



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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 30, 2016

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



Sir:

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 audits of the accounts and operations of the Civil Aviation Authority of the Philippines (CAAP) for the year ended December 31, 2015.

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

Accounts receivable totaling P5.576 billion which remained outstanding since 1997 were provided an allowance for uncollectibility of P0.453 million and P0.438 million only as of December 31, 2015 and 2014, respectively, thereby overstating the reported receivables as of even dates by P5.123 billion and P5.138 billion, respectively. In addition, Cash in Banks and Accounts Receivable accounts are understated and overstated, respectively, by P125.025 million and P348.269 million as of December 31, 2015 and 2014, respectively, representing unbooked reconciling items consisting of unaccounted/unidentified deposits, remittances and bank debit/credit memos. Further, property and equipment account is understated by an amount equivalent to the fair market value of 23 parcels of land located in Parañaque City with a total land area of 20,176 square meters which remained unrecorded in CAAP's books.

Included in the Statements of Financial Position is an account designated as "Other Assets" with balances of P4.684 billion and P4.585 billion as of December 31, 2015 and 2014, respectively. The account consists of various current assets, property and equipment, and other asset accounts transferred from ATO books in 2008 which were temporarily lodged under the "Other Assets" account pending verification, reconciliation and adjustment. Likewise, variances of P751.968 million and P812.352 million as of December 31, 2015 and 2014, respectively, between the general ledger and the aging schedule balances of accounts receivable were noted. Moreover, Deferred Charges account with balances of P97.250 million and P103.491 million as of December 31, 2015 and 2014, respectively, are doubtful. We were not able to conduct alternative audit procedures to establish the accuracy of the balances of the mentioned accounts because of the absence of documents and inadequacy of the accounting records.

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

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

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

- a) Automation of billing data, invoicing and collection; and
- b) Formulation of policy on imposition of fee/penalty for late payments and initiation of legal action on delinquent customers.

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

We recommended that the Authority:

- a) Submit an explanation for the payment of the overbilling of BayanTel; and
- b) Cause the recovery of the overpaid amount from BayanTel.

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

We reiterated our recommendations that Management require:

- a) Concerned officials and employees to conduct physical count of all inventories once every semester and submit the Report of Physical Count of Inventories (RCPIs) in the prescribed format not later than July 31 and January 31 of each year and reconcile the results of the physical count with the property and accounting records;
- b) The Accounting Division to:
 - maintain and update stock ledger cards and conduct regular reconciliation with the Supply division
 - exert extra effort to reconcile, document and adjust the unaccounted balance of Drugs and Medicines Inventory, Other Supplies Inventory and Other Prepaid Expense accounts to the proper accounts; and
- c) The Supply Section and Office of the Flight Surgeon and Aviation Medicine (OFSAM) to prepare/maintain/update the stock cards for all inventory accounts under their accountability.

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

We reiterated our recommendation that the Authority:

- a) Require all officers and employees to strictly adhere to the provisions of COA Circular No. 97-002, on the granting, utilization and liquidation of cash advances;
- b) Cause or order the withholding of payment of any money due to the officers and employees with long outstanding cash advances and strictly enforce the deduction from the salary of the employees in case of failure to liquidate their current CAs within the prescribed period as stated in the signed "Authority to Deduct", attached to the cash advance vouchers;
- c) Exert best efforts to reconcile the differences noted between the GL, SL and Aging Schedule and prepare the corresponding adjusting entries; and
- d) Exert best efforts to recover the outstanding accountabilities by:
 - Requiring those who left without being cleared or proper resignation to claim their terminal leaves benefits in order for the Authority to offset their accountabilities;
 - Where there are no terminal benefits available, have the separated employees or the next of kin of the deceased settle the amount through refund; and
 - Should the aforementioned methods prove to be futile, the Authority should resort to legal remedies.

The other audit observations together with the recommended courses of actions which we discussed with concerned Management officials and staff during the exit conference conducted on May 18, 2016 are discussed in detail in Part II of the report.

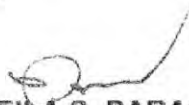
We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and the Status of Implementation form (copy attached) within 60 days upon receipt hereof.

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

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



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June 30, 2016

THE BOARD OF DIRECTORS

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

Carmelynda V. Samoy
CARMELYNDA V. SAMOY
Board Secretary III
Office of the Corporate Secretary
6/30
8:25

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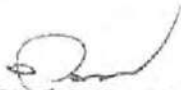
In a letter of even date, we requested the CAAP's Director General to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days upon receipt hereof.

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

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LEILA S. PARAS
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