

## OBSERVATIONS AND RECOMMENDATIONS

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### A. FINANCIAL AUDIT

1. The reported Property and Equipment (PE) accounts with a total amount of P77.364 billion as of December 31, 2018 is unreliable due to a) unreconciled variance of P19.163 billion between the General Ledger (GL) and the Report of Physical Count of Property, Plant and Equipment (RPCPPE); b) non-maintenance of Property Cards (PC) and Property, Plant and Equipment Ledger Cards (PPELC); c) non-recording of donated properties; and d) non-derecognition and non-disposal of unserviceable properties with a total cost of P120.927 million.

- 1.1 Paragraph 15 of Philippine Accounting Standards (PAS) 1, on Presentation of Financial Statements 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.*  
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#### ***Variance between the GL and RPCPPE – P19.163 billion***

- 1.2 COA Circular No. 80-124 provides that physical inventory-taking is an indispensable procedure for checking the integrity of property custodianship. It is then important for Management to perform a physical inventory of all properties at least once a year.
- 1.3 COA Circular No. 80-124 also provides that “all inventory reports shall be prepared on the prescribed form (Gen. Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency. The reports shall be properly reconciled with accounting and inventory records.”
- 1.4 As of December 31, 2018, PE accounts totaling P23,956,425,753 could not be validated due to the non-submission of CAAP Head Office (CAAP-HO) and Area Centers (ACs) III, VI and XII of a complete RPCPPE casting doubts on the existence of those properties without RPCPPE.
- 1.5 Moreover, comparison between results of physical inventory (RPCPPE) and balances per books disclosed a variance of P19,162,621,860 which remain unreconciled as of December 31, 2018, details as shown on the next page:

**Table 1. Comparison of PE balances per RPCPPE and GL**

Location	Total PE		Variance
	per GL	per RPCPPE	
Head Office (HO)	P 4,172,775,794	P 3,694,771,619	P 478,004,175
Area Center III	1,252,509,072	1,099,032,275	153,476,797
Area Center VI	16,205,281,724	-	16,205,281,724
Area Center XII	2,325,859,164	-	2,325,859,164
<b>TOTAL</b>	<b>P 23,956,425,754</b>	<b>P 4,793,803,894</b>	<b>P 19,162,621,860</b>

- 1.6 The RPCPPE is the form used to report on the physical count of PE by classification such as land, land improvements, infrastructure, buildings and other structures, machinery and equipment, transportation equipment, furniture, fixtures and books, etc. which are owned by the agency. The report is indispensable in the reconciliation of balances between the accounting and property records to validate the recorded accountabilities in both records.
- 1.7 During the year, an Inventory Committee was created in CAAP HO and ACs III, VI and XII to conduct inventory-taking of all the properties in said locations. However, the required complete RPCPPE was not submitted, thus casting doubt as to the existence of recorded properties.
- 1.8 In CAAP-HO, verification of the RPCPPE for Buildings and Other Structures disclosed that several properties being used and owned by the Authority were not recorded in the books. The Inventory Committee was not able to conduct a reconciliation between property and accounting records, hence, the accuracy of the reported balances of the PE in the financial statements as of December 31, 2018 could not be ascertained.

***Non-maintenance of Property Cards (PC) and Property, Plant and Equipment Ledger Cards (PPELC)***

- 1.9 In relation to the above observation, an inspection was conducted by the Audit Team in CAAP-HO and it was noted that PC maintained by the Supply Division were not updated and lacked information, thus further verification could not be done. Moreover, the inventory and accounting records could not also be reconciled due to the absence or non-maintenance of PPELC by the Accounting Division. The subsidiary ledgers (SLs) being maintained are not in the prescribed form, since these do not contain the necessary basic information, such as, reference document, quantity, date of acquisition, unit cost, book value/carrying amount, property number, location/custodian and repairs, if any. The entries contained in the SLs are similar to a General Ledger; per transaction and closed at the end of every year and the ending balances are brought forward to the following year. Thus, it is very hard to trace any information for a particular PE if procured in prior years.

- 1.10 In ACs VI and XII, both the PC and PPELC were not also maintained by the Supply and Accounting Division.

***Unrecorded donated properties***

- 1.11 Paragraph 7 of PAS No. 16 states that:

*“The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:*

*(a) It is probable that future economic benefits associated with the item will flow to entity; and*

*(b) The cost of the item can be measured reliably.”*

- 1.12 Verification of the RPCPPE of AC I disclosed that buildings constructed and funded under the Priority Development Fund of the Late Hon. Roquito R. Ablan, Jr., Former Congressman of the 1st District of Ilocos Norte and various machineries donated by benevolent benefactors were not included in the said report and were not recognized and/or recorded in the books of accounts through the years.

- 1.13 Assets being used in the operation should be recognized and recorded in the books in accordance with PAS 16. Such practice of non-recognition and non-recording of the same resulted in the understatement of the PE account, thus, adversely affecting the fair presentation of the financial statements.

***Non-derecognition and non-disposal of unserviceable property and equipment – P120.927 million***

- 1.14 Section 79 of Presidential Decree No.1445 provides that:

*“When the government property has become unserviceable for any cause or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the*

*property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.”*

1.15 Moreover, Section A, Part I of the National Budget Circular No. 425 dated January 28, 1992 states that “Xxx. Disposal proceedings should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value. Xxx”

1.16 Likewise, paragraph 67 of PAS 16 provides that:

*67. The carrying amount of an item of property, plant and equipment shall be derecognized:*

- a. on disposal; or*
- b. when no future economic benefits are expected from its use or disposal*

1.17 Inspection conducted within CAAP-HO facilities disclosed that there are properties which are unserviceable but not yet disposed. Details as follows:

**Table 2. Schedule of Unserviceable Properties**

<b>PARTICULARS</b>	<b>COST</b>
Aircraft	P 97,061,791
Motor vehicles	2,029,000
Various Information Technology (IT), office and other equipment	724,558
<b>TOTAL</b>	<b>P 99,815,349</b>

1.18 In AC II, disposal of unserviceable properties in six airports with a total cost of P21,111,935 was not pursued depriving the agency of additional income have they been disposed of through sale or negotiation. Further, various PE with undetermined cost were noted in ACs V and VI. They were found in either at the corners of the vicinity or idly lying in the premises of the airports for quite a number of years.

1.19 The delay in the disposal of these properties have diminished their value due to prolonged exposure to natural elements and possibly to pilferage. On the other hand, their disposal could also help decongest the hangar and office space and rid the office surroundings of unnecessary clutter, and if sold in public auction, the Authority could generate income. Moreover, the PE account was overstated due to the non-derecognition and non-disposal of the unserviceable properties.

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

- a. **The Chairman of the Inventory Committee to expedite the submission of the complete RPCPPE and reconcile with the accounting records to ensure the existence, completeness and accuracy of the properties recorded in the PE accounts in the financial statements;**
  - b. **The Chief of Accounting Division in CAAP-HO, ACs VI and XII to maintain PPELC which should be reconciled with the PC maintained by the Supply Division;**
  - c. **The Property Officer of AC I to immediately coordinate and request CAAP-HO to make the valuation/appraisal of all the donated properties for proper recording in the books of accounts; and**
  - d. **The Supply Officer to report all unserviceable property in the Inventory and Inspection Report of Unserviceable Properties and expedite the disposal of the said property through appropriate mode of disposal, as determined by the Disposal Committee in order to obtain the best recoverable value from their disposal; and direct the Chief Accountant to prepare the necessary adjusting entries to derecognize the unserviceable properties as soon as the disposal is done.**
2. **The balance of Accounts Receivable account is unreliable due to a) variance amounting to P919.549 million between the balance per General Ledger (GL) and per Report on Aging (SL); b) variance amounting to P425.352 million between the accounting records and confirmation replies and no reply from 91 selected debtors with payable of P1.048 billion; and c) existence of past due accounts ranging from one year to more than ten years in the HO and ACs aggregating P1.482 billion and P631.573 million, respectively.**

***Variance between the GL and SL – P919.549 million***

- 2.1 Title III, Chapter 2, Section 111 of Presidential Decree (PD) 1445 states the following:

*“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.*”

2.2 Paragraph 15 of Philippine Accounting Standards (PAS) 1 states that:

*“xxx. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in the financial statements that achieve a fair presentation.”*

2.3 Audit of Accounts Receivable account revealed that the balance per GL did not reconcile with the balance of its SL, showing a variance of P919,549,192 thereby rendering the balance of the account unreliable and inaccurate. Moreover, non-reconciliation of the GL and SL is not in accordance with the provisions of Section 111 of PD 1445 and Paragraph 15 of PAS 1. Details are shown below:

**Table 3. Comparison of Accounts Receivable account per GL and SL**

	<b>GL</b>	<b>SL</b>	<b>Variance</b>
Head Office	P 2,602,740,783	P 3,516,565,961	P 913,825,178
Area Center I	24,841,158	27,925,248	3,084,090
Area Center VI	687,773,952	685,134,028	2,639,924
			<b>P 919,549,192</b>

2.4 Inquiry from the Accounting Division revealed that the difference could be attributed to the improper turn-over of the then Air Transportation Office (ATO) accounts and supporting documents, or absence thereof, to CAAP. The Accounting Division had been trying to locate the pertinent documents but to no avail.

2.5 The perennial condition, if not addressed, will adversely affect the fairness of presentation of the receivable account in the financial statements.

***Variance between the accounting records and confirmation replies and no reply from 91 selected debtors - P425.352 million and P1.048 billion, respectively.***

2.6 In addition to the provisions above, 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.*

- 2.7 To determine the existence and accuracy of the account, confirmation letters were sent out to selected debtors. Based on the Aging Report of the AR as at year-end, 153 debtors were selected as samples.
- 2.8 Out of the 153 selected debtors, 150 confirmation letters were sent to the addresses provided by the Accounting Division. Out of the 150 confirmation letters sent, 20 or 13 percent were with reply, 39 were returned by the post office due to “moved out” and “unknown address”, while, 91 debtors did not reply. Results of confirmation is summarized below:

**Table 4. Results of Confirmation of Accounts Receivable**

Particulars	No. of Debtors	Amount per Books
Confirmed a different balance	20	P 664,290,858
Returned by Post Office	39	511,980,671
No replies	91	1,047,540,675
	<b>150</b>	<b>P 2,223,812,204</b>

- 2.9 Comparison of the accounts receivable balance of the 20 debtors per books with the confirmation replies showed a total variance of P425,352,061, details is shown in Annex A.
- 2.10 Verification of the confirmation replies and inquiry with the Accounting Division disclosed that the variances were due to the absence of Credit Memos (CMs) from the banks and delay in the issuance of billing statements which ranged from one to two months. A debtor might have made payments but the Authority had not been notified, thus accounting records are inaccurate.
- 2.11 The balance of the Accounts Receivable account as of December 31, 2018 is unreliable due to the variances noted between the accounting records and the confirmation replies.

***Past due accounts in the HO and ACs - P1.482 billion and P631.573 million, respectively***

- 2.12 Paragraph 66 of the 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.”*

2.13 Further, Part VII of CAAP Circular No. 03-11 dated April 11, 2011, states that:

*“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.”*

2.14 Furthermore, Part XIII, Section 3 of the Revised Schedule of Fees and Charges under the Alternate International Airports & National Airports Department Order No. 98-1178, dated February 25, 1999 provides that:

#### **“PART XIII: PAYMENT**

**Sec. 3 Effects of Non- payment-** *Failure on the part of any person, firm or corporation to pay any fee, charge or rental due and payable after written demand by the Assistant Secretary, shall be considered sufficient ground to deny such person, firm or corporation of the further use of the airport or any of its facilities, utilities and services and shall be a basis for cancellation for their contract. xxx”*

2.15 The Accounts Receivable of the Authority pertain mainly to air navigational charges, landing and take-off fees billed to international and domestic airline operators, which are expected to be collected within ten working days upon receipt of the billing statement. Based on the above provisions, the Accounts Receivable should be realized within twelve months or within the normal operating cycle of the Authority, whichever is shorter.

2.16 Analysis of the Aging Report of Accounts Receivable as of December 31, 2018 revealed that the Authority has outstanding receivables for over one year to more than ten years amounting to P1,481,612,386 and P631,572,626 in the HO and ACs, respectively, contrary to Paragraph 66 of PAS 1. Details are shown on the next page:



**Table 5. Report on Aging of Accounts Receivable as of December 31, 2018**

	<b>Current 0-365 days</b>	<b>Past Due Over 1 to 10 years</b>	<b>Total</b>
<b>Head Office</b>	P 2,034,953,575	P 1,481,612,386	P 3,516,565,961
<b>Area Centers:</b>			
I	7,258,522	20,666,727	27,925,249
II	17,866,253	13,022,356	30,888,609
IV	54,683,545	47,127,412	101,810,957
VI	134,377,897	550,756,131	685,134,028
	214,186,217	631,572,626	845,758,843
	<b>P 2,249,139,792</b>	<b>P 2,113,185,012</b>	<b>P 4,362,324,804</b>

- 2.17 Further, the subsidiary ledger showed that past due accounts included receivables that were dormant for more than ten years in the amount of P156,204,104 and P5,503,206 for the HO and ACs, respectively, which is not in conformity with COA Circular No. 2016-005 dated December 13, 2016 which prescribes the guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs and GOCCs of dormant receivable accounts, unliquidated cash advances, and fund transfers for fair presentation of accounts in the Financial Statements. The dormant accounts of the HO pertains to receivables carried over from the abolished ATO. On the other hand, the dormant accounts of the ACs represent receivables from various airline companies for landing and terminal/overnight fees. Details are as follows:

**Table 6. Dormant Accounts as of December 31, 2018**

	<b>Amount</b>
Head Office	P 156,204,104
Area Center I	5,150,268
Area Center II	352,938
	<b>P 161,707,310</b>

- 2.18 Inquiry from the Chief Accountant revealed that there are some airline companies that are no longer in operation thus, the probability of collecting these long overdue receivable accounts could no longer be ascertained. Demand letters have yet to be issued for long outstanding accounts.
- 2.19 Non-collection of the overdue accounts deprives the Authority of funds that could be used for its operations.
- 2.20 **We recommended that Management instruct the Chief Accountant to:**
- a. **Assign a dedicated staff to conduct a thorough examination of each of the balance per SL and communicate with the concerned debtor to validate the recorded receivable, and thereafter reconcile the variances;**

- b. Coordinate with the debtors and reconcile the variances between accounting records and confirmation replies;**
- c. Immediately and regularly update the addresses and contact details of each debtor;**
- d. Issue demand letters to debtors for immediate collection of overdue accounts and impose penalties, if warranted; and**
- e. Coordinate with the Enforcement Legal Services to execute legal remedies on the long outstanding accounts receivable as provided in CAAP Circular No. 03-11 dated May 2, 2011.**

2.21 The Chief Accountant informed that the noted variances represent mostly revenues for the last quarter of CY 2018 which unfortunately, were billed in the first quarter of CY 2019. He further said that there was delay in the sending out of billing statements due to technical errors in the Air Traffic Management Center (ATMC) wherein some flights were not captured in the system. Hence, there is a need to reconstruct the Flight Statistics Report (FSR) for billing purposes.

2.22 Management also commented that they have already drafted demand letters immediately and regularly update the addresses and contact details of each debtor. However, there were instances that some airlines are no longer operational in the Philippines so they had to send the demand letters in different countries. They had also requested assistance from the Department of Foreign Affairs (DFA) to coordinate with the consulate where the concerned airlines are located.

2.23 As a rejoinder, Management should immediately review and streamline the billing process to hasten the issuance of the billing statements to clients. The delay in sending out billing statements which takes two to three months resulted in the accumulation of uncollected revenues especially those airlines that fly to the Philippines for a day or less than a month only, hence, do not have permanent addresses.

3. **The balance of the Accounts Payable account as of December 31, 2018 amounting to P571.160 million is unreliable due to: a) inclusion of unsubstantiated accruals; and b) variance of balances between the accounting records and confirmation replies thereby resulting in overstatement of the assets, liability and expense accounts.**

***Unsubstantiated accruals- P156.823 million***

- 3.1 COA Circular No. 2015-010 dated December 1, 2015 prescribed the Revised Chart of Accounts for Government Corporations. Annex A of the aforementioned circular states that Accounts Payable is used to– *“Xxx... recognize receipt/purchase/ procurement/acquisition of goods or services on account in the normal course of trade and business operation. It is also used to recognize liability set up against current operation for unpaid claims filed or received and other unpaid expenses and liabilities. Debit this account for payment or settlement of liabilities”*
- 3.2 Section 4.6 of Presidential Decree No. 1445 provides that– *“Claims against government funds shall be supported with complete documentation.”*
- 3.3 Further, Paragraph 4.46 of the Conceptual Framework discussed the recognition of liabilities in Philippine Financial Reporting Standards (PFRS) which states– *“A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.”*
- 3.4 Verification disclosed that unpaid claims of various creditors in the amount of P156,823,328 were recorded in the books as of December 31, 2018. However, these claims are not adequately and properly supported contrary to the above mentioned provisions. Only copies of the Approved Budget Utilization Request and/or Certificate of Project Accomplishments issued by the Aerodrome Development and Management Service (ADMS) were attached to the claims which are not sufficient to establish the liability of the Authority thus, cast doubt on the reliability and accuracy of the balance of the account as of year-end.

