# AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The allowance for inventory obsolescence of unserviceable aircraft inventory is understated by P42.258 million.**

International Accounting Standard (IAS) No. 2 requires that inventory items be measured at lower of cost or net realizable value (NRV). This necessitates that a periodic assessment of the items be conducted to determine their commercial value, and to provide an allowance for their obsolescence, if warranted.

The breakdown of the aircraft inventory account as of December 31, 2014 per reclassification made is as follows:

|  |  |
| --- | --- |
| **Particulars** |  **Amount**  |
|  |  |
| Spare parts & accessories |  64,926,656 |
| Work-in-process | 8,244,759 |
|  | 73,171,415 |
| Allowance for obsolescence | (23,563,740) |
|  |  |
| Net | 49,607,675 |

Included in the spare parts and accessories are items with a historical cost totaling P42,258,425 which have been identified and tagged as “unidentified” by the PADC team that was formed to conduct an inventory of the aircraft parts and accessories for CY 2014. Management claims that the members of said team did not have the capability to properly assess or categorize a substantial portion of the items.

Management committed that they will set up an additional allowance for obsolescence in 2013 once the reclassification has been completed. We noted that despite Management’s completion of the re-tagging and reclassification of aircraft inventory, no adjustments were made to the allowance account. We have reiterated in previous years’ Annual Audit Reports that the last allowance for obsolescence was provided in CY 1991. Therefore, there has been no provision for the past 22 years and consequently, the aircraft inventory account is not reflected at lower of cost or NRV.

Management, during previous years’ audits, replied that their commitment to set-up an additional allowance for obsolescence was held in abeyance because a Fact Finding Committee is still validating the condition of inventories. They assured that they will certainly take the necessary adjustments once the Committee has established the facts for its obsolescence and non-traceability. However, to date, no adjustment has been made in the allowance for obsolescence account for the said inventories which are considered worthless because they could no longer be installed to aircrafts or be sold for lack of authenticating documents from their respective manufacturers. As a result, inventory is overstated while the expense account is understated both by P42.258 million.

We recommended that Management consider the hiring of an independent appraisal company to evaluate its aircraft parts and accessories inventory and to determine the net realizable values of the items.

Management was open to the idea of hiring an independent appraisal company. However, they were concerned that the cost of the appraisal may be expensive that it might be equal to or more than the cost of the aircraft parts and accessories to be evaluated. Nevertheless, a commitment was made to study the cost of appraisal vis-à-vis the net value of the parts to determine if it was cost effective to pursue the appraisal.

1. **Long outstanding balances of receivables from the Corporation’s former officers and employees totaling P1.934 million remain unsettled despite being raised as a concern in previous years’ audits.**

Our review of the Due from Officers and Employees account disclosed that long outstanding balances from officers and staff amounting to P1.934 million have remained unsettled except for the full payment by a former PADC President of his P17,050.80 balance in January 2015.

From the schedules prepared by Management, the long outstanding balances may be classified into two categories namely: (a) substantial amounts totaling P1,871,682.23 that were a result of Notice of Disallowances issued by COA after the accountable persons have already been separated from the service; and (b) minimal amounts that add up to P62,529.52 pertaining to, among others, unpaid telephone bills and other miscellaneous personal charges, records of which can no longer be located. Similarly, the accountable persons for these minimal charges have already left the Corporation.

Collectibles from former employees resulting from the issuance of Notices of Disallowance and Notices of Finality of Decision are as follows:

Aquino, Ma. Lorena 84,590.51

Crisologo, Danilo 492,677.50

Echin, Raquel 25,750.00

Herezo, Alicia 6,508.13

Lazaro, Richard 199,306.92

Manlavi, Roberto 93,937.14

Miane, Vilma 323,062.55

Navida, Roberto 626,878.68

Paraguison, Darwin 1,920.00

Pengson, Angelo 17,050.80

 1,871,682.23

While it is apparent that collecting from these individuals will pose a challenge, we requested to be updated on the actions taken by Management to compel these individuals to settle their obligations. We were informed that formal demand letters have been sent to these individuals last January 2013.

