**PART II - OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL**
2. **The Guaranteed Minimum Monthly Retail Receipts (GMMRR) Shortfalls for calendar years (CYs) 2017-2018 and 2019 in the total amounts  of P13.905 billion and P6.305 billion and the corresponding amounts of Shortfalls due to PCSO (receivables) totaling P5.617 billion and P3.081 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Agent Corporations (AACs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of Income from Gaming Operations-Small Town Lottery (STL), Receivables – STL, Retained Earnings, Expenses and Payables accounts by P6.305 billion, P6.980 billion, P2.331 billion, P4.696 billion and P4.757 billion, respectively, and overstatement of Other Business Income and Miscellaneous Income accounts in the amounts of P1.055 billion and P663.001 million, respectively.**
   1. This is a reiteration with updates of the prior year’s observation as Management did not implement the corresponding recommendations.
   2. One of the obligations of the Authorized Agent Corporations (AACs) embodied in the 2019 Revised Implementing Rules and Regulations (RIRR) for the Small Town Lottery (STL) was compliance with the agreed Guaranteed Minimum Monthly Retail Receipts (GMMRR) and the remittance to the PCSO of the amount corresponding to the revenue allocation provided therein. The GMMRR refers to the amount offered and voluntarily committed by any STL proponent or applicant in a given area, which represents assured minimum monthly gross retail receipts or guaranteed total monthly ticket sales to be remitted to the PCSO in the event that actual gross retail receipt is lower than the GMMRR.
   3. Review of the accounting reports and statements of account furnished by the Accounting and Budget Department (ABD) and Branch Operations Sector (BOS) as of December 31, 2019 disclosed that several AACs did not meet the required GMMRR and had incurred net GMMRR shortfalls of P6.305 billion during CY 2019 with equivalent shortfalls due to PCSO amounting to P3.081 billion.
   4. Verification, however, disclosed that the said shortfalls were not recognized as Income from Gaming Operations and Receivables in the books. It was further noted that the recorded revenue and receivables from the STL pertained only to the actual sales reported by the AACs and settlements of GMMRR shortfalls due, if any, contrary to Paragraphs 27 and 28 of PAS 1 and definition of and recognition criteria for asset and income provided under Paragraph 4.4 of the CFFR, as quoted hereunder.
   5. 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. 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. As a result of the non-recognition of the subject revenue on the year it was earned and fell due, subsequent settlements of GMMRR shortfall due were not recorded in a uniform manner, i.e. Income from Gaming Operations was recognized for the prior years’ settlements made during the period January-August 2019; Miscellaneous Income account was credited for the settlements thru cash bond forfeiture; and settlements received from September-December 2019 were recorded under the Other Income-Charity Fund account.
  2. As shown in Table 1, out of the P8.697 billion GMMRR Shortfalls Due or PCSO’s share on the unrecorded Income from Gaming Operations-STL for CYs 2017-2019, P663.001 million was settled during the year and recorded under the Miscellaneous Income account, while the P1.055 billion settlement was recorded under the Other Business Income-Charity Fund account, resulting in remaining unrecorded 2017-2019 receivables of P6.980 billion and overstatements of 2019 Miscellaneous Income account by P663.001 million and 2019 Other Business Income account by P1.055 billion.

**Table 1 - GMMRR Shortfalls and GMMRR Shortfall Due/Receivables**

**As of December 31, 2019**

| **Particulars** | **GMMRR Shortfalls** | | **GMMRR Shortfall Due/Receivable** | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **CYs 2017-2018** | **CY 2019** | **CYs 2017-2018** | **CY 2019** | **TOTAL** | |
| Should Be Balance of Income from Business Operations-STL | P 57,063,253,006.05 | P 24,878,961,616.45 |  |  |  | |
| Recorded Income from Gaming Operations-STL | (41,854,598,206.21) | (18,291,763,933.02) |  |  |  | |
| **GMMRR Shortfall and Due excluding Settlement in CY 2019** | **15,208,654,799.84** | **6,587,197,683.43** | **P 6,173,690,770.75** | **P 3,218,268,609.83** | **P 9,391,959,380.58** | |
| Settlement recorded as Income from Gaming Operations-STL in CY 2019 (January to August 2019) | (1,303,156,994.75) | (281,979,888.22) | (557,040,291.82) | (137,449,538.76) | **(694,489,830.58)** | |
| **Unrecorded Income from Gaming Operations for CYs 2017-2019 and GMMRR Shortfall Due/ Receivables as of December 31, 2019** | **13,905,497,805.09** | **6,305,217,795.21** | **5,616,650,478.93** | **3,080,819,071.07** | | **8,697,469,550.00** | | |
| Settlement recorded as Miscellaneous Income (Cash Bond Forfeiture) |  |  | (663,001,262.78) |  | | (663,001,262.78) | | |
| Settlement recorded as Other Business Income-CF (September to December 2019) |  |  | (666,280,994.70) | (388,456,855.12) | | (1,054,737,849.82) | | |
| **Unrecorded GMMRR Shortfall Due/ Receivables as of December 31, 2019** |  |  | **P 4,287,368,221.45** | **P 2,692,362,215.95** | | **P 6,979,730,437.40** | | |

