

## EXECUTIVE SUMMARY

### A. Introduction

Executive Order No. 311 dated April 26, 2004 was issued making the Office for Transportation Security (OTS), formerly known as the National Action Committee on Anti-Hijacking (NACAH), as the sole authority responsible for the security of the transportation systems of the country, including but not limited to:

- a. civil aviation - by ensuring that Annex 17 to the Convention on International Civil Aviation and the National Civil Aviation Security Programme (NCASP) are implemented;
- b. sea transport and marine infrastructure - by ensuring that the International Ship and Port Facility Security (ISPS) code is implemented and that a national security program for sea transport and maritime infrastructure is formulated, developed and implemented; and
- c. land transportation and rail systems and infrastructure - by ensuring that a national security program for land transportation, rail system and infrastructure is formulated, developed and implemented.

The OTS is headed by an Administrator who is assisted by the Deputy Administrator and six (6) Directors of the following offices:

1. Legal
2. Administrative and Finance
3. Transportation Security Risk Management
4. Transportation Security Oversight Compliance
5. Transportation Security Accreditation Training Management; and
6. Transportation Security Policy and Program

As of December 31, 2019, the Agency reported a total manpower complement of 2,885, broken down as follows:

Status	No. of Personnel
Regular/Permanent Employees	633
Contractual Employees	1,216
Presidential Appointee	5
Co-Terminus	5
Technical Assistant	2
Job Orders	1,024
<b>Total</b>	<b>2,885</b>

## B. Financial Highlights

For CY 2019, the OTS received total appropriations of P1,742,883,000.00 which comprise the (a) Regular Appropriations of P349,049,000.00 as Agency Specific Budget per General Appropriations Act (GAA) of FY 2019; (b) Automatic Appropriations of P9,779,000.00; and (c) Special Purpose Funds of P1,384,055,000.00. During the year, the Agency received total allotments of P1,490,984,000.00, with obligations incurred amounting to P1,285,397,000.00, leaving an unobligated balance of P205,587,000.00. Details are as follows:

Source of Funds (A)	Appropriations (B)	Allotments (C)	Obligations Incurred (D)	Disbursements (E)	Unobligated Allotments (C-D)
<b>A. Current</b>					
<b>I. Agency Specific Budget</b>					
Personal Services	83,107,000.00	81,208,000.00	81,208,000.00	81,536,446.27	0.00
Maintenance and Other Operating Expenses (MOOE)	10,941,000.00	10,941,000.00	10,934,000.00	10,934,210.64	7,000.00
Capital Outlay (CO)	255,001,000.00	5,001,000.00	5,000,000.00	2,986,208.00	1,000.00
<b>Sub-total</b>	<b>349,049,000.00</b>	<b>97,150,000.00</b>	<b>97,142,000.00</b>	<b>95,456,864.91</b>	<b>8,000.00</b>
<b>II. Automatic Appropriation</b>					
Retirement and Life Insurance Premiums	<b>9,779,000.00</b>	<b>9,779,000.00</b>	<b>9,008,000.00</b>	<b>9,007,588.63</b>	<b>771,000.00</b>
<b>III. Special Purpose Fund</b>					
Miscellaneous Personnel Benefits	28,325,000.00	28,325,000.00	27,258,000.00	21,959,164.29	1,067,000.00
National Civil Aviation Security Committee (NCASC)	1,355,730,000.00	1,355,730,000.00	1,151,989,000.00	1,120,196,284.56	203,741,000.00
<b>Sub-total</b>	<b>1,384,055,000.00</b>	<b>1,384,055,000.00</b>	<b>1,179,247,000.00</b>	<b>1,142,155,448.85</b>	<b>204,808,000.00</b>
<b>GRAND TOTAL</b>	<b>1,742,883,000.00</b>	<b>1,490,984,000.00</b>	<b>1,285,397,000.00</b>	<b>1,246,619,902.39</b>	<b>205,587,000.00</b>

The National Civil Aviation Security Committee (NCASC) Fund pertains to the collected Aviation Security Fees (ASF) which is deposited with the Bureau of the Treasury (BTr) under a Special Account to the General Fund (SAGF) and automatically appropriated to the OTS pursuant to LOI 414-A as amended.