***Variance of balances between the accounting records and confirmation replies- P40.918 million***

- 3.5 Confirmation letters were sent to 57 creditors with an aggregate balance of P139,761,125 based on the aging schedule of the account as of year-end. Of the 57 confirmation letters, 16 or 28 percent were with reply, two were returned due to “unknown address” while 39 debtors did not reply, details are shown on the next page:

**Table 7. Results of Confirmation of Accounts Payable**

<b>Particulars</b>	<b>No. of Creditors</b>	<b>Amount</b>	<b>per Books</b>
Same balance as in the books	5	P	5,931,590
Confirmed a different balance	11		31,752,540
Returned by Post Office*	2		11,545,079
No replies	39		90,531,916
	<b>57</b>		<b>P 139,761,125</b>

- 3.6 Comparison of the subsidiary ledger (SL) balances of the 11 creditors with confirmation replies showed a total variance of P40,918,660.
- 3.7 **We recommended and Management agreed to instruct the Chief Accountant to:**
- a. **Provide complete and proper documents to support the claims before recording in the books; and**
  - b. **Reconcile the variances between the recorded liability with the confirmation replies and make the necessary adjusting entries.**
4. **The existence of dormant/long-outstanding receivable accounts amounting to P27.571 million and the non-provision for allowance for impairment were not in accordance with Paragraph 15 of PAS 1.**
- 4.1 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.*
- 4.2 Meanwhile, PFRS 9 on financial instruments requires that after initial recognition, receivables shall be measured at amortized cost. Amortized cost is the amount at which the receivable is measured at initial recognition minus the principal payments, plus or minus the cumulative amortization and adjustment for any loss allowance. At each reporting date, an entity shall measure the loss allowance of the receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition otherwise at an amount equal to 12-month expected credit losses.

- 4.3 Audit revealed that the Authority has dormant/long-outstanding receivable accounts recorded in its books, to wit:

**Table 8. Schedule of Dormant/long-outstanding Receivable accounts**

Account	Amount	Years Dormant
<b>Due from NGAs</b>		
National Printing Office	P 285,720	} 10+years*
Philippine Postal Corporation	80,000	
Land Transportation Office	2,362	
No details	18,834,118	
	P 19,202,200	
<b>Other Receivables</b>		
CA for local travel	P 1,997,076	} 10+years* Granted from 1994-2008
CA for foreign travel	2,387,330	
CA for special activities	2,185,796	
Long-outstanding CA	1,798,138	} 2-9 years
	P 8,368,340	
	<b>P 27,570,540</b>	

*\*from Air Transportation Office accounts.*

- 4.4 The Due from NGAs account have been recorded in the books and non-moving since 2008. Inquiry disclosed that they can no longer locate the documents and have no sufficient details pertaining to the items amounting to P18,834,118 since these were accounts of the then ATO.
- 4.5 The Authority needs to actively pursue the liquidation or the refund of the balances of the Due from NGAs account. The non-liquidation not only poses a possibility of loss and deprives the Authority of funds that can be used to further accomplish its mandate, but also casts doubt on the accuracy of Management's assertion on the financial valuation of its receivable accounts.
- 4.6 On the other hand, Other Receivables account totaling P8,368,340 pertains to unliquidated cash advances of separated/deceased/retired/resigned disbursing officers of the Authority. Analysis of the Aging of Other Receivables revealed that numerous accounts remained unliquidated and outstanding for a period ranging from two (2) to more than twenty four (24) years. We noted that demand letters were sent to some of the accountable officers concerned and that several of these balances were previously requested for write-off with this Commission, however, the requests were denied due to insufficient supporting documents.
- 4.7 Further, it was noted that no allowance for impairment was provided for ATO accounts recorded under the Due from NGAs and the Other Receivables account balances for proper valuation.
- 4.8 Considering the lapse of time these balances remained dormant/outstanding in the books, and that these balances pertained to unliquidated cash advances

of previous disbursing officers who are no longer connected with the Authority, it is imperative for the Accountant to provide allowance for impairment to arrive at the proper valuation of the amortized cost of the account.

- 4.9 **We recommended and Management agreed to:**
- a. **Intensify effort to locate pertinent records relevant to these receivables and pursue its collection. Should collection efforts prove futile, consider the provisions set under COA Circular 2016-005 in requesting for write-off for these receivables;**
  - b. **Direct the Head Office and Area Centers Accountants to analyze and age all receivable accounts and consider request for write-off of dormant receivables as necessary; and**
  - c. **Provide allowance for impairment to present fairly the balance of these accounts.**
5. **The faithful representation of the Construction in Progress (CIP) account amounting to P1.091 billion as required under Paragraph 15, PAS No. 1 was not achieved due to the inclusion of completed projects amounting to P593.767 million and insufficient/absence of supporting documents of projects aggregating P146.337 million.**

5.1 COA Circular No. 2015-010 dated December 11, 2015 provides the updated description of accounts including CIP account as follows:

<i>Account Title</i>	<i>Construction in Progress- Land Improvements/Infrastructure Assets/Buildings and Other Structures</i>
<i>Description</i>	<i>Debit account to recognize the accumulated cost or other appropriate value of land improvements which are still in the process of construction or acquisition. Credit this account for reclassification to the appropriate Land Improvements/appropriate Infrastructure Assets/Buildings and Other Structures accounts upon completion</i>

5.2 Analysis of the CIP account showed the following balances as of December 31, 2018:

CIP- Land Improvements	P 216,546,672
CIP- Infrastructure Assets	725,703,457
CIP- Buildings and Other Structures	148,580,435
<b>Total</b>	<b><u>P 1,090,830,564</u></b>

- 5.3 Review of the subsidiary ledgers for each CIP account disclosed that of the total amount of P1,090,830,564, P593,767,549 are HO accounts and P3,527,702 are for AC VI accounts which pertain to completed projects for Infrastructure Assets and Buildings and Other Structures. These projects were confirmed with the Aerodome Development and Management Services (ADMS) as completed since 2010.
- 5.4 Although the non-reclassification has no effect on the cost of these PE accounts in the financial statements, these assets were not computed with depreciation since date of completion. Hence, the carrying amounts of the affected PE accounts are overstated as of December 31, 2018. The net income for the year and the Retained Earnings are also overstated.
- 5.5 It was also noted that balances of the CIP accounts included transactions amounting to P146,337,846 which were are not supported with adequate documents.
- 5.6 **We recommended and Management agreed to direct the Chief Accountant to:**
- a. **Prepare the necessary adjusting entries for the reclassification of the completed projects from CIP-Infrastructure Assets and Buildings and Other Structures accounts to appropriate Property and Equipment (PE) and Due from Regional Offices accounts;**
  - b. **Recognize and record the corresponding depreciation and accumulated depreciation for the completed projects; and**
  - c. **Submit explanation on the recorded transactions which have inadequate supporting documents.**
6. **Variance amounting to P17.737 million was observed between the balances of DBM-PS per Subsidiary Ledger (SL) recorded in the Due from National Government Agencies (NGAs) account and the balance per statement of account provided by the DBM-PS due to unrecorded deliveries in the books of CAAP and the lack of regular and periodic monitoring of the account.**
- 6.1 COA Circular 2016-005 dated December 19, 2016 prescribes the guidelines and procedures in reconciling and cleaning of books of accounts relative to dormant receivables accounts, unliquidated cash advances, and fund transfers for fair presentation of accounts in the Financial Statements. Section 7.1 to 7.2 of the said circular provides that the accountant shall –
- 7.1 Conduct regular and periodic verification, analysis, and validation of the existence of the receivables, unliquidated cash advances, fund transfers, and determine the concerned*

*debtors, accountable officers (Regular and Special Disbursing Officers, Collecting Officers, Cashiers) and the source and implementing government entities concerned;*

7.2 *Reconcile the unliquidated fund transfers between the source and implementing government entities, prepare the adjusting entries for the reconciling items noted, and require the liquidation of the balances; xxx*

6.2 Comparison between the CAAP's Statement of Account provided by the DBM-PS and the reported SL balance of the Due from NGAs (DBM-PS) account as of year-end revealed a variance of P17,737,035 as shown below:

**Table 9. Comparison of Due from NGA balances**

	<b>Amount</b>
per CAAP's Books	P 36,462,839
per DBM-PS	18,725,804
<b>Difference</b>	<b>P 17,737,035</b>

6.3 It was noted that part of the variance was due to deliveries of DBM-PS which were not recognized in the books. Comparison between the SL and Statement of Account for CYs 2014 to 2018 disclosed that deliveries of equipment and supplies totaling P6,658,893 were not recorded in the books, as shown below:

**Table 10. Schedule of Unrecorded Equipment and Supplies**

<b>Date</b>	<b>Items</b>	<b>Delivery Receipt No.</b>	<b>Amount</b>
07/01/2015	304 units of Grass Cutter	NCSE15-00002752	P 5,405,704
07/29/2017	288 pcs of mopheads	CSE17-000008276	28,454
04/24/2018	Office Supplies	NTD18-0002006-E	264,740
09/05/2018	Office Supplies	M18-011295-CSE	167,800
09/04/2018	Office Supplies	M18-011057-CSE	53,790
09/05/2018	Office Supplies	M18-011724-CSE	343,945
09/11/2018	Office Supplies	M18-011792-CSE	394,460
			<b>P 6,658,893</b>

6.4 Also, we observed that the Chief Accountant does not conduct regular and periodic verification, analysis, validation and reconciliation of its fund transfers contrary to the above-mentioned COA Circular.

6.5 Purchases made by the Authority through the DBM-PS requires advance payment to DBM-PS equivalent to the total amount indicated in the Agency Procurement Request (APR). However, there were instances wherein not all items in the APR were delivered due to unavailability of the goods being procured, thus resulting in an overpayment. In this case, the Authority had the option to utilize the remaining fund to pay for subsequent APRs, or request for a refund.



- 6.6 Due to the nature of the transaction, it is imperative that the Chief Accountant regularly reconcile with the DBM-PS so as to ensure the correctness of the balance of the account in the books. The accumulation of the huge variance as well as the unrecorded deliveries could have been prevented if a regular and periodic monitoring and reconciliation of fund transfers to the DBM-PS was done.
- 6.7 The non-recognition or non-recording of these deliveries resulted in the overstatement of the Due from NGAs account and the understatement of the related PE and Inventory accounts. It also casts doubt on the reliability and accuracy of the Authority's assertion of the affected accounts as of report date.
- 6.8 **We recommended and Management agreed to direct the Chief Accountant to:**
- a. **Draw the necessary Journal Entry Voucher (JEV) to recognize the unrecorded deliveries amounting to P6,658,893;**
  - b. **Coordinate with the DBM-PS to reconcile the variance amounting to 11,078,142, and make the necessary adjusting entry; and**
  - c. **Monitor the fund transfers to DBM-PS by conducting a regular and periodic verification and reconciliation.**
7. **The long-outstanding balance of DBM-PS account amounting to P16.745 million pertains to procurement of Motor Vehicles for CAAP in 2015.**
- 7.1 Section 53.6 of the 2009 Revised Implementing Rules and Regulations (RIRR) of RA 9184, allows the use of procurement agents. It provides that –
- Procurement Agent.*** *In order to hasten project implementation, Procuring Entities which may not have the proficiency or capability to undertake a particular procurement, as determined by the Head of the Procuring Entity concerned, may request other GOP agencies to undertake such procurement for them, or at their option, recruit and hire consultants or procurement agents to assist them directly and/or train their staff in the management of the procurement function. The GPPB shall issue guidelines to implement this provision.*
- 7.2 We noted that in CY 2015, the Authority entered into an undated Memorandum of Agreement (MOA) with the DBM-PS to avail of the latter's services to conduct procurement activities for the purchase of various motor vehicles in the Authority's behalf. Section 5.1 of the said MOA provides that-

*“DBM-PS and its Bids and Awards Committee (BAC) shall facilitate the actual bidding process, from advertisement/ publication of the Invitation to Bid up to the determination of the Contract Awardee/s including Contract Implementation and other tasks necessary for the effective implementation of this Agreement.”*

7.3 Also, Section 4.2 of the aforementioned MOA states that –

*“Any excess in the funds to PS shall, in no case be applied for other purpose but may be used for a similar procurement upon submission of supplemental APR. the END-USER AGENCY also has the option to request for the refund of the amount.”*

7.4 On August 26, 2015, the Authority transferred the amount of P37,363,000 in favor of DBM-PS for the procurement of various motor vehicles.

7.5 However, we observed that there was a considerable delay in the procurement by the DBM-PS. Three (3) years after the fund transfer, only P20,617,374 worth of motor vehicles were delivered. The balance of P16,745,626 represents the budgeted amount intended for the undelivered vehicles totaling P10,120,000, hence an excess fund of P6,625,626. Details as shown below:

**Table 11. Details of the Balance of Fund Transfer to DBM-PS**

Reference	Items	Unit /s	Unit Price	Amount per APR	Delivery Receipt No.	Amount of delivered vehicles	Remaining Balance	Remarks
Chk No. 283558 dated 9/10/15 APR 15-0242S P31,243,000	Coaster	1	P 4,000,000	P 4,000,000	No delivery	P 0	P 4,000,000	No deliveries yet
	Utility Vehicle	1	1,283,000	1,283,000	17-00000112 07/22/2017	825,552	457,448	All other items already delivered.
	Passenger Car 4-door Sedan	1	1,500,000	1,500,000	16-00000492 09/02/2016	1,097,200	402,800	However, the remaining balance of P6,625,626.08 is yet with the DBM-PS
	Service Vehicle MPVs	2	800,000	1,600,000	16-00000492 09/02/2016	1,472,640	127,360	
	Pick-up SUV	18	1,270,000	22,860,000	17-00000054 03/17/2017 17-00000095 5/30/2017	17,221,982	5,638,018	
Chk No. 283261 dated 8/26/15 APR 15-0243S P6,120,000	Shuttle Bus	1	6,120,000	6,120,000	No delivery		6,120,000	No deliveries yet
<b>Total</b>				<b>P 37,363,000</b>		<b>P 20,617,374</b>	<b>P 16,745,626</b>	

- 7.6 Relative to the delivered portion of the Agency Procurement Request (APR), we gathered that the Authority did not request for refunds for the excess funds transferred to DBM-PS amounting to P6,625,626 as provided under Section 4.2 of the MOA.
- 7.7 Further, examination of records revealed that Delivery Rejection Notice NCSE-18-023 dated November 5, 2018 was issued by DBM-PS for the delivery of one (1) shuttle bus by a supplier due to various non-compliance with its technical specification. As to the procurement of one (1) coaster, inquiry disclosed that the previous procurement activity ended in failure of bidding.
- 7.8 Also, we noted that the Director General issued a letter dated January 30, 2019 requesting the DBM-PS to apprise the Authority of the status of the procurement. Considering the amount involved in the procurement of these motor vehicles and the length of time which had lapsed since the fund transfer, there is a need to coordinate closely with the DBM-PS to expedite the complete delivery of the equipment and supplies.
- 7.9 **We recommended and Management agreed to:**
- a. **Request from DBM-PS the immediate refund of the amount of P6,625,626 which pertains to the excess project fund; and**
  - b. **Demand for the immediate delivery of the remaining two (2) vehicles, or otherwise, request the DBM-PS to refund the balance.**
8. **Unliquidated cash advances to officers and employees amounted to P2.264 million as of December 31, 2018 resulting in the understatement of expenses and overstatement of assets and Retained Earnings account.**
- 8.1 The Advances to Officers and Employees account is used to recognize amount advanced to officers and employees for official travel. The account is credited for liquidation of advances.
- 8.2 Section 89 of Presidential Decree No. 1445 provides that, a cash advance shall be reported on as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official of employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.
- 8.3 The accountable officer shall liquidate his cash advance for official travel within sixty (60) days after return to the Philippines in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel, pursuant to EO 248, as amended by EO 298, and COA Circular No. 96-004.

- 8.4 Examination of cash advances recorded under Advances to Officers and Employees account as of December 31, 2018 revealed an unliquidated balance of P2,264,153. Details of aging as shown below:

**Table 12. Aging of Unliquidated Cash Advances**  
**No. of days Past Due**

Nature	Amount	No. of days Past Due					
		< 30 days	31-90 days	91-365 days	Over 1 year	Over 2 years	3 Years & above
Foreign	P 1,925,536	0	P 321,592	P 83,509	P 221,673	P 90,942	P 1,207,820
Local	338,617	0	19,858	20,834	0	33,757	264,168
<b>Total</b>	<b>P 2,264,153</b>	<b>0</b>	<b>P 341,450</b>	<b>P 104,343</b>	<b>P 221,673</b>	<b>P 124,699</b>	<b>P 1,471,988</b>

- 8.5 It can be gleaned from the table above that of the total amount of P2,264,153, P1,471,988 or 65 percent remained unliquidated for more than three (3) years in violation of the afore-mentioned guidelines.
- 8.6 Authority Order No. 266-17 dated November 9, 2017 was issued instructing the Accounting Division to retain a maximum of 25 percent from the year-end bonuses as partial payment of the unliquidated cash advances.
- 8.7 Verification disclosed that out of the 39 Accountable Officers (AOs) with outstanding balances, only 16 AOs are being subjected to partial deductions from their bonuses and monthly salaries. According to the Chief Accountant, there were liquidation reports which cannot be processed and recorded in the books due to the absence of certain supporting documents.
- 8.8 Section 3.3 of COA Circular 96-004 provides that the accountant shall be responsible in monitoring the grant and liquidation of cash advances for travel. It states that the accountant shall send within 10 days before the expiration of the 30- or 60-days period prescribed under Section 14 of EO 298, a written reminder duly signed by the agency head or his authorized representative, enjoining the official or employee concerned to liquidate his travel cash advance. Further, it states that in case the AO fails to liquidate the cash advance within the prescribed period, the name of the official or employee shall be deleted from subsequent payrolls until such time that the travel cash advance has been fully liquidated.
- 8.9 The failure to fully liquidate cash advances in accordance with prescribed laws, rules and regulations resulted in the understatement of expenses and overstatement of assets and Retained Earnings account. Further, the non-liquidation of cash advances cast doubts whether the purpose of the cash advances have been served.

