



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

June 28, 2019

THE BOARD OF DIRECTORS

Philippine Charity Sweepstakes Office
Sun Plaza Building
1507 Shaw Boulevard corner Princeton Street
Mandaluyong City



Gentlemen/Madam:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **Philippine Charity Sweepstakes Office (PCSO)**, for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Year's Audit Recommendations and Annex.

The Auditor expressed an adverse opinion on the fairness of the presentation of the financial statements of the PCSO in view of the following:

1. Presumptive Monthly Retail Receipts (PMRR) Shortfalls for calendar years (CYs) 2018 and 2017 in the total amounts of P7.320 billion and P7.589 billion and the corresponding amounts of Shortfalls due to PCSO totaling P3.051 billion and P2.983 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Small Town Lottery (STL) Agents (ASAs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of revenues, Retained Earnings and receivables - STL by P7.320 billion, P2.983 billion and P6.034 billion, respectively.
2. The faithful representation of the balance of Cash and Cash Equivalents account amounting to P9.815 billion as at December 31, 2018 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the PAS 1 and QC12 of the CFFR:
 - a. Variance of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund (OF) and Main accounts;

- b. Variance of P497.338 million between the balance per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts;
 - c. Closed accounts still having outstanding balances in the books amounting to P22.254 million and P18.178 million (negative); and
 - d. Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash.
 3. Assets generated as well as the liabilities incurred from the P2.5 billion trust fund intended for the construction of the PCSO building maintained with the Land Bank of the Philippines (LBP) were not reported separately in the Statement of Financial Position as at December 31, 2018. Instead, the equity from the said trust account in the amount of P2.603 billion was recognized under the Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) account, which was tantamount to offsetting of assets and liabilities that is not allowed under Sections 32 and 33 of PAS 1, resulting in the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, while the Financial Assets account was overstated by P524.336 million.
 4. The Accounts Payable – Miscellaneous with a balance of P5.340 billion as at December 31, 2018 and Other Charity Expenses account totaling P198.977 million were overstated by P255.949 million and P23.348 million, respectively, while the Retained Earnings – Charity Fund account with balance of P2.772 billion was understated by P232.600 million as at December 31, 2018 due to erroneous recording of various charity expenses and payments, as follows:
 - a. Erroneous recording of expenses of P23.348 million pertaining to Individual Partnership Program (IPP) and Endowment Fund (EF) Program which were already accrued in 2015;
 - b. Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program; and
 - c. Erroneous recording of payments for mandatory contributions totaling P206.523 million.
 5. Cash bonds of six (6) terminated Authorized Agent Corporations/Authorized STL Agents (AACs/ASAs) totaling P497.183 million were not yet forfeited as of December 31, 2018 despite the issuance of forfeiture order/request by the Branch Operations Sector (BOS), resulting in the overstatement of the Performance Bonds Payable account with a balance of P4.044 billion by P497.183 million and misstatement of the balances of the other affected accounts by the corresponding amounts, which affected the faithful presentation of the balances of subject accounts in the financial statements as of December 31, 2018.

For the afore-cited observations, which caused the issuance of an adverse opinion, we recommended that Management:

1.1 Direct the Accounting and Budget Department (ABD) to:

- a. Recognize as part of the PCSO's revenues the PMRR shortfalls incurred in CYs 2018 and 2017 and recognize as among the receivables the net amount representing unsettled PMRR shortfalls due to PCSO in 2018 and 2017.
- b. Record the STL transactions on accrual basis to ensure that the same are recognized in the period in which they were earned and not when cash was collected pursuant to Paragraphs 27 and 28 of PAS 1 and the CFFR.

2.1 Direct the concerned accounting personnel to:

- a. Effect the necessary adjustments, after a thorough verification of the book reconciling items for each of the subject bank accounts, in order to present fairly the balance of the Cash in Bank account in the financial statements;
- b. Intensify the efforts in coordinating with the corresponding depository banks to thresh out the details of the bank reconciling items and investigate the cause/s of the alleged unposted deposits totaling P10.574 million under OF accounts and P26.841 million under the CF/PF accounts so that appropriate action may be taken thereafter;
- c. Effect the necessary adjusting entries, after a thorough verification of the long-outstanding reconciling items, in order to correct the P22.254 million overstatement of the Cash and Cash Equivalents account and the negative balance of P18.178 million, which pertained to book balances of closed Philippine National Bank (PNB) accounts; and
- d. Effect the necessary adjusting entries that will correct the P8.631 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2018 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks.

3.1 Direct the concerned accounting personnel to effect the necessary adjusting entries pertaining to the CY 2018 transactions of the trust fund with the LBP, which was intended for the construction of the PCSO building, so that the balances of the affected accounts shall faithfully represent the effects of the said transactions pursuant to Paragraph 15 of PAS 1.