The comparative financial position and performance of the OTS for the CYs 2019 and 2018, are shown below:

Particular	2019	2018 (Restated)	Increase (Decrease)	
	(In PhP)		Amount	Percent
<b>Financial Position</b>				
Total Assets	1,720,192,026.15	1,764,143,905.63	(43,951,879.48)	(2.49)
Total Liabilities	228,361,190.76	358,196,309.90	(129,835,119.14)	(36.25)
Total Net Assets/ Equity	1,491,830,835.39	1,405,947,595.74	85,883,239.65	6.11
<b>Financial Performance</b>				
Total Revenue	1,102,071,646.96	1,014,122,646.26	87,949,000.70	8.67
Total Current Operating Expenses	1,192,258,949.84	1,184,546,317.98	7,712,631.86	0.65
Surplus (Deficit) from	(90,187,302.88)	(170,423,671.72)	80,236,368.84	(47.08)

Particular	2019	2018 (Restated)	Increase (Decrease)	
	(In PhP)		Amount	Percent
Current Operations				
Net Financial Assistance/Subsidy	192,970,773.19	357,853,050.41	(164,882,277.22)	(46.08)
Surplus/(Deficit) for the period	102,783,470.31	187,429,378.69	(84,645,908.38)	(45.16)

The significant decrease in total liability is due to the payment of demandable obligations of the Office for delivered goods and services, majority of which are Security Screening Equipment and scientific equipment already delivered, and the significant increase in revenue was due to increasing collection in ASF.

### C. Operational Highlights

The agency's reported targets and actual accomplishments measured in terms of its Major Final Outputs (MFOs) are presented below:

Performance Indicators	Targets	Actual Accomplishments	
		Quantity	Variance
<b>Transportation Security Program</b>			
<b>Outcome Indicators</b>			
1. Percentage of transportation facilities compliant with transport security plans, programs, rules and regulations	90%	105%	15%
2. Percentage of transportation facilities compliant with national/international standard	90%	71%	(19%)
<b>Input Indicators</b>			
1. Number of risk assessment conducted	37	57	20
2. Number of security personnel trained and certified within the prescribed timeline	1,200	3,533	2,333
3. Number of site inspection and audit/verification conducted within a year	560	622	62

Only 71 percent of accomplishment was reported for outcome indicator pertaining to *Percentage of transportation facilities compliant with national/international standard* due to the failure to comply and rectify non-conformances of transport facilities within the prescribed period.

With regard to input indicator on *Number of security personnel trained and certified within the prescribed timeline*, the increased quantity was due to the increase in the frequency and number of trainings and certifications conducted on Basic Aviation Security Screeners Course to Tray Retrievers and Screeners, Refresher Training to Security Screening Officers assigned in various airports in the country, and Aviation Security Screening Checkpoint Course and Basic X-ray Operation Course to aviation stakeholders and government agencies.

The positive variance noted on input indicator regarding the *Number of site inspection and audit/verification conducted within the year* was due to simultaneous security inspection conducted to all aircraft operators and airport areas basing on the threat assessment and risk management.

#### **D. Scope of Audit**

The audit covered the accounts and operations of OTS for the year ended December 31, 2019. The audit was conducted to (a) verify the level of assurance that may be placed on Management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

#### **E. Independent Auditor's Report**

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of the OTS as of December 31, 2019.

#### **F. Significant Observations and Observations**

The following are the significant observations with corresponding recommendations which are discussed in detail in Part II of this Report:

1. There were total misstatements of P9,889,604.55 due to the following accounting errors and omissions in the financial statements as of December 31, 2019: **(Observation No. 1)**
  - a) undocumented fund transfer recognized as Due from National Government Agencies (NGAs) – Procurement Services of the Department of Budget and Management (PS-DBM) of P4,135,998.00;
  - b) unrecorded utilized plane tickets charged against fund transfer to PS-DBM of P2,098,302.90;
  - c) unrecorded inter-agency receivable for interest earned on fund transfer to Philippine International Trading Corporation (PITC) of P27,235.57;
  - d) non-reversion of undocumented prior years' accounts payable of P477,517.45; and
  - e) recognition in CY 2019 of various supplies and materials from October to December 2018 of P3,150,550.63.

We recommended that Management require the Accountant to (a) make proper adjustment to derecognize the fund transfer to PS-DBM which were cancelled and henceforth, stop recording undocumented transactions; (b) draw a Journal Entry

Voucher (JEV) to recognize the utilized Agency Credit Line under the Government Fares Agreement for plane tickets with PS-DBM and interest income totaling P27,235.57 earned in CY 2019 from the fund transfers to PITC; (c) reconcile the Agency's balances with the records of PITC and PS-DBM to ensure that interests earned and service fees incurred and other inter-agency transactions are properly recorded and adjusted in the books; (d) draw a JEV for the reversion of undocumented obligations, pursuant to Section 2 of Executive Order No. 87 dated August 13, 2019; (e) prepare the necessary adjusting entry and strictly monitor the prescribed timeline of submission of the Report of Supplies and Materials Issued (RSMIs) by the Supply Officer for the timely recognition of supplies and materials issuances in the books of accounts, thus, a more reliable balance of the Other Supplies and Materials Expense account at any given period; and (f) require the Supply Officer to regularly prepare and submit the monthly RSMIs to the Accountant within the prescribed period.