**Table 2 - Misstatements of Affected Accounts Due to**

**Unrecorded GMMRR Shortfalls/Revenue**

| **Particulars** | **Overstatement/ (Understatement) of Retained Earnings**  **CYs 2017-2018** | **Overstatement/ (Understatement) of Expenses (CY 2019)** | **Overstatement/ (Understatement) of Payables** |
| --- | --- | --- | --- |
| Printing Cost (.5%, 1.5% and 2%) | P 68,985,624.63 | P (35,495,809.72) | P - |
| 2% EWT-Printing Cost |  | (133,063.27) | (133,063.27) |
| 5% VAT-Printing Cost |  | (332,658.16) | (332,658.16) |
| Prize Fund Expense | 5,561,738,467.55 | (1,941,165,681.89) | - |
| Agency Commission (Net of Tax) | 1,251,494,802.46 | (563,034,159.40) | - |
| 15% or 10% Withholding tax (Agency Commission) | 139,054,978.05 | (65,269,899.04) | (204,324,877.09) |
| 5% VAT Withholding from Agency Commission | - | (2,217,721.09) | (2,217,721.09) |
| BIR Tax (5% of Prize Fund) | 365,909,907.79 | (137,686,414.90) | (503,596,322.69) |
| Commission on Sales Force (Net of Tax) | - | (39,918,979.55) | - |
| Withholding Tax on sales force commission | - | (4,435,442.17) | (4,435,442.17) |
| Documentary Stamp Tax-Charity Fund | 2,459,526,540.85 | (88,708,843.45) | (2,548,235,384.30) |
| Documentary Stamp Tax-Operating Fund | 321,573,020.17 | (1,172,334,715.59) | (1,493,907,735.76) |
| Share of Collectors/Sale Representatives | 1,406,628,431.52 | (644,784,093.58) | - |
| **TOTAL** | **P 11,574,911,773.03** | **P (4,695,517,481.81)** | **P (4,757,183,204.53)** |
| Unrecorded Revenue for CY 2017-2018 | (13,905,497,805.09) | - | - |
| **Net Effect** | **P (2,330,586,032.07)** | **P (4,695,517,481.81)** | **P (4,757,183,204.53)** |

* 1. In addition, PCSO is mandated to remit a certain percentage of its STL revenues to the Bureau of Internal Revenue (BIR) for Documentary Stamp

tax, Prize Fund tax and withholding tax, in compliance with the revenue allocation provided in the RIRR. Likewise, expenses incurred relative to the STL operations such as printing costs, sales representatives’ shares, prize fund expenses and mandatory contributions were also allocated. Hence, the non-recognition in the books of the revenues from shortfalls for CYs 2017-2019 resulted in the understatement of expenses amounting to P4.696 billion, understatement of payables by P4.757 billion and understatement of retained earnings by P2.331 billion, see details in Table 2.

* 1. **We reiterated our prior year’s recommendations that Management direct the concerned Accounting personnel to:**

1. **Recognize as part of the PCSO’s revenues the GMMRR shortfalls incurred by the concerned AACs during CYs 2017-2019 totaling P20.210 billion and recognize as receivables the amount of P6.980 billion, representing unsettled GMMRR shortfalls due to PCSO for CYs 2017-2019.**
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.**
3. **Effect the necessary adjusting entries to correct the misstatements of Retained Earnings, Expenses, Payables, Other Business Income and Miscellaneous Income accounts, resulting from the inconsistent treatment of transactions relating to the settlements of GMMRR shortfalls as well as the unrecorded allocation of expenses relating to the unrecorded GMMRR shortfalls.**
   1. Management explained that:
   2. Their intent is to recognize the shortfall (the difference between Actual Sales and GMMRR) as Other Income upon collection, in consonance with the proper recognition of any infraction committed in an agreement as sanction or penalty, thereof. While it is a valid revenue and thereby a valid receivable from AACs, recognizing the same as sales will give rise to Revenue Allocation thereby resulting to undue costs such as taxes, (in the form of DST, PF Tax, Commission Taxes, for STL agents) and expenses which cannot be duly supported as there is no actual sales to speak of.
   3. The RIRR provides for the settlement of shortfalls from the AAC’s cash bond, such that portions of 2019 sales shortfall were settled accordingly from the application of the cash bond. PCSO intends to correct the inconsistent treatment of transactions relating to recording and settlement of shortfalls (whether from previous Presumptive Monthly Retail Receipts (PMRR) or the current GMMRR) by appropriately recognizing it as Other Income and subjecting the actual sales for Revenue Allocation, prospectively. All sales shortfalls not yet settled (whether as a result of PMRR or GMMRR) will be recognized as Other Income, so as not to burden the Agency with undue and readily demandable taxes.
   4. As a rejoinder, the Audit Team maintains its position that the previous PMRR or the current GMMRR shortfalls should be recorded in the PCSO’s books as revenue and the corresponding PMRR/GMMRR 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 the PCSO.

