

EXECUTIVE SUMMARY

A. Introduction

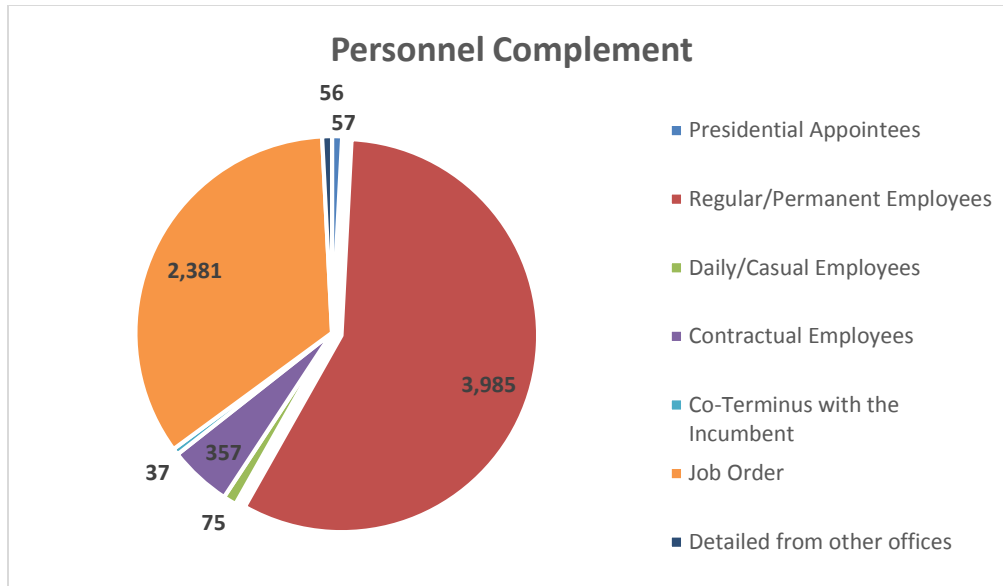
The Department of Transportation and Communications (DOTC) was created by virtue of Executive Order (EO) No. 546 series of 1979. Subsequent legislations issued to organize it both structurally and functionally were EO No. 125 dated January 30, 1987 which was promulgated to conform with EO No. 5, series of 1986 and EO No. 125-1 dated April 13, 1987 to give further impetus to the declared policy of the State towards the maintenance and expansion of viable, efficient and dependable transportation and communication system as effective instruments for the Department's objectives.

The Department, aside from the Department Proper which is composed of the Offices of the Secretary, Undersecretaries and Assistant Secretaries, has its line agencies and Regional Offices. The Office of the Secretary (OSEC) has direct line supervision and control over two agencies and Regional Offices namely: DOTC – Cordillera Administrative Region (CAR) and the CARAGA Administrative Region. In October 1988, the CAR was established by virtue of EO No. 220 while, CARAGA was established pursuant to Department Order No. 96-912 dated January 1996, as mandated under Republic Act No. 7901. It has jurisdiction over two sectoral agencies in the region which are the Land Transportation Office (LTO) and Land Transportation, Franchising and Regulatory Board (LTFRB).

Its legal mandate is to act as the primary policy, planning, programming, coordinating, and implementing, regulating and administrative entity of the government in the promotion, development and regulation of dependable and coordinated networks of transportation and communication systems. The objective of the two regional offices is to give easy access to service through equitable distribution of outlets in transportation and communication facilities.

The DOTC is composed of 12 Services, 22 Divisions, and 6 Project Management Offices (PMOs). It has also 2 Sectoral Offices, namely LTO and LTFRB with 15 and 14 ROs, respectively, in addition to its 2 Regional Offices (ROs). It is headed by a Secretary and assisted by five Undersecretaries and nine Assistant Secretaries.

As of December 31, 2015, the agency has a total personnel complement of 6,948 inclusive of the regional offices, the composition of which is shown in the next page.



