**PART II - OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL**
2. **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.** 
   1. Paragraphs 27 and 28 of PAS 1 provide:

*27. An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*

*28*. *When the accrual basis of accounting is used, items are recognized as assets, liabilities, equity, income, and expenses (the elements of financial statements) when they satisfy the definition of and recognition criteria for those elements in the Framework.*

* 1. On the other hand, Paragraph 4.4 of the CFFR provides the definition of and recognition criteria for asset and income, as follows:

*4.4. (a) An asset is a resource controlled by the entity as a result of past event and from which future economic benefits are expected to flow to the entity.*

*4.44. An asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured.*

*4.47. Income is recognized in the income statement when an increase in the future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.*

* 1. One of the obligations of the Authorized STL Agents (ASAs) embodied in the 2016 Revised Implementing Rules and Regulations (IRR) for the STL was compliance with the agreed Presumptive Monthly Retail Receipt (PMRR) and the remittance to the PCSO of the amount corresponding to the revenue allocation provided therein.
  2. Review of the reports furnished by the Branch Operations Sector (BOS) as of December 31, 2018 disclosed that fifty-seven (57) ASAs and forty-five (45) AACs failed to meet the required PMRR and had incurred PMRR shortfalls of P7.320 billion in 2018 and P7.589 billion in 2017 with equivalent shortfalls due to PCSO in the net amount of P3.051 billion and P2.983 billion, respectively.
  3. Verification of the financial statements, however, revealed that the said PMRR shortfalls during CYs 2018 and 2017 totaling P7.320 billion and P7.589 billion were not included in the recognized revenues for both years. Likewise, the net amount due to the PCSO from the said shortfalls amounting to P3.051 billion and P2.983 billion were not recognized as receivables in CYs 2018 and 2017, respectively. Further verification disclosed that the recorded receivables and revenue from the STL pertained only to the actual sales reported by the ASAs without any recognition of the PMRR shortfalls.
  4. The non-recognition of the PMRR shortfall and Shortfall Due to PCSO in the books of accounts resulted in the understatement of the revenue account by P7.320 billion, Retained Earnings account by P2.983 billion and of the receivables-STL account by P6.034 billion [P3.051 billion + P2.983 billion] as of December 31, 2018.
  5. **We recommended that Management direct the Accounting and Budget Department (ABD) to:**

1. **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.**
2. **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.**
   1. Management commented that:
   2. PCSO records transactions on accrual basis but the criteria for the recognition of the revenues must all be met. They cited Section 7, Chapter V. Volume 1 of the Government Accounting Manual as their reference, which identifies the conditions that have to be fully satisfied for the revenue recognition from the sale of goods (STL sales) such as: (a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods; (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably. They explained that based on the above conditions, they could not recognize sales on PMRR shortfall since the amount of revenues to be collected cannot be ascertained.
   3. Also, they explained that the ABD cannot recognize the accounts receivable because there would be a deliberate misstatement in the financial statements since PCSO will be constrained to remit taxes due in relation to STL sales even without actual cash collection and business loss will be incurred for shortfall recognized as sales. In addition, they explained that they have computed all the taxes related to the CY 2018 PMRR shortfall if recognized as revenue in the PCSO’s books and in summary, PCSO will have P2.662 billion total cash outflow if PCSO will follow COA’s recommendations, when in fact the probability of receiving cash is almost impossible taking into consideration that the PMRRs are just based on presumptions by the ASAs.
   4. As rejoinders, the Audit Team:
      1. Maintains its position that the PMRR Shortfalls should be recorded in the PCSO’s books as revenue and the corresponding PMRR Shortfall due as receivable. Subject recommendation was in accordance with the income and asset recognition principle embodied in the Philippine Financial Reporting Standard (PFRS), which, according to the Statement of Management’s Responsibility issued by Management is being presently adopted by PCSO.
      2. The agreed PMRR was incorporated in a valid and enforceable contract between the PCSO and the STL Agents and was a legal obligation by itself. Therefore, it cannot be said that the probability of collection is almost impossible. It is part of Management’s responsibility to exercise the diligence of a good father of a family by undertaking the necessary efforts to collect the PMRR shortfall in case actual sales be lower than the agreed PMRR.
      3. On the other hand, the contractual obligations of the ASAs to remit the amount due to PCSO in accordance with the terms of the STL Agreement was more than enough proof that these are valid and enforceable claims by PCSO, hence, should be properly recognized in the books of accounts. Moreover, the future economic benefit mentioned in the subject definition of asset and income would refer to the agreed PMRR or the actual sales (whichever is higher) that was expected to be realized by PCSO from the STL operations pursuant to the STL Agreement.
3. **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 Philippine Accounting Standard 1 and QC12 of the Conceptual Framework for Financial Reporting:**
4. **Variance of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund accounts and Main account;**
5. **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;**
6. **Closed accounts still having outstanding balances in the books amounting to P22.254 million and P18.178 million (negative); and**
7. **Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash.**
   1. Paragraph 15 of PAS 1 provides:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

* 1. The Conceptual Framework for Financial Reporting enumerates faithful representation as one of the qualitative characteristics of a useful financial information. As stated under QC12, “*To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error”.*
  2. Audit of the Cash and Cash Equivalents account having a balance of P9.815 billion in the financial statements as at December 31, 2018 disclosed various deficiencies as follows:

*Variances of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund accounts and Main account*

* 1. Results of confirmation with the various depository banks of the Operating Fund and Main Accounts revealed variances in the total amount of P11.882 million, breakdown of which is shown in Table 1.

**Table 1 – Comparison of book and confirmed bank balances**

**as of December 31, 2018**

| **Account Title** | **Account Number** | **Balance per Bank Confirmation** | | **Balance per Books** | | **Discrepancy** | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Main Account** |  |  |  |  |  |  |  |
| CIB-LC-SA- CURRENT ACCOUNT-LBP (E. RODRIGUEZ AVE.) | LBP - 3102-1000-09 | P | 1,974,855,087.69 | P | 1,981,196,994.53 | P | (6,341,906.84) |
| CIB-LC-SA- AGENTS SAVINGS ACCOUNT | PNB - 3742-5360-0014 |  | 31,845.69 |  | 1,987,807.88 |  | (1,955,962.19) |
| **Operating Fund** |  |  |  |  |  |  |  |
| CIB-LC-CA- OPERATING FUND-LBP (E. RODRIGUEZ AVE.) | LBP - 3102-1000-33 |  | 339,098,019.19 |  | 333,658,156.69 |  | 5,439,862.50 |
| CIB-LC-CA-OPERATING FUND(LBP)-STL REMITTANCES | LBP - 3102-1005-64 |  | 72,004,628.80 |  | 57,264,829.95 |  | 14,739,798.85 |
| **TOTAL** |  | **P** | **2,385,989,581.37** | **P** | **2,374,107,789.05** | **P** | **11,881,792.32** |

* 1. Review of the Bank Reconciliation Statements (BRSs) for CY 2018 for the subject accounts disclosed that the said discrepancy pertained to unadjusted book and bank reconciling items totaling P27.292 million and P15.410 million, respectively. Further verification revealed that there were book reconciling items already identified in the prior years’ BRS but remained unadjusted in the books.
  2. Accordingly, the same still remain as reconciling items to date, as shown in Table 2.

**Table 2 – Summary of Long-Outstanding Book Reconciling Items**

| **Year** | **Erroneous Recording of Fund Transfers** | | **Unrecorded Deposits/DM/CM** | | **Errors in posting** | | **Total** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2008 | P | - |  | (131,253.49) | P |  | P | (131,253.49) |
| 2009 |  | 1,658.60 |  | 15,200.00 |  | (3,800.00) |  | 13,058.60 |
| 2010 |  |  |  | (525.00) |  |  |  | (525.00) |
| 2011 |  |  |  | (0.50) |  |  |  | (0.50) |
| 2012 |  |  |  | 21,683.95 |  |  |  | 21,683.95 |
| 2013 |  | 11,147,697.85 |  |  |  |  |  | 11,147,697.85 |
| 2014 |  | 3,156,685.85 |  | 65,625.02 |  | 200,403.24 |  | 3,422,714.11 |
| 2015 |  | 9,952,210.20 |  | 6,466,503.17 |  | 0.01 |  | 16,418,713.38 |
| 2016 |  | 1,095,000.10 |  | (24,540.00) |  | 50,000.00 |  | 1,120,460.10 |
| 2017 |  | 12,639,654.26 |  | 911,578.61 |  | (5,445.20) |  | 13,545,787.67 |
| 2018 |  | (15,627,368.8) |  | (2,370,144.26) |  | (268,705.39) |  | (18,266,218.4) |
| **Total** | **P** | **22,365,538.06** | **P** | **4,954,127.50** | **P** | **(27,547.34)** | **P** | **27,292,118.27** |

DM – Debit Memo

CM – Credit Memo

* 1. Moreover, there were bank reconciling items which have been identified in the BRSs for the period 2006 to 2018 but remain as reconciling items as of December 31, 2018, as summarized in Table 3.

**Table 3 – Summary of Long Outstanding Bank Reconciling Items**

| **Year** | **Outstanding Checks** | | **Unposted Deposits** | | **Errors** | | **Total** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2006 | P | - | P |  | P | (200.00) | P | (200.00) |
| 2008 |  | - |  |  |  |  |  | 0.00 |
| 2009 |  | - |  |  |  | (7,748.00) |  | (7,748.00) |
| 2010 |  | - |  |  |  | 353,393.52 |  | 353,393.52 |
| 2011 |  | - |  |  |  | (6,727.50) |  | (6,727.50) |
| 2012 |  | - |  | 527,918.00 |  | (4,702.22) |  | 523,215.78 |
| 2013 |  | - |  | 4,612.50 |  | (1.00) |  | 4,611.50 |
| 2014 |  |  |  | 19,784.20 |  |  |  | 19,784.20 |
| 2015 |  |  |  | 284,187.10 |  | (1,400.00) |  | 282,787.10 |
| 2016 |  |  |  | 134,881.50 |  |  |  | 134,881.50 |
| 2017 |  |  |  | 950,277.14 |  | (97,832.32) |  | 852,444.82 |
| 2018 |  | 4,605,103.21 |  | 8,652,094.96 |  | (3,315.18) |  | 13,253,882.99 |
| **Total** | **P** | **4,605,103.21** | **P** | **10,573,755.40** | **P** | **231,467.30** | **P** | **15,410,325.91** |

* 1. These audit observations were already brought to the attention of Management through our prior years’ Audit Observation Memoranda (AOMs) and were contained in the respective Annual Audit Reports (AARs). However, book and bank reconciling items pertaining to CYs 2006 to 2017 transactions in the total amount of P45.558 million and P2.156 million, respectively, remained unadjusted as of December 31, 2018.

*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*

* 1. Examination of the balances per books of the Cash in Bank account of PF and CF and the balances confirmed by the corresponding depository banks of the said accounts disclosed a total discrepancy of P497.338 billion, as shown in Table 4.

**Table 4 – Comparison of book and confirmed bank balances**

**as of December 31, 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Account Title** | **Account Code** | **Balance per Bank Confirmation** | **Balance Per Book** | **Difference** |
| CIB-LC-CA- PRIZE FUND-LBP Account No. 3102-1000-17 | 111-J | 5,593,476,101.41 | 5,577,780,666.82 | 15,695,434.59 |
| CIB-LC-CA- CHARITY FUND-LBP Account No.3102-1000-25 | 111-L | 788,351,660.28 | 363,348,022.26 | 425,003,638.02 |
| CIB-LC-CA-CHARITY FUND-LBP Account No.3102-1005-56 | 111-U | 745,385,996.19 | 730,718,558.16 | 14,667,438.03 |
| CIB-LC-CA-PRIZE FUND-LBP Account No.3102-1006-10 | 111-R1 | 95,050,406.94 | 90,687,035.16 | 4,363,371.78 |
| CIB-LC-CA- AMBULANCE-LBP Account No.3101-0352-03 | 112-R | 152,233.85 | 152,171.62 | 62.23 |
| CIB-LC-CA- PRIZE FUND-PNB Account No.374394100016 | 111-B | 150,120.95 | (19,271,905.12) | 19,422,026.07 |
| **Sub-total** |  | 7,222,566,519.62 | 6,743,414,548.90 | 479,151,970.72 |
| CIB-LC-CA- CHARITY FUND-PNB Account No.374394300014\* | 111-D | 8,410.37 | (18,178,064.23) | 18,186,474.60 |
| **Total** |  | 7,222,574,929.99 | 6,725,236,484.67 | 497,338,445.32 |

*\*Closed Account*

* 1. Verification of the BRSs as of December 31, 2018 submitted by the concerned accounting personnel revealed that the discrepancy of P479.151 million were caused by book reconciling items totaling P118.548 million, which remained unadjusted in the books and bank reconciling items amounting to P360.604 million, details shown in Table 5.