1. **The full amount of P961.013 million retail receipts generated from the Instant Sweepstakes Program (ISP), representing the CY 2019 guaranteed sales of P833.333 million plus the P127.680 million from the CY 2018 sales, were recognized in the books despite that only thirteen (13) per cent thereof, or P124.932 million accrue to the PCSO as its guaranteed share, which was tantamount to misrepresentation of the actual revenues derived from the ISP, contrary to Section 4 (i) of the RIRR for the ISP, Paragraph 15 of PAS 1 and Paragraph 4.47 of the Conceptual Framework for Financial Reporting (CFFR).** 
   1. Paragraph 15 of PAS 1 provides:

*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. Likewise, Paragraph 4.47 of the Conceptual Framework for Financial Reporting states:

*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 xxxx*

* 1. Pursuant to its mandate, the PCSO Board of Directors approved the operation of the Instant Sweepstakes Program (ISP), a program that was operationalized through a selection of an Instant Sweepstakes Authorized Corporation (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 under Section 4 (i) of the RIRR 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 the 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. The Powerball Marketing and Logistics Corporation (PMLC), as the only authorized ISAC, started the selling of instant sweepstakes tickets in January 2018. On July 27, 2019, President Rodrigo Roa Duterte ordered the suspension of all PCSO games, including the ISP, but was eventually lifted on September 28, 2019.
  4. Verification disclosed that the total revenues generated from the ISP amounted to P961.013 million, representing the CY 2019 guaranteed sales of P833.333 million plus the P127.680 million for CY 2018 sales. It was noted, however, that the said amount was recognized in the books as Income from Gaming Operations-NISP, instead of the 13 per cent guaranteed share, which should have amounted to P108.333 million and P16.599 million as Retained Earnings. Only the PCSO’s actual total share of P124.932 million contributed to the increase in its assets, therefore, only the said amount should have been recognized in income/retained earnings in accordance with PAS 1 and CFFR.
  5. It was further noted that under Note 23-Income-Business Income-Income from Gaming Operations of the CY 2019 Notes to Financial Statements, the total retail receipts of ISP in the amount of P961.013 million was presented as part of PCSO’s retail receipts without any appropriate disclosure, when only 13 per cent thereof rightfully belongs to PCSO.
  6. As noted in the prior year’s Audit Observation Memorandum (AOM), the recording and presentation of the full amount of the PMLC sales in the financial statements of PCSO as its total income under the ISP program was not in accordance with Paragraph 15 of PAS 1, since it does not faithfully represent the effects of transactions on the affected accounts, hence, providing misleading and inaccurate information to the users of the financial statements of the PCSO.
  7. **We reiterated our prior year’s recommendation that Management direct the concerned Accounting personnel to effect the necessary adjusting entries in order to reflect the correct amount of retail receipts from the ISP accruing to the PCSO pursuant to Section 4 (i) of the RIRR for the ISP, in accordance with Paragraphs 15 and 4.47 of PAS 1 and CFFR, respectively.**
  8. Management claimed that Republic Act (RA) No. 1169, otherwise known as the PCSO Charter, states that PCSO is the principal government agency authorized to hold and conduct charity sweepstakes, races, lotteries and other similar activities. When the Principal entity satisfies a performance obligation, the entity recognizes revenues in the gross amount consideration to which it expects to be entitled in exchange for those goods or services transferred. Under the NISP RIRR, the Instant Sweepstakes Program is a regular game of the PCSO. As principal and has direct control and supervision over the details of the operations, PCSO recognizes the sale of the NISP.
  9. As rejoinders, the Audit Team would like to state that:
  10. 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 the increase in the future economic benefit and/or asset of PCSO.
  11. The 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 (PFRSs) 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.
  12. In view of the differing opinion 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 faithful representation in the financial statements as of December 31, 2019 of the Prize Fund expenses-STL account totaling P622.393 million could not be established due to the non-submission of the summary of all prizes and winnings paid and charged to prize fund together with all the other related reports, as required under Section 18 (g) of the 2019 Revised Implementing Rules and Regulations (RIRR) for the STL.** 
   1. Section 18 - Duties and Obligations of the AAC of the 2019 RIRR for the STL provides, *viz*.:
2. *Xxx*

