

EXECUTIVE SUMMARY

A. Introduction

The Philippine Coast Guard (PCG) was then a major unit of the Philippine Navy by virtue of Republic Act (RA) No. 5173, as amended by Presidential Decree No. 601. It is tasked to preserve the maritime sovereignty over the island.

With the issuance of Executive Order No. 477 on April 15, 1998, the PCG obtained autonomy in its operations and became a civilian line function agency attached to the Department of Transportation and Communications (DOTC).

On February 12, 2010, RA No. 9993, the PCG Law of 2009 was approved repealing RA No. 5173, as amended. It established the PCG as an armed and uniformed service attached to the DOTC. The said law sees the PCG as a maritime law enforcement agency able to adequately and effectively respond in the performance of its mandated functions. Relatively, the PCG will play a lead role in the operations and sustainment of the National Coast Watch Center (NCWC) which will serve as the focal point in the Maritime Situational and Maritime Domain Awareness.

On September 2, 2014, DOTC issued Department Order No. 2014-010, re-structuring the organization of the PCG to respond to its enhanced mandate, functions and responsibilities. The organizational structure of PCG is headed by a Commandant with a rank of Admiral and assisted by a Deputy Commandant with a rank of Vice Admiral. The Commandant is also assisted by different staff offices wherein the Chief of Staff takes charge in matters pertaining to the functions and movement of the Central Staff. The PCG organization is generally categorized into seven (7) groups, namely:

- a. Headquarters, Philippine Coast Guard
- b. Functional Commands
- c. Coast Guard Districts
- d. Administrative Support Commands
- e. Operating Support Commands
- f. Support Bases, and
- g. Technical and Administrative Support Services and Offices

As of December 31, 2015, the agency has a total personnel complement of 8,871 uniformed personnel and 350 civilian employees for a total of 9221, composition is shown in the next page:

<u>Category</u>	<u>Number</u>
Uniformed	
Officer	871
Non-officer	<u>8,000</u>
Sub-total	<u>8,871</u>
Non-uniformed (civilian)	
Permanent	323
Casual	11
Contractual	<u>16</u>
Sub-total	<u>350</u>
TOTAL	<u>9,221</u>

B. Financial Highlights

For Calendar Year (CY) 2015, the PCG has total appropriations of P7,286,017,902.00, 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, PCG received total allotments of P7,286,017,902.00. Of the total allotments, obligations of P6,121,481,757.00 were incurred leaving an unobligated balance of P1,164,536,145.00 as at year-end. Details are as follows:

Source of Funds	Appropriations	Allotments	Obligations Incurred	Unobligated Balance
	(in Php)			
Current Year				
1. Regular	5,607,980,000.00	6,140,117,777.00	4,986,465,684.02	1,153,546,092.98
2. Automatic Appropriations	7,380,648.00	7,388,678.96	7,366,826.96	21,852.00
a. Retirement and Life Insurance Premiums (RLIP)	5,529,193.00	5,537,223.96	5,537,223.96	-
b. Custom Duties and Taxes	1,851,455.00	1,851,455.00	1,829,603.00	21,852.00
3. SPF	1,670,657,254.00	1,138,511,446.04	1,127,649,246.02	10,968,200.02
a. Miscellaneous Personnel Benefit Fund (MPBF)- PS	731,206,368.00	199,174,591.00	199,068,591.00	106,000.00
b. Pension and Gratuity Fund (PGF) - PS	939,450,886.00	939,442,855.04	928,580,655.02	10,862,200.02
TOTAL	7,286,017,902.00	7,286,017,902.00	6,121,481,757.00	1,164,536,145.00

Of the unexpended balances, P114,676,664.59 was reverted and P1,152,393,485.01 was extended as continuing appropriation. The breakdown of the continuing appropriation is as follows:

Particulars	Amount (in PhP)
Maintenance and Other Operating Expenses	325,513,579.20
Capital Outlay	826,879,905.81
Total	1,152,393,485.01

The financial position and performance of the PCG for the years 2015 and 2014 are shown below:

Particulars	CY 2015	CY 2014
	(in PhP)	
<i>Financial Position</i>		
Assets	6,922,415,257.13	6,250,638,837.85
Liabilities	335,087,884.57	222,887,341.73
Equity	6,587,327,372.56	6,027,751,496.12
<i>Financial Performance</i>		
Income	354,478,228.48	15,828,940.99
Expenses	6,151,367,352.82	5,914,947,385.68
Surplus (Deficit)	(5,796,889,124.34)	(5,899,118,444.69)

