

## 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 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 and 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, 2016, the Agency reported a total manpower complement of 2,324 broken down as follows:

Status	No. of Personnel
Regular/Permanent Employees	717
Contractual Employees	927
Presidential Appointee	2
Co-Terminus	1
Technical Assistant	10
Job Orders	667
<b>Total</b>	<b>2,324</b>

## B. Financial Highlights

For Calendar Year (CY) 2016, the OTS received a total allotment of P693,781,908.76 consisting of continuing and current year appropriations of P12,544,927.76 and P681,236,981.00, respectively. Of the total allotment, the amount of P653,109,557.07 was obligated, leaving an unobligated balance of P40,672,351.69, of which P16,225,207.95 was extended and valid until December 31, 2017 and P24,447,143.74 was expired and automatically reverted. Details are shown below:

Source of Funds	Appropriations			Allotments	Obligations Incurred	Unobligated Balance		
	Authorized	Adjustment	Adjusted			Total	Extended	Reverted
(in PhP)								
<b>Current Year</b>								
1. Regular	54,785,000.00	0.00	54,785,000.00	54,785,000.00	38,401,032.89	16,383,967.11	16,225,207.95	158,759.16
2. Automatic Appropriations								
a. Retirement and Life Insurance Premiums (RLIP)	1,888,000.00	418,682.00	2,306,682.00	2,306,682.00	2,306,682.00	0.00	0.00	0.00
3. Special Purpose Fund (SPF)								
a. Miscellaneous Personnel Benefit Fund (MPBF)	19,919,864.00	0.00	19,919,864.00	19,919,864.00	19,919,864.00	0.00	0.00	0.00
b. National Civil Aviation Security Committee (NCASC) – Fund 152	579,214,000.00	25,011,435.00	604,225,435.00	604,225,435.00	592,202,791.51	12,022,643.49	0.00	12,022,643.49
<b>Subtotal</b>	<b>655,806,864.00</b>	<b>25,430,117.00</b>	<b>681,236,981.00</b>	<b>681,236,981.00</b>	<b>652,830,370.40</b>	<b>28,406,610.60</b>	<b>16,225,207.95</b>	<b>12,181,402.65</b>
<b>Extended</b>								
1. Continuing Appropriations	0.00	0.00	0.00	12,544,927.76	279,186.67	12,265,741.09	0.00	12,265,741.09
<b>Subtotal</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>12,544,927.76</b>	<b>279,186.67</b>	<b>12,265,741.09</b>	<b>0.00</b>	<b>12,265,741.09</b>
<b>TOTAL</b>	<b>655,806,864.00</b>	<b>25,430,117.00</b>	<b>681,236,981.00</b>	<b>693,781,908.76</b>	<b>653,109,557.07</b>	<b>40,672,351.69</b>	<b>16,225,207.95</b>	<b>24,447,143.74</b>
<b>Overall Budget Utilization Rate</b>	<b>94.14%</b>							

The financial position and performance of the OTS for the years ending 2016 and 2015, are shown below:

Particular	2016	2015	Increase (Decrease)	%
	(In PhP)			
<b><i>Financial Position</i></b>				
Total Assets	984,799,259.59	896,936,292.00	87,862,967.59	9.80
Total Liabilities	47,206,678.10	139,581,198.07	(92,374,519.97)	(66.18)
Total Net Assets/ Equity	937,592,581.49	757,355,093.93	180,237,487.56	23.80
<b><i>Financial Performance</i></b>				
Revenue	832,688,730.28	637,752,336.05	194,936,394.23	30.57
Expenses	702,720,028.88	615,355,444.52	87,364,584.36	14.20
Surplus (Deficit) for the period	129,968,701.40	22,396,891.53	107,571,809.87	480.30

### 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		Variance
		Quantity	Percent	
MFO1: Transport Security Advisory and Support Services				
Advisory Services				
1. Number of alert advisories issued	36	37	102.78	1
2. Number of information received and processed as a % of alert advisories	384	395	102.86	11
3. Percentage of information received and processed within 24 hours	100%	100%	100.00	0%
Training and Support Services				
1. Number of security personnel trained and certified	891	4,045	453.98	3,154
a) Percentage of trainees who rate the training or support as good or better	90%	90%	100.00	0%
b) Percentage of security training completed within the prescribed POI	100%	100%	100.00	0%
c) Percentage of training programs that commence within five minutes of scheduled start time	100%	100%	100.00	0%
2. Number of security screening checkpoints manned	178	178	100.00	0
a) Percentage of security screening checkpoints unmanned	10%	0%	0.00	10%
b) Percentage security screening checkpoints operational within 72 hours	90%	100%	111.11	10%
MFO2: Transport Security Regulations Services				
Application Review				
1. Number of security plans and programs reviewed and acted upon	884	463	52.38	-421
2. Number of compliance certificate application acted upon	748	446	59.63	-302
3. Percentage of transport facilities with approved security plans and programs that had recorded security violations in the last three years	5%	-	-	-
4. Percentage of compliance certificate applications acted upon within five working days	90%	100%	111.11	10%
Monitoring				
1. Number of site inspections and audit/verification conducted	423	713	168.56	290
2. Number of facilities with approved security plans and programs that had two or more recorded security breaches in the last three years	17	-	-	-
3. Percentage of terminals and transport related facilities subjected two or more scheduled	1%	1%	100.00	0%

