold taxes upon recognition of assets/expenses.
- 6.6 The non-compliance to the BIR Regulations overstates the *Accounts Payable* and understates the *Due to BIR* account by P21.510 million.

Likewise, it exposes the Authority to the risk of potential fines and penalties. RMC No. 23-2012 dated February 14, 2012, reiterated the responsibilities of government officials and employees for the withholding of applicable taxes.

b. Inclusion of dormant/long outstanding payables totaling P2.706 million in AC V

- 6.7 In AC V, the balance of *Accounts Payable* includes payables amounting to P2.706 million which have remained in the books for more than 2 years.
- 6.8 The Aging of *Accounts Payable* disclosed that the accounts are listed with insufficient particulars such as the specific date of the set-up of the accounts, reference documents, and specific identification of the creditors. Various *Accounts Payable* listed were named only to a generic creditor such as LBP-Legazpi, LBP- Naga, LBP MBT, and various suppliers without particularly providing the names of the creditors. More importantly, the Aging did not contain the date of set-up of the accounts and reference documents, hence the tracing and determination of the age of the payables are limited only to that provided by the Agency.
- 6.9 Considering the age of the accounts with no valid claims filed with the agency, these should be adjusted pursuant to the provisions of PD No. 1445. The non-reversion of the dormant/long outstanding payables overstated the AP by P2.706 million and understated the *Retained Earnings* by the same amount at year-end.
- 6.10 **We recommended and Management agreed to instruct the Chief Accountant to:**
- a. **Strictly comply with BIR Revenue Memorandum Circular (RMC) No. 10-2018 dated January 31, 2018, and effect the necessary adjustments in the books of accounts to recognize the withholding taxes erroneously recorded in the Accounts Payable account; and**
 - b. **Remit to the BIR the withholding taxes that the Accounting Division failed to recognize in the books.**
- 6.11 **For AC V, we recommended and Management agreed to prepare the necessary adjusting entries to revert to *Retained Earnings* the AP which have remained outstanding for more than two years and correct the erroneous accruals to AP and related asset and expense accounts.**
- 6.12 Management commented that the Authority will be preparing the adjusting entry to set up the withholding tax payable and the corresponding remittance. Moreover, the Management gave assurance that the Chief Accountant will adhere to the provisions under BIR Revenue Memorandum Circular (RMC)

No. 10-2018 dated 31 January 2018 in withholding and remitting taxes upon recording payables.

7. The balance of Other Receivable account amounting to P67.340 million, is unreliable due to: a) erroneous recording of collections amounting to P9.483 million to Other Receivable account instead of Other Service Income account; b) doubtful/unverified prior years' receivable balances from Airline Carriers/Operators amounting to P28.382 million; and c) previous years' balances totaling P7.267 million which could not be accounted due to non-maintenance of subsidiary ledgers.

- 7.1 The Other Receivable account has a balance of P67.340 million as of December 31, 2020. Based on the review of the related schedules and ledgers, the balance is composed of the following:

Table 15. Details of Other Receivable account	
Particulars	Amount
Unliquidated cash advances of deceased, retired, resigned, and separated employees	P 29,972,823
Unliquidated cash advances of flight inspectors	474,116
Receivable from various Airline Carriers/Operators - DSA of CAAP flight Inspectors for CY 2016-2019	28,381,761
Area Center Balance	1,244,190
Unaccounted balance (without SL)	7,267,295
Balance, December 31, 2020	P 67,340,185

- 7.2 The receivable balances from various Airline Carriers/Operators pertain to the Daily Subsistence Allowance (DSA) of CAAP officials/personnel (flight inspectors) that conduct flight inspection/certification and/or other flight related activity. The corresponding DSA of the personnel rendering the said activity is billed by CAAP to the Airline Carriers/Operators requesting the inspection/certification.
- 7.3 Audit disclosed that the account balance of P67.340 million is unreliable due to the following observations noted:

a. Erroneous recording of collections totaling P9.483 million

- 7.4 Collections from Airline Carriers/Operators for CY 2020 billings amounting to P9.483 million were erroneously credited to the *Other Receivables* account instead of *Other Service Income* account, resulting to the understatement of both accounts.
- 7.5 For the current year, the Authority's collections for DSA amounting to P14.042 million have been recorded as a credit to the *Other Receivables* account. Audit revealed that of the said amount, only P4.559 million pertains to the prior years' billings and the P9.483 million collections came from the current year's billings. Thus, the P9.483 million collections should have been

credited to the *Other Service Income* account instead of the *Other Receivables* account.

- 7.6 The concerned Accounting personnel admitted and explained that the error was committed due to the recent transition/changes implemented in the recording of DSA collections during the year.

b. Doubtful/unverified prior years' receivable balances from Airline Carriers/Operators for DSA billings amounting to P28.382 million

- 7.7 Prior to CY 2020, it was the practice of CAAP to record receivables and income upon issuance of the billing statement for the DSA of CAAP personnel intended to render the flight inspection/certification. The billing was recorded in the books as a debit to *Other receivables* and credit to *Miscellaneous Income*. Inspections and/or the subsequent issuance of certificates are then conducted only after receiving the payment from the Airline Carriers/Operators. Audit however, revealed that not all operators push through with their requests. Thus, the DSA billings recorded in the *Other Receivables* account accumulated to P42.424 million as of December 31, 2019.
- 7.8 The Audit Team in its CY 2019 audit report recommended that the practice of recording the receivable and income upon issuance of billing statement (DSA) for the request for flight inspection be stopped. The team also recommended that the Accounting Division should verify and review the receivable balance (DSA) of P42.424 million by coordinating with the office/s involved in the conduct of inspection and/or issuance of certificates.
- 7.9 In CY 2020, management implemented changes in the manner of recording the DSA billings. The Accounting Division likewise started the reconciliation and verification of the billings issued in CY 2016-2019 and has identified actual unpaid DSA. They claimed however that the bulk of the balance pertains to cancelled travels/inspections, but which could not yet be adjusted in the books as they are still in the process of verifying and/or collating the documents to support the cancellation thereof.
- 7.10 As mentioned above, CAAP collected a total of P4.559 million in CY 2020 from the prior years' billings amounting to P42.424 million hence, the total remaining balance subject for reconciliation/verification should be P37.865 million.
- 7.11 Due to the erroneous recording of the P9.483 million collections as credit to the *Other Receivables* account, the balance pertaining to prior years' (DSA) billings only stood at P28.382 million instead of P37.865 million.

c. Unaccounted balances amounting to P7.267 million due to non-maintenance of the subsidiary ledgers

- 7.12 The Accounting Division has no corresponding subsidiary ledger/s for the balance of P7.267 million.
- 7.13 Review of the entries in the general ledger and other records showed that the amount of P7.267 million came from various transactions, which transpired mostly from CY 2011 to CY 2016.
- 7.14 The details and nature of the transactions have yet to be identified by the concerned Accounting personnel.
- 7.15 **We recommended and Management agreed to instruct the Chief Accountant to:**
- a. **Prepare the adjusting entry for the collections of the current year's billings of P9.483 million which was erroneously credited to *Other Receivables* account instead of *Other Service Income* account;**
 - b. **Fast track the reconciliation for DSA billings issued in CY 2016-2019 and prepare the necessary adjustments in the books; and**
 - c. **Identify/trace the details and nature of transactions of the P7.267 million unaccounted balances in the books, maintain the corresponding subsidiary ledgers, and determine whether these receivables are still collectible.**
- 7.16 The Management commented that the Accounting Division is already preparing the adjusting entry to correct the erroneous recording of collection amounting to P9.483 million. Further, concerning the prior years' DSA billings, an adjusting entry under JEV No. F-21-01-29 has been prepared to correct the error in the amount of P335,150 pertaining to canceled requests for inspection in CY 2015-2017.
8. **The balance of P15.607 million of the Advances to Contractors account is overstated by P4.409 million due to the erroneous recording of transactions. The said balance also includes dormant and/or unrecouped advances for completed and terminated projects totaling P2.147 million, thus affecting the reliability of the account balance.**
- 8.1 The *Advances to Contractors/Sub-Contractors* account pertains to the amount advanced to contractors/sub-contractors for the construction of projects and/or delivery of goods/services as authorized by law.

- 8.2 The *Due to National Government Agency's (NGAs)* account refers to fund transfers from National Government (NGAs) for the implementation of specific programs or projects subject to liquidation and other inter-agency transactions.
- 8.3 As of December 31, 2020, the *Advances to Contractors* account in CAAP-HO has an outstanding balance of P15.607 million. Audit disclosed that the amount is overstated by P4.409 million due to error and/or misclassification in the recording of two transactions as follows:

Table 16. Misstatements in Advances to Contractors

Transaction	Error	Effect Under (Over) statement
<i>Recoupment of advances (mobilization fee) to contractor for DOTr funded project (perimeter fence- Busuanga Airport), deducted from the final billing of the Contractor (mobilization fee or advances for the project was paid in CY 2018 and was reclassified to Due to NGAs- DOTr in CY 2019)</i>	<i>Recorded as credit to Advances to Contractors instead of Due to NGAs.</i>	<i>P 1,046,400</i>
<i>Input tax in the purchase of Communication Equipment</i>	<i>Recorded as debit to Advances to Contractors instead of Input Tax</i>	<i>(5,455,226)</i>
Net Overstatement		P (4,408,826)

- 8.4 Further review and analysis of the schedules and records relating to the account showed unrecouped advances totaling P2.147 million pertaining to dormant and/or advances for completed and terminated projects. The details are as follows:

Table 17. List of unrecouped advances

Project	Contractor	Amount of advances	Date Granted	Remarks
System development of Auto AES (under ATO)	Mannasoft Technology Corporation	P 33,000	Jan 2002	<i>These are ATO balances assumed/forwarded to CAAP books.</i>
Repair of VFR room and other floor levels at Control Tower Building, NAIA (under ATO)	Bentidel Ent & Developer	218,467	July 2005	
Repair/Improvement of NDB Station Phase 2 project at Rosario, Cavite (under ATO)	Bridgestone Construction Company	43,407	Dec 2007	
Improvement of 1 st and 4 th floor CAAP main building and	AQA Global Construction Inc.	1,309,920	September 2011	<i>Per available record, the Contract was terminated in CY 2016.</i>

Project	Contractor	Amount of advances	Date Granted	Remarks
other main selected areas				
Construction of Two Bay Fire Station Building at Vigan Airport	JV Lagon Construction Corp.	542,152	June 2018	<i>Reported by Aerodrome Development and Management Services (ADMS) as completed project as of March 3, 2019. Per Accounting record, no progress billing has been made on the project.</i>
TOTAL		P 2,146,946		

8.5 The above-mentioned transactions cast doubt on the accuracy and reliability of the balance of Advances to Contractors account.

8.6 **We recommended and Management agreed to direct the Accounting Division to:**

- a. **Prepare the necessary adjusting entries to correct the net overstatement of P4.409 million of the Advances to Contractors account;**
- b. **Verify/validate the correctness/existence of the advances that were carried over from the ATO books; and**
- c. **Coordinate with the ADMS and/or other concerned offices regarding the status of the two projects, and prepare the adjustments in the books, if necessary.**

8.7 The Accounting Division has already prepared the adjusting entries to correct the net overstatement in the amount of P4.409 million per JEV Nos. F-21-01-29 and F-21-01-30 dated January 31, 2021. For the unrecouped advances in the total amount of P2.147 million, the Accounting Division is waiting for the payment vouchers from the ADMS to enable them to deduct the balance from the payment.

8.8 The copy of the two JEVs were already submitted to the Audit Team for verification.

9. The Customer's Deposits Payable account of AC VI is overstated by P1.810 million due to misclassification of advance payments by the Accountant, thus understating the Unearned Revenue/Income-Investment Property.

9.1 Annex C of COA Circular No. 2020-002, Description of Updated Accounts (2019) stated that "*Customer's Deposit Payable is credited to recognize the*

receipt of cash deposits from customers for goods/services to be delivered and property to be leased. This account is debited upon application of the deposit to the cost of the goods/services delivered and of the damages to the leased property, upon refund of the cash deposits, and/or adjustments.”

- 9.2 The *Customer's Deposits Payable* account of the Authority amounted to P6.949 million as of December 31, 2020. Review of the *Accounts Receivable* of AC VI showed that P4.550 million was reclassified as *Customer's Deposit Payable*. Verification of the breakdown of amounts showed that only P2.740 million pertained to the cash/security deposits of concessionaires, while P1.810 million were advance payments that should have already been applied to rentals in CY 2020 and prior years.
 - 9.3 The Area Accountant informed that the advance payments were not used/applied for the rental of concessionaires. In fact, as of December 31, 2020, these concessionaires have no outstanding balances/receivables. Since it was already confirmed by the Accountant that these advance payments were not applied to rentals, the amount should be reclassified to Unearned Revenue/Income-Investment Property as described in Annex C of COA Circular 2020-002.
 - 9.4 The noted deficiencies exhibited a lapse on the part of the Accountant to meticulously analyze and verify the breakdown of the account receivable. As such reclassification was lumped to *Customer's Deposit Payable* account, which affected the fair presentation of financial statements.
 - 9.5 **We recommended that the Area Accountant of AC VI review/analyze the accounts, as well as, the propriety of reclassification entries prior to posting in the Subsidiary Ledger and prepare adjusting entries on the noted errors.**
10. **The balance of the Advances to Special Disbursing Officer (SDO) account totaling P1.877 million is overstated by P0.620 million due to various accounting errors and misstatements in CAAP-HO books.**
 - 10.1 *Advances to SDO* is the account used to recognize the amount granted to the entity's accountable officers and employees for special purpose/time-bound undertakings to be liquidated within a specified period.
 - 10.2 Audit of the account disclosed various accounting errors and misstatements in the recording of refunds from the unexpended balances of cash advances totaling P0.620 million.