**Table 5 – Summary of Book and Bank Reconciling Items**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Book Reconciling Items** | **2018** | **2017** | **2016** | **2015** | **2014-2013** | **Total** |
| a. Unrecorded Collections/ Deposits | 31,975,223.22 | 1,413,101.64 | - | 822.62 | - | 33,389,147.48 |
| b. Fund Transfers from PDOs | 25,685,503.28 | (3,566,436.77) | 8,729,968.67 | 25,751,477.41 | 16,622,136.90 | 73,222,649.49 |
| c. Over/Under Remittance presented (STL) | - | - | - | - | (799,391.67) | (799,391.67) |
| d. Difference in the amount of Remittance (STL) | 14,753,393.80 | 4,763,695.03 | - | - | - | 19,517,088.83 |
| e. Difference in the amount Recorded (STL) | (9,172,705.59) | (20,707.21) | (0.10) | - | - | (9,193,412.90) |
| f. Erroneous Recording of Disbursements | (15,675,224.86) | (18,926.86) | (0.08) | 18,248,415.83 | - | 2,554,264.03 |
| g. Unrecorded Interest Income | 183,691.56 | - | - | - | - | 183,691.56 |
| h. Unrecorded Debit / Credit Memo | (326,417.19) | - | - | - | - | (326,417.19) |
| **Total** | **47,423,464.22** | **2,570,725.83** | **8,729,968.49** | **44,000,715.86** | **15,822,745.23** | **118,547,619.63** |
| **Bank Reconciling Items** |  |  |  |  |  |  |
| a. Outstanding Checks | 387,455,394.24 | 21,000.00 | - | - | - | 387,476,394.24 |
| b. Bank Error\* | - | - | - | - | 31,020.00 | 31,020.00 |
| c. Unposted Deposits | 26,841,023.14 | - | - | - | - | 26,841,023.14 |
| **Total** | **360,614,371.10** | **21,000.00** | **-** | **-** | **31,020.00** | **360,604,351.10** |

*\*Bank Error - 2014 and below*

* 1. As presented in Table 5, more than half of the total amount of book reconciling items pertained to prior years which remained unadjusted in the books despite being reiterated to Management for the past two years. In addition, we noted that the same nature of reconciling items, in substantial amounts, were identified during CY 2018 but remained unadjusted as of year-end. Considering the availability of supporting documents, said reconciling items should have already been promptly adjusted.
  2. Moreover, the bank reconciling items of P360.604 million included unadjusted bank errors and staled checks. For the outstanding checks, forty-two (42) of the 1,420 outstanding checks in the total amount of P3.189 millionwere already staled as of December 31, 2018. No adjustments were effected in the books to revert the same to the CIB account, hence, resulted in the understatement and overstatement of the Cash in Bank and Accounts Payable accounts, respectively, by P3.189 million as of December 31, 2018.
  3. The unposted deposits of P26.841 million, as shown in Table 6, pertained to deposits made for the period June to December 2018 under bank account 111-U (Charity Fund-STL) and 111-R1 (Prize Fund-STL) which remained unadjusted but could have been corrected by the bank had the concerned personnel promptly brought the matter to their attention considering the substantial amount involved and the length of time they have remained unposted.

*Closed accounts still having outstanding balances in the books in the amounts of P22.254 million and P18.178 million (negative)*

* 1. Verification disclosed that the balance of the Cash and Cash Equivalents account amounting to P9.815 billion as of December 31, 2018 included the balances of P22.254 million and P18.178 million (negative) of PNB bank account nos. 121270002159 and 374394300014, respectively, both maintained by PCSO with the PNB-Mandaluyong Shaw-Princeton Branch, Said accounts have already been closed in September 2018
  2. Further verification disclosed that the said balance of P22.254 million of the above-stated closed account consisted of unrecorded CYs 2017-2018 transactions and long-outstanding book reconciling items which remained unadjusted to date due to deficient and/or lack of necessary supporting documents, resulting in the overstatement of the Cash and Cash Equivalents account by P22.254 million. On the other hand, the cause/s of discrepancy of the negative balance of P18.178 million cannot be determined due to absence of bank reconciliation statements for the period July to December 2018.

*Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash*

* 1. Examination of accounting records disclosed that journal entries were effected on December 31, 2018 to revert back to the corresponding cash and payable accounts the unreleased checks totaling P480.39 million under the Operating and Charity Funds. However, verification of the bank statements for the subject accounts revealed that P8.631 of the said amount were already cleared by the bank and debited from the same bank accounts during the months of September to December 2018, resulting in the overstatement of both the Cash & Cash Equivalents and Accounts Payable accounts by P8.631 million.
  2. The concerned personnel from the Accounting and Budget Department (ABD) explained that they relied on the list of unreleased checks submitted by the Treasury Department (TD). Hence, the journal entry prepared was merely based on information contained therein.
  3. In view of the above-mentioned deficiencies, the faithful representation of the Cash and Cash Equivalents account with a balance of P9.815 billion and the related accounts in the financial statements as of December 31, 2018 was not ascertained.
  4. **We recommended and Management agreed to direct the concerned accounting personnel to:**

1. **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;**
2. **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 Operating Fund accounts and P26.841 million under the Charity Fund/Prize Fund accounts so that appropriate action may be taken thereafter;**
3. **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 PNB accounts; and**
4. **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.**
   1. Management informed the Audit Team that the ABD recorded in January 2019 and April 2019 various adjustments pertaining to some of the identified book reconciling items under the Operating Fund accounts, specifically (a) LBP CA no. 3102-1000-09 (112-D); (b) LBP CA no. 3102-1005-64 (111-V); (c) PNB SA no 3742-5360-0014 (112-H); (d) LBP CA no. 3102-1000-33 (111-N) and under the Charity Fund/Prize Fund accounts specifically, LBP SA no. 3102-1005-56 (111-U) and LBP SA no. 3102-1006-10 (111-R1).
   2. The ABD also explained that of the P10.574 million and P26.841 million classified as unposted deposits – bank reconciling items under the Operating Fund and Charity/Prize Fund Accounts, respectively, the amounts of P8.413 million and P20.300 million were book errors which were inadvertently included in the Bank column adjustments in the submitted BRSs. Said items were already adjusted in April and May 2019. The remaining items were still under review and the ABD is in close coordination with the PNB and the BOS for the settlement and/or adjustment of the same. Moreover, the BRSs of bank account no. 3101-0076-25 were already submitted in May 2019.
5. **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 Philippine Accounting Standard (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 was overstated by P524.336 million.** 
   1. Paragraph 15 of PAS 1 provides:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses xxx*

* 1. Records showed that the PCSO entered into a Trust Agreement with the LBP, through its Trust Banking Group (Trustee) on August 26, 2014, for the management and administration of the trust fund intended for the construction of the PCSO building. Review of the Trustee’s financial report on the said trust account, as presented in Table 6, disclosed that it generated assets, incurred liabilities and had an equity in the amounts of P2.606 billion, P3.438 million and P2.603 billion, respectively, as of December 31, 2018.

**Table 6 – PCSO Trust Fund Statement of Financial Position**

**as of December 31, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | |  | **Amount** |
|  | Time Certificate / High Yield Deposits - Own Bank | P | 66,000,000.00 |
|  | Savings Account - Own Bank |  | 314,817.66 |
|  | Inte`rest Receivable |  | 16,801,056.19 |
|  | Reserve Deposit Account |  | 443,109,000.00 |
|  | Financial Assets at FVOCI |  | 2,078,177,379.26 |
|  | Prepaid Tax, Inv. In Treasury bills |  | 1,548,754.60 |
|  | **Total Assets** |  | **2,605,951,007.71** |
| **Liabilities** | |  |  |
|  | Withholding Tax Payable |  | 3,360,211.24 |
|  | Trustee Fee Payable |  | 78,092.66 |
|  | **Total Liabilities** |  | **3,438,303.90** |
| **Equity** | |  |  |
|  | Principal |  | 2,500,000,000.00 |
|  | Accumulated Income |  | 193,092,487.85 |
|  | Net Unrealized Gains/Losses - AFS |  | (90,579,784.04) |
|  | **Total Equity** |  | **2,602,512,703.81** |
| **Total Liabilities and Equity** | | **P** | **2,605,951,007.71** |

* 1. Verification of the PCSO’s financial statements as of the same date, however, revealed that the equity on the said trust account in the amount of P2.603 billion was recognized under the Financial Assets at FVOCI account. Said recognition was tantamount to offsetting of assets and liabilities prohibited under paragraphs 32 and 33 of PAS 1, which state:

*32. An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a PFRS.*

*33. An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of profit or loss and other comprehensive income or financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity’s future cash flows…*

* 1. Considering that the subject trust fund was being managed by the Trustee on behalf of PCSO, the assets generated and liabilities incurred therefrom should be properly recognized in the books in accordance with the recognition criteria of the pertinent PFRS. Recognizing only the equity portion of the trust account was in effect an offsetting of assets and liabilities not allowed in the above-stated provisions of PAS 1, which resulted 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 as of December 31, 2018.
  2. **We recommended that Management 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.**
  3. Management informed that the necessary adjusting entries will be effected during CY 2019.

1. **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:**
   1. **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;**
   2. **Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program; and**
   3. **Erroneous recording of payments for mandatory contributions totaling P206.523 million.**
   4. Section 111 of Presidential Decree (PD) No. 1445 on the recording of financial transaction states:

*Section 111. Keeping of accounts.*

*x x x*

*2. The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against* ***inaccurate or misleading information****. (*emphasis ours*).*

* 1. Review of the prior years’ accruals in connection with the audit of the charity expenses incurred in CY 2018 disclosed the observations discussed in the succeeding paragraphs.

*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*

* 1. The IPP/EF programs were suspended from CYs 2015 to 2017 due to the revisions of their respective Implementing Guidelines. During CY 2018, PCSO resumed the said programs and released the amounts of P26.832 million and P32.000 million to various selected beneficiaries of the IPP and EF by virtue of Board Resolutions (BR) Nos. 185 and 199 series of 2018, respectively. These were recorded in the books as debit to Other Charity Expenses account (IPP/EF) and credit to Cash in bank – Charity Fund account.
  2. Verification, however, disclosed that P15.138 million of the P26.832 million released for the IPP was already accrued in CY 2015 pursuant to BR Nos. 282-300 series 2015. Likewise, the P3 million EF for the Veterans Memorial Medical Center was already accrued by debiting Other Charity Expenses (IPP/EF) and crediting AP-Miscellaneous Accounts. No reversal of the accrual was made during CY 2016; hence, the total accrued amount of P18.138 million was already recognized in the AP-Miscellaneous account as of December 31, 2018.
  3. We noted that the Charity Expenses account instead of the AP-Miscellaneous account was debited when payments made for the IPP/EF programs in CY 2018 were recorded in the books resulting in the overstatement of both accounts by P18.138 million. Shown in Table 7 below are the details of the 2018 transactions relating to the IPP/EF Programs that were the subject of the said erroneous recording.

**Table 7 - Details of transactions expensed in CY 2018**

**that were already accrued in CY 2015**

| **Name of Beneficiaries** | **Amount Paid in 2018** | **Amount Accrued in 2015** |
| --- | --- | --- |
| **Institutional Partnership Program**  White Cross, Inc. | P 2,190,000.00 | P 1,080,000.00 |
| Hospicio de San Jose | 10,000,000.00 | 1,350,000.00 |
| Philippine Red Cross | 10,000,000.00 | 10,000,000.00 |
| Nazareth Home for Children (NCH) Foundation, Inc. | 383,250.00 | 190,000.00 |
| Tahanang Mapagpala ng Immaculada Concepcion Foundation, Inc. | 328,500.00 | 162,000.00 |
| St. Joseph Home for Special Children, Inc. | 821,250.00 | 756,000.00 |
| Taw Kabui for a Child, Inc. Sisters of the Sacred Heart | 295,650.00 | 150,000.00 |
| Casa Dei Bambini San Giuseppe, Inc. | 208,050.00 | 150,000.00 |
| Golden Acres Haven for the Elderly | 2,441,850.00 | 1,200,000.00 |
| Gesu Eucaristo Children's Inc. | 164,250.00 | 100,000.00 |
| **Total** | **26,832,800.00** | **15,138,000.00** |
| **Endowment Fund Program**  Veterans Memorial Medical Center | 5,000,000.00 | 3,000,000.00 |
| **Grand Total** | **P 31,832,800.00** | **P 18,138,000.00** |

* 1. Further verification disclosed that the total amount of P8.606 million for several IPP grants that were accrued as of December 31, 2018 included the total amount of P5.210 million that was already accrued during CY 2015, Accordingly, only the amount of P3.395 million should have been accrued during CY 2018.
  2. The erroneous recording of the subject transactions pertaining to the IPP/EF Programs of the PCSO during CY 2018 resulted in the overstatement of both the Charity Fund expenses and the AP-Miscellaneous accounts by a total amount of P23.348 million as of December 31, 2018.

*Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program*

* 1. Verification of records revealed that Grants for the purchase of medical equipment given to seven (7) beneficiaries totaling P111.043 million was accrued on December 31, 2017. However, only the total amount of P97.821 million was debited to AP-Miscellaneous account when released during CY 2018 since this was the amount actually disbursed. No adjusting entry was made to close the remaining amount of P13.222 million, resulting in the overstatement of the AP-Miscellaneous account by the said amount.
  2. Likewise, a total amount of P12.855 million was accrued on December 31, 2017, but the Prior Years’ expense account [424-2 (684)] was debited instead of AP-Miscellaneous account, resulting in the overstatement of the said account by P12.855 million.
  3. As a result, the AP-Miscellaneous and Retained Earnings - CF accounts were overstated and understated, respectively, by the total amount of P26.077 million [P13.222 million + P12.855 million].

*Erroneous recording of payments for mandatory contributions totaling P206.523 million*

* 1. Records showed that payments totaling P83.876 million were made by PCSO during CY 2016 for the National Shelter Program of the Government. However, instead of recording the payments as debit to AP-Miscellaneous account considering that this was previously accrued during CY 2015, Due to Other GOCCs-NHDMF account was debited resulting in the overstatement of the AP-Miscellaneous account by P83.876 million as of December 31, 2018.
  2. On the other hand, the Overseas Workers Welfare Administration (OWWA) – Congressional Migrant Workers Scholarship Fund as well as the National Commission on Indigenous Peoples for the Ancestral Domain (NCIPAD), replied to the confirmation conducted by PCSO that the amounts of P78.647 million and P44.000 million, respectively, due from the said agency were already fully settled. Verification, however, disclosed that the same were still included in the payables of PCSO as of December 31, 2018.
  3. The erroneous recording of payments for mandatory contributions resulted in the overstatement and understatement of the AP-Miscellaneous and Retained Earnings accounts, respectively, by P206.523 million.
  4. The abovementioned misstatements of certain accounts resulting from the erroneous recording of transactions as discussed, affected the fairness of presentation of the Accounts Payable – Miscellaneous, Charity Expenses and Retained Earnings - CF accounts in the financial statements as of December 31, 2018 and were not in compliance with the provisions of Section 111(2) of PD No. 1445.
  5. **We recommended and Management agreed to:**

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 – Charity Fund account by P232.600 million as at December 31, 2018.**
2. **Ensure compliance with Section 111 (2), Chapter 2 of PD 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.**
3. **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.**
   1. Review of the accounting records disclosed that cash bonds posted by the concerned AACs/ASAs, which were required before being granted with authority to operate (ATO), were recorded initially in the books as debit to Cash in Bank and credit to Performance/Bidder’s Bonds Payable accounts. Upon termination of its operations, the cash bond is being returned to the AAC or forfeited in case of PMRR shortfall pursuant to Section 17 of the 2016 Revised Implementing Rules and Regulations (IRR) for the STL.
   2. For the period 2017 to 2018, there were eleven (11) AACs/ASAs whose ATOs were terminated due to non-settlement of their PMRR Shortfalls for CY 2017 totaling P1.753 billion. The concerned official of the BOS issued series of Memoranda during CY 2018 addressed to the Accounting and Budget Department (ABD) and Treasury Department (TD) relative to the forfeitures of the cash bonds of six (6) terminated AACs’ totaling P497.183 million.
   3. Verification of records, however, disclosed that the cash bonds of the subject AACs were not yet forfeited as of December 31, 2018 despite the issuance of termination/forfeiture order by the BOS. The delay in the recognition in the books of the forfeitures of said cash bonds resulted in the overstatement of the Performance/Bidder’s Bonds Payable account by P497.183 million and the misstatement of the other related accounts, affecting the fair presentation of the balances of the subject accounts in the financial statements as of December 31, 2018, and delay in the actual transfer of the fund to the Charity Fund.
   4. In addition, the amount due to the Charity Fund from the said forfeitures, pursuant to Board Resolution No. 111, series of 2018, that could have been utilized for the various charitable programs of the PCSO, most specially the Individual Medical Assistance Program (IMAP), was also held in abeyance to the detriment of the supposed beneficiaries of the said program.
   5. **We recommended and Management agreed to 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 IMAP.**
   6. Management informed that the cash bond forfeiture was recorded in the books in April 2019.
   7. As a rejoinder, the Audit Team would like to reiterate to the concerned PCSO officials that the recording of the forfeited cash bond should be accompanied with the actual transfer of the forfeited amount to the Charity Fund pursuant to BR No. 111, series of 2018.
      1. **The faithful representation of the balance of the Due to BIR-Documentary Stamp Taxes account totaling P681.801 million as at December 31, 2018 was not established due to the unreconciled amount of P109.252 million, contrary to Paragraph 15 of PAS 1.**
   8. Paragraph 15 of the PAS 1, on presentation of financial statements provides that:

*Financial statements shall present fairly the financial position, financial performance & cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events & conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. xxx.*

* 1. Pursuant to existing Bureau of Internal Revenue (BIR) regulations, the PCSO withholds and remits to the BIR the Documentary Stamp Taxes (DST) on the gross retail receipts of Lotto, Small Town Lottery (STL), Instant Sweepstakes Program, Keno, and Sweepstakes. The BIR requires that the DST be filed and paid within (5) days after the close of the month. The amounts of DST withheld and remitted were recorded by the Accounting and Budget Department (ABD) under the Due to BIR – DST account. Therefore, the balance of the said account as at December 31, 2018 should only pertain to the unremitted DST for the month of December 2018 that was supposed to be remitted to the BIR in January of the following year.
  2. Review of accounting records revealed that the unremitted DST pertaining to the lotto, keno, STL, ISP and Sweepstakes retail receipts for CY 2018 was only P572.548 million. Verification, however, disclosed that the balance of the subject account as of December 31, 2018 was P681.801 million, or a difference of P109.252 million. The ABD informed the Audit Team during inquiry that the cause/s of said discrepancy cannot be determined yet.
  3. The existence of a variance of P109.252 million was not in accordance with the provision of Paragraph 15 of PAS 1 and was providing misleading and inaccurate information to the users of the financial statements of the PCSO, hence, the year-end balance of the Due to BIR – DST in the amount of P681.801 million was not fairly presented in the financial statements as at December 31, 2018.
  4. **We recommended and Management agreed to direct the concerned accounting personnel to conduct immediate reconciliation/analysis of the transactions affecting the Due to BIR-DST account in order to determine the cause/s of the material discrepancy of P109.252 million. Thereafter, effect the necessary adjusting entries so that the balance of the said account shall reflect a faithful representation of the effects of transactions in accordance with Paragraph 15 of PAS 1.**

**Instant Sweepstakes Program (ISP)**

1. **PCSO recognized in its books the full amount of CY 2018 retail receipts generated by the Instant Sweepstakes Authorized Corporation (ISAC) in the amount of P1.149 billion despite the fact that only 13 per cent of the ISAC’s gross receipts accrue to the PCSO as guaranteed share, which was tantamount to misrepresentation of the actual revenues derived from the ISP, contrary to PAS 1 and Paragraph 4.47 of the Conceptual Framework for Financial Reporting (CFFR).**
   1. Paragraph 15 of PAS 1 on presentation of financial statements and Paragraph 4.47 of the Conceptual Framework for Financial Reporting state that:

Paragraph 15 of PAS 1 -

*Financial statements shall present fairly the financial position, financial performance & cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events & conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. xxx.*

Paragraph 4.47 of CFFR –

*Income is recognized in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets xxx.*

* 1. Pursuant to its mandate, the PCSO Board of Directors approved the implementation of the ISP, which was a program that was operationalized through a selection of an ISAC that shall be under a non-exclusive all in contract involving production, distribution, marketing, advertising and selling of Instant Sweepstakes tickets nationwide. The PCSO shall exercise direct control and supervision over the details of the operations but the ISAC undertakes all the investment risks on the project.
  2. As explicitly provided in the Revised IRR for the ISP, the ISAC shall have a guaranteed total sale of P5 billion for a period of five (5) years or P1 billion per year, with PCSO having a guaranteed share of thirteen percent (13%) at no cost or risk to PCSO. The said guaranteed shares of P130 million per year or P650 million for a period of five (5) years were remitted to PCSO in advance in the form of sixty (60) post-dated checks in equal amounts of P10.833 million/month, which shall fall due every 30th day of each and every month.
  3. Further verification disclosed that PCSO recognized in its books of accounts as of December 31, 2018 a total revenue of P1.149 billion, representing the reported revenue of the ISAC amounting to P1 billion guaranteed sales plus P149.124 million receipts in excess of the guaranteed sales instead of its 13 per cent share, which should have amounted to P149.386 million only, contrary to Paragraph 15 of PAS 1 and Paragraph 4.47 of the CFFR.
  4. Only the PCSO’s actual share of P149.386 million contributed to the increase in its assets, therefore, only the said amount should have been recognized as income in accordance with the above-stated accounting standard.
  5. In addition, we also noted that under Note 23–Gross Revenue of the CY 2018 Notes to the Financial Statements of the PCSO, the total gross retail receipts of ISP in the amount of P1.149 billion was presented as part of PCSO’s retail receipts, without any appropriate disclosure, when in fact only 13 per cent thereof or P149.386 million rightfully belongs to PCSO. This was a misrepresentation of the actual revenue derived from the same and was a concrete example of providing inaccurate and misleading information to the users of the financial statements.
  6. **We recommended that Management direct the concerned accounting personnel to effect the necessary adjusting entry/ies in order to reflect the correct amount of retail receipts from the ISP accruing to the PCSO pursuant to Section 4 of the Revised IRR for the ISP in accordance with Paragraphs 15 and 4.47 of PAS 1 and CFFR, respectively.**
  7. Management informed that the PCSO is the principal government agency authorized to hold and conduct charity sweepstakes, races, lotteries and other similar activities as reflected under Republic Act (RA) No. 1169, otherwise known as the PCSO Charter. When the Principal entity satisfies a performance obligation, the entity recognizes revenues in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred. Likewise, under Section 3 of the National Instant Sweepstakes Program (NISP) 2017 Revised IRR, the Instant Sweepstakes Program is a regular game of the PCSO. As principal, PCSO recognizes the sale of the NISP; however, instead of remitting the entire sales collection, PMLC remits the net amount equivalent to the 13 per cent of gross receipts as share of PCSO. Moreover, they informed that the ISP Revenue Allocation has been included in the Notes to Financial Statements.
  8. As a rejoinder**,** the Audit Team maintains its position that only the 13 per cent guaranteed share of PCSO shall be recorded as revenue in its books due to the following reasons:

1. PCSO recorded the whole amount of retail receipts of the ISP for CY 2018 as debit to Accounts Receivable and credit to Sales. After which, several journal entries were prepared including recognition of Miscellaneous Payable for the receipt of the actual guaranteed share of PCSO from ISAC and the application of revenue allocation. Relative thereto, we reiterate that income is recognized only in the income statement when there is an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably as provided under the CFFR. In the case of ISP, only the guaranteed share of 13% corresponds to increase in the future economic benefit and/or asset of PCSO. It cannot be compared with Lotto and STL because the parties that PCSO has contracted with were entities which acted as PCSO’s Agents which are paid on commission basis.

On the other hand, the recognition of Miscellaneous Payable for the actual receipt of guaranteed share from ISAC and for revenue allocation did not meet the criteria of a liability being defined in the CFFR “as *present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.”*  Based on records, there was no actual liability embodied in the transaction and the account was merely used when closing at year-end the accounts receivable initially recognized.