8.10 **We recommended and Management agreed to instruct the Chief Accountant to:**

- a. **Strictly enforce the rules and guidelines set under COA Circular 96-004 including its amendments set in COA Circular No. 97-002 in the grant, monitoring and liquidation of cash advances;**
- b. **Send final written reminders to accountable officers concerned to liquidate their cash advances; and**
- c. **File administrative charges, if warranted.**

9. **The existence, completeness and accuracy of the carrying amount of Inventory accounts of P97.704 million is doubtful due to – a) unrecorded issuances of inventories from stock; b) misclassification of inventory accounts; and c) non-submission of the Report of Physical Count of Inventories (RPCI).**

9.1 Analysis showed that the inventory accounts have a carrying amount of P97,703,907 as of December 31, 2018, broken down as follows:

**Table 13. Schedule of Inventory accounts**

	<b>Amount</b>
Office Supplies Inventory	P 18,703,463
Accountable Forms Inventory	5,521,781
Medical, Dental and Laboratory Supplies Inventory	123,912
Fuel, Oil and Lubricants Inventory	18,238,490
Drug and Medicines	84,986
Other Supplies and Materials Inventory	55,031,275
<b>Total</b>	<b>P 97,703,907</b>

9.2 Examination of the transactions covering the inventory accounts revealed the following:

***Unrecorded issuances of inventories from stock***

9.3 The Revised Chart of Accounts (RCA) for Government Corporations (GCs) was adopted under COA Circular No. 2015-010 dated December 1, 2015. It prescribed a uniform chart of accounts for GCs to align reportorial requirements with those of COA and other oversight bodies including compliance with the standards issued by International Accounting Standard- setting bodies.

9.4 In the RCA, Inventory Held for Consumption include Office Supplies Inventory, Accountable Forms Inventory, Medical, Dental and Laboratory Supplies Inventory, Fuel, Oil and Lubricants Inventory and Other Supplies and Materials Inventory which are debited to recognize the cost or value of

purchased/acquired inventory for government operations and credited for issuance to end-users, transfers or other disposal.

- 9.5 Review of the transactions recorded under Office Supplies Inventory, Medical, Dental and Laboratory Supplies Inventory and Other Supplies and Materials Inventory accounts disclosed that issuances during the year based on the monthly Report on Supplies and Materials Issued (RSMI) were not recorded in the appropriate inventory accounts.
- 9.6 RSMI is a form prepared by the Supply Division to report and summarize all issuances of inventories and shall form part of the supporting documents of the Journal Entry Vouchers (JEVs) to be drawn to record the transaction. The Accounting Division, upon receipt of the RSMI, shall supply the necessary information such as the unit cost and the total cost of the inventory issued and update the SLCs before drawing the necessary JEV.
- 9.7 Records show that for CY 2018, the Supply Division submitted the RSMIs for Office Supplies Inventory and Other Supplies Inventory to the Accounting Division. However, the necessary JEV was not prepared for the issuances and the same were not recorded in the books of accounts.
- 9.8 On the other hand, Fuel, Oil and Lubricants issued for aircrafts and generators were not recorded in the books since the personnel of the Flight Inspection and Calibration Group (FICG) and the Air Navigation Service (ANS) were not able to submit the required RSMIs to the Accounting Division. Inquiry revealed that the RSMIs are being prepared only when there are requests for replenishment of fuel.
- 9.9 It was further noted that the balance of Medical, Dental and Laboratory Supplies Inventory amounting to P97,000 had remained in the books for more than three years. According to the Medical Staff, they can no longer locate the RSMIs to support the issuances.
- 9.10 In effect, the non-recording of issuances resulted in the overstatement of inventory and understatement of expense accounts.
- 9.11 Further verification disclosed that beginning balances of P57.911 million pertained to then ATO accounts.

***Misclassification of inventory accounts – P26.130 million***

- 9.12 Paragraph 6 of International Accounting Standards (IAS) 16 on Property, Plant and Equipment (PPE) states that –

*“Property, plant and equipment are tangible items that:*

*(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purpose; and*

*(b) Are expected to be used during **more than one period.**” (Bold supplied)*

9.13 Meanwhile, Paragraph 8 of the same standard prescribes that – *Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this IFRS when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.*

9.14 Verification disclosed that there were purchases which were recorded under the Other Supplies Inventory account instead of the proper Property and Equipment (PE) account and Semi-Expendable Airport Equipment account, details as shown in the table:

**Table 14. Schedule of purchases under the Other Supplies Inventory account**

<b>Particulars</b>	<b>Amount</b>	<b>Remarks</b>
Payment of Inv.#7066 and 7065 dtd 6/19/18 supply delivery of spare parts for Vaisala meteorological instruments at ANS Tech. Center	P 3,947,000	Should be classified as Technical and Scientific Equipment
Payment of Inv.# 2084, 2085, 2086, 2087 for the supply and delivery of bulbs, parts, accessories & fixtures of ALS	1,111,050	Should be classified as Semi-Expendable Airport Equipment
	<b>P 5,058,050</b>	

9.15 Further verification showed that the amount of P21,071,692 was recorded under Other Supplies and Materials Inventory accounts instead of Other Prepayments account. According to the Chief Accountant, necessary JEV for the adjustment will be drawn in 2019.

9.16 Due to the erroneous recording, the PE and the related accumulated depreciation and Semi-Expendable- Airport Equipment accounts were understated.

***Non-conduct of inventory/Non-submission of RPCI***

9.17 For CY 2018, the Supply Division in the Head Office and AC V did not conduct the inventory of Supplies and Materials. Likewise, the required RPCI for all the inventory accounts was not submitted.

9.18 In addition, the Accounting Division does not maintain Supplies Ledger Cards (SLCs) 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.

9.19 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.

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

- a. **Direct the Supplies Division and other divisions concerned to submit the required Report of Materials and Supplies Issued (RSMI) to the Accounting Division for proper accounting of inventories issued;**
- b. **Require the Chief Accountant to make the necessary adjusting entries on the misclassification of accounts and recognize the related accumulated depreciation; and**
- c. **Instruct the Supply Officer to regularly conduct physical count of inventories and prepare the required Report on Physical Count of Inventories (RPCI) every semester and reconcile property records with accounting records to identify discrepancies, if any, and prepare the necessary adjustments.**

**10. Interest charges for late remittances of various airline companies amounting to P3.281 million remained unbilled and unpaid in the HO and AC II as of December 31, 2018 thereby depriving CAAP of additional funds that could have been used for its operations.**

10.1 A year after the implementation of the integration of the DPSC, an evaluation was conducted to determine the efficacy of the program in terms of prompt collections and remittances by various Airline Carriers (ArCs) as provided in CAAP Memorandum Circular (MC) No. 022-17, series of 2017.

10.2 Section 6 of the MC 022-17 provides the following, among others:

*6.1 The Air Carrier shall be responsible for all DPSC collected from the time of Collection up to Remittance to CAAP.*



6.2 *The due date of remittance for the DPSC collections from the 1<sup>st</sup> to the 15<sup>th</sup> day of the month shall be on or before the 15<sup>th</sup> day of the succeeding month. The DPSC collections from the 16<sup>th</sup> day to the end of the month shall be remitted on or before the end of the succeeding month.*

6.3 *In case of failure to remit DPSC in full amount to the CAAP within specified time, the Air Carrier or its agent shall pay CAAP the balance of the unremitted amount plus interest equivalent to 18% per annum.*

10.3 Verification of the Report of Collections and Deposits vis-a-vis Official Receipts in the HO disclosed that there were delays in the remittances for CY 2018 but no interests were charged to the airlines concerned, details as shown below:

**Table 15. Computed Interest Charges for delays in remittances**

Month	NAME OF AIRLINE			Interest Charges
	Philippine Airlines	Magnum Air (Skyjet) Inc.	Philippines Air Asia Inc.	
January	P 44,150			P 44,150
February			P 138,208	138,208
April		P 2,515		2,515
May		2,399		2,399
July		3,970		3,970
August		1,069		1,069
November			2,809,641	2,809,641
	<b>P 44,150</b>	<b>P 9,953</b>	<b>P 2,947,849</b>	<b>P 3,001,952</b>

10.4 Likewise, it was also noted that the interest charges for CY 2017 amounting to P264,884 had not yet been billed and collected, as follows:

**Table 16. Computed Interest for CY 2017**

Airline Operator	Interest Charges
CEBGO, Inc.	P 9,683
Cebu Pacific Air	62,278
Philippine Airlines	35,265
Philippine Air Asia	150,111
Air Juan	1,755
World Aviation	13
Magnum Air	5,779
	<b>P 264,884</b>

10.5 In AC II, unbilled and uncollected interest charges amounting to P14,284 for late remittances were also noted, as shown on the next page:

**Table 17. Computed Interest Charges in AC II**

<b>Airport</b>	<b>Name of the Airline Carrier</b>	<b>Total Amount of Interest</b>
Tuguegarao	Philippine Airlines	P 11,515
Cauayan	Cyclone Airways	2,044
Palanan	Cyclone Airways	725
		<b>P 14,284</b>

10.6 **We recommended and Management agreed to instruct the Revenue Section to bill and collect from the concerned airlines the total amount of P3,266,836 and P14,284 for HO and AC II, respectively, representing interest charges for CYs 2017 and 2018 due to delayed remittances.**

**11. Remittances of DPSC in AC II amounting to P13.948 million and P5.172 million, for Tuguegarao and Cauayan airports, respectively, were unreliable due to the variances ranging from 342 to (899) between the number of passengers as indicated in the daily monitoring report and the number of passengers reflected in the DPSC remittance report by the ArC and in the collecting officer's report thus, affecting the reliability of the recorded income of the agency.**

11.1 Paragraph 15 of the Philippine Accounting Standard 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.”*

11.2 At present, the amount of DPSC prescribed by CAAP for Tuguegarao and Cauayan airports is P150.00 and P100.00 per passenger, respectively.

11.3 Review and comparison on the number of passengers subject to DPSC as per daily monitoring report prepared by the CAAP personnel and attested by the Air Carrier pilot; and the number of passengers paying the DPSC as reflected in the remittance report of the ArC and in the collecting officer's reports (passengers whose DPSC were not included in the plane ticket were issued with terminal fee ticket during the transition period of the MC) disclosed variances ranging from (899) to 342, details as shown on the next page:

**Table 18. Comparison of the No. of Passengers Subject to DPSC and Actual Payment Number of Passenger who Paid the**

Month	No. of Passenger Subject to DPSC as per Daily Monitoring Report (a)	Based on DPSC		Total (d)= (b + c)	Variance (e)= (a – d)
		Based on the Remittance Report of the Air Carrier (b)	Based on the Collecting Officer's Report (c)		
<b>TUGUEGARAO AIRPORT</b>					
January 2018	8,920	7,768	1,139	8,907	13
February 2018	7,003	6,830	160	6,990	13
March 2018	8,947	8,875	85	8,960	(13)
April 2018	12,191	12,137	36	12,173	18
May 2018	11,192	11,189	15	11,204	(12)
June 2018	10,096	10,056	1	10,057	39
July 2018	9,723	9,677	0	9,677	46
August 2018	9,164	9,149	0	9,149	15
September 2018	6,742	6,705	0	6,705	37
October 2018	6,380	6,370	0	6,370	10
November 2018	7,359	7,387	0	7,387	(28)
<b>Total</b>	<b>97,717</b>	<b>96,143</b>	<b>1,436</b>	<b>97,579</b>	<b>138</b>
<b>CAUAYAN AIRPORT</b>					
January 2018	4,570	3,952	569	4,521	49
February 2018	3,998	3,854	90	3,944	54
March 2018	4,287	4,221	29	4,250	37
April 2018	4,989	5,027	26	5,053	(64)
May 2018	5,521	5,179	0	5,179	342
June 2018	5,101	5,082	8	5,090	11
July 2018	5,883	5,953	4	5,957	(74)
August 2018	5,558	6,298	0	6,298	(740)
September 2018	4,529	4,690	0	4,690	(161)
October 2018	4,391	5,290	0	5,290	(899)
November 2018	4,248	3,930	0	3,930	318
<b>Total</b>	<b>53,075</b>	<b>53,476</b>	<b>726</b>	<b>54,202</b>	<b>(1,127)</b>

11.4 Variances noted cast doubt on the reliability and accuracy of the remittances of the DPSC by the ArCs; thus, affecting the reported income of CAAP.

11.5 **We recommended and Management agreed to require the Chief Accountant to prepare a reconciliation report on the variances noted on the number of passengers subject to DPSC/terminal fee based on the daily monitoring report and the number of passengers who paid the terminal fee as reflected in the DPSC remittance report by the Air Carrier and in the collecting officer's report.**

11.6 Management committed to expedite the release of the enhanced Implementing Guidelines, incorporating the submission of Aircraft Monitoring Report and

Summary of Daily Passengers prepared by an accountable CAAP airport personnel and confirmed by the airline station personnel. This will address the verification and validation issues which would minimize if not eliminate potential discrepancies of future remittance.

**12. The recorded Air Navigational Charges (ANC) for CY 2018 was understated by P17.010 million due to under-billings to various Airline Carriers (ArCs) which is not in accordance to the provisions of PAS 18.**

12.1 Philippine Auditing Standards (PAS) 18 provides that:

*“When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period.”*

12.2 Air Navigational Charges were imposed to ArCs for the use of communication facilities owned by CAAP in conformity with CAAP Circular No. 03-11 Series of 2011 dated April 11, 2011. Section 2 Part III of the Circular provides the formula for the computation of Operational Charges for 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 divided by 100 (hundred) and multiplied by its weight factor (W).*

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

12.3 Income from Communication Facilities recorded in the books amounted to P5,650,184,032 as of December 31, 2018.

12.4 Verification of the Billing Statements for the use of CAAP’s communication facilities covering the period January to September 2018 disclosed that there were discrepancies in the number of flights billed and the number flights reported in the Flight Statistics Report (FSR), thereby resulting in the understatement of ANC by P17,009,828.

12.5 The Billing Section is still reconciling the discrepancies noted with the billing flight data report.

12.6 Due to the discrepancies noted, the recorded income from communication facilities is understated. Likewise, revenue earned was not recognized in the

books contrary to PAS 18. Moreover, under-billing of ANCs means under collection of income and loss of revenues for CAAP.

**12.7 We recommended and Management agreed to instruct the Billing Section to:**

- a. Expedite the preparation and sending out of billing statements to the concerned airline carriers;**
- b. Prepare a complete billing flight data report to account all the flights reported in the FSR; and**
- c. Review the billing flight data report and monitor flights regularly to ensure that all flights are being billed.**

**13. Collected DPSCs by an airline carrier in AC II were not yet remitted to CAAP as of December 31, 2018.**

13.1 Section 6 of MC 022-17 provides the following:

*6.1 The Air Carrier shall be responsible for all DPSC collected from the time of Collection up to Remittance to CAAP.*

*6.2 The due date of remittance for the DPSC collections from the 1st to the 15th day of the month shall be on or before the 15th day of the succeeding month. The DPSC collections from the 16th day to the end of the month shall be remitted on or before the end of the succeeding month.*

13.2 Verification disclosed that collected DPSC by an ArC from departing passengers in two airports in AC II on numerous periods were not yet remitted by the ArC to CAAP as of December 31, 2018, as follows:

**Table 19. Unremitted DPSC**

<b>Airport</b>	<b>Name of the Air Carrier</b>	<b>Period / Month and Year of Unremitted DPSC Collection</b>
Cauayan	Cyclone Airways	January, March, April, May, June 1-15, July, August, September, October, November CY 2018
Palanan	Cyclone Airways	January, March, April, May, June 1-15, July, August, September, October, November CY 2018

13.3 Unremitted DPSC by the airline carrier deprived CAAP of revenues due them.

13.4 **We recommended that Management send billing statements/demand letters to the airline carrier that has not yet remitted the DPSC as of December 31, 2018 including the corresponding interest charges for late remittances.**

13.5 Management commented that although Cyclone Airways had remitted the amount of P301,666, it is still in the process of account reconciliation. A meeting is already set to discuss and verify records of the unremitted DPSC.

