

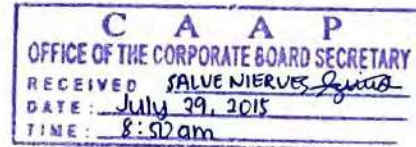


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

July 28, 2015

THE BOARD OF DIRECTORS

Civil Aviation Authority of the Philippines
Old Mia Road, Pasay City, Metro Manila



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and operations of the Civil Aviation Authority of the Philippines (CAAP) for the year ended December 31, 2014.

We expressed an adverse opinion on the fairness of presentation of the financial statements due to the following:

1. Significant effect of the following doubtful accounts transferred from the abolished Air Transportation Office (ATO) to the CAAP books of accounts since CY 2008 cannot be substantiated due to the inadequacy of the accounting records and/or absence of supporting documents:
 - The Receivables' net balance of P8.457 billion is uncertain owing to the substantial variance between the total Accounts Receivable (AR) per General Ledger and per aging schedules of AR amounting to P797.912 million in the Head Office and P14.440 million in the Area Centers. There are also debtor's unsettled accounts which dates back to 1997 in the total amount of P4.468 billion in the Head Office and P857.885 million in the Area Centers and negative balances in the total amount of P37.744 million in the Head Office;
 - Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets transferred from ATO books, which were temporarily lodged under the "Other Assets" in CY 2008 pending verification, remain unreconciled and unadjusted. The account has a balance of P4.362 billion and P0.223 billion in the Head Office and Area Centers, respectively, for a total balance of P4.585 billion; and
 - The inadequately-conducted physical inventory of Property and Equipment (PE) and the inefficient property custodianship system of the Authority renders the balance of the PPE account amounting to P1.099 billion unreliable, which include the transferred PE from ATO books amounting to P134.011 million;
2. Cash in Bank is understated by P348.269 million as a result of unrecognized bank credits and other reconciling items; and

3. Unadjusted/unreconciled prior years' obligated transactions amounting to P22.269 million in the Head Office as of December 31, 2014.

The significant observations and recommendations that need immediate actions are as follows:

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

We reiterated our recommendations that Management require:

- a. Concerned officials and employees to conduct physical count of all inventories once every semester and submit to COA the Report of Physical Count of Inventories in the prescribed format not later than July 31 and January 31 of each year and reconcile the results of the physical count with the property and accounting records;
 - b. The Accounting Division to:
 - maintain properly SLCs and reconcile the same with the general ledger balance with the SLCs;
 - exert extra effort to reconcile, document and adjust the unaccounted balance of Other Supplies Inventory and Other Prepaid Expense accounts to the proper accounts; and
 - c. The Supply Section and the Office of the Flight Surgeon and Aviation Medicine (OFSAM) to prepare/maintain/update the SCs for all inventory accounts.
2. Outstanding unliquidated cash advances (CAs) as of December 31, 2014 of P3.177 million out of the cash advances granted in CY 2014 and P7.93 million from prior years' cash advances.

We reiterated our recommendations that the Authority:

- a. Require strict adherence to the provisions of COA Circular Nos. 2012-004 and compel its officers and employees to immediately liquidate their long outstanding cash advances and COA Circular No. 97-002 dated February 10, 1997, on the granting, utilization and liquidation of cash advances;
- b. Cause or order the withholding of payment of any money due to officers and employees who have long outstanding cash advances; and
- c. Require the Accountant to strictly monitor the liquidation of CAs and enforce deduction from the salary of employees in cases of failure to liquidate within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers in compliance to Authority Order No. 111-10 dated May 7, 2010.

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

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

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

The other audit observations together with the recommended courses of action which we discussed with concerned Management officials and staff during the exit conference conducted on June 18, 2015 are discussed in detail in Part II of the report.

In a letter of even date, we requested the Authority's Director General to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days upon receipt hereof.

We acknowledge the support and cooperation that the Management has extended to the Audit Group, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


LEILA S. PARAS
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representative
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

July 28, 2015

LT GEN WILLIAM K. HOTCHKISS III AFP (Ret.)
Director General
Civil Aviation Authority of the Philippines
Old Mia Road, Pasay City, Metro Manila



Dear Lt Gen Hotchkiss:

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The other audit observations together with the recommended courses of action which we discussed with concerned Management officials and staff during the exit conference conducted on June 18, 2015 are discussed in detail in Part II of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and the Status of Implementation form (copy attached) within 60 days upon receipt hereof.

We acknowledge the support and cooperation that the Management has extended to the Audit Group, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



LEILA S. PARAS
Director IV

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