1. PCSO may be considered as principal in terms of authority to hold and conduct lotteries as provided under RA No. 1169. However, in the recording of PCSO’s transactions, the Philippine Financial Reporting Standards (PFRS) require that the entity (PCSO) determines and assesses itself if it acted as Principal in the performance obligation or promise to transfer goods or services to the customer.
2. In view of the differing opinion of Management and the Audit Team as regards to the proper recording of revenue from ISP, this matter will be referred to the COA Government Accountancy Sector (GAS), for a more authoritative opinion.
   * + 1. **The Documentary stamp taxes (DST) and Prize Fund Taxes (PFT) accounts in the amounts of P9.441 billion and P1.419 billion for CY 2018 were overstated by P137.894 million and P30.968 million, respectively, due to the recognition of the amount paid for DST and PFT by the Powerball Marketing and Logistics Corporation (PMLC) as part of PCSO’s expenses.**
   1. Paragraph 4.49 of the Conceptual Framework for Financial Reporting (CFFR) provides that:

4.49. Recognition of expenses.

*Expenses are recognized in the income statement when a decrease in future economic benefits related to a* ***decrease in an asset or an increase of a liability*** *has arisen that can be measured reliably.* (emphasis ours)

* 1. Section 24 of the Revised IRR for the ISP requires that the ISAC shall undertake to remit to PCSO every last week of the month for tax payments of DST and PFT at a fixed monthly amount based on the guaranteed sales per year, subject to adjustment based on the actual sales, if higher than the guaranteed sales, including the payment of deficiency tax, penalties and surcharges.
  2. The gross retail receipts of Instant Sweepstakes Program (ISP), like the PCSO’s other regular games such as Lotto, Small Town Lottery (STL), Keno, and Sweepstakes, are being subjected to 20 per cent DST. The Revised IRR for the ISP provided that PCSO and PLMC shall have a share of eight per cent (8%) and twelve per cent (12%), respectively, over the twenty per cent (20%) DST. PCSO serves as the withholding agent only on the 12 per cent share of PLMC for remittance to the Bureau of Internal Revenue.
  3. For CY 2018, the total gross retail receipts generated under the ISP through the PMLC amounted to P1.149 billion with the corresponding 20 per cent DST of P229.824 million. However, this amount was recognized as DST expenses in the books of PCSO in its entirety despite the fact that twelve per cent (12%) thereof, in the amount of P137.894 million, was shouldered by the PMLC.
  4. Likewise, verification of records disclosed that the balance of P1.419 billion of the Prize Fund Taxes (5%) account presented in the financial statements as of December 31, 2018 included the total amount of P30.969 million that was remitted by PMLC to the PCSO for remittance to the BIR, contrary to Paragraph 4.49 of the CFFR.
  5. Inquiry with the concerned accounting personnel disclosed that the recognition of the whole amount of P229.824 million as DST expenses and the P30.968 million as PFT expenses was due to the recognition of the whole Retail Receipts from ISP as revenue in the books of PCSO, taking into consideration the matching principles in accounting.
  6. Considering that the PMLC shouldered the full amount of the PFT and the 12 per cent of the DST and that there was no actual outflow of cash or decrease in any of PCSO’s assets, the total amount of P229.824 million and P30.968 million should have not been recognized as expenses but rather trust liabilities in the books of the PCSO.
  7. Due to the erroneous treatment of the said transactions, the DST and PFT accounts were overstated by P137.894 million and P30.968 million, respectively, affecting the fairness of presentation of the balances of the said accounts in the financial statements as of December 31, 2018.
  8. **We recommended that Management direct the concerned accounting personnel to effect the necessary adjustment/s to correct the overstatement of P137.849 million and P30.968 million of the DST and PFT accounts so that their balances shall be fairly presented in the financial statements. We further recommended that Management remind the concerned official and employees to observe the highest standards of objectivity and consistency in the recording of financial transactions to avoid inaccurate or misleading information.**
  9. Management explained that:

1. The ABD does not agree with the COA Audit Observation that there is an overstatement of the Documentary stamp expenses in the amount of P137.894 million. Section 3 of the 2017 Revised IRR of ISP states that the PCSO Instant Sweepstakes is a regular game of the PCSO created pursuant to RA No. 1169, as amended. PCSO, as principal, recognizes the sale of ISP. PMLC does not remit the entire sales collection, instead PMLC only remits the net amount equivalent to the 13 per cent share of PCSO. Unlike in the Lotto and Keno Games wherein the 20 per cent DST is being shouldered by the bettors, the DST of ISP is still part of the Charity Fund. The 12 per cent share of PMLC on the payment of DST is deducted from the Charity Fund being retained by the PMLC.
2. The PCSO receives 11.5 per cent share from Charity Fund and 1.5 per cent share from Operating Fund. Of the 13%, 8% is being remitted to the BIR as PCSO’s share for the DST. Aside from the 13% PCSO share being remitted by PMLC, they also remit 12% of Charity Fund as their share in the payment of DST (20% of gross sales). Since PCSO recognizes the sale of ISP, it is but proper to record the DST as expenses.
   1. As rejoinders, the Audit Team:
3. Maintains its position that the DST and PFT expense accounts were overstated in the amount of P137.894 million and P30.968 million, respectively. As discussed in Observation no. 7 hereof, the Audit Team is of the view that PCSO should only recognize revenue equivalent to its guaranteed share of 13 per cent of the gross retail receipts – ISP.
4. In the same manner, only the amounts actually shouldered/paid by PCSO on documentary stamp taxes and PFT constitute the expenses to be recorded and reported by the same pursuant to the expense recognition provided in the Conceptual Framework for Financial Reporting. The share/payment of the ISAC on DST and PFT cannot be treated as expenses of PCSO because they did not result to any decrease in its assets.
5. Lastly, while it is true that PCSO is the principal government agency in terms of authority to conduct and handle charity sweepstakes races, lotteries, and other similar activities pursuant to RA No. 1169, the preparation and presentation of its financial statements is governed by the Philippine Financial Reporting Standards.
   * + 1. **The faithful representation of the balance of the consolidated Property, Plant and Equipment (PPE) accounts with a carrying value of P795.330 million in the financial statements as of December 31, 2018 could not be ascertained due to the following deficiencies:**
6. **A net discrepancy of P109.983 million existed between the carrying amount of depreciable PPE per books as of December 31, 2018 and the corresponding lapsing schedules as of the same date;**
7. **The inventory report for CY 2018 submitted by the Assets and Supply Management Department (ASMD) was incomplete considering that it only contained the results of the physical count of the assets at the PCSO – Head Office, hence, the integrity of property custodianship of the entire PPE belonging to PCSO was not checked; and**
8. **Results of the actual physical count of the assets comprising the PPE Head Office account disclosed a material net discrepancy of P177.434 million when compared with the balance per books of the said account.** 
   1. Validation of the acquisition costs and the related accumulated depreciation of the depreciable items of PPE of PCSO as of December 31, 2018 disclosed a net discrepancy of P109.983 million between the amounts recorded in the books and the supporting lapsing schedules, as shown in Table 8.

**Table 8 – Comparison between balances per Books**

**and lapsing schedule as of December 31, 2018**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Balances Per** | | | | **Variance** | |
| **Book** | | **Lapsing Schedule** | |
| Acquisition cost | P | 662,134,108.02 | P | 556,286,666.76 | P | 105,847,441.26 |
| Accumulated depreciation |  | 353,831,774.58 |  | 357,967,145.34 |  | (4,135,370.77) |
| **Carrying amount** | **P** | **308,302,333.44** | **P** | **198,319,521.42** | **P** | **109,982,812.03** |

* 1. Ideally, the lapsing schedules should agree with the book balances of the various items comprising the PPE account since these provide specific accounting data such as original purchase cost, accumulated depreciation, additions and disposals. We noted, however, that the balances of the depreciable items of PPE per books were greater by P109.983 million, net of the related accumulated depreciation, when compared with the balances reflected in the lapsing schedules. The concerned accounting personnel informed that the noted discrepancy was due to the absence of pertinent information needed for inclusion in the lapsing schedule; hence, the same were just labeled as “For Reconciliation”.
  2. The existence of the above-mentioned discrepancy of P109.983 million casts doubt on the fairness of presentation of the balances of the depreciable items of PPE in the financial statements as of December 31, 2018.
  3. Moreover, we noted that the Inventory Report submitted by the Asset & Supply Management Department (ASMD) for CY 2018 pertained only to the results of the actual physical count of the assets in the PCSO-Head Office. Hence, the integrity of property custodianship of all the assets belonging to PCSO was not checked.
  4. Existing guidelines for inventory taking provides that inventory reports of regional/branch offices shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory report shall be submitted to the Auditor not later than January 31 of each year. However, only the CY 2018 inventory report for the head office was submitted to the Office of the Auditor.
  5. In addition, the respective Audit Team Leaders of the PCSO Cagayan, Kalinga and Nueva Vizcaya branches reported that no physical inventory taking was conducted during CY 2018 in the said branches, hence, the existence, accuracy and reliability of Property, Plant and Equipment (PPE) balances could not be ascertained.
  6. With regard to the CY 2018 physical inventory report for the PCSO Head Office submitted by the ASMD, comparison of the balances reflected therein with the corresponding balances per books as of December 31, 2018 disclosed a net discrepancy of P177.434 million, details shown in Table 9.

**Table 9 - Comparison between balance per Books**

**and Inventory Report as of December 31, 2018**

| **Account Title** | **Balances per** | | | | **Variance** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Book** | | **Inventory Report** | |  | |
| Office Equipment | P | 165,874,468.82 | P | 19,767,059.96 | P | 146,107,408.86 |
| Information and Communication Tech Eqpt. |  | 78,733,721.50 |  | 67,308,998.85 |  | 11,424,722.65 |
| Communication Equipment |  | 8,596,875.14 |  | 3,763,506.79 |  | 4,833,368.35 |
| Military, Police and Security Equipment |  | 1,300,109.96 |  | 96,500.00 |  | 1,203,609.96 |
| Medical Equipment |  | 16,268,645.68 |  | 7,915,826.00 |  | 8,352,819.68 |
| Printing Equipment |  | 102,682,475.60 |  | 106,684,331.00 |  | (4,001,855.40) |
| Motor Vehicles |  | 93,679,140.89 |  | 82,526,740.91 |  | 11,152,399.98 |
| Furnitures and Fixtures |  | 6,082,800.19 |  | 1,954,024.00 |  | 4,128,776.19 |
| Books |  | 70,000.00 |  | 54,520.00 |  | 15,480.00 |
| Other Property, Plant and Equipment |  | 10,091,885.34 |  | 15,874,321.14 |  | (5,782,435.80) |
| **Total** | **P** | **483,380,123.12** | **P** | **305,945,828.65** | **P** | **177,434,294.47** |

* 1. Physical stock-taking is an indispensable procedure not only to check the integrity of property custodianship but also to ascertain the reliability and propriety of the account balances. Hence, the physical inventory report must be reconciled with the accounting records. The existence of a material net discrepancy of P177.434 million between the results of the physical inventory and the corresponding balances per books casts doubt on the fairness of presentation of the balance of the PPE account in the financial statements as of December 31, 2018.
  2. **We recommended that Management:**
  3. **Direct the concerned accounting personnel to conduct an immediate reconciliation of the balances per books of the PPE account with the corresponding balances per lapsing schedules to determine the cause/s of the net discrepancy of P109.983 million** **as of December 31, 2018. Thereafter, effect the necessary adjusting entries to correct the balances of the affected accounts so that the same shall be fairly presented in the financial statements;**
  4. **Direct the concerned official of the ASMD to prepare and submit a consolidated inventory report for all the assets belonging to PCSO to check the integrity of property custodianship thereof as well as to determine if the balance of the PPE account reflected in the financial statements was fairly presented;**
  5. **Direct the concerned officials and employees to conduct immediate reconciliation of the balance per books of the PPE- Head Office account with the corresponding balances per inventory report as of December 31, 2018 in order to determine the cause/s of the material net discrepancy of P177.434 million as of December 31, 2018. Thereafter, necessary adjusting entries should be effected so that the balance of the PPE account shall be fairly presented in the financial statements; and**
  6. **Considering that the balance per books was greater than the balance per physical count, which may indicate missing items of PPE, conduct deeper investigation thereon and undertake the appropriate legal and/or administrative actions under the circumstances.**
  7. Management commented that the concerned accounting personnel already took the necessary action in the reconciliation of balance per books and lapsing schedule and that the ABD and ASMD are committed to a common goal of reconciling the balances per books and conduct fixed asset inventory annually and will cause the submission of a complete inventory report for the succeeding years. They also informed the Audit Team that during turnover of documents no lapsing schedule was provided, therefore, the beginning balances were not accounted for and despite effort exerted no supporting documents can be found for the CY 2009 and below due to frequent transfers of PCSO office and the fire incidents that happened in 2007 and 2010. Hence, Management is requesting to allow them to record Impairment Loss to be charged to Retained Earnings as adjusting entries to correct the balances of the affected accounts so that the same shall be fairly presented in the financial statements.
  8. As a rejoinder, the Audit Team appreciates the initial actions taken by Management on our recommendations. However, on the request to charge to the Retained Earnings account the impairment loss mentioned above, we would like to emphasize that Section 73 of PD No. 1445 provides the remedy in case of loss occurring in transit or due to casualty or force majeure. It was provided therein that application for relief from accountability should be accompanied by “available supporting evidence” and that credit for the loss contemplated therein shall be allowed only “whenever warranted by the evidence”, and that non-compliance with such requirement is a bar to the grant of the relief applied for.