We recommended and Management agreed to implement the following measures:

1. Intensify efforts to locate and communicate with the former personnel to convey Management’s determination to collect the amounts due from them. Priority should be given to those with substantial balances specifically those that were issued Notices of Disallowances. It is also suggested that the Office of the Government Corporate Counsel (OGCC) be consulted on what possible legal remedy, if any, can be employed to address this issue.
2. As for the very minimal amounts, Management may wish to refer to COA Circular No. 93-404 dated October 18, 1993 for the appropriate procedures on requesting for the write-off of receivables should the Corporation consider this option.

1. **The recording of accruals and payments of liabilities to the Commission on Audit (COA) and OGCC representing assessments for cost of audit and legal services, respectively, are not updated.**

During our audit of CY 2013, we stated that our verification of the Accrued Liabilities account showed that out of the P11.852 million recorded COA assessments, only P2.400 million was paid, and that only P1.056 million out of P3.440 million recorded OGCC assessments has been settled. Further, it was stressed that no accruals for COA cost of audit services were taken up in the books for the period 2007 to 2013. The table below was presented to support the observation.

|  |  |  |
| --- | --- | --- |
|  |  **COA** |  **OGCC** |
| Beg. balance, January 1, 2004  |  8,618,668.13 | 2,525,000.00 |
| Accruals (2005-2007) | 3,233,278.96 | 625,000.00 |
| Accruals (2007-2013) | 0 | 290,000.00 |
| Adjustments |  (947,671.36) | 0 |
| Payments (2006-2013) |  (2,400,000.00) |  (1,056,500.00) |
| **Ending balance, 12/31/2013** | **8,504,275.73** | **2,383,500.00** |

Balances as of December 31, 2014 remained unchanged as no further accruals were taken up nor payments made to COA and the OGCC as recommended last year. However, updated information as of May 31, 2014 from this Commission’s Planning, Financial and Management Sector (PFMS) showed that the Corporation’s actual liability for cost of audit services amounted to P31.335 million, details of which are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Year Assessed | Assessed CostOf Audit | Payments | Balance |
| 1990 | 318,313.00 | 0.00 | 318,313.00 |
| 1991 | 222,816.00 | 0.00 | 222,816.00 |
| 1992 | 1,135,594.00 | 0.00 | 1,135,594.00 |
| 1994 | 435,311.00 | 0.00 | 435,311.00 |
| 1995 | 534,519.00 | 0.00 | 534,519.00 |
| 1996 | 585,885.00 | 0.00 | 585,885.00 |
| 1997 | 871,741.00 | 300,000.00 | 571,741.00 |
| 1998 | 907,349.00 | 0.00 | 907,349.00 |
| 1999 | 1,005,580.00 | 0.00 | 1,005,580.00 |
| 2000 | 1,033,363.00 | 0.00 | 1,033,363.00 |
| 2001 | 1,339,699.00 | 0.00 | 1,339,699.00 |
| 2002 | 1,598,518.00 | 0.00 | 1,598,518.00 |
| 2003 | 1,596,126.00 | 0.00 | 1,596,126.00 |
| 2004 | 1,608,262.00 | 0.00 | 1,608,262.00 |
| 2005 | 1,496,663.00 | 0.00 | 1,496,663.00 |
| 2006 | 1,540,248.00 | 800,000.00 | 740,248.00 |
| 2007 | 1,568,303.00 | 0.00 | 1,568,303.00 |
| 2008 | 1,758,610.00 | 0.00 | 1,758,610.00 |
| 2009 | 1,545,466.00 | 0.00 | 1,545,466.00 |
| 2010 | 2,069,489.00 | 1,000,000.00 | 1,069,489.00 |
| 2011 | 2,455,240.00 | 0.00 | 2,455,240.00 |
| 2012 | 2,786,615.00 | 600,000.00 | 2,186,615.00 |
| 2013 | 2,806,675.00 | 0.00 | 2,806,675.00 |
| 2014 | 2,814,931.00 | 0.00 | 2,814,931.00 |
|  |  |  |  |
| Totals | **34,035,316.00** | **2,700,000.00** | **31,335,316.00** |

We recommended that Management:

1. Validate the PFMS cost of audit summary to determine if there are any unrecorded payments made by PADC or any other inconsistencies therein so that the amounts can be reconciled;
2. Update the liability account of the Corporation by recognizing the charges in the books of accounts; and
3. Make periodic payments to the COA and OGCC.

Management replied that they acknowledge their liabilities to the COA and OGCC and will pay depending upon the availability of its funds. Presently, fund allocation is geared towards modernizing PADC as directed by the Office of the President.