4.1 Direct the concerned accounting personnel to immediately effect the necessary adjusting entries to correct the overstatements of P255.949 million and P23.348 million of the Accounts Payable-Miscellaneous and Charity Expenses accounts, respectively, as well as the understatement of the Retained Earnings – CF account by P232.600 million as at December 31, 2018.

- 4.2 Ensure compliance with Section 111 (2), Chapter 2 of Presidential Decree (PD) No. 1445 by directing the concerned accounting personnel to be more efficient and careful in the recording of the financial transactions of the PCSO to avoid inaccurate or misleading information.
- 5.1 Direct the concerned accounting personnel to effect the necessary adjusting entries to recognize in the books the forfeitures of the cash bonds of the said six (6) terminated AACs so that the balances of the Performance/Bidder's Bonds Payable account and other affected accounts shall be fairly presented in the financial statements. This should be accompanied with the actual transfer of funds to the Charity Fund, pursuant to Board Resolution No. 111, series of 2018, so that the same can be utilized to fund the various charitable programs of the PCSO, particularly the Individual Medical Assistance Program (IMAP).

The other significant audit observations and recommendations that need immediate action are as follows:

- 6. The PMRR shortfalls due to PCSO in the amount of P4.607 billion, net of the waived PMRR amounting to P665.200 million and reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million, remained unsettled as of December 31, 2018 in violation of Section 18 (e) of the Implementing Rules and Regulations (IRR) for the STL.
- 6.1 We recommended that Management intensify collection of the PMRR shortfalls due from the concerned AACs/ASAs in the total amount of P4.607 billion so that the same can be utilized for the various charitable programs of the PCSO, particularly the IMAP. Otherwise, implement Section 27 (f & g) of the Revised IRR for STL and suspend and/or revoke their Authorities to Operate (ATO) and forfeit their cash bonds corresponding to the amount of their PMRR Shortfalls.
- 7. Unremitted shortfalls in the PMRR as of December 31, 2018 were reduced by a total amount of P1.427 billion due to: (a) waived PMRR shortfalls due to PCSO amounting to P665.200 million based on various Board Resolutions; and (b) reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million.
- 7.1 We recommended that Management:
 - a. Nullify the waiver given to the subject AACs and restore the PMRR shortfalls due from them in the total amount of P665.200 million considering that the PCSO Board of Directors has no authority to condone or waive valid claims by PCSO pursuant to Section 36.1 of PD No. 1445/Section 20(1), Chapter 4, Subtitle B, Title I, Book V of Executive Order (EO) No. 292 or the Administrative Code of 1987; and
 - b. Consider the possibility of recalling Board Resolution (BR) No. 0401, series of 2018 and instead, follow the provisions in the STL Agency Agreement until its renewal, in view of the undue disadvantage suffered by PCSO on account of its issuance.

8. The total amount of P684.302 million, consisting of forfeited prizes for Keno games during CYs 2015 to 2017 in the total amount of P184.302 million as well as the remaining balance of the 2017 unutilized operating fund of P500 million, were not yet transferred to the Charity Fund, contrary to Sections 6.A and 6.D of Republic Act (RA) No. 1169, otherwise known as the PCSO Charter, which could have provided the much-needed fund for the various charitable programs of the PCSO, most specially the IMAP.
- 8.1 We recommended that Management direct the concerned officials of the PCSO to immediately transfer to the CF the total amount of P684.302 million, representing forfeited prizes for Keno games and remaining unutilized CY 2017 operating fund pursuant to Sections 6.A and 6.D of RA No. 1169 to augment the funds that may be utilized for the various charity programs of the PCSO, particularly the IMAP.

The other observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 14, 2019 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.

In our transmittal letter of even date, we request the OIC-General Manager of PCSO to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt of the report.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of this report.

Very truly yours,

COMMISSION ON AUDIT

By:


CLEOTILDE M. TUAZON
Director IV
Cluster Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library
The COA Central Library



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Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional and Other Services

June 28, 2019

Mr. ANSELMO SIMEON P. PINILI
OIC-General Manager
Philippine Charity Sweepstakes Office
Sun Plaza Building
1507 Shaw Boulevard corner Princeton Street
Mandaluyong City



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The other observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 14, 2019 are discussed in detail in Part II of the report. We also invite your attention to the prior year's partially and unimplemented audit recommendations embodied in Part III of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the action(s) taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days upon receipt hereof.

We acknowledge the support and cooperation that you and your staff extended to the Audit Team, thus facilitating the submission of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


CLEOTILDE M. TUAZON
Director IV
Cluster Director

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The President of the Republic of the Philippines
The Vice President
The President of the Senate
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