**10. The fairness of presentation in the financial statements of the balances of the Other Assets-Other Deposits (POSC/PGMC) accounts in the total amount of P6.643 million as of December 31, 2018 was doubtful due to: (a) variance of P2.531 million between the balances confirmed by the PNB and the balances per books of the said accounts; and (b) non-preparation of the Bank Reconciliation Statements (BRSs) for the subject bank accounts.**

* 1. Verification disclosed that a Memorandum of Agreement (MOA) was entered into by PCSO with the Pacific Online System Corporation (POSC) and Philippine Gaming Management Corporation (PGMC) in 2009, whereby PCSO agreed to grant to POSC and PGMC the right to sell and distribute instant game tickets nationwide for seven (7) years, subject to the conditions provided in the said MOA. In line with the implementation of the MOA, both POSC and PGMC remitted to PCSO the amount of P5 Million each as Seed Prize Fund.
  2. Accordingly, PCSO opened and maintained Seed Prize Fund (SPF) account under PNB checking account nos. 374428800013 and 374441700012 for POSC and PGMC, respectively, which were managed by the Treasury Department of the PCSO. Said bank accounts were reflected in the PCSO’s books under Other Assets (OA) – Other Deposits – POSC and Other Assets – Other Deposits – PGMC accounts. High prize payments were charged to this account and were subsequently replenished by POSC/PGMC.
  3. Results of bank confirmation of the balances of PNB checking account nos. 374428800013 and 374441700012 as of December 31, 2018, recorded under the Other Asset-Other Deposits-POSC and Other Asset-Other Deposits-PGMC accounts, respectively, disclosed a net discrepancy of P2.531 million when compared with the balances per books of the said accounts as of the same date, as presented in Table 10.

**Table 10 - Comparison of book and confirmed bank balances**

**as of December 31, 2018**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **OA-OD–POSC** | **OA-OD–POSC** | **Total** |
| Balance per book, | P6,556,384.60 | P 87,190.00 | P6,643,574.60 |
| Balance per bank | 2,227,999.94 | 1,884,420.00 | 4,112,419.94 |
| **Difference** | **P4,328,384.66** | **P(1,797,230.00)** | **P2,531,154.66** |

* 1. Inquiry disclosed that no bank reconciliation statements (BRSs) for CY 2018 were prepared for the subject accounts; hence, the causes of the discrepancies presented above cannot be determined. The concerned accounting personnel informed that the BRSs cannot be prepared for both accounts during CY 2018 due to the absence of bank statements.
  2. Considering the net discrepancy of P2.531 million between the balances confirmed by PNB with the balances per books of the OA-OD-POSC and OA-OD-PGMC accounts as of December 31, 2018, coupled with the non-preparation of the BRSs for the corresponding bank accounts, the fairness of presentation of balances of the subject accounts as of December 31, 2018 was doubtful.
  3. **We recommended and Management agreed to direct the concerned accounting personnel to immediately prepare the required bank reconciliation statements for PNB account nos. 374428800013 and 374441700012 for POSC and PGMC, respectively, in order to determine the cause/s of the discrepancies presented above. Thereafter, effect the necessary adjusting entries to ensure the fairness of presentation of the balances of the OA-OD-POSC and OA-OD-PGMC accounts in the financial statements.**

1. **COMPLIANCE**
2. **PCSO has not declared and remitted dividends to the National Government (NG) for dividend years (DYs) 1994 to 2016 in the total amount of P8.426 billion, contrary to the provision under Section 3 of Republic Act (RA) 7656.**
   1. Section 3 of RA No. 7656 provides that, *“all government-owned or controlled corporations (GOCCs) shall declare and remit at least fifty per cent (50%) of their annual net earnings as cash, stock or property dividends to the National Government...”*
   2. Moreover, Section 5(a)(i) of the Revised Implementing Rules and Regulations (IRR) to RA No. 7656 states that all GOCCs shall annually declare and remit dividends directly to the NG in the name of the Treasurer of the Philippines on or before May 15 of each year.
   3. This is a reiteration of the audit observations as Management has not complied yet with recommendation to remit dividends due the NG.
   4. Review of the financial statements of the PCSO for CYs 1994 to 2017 revealed that it had total net earnings of P16.852 billion during those years. Thus, total dividends due to the NG amounted to P8.426 billion, as shown in Table 11.

**Table 11 - Dividends Due to National Government**

**Based on the CYs 1994 to 2016 Net Earnings of the PCSO**

| **Dividend Year** | **Net Earnings** | | **Dividend Due to NG**  **(50% of Net Earnings)** | |
| --- | --- | --- | --- | --- |
| 1994 | P | 34,298,829.00 | P | 17,149,414.50 |
| 1995 |  | 152,114,094.00 |  | 76,057,047.00 |
| 1996 |  | 121,965,720.00 |  | 60,982,860.00 |
| 1997 |  | 251,862,591.00 |  | 125,931,295.50 |
| 1999 |  | 60,725,554.00 |  | 30,362,777.00 |
| 2002 |  | 50,173,648.00 |  | 25,086,824.00 |
| 2003 |  | 63,430,115.00 |  | 31,715,057.50 |
| 2004 |  | 21,538,077.00 |  | 10,769,038.50 |
| 2005 |  | 566,264,329.00 |  | 283,132,164.50 |
| 2006 |  | 67,379,246.00 |  | 33,689,623.00 |
| 2007 |  | 65,376,083.00 |  | 32,688,041.50 |
| 2008 |  | 418,062,964.00 |  | 209,031,482.00 |
| 2010 |  | 79,419,408.00 |  | 39,709,704.00 |
| 2011 |  | 680,141,757.00 |  | 340,070,878.50 |
| 2012 |  | 1,919,142,078.00 |  | 959,571,039.00 |
| 2013 |  | 2,870,131,975.00 |  | 1,435,065,987.50 |
| 2014 |  | 3,279,365,407.00 |  | 1,639,682,703.50 |
| 2015 |  | 3,049,723,249.80 |  | 1,524,861,624.90 |
| 2016 |  | 3,100,922,158.00 |  | 1,550,461,079.00 |
| **Total** | **P** | **16,852,037,282.80** | **P** | **8,426,018,641.40** |

*NB:* *Operations for CYs 1998, 2000, 2001 and 2009 resulted in net loss.*

* 1. In its comments to AOM-PCSO-2014-007-(13), the PCSO Management explained that it does not have annual net earnings. What it generates are savings from operations after deducting all the operating expenses, which are reverted to and formed part of the Charity Fund (CF).
  2. Likewise, the Office of the Government Corporate Counsel (OGCC), in its Opinion No. 198, Series 2016 dated December 20, 2016, stated that PCSO is not covered by RA No. 7656 as its net earnings were already allocated by law and earmarked for certain expenses, and all unutilized balance in any of its funds shall revert to the CF.
  3. However, the Director IV of the Legal Affairs Office, Legal Services Sector, this Commission, stated in its Memorandum dated January 17, 2018 that Section 3 of RA No. 7656, which provides that all GOCCs shall declare and remit at least 50% of their annual net earnings as cash, stock or property dividends to the NG and Section 6 (D) of RA No. 1169, which provides that all balances of any funds in the PCSO shall revert to and form part of the Charity Fund, should be interpreted in a way that they can be harmonized in accordance with the rules on statutory construction. Thus, the interpretation that any balance from the Operating Fund will be reverted back to the Charity Fund only after the declaration and remittance of the required dividends under RA No. 7656, is more in accord with the purposes and intents of the two laws.
  4. Moreover, PCSO is not among the GOCCs exempted from the coverage of RA No. 7656, specifically enumerated under Section 4 of the Revised IRR to RA No. 7656 (2016).
  5. **We recommended that Management settle the P8.426 billion dividends in arrears due to the NG in compliance with RA No. 7656, once their request for exemption will be denied by the Department of Finance.**

* 1. Management commented that:

1. A DOF letter dated March 16, 2016 addressed to COA has confirmed that PCSO is not exempted from RA No. 7656, but likewise recognized the PCSO’s mandate that all balances of any fund shall regularly revert to and form part of the Charity Fund.
2. In the statement of former GCG Chairman Cesar L. Villanueva during the ceremonial turnover of GOCC dividends on June 3, 2013, he recognized the efforts of GOCCs (including PCSO) which, by their respective charters, are precluded from remitting the dividends to the NG; and
3. To date, the PCSO is still in negotiation with the DOF, on whether or not it would be required to remit the dividends for CYs 1994 to 2016 and is also in close coordination with the said Department regarding the proposed settlement of arrears in Dividends.
   1. It is the position of the Audit Team that the PCSO must comply with the Dividends law considering that it was not expressly exempted from the coverage of RA No. 7656. The provisions in the PCSO’s Charter, particularly on the reversion of unutilized balance in any of its funds to the Charity Fund, should be interpreted in conjunction with the said law.

**Small Town Lottery (STL)**

1. **The Presumptive Monthly Retail Receipts (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 IRR for the STL.**
   1. Section 18 (e) of the 2016 IRR for the STL provides:

*The AAC in the conduct of its operations shall perform, among others, the following duties and responsibilities:*

*xxx…*

*e. xxx…* ***In no case shall the total monthly sales collections be lower than the approved PMRR in the area****.* (emphasis ours)

* 1. Records showed that there were 82 operational Authorized STL Agents (ASAs), formerly called AACs, at the start of CY 2018 and thirteen (13) additional ASAs were granted authority to operate (ATO) STL during 2018. As of December 31, 2018, only 85 AACs/ASAs remained operational after the termination of ten (10) AACs.
  2. Verification however disclosed that out of the 85 operational AACs/ASAs, the PMRR Shortfalls due to PCSO in the total amount of P4.607 billion remained unsettled by 67 AACs/ASAs as of December 31, 2018, briefly presented in Table 12.

**Table 12 - Total Amount of Unremitted PMRR Shortfall**

**As of December 31, 2018**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Total STL Sales for CY 2018** | **Shortfall in the PMRR** | **Shortfall in the amount due to PCSO** | **Application of BR No. 401** | **Net Amount** |
| P23,929,870,726.56 | P7,320,447,444.01 | P3,051,191,284.19 (net) | P761,909,342.50 | P2,289,281,941.69 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Shortfall Due as of Dec. 31, 2017** | **Settlements in 2018** | **Shortfall in the amount due to PCSO** | **Waived Shortfall** | **Net amount** |
| P3,840,576,418.76 | P857,677,402.63 | P2,982,899,016.14 (net) | P665,200,496.33 | P2,317,698,519.81 |
|  |  |  | **TOTAL** | **P4,606,980,461.50** |

* 1. As can be gleaned from Table 12, the remaining unsettled PMRR Shortfalls Due to PCSO in the amount of P2.318 billion was part of the PMRR Shortfalls from CY 2017 STL operations, which was brought to the attention of PCSO Management through AOM No. 18-003 dated March 22, 2018. Despite the recommendation for its immediate collection, only 22.34% of the total shortfall due in 2017 was remitted by the concerned AACs during CY 2018.
  2. The concerned Branch Operations Sector (BOS) personnel explained during the Audit Team’s verbal inquiry that those AACs with unremitted shortfall due as of December 31, 2018 were already notified to settle their accounts. Thirteen (13) AACs with PMRR shortfalls from CY 2018 operations responded by issuing thirteen (13) post-dated checks (PDCs) in the total amount of P164.252 million as guarantee of payment for their shortfalls. However, the rest did not take any action.
  3. As provided under Article III Section 27 (f & g) of the 2016 Revised IRR for STL, the non-remittance or under-remittance by the AACs/ASAs of STL proceeds due to PCSO at any given time is a ground for suspension, cancellation or revocation of STL Agency Agreements. It just showed that this provision is not being implemented.
  4. Similar observation was noted by the respective Audit Team Leaders of the PCSO Rizal, Occidental/Oriental Mindoro, Marinduque, Iloilo, Capiz, South Cotabato, Isabela, Misamis Oriental, Bukidnon, Surigao Del Norte and Agusan Del Norte branches.
  5. Had the PMRR Shortfalls due of P4.607 billion been promptly remitted to the PCSO, it could have been utilized to finance its various charity programs, particularly the Individual Medical Assistance Program (IMAP), where many less fortunate individuals depend for their medical needs.
  6. **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. Management explained that prior to the issuance of the AOM, the Office of the AGM-BOS had already issued Memorandum dated April 30, 2019 directing all Department and Branch Managers to strictly monitor the PMRR compliance within their respective areas, more particularly sales shortfall and under remittances. The same Memorandum had provided for the process flow to be observed in cases of non-compliance and the actions to be taken in case of infraction. Another directive was also issued to all Department & Branch Managers in line with the directive of the Chairperson and Interim General Manager (GM) to conduct aggressive and sustained collection of shortfalls of identified STL ASAs. The directive of the BOS emphasized the strict implementation of penalties against ASAs who shall fail to comply with their respective PMMR [now Guaranteed Minimum Monthly Retail Receipt (GMMRR)] remittances. In addition, the Department and Branch Managers were likewise directed to endorse to the Legal Department cases of ASAs who failed to settle their obligation within the prescribed period.