*e. Hold in trust the Prize Fund for and on behalf of the PCSO, and pay all prizes or winnings under such terms as determined by the PCSO. Any deficiency in the prize fund arising from the payment of prizes or winnings shall be for the exclusive account of the AAC. The PCSO shall not be responsible for or be required to reimburse deficiencies in the prize payouts. All excess Prize fund at the end of the year shall be remitted to the PCSO.*

*g. The following reports shall be submitted to the NCR Department and concerned Branch Office on or before the 2nd of ensuing month.*

*i. Xxx*

*ii. Summary of all prizes and winnings paid and charged to prize fund*

*iii. Xxx.*

* 1. For CY 2019, the total amount of P622.393 million was recognized as prize fund expenses from STL operations and none was recognized as prize fund held in trust. It was noted that said expenses were based only on the revenue allocation rates stated in the CYs 2018 and 2019 RIRR, notwithstanding the above-stated provisions. It was further noted that the prize fund expenses were not supported by documents/information to prove the existence of valid winners.
  2. The summary of all prizes and winnings paid and charged to prize fund together with the other related reports required to be submitted by each AAC was requested from the Branch Operations Sector (BOS) through a letter dated February 5, 2020, but none was submitted to the Audit Team. Likewise, verification conducted by the COA-PCSO-Branches revealed that some AACs did not submit the said reports and some have submitted but were not considered in the accounting and recording of STL prize fund transactions, thus casting doubt on the validity and reliability of the total amount of P622.393 million recorded under the Prize Fund expenses-STL account.
  3. It is emphasized that Prize Fund in the custody of the AACs was entrusted by PCSO for payment to possible valid winners. Hence, the same should be recognized as asset in the books of PCSO and as a trust liability in the books of the AACs. Moreover, the excess prize fund computed at the end of the year is supposed to be returned by the concerned AACs to PCSO in accordance with Section 18 (e) of the 2019 RIRR for the STL. Verification, however, disclosed that none was remitted at the end of the year.
  4. **We recommended that Management: (a) require the AACs to submit the reports on the utilization of the STL Prize Fund enumerated under Section 18 (g) of the RIRR for the STL, copy furnished the Office of the Auditor; and (b) ensure that recognition of prize fund expenses in the books of accounts is supported by valid documents.**
  5. Management informed that the STL-AACs are submitting their Prize Fund utilization reports to their branch offices. However, COA was not furnished with the said report. The BOS will require all branch offices and STL-AACs to submit the Prize Fund reports, copy furnished COA, for proper monitoring and accounting of transactions to ensure that the recognition of prize fund expenses is supported by valid documents.

1. **The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account of P14.840 billion as of December 31, 2019 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of PAS 1 and QC12 of the CFFR:**
2. **Variance between the balances per books and the confirmed bank balances of the Operating Fund (OF) accounts and Main account in the total amount of P46.138 million;**
3. **Variance of P61.861 million between the balances per books and the confirmed bank balances of the Charity Fund (CF), Prize Fund (PF) and Small Town Lottery (STL) remittances accounts;**
4. **Closed accounts still having outstanding balances in the books amounting to P12.020 million and P39.280 million (negative);**
5. **Variance of P3.377 million between the balances per books and the confirmed bank balances of the bank accounts maintained with the Land Bank of the Philippines (LBP) that was not reconciled due to non-preparation of the monthly Bank Reconciliation Statements (BRSs); and**
6. **Checks totaling P1.550 million already presented to and cleared by the bank were erroneously included as unreleased checks that were reverted back to cash**

**at year-end**.

* 1. Paragraph 15 of PAS 1 provides:

*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. The CFFR 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. As of December 31, 2019, the Cash and Cash Equivalents account had a balance of P14.840 billion. Audit of the account disclosed various deficiencies discussed as follows:

*Variance between the balances per books and the confirmed bank balances of the OF accounts and Main account in the total amount of P46.138 million*

* 1. Examination of the balances per books and the balances confirmed by the corresponding depository banks of the OF and Main accounts of the PCSO disclosed a total discrepancy of P46.138 million, as can be gleaned from Table 3.