2. The reported balances of Inventory Accounts aggregating P5,591,723.21 were unreliable due to unreconciled difference between Accounting and Property records amounting to P4,186,044.76 as a result of incorrect reporting of semi-expendable items by the Supply Section and non-reconciliation of records. Moreover, the Supply Section incurred delayed in the submission of Report on the Physical Count of Inventories (RPCI) as prescribed under Appendix 66, Volume II of Government Accounting Manual for National Government Agencies (GAM for NGAs). **(Observation No. 2)**

We reiterated our prior year's recommendation that Management direct (a) the Accountant and the Property Officer to reconcile their respective Inventory records thereby identifying the nature and details of the P4,186,044.76 unreconciled difference and accordingly, make the necessary adjustments for the reconciling items noted; (b) the Property Officer to report the actual physical count of semi-expendable items in the RPCI; and (c) the Supply Officer to ensure the timely conduct of physical inventory count, reconciliation of Supply Ledger Cards (SLCs), Stock Cards (SCs) and RPCI and submission of RPCI to the COA Auditor concerned not later than July 31 and January 31 of each year for the first and second semesters, respectively as required under Appendix 66, Volume II of the GAM for NGAs.

3. The total balance of the Property, Plant and Equipment (PPE) accounts of P1,852,543,206.35 was not reliable in view of the unreconciled difference between the Accounting and Property records amounting to P365,220,210.05, and non-recording of 349 PPE items in the books of accounts due to absence of documents. **(Observation No. 2)**

We reiterated the prior year's recommendations that Management direct the Accountant and the Property Officer to (a) complete the reconciliation of their respective PPE records thereby identifying the nature and details of the P365,220,210.05 unreconciled difference and accordingly, make the necessary adjustments for the reconciling items noted; (b) exert efforts to locate the documents

relative to the properties transferred by National Civil Aviation Security Committee (NCASC) which shall be the basis of recording the same in the accounting and property records; otherwise, undertake the appraisal of the said assets to establish their current value.

4. OTS obligated P1,285,397,000.00 or 86.21 percent of its total allotments of P1,490,984,000.00 and disbursed P1,246,619,902.39 or 96.98 percent thereof, while P1,246,619,902.39 or 74 percent of the total received cash allocation of P1,685,511,533.00 was utilized, indicating inability to utilize its fund releases in CY 2019. Moreover, delay in the submission of Budget and Financial Accountability Reports (BFARs) was noted. **(Observation No. 3)**

We recommended and Management agreed to (a) improve its absorptive/spending capacity through timely implementation of projects/programs/activities for the efficient utilization of its fund releases for the operation and attainment of the mandate of the agency and to avoid lapsing of cash allocation; and (b) require the Heads of Budget Unit and Accounting Unit to ensure timely submission of BFARs as required under paragraphs 5.2 and 5.3 of COA-DBM Joint Circular No. 2014-1 dated July 2, 2014.

5. The Monthly Bank Reconciliation Statements (BRS) were not submitted within the prescribed period contrary to Section 60 of Chapter 19, Section 3 of Chapter 21 of the GAM for NGAs Volume 1 and Section 74 of Presidential Decree (PD) No. 1445. **(Observation No. 4)**

We recommended that Management strictly monitor the submission by Land Bank of the Philippines (LBP) of the Bank Statements and consequently, prepare and submit the BRS to the Office of the Auditor as prescribed by Section 60 of Chapter 19, GAM for NGAs, Volume 1.

6. OTS has unrefunded unused fund transfer to PITC of P18,759,095.54 for completed projects for over two to six years and outstanding fund transfers of P12,081,600.00 for projects that remained unimplemented for over two to six years in violation to Sections 4.6 and 4.9 of COA Circular No. 94-013. **(Observation No. 5)**

We recommended and Management agreed to (a) coordinate with PITC for the refund of unused fund transfers of completed projects; and (b) evaluate if the long outstanding projects, are still necessary and viable to achieve their intended purposes; otherwise, coordinate with PITC to refund the corresponding funds transferred to OTS.

7. OTS failed to include items of PPE from 2017 and prior years' in the Property, Plant and Equipment Ledger Cards (PPELCs) and to submit on time the Report on Physical Count of Property, Plant and Equipment (RPCPPE) for CY 2019. **(Observation No. 6)**

We reiterated the prior year's recommendations that Management direct the Accountant and the Property Officer to (a) incorporate the items of PPE from 2017 and prior years' in the PPELC and PC, respectively, to ensure that all PPE records are properly maintained; and conduct regular reconciliation of records; and (b) instruct the Inventory Committee to submit the RPCPPE on or before January 31 of each year to the Office of the Auditor as required under Section 38, Volume 1 of the GAM.