**14. Four (4) Airline Carriers have not remitted as of December 31, 2018 the DPSC collected from departing passengers in airports under ACs IV and IX.**

14.1 With the inauguration of San Vicente Airport (SWL) in Palawan in May 2018, there are already four CAAP Terminals in operation under the jurisdiction of AC IV in CY 2018, the other three are: (a) Puerto Princesa International Airport (PPS), (b) Busuanga Airport (USU) and (c) Cuyo Airport (CYU). The major ArCs operating in said airports are shown below:

<b>Air Carriers</b>	<b>PPS</b>	<b>USU</b>	<b>CYU</b>	<b>SWL</b>
Air Juan	/	/	/	/
Air Swift	/			
Cebgo		/		
Cebu Pacific Air	/			
Magnum Air (Skyjet)		/		
Philippine Airlines (PAL)	/	/		/
Philippine Air Asia	/			

14.2 Verification disclosed non-remittance of the DPSC collected by a number of ArCs from departing passengers in ACs IV and IX as shown below:

<b>Area Center/Airport</b>	<b>Airlines Carriers</b>	<b>Remarks</b>
AC IV PPS USU CYU SWL	Air Juan	<ul style="list-style-type: none"> <li>Had not remitted any DPSC collected from September 2017 to December 2018 from passengers departing from Puerto Princesa, Busuanga, Cuyo and San Vicente Airport Terminals.</li> </ul>
	Air Swift	<ul style="list-style-type: none"> <li>DPSC collected for the period June 16 to November 30, 2018 have not been remitted as of December 31, 2018.</li> </ul>

Area Center/Airport	Airlines Carriers	Remarks
		<ul style="list-style-type: none"> <li>• Did not remit any DPSC from the start of operation at PPS.</li> </ul>
	Philippine Air Asia	<ul style="list-style-type: none"> <li>• DPSC collected for the period June 16 to November 30, 2018 have not been remitted as of December 31, 2018.</li> </ul>
AC IX	Platinum Skies Airline	<ul style="list-style-type: none"> <li>• There was no remittance of DPSC.</li> </ul>

- 14.3 It was recommended in the 2017 Annual Audit Report of CAAP to revisit/enhance/amend the policy guidelines on the integration of DPSC to include, among others, making arrangements with the ArCs to deposit all DPSC collected by them on a daily basis or not later than the next banking day to a bank account to be opened by the Authority with an Authorized Government Depository Bank (AGDB) for the purpose. The said recommendation was based on the ground, among others, that Item 6.2 of the Memorandum Circular (MC) deferred the DPSC collection for 30 days in the ArCs' accounts before reaching CAAP's coffer.
- 14.4 The inability of CAAP to compel the Air Carriers to remit the full amount of DPSC due as of year-end deprived the Authority of the much needed funds that could have been used for its operations.
- 14.5 **We recommended that Management closely monitor the remittance of the DPSC by the ArCs and compel them to remit the DPSC collections within the period prescribed in Item 6.2 of the MC.**
- 14.6 Management commented that on May 28 2019, a meeting with airline representatives from AirJuan , Air Swift Platinum Skies was held. They were made aware of the mandatory timely remittance of DPSC collections and the imposition of applicable penalties and surcharges for the collections which were not remitted. In response to the said meeting, Air Swift made a corresponding payment in the amount of P2,624,463 excluding interest charges for late remittances. AirJuan, however, requested one week to consolidate records for accurate reporting while Platinum Skies requested for 10 days to consolidate records and remit the DPSC due to CAAP.
- 14.7 By way of rejoinder, we would like to emphasize that even if it is provided in Section 6 of MC 022-17 that the timely remittance of the DPSC is the responsibility of the airlines, Management should monitor the compliance of all airlines to ensure that all DPSC collections are remitted on time.

**15. Variances amounting to P440,407 between the General Ledger (GL) balance and the Subsidiary Ledger (SL) balance of Advances to Officers and Employees account cast doubt on the reliability and accuracy of the account.**

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

15.2 Analysis of Advances to Officers and Employees account disclosed a variance between the GL and SL balances amounting to P440,407 as of December 31, 2018. Details are shown below:

<b>Balance per GL</b>		<b>P</b>	<b>1,853,747</b>
<b>Balance per SL</b>			
Cash Advances for Travel	P 2,264,154		
PCF of Former PCCs	30,000		<b>2,294,154</b>
<b>Difference (GL-SL)</b>		<b>P</b>	<b>(440,407)</b>

15.3 **We recommended and Management agreed to instruct the Chief Accountant to verify the difference noted, reconcile the same and make the necessary adjusting entry in order to provide a reliable and accurate financial records.**

**16. The reported Deposit on Letters of Credit account totaling P18.332 million lacked the necessary supporting documents.**

16.1 Paragraph 15 of PAS 1 requires the faithful representation of each transaction in accordance with the recognition criteria of assets, liabilities and income and expenses as provided by the Framework.

16.2 Examination of the Deposit on Letters of Credit account revealed that the account balance of P18,332,140 had been dormant since 2008. Inquiry disclosed that there are no documents and subsidiary records to support its existence, completeness, rights and obligation and its valuation.

16.3 The non-maintenance of the necessary records casts doubt on the existence of these deposits.

16.4 **We recommended and Management agreed to exert its best efforts in locating pertinent records relevant to the Deposit on Letters of Credit account and prepare adjusting entries, if warranted.**



## B. COMPLIANCE AUDIT

### 17. Investment in United Coconut Planter's Life Assurance Corporation (COCOLIFE) for a single-pay variable life insurance in the amount of P500 million is without approval by the Board, without in-depth study prior to the investment, and with no adequate criteria for the selection of the insured 10 key men.

- 17.1 In previous years, CAAP has been investing in short-term and long-term time deposits with Authorized Government Depository Banks (AGDB) earning 1.00 percent to 6.40 percent interest for short-term deposits and 2.5 percent for foreign currency placed in long-term investments. Investments in Bureau of Treasury (BTr) bonds were also placed for 5 years and BTr bills for 91 days (with automatic roll over).
- 17.2 On December 14, 2018, CAAP placed an amount of P500 million in a Variable Universal Life Insurance (Zenith Plan) with COCOLIFE, a Government-Owned and/or controlled Corporation (GOCC) classified by the Governance Commission for GOCCs (GCG) as a GOCC supervised by the Presidential Commission on Good Government. The said amount was withdrawn from the Savings Account of the Authority with the United Coconut Planter's Bank (UCPB).
- 17.3 Our verification of the documents concerning the transaction revealed the following:

#### ***Absence of Board approval***

- 17.4 The corporate powers of the Authority are vested in the Board of Directors pursuant to Section 24 of Republic Act (RA) No. 9497, otherwise known as the Civil Aviation Authority Act of 2008. Paragraph (i) of the aforementioned section states that the Board has the power to –

*“Invest such of the Authority’s funds that are not immediately required for operating expenses, or other immediate obligations in any business venture the Board may deem appropriate, or in such secured note, government securities, and other negotiable instruments that satisfy the guidelines prescribed by the Board. Funds of the Authority shall be deposited in such commercial and universal banks as the Board may determine, **subject to the requirements of existing laws.** The Board shall designate the officials authorized to deposit in or withdraw funds from such depository banks;”*

- 17.5 The placement of the P500 million with COCOLIFE does not bear the approval of the Board. Management, however, stressed that the transaction was duly approved by the Board based on the following:

- a. The placement was presented to the CAAP Board of Directors on December 13, 2018 and the members of the Board interposed no objection to the investment proposal; thus, it was deemed approved;
  - b. Secretary Certificate dated July 3, 2017 issued by Corporate Board Secretary Atty. Victor Eleazar authorized CAAP to invest its funds both in peso and dollar currencies on special savings account, time deposit account, trust account, and other investment facilities such as but not limited to government securities through LBP, and the UCPB, other AGDBs, and other Government Securities Eligible Dealers (GSED) as CAAP may deem appropriate, subject to existing government regulations;
  - c. Per CAAP's Manual of Approvals and Board Resolution No. 2017-009, the Director General has the full authority as delegated by the Board to invest CAAP's idle funds in investment instruments with banks.
- 17.6 The Audit Team finds the above comments untenable considering that there is no duly signed Board Resolution approving the investment in single-pay variable life insurance, being a new mode of investment. No action of the Board was recorded in the Minutes of Board Meeting No. 06-2018 because CAAP presented the proposed investment insurance plan with COCOLIFE only for the information of the Board during its regular meeting on December 13, 2018 and did not seek its approval. The following day or on December 14, 2018, the amount of P500 million was transferred to Savings Account Number 132-1174588, receipt of which was acknowledged under COCOLIFE Official Receipt Number 99684350.
- 17.7 Moreover, Section 24 of RA 9497 prescribes the criteria in investing CAAP funds and investment-linked insurance plan is not one of those type of investment specified under the said law. Likewise, the Director General has approving authority only on investments in government securities and time deposits per CAAP Manual of Approvals.
- 17.8 Also, Zenith Plan, which is a variable life insurance product of COCOLIFE is not mentioned as one of the investment facilities authorized under the Secretary Certificate issued by the Corporate Board Secretary on July 3, 2017. It is an insurance product as it is evidenced by an Insurance Policy. Since this facility is different from what was previously authorized, it is but imperative for CAAP to seek the Board's approval prior to the investment in COCOLIFE.
- 17.9 The transaction is likewise contrary to Management's disclosure in Note 33 to the Financial Statements, on Credit Risk policy, that CAAP limits its exposure to credit risks by depositing its cash only with financial institutions duly evaluated and approved by the Board of Directors.

**Absence of in-depth study prior to the investment**

17.10 Management was not able to submit the result of any study on options where to invest the P500 million withdrawn from its Savings Account with the United Coconut Planter’s Bank. The Audit Team then made a comparison on the interest income if the fund was invested in Treasury Bonds and/or Treasury Bills and the price per unit of the investment in COCOLIFE, from the date the investment was made on December 14, 2018 (value date: December 17, 2018) and as at end of the 5<sup>th</sup> year, which disclosed the following:

**Table 20. Comparison of interest earned between Investment in COCOLIFE and Investment in T-Bonds and T-Bills**

Investment Name	COCOLIFE		Bureau of Treasury through Landbank of the Philippines	
	Peso Fixed Income Fund	Peso Bond Fund	T-Bonds	T-Bills
<b>Amount</b>	400 million	100 million	500 million	500 million
<b>Term</b>	5 years	5 years	5 years	91 days
<b>Interest Rate/Net Asset Value Per Unit (NAVPU) at placement/ value date</b>	1.7083	1.0070	7.003% per annum	5.323% per annum
<b>Interest Income/ Gain net of charges/tax</b>	P106,782,516*		P139,547,500	P117,258,162
<b>Charges/Taxes</b>	1) Annual insurance charge which will start at 2.71 per thousand of the Net Amount at risk to be deducted monthly; 2) Asset management charge of 1.75 per cent of the fund for Peso Fixed Income Fund and 1.96 per cent of the fund for the Peso bond Fund to be deducted in the computation of the Net Asset Value (NAV); 3) Switching charge of 1% of the amount switched in excess of 2 free switches per year; and 4) Withdrawal charge of 5% of the amount for the first year, 4% for the second year, 3% for the third year, 2% for the fourth year, 1% for the fifth year and 1% of the amount withdrawn in excess of one free withdrawal for the sixth year and every year thereafter.		1) 20% withholding tax; 2) 0.10% broker’s fee; and 3) 0.0025% Philippine Dealing and Exchange Corporation (PDEX) mapping fee	1) 20% withholding tax; 2) 0.10% broker’s fee; and 3) 0.0025% PDEX mapping fee

\* Based on the 3.53% Medium interest rate which is the weighted interest rate based on the fund allocation and the corresponding interest rate assumption of each fund at the end of 5<sup>th</sup> year as proposed by COCOLIFE.

17.11 From the table above, investing the P500 million in the Treasury Bonds or Treasury bills could have yielded a higher return on investment compared to the value of the funds where COCOLIFE invested/allocated the P500 million. CAAP could have earned 131% more if the amount was invested in Treasury

bonds and 110% more if placed in Treasury Bills. The Fund Value in COCOLIFE will increase or decrease in accordance with the separate fund's experience and the applicable withdrawal charges will be deducted from the fund value should CAAP opt to withdraw.

- 17.12 This only shows that the variable unit linked insurance with COCOLIFE did not undergo the proper evaluation and in-depth study by an Investment Group of possible investment options so that CAAP is assured of the most advantageous offer/investment portfolio of its idle funds. The Audit Team requested from Management any result of study or analysis/evaluation of possible investment options that would support its investment decision. However, Management has not submitted any relevant documents. It is worthy to mention that the investment proposal was submitted for the information of the Board on December 13, 2018 or the day prior to the date the amount of P500 million was transferred to the account of COCOLIFE representative.
- 17.13 Management should have studied the historical performance of the different Funds/Investment vehicles, the strategies of the Fund, i.e. where it is being invested, Fund/Investment objective, Fund Managers (if they are the experts of the field), etc. to get an informed decision on investing idle funds.
- 17.14 The objective or the plan of Management on the P500 million should be aligned with the investment plan (of the Fund). If the objective of Management is to accumulate funds then the money should have been invested in a high yield investment to maximize the return on the invested money. The Funds wherein the P500 million were actually invested are less aggressive, hence, the potential of the money to grow is lesser.
- 17.15 Also, since Management invested in a variable universal life insurance, it should have requested for a rider to include disability benefits in case the insured gets incapacitated.

***Inadequate criteria for the selection of the 10 key men of CAAP***

- 17.16 CAAP as the owner/payor of the P500 million single-pay variable life insurance plan with COCOLIFE, insured 10 of its officers.
- 17.17 For the Benefits and Premiums, the Basic Variable Life Insurance Coverage for each of the 10 CAAP employees insured is P62.5 million (125% of the premium) for a single-pay premium of P50 million each or with an aggregate amount of P500 million. All proceeds shall be received by CAAP should death occurs in the elected key men. CAAP may, however, decide to share a portion of the insurance to the heirs of the deceased key men as may be allowed by law (CAAP has an option to give 25% to the family of the key man as form of gratuity as presented by COCOLIFE in its offer letter). An extended benefit was also offered for all CAAP plantilla employees of group life insurance of P33,000 plus P3,000 burial benefits without any additional cost.

- 17.18 The Zenith program attaches its insurance interest in designated key men whereby the insurable interest of the authority is centered on the life and productivity of its top officers. The theory is that the loss of life of one of CAAP's key officials would result into a significant loss on the part of CAAP and thus it is able to seek immediate insurance compensation.
- 17.19 Management proposed that the key officials to be considered as key men would be officers from the rank of Department Manager and above. They were directed to undertake a comprehensive medical evaluation to determine if their health would qualify them to be insured under the policy. Among the 30 officers who took the medical examination, COCOLIFE evaluated that only 10 officials would be acceptable for purposes of insurance. The selection of the 10 officers as designated key men of the Authority was an exclusive determination of COCOLIFE.
- 17.20 Assuming but not conceding that it is necessary for CAAP to insure its key men, the function and the person insured should be essential to the operations and accomplishment of the mandate of CAAP which is to provide safe and efficient air transport and regulatory services in the Philippines. They should also be vital in the achievement of the Category 1 rating under the Federal Aviation Administration's International Aviation Safety Assessment Program.
- 17.21 The definition of key men as understood by CAAP is very broad as to include officers whose functions are not critical or essential to the operations of CAAP, to wit:
- a) Corporate Board Secretary
  - b) Corporate Executive Officer of the Office of the Director General
  - c) Area Center Manager
  - d) Department Manager of the Finance Department
- 17.22 The selection of the key men raises doubt as to the objective of Management in insuring them.
- 17.23 It is also worthy to note that two of the 10 officers insured are political appointees and they generally serve at the pleasure of the President of the Philippines who is the appointing authority or are co-terminus with the President who has only 3 years left in office as of report date.
- 17.24 Per inquiry with COCOLIFE, the insurance for the 10 key men are non-transferable. The Account Value or the full amount of the investment shall then be automatically withdrawn with corresponding charges, depending on the number of years invested, once the key men are separated from CAAP. Any replacement of the key men shall be treated as newly insured thus, shall be charged with premium which will again require another investment. In case the Presidential Appointee is separated from the service before maturity, CAAP

will get the amount of the accumulated Account Value at the time of withdrawal less corresponding charges which is disadvantageous to CAAP as it will not get the full benefits of the invested Fund.