Performance Indicators	Targets	Actual Accomplishments		Variance
		Quantity	Percent	
inspections in the last three years				
Transport Security Policy				
1. Number of security policies, plans and programs formulated and updated	3	11	366.67	8
2. Average of % of clients who rate the security policies as satisfactory or better	33%	100%	303.03	67%
3. Percentage of policies updated over the last three years	50%	79%	158.00	29%

#### D. Scope of Audit

The audit covered the accounts and operations of OTS for the year ended December 31, 2016. 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 years' 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 balance of the Inventory accounts of P5,207,347.55 as of December 31, 2016 remained not reconciled with the Property Section records with a balance of P1,596,067.81 or a difference of P5,331,583.00 due to un-updated Supply Ledger Cards (SLCs) and Stock Cards (SCs). **(Observation No. 3)**

We recommended and Management agreed to direct the Accounting and Property Sections to prioritize the maintenance and updating of the SLCs and SCs for inventories in order to facilitate reconciliation of balances to come up with accurate and fair presentation of the Inventory accounts in the Financial Statements.

2. The year-end balance of the Property, Plant and Equipment (PPE) accounts of P816,865,242.25 is inaccurate due to: (a) unreconciled balance of P91,746,299.02 between the Accounting and Property records as a result of the failure to update the PPE Ledger Cards (PPELC) and Property Cards (PC), respectively; (b) non-reclassification of PPE items costing less than P15,000.00 to semi-expendable properties; and (c) non-recording of 718 PPE items in the books of accounts due to the absence of data on acquisition costs. **(Observation No. 4)**

We recommended and Management agreed to direct the:

- a. Accounting and Property Sections to update and to maintain the PPELCs and PCs as basis to conduct regular reconciliation of their records;
  - b. Accounting Section to:
    - i. prepare the reclassification entries for the PPE items costing less than P15,000.00 to semi-expendable properties;
    - ii. correct errors on the double listing of equipment; and
    - iii. exert efforts to locate the documents relative to the properties transferred by NCASC and record the same in the books, otherwise undertake the appraisal of the said assets to establish their current values.
3. The balance of the Due from GOCC account amounting to P45,824,126.32 as of December 31, 2016 is unreliable due to unreconciled difference of P5,030,500.58 between the books of OTS and the Philippine International Trading Corporation (PITC). **(Observation No. 5)**

We recommended and Management agreed to coordinate with the PITC to undertake the reconciliation of their records and to make appropriate adjusting entry in the books, as needed.

4. The Other Service Income account year-end balance of P831,544,221.75 from the collections of Aviation Security Fees (ASF) was overstated by a net amount of P68,977,149.27 due to the inclusion of collections for CY 2015 of P234,350,301.00 and exclusion of collections for the months of October, November and December for the current year amounting to P165,373,151.73 due to delayed remittances by the collecting airport authorities, the MIAA, MCIAA and CAAP. **(Observation No. 6)**

We recommended and Management agreed to constantly coordinate and follow-up with MIAA, MCIAA and CAAP for the unremitted ASF collections and to consider having a contract/agreement with the said agencies for the timelines of remittances including the sanctions and penalties in case of delays.

## **F. Other Significant Observations and Recommendations**

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

1. The agency accomplished its commitments/targets for CY 2016 except for activities 1 - Number of Security Plans and Programs Reviewed and Acted Upon; and 2 - Number of Compliance Certificate Application Acted Upon, under MFO 2

with a performance rating of 52.38 percent and 59.63 percent, respectively.  
**(Observation No. 1)**

We recommended and Management agreed to revisit the agency's manner of goal setting to come up with a realistic and attainable targets.