Table 18. Misstatements in Advances to SDO

Nature of Error	Amount of Refund	Effect Over (Under)
Refund erroneously credited to <i>Advances to Officers and Employees</i> (AOE) instead of <i>Advances to SDO</i>	P 541,613	P 541,613
Unrecorded refund by the SDO	162,370	162,370
Amount of refund was P8,370 recorded as - P83,740	8,370	(75,370)
Erroneous recording of refund involving cash advances in 2019	6,083	(5,335)
Refund for other accounts erroneously recorded in Advances to SDO	3,125	(3,125)
Total		P 620,153

10.3 These errors and misstatements resulted in the overstatement of the account balance by P0.620 million. It is to be emphasized that due diligence and caution should be exercised at all times in the processing and recording of financial transactions to ensure that the financial statements presented are complete, neutral and, free from errors, as required by the Accounting Standards.

10.4 **We recommended and Management agreed to instruct the Chief Accountant to prepare the necessary adjusting entries to reflect the true balance of the affected accounts, and henceforth, ensure reliable and accurate financial records.**

10.5 The Accounting Division has already made the necessary adjusting entries to correct the misstatements of P0.620 million under JEV Nos. F-21-01-34 to F-21-01-38 dated January 31, 2021.

10.6 The JEVs for the said adjustments has already been submitted to the Audit Team for verification.

11. The Due to National Government Agencies (NGAs) account includes long outstanding and unsupported accounts and transactions of the Air Transportation Office (ATO) amounting to P59.141 million rendering the balance of the account unreliable.

11.1 Verification of the *Due to NGAs* account disclosed that the amount of P59.141 million remained outstanding in the books for more than ten years, with details presented in the table below.

Table 19. Unsupported transactions recorded in Due to NGAs account

Particulars	Amount	Remarks
Prior years' ATO account balances transferred to CAAP	P 51,399,606	Unsupported/no documents available
Funds received from DOTr for asphalt paving of runway at Kalibo Airport	5,000,000	Documents for retrieval by the Accounting Division
Funds from DOTr for the salaries of employees assigned at Cotabato	2,741,011	

Particulars	Amount	Remarks
Airport under Autonomous Region in Muslim Mindanao (ARMM)		
Total	P 59,140,617	

- 11.2 Due to the long period that these accounts have been outstanding in the books of the Authority and the lack of documents to support these transactions, the Audit Team was not able to verify the validity of the transactions, thus, the accuracy of the account balance cannot be determined.
- 11.3 **We recommended and Management agreed to direct the Chief Accountant to:**
- a. **Take appropriate actions to locate the documents for the fund transfer, including, coordination with the DOTr's Accounting Division to identify the details of the projects;**
 - b. **Seek the assistance of the Aerodrome Development and Management Service (ADMS) to determine the existence/status of the projects; and,**
 - c. **Prepare the necessary adjusting entries in the books of the Authority.**
- 11.4 The Management commented that the Finance Department and Accounting Division have been reconciling their records with the DOTr to facilitate the liquidation of the fund transfers. The Accounting Division has provided essential documents to the DOTr to support the utilization of the transferred funds and a liquidation of P0.927 million has been recorded under JEV No. F-21-03-33 dated March 31, 2021.
12. **The non-monitoring and non-reconciliation of advances to Procurement Services of the Department of Budget and Management (PS-DBM) resulted in an unaccounted discrepancy of P11.673 million between CAAP-HO and PS-DBM's records rendering the balance of Due from NGAs account of P52.659 million unreliable. Likewise, the account includes dormant and undocumented balances totaling P22.971 million.**
- 12.1 Paragraph 15 of PAS 1 on Presentation of Financial Statements states 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 application of PFRS, with additional disclosure when necessary, is presumed to result in financial statements that achieve fair presentation."*

- 12.2 Due from National Government Agencies (NGAs) account is used to record the advances and/or fund transfers to NGAs for the purchase of goods/equipment/services and/or implementation of projects.
- 12.3 As of December 31, 2020, the said account has a balance of P52.659 million which covers the advances to PS-DBM amounting to P29.688 million and balances totaling P22.971 million which were assumed by CAAP from its predecessor agency, the Air Transportation Office (ATO). Out of the P29.688 million, P4.245 million pertains to the consolidated balances of all Area Centers while the remaining P25.443 million pertains to CAAP-HO balance.
- 12.4 Purchases through PS-DBM require advance payment equivalent to the total cost of the items indicated in the Agency Procurement Request (APR). There are instances, however, where not all items in the APR are available resulting in over/excess payment. In this case, CAAP has the option to utilize the remaining fund to pay for the subsequent APR/s or to request a refund. Advances to PS-DBM are to be recorded in the books upon issuance of the check and subsequently reduced upon delivery of the items and/or upon refund.
- 12.5 Based on the Statement of Account (SOA) from PS-DBM, CAAP-HO's accumulated balance from its advances is only P10.338 million as of year-end compared to the balance in the latter's records of P25.443 million or a difference of P15.105 million. The amount of P3.432 million of the said difference has already been accounted by the Accounting Division leaving an unaccounted balance of P11.673 million.
- 12.6 The foregoing observations show that Management did not promptly track or monitor the advances and the deliveries from PS-DBM and did not conduct periodic verification and reconciliation of its account as required by the aforementioned provisions. Otherwise, these discrepancies could have not existed and accumulated.
- 12.7 These issues have been raised in the previous year's audit and the Accounting Division has continuously committed to conduct the reconciliation of the account with the PS-DBM, yet the same has not been started to date.
- 12.8 The dormant ATO balances of P22.971 million had likewise been previously raised, but the Accounting Division claimed that the documents and records pertaining thereto are no longer available and/or yet to be traced/located, hence, are still outstanding in the books.
- 12.9 Considering the discrepancy between the CAAP and PS-DBM balances and the dormant ATO balances, the accuracy of the *Due from NGAs* account of P52.659 million is unreliable.

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

1. Direct the Chief Accountant to:

- a. **Coordinate and reconcile CAAP records with PS-DBM, trace the cause/s of the P11.673 million discrepancy and make the necessary adjusting entries in the books;**
- b. **Properly monitor subsequent fund transfers to PS-DBM by keeping track of each Agency Procurement Requests (APRs) and corresponding deliveries, and apply the excess advances to succeeding APRs and/or immediately request for a refund; and**
- c. **Adhere to the processes and procedures required under COA Circular No. 2016-005 particularly on the conduct of regular and periodic reconciliation of the account balances.**

2. Take appropriate action to settle/clear the ATO balances by exerting effort in locating/tracing the records and documents and/or by verifying/confirming the balances with concerned NGAs. If warranted, submit a request for write-off of the accounts to COA, following the procedures and requirements prescribed under COA Circular No. 2016-005 dated December 19, 2016.

12.11 Management commented that the Accounting Division is addressing first the issue with PS-DBM's system where CAAP was classified as a National Government Agency as this will affect the reconciliation of accounts.

12.12 Moreover, the Accounting Division committed to coordinate and reconcile the discrepancy with PS-DBM and will adhere to the processes and procedures required under COA Circular No. 2016-005. In addition, the said Division will exert more effort to locate the records of the Air Transportation Office (ATO) account.

13. The existence of dormant balances of the Due from Local Government Units (LGUs) and Deposit on Letters of Credit accounts in CAAP-HO amounting to P4.932 million and P18.332 million, respectively, resulted in the overstatement of current assets and non-current assets by the same amount.

13.1 Paragraph 66 of the Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements, provides that:

“An entity shall classify an asset as current when:

- (a) It expects to realise the asset or intends to sell or consume it, in its normal operating cycle;*

*(b) It holds the asset primarily for trading;
(c) It expects to realise the asset within twelve months after the reporting period; xxx.”*

- 13.2 Paragraph 15 of Philippine Accounting Standard (PAS) 1 states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity.
- 13.3 Audit disclosed that the balance of the accounts Due from LGUs and Deposit on Letters of Credit amounting to P4.932 million and P18.332 million, respectively were ATO balances assumed by CAAP which have been outstanding for years. Examination revealed that these balances were carried forward from the books of the Air Transportation Office (ATO), CAAP's predecessor agency.
- 13.4 Records show that the balance of the Due from LGUs account pertains to the unliquidated portion of fund transfers to the Provincial Government of Misamis Oriental for the land acquisition of access roads between CY 2006 to CY 2009. Management made no recent attempt to coordinate with the Provincial Government to verify or confirm the balance. Provision for impairment was not also recognized which resulted in the overstatement of the accounts.
- 13.5 Considering the length of time the balance of the accounts has remained outstanding in the books, the Accounting Division while pursuing the liquidation of the fund transfer/s with the Provincial Government of Misamis, should have recognized an allowance for impairment on the account and/or request the same for write-off as prescribed under the COA Circular No. 2016-005 dated December 19, 2016.
- 13.6 On the balance of the Deposit on Letters of Credit, the Accounting Division claimed that they do not have any record of the account, even the name of the bank to whom the deposit was opened/made. The Chief Accountant asserted that they have already tried locating the documents relative to the deposit but none was found.
- 13.7 The dormancy of these balances which resulted in the overstatement of *Due from Local Government Units (LGUs)* and *Deposit on Letters of Credit* accounts in CAAP-HO amounting to P4.932 million and P18.332 million cast doubt on their actual existence thereby affecting the accuracy and reliability of the account balances.
- 13.8 **We recommended and Management agreed to direct the Accounting Division:**
- a. **To coordinate/confirm with the Provincial Government of Misamis Oriental regarding the unliquidated fund transfer, and if existing in**

their books, demand for its liquidation; if not, submit a request for write-off to COA, following the guidelines provided under COA Circular 2016-005 dated December 19, 2016;

- b. To provide an allowance for impairment on the Due from LGUs and Deposit on Letters of Credit accounts, and**
- c. To exert more effort and/or explore other avenue to obtain data/information on the balance of the Deposits on Letters of Credit.**

13.9 Management commented that the Finance Department has already prepared a letter inquiry for the Provincial Government of Misamis Oriental and to all depository banks of CAAP and the then ATO to verify the existence of the amount as recorded.

14. **The correct balances of the three liability accounts – Guaranty Deposits Payable, Due to Officers and Employees and Other Payables amounting to P190.060 million, P71.787 million, and P54.745 million, respectively, could not be ascertained due to the absence of complete and updated subsidiary ledgers in CAAP-HO and AC V totaling P161.947 million and P8.021 million, respectively.**

14.1 The Philippine Financial Reporting Standards (PFRS) provides for the following qualitative characteristics of useful information:

Xxx

QC26 “Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.”

14.2 Section 114 of the PD 1445 provides that the general ledger (GL) is where all financial transactions are recorded and that the subsidiary ledger (SL) shall be kept, where necessary.

14.3 Audit of the accounts and transactions of the agency for CY 2020 revealed that the balances of some accounts as posted in the General Ledger (GL) were not supported with SLs. The Audit Team requested for the supporting documents, however, the CAAP-HO and AC V were not able to provide the same.

14.4 Three liability accounts have no SLs and are without supporting documents to establish the accuracy of the balances of CAAP-HO and AC V totaling P161.947 million and P8.021 million, respectively, to wit:

Table 20. Summary of liability accounts of CAAP-HO and AC V with no SLs

Account Name	Particulars	Amount
Liabilities		
CAAP-HO		
Guaranty Deposits Payable	Retention money/ warranty security of contractors	P 161,947,231
AC V		
Due to Officers and Employees	Claims for travel, Productivity Enhancement Incentive (PEI), overtime, salary differential, flying pay, etc.	3,293,289
Guaranty Deposits Payable	Security deposits of lessees and warranty security of contractors	2,775,634
Other Payables	Loan amortizations to Capiz Electric Cooperative, Inc. (CAPELCO), LBP, AMSWLAI, Terminal Leave Benefits, etc.	1,952,557
Total for AC V		P 8,021,481

- 14.5 For CAAP-HO, the account *Guaranty/Security Deposits Payable* with a balance of P 161.947 million as of December 31, 2020, pertains primarily to the 10 per cent retention money from contractors as required under Annex E of the RIRR of Republic Act No. 9184. The retention money is intended to cover uncorrected defects and third-party liabilities.
- 14.6 Considering the materiality of the amount and the number of projects/contracts of CAAP and considering further that some contractors have various/simultaneous projects with CAAP, the Accounting Division/Unit should have realized the necessity of maintaining SLs for the said account.
- 14.7 On the other hand, the *Due to Officers and Employees* and *Guaranty Deposits Payable* accounts in the books of AC V were supported only with schedules that do not tally with the GL balances. The SLs also lack the information necessary to establish the correctness of the amounts. Meanwhile, there was no schedule provided for the Other Payables account.
- 14.8 The non-maintenance of the SLs and/or the absence of documents negates verifiability as one of the qualitative characteristics of the financial statements.
- 14.9 **We recommended and Management agreed to direct the Accounting Division/Unit to:**
- Prepare complete and up-to-date subsidiary ledgers on the above accounts of CAAP-HO and AC V;**
 - Submit to the Audit Team for review, the Aging Schedules of the accounts – Due to Officers and Employees, Guaranty Deposits Payable and Other Payables of AC V; and**
 - Reconcile the SL and GL balances of the accounts.**