1. **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.**
   1. Verification of the reports furnished by the Branch Operations Sector disclosed that the unremitted shortfalls in the PMRR for CY 2018 was reduced by P1.427 billion as discussed below.

*Waived PMRR shortfalls due to PCSO amounting to P665.200 million*

* 1. As provided under the Revised IRR for the STL, each AAC shall undergo a probationary period of one year before it could be regularized upon meeting all the requirements. Verification disclosed that 64 AACs were able to fulfill the said probationary period during CY 2018 although fifty two (52) of them have unremitted PMRR shortfalls as of December 31, 2018. Out of the 52 AACs that were delinquent in the remittances of their PMRR shortfalls, the Authorities to Operate (ATOs) of nine (9) AACs were terminated.
  2. However, instead of revoking the ATOs of the remaining 43 delinquent AACs pursuant to Section 27 of the 2016 STL Revised IRR, Board Resolutions nos. 110, 127, 242 and 400 dated April 18, 2018, May 8, 2018, August 8, 2018 and November 22, 2018, respectively, were issued providing for certain reconsiderations to the said erring AACs which included, among others, waiver of their PMRR shortfalls on the 1st three months of operations for the computation of final amount of settlement necessary for renewal of authority.
  3. As a result of the above-stated waiver, the 2017 PMRR Shortfalls due to PCSO in the total amount of P2.983 billion was decreased/reduced to P2.318 billion, or a reduction of P665.200 million, which could have gone a long way in funding the various charitable programs of the PCSO. Moreover, two (2) AACs with waived shortfalls were granted with extension even though they did not issue the required post-dated checks, which was a clear disregard or violation of existing guidelines.
  4. Management informed that they decided to waive the subject PMRR shortfalls considering that the concerned AACs were new in the area and have difficulties in penetrating its market due to existence of illegal gambling, opposition of local government leaders and other factors beyond the control by the AACs and PCSO itself. We noted, though, that the said considerations were not embodied in the subject board resolutions as justifications for the waiver.
  5. The subject AACs submitted a feasibility study and retail receipt proposal as basis for their respective PMRRs, for evaluation by PCSO. These requirements were supposed to be based on study of existence of number games in the area, financial statistics, and other pertinent factors. Hence, said AACs had already determined their capabilities to generate such amount of sales at the time of their applications.
  6. In addition, all AACs have the contractual obligation to remit what is due to PCSO by virtue of the STL Agency Agreement executed between them, which covers compliance with the agreed PMRR. No where can you find any provision in the said agreement nor in the STL Revised IRR that the agreed amount of PMRR may be changed during the effectivity of the STL Agency Agreement. Only in cases of renewal thereof that the AAC may request from and submit to the PCSO STL Monitoring Group (SMG) a new PMRR proposal pursuant to Section 37 of the 2016 STL Revised IRR.
  7. Furthermore, the waived PMRR Shortfalls in the total amount of P665.200 million were already settled claims by the PCSO. Hence, only the Congress of the Philippines, with the recommendations of COA and the President of the Philippines, may compromise or release said claims pursuant to Section 36.1 of Presidential Decree (PD) No. 1445 / and Section 20(1), Chapter 4, Subtitle B, Title I, Book V of Executive Order (EO) No. 292 or the Administrative Code of 1987. The Board of Directors of the PCSO has no authority to condone or waive valid claims by the PCSO.

*Revised basis for the computation of the PMRR on the 13th month of operation until the signing of a new STL Agency Agreement decreasing the PMRR Shortfalls due to PCSO by P761.909 million*

* 1. Verification of records disclosed that the issued Board Resolution (BR) No. 0401 dated November 22, 2018, provided among others, that the computation and payment of the AACs/ASAs Sales Shortfall incurred during their 13th month of operation until the signing of new STL Agency Agreement be based on the average of three highest monthly sales within the first year of operation. It has been a common industry practice to continue to follow the provision in an expired contract/agreement until the renewal thereof. Hence, the agreed PMRR should have been observed until the signing of a new STL Agency Agreement.
  2. As a result of the implementation of the said BR, the total amount of PMRR Shortfalls of P7.308 Billion (net) for CY 2018 operations was decreased to P5.532 Billion. This reduction then resulted to foregone PMRR shortfalls due to PCSO by P761.909 million [share of PCSO from P1.776 billion arrived at (P7.308 billion – P5.532 billion)], which could have been collected and utilized for its various charity programs in fulfillment of its mandate.
  3. Clearly, therefore, the issuance of BR No. 0401 was grossly disadvantageous to PCSO. The concerned officials of the PCSO should always bear in mind that foremost consideration in making certain decisions is to protect the interest of the government, in general, and PCSO, in particular.
  4. **We recommended that Management:**
  5. **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 EO No. 292 or the Administrative Code of 1987; and**
  6. **Consider the possibility of recalling 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.**
  7. Management, through the PCSO Advisory Committee for the STL, commented that:

1. The Board approved soft payment scheme was already endorsed and awaiting Office of the President (OP) approval. The same shall form part of the 2018 STL IRR, as subsequent issuance of the Board to calibrate, manage and address defaulted STL accounts. PCSO has not been complacent nor did it tolerate erring ASAs, in fact a number has been recommended and were later, approved for termination.
2. The hands of PCSO is tied to numerous injunctive reliefs (TRO/Writ of Preliminary Injunction) issued by the Courts, at the behest of ASAs that abuse the “arbitration clause” in the agency contract of STL agents. The “arbitration clause” is a requirement of the Alternative Dispute Resolution Law (RA No. 9285 approved on April 2, 2004), to which PCSO has no other option but to comply.
3. Just like any other business that just started its operations, PCSO acknowledged the fact that it will be hard and almost impossible for the Authorized STL Agents (ASAs) to attain their PMRR under the 2016 Revised IRR during the first few months from the start of their operations. Hence, the waiver of the ASA’s shortfall for their first three months of operations.
4. The PCSO BR No. 0243, Series 2018 was issued to include the Percentage Compliance for new ASAs in the 2018 STL Revised IRR where ASAs are required to remit a minimum 20% compliance of their GMMRR for the 1st month of operation, 40% on the 2nd month and 100% on the 3rd month. Moreover, the PCSO Board will be consulting the OGCC in so far as the recommendation to reverse and set aside the soft payment scheme in view of Section 36.1, PD No. 1445.
5. With regard to the revised PMRR basis for computation of shortfall, PCSO acknowledged that the PMRR was already unattainable for most ASAs who incurred shortfall from their first month of operation and this was the product of deliberate expansion of the previous PCSO administration particularly on the indiscriminate approval of PMRR offers of ASAs. For this reason, the average of three (3) highest monthly sales within the ASAs operation was considered the logical and reasonable GMMRR until its re-evaluation before the signing of their new STL Agency Agreement, coupled with the desire of the Board to collect the shortfall and come up with a realistic method.
6. The Board Resolution No. 0401 dated November 22, 2018 was issued as part of the review of PMRR. New rates were introduced on the 13th Month of operation of ASA considering that most (with the exception of the original 18 STL AAC) failed and continue to fail, to remit their original and proposed PMRR. All ASAs have already been required to update and replenish their respective cash bonds.
7. The PCSO forfeited the cash bonds of defaulted ASAs; the reported uncollected cash bonds were only subject to accounts reconciliation by the Accounting and Budget Department. Moreover, other stop-gap actions to arrest shortfalls are now being studied and seriously considered by PCSO such as the following:

* Increase of CASH BOND from only one (1) month to three (3) months;
* Limiting duration of STL agency contracts to six (6) months, subject to renewal;
* Stricter proofs of financial capacity to meet the PMRR, now GMMRR, as they become due;
* Adoption of Net Financial Contracting Capacity (NFCC) equivalent to 100% of the proposed GMMRR, based on assets and liabilities, as reported to BIR;
* Adoption of STL Official Retail Receipt (tickets) to enable the BIR to help PCSO track actual STL ticket sales;
* Request to BIR to consolidate all tax accounts of STL Authorized Agents to the Large Taxpayers Division (LRTD 3) of the BIR Head Office, for efficient tax compliance monitoring; and
* Re-invigorated coordination with PNP, CIDG, DOJ, NBI, DILG and OP to assist PCSO in crackdowns on competing illegal numbers games; and policy issuance against use of LOTTO Agents (retailers).

13.14 As a rejoinder, we acknowledged the explanation given by Management, however, all actions should be consistent with prescribed laws, rules and regulations to protect foremost the interest of the government and secondly the PCSO.

1. **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 Individual Medical Assistance Program (IMAP).**
   1. **Section 6.A of RA No. 1169, otherwise known as the PCSO Charter provides that, “***Prizes not claimed by the public within one year from date of draw shall be considered forfeited, and shall form part of the charity fund for disposition as stated below.”*
   2. Verification of records however, disclosed that the unclaimed prizes for Keno Games during CYs 2015 to 2017 in the total amount of P184.302 million and deemed forfeited during CYs 2016 to 2018 were not yet transferred to the Charity Fund, which was not in accordance with the above-stated provision of the PCSO Charter. Presented in Table 13 is the summary of the subject unclaimed prizes for Keno games, which rightfully belongs to the Charity Fund pursuant to Section 6.A of RA No. 1169.

**Table 13 - Summary of Unclaimed Prizes for Keno Games**

| **Year of Forfeitures of Unclaimed Keno Prizes** | | | | |
| --- | --- | --- | --- | --- |
| **Month** | **2018** | **2017** | **2016** | **Total** |
| January | P 5,431,585.00 | P 4,838,745.00 | P 3,446,580.00 | P 13,716,910.00 |
| February | 5,302,435.00 | 4,564,945.00 | 3,183,165.00 | 13,050,545.00 |
| March | 6,232,415.00 | 4,417,605.00 | 3,761,090.00 | 14,411,110.00 |
| April | 4,835,290.00 | 4,185,570.00 | 3,085,965.00 | 12,106,825.00 |
| May | 6,023,075.00 | 4,665,525.00 | 3,848,025.00 | 14,536,625.00 |
| June | 5,880,410.00 | 4,665,900.00 | 3,840,310.00 | 14,386,620.00 |
| July | 5,965,935.00 | 4,666,145.00 | 3,841,205.00 | 14,473,285.00 |
| August | 6,178,950.00 | 4,603,570.00 | 3,881,145.00 | 14,663,665.00 |
| September | 5,873,130.00 | 4,523,805.00 | 3,867,910.00 | 14,264,845.00 |
| October | 6,604,145.00 | 5,217,890.00 | 3,952,620.00 | 15,774,655.00 |
| November | 6,818,675.00 | 5,315,410.00 | 3,909,120.00 | 16,043,205.00 |
| December | 16,374,895.00 | 5,771,655.00 | 4,727,465.00 | 26,874,015.00 |
| **Total** | **P81,520,940.00** | **P57,436,765.00** | **P45,344,600.00** | **P184,302,305.00** |

* 1. Likewise, review of records disclosed that the remaining balance of P500 million from the 2017 unutilized operating fund of P1.500 billion, which was subject of prior year’s AOM No. 18-025 dated May 29, 2018, was not yet transferred to the Charity Fund as of December 31, 2018.
  2. The concerned official of the Treasury Department informed during inquiry that the Operating Fund has insufficient balance to date; hence, the transfer of the P500 million to the Charity Fund cannot be effected yet.
  3. Considering that the subject amount belonging to the Charity Fund pursuant to Section 6.D of RA No.1169 was declared as unutilized operating fund as of December 31, 2017, utilizing the same for the current transactions of the Operating Fund is tantamount to juggling and/or misappropriation of government funds punishable under the existing laws and regulations.
  4. **We recommended that Management direct the concerned officials of the PCSO to immediately transfer to the Charity Fund 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.**
  5. Management informed that the transfer of P500 million unutilized operating fund to the Charity Fund has been approved by the Chairman and Interim General Manager per Memorandum dated June 13, 2019.
  6. As to the forfeited prizes for Keno games, Management explained that there were no available funds to be transferred to Charity Fund since the KENO Game has incurred a total deficit of P2.719 billion under its Prize Fund and that all funds were already exhausted. PCSO had to source the said amount from the Lotto Reserve Fund. Nevertheless, it informed that the Gaming Product, Development and Marketing Sector had already submitted to the Office of the Government Corporate Counsel (OGCC) its recommendation pertaining to the termination of the Keno’s operation in response to COA’s prior year’s audit recommendation.
  7. As a rejoinder, the Audit Team maintains its position that forfeited prizes on Keno games should be transferred to the Charity Fund considering that no provision in the PCSO Charter has stated that the non-transfer of forfeited prizes to the Charity fund shall be at the discretion of Management.