B. Financial Highlights

For CY 2015, the DOTC has total appropriations of ₱49,264,166,147.75 consisting of regular agency appropriations, automatic appropriations and Special Purpose Funds (SPF), as provided for in the General Appropriations Act (GAA) for Fiscal Year (FY) 2015. During the year, the Department received total allotments of ₱69,683,061,417.98. Of the total allotments, obligations of ₱36,234,215,777.74 were incurred leaving an unobligated balance of ₱33,448,845,640.24 as at year-end. Details are as follows:

Source of Funds	Appropriations	Allotments*	Obligations Incurred*	Unobligated Balance*
(in Php)				
Current Year				
FY 2015 General Appropriations Act (GAA)				
a. Programs	6,541,184,000.00	6,500,838,801.90	3,908,410,928.63	2,592,427,873.27
b. Projects**	39,404,238,000.00	39,641,632,841.00	19,164,426,537.24	20,477,206,303.76
Sub-total GAA	45,945,422,000.00	46,142,471,642.90	23,072,837,465.87	23,069,634,177.03
c. Special Provisions***	884,691,000.00	418,077,882.00	80,435,866.32	337,642,015.68
Total GAA and Special Provisions	46,830,113,000.00	46,560,549,524.90	23,153,273,332.19	23,407,276,192.71
Automatic Appropriations	2,237,964,363.75	2,210,901,135.75	2,209,502,550.71	1,398,585.04
Special Purpose Funds	196,088,784.00	196,088,784.00	191,040,553.08	5,048,230.92
Total Current Year	49,264,166,147.75	48,967,539,444.65	25,553,816,435.98	23,413,723,008.67
Extended				
FY 2014 GAA	0.00	19,508,358,973.33	9,536,005,341.76	9,972,353,631.57
Supplemental Appropriations	0.00	1,207,163,000.00	1,144,394,000.00	62,769,000.00
Total Extended	0.00	20,715,521,973.33	10,680,399,341.76	10,035,122,631.57
GRAND TOTAL	49,264,166,147.75	69,683,061,417.98	36,234,215,777.74	33,448,845,640.24
Percentage of unobligated balance over total allotment				48.00%

* Exclusive of CAR and CARAGA balances due to non-consolidation by DOTC\

** Excess of Allotments from Appropriations amounting to P237,394,841.00 pertains to release of funds for Integrated Transport System Project per SARO No. SARO-BMB-A-15-0028821 dated December 29, 2016.

*** FS prepared separately and the results of audit are presented in a separate Annual Audit Report for MVUC

Included in the current year regular appropriations are the appropriations from the Special Provisions in the GAA for FY 2015 of the Department amounting to ₱24,969,018,000.00 intended for the implementation of various infrastructure projects. The status of fund utilization, as reported by the Department, is as follows:

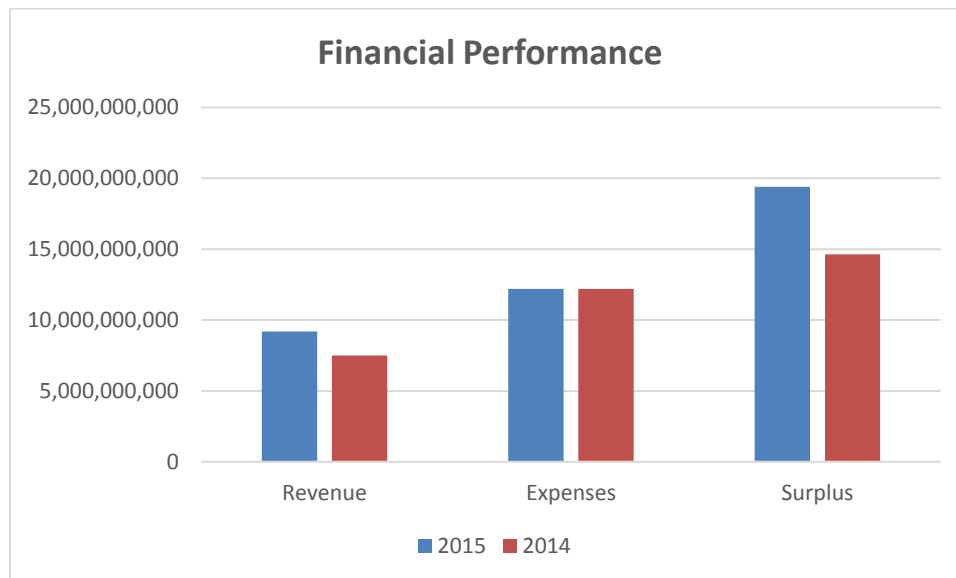
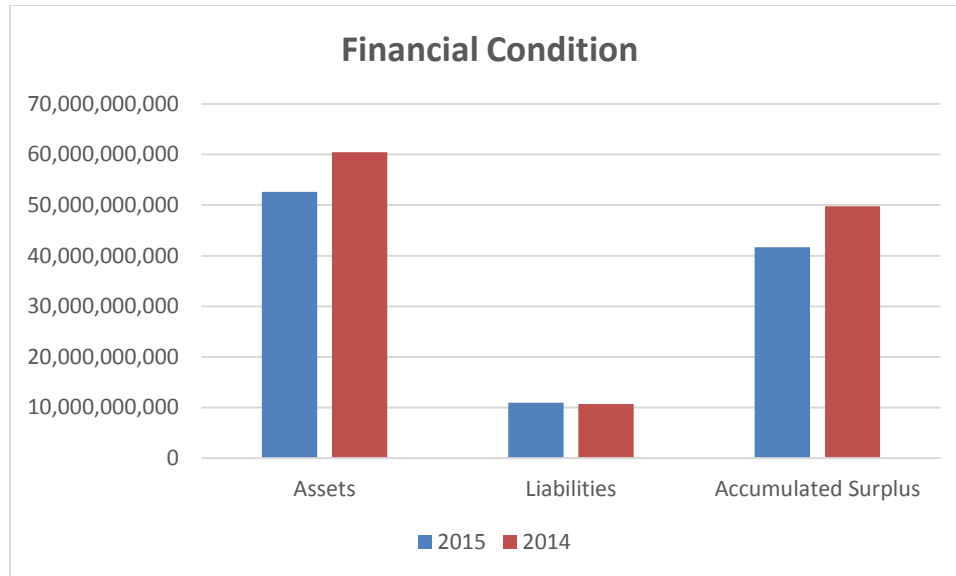
Particulars	Appropriations	Allotments	Obligations	Unobligated Balance
(in PhP)				
Public Private Partnership (PPP) Transportation Infrastructure Project	1,234,000,000.00	1,471,394,841.00	1,471,394,841.00	0.00
Servicing of Metro Rail Obligations	4,657,504,000.00	4,657,504,000.00	4,657,500,996.87	3,003.13
Light Rail Transit Authority Projects	4,527,143,000.00	4,527,143,000.00	1,531,631,131.31	2,995,511,868.69
Construction of Various Airports and Navigational Facilities	11,918,918,000.00	11,918,918,000.00	2,493,350,564.55	9,425,567,435.45
Construction of Various Ports	1,631,453,000.00	1,631,453,000.00	1,350,183,330.52	281,269,669.48
Quick Response Funds	1,000,000,000.00	1,000,000,000.00	0.00	1,000,000,000.00
Total	24,969,018,000.00	25,206,412,841.00	11,504,060,864.25	13,702,351,976.75

*Motor Vehicle Users' Charge (MVUC) appropriations, allotments, and obligations are included in a separate report.