- 14.10 The CAAP-HO Accounting Division already accounted for the Guaranty/Security Deposit Payable in the amount of P60.719 million out of the P142.235 million balance of the account. Copy of the list of contractors covering the accounted deposits of P60.719 million was submitted to the Audit Team and was validated accordingly.
- 14.11 The AC V Management is working on the updating of records and will provide the necessary subsidiary ledgers as soon as the balances are reconciled with the General Ledger and come up with the Aging Schedule as well.
- 15. The share of the Office of the Transportation Security on CAAP's collections from terminal fees as required under Executive Order No 30, amounting to P1.752 million pertaining to CY 2012 remained unremitted as of December 31, 2020.**
- 15.1 This is a reiteration of our prior year's observation.
- 15.2 Executive Order No. 30 dated September 30, 1998 provides for the increase of the Anti-Hijacking and Anti-Terrorism component (NACAHT share) of the terminal fees collected pursuant to Executive Order No. 69 and Letter of Instruction No. 414-A. Said share from the terminal fees in the amount of P60 and P15 from every departing international and domestic passenger, respectively, shall be remitted to the Bureau of the Treasury (BTr) for the account of the Office for Transportation Security (OTS) upon collection from the airline companies.
- 15.3 Review of the *Due to Treasurer of the Philippines* account disclosed that during the year, CAAP's remittances to BTr totaled P57.468 million covering the NACAHT's share for CY 2020. CAAP, however, has an unremitted NACAHT share amounting to P1.752 million pertaining to CY 2012 as of December 31, 2020.
- 15.4 Since the purpose of the fund is for strengthening aviation security such as anti-hijacking and anti-terrorism activities of the OTS, CAAP should promptly remit the same to the BTr.
- 15.5 We recommended that Management immediately remit the amount of P1.752 million to the BTr as required under EO No. 30.**
- 15.6 The Accounting Division commented that the amount of P1.752 million was paid directly by the airline operators to CAAP Laoag International Airport (LIA) and eventually recorded in the Head Office thru reciprocal entry. However, there is no document evidencing that the amount had been deposited to Head Office resulting in the delay of deposit to the BTr.

- 15.7 In view of the above, the Accounting Division was instructed to closely coordinate with CAAP Laoag International Airport to settle the findings.

B. OTHER OBSERVATIONS

16. As of December 31, 2020, CAAP barely completed 16 out of the 86 airport projects downloaded by the Department of Transportation (DOTr) from CY 2016 to CY 2018, implying the Authority's poor performance in the implementation of the Projects. The delayed completion of projects deprived the public of the prompt use or benefit that could have been derived from its timely completion, including loss of income opportunity for CAAP and/or the government. Moreover, timelines of procurement activities prescribed in Annex C of the RIRR of RA No. 9184 were not observed.

- 16.1 CAAP is vested with the statutory authority to handle aviation matters including the construction and development of airports, thus, is continuously receiving equity contribution from the National Government thru the Department of Transportation (DOTr) pursuant to Section 14 of RA No. 9497. The General Appropriations Act (GAA) for Calendar/Fiscal years 2015 to 2020 included in the appropriation of the DOTr an allocation for airport facility projects totaling P41.605 billion. Pertinent sections of the said GAAs provide that the funds are appropriated for the construction of various airports and navigational facilities and acquisition of navigational equipment which shall be recorded in the books of accounts of the DOTr and transferred to CAAP.
- 16.2 The DOTr and CAAP executed three Memoranda of Agreement for the initial implementation of the projects covered by the GAA for CY 2015 to CY 2018 with a Programmed Amount (PA) totaling P9.898 billion, as shown below:

Table 21. Summary of DOTr Downloaded projects per MOA

Fund Source (DOTr GAA- Year)	Date of MOA	PA per MOA (in billion Pesos)	No. of projects to be implemented by CAAP
2015	December 29, 2016	P 2.653	21
2016	January 2018	2.004	15
2017		1.480	19
2018	January 10, 2018	3.761	31
TOTAL		P 9.898	86

- 16.3 As provided in the three MOA, the release of funds to CAAP shall be in three installments/tranches based on certain conditions/requirements.

Table 22. Schedule of fund releases from DOTr

Tranche/ Installment	GAA	Amount To Be Transferred by DOTr (PA)	Conditions for Fund Transfer
1 st Tranche	2015	Expenses for pre-procurement activities (CY 2015 includes site	After approval of MOA- • Upon receipt by DOTr of

Tranche/ Installment	GAA	Amount To Be Transferred by DOTr (PA)	Conditions for Fund Transfer
		acquisition at Ozamiz Airport	<ul style="list-style-type: none"> - written request from CAAP for the release of funds; - Bank certification (that CAAP opened an account for the project) - approved Individual Program of Work of the project
	2016 and 2017	3% pre-construction and supervision funds	
	2018	1.5% of the Program Amount to cover expenses for pre-construction and supervision activities	
2 nd Tranche	2015	50% of the programmed amount	Upon review and concurrence of DOTr of the submitted Program of Work and Plans and receipt of proof of procurement activity.
	2016 and 2017		
	2018		
3 rd Tranche	2015	Remaining fund requirement	Upon liquidation of previous releases
	2016 and 2017		
	2018	Remaining balance of the fund requirement (awarded cost)	Upon submission of partial liquidation of the 1 st tranche and full liquidation of the 2 nd tranche.

16.4 Moreover, Section IX of the 2016, 2017 and 2018 MOA states that:

“TERMINATION AND/OR RECESSION – The DOTr reserves the right to terminate or rescind this Agreement upon breach of any provision hereof or after it has been determined that the CAAP’s accomplishment/performance is unsatisfactory, based on the Approved Program of Work, by serving a written notice of termination or rescission at least fifteen (15) days prior to the actual termination or rescission. The amount unused shall, after proper accounting, be turned to the DOTr after such termination or rescission.

16.5 Audit disclosed that as of December 31, 2020, the fund transfers of DOTr to CAAP amounted only to P1.912 billion or 19.32 per cent of the programmed amount of P9.898 billion, as shown below, including the fund utilization.

Table 23. Comparison of programmed amount, funds transferred, and utilization

DOTr GAA Year	PA per MOA	Fund Transferred by DOTr to CAAP	% of FT/PA	Fund Utilization (FU) by CAAP	% of FU/FT
2015	P 2,653,157,000	P 1,427,000,855	54%	P 803,927,396	56%
2016	2,003,621,140	260,278,232	13%	27,107,283	10%
2017	1,479,777,670	224,826,000	15%	42,120,500	19%
2018	3,761,515,315	0	0%	0	0%
TOTAL	P 9,898,071,125	P 1,912,105,087	19%	P 873,155,179	46%

16.6 Audit further disclosed that out of the 86 downloaded projects, only 16 projects, mostly small-ticket items were completed as of December 31, 2020.

Table 24. Status of DOTr downloaded projects as of December 31, 2020

DOTr GAA Year	No. of Projects	Pending procurement planning	Pre-procurement Stage	Procurement In Process	Ongoing construction	Suspended	Completed
2015	21	0	0	3	5	4	9
2016	15	1	8	1	3	2	0
2017	19		6	1	5	1	6
2018	31	1	11	8	6	4	1
TOTAL	86	2	25	13	19	11	16
Percentage of accomplishment as to quantity	100%	2%	29%	15%	22%	13%	19%
Per cent of Accomplishment as to Transferred Amount (in billion pesos):							
Amount (in billion pesos)	P 1.912	0	0	P 0.210	P 0.715	P 0.458	P 0.528
Per cent	100%	0%	0%	11.01%	37.39%	23.96%	27.64%

- 16.7 The Projects under the Pre-procurement stage are those where the Program of Work, detailed engineering, and other similar activity are still in process/uncompleted, or even if completed, the pre-procurement conference or pre-bidding has yet to be conducted. Projects under the Procurement process are those in the stage from pre-procurement/bidding until the issuance of Notice to Proceed.
- 16.8 The data presented in the Tables 23 and 24 above is evident that the Authority has not performed well or has poorly managed the implementation of the projects. As shown, out of 21 projects covered by the CY 2015 GAA, only nine were completed despite the lapse of four years from the execution of the MOA. Similarly, out of the 65 projects from the CY 2016, 2017 and 2018 GAA, with MOA executed in January 2018, only seven were completed, and there are still 27 projects where the procurement process has not even started. With the Authority's present set-up and/or manner of handling the projects, further delay is most likely to happen.
- 16.9 Review and analysis of the procurement documents were conducted to determine and identify the cause/s of the delay, the results of which are shown below:
- For the 16 completed projects, it appeared that it took an average of 30 months from the execution of MOA to the completion of the projects.
 - The maximum period allowed from Advertisement or posting of Invitation to Bid (ITB) to the issuance of Notice to Proceed (NTP) provided in Annex C of the RIRR of RA No. 9184 was not observed.
- 16.10 Annex "C" of the RIRR provides for the maximum allowable period in conducting procurement activities for infrastructure projects, a total of 141 calendar days (CDs) and 156 CDs with Approved Budget for the Contract (ABC) worth P50 million and below and above P50 million, respectively. Audit

noted that the procurement activities for the 14 sampled DOTr downloaded projects went beyond the maximum allowable period as shown below:

Table 25. Sampled DOTr projects with delay in procurement activities

Project/Program/ Activity Name	Contract Amount (in millions)	DOTr GAA	Date		No. of days from posting of ITB to issuance of NTP	No. of days in excess of maximum CDs allowed*
			Advertisement / Posting of ITB	Issuance of NTP		
• With ABC amounting to P50 million and below – maximum of 141 CDs						
Admin Building at General Santos (Gensan) Airport	P 23.426	2015	10/18/2018	5/17/2019	211	70
Control Tower - Gensan Airport	10.472	2015	7/31/2018	3/5/2019	217	76
Basco Airport - CHB fence, & etc.	22.283	2016	3/14/2019	11/13/2019	244	103
Reblocking of Apron at San Jose Airport	29.807	2017	11/28/2018	11/01/2019	349	208
Widening of Runway at Palanan Airport	19.420	2017	3/14/2019	11/13/2019	245	104
Perimeter Fence at Bislig Airport	5.950	2018	8/21/2019	3/11/2020	203	62
Daet Airport Development Project	32.365	2018	9/28/2019	7/17/2020	294	153
Busuanga Airport - Drainage System, access roads & pavement markings	3.885	2018	9/28/2019	6/3/2020	249	108
• With ABC of more than P50 million – maximum of 156 CDs						
Airside Perimeter Road and Security Fence at Gensan. Airport	125.773	2015	11/28/2018	11/4/2019	341	185
Upgrading of Runway at Basco Airport	58.977	2015	12/3/2018	7/3/2019	212	56
Development of Ozamis Airport	273.427	2015	7/31/2018	5/21/2019	295	139
Runway Embankment - Phase II, Busuanga Airport	299.744	2015	4/15/2020	9/28/2020	166	10
Runway Strip Width Correction, Tuguegarao Airport	72.834	2016	1/14/2019	1/8/2020	359	203
Expansion of Terminal Building, Cotabato Airport	41.427	2016	12/17/2019	9/29/2020	287	131

*No. of maximum CDs allowed for infrastructure projects with Approved Budget for the Contract worth P50 million and below is 141 CDs while the projects with ABCs of above P50 million is 156 CDs.

- c. The delays were noted in the following stages of the procurement process which are beyond the maximum period provided in Annex C of the RIRR of RA No. 9184.

Table 26. Summary of noted delays in procurement activity

Procurement Activity	Calendar Days	Allowable period		Remarks
		From	To	
Post Qualification	45	Bid Evaluation	Post-Qualification	Delay of 5-111 CDs
Award of Contract	15	Post- Qualification	Approval of Resolution/ Issuance of Notice of Award	Delay of 14-123 CDs

Procurement Activity	Allowable period			Remarks
	Calendar Days	From	To	
Contract preparation and signing	10	Approval Resolution/ Issuance Notice of Award	Contract Preparation and Signing	8-124 CDs Delays were attributable to review by the Enforcement and Legal Service of the contract prepared by the Procurement Division, its subsequent approval until its notarization.
Issuance of Notice to Proceed (NTP)	10	Contract Preparation and Signing	Issuance of Notice to Proceed (NTP)	2-29 CDs. delay due to delayed submission by the contractor of the duly notarized contract.

16.11 Furthermore, it was noted that six out of the 11 suspended projects were due to causes that could have been prevented had proper procurement planning been conducted, and the P458 million or 23.96 per cent of the total fund transfers covering the suspended projects.