**17.25 We recommended that Management:**

- a. Recover the full amount of P500 million paid to COCOLIFE;**
- b. Invest idle funds in a government facility which yields higher returns but less risky by properly evaluating/conducting study on options on where to invest idle funds taking into account not only the income that will be earned but also the costs to be incurred with the proper approval of the Board; and**
- c. Consider creating an Investment Group/Committee that will handle the fiduciary responsibilities of CAAP.**

**18. The payment of rentals and real property taxes for alleged leased properties of PAL in Bacolod City and Ozamis City for the period 1992 to 2018 amounting to P157.625 million (gross of tax) was inadequately supported contrary to Sec. 4(6) of PD 1445. There was no lease contract and the alleged prior years obligations are payables that were not recorded in the books of CAAP or disclosed in the Notes to its financial statements, thus raising doubts as to the validity of PAL's claim.**

- 18.1 One of the fundamental principles governing the financial 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."
- 18.2 Meanwhile, COA Circular 88-282A states that – "The contract of lease shall be embodied in a public instrument and shall integrate all the covenants, understanding and agreements of the LESSOR and LESSEE. XXX"
- 18.3 Article 1643 of the Civil Codes states that, "In the lease of things, one of the parties binds himself to give to another the enjoyment or use of a thing for a price certain, and for a period which may be definite or indefinite xxx"
- 18.4 A contract of lease guarantees the lessee the right to the use of the property and it serves as the authority of the lessor to assess and collect the regular payments from the lessee for a specific period. It also protects both parties and the leased property should any problem arise.
- 18.5 On December 27, 2018, the Authority and Philippine Airlines, Inc. (PAL) entered into a Memorandum of Agreement (MOA) which stipulates, among others, that:

- a. CAAP will pay PAL P157,625,845 on or before December 28, 2018 for the full and final settlement of PAL's claim for unpaid rentals, including property taxes, for two properties occupied and leased by the Authority in Bacolod City and Ozamis City, covered by Transfer Certificate of Title (TCT) No. T-12923 and T-2870, respectively, for the period 1992 to 2018. Details are shown below:

**Table 21. Schedule of PAL's Claim**

Years	Rentals and Property Tax		Total
	Bacolod	Ozamis	
CY 2018 (up to November)		P 1,691,400	P 1,691,400.00
CY 2017		1,843,920	1,843,920.00
CY 2016		1,843,920	1,843,920.00
CY 2015		1,843,920	1,843,920.00
CY 2014		1,843,920	1,843,920.00
CY 2013		1,843,920	1,843,920.00
CY 2012		1,845,630	1,845,630.00
CY 2011		1,840,140	1,840,140.00
CY 2010		1,846,918	1,846,918
CY 2009		1,846,918	1,846,918
CY 2008	P 449,270	1,846,918	2,296,188
CY 1992 to 2007	115,380,422	21,658,629	137,039,051
<b>Total</b>	<b>P 115,829,692</b>	<b>P 41,796,153</b>	<b>P 157,625,845</b>

- b. CAAP shall pay all current rentals and property taxes for its continued use of the Ozamis Property within 30 days from receipt of the correct invoice.
- 18.6 On the same date of the MOA, the Authority paid PAL the amount of P157,625,845.
- 18.7 Examination of supporting documents relative to the payment disclosed the following:
- a. No lease contract was attached;
  - b. The computation of the monthly rental rates charged for the lease of the aforementioned properties from 1992 to June 16, 1996 was based on a certain Administrative Order (AO) No. 5 series of 1970, while rental rates thereafter was based on Air Transportation Office (ATO) Department Order (DO) No. 94-763;
  - c. The total unpaid bills charged to CAAP include payments made by PAL for Real Property Taxes (RPT) during the lease period totaling P689,451.06;
  - d. A Certification issued by then Department of Transportation and Communication (DOTC) Assistant Secretary of ATO Nilo C. Jatico recognizing PAL's ownership of the Bacolod and Ozamis properties dated

May 5, 2006 and May 23, 2007, respectively, was also attached. The Certification also provided that the structures in the leased properties were constructed and maintained by ATO; and

- e. Most of the invoices, particularly those referring to rentals of prior years, are dated 2013 or supposed rentals were only billed in 2013, several years/decades after the alleged rent expense accrued.
- 18.8 The absence of a lease contract detailing therein, among others, the nature, rates, duration, description and actual measurement of the lot area being leased, as well as the rights and obligations of each party raised doubts on the validity of the claim and the accuracy and reasonableness of the rental rates being charged.
- 18.9 Review of the prior years' financial statements of CAAP incorporated in the COA Annual Audit Reports disclosed that the alleged prior years obligations or payable to PAL were not recognized in the Financial Statements or disclosed in the Notes to Financial Statements. This further raised doubt on the validity of the payment to PAL.
- 18.10 Further, the Audit Team was able to secure a copy of the ATO DO No. 94-763 on the Revised Schedule of Fees and Charges of the ATO for Alternate International Airports and National Airports and noted that the said Order prescribes the revised fees and charges to be charged by ATO to its lessees and/or concessionaires, as provided by the following provisions:

xxx

*Part II: General Provisions*

*Sec. 1. Applicability – The fees and charges prescribed herein shall apply for the use of alternate airports such as Zamboanga, Davao, Puerto Princesa, Laoag and national airports, their facilities, services, utilities and properties **under the management control of the Air Transportation Office.***

xxx

*Sec. 5 – Other Fees and Charges – The fees and charges prescribed herein **shall not prejudice the right of Air Transportation Office to impose and collect** such other reasonable charges xxx*

*Sec. 6 – Improvements on Building, Building Spaces and Areas – Physical improvements on the building spaces and areas, **owned by the Air Transportation Office** may be undertaken at the expense of the tenants xxx.” (Bold supplied)*



18.11 It is clear that the above-cited provisions pertain to the Authority as the lessor, rather than as the lessee; hence, casting doubt on the applicability of this DO to the rental fees charged by PAL against the Authority, considering there was no lease contract adopting the DO as the basis for the computation of the monthly rental fees.

18.12 Moreover, the RPT paid by PAL for the said properties totaling P689,451 were charged to CAAP, despite having no lease contract to support such stipulation. Real Property Taxes are taxes imposed against owners of real properties based on its value, thus, should be normally charged against the lessor unless agreed upon by both parties. We also gathered that P532,377 of the P689,451 refers to RPT on buildings and structures covering 2008 and prior years. Per the certification attached to the DV issued by then Assistant Secretary Nilo C. Jatiko, the assets in the leased properties were constructed and maintained by ATO which was then a National Government Agency, thus was exempted from paying RPT by virtue of Section 133 (o) of Republic Act 7160 or otherwise known as the Local Government Code of 1991. Based on the aforementioned circumstances, CAAP or ATO should not be charged for the RPT of the leased land unless covered by a leased contract/agreement specifically providing such agreement nor for the RPT allegedly paid by PAL for properties owned by the then ATO.

18.13 **We recommended that Management:**

- a. **Coordinate with PAL for the submission of the duly approved lease contract and other documents to support the alleged obligation for rental fees from 1992 to 2018;**
- b. **Require the refund of the amount paid to PAL, if the prior years' obligation could not be substantiated; and**
- c. **Henceforth, ensure that all rentals are covered by a valid and binding lease contracts, containing the terms and conditions such as, but not limited to, the duration of the lease, the rental rate, and rights and obligations of both parties.**

18.14 On the non-submission of lease contract, Management commented that the lack or the non-submission of contract of lease does not necessarily negate the existence of a lease agreement between CAAP and PAL. Further, they mentioned that the MOA dated December 27, 2018, was executed to finally put into writing the meeting of the minds existing since 1992 between PAL and Air Transportation Office (ATO), and now CAAP. This is to comply with the dictates of a regular government dealings as espoused under Presidential Decree (PD) 1445, which states that *"claims against government funds shall be supported with complete documentation."*, and serve as this Authority's documentation to pay its obligation under the lease, considering a lease contract is not within this Authority's custody.

- 18.15 Further, they commented that while the Authority is aware that under COA Circular No. 88-282A, a contract of lease needs to be embodied in a public instrument, it is their assertion that the Circular must be harmonized with the principles of lease found under pertinent Civil Code provisions which states *that in the lease of things, one of the parties binds himself to give another the enjoyment or use of a thing for a price certain, and for a period which may be definite and indefinite*. They mentioned that the Civil Code does not require a lease to be embodied in a written contract or in a public instrument for the parties to be bound thereto and that *contracts shall be obligatory in whatever form they may have been entered into*, provided all the essential requisites are present.
- 18.16 Management pointed out that as the essential requisites of a contract are present in the case at hand, evidence by the parties continued willingness to be bound thereto (i.e. consistent and/or continued use of the subject properties), an implied lease or *tacita reconducion* now applies, and thus has a corresponding obligation thereunder to pay for the lease.
- 18.17 As a rejoinder, the statement that the MOA was executed to finally put into writing the meeting of minds existing since 1992 between PAL and ATO is tantamount to saying that there was no written lease agreement between PAL and ATO. It is very improbable that a lease of property supposedly owned by a big corporation such as PAL would just happen without any written agreement.
- 18.18 If indeed the land is owned by PAL and leased to ATO (now CAAP), there should have been a written agreement between ATO and PAL for the use by the former of the latter's property. Whether the said use of the property is subject to payment of rental and other pertinent details are supposed to be stipulated therein. It is worthy to mention that under Section 85 of Republic Act No. 9497 dated March 4, 2008 on the abolition of the ATO provides that all contracts, records and documents relating to the operations of the abolished agency and its offices and branches are transferred to the Authority. It is further worth mentioning that the subject land in Ozamis City is recorded in the books of CAAP as among its properties. It is likewise worthy to mention that some of the CAAP officers especially in the Administrative and Finance Service are former ATO personnel.
- 18.19 With respect to the rates imposed by PAL, Management commented that they find the use of rates embodied in DO No. 94-763 of ATO as justifiable. They stressed that the rates provided in the aforementioned DO are fairly nominal in comparison with prevailing rates imposed by other private entities such as PAL. They further emphasized that they took into consideration that the DO was implemented as early as 1994 and that after carefully studying all available options on rates, that *had PAL charged the available or current prevailing rates*

*presently, the same would have been significantly greater, which would be highly prejudicial against the government.*

- 18.20 It is Management's position that the ATO mandated rates is presumed to be just and reasonable and that it went through the regular vetting by officials with personal knowledge and experience at the time when the lease agreement was contracted. Further, Management remarked that considering the length of time and waiver of interests vis-à-vis the default of the Authority in promptly paying the rental fees, the rates imposed is not only reasonable and justifiable, but in fact more beneficial and advantageous to the Government, and can hardly be considered as excessive, extravagant or unconscionable.
- 18.21 Management further remarked that like in any other valid and regular agreement, it is bound to respect what was formerly stipulated and agreed into and that they cannot unilaterally deviate from the said agreement provided that they are not contrary to laws, morals, good customs, public order, or public policy.
- 18.22 Moreover, Management noted that per existing rules, this Commission is not precluded from going beyond the best evidence of an agreement in considering the bases and propriety of a government transaction, and that similar to the mandates under the general rules on evidence, secondary pieces of evidence maybe resorted to in the absence of primary documents.
- 18.23 As a rejoinder, if indeed the agreement on the use by ATO (now CAAP) of the alleged PAL's properties was subject to rental, the rates should have been agreed upon in 1992, the start of the lease period that was being billed/charged by PAL. While the lease period allegedly commenced in 1992, the rental rates used in billing were based on the DO issued by ATO in 1994.
- 18.24 As to the Authority's shouldering of the property taxes paid by PAL, Management commented that the Authority will coordinate with PAL to consider the payment of real property taxes as an overpayment and treat the same as an advance to the charges it will incur in its operation.
- 18.25 Additionally, Management informed that to bind the current officials and employees of CAAP for the missteps undertaken by its predecessors shall be considered the height of injustice when it had utter lack of visibility to its operations then.
- 18.26 It is our view, however, that the current officials and employees concerned participated in the consummation of the transaction by allowing payment of rentals which are of doubtful validity, thus shall be held accountable.

**19. Advances to Contractors amounting to P1.605 million were not recouped due to the absence of supporting documents for the projects implemented by then Air Transportation Office (ATO) and despite the pre-termination of the contract in CY 2016, which was not in accordance with Section 4.3 of Annex E of the Revised IRR of RA 9184, thus, resulting in overstatement of the account.**

19.1 Paragraph 4.3 of Annex E of the Revised IRR of RA 9184 provides that *the advance payment shall be repaid by the contractor by deducting fifteen percent from his periodic progress payments a percentage equal to the percentage of the total contract price used for the advance payment.*

19.2 Audit of Advances to Contractors account disclosed that advance payments totaling P1,604,794 were not recouped as of December 31, 2018, details as follows:

**Table 22. Schedule of Advance Payments not recouped as of December 31, 2018**

Project	Contractor	Balance as of Dec. 31, 2018	Payment	
			Check No.	Date
Improvement of 1 <sup>st</sup> and 4 <sup>th</sup> floor CAAP main building and other main selected areas	AQA Global Construction Inc.	P 1,309,920	189513	September 2011
Repair of VFR room and other floor levels at Control Tower Building, NAIA (under ATO)	Bentidel Ent & Developer	218,467	1497705	July 2005
Repair/ Improvement of NDB Station Phase 2 project at Rosario, Cavite (under ATO)	Bridgestone Construction Company	43,407	1521628	Dec 2007
System development of Auto AES (under ATO)	Mannasoft Technology Corporation	33,000	1455012	Jan 2002
		<b>P 1,604,794</b>		

19.3 It was informed that the three projects were implemented by then ATO in various years wherein the documents pertaining thereto were turned over to CAAP. The said advances were just carried over from the books of ATO to CAAP.

19.4 On the other hand, the project on the improvement of 1st and 4th floor of the CAAP main building and other selected areas was pre-terminated in CY 2016. However, the Authority did not submit their claims to the Insurance Company immediately after the termination of the contract took effect or take appropriate legal action to recoup the advances granted to the contractor.

19.5 The unrecouped advances have been outstanding for more than one year to over ten years and the amount which was not promptly recovered by the Authority resulted in the loss of government funds, particularly for the project which had been pre-terminated wherein the possibility of recoupment is already remote.

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

- a. **Send demand letter to the contractor to recover the unrecouped advances and immediately coordinate with the Enforcement and Legal Office to file appropriate charges, if warranted; and**
- b. **Assign a dedicated staff to exert extra effort to locate the documents pertaining to the ATO projects and undertake similar action for the pre-terminated project.**

**20. The Authority did not comply with the provisions of COA Circular 94-013 which provides the guidelines for the rules and regulations in the grant, utilization and liquidation of funds transferred to Implementing Agencies (IA), and with the provisions of the Memorandum of Agreement (MOA) entered into by the CAAP and the DOTr.**

20.1 COA Circular 94-013 dated December 13, 1994 re Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies provides the necessary details as to the duties and responsibilities of both the source and the implementing agency as well as the proper accounting of the transferred funds, among others.

20.2 On the other hand, in a MOA entered into by the Department of Transportation (DOTr) and the Civil Aviation Authority of the Philippines (CAAP) dated and notarized on December 29, 2016, DOTr agreed to cause the fund/money/cash transfer of the total amount of P2,615,234,645, to CAAP, divided into three (3) tranches, for the bidding and implementation of various airport projects across the country. On October 30, 2017, CAAP deposited in its account the amount of P106,422,355 received from DOTr as part of the aforementioned agreement.

20.3 Review of documents and the Authority's compliance with the abovementioned circular and MOA revealed the following non-conformities:

***Non-issuance of Official Receipt (OR) upon receipt of the fund from the DOTr.***

20.4 Section 6.1 of the above-mentioned COA Circular requires the issuance of OR in acknowledgment of every amount received from the Source Agency.

- 20.5 Examination of documents attached to JEV F17-12-210 dated December 4, 2017 revealed that the Authority did not issue OR as proof of receipt of funds from the DOTr amounting to P106,422,355.
- 20.6 The issuance of OR is necessary to ensure proper documentation of receipt of fund/money/cash.

***Non-maintenance of Subsidiary Ledgers (SLs) for the funds received from the DOTr.***

- 20.7 Section 6.3 of the same COA Circular requires the implementing agency to keep separate SLs for trust liabilities whether or not separate bank accounts are maintained. Section IV of the MOA between the CAAP and DOTr on the other hand specifies that the CAAP shall maintain a separate and distinct book of accounts for each Airport Project, a copy of which shall be turned over to DOTr upon issuance of the Certificate of Final Acceptance for each of the Airport Project. These requirements were not complied by CAAP.
- 20.8 Maintaining a separate and distinct book for each airport project is necessary to ensure all transactions related to each fund transfer is properly accounted for. It also serves as a control mechanism to facilitate monitoring and proper accounting of the fund.

***Non-submission to the DOTr of any Report of Disbursement (RD) and Report of Checks Issued (RCI) for disbursements made in relation to the airport projects.***

- 20.9 Section 4.6 of the COA Circular states that within ten (10) days after the end of each month/end of the agreed period for the Project, the IA shall submit the RCI and the RD to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the IA. While, Section I.B.9 of the MOA provides that one of CAAP's responsibilities is to submit to the DOTr a monthly liquidation report for every payment in connection with the implementation of the airport projects.
- 20.10 As of December 31, 2018, the Authority had spent a total of P2,076,611 for the publication of invitation to bid of the projects. Our audit disclosed that CAAP did not submit the RD and RCI to DOTr.
- 20.11 We also noted that CAAP Head Office does not have any control mechanism in place to ensure proper monitoring of expenses incurred by its Area Centers in relation to specific projects.
- 20.12 On May 7, 2018 the amount of P1.5 million was transferred to AC X - Laguindingan. The amount was intended for management expenses in relation to the airport project at Ozamis Airport. As of year end, HO had no information whether AC X had already incurred expenses out of the fund that should have been reported to the DOTr in accordance with the signed MOA.

***Early transfer of funds from the DOTr to the Authority contrary to the provisions of the MOA and delay in the procurement process.***

- 20.13 We observed that the procurement timelines set under the Revised Implementing Rules and Regulations (RIRR) of RA 9184 was not met for the involved projects.
- 20.14 Examination of the Procurement Monitoring Report (PMR) and inquiry with the BAC revealed that the various airport projects funded by DOTr and implemented by the Authority were in various stages of the procurement process as of year end. Based on the relevant dates, it showed that there were delays in the conduct of the procurement process contrary to Section 38.1 of the above-mentioned RIRR, which provides that the procurement process from the opening of bids up to the award of contract shall not exceed three months.
- 20.15 It is noteworthy to mention that there was a substantial gap between the period when the funds were transferred to CAAP and when the procurement for some of the airport projects were initiated. Section VI of the MOA between CAAP and DOTr explicitly requires that the 1st tranche (1.50 percent of the program amount) shall be transferred to CAAP only upon:
1. Signing of the MOA,
  2. Written request of CAAP for the release of the fund, and
  3. The submission by CAAP of the approved Program of Works (POW) for the projects to the DOTr.
- 20.16 We noted that many of these projects have no approved POWs when the 1<sup>st</sup> tranche was transferred to CAAP. The said POWs were still being prepared at the time of transfer, in violation of the terms of the MOA. This might have resulted in the aforementioned gap between the time of receipt of funds and the start of procurement as CAAP cannot proceed with the procurement process without first preparing the detailed engineering and the necessary POW for the projects.
- 20.17 While the Audit Team recognizes the issues CAAP is encountering due to the volume of projects it is currently handling brought about by airport projects of DOTr and implemented by CAAP, we cannot deny that, considering the amount involved in these projects which remains unutilized up to this date, and the time which had already lapsed since the transfer of fund was made last October 30, 2017 (over 1 year), there is a need for CAAP to expedite/prioritize the completion of these airport projects seeing that the delay is causing the funds to remain idle with CAAP and thus, depriving the government of needed funds for other government projects.