2. Of the total cash allocations of P64,611,848.00 received by OTS for CY 2016, the amount of P52,333,858.54 or 81 percent was utilized leaving an unutilized balance of P12,277,989.46 or 19 percent which lapsed and was reverted to the Bureau of the Treasury. This indicates the inability of the agency to prepare a realistic Monthly Disbursement Program (MDP) and/or to implement/execute projects/programs/activities in line with the forecasted disbursements.  
**(Observation No. 2)**

We recommended and Management agreed to revisit and improve their Monthly Disbursement Program forecasting taking into consideration factors that impact disbursements based on historical records of the agency as well as the main causes/issues on the non-implementation of the lined up projects/ programs/ activities indicated in the MDP for the year to be able to come up with a more realistic forecast of the agency's cash requirements.

3. OTS had allocated P3,150,000.00 or 5.75 percent of the agency's total budget of P54,785,000.00 for its five Gender and Development (GAD) programs/projects for CY 2016 but utilized only P1,703,190.24 or 54.07% of the allocated amount since not all of its programmed activities for the year were implemented.  
**(Observation No. 7)**

We recommended and Management agreed to faithfully adhere to its programmed activities for the year to fully utilize the allocated budget and formulate other GAD projects/activities/programs that the agency is sure to implement.

The above observations and recommendations were discussed with concerned management officials in an exit conference conducted on March 27, 2017 and their comments were incorporated in this report, where appropriate.

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

The unsettled disallowances as of December 31, 2016 totalling P6,482,777.74 is shown below while there is no outstanding suspensions and charges.

Beginning balance, January 1, 2016	P	453,020.47
Issued during the year		6,120,757.27
Total		<u>6,573,777.74</u>
Less: Settlement during the year		91,000.00
Unsettled balance, December 31, 2016	P	<u><u>6,482,777.74</u></u>

The ending balance of P6,482,777.74 includes audit disallowances for CYs 2004 and 2014 to 2016. The CY 2004 disallowances amounting to P29,955.04 represent overpayment of expenses incurred by employees of the then National Civil Aviation Security Committee who have already retired or their whereabouts were unknown. The disallowances for CYs 2014 to 2016 totalling P6,452,822.70 are summarized as follows:

<b>ND No./Date</b>	<b>Particulars</b>	<b>Amount</b>	<b>Remarks</b>
ND No.14-001-101-(13) /June 24, 2014	Representation and Transportation Allowance (RATA)	P 30,000.00	No appeal filed within the reglementary period, hence, becomes final and executory. The person liable requested and granted for an installment mode of payment by the Commission on April 11, 2017.
ND No.14-003-101-(14) /June 24, 2014		10,000.00	
<b>Subtotal CY 2014</b>		<b>40,000.00</b>	
ND No.15-001-152-(14) /June 16, 2015	RATA	48,409.10	Appeal dismissed by the Cluster Director per Decision No. 2016- 024 dated October 10, 2016 for being filed out of time. For issuance of Notice of Finality of Decision (NFD).
ND No.15-002-152-(14) /June 16, 2015		49,090.91	
ND No.15-003-152-(14) /June 16, 2015		45,654.52	
ND No.15-004-152-(15) /July 31, 2015		40,000.00	
ND No.15-005-101-(15) /July 31, 2015		10,000.00	
ND No.15-006-152-(15) /July 31, 2015		39,820.00	
ND No.15-007-101-(15) /July 31, 2015		10,000.00	
ND No.15-008-152-(15) /July 31, 2015		39,090.90	
ND No.15-009-101-(15) /July 31, 2015		10,000.00	
<b>Subtotal CY 2015</b>		<b>292,065.43</b>	
ND No.16-001-101-(15) /July 26, 2016	Salaries and allowances due to absence of valid appointment	4,510,217.52	Under appeal with the Cluster Director per Appeal Memorandum filed on October 27, 2016 for the extent of P3,486,477.83 and on January 20, 2017 for the extent of P1,023,739.69.
ND No.16-002-101-(16) /July 27, 2016	Miscellaneous and Extraordinary Expenses (MEE) and RATA	27,600.00	Under appeal with the Cluster Director per Appeal Memorandum filed on January 3, 2017.
ND No.16-003-101-(16) /December 22, 2016	Salaries and allowances due to absence of valid appointment	1,582,939.75	Under appeal with the Cluster Director per Appeal Memorandum filed on January 20, 2017.
<b>Subtotal CY 2016</b>		<b>6,120,757.27</b>	
<b>Total</b>		<b>P6,452,822.70</b>	

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

Of the 18 outstanding prior years' audit recommendations as at January 1, 2016, nine or 50.00 percent were fully implemented as of year-end, six or 33.33 percent were partially implemented, and three or 16.67 percent were not implemented. The details are presented in Part III of this Report.