Table 27. Summary of suspended projects

DOTr GAA	Specific Project/Program/ Activity Name	Contractor/ Supplier	Remarks/ Project Status as of December 28, 2020
2015	Development of Ozamiz Airport	Mindanao Rock	Suspended due to right of way issue.
2015	Purchase/Installation of Navigational Aids for General Santos International Airport	Evercon Builders	Work Suspension still in effect; Awaiting Department of Foreign Affairs response on the DOTr request regarding Visa Issuance Exemption for SELEX ES Engineer;
2017	Runway Strip Grade Correction including Slope Protection at Maasin Airport	Unimaster Conglomeration, Inc.	Project suspended last Oct. 27, 2020; Awaiting evaluation of survey team regarding on site staking
2018	Continuation of Asphalt Overlay of Runway at Cauayan Airport	Syndtite Construction Corporation	Project suspended due to preparation and approval of method of working plan prior to the issuance of Notice to Airmen (NOTAM)
2018	Asphalting of Runway at Calapan Airport		Project suspended as of 15 October 2020 until 14 January 2021 due to conduct of joint survey and issuance of NOTAM
2015	Site Acquisition at Ozamiz Airport		With an ongoing expropriation proceedings. (Fund of P125 million had been transferred to CAAP)

16.12 Section 20 of the RIRR of RA No. 9184 requires that during the conduct of the pre-procurement conference, the Bids and Awards Committee (BAC) shall ensure the readiness of the procurement including the confirmation of the availability of right-out-way site or location and possession of affected properties. Section 17.6 also provides that:

“No bidding and award of contract for Infrastructure projects shall be made unless the detailed engineering investigations, surveys xx have been sufficiently carried out xxx. In case of projects with pending acquisition of right-of-way site or location, the procurement process may commence, but no award of contract shall be made until an authority or permit to enter is issued by the property owner; or a notarized deed of sale or deed of donation is executed in favour of the government; or a writ of possession is issued by a court of competent jurisdiction, as the case may be.”

- 16.13 The delayed implementation of the projects deprived the public of the prompt use thereof or benefit that could have been derived from its timely completion, including loss of income opportunity for CAAP and/or the government. The poor implementation of the projects could lead to the cancellation by the DOTR of the other projects in view of Section IX of the MOA and two-year limitation period on the use of appropriations which will totally deprive the public of the enjoyment/benefit of the proposed projects.
- 16.14 **We recommended and Management agreed to strictly adhere to the pertinent provisions of the RIRR of RA No. 9184 in all its procurement activities. Moreover, Management should direct the:**
- a. **Project Management Division/ Procurement Division /BAC and/or other concerned offices to effectively monitor the status of the projects, fast track its implementation/completion, and strictly observe the timelines of the procurement activities provided in Annex C of the RIRR;**
 - b. **Project Management Division to facilitate the preparation of the Program of Work, detailed engineering and related documents of the 27 projects still under the pre-procurement stage;**
 - c. **Procurement Division to create a database specifically for downloaded projects for effective monitoring of the projects;**
 - d. **Project Management Division/ Aerodrome Development & Management Service to initiate immediate appropriate action on suspended projects, to cause/facilitate its early resumption or resolution; and**
 - e. **Project Management Division/ Procurement Division to conduct the pre-procurement planning judiciously and strictly adhere to Section 17.6 and Section 20 of the RIRR of RA No. 9184.**
- 16.15 **We also recommended that Management assess the adequacy and capability of the Authority's present technical personnel in handling/supervising the projects, and if necessary, augment the**

existing manpower to expedite the procurement and project implementation.

- 16.16 The Air Navigation Service (ANS) explained that the delay in the implementation of the purchase/installation of navigational aids at General Santos International Airport was due to the unavailability of fiber glass materials required for the project. The completion date was moved to April 24, 2020, however, due to the pandemic, the project only resumed in May 2021.
- 16.17 The Management gave assurance that they will strictly adhere to the pertinent provisions of Republic Act No. 9184 and its Revised Implementing Rules and Regulations. In addition, the Authority committed to direct the concerned offices for the judicious pre-procurement planning, immediate preparation, and approval of Plans and Programs of Work, timely procurement, fast track the implementation, creation of data base for effective monitoring, and timely completion of infrastructure projects.
- 16.18 Moreover, the Authority will endeavor to assess the adequacy and capability of present technical personnel in the preparation of Detailed Engineering Designs, Plans and Programs of Work and for supervising and monitoring these projects. The Authority will also look into the possibility of augmenting the existing manpower of the Aerodrome Development and Management Service (ADMS) to expedite the procurement and implementation of DOTr downloaded infrastructure projects.
- 16.19 The Audit Team will monitor Management's plan of action to improve the implementation of DOTr downloaded projects.
- 17. Management's non-enforcement of the timely collection of fees and charges as provided under existing CAAP Circulars, Concession Manual and contracts led to the accumulation of receivables with SL balance totaling P6.395 billion which may now result in the loss of income to the Authority given the present crisis faced by the business/aviation industry due to the COVID-19 pandemic. Moreover, the lack of adequate guidelines/policies to ensure that Air Navigational Charges (ANCs) are properly billed, collected, and recorded in the books also contributed to the accumulation of unbilled/uncollected ANCs.**
- 17.1 CAAP Circular No. 03-11 dated April 11, 2011, provides an updated CAAP Schedule of Fees and Charges for Air Navigation Services. Parts VI and VII of the circular provides that –

“For scheduled flights, regular and other domestic flights, the fees and charges prescribed herein shall be payable within ten (10) working days upon receipt of the bill. Xxx. Credit Agreements may be entered into with the CAAP for this purpose.”

“The failure of any person, firm or corporation to pay the charges herein prescribed shall be a ground for collection suit, without prejudice to administrative action.”

17.2 Moreover, Annex B of the CAAP Concession Manual states that –

“The monthly payments due hereunder shall be paid by LESSEE to LESSOR at the office of the LESSOR on or before the 15th day of the month in which the rent shall fall due. It is expressly agreed and understood that the payment of the rental herein stipulated shall be made by LESSEE without delay.”

17.3 Furthermore, the recently issued lease contracts provide a 30-day maximum due date from the receipt of the billing statement. It also states that failure on the part of the LESSEE to pay any rental fee within sixty (60) days from the due date thereof shall be a sufficient ground for stoppage of use of the leased premises and automatic termination of the contract without need for further notice or court action.

17.4 The Authority’s *Accounts Receivable* (AR) SL balance as of December 31, 2020, is P6.395 billion. Excluding ATO and uncollected/unaccounted PAL accounts of P300.231 million and P1.323 billion respectively, the remaining receivable balance would be P4.772 billion, to wit:

Table 28. AR SL balance excluding ATO and uncollected PAL accounts		
Period	AR balances	Percentage
Within one year (2020)	P 1,910,872,322	40.05%
Over 1 year (2019)	1,258,797,465	26.38%
Over 2 years (2018)	391,344,986	8.20%
Over 3 years & onwards (2017 & Prior Years)	1,210,489,153	25.37%
Total	P 4,771,503,926	100.00%

17.5 The above data evidently showed that that management did not strictly enforce the collection of the fees and charges in accordance with the pertinent provisions of CAAP MC 03-011 and CAAP Concession Manual and/or concession/lease contracts.

17.6 Based on the submitted notes to financial statements, there are no pending collection cases filed by CAAP on these receivable balances.

17.7 Verification disclosed that the Accounting Division merely sends monthly billing statements to their clients without properly monitoring if payments were made within the prescribed period. Moreover, the regular issuance of Statement of Account (SOA) showing the total unpaid balance of the client, especially to delinquent ones, was not also practiced by the Authority as discussed in Observation No. 2 of this report.

- 17.8 Likewise, the Authority's only guidelines regarding ANC collections is the CAAP Circular No. 03-11, series of 2011, entitled "*CAAP Schedule of Fees and Charges for Air Navigation Services*." The Circular itself is limited in scope and merely focuses on the schedule of fees and charges. It does not cover specific guidelines/policies that will ensure proper collection and recording of the ANC – responsibilities of the concerned offices, reports to be prepared/submitted, timelines/periods of submission, and sanctions for non-compliance. Policy for the imposition of penalties and charges for late and/or non-payment of ANC is not also provided in the MC.
- 17.9 The lack and/or absence of written guidelines/policies relating to billing, collection, and recording of ANC led to the inaction and/or non-coordination of the concerned offices/personnel which resulted in the accumulation of unbilled/uncollected ANC as mentioned in Observation No. 2 of this report.
- 17.10 The non-collection of the ANCs deprived the Authority of the prompt use of the funds and/or the interest income that could have been earned.
- 17.11 These deficiencies caused the accumulation of receivables, which may now result in loss of income to the Authority in view of the present crisis faced by the business/aviation industry due to the COVID-19 pandemic.
- 17.12 **We recommended and Management agreed to:**
- a. **Intensify the enforcement of collection by strictly implementing the provisions of CAAP Circular No. 03-11 dated April 11, 2011, CAAP Concession Manual and/or stipulations stated in the concession/lease contracts and initiate the appropriate legal remedies, if necessary; and**
 - b. **Revisit CAAP Circular No. 03-11, series of 2011, and/or issue another circular/s prescribing the rules, procedure and processes in the billing, collection, and recording of the income from ANC.**
18. **Management needs to revisit and introduce amendments to its guidelines on the integration of the Domestic Passenger Service Charge in the cost of the airline ticket in view of the amended guidelines of its counterpart agency – Manila International Airport Authority (MIAA). Had CAAP immediately adopted the said amendments, it could have generated savings of not less than P9.700 million to the Authority.**
- 18.1 Passengers Service Charge (PSC) commonly known as Terminal Fee is the second prime source of revenue of CAAP. For the last three years, income from PSC which is recorded under account Transportation System Fee

(Account Code: 4-02-02-070) summed up to P5,166,029,997 as shown below:

Table 29. Income from Passenger Service Charge (CY 2018 – 2020)

Year	Amount
2018	P 1,958,290,521
2019	2,647,936,193
2020	559,803,283
Total	P 5,166,029,997

- 18.2 The significant decrease of PSC collections in CY 2020 was due to the lockdowns and travel bans imposed by the government due to the Covid-19 pandemic. The PSC for domestic flights is called DPSC and for international, it is IPSC. DPSC ranges from P50 to P200 depending on the airport terminal while IPSC is P700. Collection from IPSC is very minimal compared to DPSC.
- 18.3 Originally, the PSC is collected by the CAAP personnel from the passengers at the airport before its boarding. However, to ease the congestion of passengers at the airport terminals under the Authority's supervision, the CAAP issued Memorandum Circular No. 022-17 (series 2017) entitled "Implementing Guidelines for the Integration of the Domestic Passenger Service Charge at the Point of Sale of Airline ticket", which took effect in September 2017, adopting the integration of the DPSC in the cost of the airline ticket and collected by the airline companies/carriers or their agents.
- 18.4 Review disclosed that the provisions/content of CAAP Memorandum Circular (MC) No. 022-17, except those distinct to the operations of the Authority, were patterned and substantially lifted from the integration policies of the MIAA particularly MC No. 06 dated March 31, 2017, including the afore-quoted sections. MIAA, which manages Terminals 1 to 4 of the Ninoy Aquino International Airport Authority (NAIA), had implemented the integration Scheme in August of 2012 for DPSC, and February 2015 for IPSC.
- 18.5 However, various amendments were already made to the MIAA MC No. 06 dated March 31, 2017 to address the issues noted by the MIAA Auditors, as reported in the COA Annual Audit Report (AAR) on MIAA for CY 2017, which includes:
- The 3.5 per cent Service Fee (SF) charged by airline companies for their collection of PSC appeared excessive and needs to be reduced considering that it is not remitted on real-time basis, hence, they can use the same to augment their operational capital and/or earn interest therefrom, during the holding period.
 - The absence or lack of provision in the guidelines regarding the unrefunded PSC for unflown/unused tickets (uPSCut) resulted in its non-

remittance to MIAA. The Audit Team positioned that PSC collections are money held in trust by the airline companies on behalf of the MIAA/government hence, should remit the said collections if the same were not refunded by the payors.

- 18.6 To address these issues, MIAA management sent demand letters to the airline companies for the remittance of the uPSCut, and further negotiated for the reduction of the 3.5 per cent SF. Both actions yielded positive results. Thus, MIAA issued a revised implementing guidelines on PSC integration through MC No.18 (series of 2019) which took effect in June 2019. The revisions/amendments included in MC 18 are the remittance of PSC for expired/unused tickets and the reduced service fee as stated under Sections 6 and 9 thereof.

“6. REMITTANCE AND COLLECTION

6.3 Remittance of collected PSC on expired tickets shall be done quarterly, or before the fifteen (15th) of the succeeding quarter.

9. SERVICE FEE

9.1 In consideration for collecting and remitting the IPSC and DPSC receipts, the collecting Air carrier shall be entitled to a service fee.

9.1.1 2.95% from June 2019 to May 2020

9.1.1 2.75% from June 2020 – onwards”

- 18.7 Audit of the DPSC related reports and documents of CAAP showed that, as of December 2020, the Service Fee paid to the airline companies is still at 3.5 per cent of the PSC collections and no unremitted Passenger's Service Charge for unused tickets (uPSCut) has yet been remitted by the airline companies to the Authority. From the inquiry made, it was learned that management has not made any revisions/amendments to MC 022-17 and did not send demand letters to the airline companies for the remittance of the uPSCut.
- 18.8 CAAP and MIAA essentially have the same mandate as provided under their respective Charter, which is to set comprehensive, clear and, impartial rules and regulations for the Philippine aviation industry which includes determining and/or prescribing charges and/or rates pertinent to the operation of public air utility facilities and services. Sharing the same objectives and mandate, MIAA and CAAP should implement synchronized policies on the same activities/operations. Thus, it is imperative upon CAAP management to revisit and/or introduce amendments to MC No. 022-17 parallel with the actions of MIAA, more so, that the provisions of the said MC are substantially lifted from the latter's integration guidelines.