***Non-liquidation of previous fund transfers from DOTr to CAAP ranging from 1985 to 2007 and non-reconciliation of the variance.***

- 20.18 Section I.B.17 of the above-mentioned MOA provides the need for CAAP to reconcile/liquidate all outstanding cash transfers of prior years from DOTR, without prejudice to the transfer of funds of the current airport projects of DOTr and CAAP.
- 20.19 Per DOTr's accounting records as of December 31, 2018, the Authority had an outstanding unliquidated fund transfers amounting to P91,823,316. These fund transfers were made by DOTr to fund numerous airport projects implemented by the then Air Transportation Office (ATO), from 1988 to 2007.
- 20.20 Inspection of available records and inquiry, however, revealed several observations, to wit:
- a. No SLs or any distinct and separate books were maintained to properly monitor these projects contrary to the above-mentioned circular.
  - b. Variance amounting to P40,423,710 between the accounting records of CAAP and DOTr relating to the balance of the previous fund transfers.

As of December 31, 2018, the balance per books of previous fund transfers from the DOTr amounted to P51,399,606 while the balance per DOTr amounted to P91,823,316. This issue was further compounded by the fact that CAAP did not maintain separate records for each project, thus resulted in the difficulty in the reconciliation of the variance. Further, no documentation is currently available to ascertain whether these projects were completed nor are there any available MOA/s to ascertain the extent of responsibilities of the Authority with regard to these projects. Per inquiry, the Management is currently looking for these documents to help with the reconciliation. The variance between DOTr and CAAP records, along with the lack of proper documentation cast doubts as to the correctness of the balance of DOTr-related funds recorded in the books of the Authority.

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

- a. **Instruct the Collecting Officer/Cashier to issue official receipt every time money/cash/fund transfer is received;**
- b. **Instruct the Accountant to maintain a separate and distinct book of accounts for each Airport Project or any future fund transfer;**
- c. **Submit to DOTr the monthly reports for expenses incurred by CAAP, both Head Office and Area Centers;**



- d. **Plan and monitor the implementation of the downloaded projects to ensure that these are within the prescribed timelines; and**
- e. **Ensure that the guidelines set under the MOA and COA Circular No. 94-013 are adhered to as regards receipts of funds from source agencies.**

**21. CAAP-HO, Area Centers (ACs) V, VI, VII, IX, XI and XII did not comply with certain provisions of the Revised IRR of RA 9184, thereby, defeating the purpose of transparency, competitiveness and other control measures in the procurement of infrastructure, goods and services.**

- 21.1 R.A. 9184 and its IRR provide that government procurement shall be governed by the principle of transparency, competitiveness and streamlined procurement process, among others. These principles are translated into provisions and requirements under the RA and its IRR for compliance by government agencies in order to attain the objectives of the Government Procurement Reform Act.
- 21.2 The Audit Team reviewed 38 procurement contracts with the total amount of P167,417,128 to determine if CAAP’s procurement activities comply with the requirements under RA 9184 and its IRR. Results of the review are shown in the following tables:

**Table 23. Results of Evaluation of Procurement Contracts**

<b>HO/AC</b>	<b>Nature of Transaction</b>	<b>Specific Provisions of the Revised IRR of RA 9184 not complied</b>	<b>Condition</b>	<b>Contract Amount</b>
HO	Nine (9) Infrastructure Projects	Section 32.2.1 states that: “The BAC shall immediately conduct a detailed evaluation of all bids using non-discretionary criteria in considering the following:  a. Completeness of the bid. Unless the Instructions to Bidders specifically allow partial bids, bids not addressing or providing all of the required items in the Bidding Documents including, where applicable, bill of quantities, shall be considered non-responsive and, thus, automatically disqualified. In this regard, where a required item is provided, but no price is indicated, the same shall be	Differences between the quantities reflected in the ABC and the quantities specified in the Bill of Materials prepared by the winning bidder.	110,202,961

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		<p>considered as non-responsive, but specifying a zero (0) or a dash (-) for the said item would mean that it is being offered for free to the Government, except those required by law or regulations to be provided for; and</p> <p>b. Arithmetical corrections. Consider computational errors and omissions to enable proper comparison of all eligible bids. It may also consider bid modifications if expressly allowed in the Bidding Documents. Any adjustment shall be calculated in monetary terms to determine the calculated prices.</p>		
V	Procurement of Furniture, various Office and Janitorial Supplies	Section 7.2 provides that: "No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. Xxx."	Procurement of furniture and other goods in ACs V and XII were not included in the approved Annual Procurement Plan (APP).	439,107
		<p>Section 54.1 provides: "Splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GoP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of law and this IRR, particularly the necessity of competitive bidding and the requirements for the alternative methods of procurement."</p> <p>Part V, Item C.2 (b) (iii) of Annex H provides: "Except for those with ABCs equal to Fifty Thousand Pesos (50,000.00) and below, RFQs shall be posted for a period</p>	Various office and janitorial supplies amounting to P269,655.00 were procured under split contracts that resulted to non-posting of the Requests for Quotations in Prices to PhilGEPS website, thus, the prices obtained may not be the most advantageous to the government.	269,655

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		of at least three (3) calendar days in the PhilGEPS website, website of the Procuring Entity, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity.”		
VI	Advance Payment of various Infrastructure projects	Item 4.2 Annex “E” provides “The advance payment shall be made only upon the submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank, a bank guarantee or a surety bond callable upon demand, issued by a surety or insurance company duly licensed by the Insurance Commission and confirmed by the procuring entity.”	Advance payments for various infrastructure projects of the ACs VI, IX and XII, were granted and released to the contractors, despite the non-submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank, a bank guarantee or a surety bond callable upon demand, issued by a surety or insurance company duly licensed by the Insurance Commission and confirmed by the procuring entity.	2,556,274
VII	Procurement of Goods	Section 52.1(b) provides that Shopping shall be employed in case of “Procurement of ordinary or regular office supplies and equipment not available in Procurement Service involving an amount not exceeding the thresholds prescribed in Annex “H” of this IRR.”	Procured goods adopting the alternative mode of procurement such as Shopping and Small Value Procurement, thus no assurance that the goods were procured in the most economical and efficient manner.	391,140
	Payment of Variation Orders	Item 1.1 of Annex “E”, Variation Orders may be issued by the procuring entity to cover any increase/decrease in quantities, including the introduction of new work items that are not included in the original contract or reclassification of work items that	The Procuring Entity has suspended work for 149 days to prepare and approve Variation Order No. 01 of only P271,650.23 thus, detrimental to the early completion of the project	271,650

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		<p>are either due to change of plans, design or alignment to suit actual field conditions resulting in disparity between the preconstruction plans used for purposes of bidding and the “as staked plans” or construction drawings prepared after a joint survey by the contractor and the Government after award of the contract, provided that the cumulative amount of the positive or additive Variation Order does not exceed ten percent (10%) of the original contact price.</p> <p>In addition, Item 1.5 (e) The timeframe for the processing of Variation Orders from the preparation up to the approval by the procuring entity concerned shall not exceed thirty (30) calendar days.</p>	and safety of the passengers in general.	
	Advertisement and Posting of the Invitation to Bid	<p>Section 21.2.1, a) Posted at any conspicuous reserved for this purpose in the premises of the Procuring Entity concerned for seven (7) calendar days as certified by the head of the BAC Secretariat of the Procuring Entity concerned.</p> <p>b) Posted continuously in the PhilGEPS website, the website of the Procuring Entity concerned, if availbale, and the website prescribed by the foreign government/ foreign or international financing institution, if applicable, for seven (7) calendar days starting on date of advertisement</p>	Certification of the BAC-Head Secretariat as to posting duration of Invitation to Bid in the PhilGEPS website and in the conspicuous places was only for 1 day instead for continuous 7 calendar days.	-
	Bid Opening	Section 29 states that, “the BAC shall open the bids immediately after the deadline for the submission and receipt of bids. The time, date and place of the	Opening of Bids was conducted ahead of the scheduled time specified in the bidding documents.	-

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		opening of bids shall be specified in the Bidding Documents.”		
	Functions of the BAC	Section 12, enumerates the several functions of the Bids and Awards Committee (BAC). Among the important function of the Committee is to recommend award of contracts to the HOPE or his duly authorized representative.”	BAC Resolution recommending award of contract to the HOPE was signed only by the BAC Chairman, hence cannot be attributed as collegial action of the Committee.	-
IX	Lease of Real Property and Venue	Annex H (Section V-D-9.c.ii), requires that for lease of venues, the Bids and Award Committee (BAC) shall send a Request for Quotation (RFQ) to a least three (3) venues within the vicinity of the selected location. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof. The venue being offered by the lessor with the lowest calculated quotation shall then be rated, ocular inspection and interviews may be conducted.	Payments for venues and catering services amounting to P323,375.00 were procured without canvass of at least three (3) suppliers, hence the most advantageous price offer may not have been secured.	323,375
	Advertisement and Posting of the Invitation to Bid	Section 21.2.1, a) Posted at any conspicuous reserved for this purpose in the premises of the Procuring Entity concerned for seven (7) calendar days as certified by the head of the BAC Secretariat of the Procuring Entity concerned.	AC IX, non-posting of Invitation to Bid in CAAP website managed by the Head Office.	-
XI	Bid Evaluation Reports	Section 32.4 states that “The entire evaluation process for the procurement of Goods and Infrastructure Projects shall be completed within seven (7) calendar days from the deadline for receipt of proposals”.	No separate Bid Evaluation Reports were prepared/ submitted for the two projects Tractor Mower and Manlift. Said evaluation reports were incorporated in the minutes for the opening of bids.	-

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
	Notice and Execution of Award	Section 37.1.6, specifically provides that: "The BAC, through the Secretariat, shall post, within three (3) calendar days from its issuance, the Notice of Award in the PhilGEPS, the website of the Procuring Entity, if any, and any conspicuous place in the premises of the Procuring Entity.	Non-posting of Notice of Award and Notice to Proceed in PhilGEPS and the CAAP Websites.	1,248,230
	Procurement Planning and Budgeting Linkage	Sec. 7.3.5, states that "As soon as the GAA, corporate budget, or appropriation ordinance, as the case may be, becomes final, the end-user or implementing units shall revise and adjust the PPMPs to reflect the budgetary allocation for their respective PAPs. xxxx"	The project was not included in the proposed Project Procurement Management Plans (PPMP) of the area. However, it was included in the CY 2018 Approved Procurement Plan (APP).	3,357,407
	Detailed Engineering for the Procurement of Infrastructure Projects	Item 3(g), 3rd par. of Annex "A", provides that:  "The ABC to be bid shall specify for each major work item, such as earthwork, roadwork, and massive concreting, the components for equipment rentals, fuel, labor, materials and overhead, including the cost of the approved construction safety and health program and warranty premium."	The Approved Budget for the Contract (ABC) is not prepared in prescribed form. The major work items required for the project were enumerated without specifying the components of each for equipment rentals, fuel, labor, materials and overhead, including the cost of the approved construction safety and health program and warranty premium.	
	Observers	Section 13.1 To enhance the transparency of the process, the BAC shall, during the eligibility checking, shortlisting, pre-bid conference, preliminary examination of bids, bid evaluation, and post-qualification, invite, in addition to the representative of the COA, at least two (2) observers; xxx.	No observers from a duly recognized private group in a sector and from a non-government organization (NGO) were invited to attend the pre-bid conference and post-qualification process.	

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
	Preliminary Examination of Bids	Section 30.1 The BAC shall open the first bid envelopes in public to determine each bidder's compliance with the documents required to be submitted for eligibility and for the technical requirements, as prescribed in this IRR.	The Checklist for Opening of Bids during the preliminary examination of bids is incomplete and was not properly signed as the signatures were affixed without full names and designation as either BAC members or TWG members.	
	Procurement of Goods and Infrastructure Projects	Section 32.2. For the procurement of Goods and Infrastructure Projects, the BAC shall evaluate the financial component of the bids to determine the Lowest Calculated Bid.	Bid Evaluation for all bidders was not done by the Bids and Awards Committees (BAC) thru its Technical Working Group (TWG) prior to declaration of the Lowest Calculated Bid (LCB) since there was no document that will prove actual conduct of evaluation of the financial component of the all qualified bids.	
	Procurement of Goods and Infrastructure Projects	Section 32.3 After all bids have been received, opened, examined, evaluated, and ranked, the BAC shall prepare the corresponding Abstract of Bids. All members of the BAC shall sign the Abstract of Bids and attached thereto all the bids with their corresponding bid securities and the minutes or proceedings of the bidding. Xxx.	Bid Security and the name of the issuing entity were not indicated in the Abstract of Bids As Calculated.	
	Post-Qualification	Section 34.3. The post-qualification shall verify, validate, and ascertain all statements made and documents submitted by the bidder with the LCB/Highest Rated Bid, using non-discretionary criteria, as stated in the Bidding Documents. Xxx.	Notice of Evaluation instead of a Notice of Post-Qualification was sent to the LCB.	
	Contract Signing	Section 37.2. Contract Signing	The inclusion of the following grounds for issuance of Notice of	

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		<p>37.2.1. xxx</p> <p>37.2.2. xxx</p> <p>37.2.3. The following documents shall form part of the contract:</p> <p>a) Contract Agreement;</p> <p>b) Bidding Documents</p> <p>c) Winning bidder's bid, xxx;</p> <p>d) Performance Security;</p> <p>e) Notice of Award of Contract; and</p> <p>f) Other contract documents that may be required by existing laws and/or the Procuring Entity concerned in the Bidding Documents, such as the construction schedule and S-curve, manpower schedule, construction methods, equipment utilization schedule, construction safety and health program approved by the Department Labor and Employment, and PERT/CPM or other acceptable tools of project scheduling for infrastructure projects.</p>	<p>Post- Disqualification, to Adame Construction and Supply (1st LCB) as enumerated in the TWG Report:</p> <p>a. No Duly Signed Construction Schedule and S-Curve</p> <p>b. No Duly Signed Manpower Schedule</p> <p>c. No Duly Signed Equipment Utilization Schedule</p> <p>d. No Duly Signed Construction Method in narrative form</p> <p>e. No Duly Signed Construction Safety and Health Program</p> <p>f. No Duly Singed PERT/CPM</p> <p>These documents shall only be required from the declared LCRB before contract signing and not during the post-qualification process and therefore a declared LCB bidder should not be post-disqualified on these grounds.</p> <p>Although, in this case, there were two other valid grounds that disqualified the 1st LCB.</p>	
	Contract Award	Section 37.1.1 "Within three (3) calendar days from the issuance of the resolution recommending award of the contract, the BAC	No notice was sent to all bidders about the issuance of a resolution recommending award.	



HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		shall notify all other bidders, in writing, of its recommendation.”		
XII	Non-Imposition of Liquidated Damages	<p>Items in Annex “E” provides:</p> <p>“8.1 Where the contractor refuses or fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as provide in the conditions of the contract, equal to at least one tenth (1/10) of one (1) percent of the cost of the unperformed portion of the works for every day of delay.</p> <p>8.3 To be entitled to such liquidated damages, the procuring entity does not have to prove that it has incurred actual damages. Such amount shall be deducted from any money due the contractor under the contract and/or collect such liquidated damages from the retention money or other securities posted by the contractor whichever is convenient to the procuring entity.”</p>	Procurement of various goods and infrastructure projects were completed beyond the delivery/contract period, with delays ranging from 2 to 83 days and were not imposed with corresponding liquidated damages.	17,088,209
	Warranty Against Structural Defects	Section 62.2.3.2 (b) provides that the warranty against Structural Defects and Failures of semi-permanent structures such as buildings of types 1,2, and 3 as classified under the National Building Code of the Philippines, concrete/asphalt roads, concrete river control, drainage, irrigation lined canals, river landing, deep wells, rock causeway, pedestrian overpass and other similar semi-permanent structures shall cover five (5) years from final	Structural defects were found during the conduct of inspection on the two (2) projects - Repair of Staff House and Concreting of Access.	3,427,906

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
		acceptance, except those occasioned by force majeure.		
	Small Value Procurement – Request for Quotations	Item 8(b) (ii), Annex “H” requires:  ii. The BAC shall prepare and send the RFQs/RFPs to at least three (3) suppliers, contractors or consultants of known qualifications. This, notwithstanding, those who responded through any of the required postings shall be allowed to participate. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof.	Requests for Quotations (RFQs) were not sent to three (3) suppliers, contractors or consultants of known qualifications for the procurement of six (6) infrastructure projects through Small Value Procurement (SVP).	2,379,839
	Notices to Proceed for the Delivery/ Construction of Various Goods/ Infrastructure Projects	Section 37.4.1 provides “The concerned Procuring Entity shall issue the Notice to Proceed together with a copy or copies of the approved contract to the successful bidder within seven (7) calendar days from the date of approval of the contract by the appropriate government approving authority. All notices called for by the terms of the contract shall be effective only at the time of receipt thereof by the successful bidder.”	Notices to Proceed for the delivery/ construction of various goods/ infrastructure projects for Butuan and Surigao Airports, were issued to the successful bidders beyond the maximum allowable period of seven (7) calendar days from the approval of the contract.	18,609,421
	Performance and Warranty Securities of the Winning Bidders of Infrastructure Projects	Section 39.2 of the Revised IRR of RA 9184 provides:  39.2. The performance security shall be in an amount not less than the required percentage of the total contract price.  Likewise, Section 62.2.3.3 provides:  62.2.3.3 To guarantee that the contractor shall perform his responsibilities as prescribed in Section 62.2.3.1(a) of this IRR, it shall be required to post a Warranty security.	The winning bidders on ten (10) infrastructure projects did not post their respective Performance (PS) and Warranty Securities (WS) while winning bidders for 43 projects posted their respective PS and WS in the form of surety bond callable upon demand in favor of the Authority but were not duly supported by the appropriate certification issued by the Insurance Commission authorizing the insurance	6,136,494

HO/ AC	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Contract Amount
			company to issue such security.	
	Price Reasonableness of Procured Equipment	<p>Section 36 provides:</p> <p>“xxx</p> <p>In all instances, the Procuring Entity shall ensure that the ABC reflects the most advantageous prevailing price for the government.”</p> <p>Likewise, the GPM, Volume II – Manual of Procedures for the procurement of Goods and Services requires that in determining the ABC, the Procurement Management Office (PMO) or end-user unit, with the assistance of the Technical Working Group (TWG) (when necessary), must consider the different cost components.</p>	The Approved Budget for the Contract (ABC) for the purchase and installation of various equipment did not reflect the most advantageous prevailing price for the government. The total ABC for the said procurement and the contract price of P623,368 are higher than the COA Evaluated price by P375,223 and P283,131, respectively.	715,460

**21.3 We recommended that Management:**

- a. **Strictly comply with the provisions of RA 9184 and its Revised IRR; and**
- b. **Require the Accounting Division to observe diligence in processing payments and require from the suppliers/contractors the documents required under COA Circular No. 2012-001.**

**22. The hiring of private lawyers in CY 2018 without the written conformity and acquiescence of the Government Corporate Counsel (OGCC) and the written concurrence of the Commission on Audit (COA), was not in accordance with the provisions of COA Circular No. 95-011 dated December 4, 1995, and Office of the President (OP) Memorandum Circular No. 9 dated August 27, 1998.**

- 22.1 COA Circular No. 95-011 provides that public funds shall not be utilized for payment of the services of a private legal counsel or law firm to represent government agencies in court or to render legal services for them. In the event that such legal services cannot be avoided or is justified under extraordinary or exceptional circumstances, the written conformity and acquiescence of the

Solicitor General or the Government Corporate Counsel (OGCC), as the case may be, and the written concurrence of the Commission on Audit (COA) shall first be secured before the hiring or employment of a private lawyer or law firm. (underscoring supplied)

- 22.2 The above requirements are also provided under Section 3 of the Office of the President Memorandum Circular No. 9, dated August 27, 1998 which states:

*“Section 3. GOCCs are likewise enjoined to refrain from hiring private lawyers or law firms to handle their cases and legal matters. But in exceptional cases, the written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel, as the case may be, and the written concurrence of the Commission on Audit shall first be secured before the hiring or employment of a private lawyer or law firm.” (underscoring supplied)*

- 22.3 In the audit of CY 2018 transactions, we noted that CAAP paid professional fees in the total amount of P1,750,000 to five legal consultants for the period January 15 to December 31, 2018.
- 22.4 Examination of supporting documents attached to the vouchers and inquiry with the concerned personnel disclosed that CAAP hired the lawyers even without the prior written conformity and acquiescence of the OGCC and the written concurrence of the COA which was not in compliance with the provisions of COA Cir. No. 95-011 and OP Memorandum Circular No. 9.
- 22.5 **We recommended that Management strictly adhere to the provisions of COA Circular 95-011 dated December 4, 1995 and Office of the President Memorandum (OP) Circular No. 9 dated August 27, 1998.**
- 22.6 Management commented that CAAP is in the process of obtaining all the documents required such as written conformity and acquiescence of the Solicitor General or the Government Corporate Counsel (OGCC) and written concurrence of the Commission on Audit (COA).
- 22.7 The Authority informed the Commission that although strict compliance to the COA Circular and OP Memorandum was intended, the same was not complied with due to unforeseen circumstances.
- 22.8 As a rejoinder, we stand by our audit recommendation to strictly comply with the provisions of COA Circular No. 95-011 dated December 4, 1995 and OP Memorandum Circular No. 9 dated August 27, 1998.
- 22.9 The Audit Team issued Notice of Disallowance No. 2019-002 (2018) dated March 26, 2019.

**23. Out of the land area of 820,000 square meters (sqm) and 3,121,399 sqm occupied by Laoag International Airport in AC I and various airports in AC IX, respectively, only 1,093,850 sqm were covered with Transfer Certificate of Title (TCT) which was not in conformity with Section 13.1 of COA Circular No. 2012-001 dated June 14, 2012.**

23.1 Section 13.1 of COA Circular No. 2012-001 dated June 14, 2012 requires upon the purchase of land the following:

*If registered land:*

- *If whole lot is acquired, Transfer Certificate of Title (TCT), Certificate of Land Ownership Award/ Original Certificate Title/Emancipation Patent (CLOA, OCT/EP) as a true copy by the Register of Deeds and Tax Declaration (TD) certified as a true copy by the Assessor's Office in the name of the procuring entity or previous owner depending on the provisions of sale.*
- *If portion of lot is acquired, certified photocopy of TCT and TD in the name of the procuring entity or previous owner with annotation of sale.*

23.2 Verification of Agency's records and review of the Inventory of Real Properties revealed that the land area totaling 2,847,549 sqm of Laoag International Airport and AC IX were not yet covered with TCTs which were not in accordance with the above-cited provisions, breakdown is as follows:

**Table 24. Schedule of Land Area without TCT**

Area Center	Total Land Area (sqm)	With TCT (sqm)	Without TCT (sqm)
AC I (Laoag International Airport)	820,000	621,090	198,910
AC IX	3,121,399	472,760	2,648,639
<b>Total</b>	<b><u>3,941,399</u></b>	<b><u>1,093,850</u></b>	<b><u>2,847,549</u></b>

23.3 The land area in Laoag International Airport is comprised of 58 lots with 23 lots registered to private claimants, whereas out of 202 lots in AC IX, 22 lots were still registered in the names of private owners. Further, the inventory per CAAP-HO showed that the 202 lots covers 1,696,293 sqm only, however, the land area per records of AC IX totaled 3,121,399 sqm, hence, a difference of 1,425,106 sqm.

23.4 Due to the absence of TCTs, validity of the rights in the ownership of parcels of land claimed by ACs I and IX and the fair presentation in the financial statements is doubtful.

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

- a. **Expedite the titling of lands of the Authority to assert the ownership rights to the properties of AC I and IX; and**
- b. **Refer to CAAP Central Office the difference of 1,425,106 sqm for the purpose of reconciliation for AC IX.**

**24. In Area Center IX, seventy nine contracts of lease between CAAP – AC IX and rent concessionaires were not executed while 20 lessees either did not comply with the conditions of the lease contracts or their contracts are defective.**

24.1 As of December 31, 2018, CAAP AC IX had a total of 99 concessionaires consisting of the following:

**Table 25. Number of Concessionaires per Airport**

<b>Location</b>	<b>Number of Concessionaires</b>
Zamboanga International Airport (ZIA)	60
Dipolog Airport	14
Pagadian Airport	20
Jolo Airport	1
Sanga-Sanga Airport	4

24.2 Monthly rental fees, concession privilege fees and garbage collection fees (as agreed upon), common use service area fee and royalty on gas and oil were collected from concessionaires for the use of facilities and space inside the agency's premises.

24.3 However, review showed that of the 99 concessionaires, only 20 or 20 percent have lease contracts with CAAP – AC IX, details as follows:

**Table 26. Number of Rent Concessionaires With and Without Contract of Lease**

<b>Airport</b>	<b>With Contract of Lease</b>	<b>Without Contract of Lease</b>
ZIA	20	40
Pagadian		20
Dipolog		14
Sanga Sanga		4
Jolo		1

24.4 Section 2 of COA Circular No. 88-282A dated March 3, 1988 on Uniform Standards/Guidelines to determine the Reasonableness of the Terms and Rental Rates of Lease Contracts for Private or Government provides that:

*“The contract of lease shall be embodied in a public instrument and shall integrate all the covenants, understanding and agreements of the lessor and the lessee xxx”*

24.5 Article 1356 of Republic Act (RA) no. 386 provides that *contracts shall be obligatory, in whatever form they may have been entered into, provided all the essential requirements for the validity are present.* In the absence of the contracts, conditions may not be enforceable, thus, both the lessor and the lessee are not protected if problems arise in the future.

24.6 As of December 31, 2018, unpaid rentals from concessionaires amounted to P6,322,021 some of which remained outstanding for more than 5 years.

24.7 Moreover, deficiencies were noted on the contracts of the 20 lessees, as follows:

- a. Renewal of contracts for CY 2018 were made only on November 21, 2018.
- b. Non-payment of advance rental and security deposit equivalent to two (2) months each for monthly rental fees.
- c. One lessee was not billed on the garbage collection fee of P200 per month which was part of the contract.
- d. The amount of P5,753 a month for the commonly used area was no longer stated in the contract. According to Management, it was a verbal instruction from CAAP – HO. However, since there was no official written instruction, CAAP – AC IX continue charging the lessees of the amount.
- e. The monthly rental rates were still based in 1998 or 20 years ago, as follows:

P 10.00 /sq.m floor area – rental of land  
50.00 /sq.m floor area – passenger terminal building  
100.00/sq.m floor area – arrival area  
100.00/sq.m. floor area – Pre-departure area

These rates are not reflective of the current market prices.

24.8 Considering that CAAP is a revenue generating agency of the government, billing and collection of earned revenues are an important management activity and inefficiency in its implementation results in delayed and/or non-collection of income.

24.9 **We recommended and management agreed to:**

- a. **Execute a duly signed and notarized lease contract before the turn over of a property to a lessee in compliance with COA Circular No. 88-282A and Article 1356 of RA No. 386;**

- b. **Renew Contracts of Lease at least 30 days prior to the expiration of the Lease Period;**
- c. **Strictly monitor the implementation of and compliance with the conditions stipulated in the lease contracts;**
- d. **Instruct the ACs to coordinate with the HO to avoid discrepancies in billing and accruing monthly rentals specifically on the use of the common service area; and**
- e. **Revisit the rates charged per square meter so as to reflect the current market prices.**

**25. Terminal Fee tickets in AC XII totaling 404 pieces with a money value of P75 and P100 per ticket or a total of P37,900 are missing and unaccounted due to lack of internal control measures to safeguard accountable forms from unauthorized access, thus posing a risk of possible fraudulent use or issuance thereof, contrary to Section 123 of Presidential Decree (PD) 1445.**

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

25.2 In the CY 2017 Management Letter, we disclosed the missing or unaccounted 418 pieces of terminal tickets with money value of P75 and P100 per ticket or a total of P39,300 during the cash examination conducted on September 19, 2017.

25.3 During the conduct of examination on the cash and accounts of the incumbent Accountable Officer on June 19, 2018, covering the period from March 27 to June 19, 2018, an inventory of the accountable forms with and without money value was undertaken. It was noted that out of the previously reported missing terminal fee tickets of 418 under the accountability of the previous Accountable Officer as mentioned above, 14 pieces with money value of P100 per ticket or a total of P1,400 were recovered and presented in audit, thereby showing a difference of 404 missing or unaccounted terminal fee tickets with money value of P75 and P100 per ticket or a total amount of P37,900, as shown below:

**Table 27. Missing and Unaccounted Terminal Fee Tickets**

<b>Serial Numbers</b>	<b>Denomination</b>	<b>No. of Pieces</b>	<b>Amount</b>
775001-775100	P 75.00	100	P 7,500.00
4531301-4531350	100.00	50	5,000.00
4533101-4533150	100.00	50	5,000.00
4540451-4540500	100.00	50	5,000.00
4544351-4544454	100.00	104	10,400.00
4546951-4547000	100.00	50	5,000.00
<b>Total</b>		<b>404</b>	<b>P 37,900.00</b>



- 25.4 Interview with the previous Collecting Officer disclosed that the 14 pieces with money value of P100 per ticket or amounting to P1,400 were among the tickets recovered sometime in August 2017 at the old office of the Supply Unit in the CAAP Administration Building but were not presented during the cash examination conducted on September 19, 2017.
- 25.5 This condition showed that the Authority lacks internal control measures in safeguarding its accountable forms with money value. For CY 2018, the loss of the 404 pieces of terminal fee tickets with a total money value of P37,900 poses a risk for possible fraudulent use or issuance of the said accountable forms.
- 25.6 **We reiterated our prior year's audit recommendation and Management agreed to exert extra efforts in locating the 404 pieces of missing or unaccounted terminal fee tickets.**
- 26. The amount of P20.554 million was paid for security services rendered by Eglematrix Security Services, Inc. in AC XII beyond the allowable contract extension of one (1) year contrary to Government Procurement Policy Board (GPPB) Resolution No. 23-007 dated September 28, 2007.**
- 26.1 GPPB Resolution No. 23-2007 dated September 28, 2007 otherwise known as the Revised Guidelines on the Extension of Contracts for General Support Services provides the general conditions and procedural requirements governing the extension of ongoing contracts of general support services. On the conditions for the extension of the effectivity of an ongoing contract about to expire, Sections 4.1 and 4.6 thereof state that no contract extension shall exceed one (1) year and the current service provider should have not violated any of the provisions of the original contract, respectively.
- 26.2 Review of the documents pertaining to the contract for security services submitted by management disclosed that the public bidding for the security services for AC XII was conducted on October 30, 2013. The contract was awarded to EagleMatrix Security Agency, Inc. covering a period of one (1) year effective February 1, 2014 and to February 1, 2015.
- 26.3 On October 7, 2015, the Director General of the Authority issued a letter informing the security agency of the continuance of their services and the contract would be renewed on a monthly basis pending the conduct of public bidding.
- 26.4 Further verification of the supporting documents attached to the Disbursement Vouchers (DVs) disclosed that the contract for security services with EagleMatrix Security Agency, Inc. was renewed on a monthly basis despite the termination of the contract extension of one (1) year last February 1, 2016.

Post audit of transactions disclosed that the Authority incurred a total expenditure for security services in the amount of P20,554,304.46.

- 26.5 Interview with the BAC Chairman disclosed that he attended a pre-bid conference conducted by the BAC-Head Office on July 9, 2018 at CAAP HO. However, due to some issues raised, the BAC-HO decided to reschedule the procurement activity to an indefinite date.
- 26.6 **We recommended and the Area Center (AC) Management agreed to make representation with CAAP Head Office to schedule the conduct of public bidding for security services for CAAP Area Center XII and to award the contract to the winning bidder soonest to have legal basis of the disbursement for security services.**

## **GENDER AND DEVELOPMENT**

**27. Various attributed programs included in the Gender and Development Plans and Budget (GPB) were not subjected to the Harmonized Gender and Development Guidelines (HGDG) test contributing to the inability of the Authority to comply with the five percent budget allocation requirement.**

- 27.1 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribed the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAD accomplishment reports (AR).
- 27.2 Paragraph 2.3 thereof requires that – “...*GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five (5%) of their total budgets xxx.*”
- 27.3 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...”*”
- 27.4 Further, Section 6.4 of the Joint Circular provides the guidelines in utilizing the attribution of major programs of an agency to the GAD program and the corresponding computation on the percentage of the budget for the ‘attributed programs’ which might be attributed to the GAD Budget and the GAD Accomplishment Report, depending on its HGDG scores.

- 27.5 The submitted GPB of the Authority showed that it had allocated a total amount of P514.07 million or 4.65 percent of the total 2018 COB of P11.06 billion for its GAD projects and activities. However, audit revealed that out of the presented GAD budget, only the amount of P243.73 million or 2.20 percent, specifically Client-Focused and Organization-Focused Programs, Activities and Projects (PAPs), of the 2018 COB was attributable to the GAD PAPs. The difference was due to the total allocated budget for Attributed Programs totaling P270.34 million which were not subjected to gender analysis using the HGDG tool.
- 27.6 Moreover, we noted that the GPB did not indicate what gender issues were to be addressed by the projects attributable to GAD. Inquiry from the TWG Vice Chairperson revealed that there was a readily available tool but the same was not efficiently utilized as they lack the expertise in using the HGDG tool. This had prevented them in assessing whether their plans and programs are gender-responsive and if they have achieved its target to determine the percentage of the budget of the agency's existing and proposed major programs that could be attributable to the GAD budget.
- 27.7 Non-utilization of the HGDG test, precludes the Audit Team to verify the level of gender-responsiveness of the program/activity and to determine the corresponding percentage of its annual budget that may be attributed to the GAD budget.
- 27.8 The budget allocation of P243.73 million was not in accordance with the 5 percent budget allocation requirement prescribed under the above-cited Joint Circular.
- 27.9 It is to be emphasized that the required 5 percent GAD budget do not need to be construed as an additional budget or a separate line item in the COB. It could be attributed to the portion or whole budget of the Authority's major PAPs as a means to increase the gender responsiveness of the government program.
- 27.10 **We recommended that Management instruct the GAD TWG to:**
- a. **Coordinate with the PCW for the conduct of further 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 budget that can be allocated to the GPB; and**
  - b. **Prepare a timely Annual GPB equivalent to at least five percent of the total agency budget appropriations.**

**28. Only 15 out of 53 PAPs were implemented, thus, the public and the intended users/beneficiaries were deprived of all the benefits that could have been derived therefrom.**

28.1 Verification of the GAD Accomplishment Report disclosed that only 15 out of the 53 PAPs identified in the GAD budget were fully or partially implemented during the year, leaving 38 GAD PAPs which remained unaccomplished at year-end. Details are as follows:

**Table 28. Schedule of Accomplished PAPs**

	<b>No. of PAPs</b>	<b>No. of PAPs Accomplished</b>	<b>GAD Budget (in thousand pesos)</b>	<b>Actual Expenditures (in thousand pesos)</b>	<b>% of Accomplishment</b>
Client-Focused projects (CFPs)	22	8	146.17	24.89	4.84%
Organization-focused projects (OCPs)	24	7	97.56	24.78	4.82%
Attributed Programs	7	0	270.34	0	0%
	<b>53</b>	<b>15</b>	<b>514.07</b>	<b>49.67</b>	<b>9.66%</b>

28.2 Based on the table above, the low percentage of accomplishment on the implementation of the proposed PAPs indicates that Management was not able to address the gender issues included in the FY 2018 GPB, thereby depriving the intended beneficiaries of the benefits that may be derived from GAD PAPs such as poverty alleviation, economic empowerment of women, protection and promotion of women’s human rights and resolution of other gender issues.