The Department's financial position and financial performance for Calendar Year (CY) 2015, with comparative figures for CY 2014, are as follows:

Particulars	DOTC – Proper*	LTO	LTFRB	2015	2014
				(in PhP)	
Financial Position					
Assets	50,247,190,324.89	2,215,141,874.09	160,809,891.59	52,623,142,090.57	60,433,637,393.81
Liabilities	10,909,207,256.77	1,856,075,503.25	27,329,469.15	10,936,536,725.92	10,667,428,015.30
Accumulated Surplus	39,337,983,068.12	359,066,370.84	133,480,422.44	41,686,605,364.65	49,766,209,378.51
Financial Performance					
Revenue	267,954,705.15	8,276,862,368.92	642,744,620.07	9,187,561,694.14	7,494,174,656.14
Current Operating Expenses	9,715,089,454.89	2,157,042,099.54	333,206,362.90	12,205,337,917.33	12,189,127,479.31
Surplus/(Deficit) from Current Operations	(9,447,134,749.74)	6,119,820,269.38	309,538,257.17	(3,017,776,223.19)	(4,694,952,823.17)
Net Financial Assistance/Subsidy	20,307,444,560.01	1,759,668,798.38	342,211,512.92	22,409,324,871.31	19,309,751,815.90
Gains/(Losses)	7,516,760.08	1,618,941.18	(5,444,808.28)	3,690,892.98	13,948,596.67
Surplus (Deficit) for the period	10,867,826,570.35	7,881,108,008.94	646,304,961.81	19,395,239,541.10	14,628,747,589.40

*Includes sub-allotments to LRTA and PNR



C. Operational Highlights

The Department's reported targets and actual accomplishments measured in terms of its major final outputs (MFOs) are as follows:

Particulars	Targets (Per GAA)	Actual Accomplishments		Variance	
		Quantity	%	Quantity	%
MFO 1: Transport Policies Services					
No. of plans and policies developed and issued or updated and disseminated	13	31	238%	18	138%
Average % of clients who rate the plans and policies as satisfactory or better	10%	76%	760%	66%	660%

Particulars	Targets (Per GAA)	Actual Accomplishments		Variance	
		Quantity	%	Quantity	%
% of policies updated over the last three years.	10%	16%	160%	6%	60%
MFO 2: Motor Vehicle and Driver's Licensing Regulatory Services					
Vehicle Registration					
No. of motor vehicles registered	8,160,432	8,463,001	104%	302,569	4%
Driver Licensing					
No. of driver's licenses and permits issued	5,029,679	5,442,005	108%	412,326	8%
MFO 3: Regulation of Public Transport Services					
Franchising					
% of new Certificates of Public Convenience (CP) acted upon over the compliant applications received.	93%	92%	99%	-1%	-1%
% of extension of validity acted upon over the no. of petitions for extension of validity received	79%	104%	131%	25%	31%
% of dropping/substitution acted upon over the no. of dropping/substitution filed	72%	91%	126%	19%	26%
% of other petitions acted upon over the no. of other petitions received	95%	90%	95%	-5%	-5%
% of special permits acted upon over the no. of applications received	96%	100%	104%	4%	4%
% of sale and transfer acted upon over the no. of petitions for sale and transfer received	92%	93%	101%	1%	1%
% of confirmations acted upon vs. no. of authorized units	102%	106%	104%	4%	4%
Monitoring					
No. of inspected franchise holders that are audited/monitored and compliant with rules and regulations	100,000	127,706	128%	27,706	28%
% of franchise holders audited/monitored/penalized for non-compliance of rules and regulations	10%	89%	890%	79%	790%
No. of days to conduct the audit/monitoring of franchise holders	1 year	1 year	100%	0	0%
MFO 4: Rail Transport Passenger Services					
No. of passenger kilometers travelled (per day)	4,483,725	3,070,871	68%	-1,412,854	-32%
Average travel speed	48 kph	35 kph	77%	13 kph	27%
No. of passenger unloading incidents (annual)	300	417	72%	117	39%
Compliance with approved time table	90%	74.64%	83%	-15%	-17%

D. Scope of Audit

The audit covered the accounts and operations of DOTC for the year ended December 31, 2015. The objectives of the audit were to:

- a. verify the level of reliance that may be placed on management's assertions on the financial statements;
- b. determine 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.

The Consolidated Financial Statements (FS) as of December 31, 2015 consisted of the FS of the Office of the Secretary, CAR, CARAGA, LTO and LTFRB and for all funds except MVUC, which is prepared separately and is covered by a separate audit report.

E. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the DOTC due to accounting errors and deficiencies enumerated below:

1. The balance of the PPE accounts amounting to P36,420,252,745.35 is inaccurate due to net overstatement of P5,621,937,686.06 as a result of errors/omissions in recording of transactions.
2. The book balance of Cash-Collecting Officers account amounting to P90,680,829.24 cannot be ascertained due to (a) only one subsidiary ledger (SL) for each Collecting Officer of LTO-NCR for both Funds 101 and 151 was prepared; (b) failure to establish the ending balance amounting to P11,024,192.14; and (c) inconsistencies in recording of deposits in the books of accounts/report of collections.
3. The gain on foreign exchange amounting to P9,123,820.22 was not recorded in the books resulting in the understatement of the Cash in Bank – Foreign Currency-Savings Account and the corresponding revenue account.
4. The Other Payable account of P5,035,339,859.97 is unreliable due to overstatement of P86,604,325.19 as a result of erroneous and misclassification of accounts. Moreover, the amount of P64,870,707.59, representing retention fees and amounts in escrow remained dormant for more than 12 years, thus affecting the fairness of presentation and reliability of the Agency's financial position.

F. Other Significant Observations and Recommendations

Hereunder are the other significant audit observations noted during the year and the corresponding recommendations that are discussed in detail in Part II of this Report.

1. Of the total allotments of P69,683,061,417.98 received in 2015 from current appropriations including continuing appropriation from previous year, P36,234,215,777.74 was obligated leaving unobligated balance of

P33,448,845,640.24 representing 48% underutilization of total funds available. **(Observation No. 1)**

We recommended that Management maximize the use of the allotments received through proper planning and improved efficiency of its procurement process for the timely implementation of programs and projects in order to avoid expiration/accumulation of unobligated allotments. Moreover, revisit the existing procurement policies and consider decentralizing the procurement process if needed, so as to ensure the timely accomplishments of planned projects/activities.

2. Of the total cash allocations of P21,114,656,839.75, only P15,622,964,010.05 was utilized, resulting in the reversion of P5,491,692,829.70 or 26.01 percent to the Bureau of Treasury. **(Observation No. 2)**

We recommended that Management improve its monthly cash programming with due regard of foreseeable emergencies based on historical records to be able to come up with a more realistic forecast of the agency's cash requirements.

3. The payments to various contractors for the civil works and suppliers of goods/materials totalling P95,192,673.66 for the Kayo ang Boss Ko (KBK) Toilet Facilities Improvement Project are the subject of suspensions/ disallowances in audit for being disadvantageous to the government due to the manner of procurement by which the contract of civil works was separated from the supply of goods/materials which resulted to: (a) delays/suspensions/ terminations of civil works contracts; (b) non-recoupment/recovery of advance payments totalling P11,718,626.18 from contractors of terminated or abandoned projects; (c) non-imposition of liquidated damages estimated at P12,264,392.56 for delayed/non-completion of the project and late delivery of goods/materials;(d) absence of/weak monitoring controls and accountability over delivered goods; and (e) other deficiencies. . **(Observation No. 3)**

We recommended and Management agreed to: (a) takeover the implementation of terminated and abandoned projects; (b) take legal action to recover the advance payments including the performance securities of the contractors for terminated or abandoned projects; (c) impose liquidated damages for delays incurred by the contractors/ suppliers and deduct the same from their succeeding billings; and (d) account for the disposition of goods delivered to contractors of civil works with terminated or abandoned projects.