- 18.9 Had CAAP management immediately revisited and issued amendments to MC No. 022-17, the Authority could have saved the amount of not less than P9.700 million from the service fee paid to the airline companies from June 2019 to December 20, 2020.
- 18.10 **We recommended and Management agreed to review/revisit the rules and regulations embodied in the CAAP MC 022-17 and introduce revisions thereto, taking into consideration the changes implemented by MIAA on its PSC integration guidelines.**
- 18.11 Management commented that the finalized draft of the Revised Implementing Guidelines for the Integration of Domestic Passenger Service Charge (DPSC) at the Point of Sale of Airline Ticket was set to be approved and implemented in early 2020. However, due to the onset of the COVID-19 pandemic, the implementation of the revised guidelines was put on hold as the Authority prioritized other pressing concerns during that uncertain period.
- 19. The validity and regularity of the investment made by the Authority to United Coconut Planters Bank under a Repurchase Agreement totaling P80 million recorded in the Other Investment account could not be ascertained due to the lack/absence of documents to support the transaction.**
- 19.1 One of the fundamental principles governing transactions and operations of any government Agency as provided under Section 4(6) of PD No. 1445 is that *“Claims against government funds shall be supported with complete documentation”*.
- 19.2 COA Circular 2012-001 dated June 14, 2012 prescribes the general requirements in all types of disbursement, to wit:
- a. Certificate of Availability of Funds;
 - b. Legality of transaction and conformity with laws, rules and regulations;
 - c. Approval of expenditure by the Head of Office or his authorized representative; and
 - d. Sufficient and relevant documents to establish validity of the claim.
- 19.3 Audit noted that on December 23, 2020, the Authority, through a letter signed by the Director General (DG) and Acting Chief Financial Officer, entered into a Repurchase Agreement with the United Coconut Planters Bank (UCPB) and authorized the bank to debit the amount of P80 million from CAAP Savings Account No. 120-127738-6 and place the same under the following Repurchase Agreement:

Table 30. Repurchase Agreement entered into by the Authority

Deal ID	Rate	Security	Value Date	Maturity Date	Term	CIF	Principal
234153	1%	FXTN2017	12/23/20	01/27/21	35 days	C007529	P 50,000,000
234155	1%	RTB2001	12/23/20	01/27/21	35 days	C007529	30,000,000

- 19.4 A repurchase agreement, as defined in Appendix 122 of BSP Manual of Regulations for Bank, is a contract wherein a bank, in exchange for cash (repo seller/cash borrower), sells the security to another party (repo buyer/cash lender) under a true sale agreement with a simultaneous commitment to repurchase the security at a fixed price at a date certain or on-demand.
- 19.5 Review of documents supporting Journal Entry Voucher (JEV) No. F-20-12-044 dated December 28, 2020 revealed that the said investments recorded under the *Other Investment* account were not duly supported with complete and sufficient documents to ascertain the validity and regularity of the transactions, to wit:
- Approved Disbursement Voucher;
 - Budget Utilization Requests/Certificate of Availability of Fund;
 - Repurchase Agreement Certificate;
 - Master Repurchase Agreement;
 - Any document that will show that an in-depth study was conducted prior to investment; and
 - Board Resolution authorizing the transaction.
- 19.6 The only supporting document attached to the said JEV were the photocopy of the passbook for savings account no. 120-127738-6 showing the amount debited and the afore-cited letter signed by the Director General and Acting Chief Financial Officer.
- 19.7 Request has been made for the submission of other documents pertaining to the said transactions. The Accounting Division submitted a photocopy of a Master Repurchase Agreement (MRA). However, the said MRA was not signed by the authorized representative of UCPB and was unnotarized. Further, it is not clear from the MRA whether the agreement pertains specifically to the P80 million investment of the Authority. The MRA appears to be a generic repurchase agreement of UCPB and does not contain necessary details that would connote that it is the binding agreement between CAAP and UCPB relative to the subject investment.
- 19.8 The Accounting Division was not able to provide the Repurchase Agreement Certificate that, based on the supposed MPA, should contain the necessary details to support the transaction, as follows:

“2.c. The confirmation shall describe the investment details and set forth the:

- (i) *Transaction Reference Number or Repurchase Agreement Number*
- (ii) *Transaction Value Date or Issue Date*
- (iii) *Transaction Investment Amount*
- (iv) *Investment Interest Rate or Yield*
- (v) *Transaction Maturity Date or Repurchase Date*
- (vi) *Transaction Maturity Value*
- (vii) *Tenor of Transaction*
- (viii) *Any additional terms or conditions of the Transaction*

In addition, the Confirmation shall describe the Security/ies to be held for collateral and set forth the:

- (i) *Third Party Custodian*
- (ii) *Security's International Security Identification Number (ISIN) or other identifying number or numbers*
- (iii) *Security's Issue Date*
- (iv) *Security's Maturity Date*
- (v) *Security's Coupon Rate or other rate of return*
- (vi) *Security's Face Amount"*

- 19.9 The inability of the Management to present the afore-cited documents precluded the Audit Team from ascertaining the validity and regularity of the investment. Likewise, it casts doubt on whether the Authority even performed an in-depth study on whether the investment to the said Agreement was the most advantageous type of investment to the government.
- 19.10 **We recommended that Management instruct the Accounting Division to submit to the Audit Team for review, the duly-signed and notarized Repurchase Agreement and Repurchase Agreement Certificate and other relevant documentary requirements to support the validity and regularity of the transaction.**
- 19.11 Management submitted some of the documents and commented that the Authority entered into a Repurchase Agreement with UCPB because:
- a. It was deemed to be the most advantageous type of investment during that time;
 - b. It would yield a higher interest income compared to Time Deposits; and
 - c. It had a flexible time of maturity which the Authority could choose depending on the need for funding.

19.12 The Audit Team has yet to further verify and validate the documents and the justification given. Also, some documents needed in the validation have still to be submitted by the Management.

20. Payments to personnel of Service Provider under Institutional Contract of Service (COS) totaling P33.752 million covering payroll for the pay period March 16 to May 31, 2020, during the Enhanced/Modified Enhanced Community Quarantine (ECQ/MECQ) are not within the purview of Joint Circular No.1 dated March 9, 2020, of Commission on Audit (COA) and Department of Budget and Management (DBM), rendering the regularity of the expenses/payment questionable.

20.1 In response to the COVID-19 Pandemic, government agencies and offices were enjoined to adopt the alternative work arrangement such as work-from-home (WFH) arrangement and skeletal workforce set-up in view of the implementation of the Enhanced/Modified Community Quarantine (ECQ/MECQ). Relative thereto, COA and DBM issued Joint Circular (JC) No. 1, s. 2020 dated March 19, 2020, to include the Contract of Service (COS) and Job Order (JO) workers directly hired by the concerned offices/agencies in the said work arrangement. Meanwhile, Section 2 of the Circular provides:

“Section 2. Scope and Coverage

This Joint Circular shall cover all COS and JO workers whose services are directly engaged by Departments, Bureaus, Offices, and Agencies of the National Government, including Constitutional Offices, SUCs, GOCCs, and LWDs for the duration of the State Calamity and Community Quarantine due to the COVID-19.

XXX

Institutional COS workers assigned in government agencies to provide services such as janitorial, security, consultancy and other support services are excluded from the coverage of this joint Circular.”

20.2 The exclusion of the Institutional COS workers from the coverage of the Circular is in line with Joint Circular (JC) No. 1, s. 2017 of the Civil Service Commission, COA, and the Department of Budget and Management which provides that:

“6.1.2 Workers hired through institutional contract of service shall remain to be employees of the contractor or service provider.

6.1.4 The contractor or service provider shall be responsible for providing the workers with compensation and benefits

compliant with existing labor law including the necessary social security and other benefits mandated by law in addition to the direct compensation as payment for their services.”

- 20.3 CAAP has contracted the service of LSERV Corporation (formerly LBP Service Corporation) for the supply of technical and non-technical support service personnel covering the period March 1, 2020, to February 28, 2021. For non-technical support service personnel, the contract initially covers 2,588 personnel subject to increase/decrease depending on the manpower requirement of the Authority. These personnel, are deployed in the CAAP Head office and in different Area Centers/Airport Terminal located in all regions of the Philippines.
- 20.4 Under the contract of service, LSERV is entitled to an administrative fee ranging from 12 to 12.5 per cent of the total monthly payroll of the personnel deployed to CAAP. The Terms of Reference to the contracts includes the following provisions:
- “2.4.1 For and in consideration of the services rendered by support personnel deployed by the LSERV, payment shall be made upon presentation of its semi-monthly personnel payment and affidavit or sworn statement that it has paid the salaries and benefits of its personnel for the period covered, per submitted payroll and remitted the corresponding premiums to Pag-Ibig, SSS, PhilHealth, ECC etc. as well as the withholding taxes to BIR.*
- 2.11 The personnel to be assigned to CAAP shall render work for 8 hours a day from Monday to Friday, and in case the need arises, the said personnel may be required to render service beyond 8 hours period or during holidays or rest days.*
- 2.15 Manpower support personnel deployed in CAAP Central Office Service/Department and Area Centers shall not be considered organic personnel, neither will their assignment under this contract establish an employee-employer relationship with CAAP, nor be considered as valid service in the government.”*
- 20.5 Audit showed that CAAP paid LSERV a total of P141.391 million covering the period March 16 to May 31, 2020 for non-technical support service personnel. The breakdown is presented below:

Table 31. Summary of payments to LSERV

Period Covered	Payment inclusive of			Amount
	VAT	Admin Fee		
March 16-30, 2020	P 26,418,471	P 3,126,446	P	29,544,917
April 1-15, 2020	26,450,927	3,130,287		29,581,214

Period Covered	Payment inclusive of		Amount
	VAT	Admin Fee	
April 16-30, 2020	26,427,732	3,127,244	29,554,976
May 1-15, 2020	22,219,817	2,629,565	24,849,382
May 16-31, 2020	24,912,410	2,948,512	27,860,922
TOTAL	P 126,429,357	P 14,962,054	P 141,391,411

20.6 Detailed review of the individual payrolls and its supporting documents showed that payments amounting to P33.752 million are questionable due to the following deficiencies:

a. Payrolls amounting to P20.357 million were not supported with Daily Time Records (DTRs), while P7.842 million were without Accomplishment Reports (ARs).

20.7 DTRs and ARs are the basic documentary requirements in the payment of salaries, more so, on Institutional COS personnel. The DTR is important as it shows the record of the time-in and time-out of the personnel, making the computation and validation of the corresponding work hours, under time and/or overtime if any, and other related computations reliable and measurable.

20.8 Similarly, the AR is necessary to determine if the personnel are indeed performing the tasks assigned to them in accordance with the contract terms.

20.9 It was noted that CAAP paid LSERV for the supposed services of this outsourced personnel despite the absence of DTRs and ARs to support the payment.

20.10 Further, we observed that some personnel whose job requires their physical presence in the Authority's premises to perform their tasks, e.g. utility workers, were tagged as WFH in their respective DTRs.

b. Under times/Absences of personnel with an equivalent amount of P2.081 million were not deducted from their payroll and included in the billing of LSERV

20.11 As stated in the Service Contract, the LSERV personnel should only be paid according to the actual number of hours performed. However, lates/under times/absences reflected in the submitted DTRs with amount equivalent to P2.081 million were not deducted from the amount paid to LSERV.

20.12 We also observed that excused absences, as prescribed under CSC MC No. 08, s. 2020, were granted to 27 LSERV-managed personnel who underwent quarantine in CAAP Area Centers II, III, and IV. Some of these personnel were advised to WFH while undergoing quarantine, however, no accomplishment reports were submitted.

- 20.13 Excused absences, as defined by the CSC, shall refer to the period when government personnel are not required to report to work (required quarantine and/or treatment, and work suspension), but are entitled to pay, as declared by the President, or appropriate and competent authorities.
- 20.14 As clearly stated in Section 6.1.2 of the CSC-DBM-COA Joint Circular, Institutional COS personnel shall remain to be employees of the service provider, therefore all compensations and benefits accruing to outsourced personnel should be borne by them, including the availment of paid leaves.

c. Payrolls amounting to P3.472 million were supported with DTRs with incomplete/unreliable information/data.