8. Out of the P14,648,085.39 total reported balances of Advances to Special Disbursing Officers (SDOs) and Advances to Officers and Employees (OE) accounts as of December 31, 2019, P6,652,229.39 or 45.41 percent remained unliquidated as of December 31, 2019, due to (a) granting of additional cash advance to SDO/OE with existing unliquidated cash advances; and (b) non-imposition of sanctions to erring Accountable Officers (AOs). **(Observation No. 7)**

We recommended that Management require the Accountant to (a) adhere strictly with Section 89 of PD No. 1445 on the non-granting of additional cash advance to AOs with prior unliquidated accountabilities, and Section 1.1 of COA Circular No. 2012-001 dated June 14, 2012 on the required certification that previous cash advances have been liquidated and accounted for on all succeeding disbursement vouchers before granting another cash advance; (b) immediately issue demand notice to all erring accountable officers requiring them to liquidate unliquidated cash advances and impose sanctions to accountable officers by withholding their salary until cash advances are fully liquidated or settled; and (c) strictly monitor the liquidation of cash advances within the prescribed timelines of COA Circular No. 97-002 dated February 10, 1997 and COA Circular No. 2012-001 dated June 14, 2012.

9. Non-execution of Memorandum of Agreement (MOA) for the terms and conditions on the collection of Aviation Security Fee (ASF) between the OTS and airport authorities such as Manila International Airport Authority (MIAA), Civil Aviation Authority of the Philippines (CAAP), and Clark International Airport Corporation (CIAC), resulted in increased risk of delayed and incomplete remittance of ASF. **(Observation No. 8)**

We reiterated the prior year's recommendations that Management exert intensified efforts to facilitate the execution/signing of the MOA with airport authorities by closely coordinating/ communicating with MIAA, CAAP, and CIAC; the formulation of doable and acceptable terms to govern the collection and remittance of ASF in terms of (i) timelines of remittances; (ii) rate of service fees; (iii) imposition of sanctions/penalties in case of delay; and (iv) submission of sufficient supporting documents such as ticket sales reports of Air Carriers or its equivalent to address the noted deficiencies.

10. OTS did not comply with the provisions of RA No. 9184 and its 2016 Revised Implementing Rules and Regulations (IRR), Department of Labor and Employment

(DOLE) Department Orders and COA Circulars in entering into contract for security services amounting to P979,539.12, which compromised transparency, efficiency and economy in the procurement process. **(Observation No. 9)**

We recommended that Management (a) ensure compliance on the specific provisions/procedures on procurement of security service under the following laws, rules and regulations: (i) RA No. 9184 and its Revised IRR, (ii) DOLE Department Order No. 18-A, s.2011, (iii) DOLE Department Order No. 150-16, s.2016, (iv) COA Circular Nos. 82-122-B dated January 8, 1982, and (v) COA Circular No. 2009-001, dated February 12, 2009; (b) submit all other documentary requirements to the Audit Team; and (c) henceforth, ensure that future similar transactions must be compliant with the pertinent rules and regulations.

11. Yuletide Bonus amounting to P55,620,000.00 granted to OTS employees as additional benefits/bonuses without the approval of the President is contrary to Section 5 of PD No. 1597 dated June 11, 1978, and constituted as irregular expenditure as defined under COA Circular No. 2012-003 dated October 29, 2012. **(Observation No. 10)**

We recommended that Management (a) submit legal basis or authority for payment of yuletide bonus to its permanent and contractual employees; (b) strictly adhere to the provisions of Section 5 of PD No. 1597, Section 4 of EO No. 201 in relation to Congress Joint Resolution No. 4, and COA Circular No. 2012-003 in the granting of additional benefits; and (c) require all recipients of the said bonus to immediately refund the amount they received in case OTS failed to submit legal basis.

The above observations and recommendations were discussed with concerned Management officials thru a letter/matrix sent to them on July 27, 2020 specifying the Summary of Audit Observations and Recommendations (SAOR), instead of a normal exit conference to avoid exposure since the NCR is declared high-risk as far as corona virus 19 is concerned, and their comments were incorporated in this Report, where appropriate.

## **G. Summary of Total Suspensions, Disallowances and Charges**

There are no outstanding suspensions and charges while unsettled disallowances as of December 31, 2019 totaled P6,294,308.70. Details are shown in Part II of this Report.

## **H. Status of Implementation of Prior Years' Audit Recommendations**

Of the 39 outstanding prior years' audit recommendations, 12 were reiterated in Part II of this Report, 23 were implemented and four were not implemented as of year-end. Details are presented in Part III of this Report.