1. **Three (3) AACs/ASAs were allowed to operate STL during CY 2018 despite the non-settlement of their cash bond deficiencies totaling P106.349 million as of December 31, 2018, contrary to Section 16 of the 2016 Revised IRR for the STL.**
   1. It was noted in our prior year’s audit that nineteen (19) AACs/ASAs failed to fully settle the required cash bond in the total amount of P294.523 million, contrary to Section 16 of the 2016 Revised IRR, which requires the posting of cash bonds before being granted with ATO. Our recommendation then was to cause the immediate settlement by the non-compliant AACs/ASAs of their corresponding cash bond deficiencies.
   2. Review of the status of implementation of the prior years’ audit recommendation disclosed that three (3) out of the 19 non-compliant AACs still failed to pay their cash bond deficiencies in the total amount of P106.349 million as of December 31, 2018, details are shown in Table 14.

**Table 14 - AACs/ASAs with Cash Bond Deficiency**

**as of December 31, 2018**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Name of Authorized Agent Corporation** | **Cash Bond Requirement**  *(a)* | **Payment of Cash Bond**  *(b)* | **Cash Bond Deficiency as of December 31, 2018**  *(c(a-b))* | **Shortfall Due as of December 31, 2018**  *d* | **Shortfall Due after Cash Bond Forfeiture, as of December 31, 2018**  *(e(d-b))* |
| 1 | CGCC | P120,000,000.00 | P65,000,000.00 | P 55,000,000.00 | P 701,334,335.68 | P 636,334,335.68 |
| 2 | SC | 46,777,945.00 | 20,000,000.00 | 26,777,945.00 | 169,392,976.26 | 149,392,976.26 |
| 3 | GELSGC | 35,101,000.00 | 10,530,300.00 | 24,570,700.00 | 208,755,277.23 | 198,224,977.23 |
| **Total** | | **P201,878,945.00** | **P95,530,300.00** | **P106,348,645.00** | **P1,079,482,589.17** | **P 983,952,289.17** |

* 1. It was noted though, that despite the non-settlement of their cash bond deficiencies, the STL Agency Agreements with PCSO of the subject ASAs were not cancelled and they continued to operate during CY 2018, which was a blatant disregard of Section 17 of 2016 RIRR which reads as follows:

*Section 17. The AAC shall strictly comply with the duties and obligations imposed in this IRR, all of which are deemed incorporated and form part of the STL Agency Agreement. Failure of the AAC to comply with any of its obligations shall be a ground for PCSO to cancel the STL Agency Agreement.*

* 1. Moreover, we have verified that the said non-compliant AACs had a total PMRR shortfall due of P1.079 billion as of December 31, 2018, as shown in Table 14 while their paid cash bond amounted only to P95.530 million or a deficit of P983.952 million in the event of cash bond forfeitures.
  2. Had their cash bond deficiencies of P106.349 million been fully settled, the amounts could at least cover whatever PMRR shortfalls these AACs would incur when it comes to a point that they would default on the remittance of their PMRR.
  3. **We recommended that Management:**

1. **Enforce collections of the cash bond deficiencies totaling P106.349 million from the subject AACs/ASAs to answer for whatever PMRR shortfall due to PCSO that may not be remitted in the future; and**
2. **Undertake appropriate actions under the circumstances in accordance with Section 17 of the Revised IRR for the STL to protect the interest of the PCSO.**
   1. Management commented that the CGCC is operating under Writ of Preliminary Injunction (WPI) where several notices were sent for replenishment of its Cash Bond and settlement of its obligations. However, PCSO cannot impose sanctions due to WPI and the case was already referred to the Legal Department for arbitration. In the case of SC, a notice of non-renewal dated May 6, 2019 was sent for non-settlement of its outstanding obligations and has been directed to wind down its operations within thirty (30) days upon receipt of the notice and to cease conducting STL activities. The notice was received by SC on May 24, 2019. For GELSGC, its authority to operate STL was terminated with finality pursuant to Board Resolution No. 0481, s. 2018. Its last day of operation was on December 10, 2018 and the remaining Cash Bond was already forfeited.
3. **Copies of twenty-five (25) contracts executed by PCSO during CYs 2017 and 2018 in the total amount of P131.480 million together with the pertinent supporting documents were not furnished to the Office of the Auditor within five (5) working days upon execution thereof, contrary to Section 3.1.1 of COA Circular No. 2009-001, thereby precluding the Audit Team from conducting timely review and evaluation of the said contracts.** 
   1. Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009 states:

*Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned. Xxx.*

* 1. Review of the Summary of Contracts Awarded by PCSO during CYs 2017 and 2018 provided by the Bids and Awards Committee (BAC) disclosed that thirteen (10) contracts amounting to P96.587 million were submitted beyond the prescribed period by 2 to 87 days, while fifteen (15) contracts in the total amount of P34.893 million remained unsubmitted to the Office of the Auditor as of December 31, 2018, contrary to Section 3.1.1 of the above- stated COA Circular.
  2. Similar observation was noted by the Audit Team Leaders of the PCSO Kalinga, Nueva Vizcaya, Cagayan, Isabela, Surigao Del Norte and Agusan Del Norte branches.
  3. The non-submission by PCSO to the Office of the Auditor of copies of the subject contracts together with their pertinent supporting documents within five (5) working days from their execution hindered the Audit Team to conduct timely review of the contractual covenants and to evaluate PCSO’s compliance with applicable laws and regulations.
  4. **We recommended that Management ensure compliance with the provisions of COA Circular No. 2009-001 dated February 12, 2009, requiring submission to the Auditor of all contracts entered into by concerned government agencies, together with each of all the documents forming part thereof by reference or incorporation, within five (5) working days from the execution thereof so that timely review of the contractual covenants and evaluation of PCSO’s compliance with applicable laws, rules and regulation can be promptly undertaken by this Office.**

1. **The propriety of the payments made to RLIAC in the total amount of P5.063 was doubtful due to lack of and/or questionable supporting documents required under Section VII of the IRR of the Individual Medical Assistance Program (IMAP).**

*One hundred-one (101) cases amounting to P2.168 million claims from PCSO were not supported with valid identification cards of the patients and representatives*

* 1. Review of supporting documents attached to the 101 cases amounting to P2.168 million claimed by RLIAC disclosed that photocopies of valid IDs with signatures of the patient and/or patient’s representative, which was one of the documentary requirements stipulated under Section VII of the IRR of the IMAP, were not attached to the said claims. This requirement would prove the identity and actual existence of the concerned person requesting for financial assistance thru the Partner Hospital. Absence thereof may indicate that the said persons were fictitious.

*The Clinical Abstracts (CAs) attached to claims totaling P4.834 million for two-hundred nine (209) cases (patients) contained identical information about the history of the patients’ illnesses for the same kind of illness, which were quite unusual*

* 1. Review of the CAs attached to the 209 cases (patients), who claimed a total amount of P4.834 million from PCSO in the form of financial assistance thru the RLIAC, revealed that all information such as chief complaint; history of the patients’ sickness, order/time of happening & symptoms of the illness, and vital signs plus the number of days of confinement, result of physical examinations, medications needed, and the doctor’s recommendations for the same illness of different persons were identical. They only differ in their personal information such as name, gender, age, status, and date of admission/discharge.
  2. Said situations were very unusual considering that the above-mentioned information supposed to vary to a certain extent from one patient to another. Shown in Table 15 are cases (patients) whose respective CAs contained almost 100 per cent identical information for the same illness.

**Table 15 - Summary of cases for same illnesses**

**with identical information**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Name of Illness** | **No. of Cases** | **Amount** | **No. of CAs with identical information** | **%** | **Amount** |
| 1 | Bronchitis | 20 | P 512,000.00 | 19 | 95.00% | P 488,000.00 |
| 2 | Gastroenteritis | 24 | 429,900.00 | 23 | 95.83% | 412,900.00 |
| 3 | Glomerulonephritis | 24 | 447,600.00 | 24 | 100.00% | 447,600.00 |
| 4 | Pneumonia | 55 | 1,339,980.00 | 51 | 92.73% | 1,246,980.00 |
| 5 | Bronchial Asthma | 23 | 485,500.00 | 23 | 100.00% | 485,500.00 |
| 6 | Cardiovascular Accident | 15 | 432,600.00 | 15 | 100.00% | 432,600.00 |
| 7 | Diabetes | 4 | 110,000.00 | 4 | 100.00% | 110,000.00 |
| 8 | Hypertension | 6 | 128,544.00 | 5 | 83.33% | 96,800.00 |
| 9 | Pelvic Inflammatory Disease | 2 | 75,000.00 | 2 | 100.00% | 75,000.00 |
| 10 | Urinary Tract Infection | 27 | 563,000.00 | 27 | 100.00% | 563,000.00 |
| 11 | Typhoid Fever | 16 | 476,000.00 | 16 | 100.00% | 476,000.00 |
|  | **Total** | **216** | **P5,000,124.00** | **209** |  | **P4,834,380.00** |

* 1. Further verification of billing statements supporting the claims disclosed that the actual period of confinement of the patients, as reflected under the Room and Board portion, ranges from five to 10 days whether the case is ordinary, acute or severe. Based on personal knowledge and gathered information, days of confinements of each patient may differ depending on his/her conditions and nature of the illness.
  2. It was also noted that several claims of different patients having similar CAs and illnesses have similar amounts due in their Billing Statements (BSs). Furthermore, the said BSs and CAs were signed by the Medical Director and physician, respectively, who was one and the same person.

*Claims of P1.562 million pertained to patients belonging to the same family, who were confined more than once within two years and whose diagnosis and information in their clinical abstracts were very much similar*

* 1. Further verification of the supporting documents attached to the subject claims disclosed that the total amount of P1.562 million pertained to patients who were relatives that were confined several times within two years. It was also noted that said patients were diagnosed with similar illness such as acute gastroenteritis, urinary tract infection, glomerulonephritis, typhoid fever, among others and that the information in their CAs were exactly the same except for their names, date of admission, age and status which were unbelievably coincidental.

* 1. **We recommended that Management:**

1. **Cause the submission of the valid identification cards of the patients and representatives comprising the one hundred-one (101) cases amounting to P2.168 million who claimed financial assistance from PCSO through the RLIAC, otherwise a Notice of Suspension shall be issued;**
2. **Conduct deeper investigation on the claims of the subject partner hospital with unusual circumstances to establish the validity thereof and furnish this Office with the results for our evaluation and determination of the next audit action to take; and**
3. **Direct Charity Assistance Department (CAD) to ensure compliance with the pertinent provisions of the IRR on IMAP and to conduct prudent evaluation of the documentary requirements being submitted by patients to forestall fictitious claims. Cause the institution of a mechanism in the database of CAD that would allow the concerned personnel to access information pertaining to previous claims of the patients to facilitate the validation process.**
   1. Management commented that the cases enumerated in the AOM were already a subject of the CIDG investigation that was concluded in December 2017. The CAD provided the CIDG relevant documents in line with the conduct of investigation on the said matter. It also stated that prior to the CIDG investigation, the issuance of guarantee letters and processing of payments to RLIAC were suspended due to suspicious findings that were reported to the Office of the General Manager. Management also informed that the PCSO Board authorized the General Manager, Assistant General Manager for Charity Sector and Manager of CAD, in coordination with their Legal Department and OGCC, to initiate appropriate legal actions against RLIAC. The CAD also directed the assigned personnel to strictly observe and comply with the existing policies and guidelines in the implementation of the IMAP, including but not limited to thorough assessment and validation of documents to prevent the occurrence of similar incident

**GENDER AND DEVELOPMENT (GAD)**

1. **PCSO was not able to allocate at least five percent of its total Approved Budget for CY 2018 for GAD activities, contrary to Joint Circular (JC) No. 2012-01 of the Philippine Commission on Women (PCW), National Economic Development Authority (NEDA) and Department of Budget and Management (DBM).** 
   1. Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides:

*At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency’s maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency’s total budget appropriations.*

* 1. Pursuant to the above-stated JC, at least five per cent of the approved CY 2018 COB of the PCSO amounting to P61.071 billion, or P3.053 billion, has to be allocated for GAD Plan and Budget (GPB). It was noted, however, that the amount allocated in the GPB of the PCSO for CY 2018 was P43.500 million or 0.07 per cent only, which was not in accordance with the above-stated provision.