4. Despite the availability of the loan facility effective July and November 2013 to fund the New Bohol Airport Construction and Sustainable Environment Protection Project (NBACSEPP) and the Capacity Enhancement of Mass Rail Transit in Metro Manila Project (CEMTMMP) of DOTC-OSEC, the

implementation thereof was delayed due to slow procurement process and right of way problem, thereby affecting the timely and efficient delivery of benefits that could be derived from these projects. Moreover, the delay in project implementation adversely affected the timely utilization/availment of loan proceeds which resulted in the accumulation of Commitment fees (CFs) amounting to P46,232,856.64 for CYs 2014-2015. **(Observation No. 4)**

We reiterated our prior year's recommendation and Management agreed to: (a) accelerate the procurement process by requiring all stakeholders to collaborate to avoid/minimize delays thereof; and (b) prioritize and settle immediately land and ROW acquisition issues to hasten project implementation.

5. The 184 units of computers with a total cost of P15,615,953.92, from the batches of computers procured by DOTC on October 29, 2013 and April 5, 2014, are still in the stockroom and remained undistributed, thus defeating the purpose for which the procurement was undertaken and depriving the intended recipients of the benefits due them. **(Observation No. 5)**

We reiterated our previous year's recommendation that Management coordinate with members of the House Committee On Rules, which requested the computers, to identify the recipient for the remaining units on stock, otherwise the DOTC should determine other interested beneficiaries.

6. The 4,427 impounded motor vehicles of DOTC CAR, CARAGA and LTO-SHO and its Regional Offices remained undisposed in disregard of Presidential Decree (PD) 1729, thus, depriving the government of potential income that will be generated from fines, penalties or sale thereof. **(Observation No. 6)**

We recommended and Management agreed to conduct inspection, physical inventory and appraisal of the unclaimed impounded motor vehicles and subject the same to immediate disposal pursuant to PD No. 1729.

7. The correctness of the reported balance of Cash in Bank – LCCA account of P290,610,276.39 as of December 31, 2015 could not be relied upon due to LTO-SHO's (a) net unrecorded/unadjusted book reconciling items amounting to P9,579,140.84 (b) net bank reconciling items in the escrow account and trust account with a net amount of P918,288.62 and P13,136,000.00, respectively; and (c) unaccounted difference between the balances per book and per bank amounting to P902,408.76, thus violating Section 74 of PD 1445. . **(Observation No. 11)**

We recommended that Management direct the SHO accounting personnel to coordinate with the Regional Accountants to hasten the determination of the details of the unaccounted difference between the book and bank balances as

of December 31, 2015; and provide the needed JEVs and demand the prompt submission by the LBP of the credit/debit memos to support the adjustments/recordings of the reconciling items in the book of SHO.

8. The amount of P43,128,669.92 under various accounts with the Land Bank of the Philippines (LBP) representing the excess collections from the sale of bidding documents from January 2013 to December 2014 in the amount of P24,226,917.44; dormant account balance of P1,701,752.48; and appeal fees of P17,200,000.00 remained unremitted to the Bureau of Treasury (BTR) contrary to DBM Budget Circular No. 2004-5A, RA No. 6957 and EO No. 431, thus depriving the government of the use for other priority programs. **(Observation No. 13)**

We recommended that Management: (a) require the DOTC- OSEC Accountant to regularly monitor payments of honoraria, overtime charges, and other procurement-related expenditures, in order to expedite the remittance of excess funds to the National Treasury; and (b) remit immediately to BTR the excess amount from sale of bid documents, dormant cash and appeal fees amounting to P24,226,917.44, P1,701,752.48, and P17,200,000.00, respectively, pursuant to DBM Budget Circular No. 2004-5A, RA 6957, as amended, and EO No. 441.

The above observations and recommendations were discussed with concerned management officials in an exit conference conducted on June 17, 2016 and their comments were incorporated in this report, where appropriate.

G. Summary of Total Suspensions, Disallowances and Charges

The unsettled suspensions, disallowances and charges as of December 31, 2015 of the DOTC amounted to ₱164,650,894.28, ₱1,291,177,767.80 and ₱14,399,760.32, respectively.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 104 audit recommendations embodied in the prior years' Consolidated Annual Audit Reports of DOTC, 31 or 29.81% were fully implemented, 64 or 61.54% were partially implemented, and 9 or 8.65% were not implemented. The details are presented in Part III of this Report.