- 20.15 Scrutiny of records showed that some of the DTRs contain incomplete data, such as filled-out time-in and time-out, approved work arrangement (Skeletal Workforce, WFH or day-off) and/or nature of absence (excused/ unexcused). Despite these deficiencies, CAAP was still billed for the supposed services of these outsourced personnel amounting to P3.472 million.
- 20.16 Further, we learned that CAAP issued Memorandum Circular (MC) No. 13-2020 dated March 25, 2020, which included the LSERV personnel from the WFH/skeletal work-set-up. Section 2 of the MC provides the following:

“2. PAYROLL

- a. All CAAP personnel (whether permanent, JOs, Contract of Service (COS), LSERV managed personnel) shall receive their full salaries/basic pay for the duration of the ECQ period from 15 March to 14 April 2020 or as maybe extended by competent authority.*
- b. For pragmatic considerations, the accomplishment report and daily time records as required under the “work-from-home” policy shall be submitted for processing on 24 April 2020, unless the ECQ shall be extended.*
- c. Any deductions from payroll in relation to attendance shall be chargeable to future pay periods after the ECQ shall be lifted.*
- d. In reference to the framework of [COA]-DBM Circular No. 01-2020 Sections 3.4 and 3.5, all JOs, COS, and LSERV managed personnel who will not be required to report for work due to the ECQ and those whose nature of work cannot be done thru WFH arrangement, shall be paid their corresponding salaries/wages during the ECQ period as an exception to the “no work/no pay” principle for the prescribed period.”*

- 20.17 The payments made by CAAP to LSERV from March 16 to May 31, 2020, for the full payroll of the latter's personnel assigned to CAAP despite the cited deficiencies appeared to have been based and/or can be attributed to MC No. 13-2020. However, the payments for the payroll totaling P33.752 million cannot be justified using the MC as basis because the COA-DBM JC No. 01, s. 2020 covers only the COS/JO workers directly hired by the government agency/office, and does not include Institutional COS, like the LSERV personnel, as provided in Section 2 of the JC. Hence, the Authority's reference to Sections 3.4 and 3.5 of the JC as a basis for the inclusion of the LSERV personnel in the WFH/Skeletal work-set-up is misplaced.
- 20.18 Furthermore, it was noted that LSERV billed CAAP in advance for the month of April 2020. Payroll for April 1-15, 2020 was billed on April 8, 2020, while payroll for April 16-30, 2020 was billed on April 22, 2020. Since the billings were made earlier than the pay periods, it is impossible for LSERV to determine the exact payroll amount of the personnel and to comply with the required supporting documents. The Terms of Reference to the contract, clearly provides that LSERV can bill CAAP and accept payment only upon presentation of its semi-monthly personnel payment and affidavit or sworn statement that it has paid the salaries and benefits of its personnel based on the payroll and with remittances of withholding taxes and other mandatory contributions.
- 20.19 Likewise, audit noted that the supporting documents attached to the SOA, which includes the Daily Time Records (DTRs) and Accomplishment Reports (ARs) of the outsourced personnel from the Area Centers, were not original copies but are either photocopies or scanned copies, casting doubt on the authenticity of the entries on the DTRs and ARs.
- 20.20 While the physical distance between the Area Centers and the Head Office, along with the prevailing community quarantine in place, may make it cumbersome for LSERV to transport the original copies of the DTRs and the rest of the supporting documents to the Head Office, the Authority should have insisted on the submission of the same as these documents are essential during the validation process. The Audit Team wishes to emphasize that LSERV and CAAP even had more than sufficient time and opportunity to transport the original documents after the payment but prior to submission to COA. Records show that the Disbursement Vouchers related to these payments were only submitted to COA last February 15, 2021, while the photocopies or scanned copies of the supporting documents were only fully submitted last March, 2021.
- 20.21 Lastly, while we commend the Authority in its ultimate goal of providing support to all its personnel during this very challenging time of the pandemic, noble it may be, these actions must be consistent with existing rules and regulations.

20.22 **We recommended that Management:**

- a. **Submit justification and/or legal bases, for evaluation of the Audit Team, for the payroll payment with noted deficiencies amounting to P33.752 million relative the services provided by the Institutional COS personnel;**
- b. **Require LSERV to submit the original copies of supporting documents for the pay period March 16 – May 31, 2020 to the Audit Team for review; and**
- c. **Direct the Accounting Division to ensure that all claims are duly supported with complete documentary requirements prior to processing and payment.**

21. The payments of hazard pay to the employees who physically reported to work during the implementation of the Enhanced Community Quarantine (ECQ) in Area Centers (ACs) IV, V, VI, and XII were insufficiently supported with documents required under the provisions of Administrative Order (AO) No. 26 dated March 23, 2020, thereby casting doubt on the validity and propriety of disbursement in the total amount of P2.655 million.

21.1 AO No. 26 dated March 23, 2020, issued by the President provides that, National Government Agencies (NGAs), including State Universities and Colleges (SUCs) and Government-Owned and Controlled Corporations (GOCCs), are authorized to grant COVID-19 Hazard Pay to personnel who physically report for work during the implementation of an Enhanced Community Quarantine in their respective work stations, in an amount not exceeding P500 per day per person. The grant of the said hazard pay is subject to the following conditions enumerated in Section 2 of the same AO:

- a. The personnel are occupying regular, contractual or casual positions, or are engaged through Contract of Service (COS), Job Order (JO) or other similar schemes;
- b. The personnel have been **authorized to physically report for work at their respective offices or work station on the prescribed official working hours by the head of agency or office** during the period of implementation of Enhanced Community Quarantine measures in the area of such office or work station; and
- c. The rate of COVID-19 Hazard Pay shall be based on the number of days an employee physically reports for work using the formula under Section 1 of the AO.

- 21.2 Review of the payments of hazard pay for the employees in ACs IV, V, VI, and XII totaling P2.655 million were not duly supported with documents necessary to validate their authority to physically report to work. Details are presented below:

Table 32. Summary of lacking documents relative to hazard pay per Area Center

AC	Amount	Lacking Documents
IV	P 1,355,500	<ul style="list-style-type: none"> • Authority to report to work during ECQ • Approved Schedule of Skeletal Work Force • Accomplishment Report • Proof of attendance such as the Timebook/Logbook
V	37,500	<ul style="list-style-type: none"> • Approved Schedule of Skeletal Work Force
VI	173,000	<ul style="list-style-type: none"> • Authority to report to work during ECQ
XII	1,088,500	<ul style="list-style-type: none"> • Approved Schedule of Skeletal Work Force
TOTAL	P 2,654,500	

- 21.3 In AC IV, an approved work schedule was not provided as their personnel was required to log in whenever there was a need to report for work. In the same manner, several employees in AC VI were requested to report during ECQ through a short messaging service (SMS), especially during sweeper flights. Approvals to such requests were not translated into formal documents and were replaced by certifications and justifications by the Division Chief.

- 21.4 While it is understood that there was a sudden need for employees to physically report to work to carry out the operations of the agency, compliance with the above-listed guidelines and conditions must still be strictly observed.

- 21.5 **We recommended that Management instruct the Accounting-in-charge to:**

- Submit to the Audit Team for evaluation the required documents to support the payment of hazard pay; and**
- Check the completeness of the supporting documents and compliance with applicable rules and regulation of claims prior to processing the payment.**

- 22. Rules and regulations on the granting, utilization, and liquidation of cash advances provided under COA Circular No. 97-002 dated February 10, 1997, were not observed by the Authority posing risk of possible loss or misuse of funds and resulted in the accumulation of the balance of cash advances totaling P1.877 million as of December 31, 2020.**

- 22.1 Section 89 of Presidential Decree 1445, otherwise known as the Government Code of the Philippines, provides that *“a cash advance shall be reported on and liquidated 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.”

- 22.2 COA Circular No. 97-002 dated February 10, 1997 provides for the rules and regulations on the granting, utilization, and liquidation of cash advances, for effective and efficient monitoring of the same.
- 22.3 Audit of the cash advances granted to SDOs disclosed that the Authority did not comply with the provisions of the aforementioned Circular. This observation was based on the results of the analysis of the cash advances and liquidations reports of the SDOs during the year.
- 22.4 The following were the observations noted:
- a. *Liquidation reports/documents were not submitted or reported by the SDOs to the Accounting Division immediately after the culmination/completion of the project or activity for which the cash advances were granted.***
- 22.5 Our verification disclosed that in CAAP-HO, almost all of the liquidation reports/documents were submitted to the Accounting Division only after several months from the completion of the intended project or activity contrary to Section 89 of PD 1445 and Section 4.1.3 of COA Circular No. 97-002. The summary of the submission of liquidation reports made during the year in the CAAP-HO Accounting Division is presented below:

Table 33. Summary of submission of liquidation reports

Date Granted	Culmination of Activity	Date Submitted to Accounting	Amount of Cash Advance
04-Dec-18	06-Dec-18	20-Sep-20	P 47,250
13-Feb-19	28-Feb-20	20-Sep-20	868,750
05-Feb-20	20-Feb-20	20-Jul-20	500,000
17-Feb-20	not indicated	23-Jul-20	200,000
27-Feb-20	13-Mar-20	05-Oct-20	1,945,200
04-Mar-20	12-Mar-20	08-Jul-20	339,400
07-Aug-20	not indicated	15-Dec-20	200,000
07-Aug-20	not indicated	09-Oct-20	81,400
17-Nov-20	not indicated	11-Dec-20	60,000
24-Nov-20	25-Nov-20	11-Dec-20	75,253
17-Jul-19	19-Jul-19	04-Feb-20	114,800
23-Aug-19	28-Aug-19	27-Feb-20	126,560
11-Dec-19	14-Dec-19	09-Mar-20	95,000
27-Feb-20	02-Mar-20	19-Oct-20	102,450
04-Aug-20	not indicated	27-Nov-20	200,000
TOTAL		P	5,505,063

- 22.6 This observation was also noted in AC III.

b. Cash advances were not fully liquidated as of December 31, 2020.

22.7 We have observed that some SDOs in CAAP-HO, ACs II, and IX have unliquidated cash advances totaling P1.639 million as of December 31, 2020. These amounts should have been liquidated as of year-end considering the purpose for which the cash advances were granted. Section 5.8 of the COA Circular provides that *“All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.”*

c. Cash Advances granted were in excess of what were required for the activities/projects and refunds were made several months after the culmination/ completion of the projects.

22.8 One of the documents required in granting cash advances is the Estimate of Expenses, which is the basis in determining the amount of cash advance to be granted.

22.9 In CAAP-HO, it was noted that many of the cash advances granted were more than the amount required for the activities or projects. Some cash advances exceeded by more than 30 to 50 per cent of the actual expenses for the project/activity.

22.10 Moreover, excess/unused cash advances were refunded only after several months from the culmination of the project/activity, which makes the practice more disturbing. In CAAP-HO, a cash advance of P1.945 million was granted on February 27, 2020 for the CY 2020 CAAP Anniversary in March 2020. Due to the pandemic, some of the anniversary activities were cancelled and the amount of P1.466 million was unspent. The said amount was refunded/returned only on December 16, 2020 or more than eight months from the culmination of the intended activity.

22.11 Section 5.7 provides that when a cash advance is no longer needed or has been not been used for a period of two months, it must be returned to or refunded immediately to the collecting officer.

22.12 The two-month period does not however apply to CAs for time-bound activities but only for petty cash fund and field operating expenses where the cash advances are continuous and subject to replenishment. Hence, excess cash advances for time bound projects/activity should be immediately refunded as soon as the activity/project is completed and/or the purpose is served.

d. Multiple/additional cash advances were granted to SDOs despite non-liquidation of previous cash advances.

22.13 Granting of additional cash advances before the full settlement of the previous cash advance is prohibited to avoid the accumulation of cash in the hands of the Accountable Officer and exposing the fund to possible loss or misuse. Similarly, granting of multiple cash advances is discouraged in order not to overburden the AOs of various accountabilities that may affect the performance of his/her work, and cause delays in the submission of the liquidation reports.

e. Significant delay was incurred in the verification and recording of liquidation reports by the Accounting Division.

22.14 Section 5.2 and 5.3 of the aforementioned COA Circular states that:

“5.2 The AO shall prepare the Report of Disbursements in three (3) copies and submit the same with duly accomplished vouchers/payrolls and supporting documents to the Accountant. For payments based on receipts and invoices only, he shall also prepare a liquidation voucher which shall be submitted with the report and supporting documents to the Accountant. He shall ensure that receipt of the report is properly acknowledged by the Accountant. The AO shall be deemed to have complied with the requirement of proper accounting for the cash advance upon the receipt by the Accountant of the liquidation documents referred to above.

5.3 Within ten (10) days after receipt of the report and supporting documents from the Accountable Officer (AO), the Accountant shall verify the report, record it in the books and submit the same with all the vouchers/payrolls and supporting documents to the Auditor. The cash advance shall be considered liquidated upon the recording thereof by the Accountant in the books of accounts although not yet audited by the COA auditor.”

22.15 The rationale of the rules is to facilitate the prompt recording and settlement of cash advances, coherent with the requirement that additional cash advances shall be granted only after the previous cash advance has been fully liquidated/settled.

22.16 Documents showed that in CAAP-HO, it took 13 to 314 days before the liquidation reports submitted by accountable officers were fully verified and recorded in the books by the Accounting Division.

22.17 The concerned accounting personnel claimed that one of the causes for the late verification/recording of the Liquidation Reports is the

lack/incompleteness of documents supporting the reports. She also explained that the validation/verification of the liquidation reports of the SDOs was given less priority in favor of other workloads handled by the concerned personnel.

- 22.18 Late recording of liquidation reports consequently causes delays in the recording/recognition of the expenses in the books, thus affecting the correctness of the financial statements of the Authority.

f. Grant of cash advance to an SDO for travel expenses of another person is not in accordance with the rules.

- 22.19 While Section 3.2 of COA Circular 97-002 did mention cash advances for travel expenses, Section 4.5 of the same circular specifically provides that the grant of cash advance for travel shall be governed by the provisions of COA Circular 96-004 dated April 19, 1996.

- 22.20 It can be inferred from the cited provisions that cash advances for travel shall only be granted to the employee/official who will be traveling.

- 22.21 In CAAP-HO, a cash advance amounting to P225,000 was granted to the Head of the Enforcement and Legal Service (ELS) for the travel expenses of the lawyers from the Office of the Government Corporate Counsel (OGCC) representing CAAP in hearings and meetings. Grant of said cash advance is not proper and is wanting of legal basis. Moreover, as indicated in the DV, the cash advance was intended for the traveling expenses for February and March 2020, however, as of December 31, 2020, the same had remained unliquidated.