* 1. Similar observation was brought to the attention of PCSO Management in the previous year and they explained that the required five per cent of their approved COB shall be complied by attributing the agency’s major programs such as the Individual Medical Assistance Program (IMAP) to the CY 2018 GPB.
  2. GAD activities pertaining to conceptualization and finalization of attribution of budget of major program to GPB, specifically IMAP, (using Harmonized Gender and Development Guideline [HGDG]) including the institutionalization of GAD Database/Sex-disaggregated data were included in the 2018 PCSO-GBP, however it was noted that the same were not implemented during CY 2018 as verified from the PCSO GAD Accomplishment Report (AR).
  3. Section 3.4 of the subject JC provides that in order to attain the desired outcomes for GAD, mainstreaming gender perspectives in the PAPs should be a priority in GAD Planning and budgeting and that using the five per cent GAD budget for gender mainstreaming is a way for agencies to influence the entire agency program, plan and budget.
  4. **We reiterated our prior year’s recommendation that Management comply with Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01, prescribing at least five per cent of the COB shall be allocated for GAD.**
  5. **Moreover, we recommended that Management exert more effort to comply with Section 4.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the institutionalization of GAD Database/Sex-disaggregated Data to ensure a more effective GAD planning & budgeting as well as implementation of GAD activities.**
  6. Management commented that:

1. The IMAP-ASAP attribution to GAD was overtaken by the legislation of Universal Health Care (RA No. 11223). The legislative development prompted the GFPS to hold in abeyance the IMAP-ASAP attribution considering that PhilHealth will need to participate in the HGDG assessment with PCSO to include collection of sex disaggregated data and formulation of Project Brief with gender perspective, before the PCW allows GAD attribution of PCSO’s UHC fund pool. As a strategic measure, the GAD Focal Point System (GFPS) moved for inclusion of GAD attribution of its UHC fund pool before the approval of Senate Bill 1896.
2. All efforts shall be exerted to cause the PCW’s approval of PCSO’s UHC fund pool attribution to GAD on or before December 31, 2019. All that the GFPS is asking COA-PCSO is sufficient time to comply with all PCW protocols on GAD attribution of major programs and understanding that the timely formulation of the IRR for RA No. 11223 is beyond its control since other government offices will influence the timelines of IRR formulation. Similarly, the GFPS initiated the development of a special GAD project to serve as template for future charity programs that will not duplicate PhilHealth and DOH programs under the UHC.
3. **The PCW-endorsed Annual GAD Plan and Budget (GPB) and the corresponding Accomplishment Report (AR) were not submitted to COA within the period prescribed under Section V of COA Circular No. 2014-001, hence, we were unable to promptly evaluate if the PCSO’s accomplishments relating to GAD activities were within its approved GPB.**
   1. Section V of COA Circular No. 2014-001 prescribes the following pertaining to submission of approved GPB and of Accomplishment Report to COA:

*V. Responsibility of the Audited Agency*

* + - 1. *The Audited agency shall submit a copy of the approved annual GAD Plan and Budget (GPB) to the COA Audit Team assigned to the agency within five (5) working days from receipt of the approved plan from the PCW or their mother or central offices as the case maybe. Likewise, a copy of the corresponding Accomplishment Report (AR) shall be furnished to the said Audit Team within five working days from the end of January of the preceding year.*
  1. It was noted that both the 2018 GPB and GAD AR were not submitted to the Audit Team by the PCSO Management within the period prescribed under the above-stated provision.
  2. Review of the agency’s GPB disclosed that this was reviewed and endorsed through the Gender Mainstreaming Monitoring System (GMMS) on September 24, 2018, but was submitted to the Audit Team on March 28, 2019 only while the GAD AR was submitted on May 28, 2019. For the past years, it has been the practice of Management to submit the said reports only when the COA requests for copy of the same, which was not in accordance with the above-cited regulation.
  3. Due to the long delay of submission, the Audit Team was not able to determine whether the GAD funds were actually devoted/used for projects which are within the context of the agency’s mandate and approved/or recommended by the PCW.
  4. **We recommended that Management direct the concerned official and employees to comply with COA Circular No. 2014-001 on the submission of the GPB as well as the GAD Accomplishment Report within the prescribed period.**
  5. Management informed that it is currently proposing the creation of a GAD focused Division to attend to reports and implementation of the agency’s GPB. The passage of RA No. 11223 will result in displacing employees directly handling IMAP-ASAP affairs. Since the law directs that affected employees shall be retained by the agency, the creation of a Women and Development Monitoring and Evaluation Division for GAD attributed programs under the Charity Assistance Department or Office of the General Manager will be an option, subject to compliance with GCG Memorandum Circular No. 2015-04 which allows the agency to collapse and/or create units.

**COMPLIANCE WITH TAX LAWS**

1. **Applicable taxes for draw allowances paid by PCSO to its employees and other individuals during CY 2018 in the total amount of P202.908 million were not withheld, in violation of the National Internal Revenue Code (NIRC) of the Philippines.** 
   1. Section 23(A) of the NIRC of 1997, as amended by RA No. 10963 states that “*a citizen of the Philippines residing therein is taxable on all income derived from sources within and without the Philippines.”*
   2. On June 20, 2014 Revenue Memorandum Order (RMO) No. 23-2014 was issued to clarify and consolidate the responsibilities of the public sector to withhold taxes on its transactions as a customer and as an employer. Under this RMO, all government offices including government owned or controlled corporations (GOCCs) are constituted as withholding agents for purposes of the creditable tax required to be withheld on the following:
2. Withholding of creditable income tax
3. Withholding tax on Government Money Payments (GMPs)
4. Withholding tax for non-resident foreign contractors, subject to applicable tax treaty
5. Other withholding taxes that may be mandated from time to time by the Bureau of Internal Revenue (BIR) in the implementation of the NIRC of 1997, as amended.
   1. As an employer, government offices including GOCCs are likewise constituted as withholding agents for purposes of the creditable tax required to be withheld from compensation paid for services of its employees. Section 2(a) of Revenue Regulations (RR) No. 8-2018 dated January 25, 2018 defines compensation income as all remunerations for services performed by an employee for his employer under an employer-employee relationship. Thus, salaries, wages, emoluments and honoraria, allowances and other income of a similar nature constitute compensation income.
   2. Section 251 of the NIRC of 1997, as amended by RA No. 10963, further provides that, *“any person required to withhold, account for, and remit any tax imposed by this Code or who willfully fails to withhold such tax, or account for and remit such tax, or aids or abets in any manner to evade any such tax or the payment thereof, shall, in addition to other penalties provided for under this Chapter, be liable upon conviction to a penalty equal to the total amount of the tax not withheld, or not accounted for and remitted.”*
   3. Verification, however, revealed that applicable taxes were not withheld by PCSO from the draw allowances paid during CY 2018 in the total amount of P202.908 million, broken down in Table 16.

**Table 16 – Draw Allowances paid during CY 2018 not subjected to Tax**

|  |  |  |
| --- | --- | --- |
|  |  | **Amount** |
| PCSO officials and employees | P | 191,609,225 |
| PCSO’s Confidential Agents and Consultants |  | 7,800,150 |
| Judges for the morning, afternoon and evening draws |  | 2,442,200 |
| Representatives from other Government Agencies |  | 1,056,900 |
| **Total** | **P** | **202,908,475** |

* 1. Similar observations were noted for the draw allowances paid by the PCSO Palawan, Marinduque, Surigao Del Norte, and Agusan Del Norte branches by the respective Audit Team Leaders.
  2. PCSO’s inability to withhold taxes from the said draw allowances and remit the same to the BIR deprived the government of the opportunity to generate additional revenue to fund its priority programs and projects, notwithstanding the fact that such was a clear violation of the above-stated BIR regulations subject to the penalties provided therein.
  3. **We recommended that Management ensure compliance with Section 251 of the NIRC of 1997, as amended by RA No. 10963, and direct the concerned officials to cause the withholding of the applicable taxes from the draw allowances being paid to concerned officials and employees and other individuals and remit the same to the BIR.**
  4. Management commented that a thorough evaluation shall be conducted on the appropriate taxes to be withheld to ensure complete and accurate preparation of reconciliation schedules and supporting evidence. Likewise, PCSO will still check the possibility of the withholding tax from draw participants who are not employees of PCSO considering that most of them are not earning income regularly and thus may not be similarly situated for tax purposes.

1. Taxes withheld and due to the Bureau of Internal Revenue (BIR) for CY 2018 in the total amount of P 15,425,014,735.51 were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2018 amounting to P797,167,561.10 were remitted to the BIR in January 2019 as shown in Table 17 below.

**Table 17 – Remittances for the Taxes Withheld in December 2018**

|  |  |  |
| --- | --- | --- |
|  | **Amount** | **Date Remitted** |
| Final Income Taxes Withheld | P 124,246,319.09 | Jan. 29 & 30, 2019 |
| Creditable Income Taxes Withheld (Expanded) | 49,817,363.65 | Jan. 30, 2019 |
| VAT and Other Percentage Taxes Withheld | 38,258,417.03 | Jan. 10, 2019 |
| Documentary Stamp Tax | 577,913,782.99 | Jan. 4, 2019 |
| Taxes Withheld on Compensation | 5,571,678.34 | Jan. 10, 2019 |
| Taxes Withheld on Horse Race Winners | 1,360,000.00 | Jan. 30, 2019 |
| **Total** | **P797,167,561.10** |  |

**COMPLIANCE WITH GSIS, PAG-IBIG AND PHILHEALTH DEDUCTIONS AND REMITTANCES**

1. Premiums due to GSIS, Pag-IBIG and PhilHealth for January to November 2018 were deducted from the salaries of PCSO-Head Office personnel in the amount of P57.992 million and remitted within the prescribed period. The premiums deducted in December 2018 in the amount of P5.495 million were remitted in January 2019, details presented in Table 18.

**Table 18 – GSIS, Pag-IBIG and PhilHealth Deductions and Remittances**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Agency | Premiums collected and remitted in 2018 (January to November 2018) | Premiums collected in December 2018 and remitted in January 2019 | Date Remitted in 2019 | Total |
| GSIS | P 50,711,928.19 | P 4,812,384.20 | Jan. 11, 2019 | P 55,524,312.39 |
| Pag-IBIG | 1,926,630.00 | 173,180.00 | Jan. 14, 2019 | 2,099,810.00 |
| PhilHealth | 5,353,687.62 | 509,780.56 | Jan. 17, 2019 | 5,863,468.18 |
| Total | P 57,992,245.81 | P 5,495,344.76 |  | P 63,487,590.57 |

**SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

1. The total unsettled audit suspensions and disallowances as at December 31, 2018 are shown in Table 19. Meanwhile, there were no notice of charge at the end of the year.

**Table 19 – Summary of Total Suspension and Disallowances**

| **Particulars** | **Balance,**  **1/1/2018** | **Issued**  **This period** | **Settlement This period** | **Balance,**  **12/31/2018** |
| --- | --- | --- | --- | --- |
| Notice of Suspension | P 13,501,329.18 | P - | P 9,150,929.00 | P 4,350,400.18 |
| Notice of Disallowance | 1,256,296,390.11 | 811,463,087.99 | 72,644.88 | 2,067,686,833.22 |
|  | **P1,269,797,719.29** | **P811,463,087.99** | **P 9,223,573.88** | **P2,072,037,233.40** |

* 1. The disallowances issued for the period amounting to P811.463 million represent payments of unauthorized benefits, unnecessary and extravagant expenses amounting to P519.925 million, P291.482 million and P56,540, respectively. The cases are under appeal with the COA Commission Proper. Details of unsettled suspensions and disallowances at year-end are shown in Part IV-Annex A of this Report.