**Table 3 – Discrepancy between the Balances per Book and Confirmed Balances**

**Of the Cash-in-Bank – OF and Main Accounts**

**As of December 31, 2019**

| **Account Title** | **Account Number** | **Balance per Bank Confirm ation** | | **Balance per Books** | | **Discrepancy** | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Main Account** |  |  |  |  |  |  |  |
| CIB-LC-SA- CURRENT ACCOUNT-LBP (E. RODRIGUEZ AVE.) | LBP - 3102-1000-09 | P | 243,514,925.05 | P | 243,059,213.15 | P | 455,711.90 |
| CIB-LC-SA- AGENTS SAVINGS ACCOUNT | PNB - 3742-5360-0014 |  | 60,253.83 |  | 2,457,707.74 |  | (2,397,453.91) |
| **OF Account** |  |  |  |  |  |  |  |
| CIB-LC-CA- OPERATING FUND-LBP (E. RODRIGUEZ AVE.) | LBP - 3102-1000-33 |  | 747,135,004.58 |  | 716,657,333.92 |  | 30,477,670.66 |
| CIB-LC-CA-OPERATING FUND(LBP)-STL REMITTANCES | LBP - 3102-1005-64 |  | 211,461,577.37 |  | 193,859,180.75 |  | 17,602,396.62 |
| **TOTAL** |  | **P** | **1,202,171,760.83** | **P** | **1,156,033,435.56** | **P** | **46,138,325.27** |

* 1. Verification of the BRSs for CY 2019 for the subject accounts disclosed that the said discrepancy pertained to unadjusted book and bank reconciling items totaling P47.085 million and P0.947 million, respectively, details shown in Table 4.

**Table 4 – Summary of Book and Bank Reconciling Items**

**As of December 31, 2019**

| **Year** | **Erroneous Recording of Fund Transfers** | | **Unrecorded Deposits/DM/CM** | | **Errors in Posting** | | **Total** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2006 | P | - | P | - | P | (285,732.10) | P | (285,732.10) |
| 2008 |  | - |  | 130,724.09 |  | 22,314.52 |  | 153,038.61 |
| 2009 |  | - |  | 15,200.00 |  | (3,801.40) |  | 11,398.60 |
| 2010 |  | - |  | (525.00) |  | 1,660.00 |  | 1,135.00 |
| 2011 |  | - |  | - |  | (0.50) |  | (0.50) |
| 2012 |  | - |  | 27.91 |  | (19.06) |  | 8.85 |
| 2013 |  | 11,260,808.00 |  | 21,656.04 |  | - |  | 11,282,464.04 |
| 2014 |  | 2,316,685.85 |  | 0.02 |  | 200,422.30 |  | 2,517,108.17 |
| 2015 |  | 9,937,363.21 |  | 6,466,503.17 |  | - |  | 16,403,866.38 |
| 2016 |  | 1,255,000.00 |  | (48,674.20) |  | - |  | 1,206,325.80 |
| 2017 |  | (296,400.01) |  | 314,742.54 |  | 18,699.00 |  | 37,041.53 |
| 2018 |  | 2,608,274.55 |  | 555,275.39 |  | 84,143.35 |  | 3,247,693.29 |
| 2019 |  | 3,528,832.60 |  | 1,396,949.55 |  | 7,585,188.89 |  | 12,510,971.04 |
| **Total** | **P** | **30,610,564.20** | **P** | **8,851,879.51** | **P** | **7,622,875.00** | **P** | **47,085,318.71** |

| **Year** | **Outstanding Checks** | | **Unposted Deposits** | | **Errors** | | **Total** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2006 | P | - | P | - | P | (200.00) | P | (200.00) |
| 2008 |  | - |  | - |  | - |  | - |
| 2009 |  | - |  | - |  | (7,748.00) |  | (7,748.00) |
| 2010 |  | - |  | - |  | 353,393.52 |  | 353,393.52 |
| 2011 |  | - |  | - |  | (6,727.50) |  | (6,727.50) |
| 2012 |  | - |  | 581,638.95 |  | (107,860.95) |  | 473,778.00 |
| 2013 |  | - |  | 4,612.50 |  | 49,436.78 |  | 54,049.28 |
| 2014 |  | - |  | 3,014,943.00 |  | (3,736,128.70) |  | (721,185.70) |
| 2015 |  | - |  | 10,994,404.55 |  | (9,970,667.56) |  | 1,023,736.99 |
| 2016 |  | - |  | 201,818.14 |  | (66,936.90) |  | 134,881.24 |
| 2017 |  | - |  | 17,856,619.75 |  | (16,976,499.81) |  | 880,119.94 |
| 2018 |  | - |  | 79,389.45 |  | (3,854.11) |  | 75,535.34 |
| 2019 |  | (1,319,669.83) |  | - |  | 7,000.00 |  | (1,312,669.83) |
| **Total** | **P** | **(1,319,669.83)** | **P** | **32,733,426.34** | **P** | **(30,466,793.23)** | **P** | **946,963.28** |