28.3 We noted the following issues contributing to the observation:

***Non implementation of several GAD infrastructure projects***

28.4 It was gathered that the non-implementation of the projects were either caused by the delay in the approval by the HO of Program of Works (POW) and Purchase Requests (PR) submitted by the ACs; the non-approval of the proposed projects of the ACs and unavailability of space; and the non-prioritization of GAD related projects due to the numerous existing infrastructure projects funded by CAAP and the Department of Transportation (DOTr).

***Non-inclusion of several GAD PAPs in the Corporate Operating Budget (COB)***

28.5 The inclusion of PAPs in the COB/GAA is a requisite for any government expenditure as required under Section 4 of Presidential Decree No. 1445, which states that – “No money shall be paid out of any public treasury of

depository except in pursuance of an appropriation law or other specific statutory authority.”

- 28.6 Meanwhile, Section 9.2 of the PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes that – “Agencies shall inform the PCW in writing if there are changes in the PCW -endorsed GPBs as a result of revising the GPB based on the approved GAA and or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed.”
- 28.7 We noted several PAPs in the GPB which were not included in the approved COB of the Authority nor was there any revision effected in the GPB relative to the non-inclusion as provided under the above-mentioned guidelines.
- 28.8 The non-inclusion of the PAPs in the COB and the subsequent non-revision of the GPB as directed by the aforementioned Joint Circular contributed to the low percentage of accomplishment of GAD projects.
- 28.9 **We recommended that Management:**
- a. **Consider decentralization of the implementation of GAD projects;**
  - b. **Strengthen coordination among all personnel, particularly the Budget Division, in the formulation the GPB;**
  - c. **Adhere to the guidelines set under Section 9.2 of the afore-cited Joint Circular in revising the PCW-endorsed GPB as a result of non-inclusion of GAD PAPs in the COB; and**
  - d. **Formulate an effective monitoring system/process to ensure implementation of all identified PAPS so that the intended beneficiaries shall enjoy benefits derived therefrom.**

**29. Institutionalization of the GAD Database/Sex-disaggregated Data was not implemented.**

- 29.1 Section 4.4 of the Joint Circular provides that 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.
- 29.2 The GAD database/Sex-Disaggregated Data is an important tool in conducting gender analysis on the Authority’s clients and employees. It helps ensure that all major programs and activities of CAAP are gender-responsive.

- 29.3 The non-utilization of the database casts doubt on whether the identified gender issues in the GPB are truly reflective of the existing gender issues faced by its clients and employees. Moreover, the supposed established GAD database 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.
- 29.4 **We recommended that Management instruct the Human Resource Management Office (HRMO) in coordination with GAD-TWG to develop a GAD database/Sex-disaggregated Database 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.**
- 30. The 2018 GPB was not endorsed by the PCW while the 2018 GAD Accomplishment Report was submitted beyond the prescribed deadline and not duly supported with pertinent documents.**
- 30.1 Section 1.4 of PCW Memorandum Circular No. 2016-05 provides that – *“To streamline the process of review and endorsement of GPBs, all line departments, constitutional bodies, judicial and legislative bodies, national government agencies and government-owned and/or controlled corporations (GOCCs) shall submit their GPBs and GAD ARs directly to PCW.”*
- 30.2 Further, Section V of COA Circular 2014-001 states that – *“a copy of the corresponding Accomplishment Report shall be furnished to the said Audit Team **within five (5) working days from the end of January of the preceding year.**” Emphasis Supplied.*
- 30.3 Meanwhile, paragraph 10.4 of the Joint Circular provides that the Annual GAD Accomplishment Report shall be accompanied by the following:
- a. *Brief summary of the reported program or project;*
  - b. *Copies of reported policy issuances;*
  - c. *Results of HGDG tests, if any; and*
  - d. *Actions taken by the agency on the COA audit findings and recommendations, if any.*
- 30.4 Audit noted that the 2018 GPB was not endorsed by the PCW due to the non-submission of the GFPS to the GPB within the prescribed deadline. Moreover, the 2018 Annual GAD Accomplishment Report was only submitted on February 19, 2019 and was not duly supported with pertinent documents, thus precluding the team from further evaluating the accomplishment of the Authority.

30.5 **We recommended that Management instruct the GAD-TWG:**

- a. **To prepare a timely Annual GAD Plan and Budget and submit the same to the PCW within the prescribed deadline for proper endorsement pursuant to the provisions of the PCW-NEDA-DBM Joint Circular No. 2012-001; and**
- b. **To submit to COA the GPB within five (5) working days from the receipt of the approved GPB duly endorsed by PCW and the AR within five (5) working days from the end of January of the preceding year.**

**31. Amounts Withheld for Remittance to Government Agencies**

***Compliance with Tax Laws***

31.1 For CY 2018, the CAAP HO and 12 Area Centers have substantially complied with the requirements on the withholding and remittances of taxes on gross compensation income from officials and employees and on government purchases and contract of services from private entities under Revenue Regulation No. 10-2008 dated July 8, 2008, as shown below:

**Table 29. Taxes Withheld and Remitted**

Offices	Restated Balances, January 1, 2018	Adjustments During the Year	Taxes During CY 2018		Balances, December 31, 2018
			Withheld	Remitted	
<b>Head Office</b>	<b>30,466,725</b>	<b>(76,656)</b>	<b>182,398,158</b>	<b>161,797,767</b>	<b>50,990,460</b>
<b>Area Centers:</b>					
Area Center I	919,515	0	8,251,656	8,103,997	1,067,174
Area Center II	170,242	(25,942)	4,603,811	4,291,061	457,050
Area Center III	7,787,584	0	14,841,834	15,105,171	7,524,247
Area Center IV	944,802	432,352	8,417,095	8,662,154	1,132,095
Area Center V	444,105	(200,788)	9,887,588	9,242,948	887,957
Area Center VI	3,258,531	(84,095)	30,400,630	32,087,746	1,487,320
Area Center VII	3,111,951	0	22,539,846	20,591,669	5,060,128
Area Center VIII	1,017,780	(15,492)	7,654,200	7,810,125	846,363
Area Center IX	739,945	0	12,799,340	12,160,243	1,379,042
Area Center X	1,652,921	(99,226)	9,381,402	9,848,276	1,086,821
Area Center XI	3,331,924	425,729	23,799,216	23,668,106	3,888,763
Area Center XII	280,437	36,716	10,908,968	10,902,526	323,595
<b>Total, Area Centers</b>	<b>23,659,737</b>	<b>469,254</b>	<b>163,485,586</b>	<b>162,474,022</b>	<b>25,140,555</b>
<b>Grand Total</b>	<b>54,126,462</b>	<b>392,598</b>	<b>345,883,744</b>	<b>324,271,789</b>	<b>76,131,015</b>

31.2 Of the year-end balance of P76,131,015 million, P67,049,240 million pertains to taxes subject for remittance in CY 2019. While the remaining P9,081,776 million refers to previous years' balances subject for reconciliation of the Accounting Division.

31.3 The beginning balance excludes the amount of P20,366,526 which pertains to the Authority's tax liabilities based on the examination of the books of accounts and other accounting records for the period January 1, 2015 to December 31, 2015 and settled on June 28, 2018.

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

31.4 The GSIS personal share, loans of employees, Social Insurance Fund (SIF) and Employees Compensation Insurance Fund (ECIF) premiums as government shares were 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 R.A. No. 7875 (National Health Insurance Act of 2013) respectively.

**Table 30. GSIS, Pag-IBIG and PhilHealth Premiums/Loan Amortizations and Remittances**

Particulars	Balances as of January 1, 2018	Adjustment(s)	Premiums and Loan Amortization collected for CY 2018	Remittances	Balance as of December 31, 2018
<b>GSIS</b>	P 17,878,144	P 13,908	P 281,586,441	P 274,632,121	P 24,846,372
<b>Pag-IBIG</b>	4,809,039	10,561	47,404,410	47,127,580	5,096,430
<b>PhilHealth</b>	1,660,881	(8,229)	20,761,255	20,425,878	1,988,029
<b>TOTAL</b>	<b>P 24,348,064</b>	<b>P 16,240</b>	<b>P 349,752,106</b>	<b>P 342,185,579</b>	<b>P 31,930,831</b>

31.5 Of the total balance of P31,930,831 as of December 31, 2018, P19,458,731 pertains to CAAP HO which was remitted in 2019.

**32. Enforcement of COA Audit Suspension, Disallowances and Charges**

**HEAD OFFICE**

32.1 The total audit suspensions, disallowances and charges found in the audit of transactions as of December 31, 2018, 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 on the next page:



**Table 31. Summary of Audit Suspensions, Disallowances and Charges in the Head Office**

Particulars	Beginning Balance as of January 1, 2018	This period January 1 to December 31, 2018		Ending Balance as of December 31, 2018
		NS/ND/NC	NSSDC	
Notice of Suspension	59,082,617.43	63,607,509.93	92,316,851.00	30,373,276.36
Notice of Disallowance	216,928,948.36	9,261,778.57	64,058.86	226,126,668.07
Notice of Charge	30,912.65	0	0	30,912.65
<b>TOTAL</b>	<b>276,042,478.44</b>	<b>72,869,288.50</b>	<b>92,380,909.86</b>	<b>256,530,857.08</b>
<b>% of Settlement</b>			<b>26.48%</b>	

## AREA CENTERS

**Table 32. Summary of Audit Suspensions, Disallowances and Charges in the Area Centers**

Particulars	Beginning Balance as of January 1, 2018	This period January 1 to December 31, 2018		Ending Balance as of December 31, 2018
		NS/ND/NC	NSSDC	
<b>Notice of Suspensions</b>				
AC V	1,498,624.81	1,298,381.52	1,063,475.74	1,733,530.59
AC VIII	1,582,879.99	1,355,191.48	852,911.41	2,085,160.06
AC X	588,083.00	0	588,083.00	0
AC XII	37,238,778.00	8,674,675.91	24,979,731.73	20,933,722.18
<b>TOTAL</b>	<b>40,908,365.80</b>	<b>11,328,248.91</b>	<b>27,484,201.88</b>	<b>24,752,412.83</b>
<b>% of settlement</b>			<b>52.61%</b>	

<b>Notice of Disallowance</b>				
AC I	16,342,938.38	0	0	16,342,938.38
AC II	8,788,790.00	0	467,007.00	8,321,783.00
AC III	17,676,773.84	0	0	17,676,773.84
AC IV	11,176,831.78	499,223.50	0	11,676,055.28
AC V	20,692,185.09	1,533,727.62	0	22,225,912.71
AC VI	67,215,324.78	0	80,173.81	67,135,150.97
AC VII	41,537,458.37	0	7,046.88	41,530,411.49
AC VIII	9,371,532.48	0	0	9,371,532.48
AC IX	26,803,905.51	0	0	26,803,905.51
AC X	111,180,467.34	0	2,501,688.04	108,678,779.30
AC XI	39,452,509.61	0	206,121.00	39,246,388.61
AC XII	7,344,221.26	273,463.65	194,425.73	7,423,259.18
<b>TOTAL</b>	<b>377,582,938.44</b>	<b>2,306,414.77</b>	<b>3,456,462.46</b>	<b>376,432,890.75</b>
<b>% of settlement</b>			<b>0.91%</b>	

- 32.2 The disallowances issued comprise mainly of Flying Risk Pay and allowances paid to CAAP officials and employees which are under appeal and awaiting for the final decision from the Commission on Audit Commission Proper after a Motion for Reconsideration (MR) has been filed by CAAP.

### **C. PERFORMANCE AUDIT**

**33. Out of the 336 proposed infrastructure projects for CY 2018 with a total budget of P1.797 billion, 193 projects or 57 percent with a total budget cost of P1.021 billion were not implemented during the year thereby depriving the intended beneficiaries of the benefits that could have been derived therefrom.**

- 33.1 Review of the agency's status of implementation of its Programs, Activities and Projects (PAPs) for CY 2018 disclosed that out of 336 infrastructure projects for implementation in CY 2018 amounting to P1,796,933,000, 193 projects or 57 percent with a total budget of P1,021,204,408 were not implemented as shown in Annex C, with only 43 percent or 143 projects implemented.
- 33.2 Interview with ADMS personnel disclosed that the non-implementation of the programmed projects were due to the following:
- a. Lack of manpower to undertake the procurement process and its implementation;
  - b. The number of projects submitted and included in the Annual Procurement Plan (APP) and subsequently incorporated in the COB for CY 2018 were not thoroughly planned and evaluated by management;
  - c. Problems encountered in the procurement process such as failure of public bidding; and
  - d. Downloaded DOTR funds in 2018 for projects which cannot be delayed.
- 33.3 **We recommended and Management agreed to review/revisit and prioritize the CAAP programs, activities and projects to be undertaken during the year and assess its ability to implement them prior to the preparation of the budget in order to ensure that these are implemented as planned.**

**34. The Authority had not taken steps to adopt and publish its own and new schedule of fees and charges and still apply the schedule of fees and charges for the past twenty (20) years under Department Order No. 94-762 and its Addendum dated October 5, 1998 of the then Air Transportation Office (ATO).**

34.1 Section 17 of Republic Act 9497, Civil Aviation Authority Act of 2008 provides that:

*“The Authority shall adopt and publish its schedule of fees and charges. The Authority shall hold such public hearings or consultative meetings with stakeholders in the industry before adopting its schedule of fees and charges. The Authority shall not revise its schedule of fees and fines more often than once every three (3) years.”*

34.2 Verification disclosed that presently, the Authority is applying the rates as provided under the Department Order (D.O.) No. 94-762 and its addendum dated October 5, 1998 as basis for the collection of fees and charges for Licenses/Permits, Certificates and Other Services, as shown in Annex B. For the past 25 years, there were only three types of fees and charges incorporated in D.O. No. 94-762 that were revised namely: Amendment to Department Order No. 94-762 dated May 9, 2001 which increased certain Part II: New Pilot’s License Fees; Department Order No. 2002-57 which revised Part VIII: Medical and Dental Fees; and CAAP Circular No. 20-15, Series of 2015 which revised Part IX: Examination Permit Fees per Subject.

34.3 However, all other fees and charges under the provisions of D.O. 94-762 have not been increased and remain unchanged for a long period of time.

34.4 Section 5 of DOF-DBM-NEDA Joint Circular No. 1-2013 dated February 5, 2013 enumerates the factors to be considered in the determination of increase in the existing fees and charges, as follows:

- a. The direct cost of rendering the service based on current appropriation which shall include, the cost of supplies and materials; salaries and wages of personnel directly involved in the service, and the proportionate share in the overhead expenses of the agency or department including the depreciation costs of equipment used;
- b. The length of time the fee or charge had not been revised;
- c. The fees and charges imposed by other national government bureaus, agencies, offices or government-owned or controlled corporations for similar or comparable services;
- d. The revised rates, shall whenever practicable, be uniform for similar or comparable services and functions offered by other government entities.

They shall also approximate the cost of comparable services being offered by private sector entities. Some of the criteria that can be considered to determine comparability are the value of manpower resources used; the technology adopted; and the equipment required in rendering the service;

- e. The revised rates shall be subjected to a public hearing before approval; and
- f. The revised rates shall be approved by the Authority's governing board.

34.5 Considering the time, value of money and inflation for the past twenty-five (25) years, the fees and charges contained therein are already significantly low in value and not reflective of the current industry rates. As a consequence, the Authority is losing potential revenue for using the rates adopted by ATO way back in 1998. According to Management, the Fees and Charges Committee has presented to the Board in its meeting held on August 13, 2018, the updated schedule of fees and charges but was deferred due to the state of inflation that the Philippine economy is undergoing.

34.6 We therefore reiterate our prior year's recommendation that the Authority adopt and publish an updated schedule of fees and charges that are reasonable and in accordance with Section 17 of Republic Act No. 9497.

34.7 **In relation thereto, we recommended and Management agreed to:**

- a. **Review existing fees and charges and consider the factors enumerated in Section 5 of DOF-DBM-NEDA Joint Circular No. 1-2013 in determining the proposed increase in rates; and**
- b. **Re-submit to the Board, the proposed updated fees and charges for their approval.**