1. **Dividends payable to the National Government totaling P6.404 million covering calendar years 2011 to 2014 have yet to be remitted by the Corporation.**

Section 3 of Republic Act No. 7656 states that “All government owned or controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government.   x x x.”

Based on the reported net incomes of the Corporation for the years 2011, 2012, 2013 and 2014, we determined that at least P6.404 million is still due to the National Government in dividends as computed in the following page:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Calendar Year | Net Income | Should be remitted | Remitted | Balance |
|  |  |  |  |  |
| 2011 | 4,398,623 | 2,199,312 |  2,000,000 |  199,311 |
| 2012 | 6,482,088 | 3,241,044 |  3,000,000 |  241,044 |
| 2013 | 3,971,710 | 1,985,855 |  0 |  1,985,855 |
| 2014 | 7,955,306 | 3,977,653 |  0 |  3,977,306 |
|  |  |  |  |  |
| **Total** | **22,807,727** | **11,403,864** | **5,000,000** | **6,403,516** |

We recommended that Management cause the remittance of the dividends due to the National Government pursuant to R.A. No. 7656.

According to Management, they will make representations with the Board of Directors for the declaration of dividends for 2013 and 2014 after finalizing their computations to determine the sufficiency of available cash resources.

1. **Actual expenses for representation, conference and miscellaneous items exceeded the combined limits for Extraordinary and Miscellaneous Expenses EME) by P180,858.31.**

Our examination of total charges for representation, miscellaneous and conference expenses disclosed that a total of P362,858.31 was disbursed for these objects of expenditure. On the other hand, we deduced that only a total of P 182,000.00 may be available to cover expenses of this nature as could be gleaned from PADC’s Corporate Operating Budget (COB) for CY 2014 as approved by the Department of Budget and Management (DBM) and from the provisions of the 2014 General Appropriations Act (GAA). The details of our observations follow:



We recommended that expenses be confined within the limits set by existing laws and regulations.

Management replied that the audit team did not take into consideration the additional allowance on EME allowed to the six directors and three division managers of PADC as provided also in Sec. 41 of the 2014 GAA amounting to an aggregate of P352,800 which when added to the EME allowance for the PADC President of P182,000 per COB and GAA would amount to an aggregate of P534,800. This amount would be more than enough to cover the total expenses incurred for 2014 and would still leave P171,941.69 in excess funds.

1. **Deficiencies in the compliance to Gender and Development (GAD) requirements as**

 **called for by the Joint PCW-NEDA-DBM Circular No. 2012-01.**

Joint PCW-NEDA-DBM Circular No. 2012-01 requires agencies like PADC to submit their annual GAD Plan and Budget to their respective mother agencies, this is the DOTC in the case of PADC, for review and subsequent endorsement to the PCW for approval and endorsement to DBM. This procedure was not complied with by PADC in the formulation of its GAD Program for 2014.

Likewise, the amount of P100,000 which PADC has allotted for CY 2014 for its GAD program falls short of the at least five per cent of the total amount of the approved annual Corporate Operating Budget (COB) as required also in the joint circular.

Further, there was no indication that the Harmonized Gender and Development Guidelines (HGDG) in the joint circular was utilized by PADC in the mainstreaming of gender perspectives.

We recommended that PADC comply strictly with the formulation, monitoring and reportorial requirements in Joint PCW-NEDA-DBM Circular No. 2012-01 on GAD.

1. **Summary of Total Suspensions, Disallowances and Charges**

For CY 2014, the unsettled Suspension, Disallowances and Charges are as follows:

|  |  |  |
| --- | --- | --- |
|  Suspension | P | 0 |
|  Disallowances |  | 7,520,137.68 |
|  Charges |  | 9,259,741.45 |
|  | P | 16,779,879.13 |

1. **Other Matters**

 **Compliance with Republic Act (R.A.) Nos. 656 and 8291**

 PADC has insured its hangars and motor vehicles with GSIS pursuant to R.A. 656 as amended by Presidential Decree No. 245. A total of P533,699 has been paid as insurance premiums in 2014.

 PADC has been consistently deducting GSIS premiums from the salaries of its officers and employees and remitting the State Insurance Fund (SIF) and Employees Compensation Insurance Fund (ECIF) premiums to the GSIS in accordance with R.A. No. 8291. A total of P5.345 million was remitted in CY 2014.