* 1. Based on Table 4, it was also noted that there were book reconciling items that were already identified in the prior years’ BRSs dated 1 to 13 years ago, but no action had been taken by Management to adjust the corresponding Cash in Bank and other affected accounts. Accordingly, the same remained reconciling items to date.
  2. The unposted deposits in the total amount of P32.733 million for the period 2012-2018 that remained unadjusted could have been corrected by the bank had the concerned PCSO personnel promptly brought the matter to the bank’s attention considering the substantial amount involved and the length of time that these have remained unposted.
  3. The same audit observations were already noted in prior years and were included in the respective Annual Audit Reports (AARs); however, book and bank reconciling items pertaining to CYs 2006 to 2018 transactions in the total amounts of P34.574 million and P2.260 million, respectively, remained unadjusted as of December 31, 2019.

*Variance of P61.861 million between the balances per books and the confirmed bank balances of the Charity Fund (CF), Prize Fund (PF) and Small Town Lottery (STL) remittances accounts*

* 1. Results of confirmation of the balances of the accounts with the various depository banks maintained for the CF, PF and STL Remittances as of December 31, 2019 disclosed net discrepancies of P61.861 million when compared with the balances reflected in the financial statements as of the same date, details shown in Table 5.
  2. Further, verification of the BRSs for the subject accounts as of December 31, 2019 revealed that the above-stated net discrepancies were caused by book reconciling items from CYs 2012-2019, which remained unadjusted in the books, details presented in Table 6.

**Table 5 – Comparison of the Balances per Books and per Bank Confirmations**

**As of December 31, 2019**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Account No.** |  | **Balance per Bank**  **Confirmation** |  | **Balance per Books** |  | **Net**  **Discrepancy** |
| LBP Acct No. 3102-1005-56  (STL Remittance – Charity Fund) | P | 460,322,264.21 | P | 430,673,471.51 | P | 29,648,792.70 |
| LBP Acct No. 3102-1000-17  (Prize Fund) |  | 3,920,793,996.41 |  | 3,895,982,213.73 |  | 24,811,782.68 |
| LBP Acct No. 3102-1000-25  (Charity Fund) |  | 7,947,750,736.56 |  | 7,933,970,110.59 |  | 13,780,625.97 |
| LBP Acct No. 3102-1006-10  (STL Remittance – Prize Fund) |  | 99,067,611.71 |  | 105,446,385.03 |  | (6,378,773.32} |
| LBP Acct No. 3102-1006-61  (Charity Fund – Peryahan) |  | 14,490,914.03 |  | 14,491,514.03 |  | (600.00) |
| LBP Acct No. 3102-1006-70  (Prize Fund- Peryahan) |  | 1,922,564.72 |  | 1,923,164.72 |  | (600.00) |
|  | **P** | **12,444,348,087.64** | **P** | **12,382,486,859.61** | **P** | **61,861,228.03** |

**Table 6 – Summary of Unadjusted Reconciling Items for CYs 2012-2019**

**As of December 31, 2019**

| **Account No.** | **Unrecorded Collections /Deposits**  **(CY 2015-2019)** | **Fund Transfers from PDOs**  **(CY 2013-2019)** | **Difference in the amount of remittance**  **(CY 2012-2019)** | **Erroneous Recording of disbursements**  **(CY 2015-2019)** | **Unrecorded Debit Memos**  **(CY 2018-2019)** | **Total** |
| --- | --- | --- | --- | --- | --- | --- |
| LBP Acct No.3102-1005-56 (STL Remittance – Charity Fund) | P 6,955,824.49 | P | P(1,201,492.98) | P23,947,180.45 | P (52,719.26) | P29,648,792.70 |
| LBP Acct No. 3102-1000-17 (Prize Fund) | 1,032,556.55 | 16,720,603.73 | - | 7,058.622.40 | - | 24,811,782.68 |
| LBP Acct No. 3102-1000-25 (Charity Fund) | - | 6,909,559.34 | - | 6,871,066.63 | - | 13,780,625.97 |
| LBP Acct No. 3102-1006-10 (STL Remittance -Prize Fund) | 4,536,527.79 | - | 1,059,003.89 | (11,974,305.00) | - | (6,378,773.32) |
| LBP Acct No. 3102-1006-61 (Charity Fund-Peryahan) | - | - | - | - | (600.00) | (600.00) |
| LBP Acct No. 3102-1006-70 (Prize Fund-Peryahan) | - | - | - | - | (600.00) | (600.00) |
|  | **P12,524,908.83** | **P23,630,163.07** | **P(142,489.09)** | **P25,902,564.48** | **P(53,919.26)** | **P61,861,228.03** |

* 1. It was noted that the above-stated discrepancies dated back from CY 2012 were already identified by the concerned Accounting personnel. However, no action had been taken to adjust the corresponding Cash in Bank and other affected accounts, hence, remained as reconciling items to date.