- 22.22 **We recommended that Management:**

1. Adhere to the provisions of COA Circular No. 97-002 in the grant and utilization of cash advances as follows:

- a. Direct the Accountable Officers with outstanding balances in CAAP-HO, ACs II, V, and IX to immediately liquidate their cash advances upon completion of the project/activity and immediately refund the excess amount, if any;**
- b. Stop granting additional cash advance to AOs unless full settlement of the previous CA are made;**
- c. Direct the Accounting Division to immediately take appropriate action on the liquidation reports submitted by the AOs, and/or complete the verification and recording within the 10 day period as required by the Circular, and forward the corresponding reports to the Office of the Auditor; and**

2. Adhere to the provisions of COA Circular No. 96-004 on the grant and liquidation of cash advances for travel.

23. Disallowances and charges which have become final and executory in CAAP-HO totaling P6.730 million remained unsettled due to the laxity of management in enforcing its settlement or recovery as provided under Section 7.1 of COA Circular No.2009 - 006 dated September 15, 2009.

- 23.1 The *Receivable – Disallowances and Charges* account covers the receivables arising from transactions that are disallowed in audit for being irregular/unnecessary, and/or other similar reasons. It also includes charges for under-collection or under-remittance of revenue/income. A Notice of Disallowance (ND) is issued by the Auditor for disallowed transaction/s and a Notice of Charge (NC) for under-collection/remittance. Settlement of ND and NC and similar other accountabilities and claims are governed by COA Circular No 2009-006 dated September 15, 2009, entitled “Prescribing the use of the Rules and Regulations on the Settlement of Accounts”.
- 23.2 The ND/NC is to be settled by the persons liable within six months from receipt therefrom, or if appealed, immediately after receipt of the Notice of Finality of Decision (NFD). The NFD is a written notification of COA to the agency head and persons liable that the ND/NC has become final and executory. The NFD is also the basis of the Accountant in recording the receivables.
- 23.3 However, while the ND/NC is to be settled by the persons liable, the Head of the agency is primarily responsible for ensuring that the disallowances/charges are settled within the prescribed period. This is anchored from the State’s policy provided in Section 2 of PD 1445 that supervision and safeguard of government resources rest primarily on the head of the respective government agency. Thus, Section 7 of the COA Circular provides and we quote:

“Section 7. RESPONSIBILITIES FOR AUDIT AND SETTLEMENT OF ACCOUNTS

7.1 Responsibility of the Agency Head

7.1.1 The head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that:

- a. xxx;***
- b. The settlement of disallowances and charges is made within the prescribed period;***

- c. xxx;
- d. xxx.

7.1.2 The head of the agency shall initiate the necessary administrative and/or criminal action in case of unjustified failure/refusal to effect compliance with the foregoing requirements by subordinate officials. xxx

7.1.3 He shall enforce the COA Order of Execution (COE) by requiring the withholding of salaries or other compensation due the person liable in satisfaction of the disallowance or charge.

7.1.4 He shall ensure that all employees who are retiring or transferring to other agencies shall first settle the disallowances and charges for which they are liable.”

23.4 The COE is issued by COA, ordering the agency head, attention, the Treasurer/Cashier/Accountant, to withhold payment of salary and other money due to persons liable, for the settlement of their liability, in case of their refusal/failure to settle the ND/NC.

23.5 Verification revealed that except for ND No. 13-004, CAAP-HO did not enforce the COEs nor did they instigate any demand for the settlement of the disallowances/charges. Salary deductions were not effected on persons liable who are still in active service with CAAP nor were demand letters sent to persons liable who are no longer connected with the Authority. Out of the P6.822 million disallowances of previous years’ settlement for the year amounted only to P12,690 or 0.19 per cent of the total disallowance. For the issued NC, no settlement was made as of year-end. Details are presented below:

Table 34. List of issued ND and NC and its settlements

ND/NC No.	Date	Disallowed/ Charged	Settlement		Balance December 31, 2020
			Previous Years	Current Year (2020)	
ND					
ND No. 11-002	19-Oct-11	P 540,000	P 30,000	P 0	P 510,000
ND No. 12-003	30-Jul-12	435,000	75,000	0	360,000
ND No. 13-001	08-Feb-13	430,946	0	0	430,946
ND No. 13-004	09-Oct-13	**185,709	0	12,690	173,019
ND No. 2014-001	30-Jan-14	40,000	5,000	0	35,000
ND No. 14-002	30-Jan-14	50,695	0	0	50,695
ND No. 15-002*	03-Aug-15	3,380,662	0	0	3,380,662
ND No. 19-002*	26-Mar-19	1,750,000	0	0	1,750,000
ND No. 19-007	05-Jul-19	8,748	0	0	8,748
Subtotal- ND		P 6,821,760	P 110,000	P 12,690	P 6,699,070
In Terms of Percentage			1.61%	0.19%	

ND/NC No.	Date	Disallowed/ Charged	Settlement		Balance December 31, 2020
			Previous Years	Current Year (2020)	
NC					
NC No. 13-001	05-Aug-13	19,538	0	0	19,538
NC No. 15-01	19-Mar-15	11,375	0	0	11,375
Subtotal- NC		30,913	0	0	30,913
In Terms of Percentage			0%	0%	
TOTAL		P 6,852,673	P 110,000	P 12,690	P 6,729,983

**Appeal Memorandum was filed only after the issuance of the Notice of Finality of Decision (NFD)*

***Amount was reduced from P1.207 million to P185,709 per COA CP Decision No. 2017-379 dated November 20, 2017*

- 23.6 The inaction or laxity of Management in enforcing the recovery of the disallowances and charges is contrary to the provisions of the afore-cited COA circular. Moreover, the non-settlement of these receivables will consequently result in unnecessary loss of CAAP's funds that could have been used to implement its programs, projects and activities.
- 23.7 This observation has been raised in previous audit years but has remained unacted. The Team however reminded Management that any payment of salaries or any money due to persons liable in violation of the issued COEs may be disallowed in audit.
- 23.8 **We recommended and Management agreed to strictly adhere to the Rules and Regulations on the settlement of accounts prescribed under COA Circular No. 2009-006 by directing the:**
- a. **Chief Accountant to withhold the salaries or any money due to persons liable who are still connected with CAAP for the settlement of their liabilities; and**
 - b. **Concerned CAAP officials to initiate and exhaust all legal means to collect/recover the disallowances and charges, such as sending demand letters, filing of administrative/criminal actions in case of unjustified refusal to settle their liabilities, and/or other appropriate actions.**
- 23.9 Management commented that the Accounting Division has been withholding an amount from salaries and other claims of employees whose disallowances and charges have become final and executory. Instruction was also given to the Accounting Division to religiously continue implementing the salary deduction for those employees who are still active from the service with ND/NC. In addition, Internal Audit Service (IAS) will coordinate with Enforcement and Legal Service (ELS) for the accounts of CAAP Board of Directors.

23.10 The Audit Team will monitor Management's compliance with the recommendations.

24. Copies of perfected contracts and their supporting documents were not submitted to COA within five working days from its perfection, disregarding Sections 3.1.1 & 3.2.1 of COA Circular No. 2009-001, thereby preventing timely verification of the legality and propriety of the procurement activities completed.

24.1 Paragraph 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 requires the submission within five (5) working days from the execution of a contract of a copy of the said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.

24.2 Records showed that in CAAP-HO, copies of contracts are submitted several months after receipt of the NTP by the contractor, and more often than not, the submitted documents are incomplete, thus, causing further delays in the review. Our inquiry disclosed that the delay and/or incomplete submission of documents is caused by lack of clear delineation of duties and responsibilities particularly on who is assigned in keeping and ensuring the completeness of all the contracts and all other procurement documents.

24.3 While in AC X, the submission of the contracts and pertinent documents for review was discontinued in CY 2020 mainly because of the delay in the processing of signed Certificate of Availability of Funds, which forms part of the required documents for submission. As justified by the BAC Secretariat, the delay would sometimes go beyond 5 days, and since they will be submitting the original documents to the accountant for the payment of the first billing of the suppliers, they decided to stop submitting to COA the contracts and documents within the prescribed reglementary period of 5 days from the execution of the contracts or issuance of the purchase orders. In prior years, submission of contract documents was also delayed and not conforming to the prescribed timelines.

24.4 This observation has been consistently observed in almost all contract submissions made by the Authority which defeats the purpose of the complete and timely review and/or evaluation of the contracts.

24.5 **We recommended that Management direct the concerned office/s to submit copy of the contracts with complete supporting documents within five days from its execution, as required in COA Circular 2009-001.**

24.6 CAAP-HO commented that the delays were caused by the lack of manpower in the Procurement Division. However, the said division committed to adhere to the recommendation.

25. Various provisions in the Revised IRR of RA No. 9184 were not complied by Area Centers (ACs) V, VI, VII, X, and XII, thus, there was no assurance that transparency, competitiveness, efficiency, and economy were observed in the procurement transactions of the Authority.

25.1 The governing principles on government procurement as contained in Republic Act (RA) No. 9184 and its RIRR requires, among others, the principle of transparency, competitiveness, economy, and streamlined procurement process. These principles are translated into provisions and requirements to attain an efficient and effective method of procurement.

25.2 The following infrastructure projects and contracts for the procurement of goods and services with a total amount of P58.406 million were found to be non-compliant with some of the provisions of the RIRR:

Table 35. Results of Evaluation of Procurement Contracts

AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
AC V	Ten (10) Infrastructure Projects	Section 21.2.1 and Section 37.1.6 Advertisement/posting of Invitation to Bid (ITB) and Notices of Award (NOA) in conspicuous places, in Website of the procuring Entity, PhilGEPS website, /newspaper	No proof of posting of the ITB and NOA at any conspicuous place in the premises of the procuring entity.	P 23,044,855
		Section 37.2.2 The Procuring Entity shall enter into a contract with the winning bidder within ten (10) days provided that all documentary requirements under Sec. 37.2.3 are complied with- <ul style="list-style-type: none"> - Contract agreement - Bidding documents - Performance security - and others 	Cannot be ascertained if the winning bidder submitted the documents required in Sec. 37.2.3 within 10 days from receipt of NOA due to insufficiency of information/data to allow the validation or verification.	

AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		<p>Section 37.4.1</p> <p>Issuance of NTP and copy of the contract to the successful bidder within 7 CDs from the date of approval of the contract.</p>	Delayed issuance of the NTP from two Calendar Days (CDs) to as long as 96 CDs delay, resulting in delayed implementation of the project.	
		<p>Section 37.4.2</p> <p>Posting of NTP and approved contract in PhilGEPS and Website of the PE within 15 days from the issuance of the NTP.</p>	Delayed posting of the NTP in the PhilGEPS, from four CD to as long as 30 CD delay.	
AC V	Payment for various repairs and maintenance projects	<p>Section 68</p> <p>Contracts shall contain a provision for liquidated damages.</p>	Contract Agreements did not specify the commencement date of the projects and did not contain a provision on liquidated damages as well as sanction/penalties.	7,141,078
AC VI	Water Distribution System and Sanitary Plumbing System	<p>Section 32</p> <p>BAC to conduct a detailed evaluation of all bids submitted as to the completeness of the bid and arithmetical corrections.</p>	Detailed evaluation of bids was not properly done which resulted in undetected computational error in the amount of P257,351.	257,351
AC VI	Procurement of goods for the installation of two 30 TRA air conditioning units	<p>Section 34</p> <p>The Lowest Calculated Bid (LCB) shall undergo post-qualification to determine whether the bidder concerned complies with and is responsive to all the requirements and conditions as specified in the Bidding documents including the verification and validation of all the statements made therein.</p>	Post-qualification on the eligibility of the Lowest Calculated Bidder were not done meticulously, thus, resulted in the award of the contract to a non-responsive bidder.	4,518,593
AC XII	Various Infrastructure Projects and Equipment	<p>Section 7.1</p> <p><i>"All procurement shall be within the approved budget"</i></p>	Procurement of various infrastructure projects and	21,825,956

AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
		<p><i>of the Procuring Entity and should be meticulously and judiciously planned by the Procuring Entity. Xxx. For purposes of this IRR, a procurement project shall be considered crucial to the efficient discharge of governmental functions if it is required for the day-to-day operations or is in pursuit of the principal mandate of the Procuring Entity concerned." Xxx</i></p>	<p>equipment were not properly and judiciously planned and managed.</p> <ul style="list-style-type: none"> • Four units water purifier, and 16 units UV carbon cartridge and others costing P251,000 and P269,960, respectively, remained unutilized as of December 31, 2020 • Generator set costing P7.977 million was purchased despite the existence of a functional generator set. • 17 units grass cutters - P0.603 million; The units were purchased without determining the need for it. • 6-slot kennel - P1.989 million; The need for the construction is not established due to the existing functional kennel. • Four (4) Sewage Treatment Tanks (STTs) - P10.735 million; The need for the treatment tanks is not established due to the existing tanks. 	

AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA No. 9184 not complied	Condition	Contract Amount
AC XII	Various Supplies and Equipment	<p>Section 23.6</p> <p>Notwithstanding the eligibility of a bidder, the Procuring Entity has the right to review the qualification of the bidder at any stage of the procurement process if there is reasonable ground to believe that a misrepresentation has been made by the supplier; if proven, the said bidder may be declared ineligible.</p>	Supplies and equipment were purchased from suppliers with different line of business.	1,618,603

25.3 **We recommended and Management agreed to direct the concerned BAC/Canvass Committees, procurement officers, and other concerned officials to strictly adhere to the provisions of RA No. 9184 and its RIRR in all procurement activities of the Authority, and implement/adopt policies and/or monitoring system that will ensure compliance with the procurement law.**

26. The Authority was not able to comply with the mandatory budget requirement of allocating at least 5 per cent of its total Corporate Operating Budget for GAD Programs, Activities and Projects contrary to Section 36(a) of RA No. 9710 or the Magna Carta of Women.