C. Operational Highlights

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

Performance Indicators	Targets	Actual Accomplishments	Percentage of Accomplishments
2015 BUDGET: P5.65 million			
MFO 1: Maritime Security and Patrol Services			
- No. of kilometers of Phil coast patrolled/monitor	59,088	196,285	332
- % detected incidents intercepted and apprehended	83%	30%	36
- % decrease in the number of maritime incidents/infraction against the average	48%	15%	31
- % of the Philippine coast under surveillance patrol more than 50 times a year	17%	21%	123
MFO 2: Marine Search and Rescue Services			
Number of incidents reported	458	683	149
- % of incidents with successful search and/or rescue	98%	93%	95
- % of incidents responded within 6 hours	94%	95%	101

Performance Indicators	Targets	Actual Accomplishments	Percentage of Accomplishments
MFO 3: Navigational Safety Services			
- No. of nautical miles of shipping lanes under management	11,285	11,285	100
- No. of marine incidents of ship collisions and other recorded navigational incidents in the last three years	343	486	142
- % of incidents where defective navigational facilities replaced or repaired within thirty (30) days of detection	65%	No data available	
MFO 4: Maritime Regulations Services			
Inspections			
- No. of vessels and facilities inspected by PCG on marine pollution regulations	10,785	12,245	113
- No. of vessels and facilities inspected in the last 2 years with 2 or more defect notices issued; % of the total number of ships issued with a defect notice	17%	0.22%	.013
- % of vessels and facilities subjected to 2 or more marine pollution compliance inspections in the last 2 years	11%	No data available	
Monitoring			
- No. of vessels, sites and facilities monitored and/or inspected with reports issued	935,788	102	.011
- % submitted reports that resulted in the issuance of violation reports and penalties imposed	0.7%	0.12%	17.14
- % of sites that have been inspected more than twice in the last two years	10%	No data available	
Enforcement			
- No. of violations or complaints acted upon and reports issued	390	2	.51
- % of vessels, persons and facilities with three or more recorded violations in three years	19	12	63
- % of detected violations that are resolved or referred for prosecution within seven working days	3%	All referred to adjudication officer, however, all cases are still pending for resolution	

D. Scope and Objective of the Audit

The audit covered the financial transactions and operations of PCG as at December 31, 2015. The audit was conducted 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 year's audit recommendations.

E. Independent Auditor's Report

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

- a. The Inventory - Held for Distribution account was overstated by P358,033,455.94 due to the improper recording in the books of assets given by the US Government to the National Coast Watch (NCWC), a unit under the Office of the President.
- b. The recorded Property, Plant and Equipment (PPE) and Inventories – Held for Consumption account balances of P7,999,456,994.48 and P62,450,936.11, respectively as of December 31, 2015 were not established due to incomplete physical count and failure to maintain complete properly/stock cards and accounting ledger cards by the PCG SAO and Accounting Units, respectively.

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. Despite prior year's audit recommendation, management had not fully complied with Section 89 of PD 1445 and COA Circular No. 97-002 in the grant of cash advances (CAs) as evident in the following lapses: (a) the specific purposes for the CA are not indicated in the cash advance vouchers; and (b) additional CAs were granted to SDOs despite the existence of unliquidated CAs and/or their maximum accountability exceeded in a given month resulting in outstanding CAs for more than 3 years totalling P2,104,055.68. (*Observation No. 4*)

We recommended that Management facilitate the settlement of the unliquidated CAs and ensure that only those with cleared accounts are given additional advances.

2. The liquidations of the cash advances of 21 Special Disbursing Officers (SDOs) were irregular as the cash/sales invoices (CIs/SIs) with a total amount of P17,779,839.65 were disowned by the supposed dealers of the transactions. Moreover, five (5) establishments with a total transactions of P1,781,734.05 could not be located in their addresses indicated in the SIs/CIs. Thus, these liquidations totaling P19,561,573.70, were not allowed in audit. (*Observation No. 5*)

We recommended that notwithstanding our audit action on these transactions, management should conduct its own investigation and institute appropriate administrative/legal action as warranted against persons found responsible/liable.

3. The regularity of the procurement of Combat Clothing and Individual Equipment (CCIE) amounting to P14,543,148.75 is questionable since shopping was resorted to as the mode of procurement instead of competitive public bidding; purchases were split; and payments were made by cash despite the huge amount involved, in violation of RA 9184 and COA Circular No. 97-002. (*Observation No. 6*)

We recommended and management agreed that the CCIE items will be procured through public bidding.

The above observations and recommendations were discussed with concerned management officials in an exit conference conducted on March 10, 2015 and their comments were incorporated in the report, where appropriate.

G. Summary of Total Suspensions, Disallowances and Changes

The unsettled suspensions and disallowances as of December 31, 2015 of the PCG amounted to P41,683,340.60 and P4,445,273.99, respectively.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 38 audit recommendations embodied in the prior years' Annual Audit Report, eight or 21% were fully implemented, 22 or 58% were partially implemented, and eight or 21% were not implemented. The details are presented in Part III of this Report.