

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 system in the country, including but not limited to: (a) civil aviation, (b) sea transport and marine infrastructure, and (c) land transportation and rail systems and infrastructure. It is mandated to formulate, develop, maintain and implement national transportation security programs, plans, rules, and regulations in accordance with international standards to secure the transportation system of the country.

The OTS is headed by an Administrator and is assisted by the Deputy Administrator and six 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, 2015, the Agency reported a total manpower complement of 1,902 broken down as follows:

Status	No. of Personnel
Permanent	741
Contractual	1,044
Presidential Appointee	6
Co-terminus	6
Technical Assistant	14
Job Orders	91
Total	1,902

B. Financial Highlights

For Calendar Year (CY) 2015, the OTS has a total appropriation of P694,126,811.26 consisting of current year appropriation of P682,267,000.00 as provided for in the General Appropriations Act (GAA) of FY 2015 and continuing appropriation of P11,859,811.26. During the year, the agency received a total allotment of P754,708,721.26 which includes allotment of P60,581,910.00 for payment of Performance Based Bonus (PBB), Productivity Enhancement Incentive (PEI) and Retirement Gratuity Benefits. Obligations incurred in CY 2015 amounted to

P700,733,053.56 thereby leaving an unobligated balance of P53,975,667.70 as at year end. Details are presented below.

Source of Funds	Appropriations	Allotments	Obligations Incurred	Unobligated Balance
	(In PhP)			
Current Year				
1. Regular	52,997,000.00	52,997,000.00	37,461,934.32	15,535,065.68
2. Automatic Appropriation				
Retirement & Life Insurance Premium (RLIP)	2,045,000.00	2,045,000.00	1,829,278.94	215,721.06
3. Special Purpose Fund (SPF)				
Miscellaneous Personnel Benefit Fund (MPBF)		35,095,311.00	31,103,820.97	3,991,490.03
Pension & Gratuity Fund (PGF)		2,607,398.00	2,607,398.00	-
Special Account in the General Fund (SAGF)- Fund 152	627,225,000.00	627,225,000.00	602,214,948.33	25,010,051.67
SAGF-MPBF		22,879,201.00	22,715,673.00	163,528.00
Sub-total	682,267,000.00	742,848,910.00	697,933,053.56	44,915,856.44
Extended				
1. Continuing Appropriation	11,859,811.26	11,859,811.26	2,800,000.00	9,059,811.26
Sub-total	11,859,811.26	11,859,811.26	2,800,000.00	9,059,811.26
Total	694,126,811.26	754,708,721.26	700,733,053.56	53,975,667.70

The financial position and performance of the OTS for the years ending 2014 and 2015, are shown below:

Particular	2015	2014
	(In PhP)	
<i>Financial Position</i>		
Total Assets	896,936,292.00	1,072,418,859.60
Total Liabilities	139,581,198.07	2,296,215.14
Total Net Assets/ Equity	757,355,093.93	1,070,122,644.46
<i>Financial Performance</i>		
Revenue	637,752,336.05	598,362,509.50
Expenses	615,355,444.52	529,362,765.66
Surplus (Deficit) for the period	22,396,891.53	68,999,743.84

C. Operational Highlight

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	Percentage of Accomplishments
MFO 1: Transport Security Advisory and Support Services			
Advisory Services			
No. of alert advisories issued	36	39	108
No of information received and processed as a % of total no of alert advisories	384	429	112
% of information received and processed within 24 hours	100%	100%	100
Training and Support Services			
No. of security personnel trained and certified	891	3,269	367
% of trainees who rate the training or support as satisfactory or better	90%	90%	100
% of Security trainings completed within prescribed Program of Instruction (POI)	100%	100%	100
% of training programs that commence within five minutes of scheduled start time	100%	100%	100
No. of security screening checkpoints manned	178	178	100
% of security screening checkpoints unmanned	10%	0	-
% of security screening checkpoints operational within 72 hours	90%	100%	111
MFO 2: Transport Security Regulatory Services			
Application and Review			
No. of security plans and programs reviewed and acted upon	884	843	95
% of transport facilities with approved security plans and programs that had recorded security violations in the last three years	5%	5%	100
No of compliance certificate applications acted upon	748	790	106
% of compliance certificate applications acted upon within five working days	90%	90%	100
Monitoring and Enforcement			
No. of site inspections and audit/verification conducted	326	610	187
No. of facilities with approved security plans and programs that had two or more recorded security breaches in the last three years	17	-	-
% of terminals and transport-related facilities subjected to two or more scheduled inspections in the last three years.	1%	1%	100

D. Scope and Objectives of Audit

The audit covered the accounts and operations of OTS for year ended December 31, 2015. The audit was conducted to : (a) verify the level of reliance that may be placed

on management's assertion 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 year's audit recommendations.

E. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the OTS due to the following:

1. The year-end balance of the Property Plant and Equipment (PPE) accounts of P710,112,231.56 did not reconcile with the balance per Report on the Physical Count of PPE (RPCPPE) of P820,589,368.40.
2. The book balance of the Due from GOCCs account amounting to P251,604,473.62 as of December 31, 2015 representing the advances to PITC was not reconciled with the balance per records of said agency of P127,174,843.93 or a difference of P124,429,629.69.
3. The balance of Inventory accounts per General Ledger (GL) and the balance per Report on the Physical Count of Inventories (RPCI) did not reconcile by P23,271,359.99 due to the failure of the Supply Officer to prepare and submit the Report of Supplies and Materials Issued (RSMI) to the Accounting Section as basis to record the issuances.
4. As indicated in Note 4 and the Statement of Changes in Net Assets/Equity, prior year's errors and adjustments were corrected in the beginning balance of the Accumulated Surplus for the current period instead of restating the comparative amounts of the affected accounts in the prior period in which the error occurred, which is not in accordance with paragraph 47 of PPSAS 3.
5. The reported Other Service Income of P636,927,564.65 is not reflective of the accurate income of OTS from the Aviation Security Fees (ASF) for the year because ASF earned for the period June 2013 to December 2014 were recognized only in CY 2015 while ASF for September to December 2015 were not yet recognized in the books.

F. Other Significant Observations and Recommendations

The following is a summary of significant audit observations and corresponding recommendations, the details of which are discussed in Part II of this Report:

1. The OTS accepted the transfer of a cargo type x-ray machine costing P4,920,265.14 procured by the Department of Transportation and

Communication (DOTC) without the necessary area to house said equipment thus, it remained uninstalled/unused for a year already. (*Observation No. 1*)

We recommended that Management coordinate with concerned DOTC officials for assistance in requesting for the necessary area at Iloilo Airport for the immediate installation of the x-ray machine, otherwise, considering transferring the equipment to other airports needing the same.

2. The continued use of the services of the Philippine International Trading Center (PITC) despite the delayed deliveries for one to two years has put the OTS at a disadvantage since the purpose/s of the purchases were not immediately served and at times resulted in the change of items ordered as the undelivered items are no longer needed. Moreover, additional costs were incurred for the service fees charged unlike when procuring thru public bidding and there were also instances of higher prices compared to the offers in the open market. (*Observation No. 7*)

We recommended that Management stop from making additional fund transfers to the PITC and demand for the immediate delivery of the items not yet delivered otherwise make a strong representation with the agency for the refund of the outstanding advances. Further, consider procuring the agency's needs for equipment/goods/services thru public bidding to ensure the immediate delivery of items and cut on expenses for service charges.

3. There are three OTS officers and employees who were provided each with more than one unit of laptop/notebook computers and eight officials with two or more mobile phones. Also, 122 employees and seven (7) drivers were issued mobile phones although they are not entitled. Moreover, the agency did not properly plan the purchase of the cellular phones which resulted in the over stocking of 25 units. These are cases of excessive and unnecessary expenditures prohibited under COA Circular No. 2012-003 dated October 29, 2012 and not allowed in audit. (*Observation No. 8*)

We recommended that Management determine the need of each officers and employees as to equipment with similar functions like laptop/notebook computers and tablets, so that those issued in excess of one unit should be surrendered to the Property Section for issuance to other employees needing the same in their work. Moreover, require the employees and drivers not entitled to mobile phones to refund the corresponding amount of the unit, otherwise those responsible for the purchase of the same shall be made liable thereto.

We further recommended that Management observe prudence and judiciousness in the use of government funds.

These observations and recommendations were discussed with Management in an exit conference held on May 10, 2016 and their comments were incorporated in this report, where appropriate.

G. Summary of Total Suspensions, Disallowances and Charges

The status of audit suspensions, disallowances and charges issued in the audit of various transactions of the OTS for CY 2015 are shown below:

Audit Action	Beginning Balance (December 31, 2014)	Issued This Period (January to December 31, 2015)	Settlement this Period (January to December 31, 2015)	Ending Balance (December 31, 2015)
Notice of Suspension	-	-	-	-
Notice of Disallowance	190,955.04	292,065.43	30,000.00	453,020.47
Notice of Charge	-	-	-	-
Total	190,955.04	292,065.43	30,000.00	453,020.47

The beginning balance of P190,955.04 includes audit disallowance for CY 2014 amounting to P161,000.00 and the amount of P29,955.04 representing audit disallowances for the overpayment of expenses incurred by employees of the then National Civil Aviation Security Committee who have already retired or their whereabouts were unknown which had remained unsettled since CY 2004 and recorded under Receivables-Disallowances/Charges account.

Nine Notices of Disallowances amounting to P292,065.43 were issued in CY 2015.

The amount of P30,000.00 represents partial settlement of audit disallowance of Mr. Orlando B. Beltran collected thru salary deduction under various payroll from the period April to September 2015.

H. Status of Implementation of Prior Year's Audit Recommendations

Of the 11 audit recommendations embodied in last years' Annual Audit Report, two were fully implemented, four were partially implemented, and 5 were not acted upon by Management.