26.1 Section 36(a) Chapter VI of RA No. 9710 Magna Carta of Women mandates that all departments, including their attached agencies, offices, bureaus, state universities and colleges, government-owned and-controlled corporations, local government units, and other government instrumentalities shall adopt gender mainstreaming as a strategy to promote women's human rights and eliminate gender discrimination in their systems, structures, policies, programs, processes, and procedures which shall include, but not limited to, planning, budgeting, monitoring and evaluation of GAD programs, which shall be at least five (5) per cent of their budgets.

26.2 Similarly, Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 states that at least five per cent of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.

- 26.3 Further, Section 1.5 of the PCW Memorandum Circular 2016-05 dated 30 September 2016 states that *“Aside from implementing direct GAD PAPs to address organization- or client-focused gender issues or GAD mandates, agencies may attribute a portion or the whole budget/expenditure of the agency’s major program/s or project/s to the GAD budget/expenditure using the Harmonized Gender and Development Guidelines (HGDG) tool. Major programs/projects subjected to the HGDG test shall be reflected under the GPB/GAD AR section on “ATTRIBUTED PROGRAMS...” (Underline ours)*
- 26.4 Audit of GAD Plans and Budget for CY 2020 of the Authority revealed that out of the P7.321 billion approved COB for 2020, only P74.123 million or 1.01 per cent were allocated to GAD Programs, Activities and Projects (PAPs), contrary to the above-mentioned circulars. We noted that the allocation was only for organization-focused and client-focused programs.
- 26.5 Examination of the GPB showed that the Authority was not able to include any attributed programs in the GPB contributing to the inability of Management to meet the five per cent budget allocation requirement. The inclusion of portions of the attributed programs requires knowledge on the utilization of the HGDG Tool. In the 2018 and 2019 Annual Audit Reports, the Audit Team has continuously cited the need for Management to capacitate themselves in the use of the tool. In CY 2020 GPB, Management finally included the attendance of seminars on the use of HGDG tool, however, Management was not able to attend any seminars/webinars related to the topic.
- 26.6 As per the Philippine Commission on Women’s (PCW’s) official website, the PCW held a webinar last October 15, 2020, on the topic. Likewise, Management could have sourced out specialists or experts on the topic to conduct the webinar for the Authority.
- 26.7 **We recommended and Management agreed to instruct the Chairperson, GFPS Executive Committee, to:**
- a. **Strictly observe the guidelines in the preparation of the GPB and henceforth ensure that at least five (5) per cent of the Corporate Operating Budget supports PAPs relative to Gender and Development; and**
 - b. **Conduct trainings to capacitate CAAP personnel in the HO and Area Centers in the use of HGDG tool in assessing the gender-responsiveness of the Authority’s major programs and activities and determine the percentage of the budget that can be allocated to the GPB.**

27. Non-institutionalization of GAD Database/Sex-Disaggregated Data casts doubt on whether the identified programs and activities of the Authority to address gender issues are truly reflective of the existing issues faced by its clients and employees.

27.1 Section 4.4 of the PCW-NEDA-DBM Joint Circular states that:

“Institutionalizing GAD Database/Sex-disaggregated Data (SDD): The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation.”

27.2 Audit noted that Management was not able to institutionalize a GAD Database/SDD for the past 3 audit years. The GAD Database/SDD is one of the essential elements in GAD planning and budgeting as they enable agencies to effectively plan and implement their agency-wide programs on GAD. It serves as an important tool to facilitate the conduct of gender analysis within the organization and in identifying GAD issues affecting the attainment of its mandate.

27.3 Establishing a GAD database/SDD could have been used to assess the progress or results of prior years' GAD activities to determine remaining issues that have not been addressed in the earlier GPBs. The non-implementation of the GAD database casts doubt on whether the identified gender issues in the GPB are genuinely reflective of the existing gender issues faced by its clients and employees.

27.4 Similar to our observation in the use of the HGDG tool, Management asserted that they do not have the expertise to implement the subject database. We emphasized that there are many resources available to enable Management to capacitate themselves and that they simply have to allot sufficient time and effort.

27.5 **We reiterated our prior year's recommendation that Management instruct the Human Resource Management Office (HRMO) in coordination with the Chairperson, GFPS Executive Committee, to develop a GAD Database/Sex-Disaggregated Data and capacitate GAD GFPS on its use and importance to be able to aid the focal point in the determination of gender issues and corresponding actions to address it.**

28. CAAP's GAD Focal Point System (GFPS) failed to submit to the PCW and COA the GAD Accomplishment Report (AR) for CY 2020 along with the complete supporting documentation contrary to Section 10 of PCW-NEDA-COA Joint

Circular No. 2012-01, thereby precluding the Audit Team from ascertaining the degree of compliance of the GAD AR against the GPB.

- 28.1 Section 10 of the PCW-NEDA-COA Joint Circular states that the agency GFPS shall submit to the PCW the GAD AR at the end of January of the following year. The GAD AR shall include a summary of the reported program or project, copies of reported policy issuances, results of HGDG test, and, actions taken by Management to address audit findings and recommendations. The report shall be used by the PCW to assess the actual accomplishment of the agency and include the same in the annual integrated GAD AR for submission to Congress, the Office of the President, Department of Budget and Management, and the Commission on Audit.
- 28.2 Similarly, COA Circular 2014-001 dated March 18, 2014, requires the submission of the GAD AR to COA within 5 working days from the end of January of the preceding year.
- 28.3 Audit disclosed that Management did not submit the GAD AR to the PCW for its CY 2020 GPB. We noted that the GFPS did prepare their GAD AR which was subsequently approved by the Director General, however the same was not submitted to the PCW. Per interview with a member of the GFPS, he raised that they did not submit the GAD AR to the PCW since there was no significant accomplishment for the year considering the pandemic and that there was no instruction to submit the same to the PCW.
- 28.4 The GAD AR, regardless of the percentage of accomplishment vis-à-vis the GPB, should be submitted to the PCW as required by the aforementioned provision. We emphasize that the submission of the GAD AR to the PCW is not a mere recommendation or suggestion. The Joint Circular mandates its submission to be able to ascertain the percentage of accomplishment of the agency against its PCW-endorsed GPB and to ensure compliance of agencies as to the government's goal to provide PAPs that respect, protect and fulfill the rights of women at the socio-cultural, economic and political sphere.
- 28.5 The Audit Team was able to secure a copy of the GAD AR duly signed by the Director General, albeit the non-submission to the PCW, however, Management was unable to provide sufficient documents as required by the aforesaid provisions, thus, precluding the Audit Team in ascertaining the extent of compliance of the GAD AR as against the GPB.
- 28.6 **We recommended that Management instruct the Chairperson, GFPS Executive Committee, to submit to the PCW and COA, for evaluation, the GAD AR along with all the necessary supporting documents as required by the PCW-NEDA-COA Joint Circular 2012-01.**

29. Compliance with Tax Laws

29.1 For CY 2020, the CAAP-HO and 12 Area Centers (ACs) have substantially complied with the requirements on the withholding and remittances of taxes on gross compensation income from officials and employees. Details are presented below:

Table 36. Taxes Withheld and Remitted

Offices		Beginning Balance, January 2020 (As Restated)	Adjustments During the Year	Taxes During CY 2020		Balance, December 31, 2020
				Tax Withheld	Tax Remitted	
Head Office	P	53,341,447	P(1,627,452)	P 275,634,829	P 248,671,546	P 78,677,278
Area Centers:						
AC I		1,262,606	0	8,663,089	8,834,754	1,090,941
AC II		918,962	0	4,414,520	4,641,887	691,595
AC III		8,113,478	0	14,003,259	15,791,466	6,325,271
AC IV		1,695,839	(19,273)	8,749,481	9,547,433	878,614
AC V		307,013	0	9,760,138	9,843,323	223,828
AC VI		2,276,810	(106,878)	28,374,810	29,354,191	1,190,551
AC VII		2,232,348	0	24,783,667	20,571,884	6,444,131
AC VIII		1,398,036	(44,697)	8,295,732	8,549,718	1,099,353
AC IX		2,687,129	(2,368,527)	12,798,843	11,633,379	1,484,066
AC X		2,987,530	0	11,874,152	13,037,292	1,824,390
AC XI		4,246,165	0	23,118,914	23,970,258	3,394,821
AC XII		78,353	(52,608)	8,991,774	8,846,519	171,000
Total, Area Centers		28,204,269	(2,591,983)	163,828,379	164,622,104	24,818,561
Grand Total	P	81,545,716	P (4,219,435)	P 439,463,208	P 413,293,650	P 103,495,839

29.2 The unremitted balances pertain mostly to the withholding taxes in December 2020.

30. Compliance with GSIS, Pag-IBIG, and PhilHealth Premium/Loan Amortizations/Deductions and Remittances

30.1 The GSIS personal share, loans of employees, Social Insurance Fund (SIF), and Employees Compensation Insurance Fund (ECIF) premiums as government shares were substantially deducted and remitted in accordance with RA No. 8291, the GSIS Act of 1997. Likewise, Pag-IBIG/PhilHealth premiums and loan amortizations collected were remitted in compliance with RA No. 9679 (Pag-IBIG Fund Law 2009) and Title III, Rule III, Section 18 of the Implementing Rules and Regulations of RA No. 7875 (National Health Insurance Act of 2013) respectively.

Table 37. GSIS, Pag-IBIG, and PhilHealth Premiums/Loan Amortizations and Remittances

Particulars	Balances as of January 1, 2020 as restated		Premiums and Loan Amortization collected for CY2020		Balance as of December 31, 2020	
		Adjustment(s)		Remittances		
GSIS	P 16,386,322	P 2,821,771	P 312,419,978	P 320,205,380	P 11,422,691	
Pag-IBIG	4,382,964	2,477,712	46,882,735	49,034,462	4,708,949	
PhilHealth	3,944,152	262,099	30,198,290	30,124,079	4,280,462	
TOTAL	P 24,713,438	P 5,561,582	P 389,501,003	P 399,363,921	P 20,412,102	

- 30.2 Most of the ending balances pertain to collections in December 2020 that were subsequently remitted in January 2021. Moreover, an observation has been noted in Area Center VI wherein the GSIS Premiums withheld from employees' salary and the corresponding Employer's Share in the accumulated amount of P1.089 million were not fully remitted due to inadequate monitoring and reconciliation of records of Area and Satellite Offices as of December 31, 2020, contrary to Section 6 of RA No. 8291 or the GSIS Insurance Act of 1997. The unremitted premiums were withheld from salary adjustments due to promotions, salary differentials, and retirement, which as of year-end, were not fully reconciled with GSIS records due to some deficiencies in updating the membership profiles of affected employees and the absence of subsidiary ledgers.

31. Enforcement of COA Audit Suspensions, Disallowances, and Charges

- 31.1 The total audit suspensions, disallowances, and charges found in the audit of transactions as of December 31, 2020, 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:

HEAD OFFICE

Table 38. Summary of Audit Suspensions, Disallowances, and Charges in the Head Office

Particulars	Beginning Balance as of January 1, 2020	This Period January 1 to December 31, 2020		Ending Balance as of December 31, 2020
		NS/ND/NC	NSSDC	
Notice of Suspension	P 187,664,906	P 0	P 157,735,845	P 29,929,061
Notice of Disallowance	728,668,186	157,626,293	197,882	886,096,597
Notice of Charge	30,913	0	0	30,913
TOTAL	P 916,364,005	P 157,626,293	P 157,933,727	P 916,056,571
% of settlement			14.71%	

AREA CENTERS

Table 39. Summary of Audit Suspensions, Disallowances, and Charges in the Area Centers

Particulars	Beginning Balance as of January 1, 2020		This period January 1 to December 31, 2020		Ending Balance as of December 31, 2020
			NS/ND/NC	NSSDC	
Notice of Suspensions					
AC V	P	2,930,407	P 164,735	P 1,951,008	P 1,144,134
AC VIII		856,485	0	720,657	135,828
AC XII		15,440,024	0	458,575	14,981,449
TOTAL	P	19,226,916	P 164,735	P 3,130,240	P 16,261,411
% of settlement				16.14%	
Notice of Disallowances					
AC I	P	16,342,938	P 0	P 0	P 16,342,938
AC II		8,321,783	0	0	8,321,783
AC III		17,676,774	0	1,800,419	15,876,355
AC IV		11,676,055	0	0	11,676,055
AC V		22,315,430	0	0	22,315,430
AC VI		67,119,757	0	0	67,119,757
AC VII		41,530,411	0	0	41,530,411
AC VIII		9,353,023	14,204	10,654	9,356,573
AC IX		26,827,107	0	0	26,827,107
AC X		108,587,560	0	0	108,587,560
AC XI		39,066,589	0	30,000	39,036,589
AC XII		7,257,804	0	0	7,257,804
TOTAL	P	376,075,231	P 14,204	P 1,841,073	P 374,248,362
% of settlement				0.49%	

- 31.2 An observation has been noted in CAAP-HO wherein the disallowances and charges which have become final and executory totaling P6.730 million remained unsettled due to the laxity of management in enforcing its settlement or recovery as provided under Section 7.1 of COA Circular No. 2009 - 006 dated September 15, 2009.