*Closed accounts still having outstanding balances in the books amounting to P12.020 million and P39.280 million (negative)*

* 1. Verification disclosed that the Cash in Bank–Local Currency account included the balance of P12.020 million of Philippine National Bank (PNB) account no. 121270002159 maintained by the PCSO with the PNB Mandaluyong Shaw-Princeton Branch, which was already closed in September 2018. Further verification disclosed that the subject balance consisted of long-outstanding book reconciling items relating to CYs 2013-2016 fund transfers from branch offices, which remained unadjusted as of December 31, 2019.
  2. The same observation was already brought to the attention of Management during the CY 2018 audit, but the said closed account still had a remaining balance of P12.020 million as of year-end resulting in the overstatement of the Cash and Cash Equivalents account presented in the financial statements as of December 31, 2019 by the same amount.
  3. Likewise, two (2) current accounts maintained by the PCSO with the PNB Mandaluyong Shaw-Princeton Branch for the Prize Fund and Charity Fund were already closed on January 4, 2019 and September 5, 2018, respectively. Verification of the accounting records, however, disclosed that the same have still negative balances in the books in the total amount of P39.280 million as of December 31, 2019, details shown in Table 7.

**Table 7 – Closed Bank Accounts with Negative Balances**

**As of December 31, 2019**

|  |  |  |
| --- | --- | --- |
| **Account Description** | **Balance per Books** | **Date Closed** |
| PNB Acct No. 121270002148 (Prize Fund) | P(21,587,026.12) | January 4, 2019 |
| PNB Acct No. 121270002171 (Charity Fund) | (17,693,481.63) | September 5, 2018 |
|  | **P(39,280,507.75)** |  |

* 1. The above-mentioned negative balances reduced the aggregate balance of the Cash and Cash Equivalents account presented in the financial statements as of December 31, 2019 by the same amount.

*Variance of P3.377 million between the balances per books and the confirmed bank balances of the bank accounts maintained with the LBP that was not reconciled due to non-preparation of the monthly BRSs*

* 1. Verification disclosed that the required monthly BRSs were not prepared for the Cash in Bank accounts maintained with the LBP, specifically account numbers 3101-0076-25 and 3102-1006-53.
  2. Examination of Accounting records showed that bank account numbers 3101-0076-25 and 3102-1006-53 had a total book balance of P189.855 million and total confirmed bank balance of P193.232 million, thus having a total discrepancy of P3.377 million.
  3. The non-preparation by the concerned ABD personnel of the required BRSs resulted in the non-reconciliation of balances and errors and unrecorded transactions, if any, were not immediately determined, corrected and/or adjusted accordingly.

*Checks totaling P1.550 million already presented to and cleared by the bank were erroneously included as unreleased checks that were reverted back to cash*

*at year-end*

* 1. Verification of the Accounting records showed that a journal entry was made on December 31, 2019 by the ABD to record the restoration of the Operating Fund’s unreleased checks in the total amount of P148.799 million to the Cash in Bank account and to the corresponding liability account based on the Treasury Department’s Schedule of Available Checks for Release (Operating Fund) as of December 27, 2019.
  2. Further verification, however, revealed that it included issued checks totaling P1.550 million which were already cleared by the bank and debited from the PCSO’s bank account during the months of November and December 2019. Consequently, both the Cash and Cash Equivalents and Accounts Payable accounts were overstated by P1.550 million.

* 1. In summary, due to the above-mentioned deficiencies, the faithful representation of the balance of the Cash and Cash Equivalents account of P14.840 billion in the financial statements as of December 31, 2019 was not established and affected related accounts in the financial statements.
  2. **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 P32.733 million under the Operating 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 P12.020 million overstatement of the Cash and Cash Equivalents account and the negative balance of P39.280 million, which pertained to book balances of closed PNB accounts;**
4. **Effect the necessary adjusting entries that will correct the P1.550 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2019 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks at year-end; and**
5. **Ensure the timely preparation of monthly BRSs for all the bank accounts of the PCSO to facilitate prompt reconciliation of discrepancies.**
   1. Management informed that the following adjustments in the books of accounts totaling to P4.366 million were already made:
      1. LBP Account No. 3102-1000-17 (111-J) - for the 2019 book reconciling items, P986,806.55 was adjusted in July 2020.
      2. LBP Account No. 3102-1005-56 (111-U) - for the 2019 book reconciling items, P2,840,877.88 was adjusted and recorded to its appropriate account in January 2020.
      3. LBP Acct No. 3102-1006-10 (111-R1) - for the 2019 book reconciling items, P538,499.27 was adjusted and recorded to its appropriate account in January 2020.
      4. For the following bank account numbers, the ABD will prepare the necessary BRSs since these are newly opened accounts:

* LBP 3102-1006-61
* LBP 3102-1006-70
  1. Management further informed that a thorough review of BRSs and verification of reconciling items will be conducted to resolve the discrepancies between bank and book balances. All identified reconciling items will be adjusted immediately. For the reconciling items concerning branch offices, the ABD will coordinate with the said branch to get the supporting documents and effect the adjustments. They also intend to create a Reconciliation Team whose main focus is to resolve reconciling items and preparation of BRSs which will address these issues. A thorough evaluation of the remaining cash accounts with abnormal balances will be conducted to address the discrepancies. For the reconciling items relating to CYs 2013-2016 concerning the fund transfers, these are to be verified and coordinated to branch offices and to get the supporting documents and effect the adjustments.

1. **The faithful representation of the effects of the transactions relating to the Accounts Receivable (AR) account having a balance of P1.096 billion, net of Allowance for Impairment of P163.864 million, as of December 31, 2019 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the PAS 1 and QC12 of the CFFR:**
2. **Abnormal (credit) balances of four (4) AR sub-accounts totaling P681.735 million;**
3. **Variance in the total amount of P466.230 million between the account balances per General Ledger (GL) and the Aging Schedule resulting from prior period errors in posting of transactions; and**
4. **Twelve (12) AR sub-accounts totaling P72.089 million cannot be validated due to absence of complete supporting subsidiary ledgers, schedules and the corresponding aging schedule.**
   1. Paragraph 15 of PAS 1 provides:

*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. The CFFR 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”.*

*Abnormal (credit) balances of four (4) AR sub-accounts totaling P681.735 million*

* 1. Analysis of the composition of the AR account disclosed that four (4) out of the 18 sub-accounts reflected abnormal (credit) balances aggregating P681.735 million, broken down as follows:

**Table 8 – Schedule of AR accounts with abnormal (credit) balances**

**As of December 31, 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Code** | **Account Name** | **Balance as of**  **December 31, 2019** | |
| 10301010-00-001-000007 | Accounts Receivable-Sales Supervisor |  | P ( 76,181.54) |
| 10301010-00-001-000010 | Accounts Receivable-Others |  | ( 338,530.00) |
| 10301010-00-002-000001 | Accounts Receivable-Ticket Sales-Lotto |  | (658,685,952.04) |
| 10301010-00-002-000002 | Accounts Receivable-Ticket Sales-Lotto |  | ( 22,634,164.99) |
|  |  |  | **P (681,734,828.57)** |

* 1. The concerned Accounting personnel explained that the said abnormal balances were due to prior years’ errors in the posting of transactions, which originated from the Branch Offices, that remained unreconciled and unadjusted as of December 31, 2019.

*Variance in the total amount of P466.230 million between the account balances per GL and the Aging Schedule resulting from prior period errors in posting of transactions*

* 1. Examination of the balances reflected in the submitted Aging of AR with the corresponding GL balances revealed significant discrepancies in the total amount of P466.230 million, as shown in Table 9.

**Table 9 – Discrepancies between the balances of AR Sub-accounts**

**per GL and per submitted Aging of AR**

**As of December 31, 2019**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Game** | **Account Code** | **Outstanding Balance as of December 31, 2019** | | | | **Variance** | | |
| **Per GL** | | **Per Submitted**  **Aging of AR** | |
| AR – Lotto | 10301010-00-001-000012  10301010-00-002-000001  10301010-00-002-000002 | P | (625,843,450.21) | P | 289,054,326.15 | | P | (914,897,776.36) | |
| AR – Keno | 10301010-00-003-000001 |  | 1,066,642,726.80 |  | 18,769,318.79 | |  | 1,047,873,408.01 | |
| AR – STL | 10301010-00-004-000001 |  | 679,219,543.90 |  | 375,715,233.02 | |  | 303,504,310.88 | |
| AR - Mini Sweepstakes | 10301010-00-001-000001 |  | 5,368,833.32 |  | 19,000.00 | |  | 5,349,833.32 | |
| AR - Peryahan **\*** | 10301010-00-005-000001 |  | 61,918,166.53 |  | 37,518,275.90 | |  | 24,399,890.63 | |
| **Total** | | **P** | **1,187,305,820.34** | **P** | **721,076,153.86** | | **P** | **466,229,666.48** | |

*\* Comparison of balances for AR-Peryahan pertains only to the balances for NCL, STBR and VisMin branches*

*since the Aging of AR-Peryahan (NCR) was not submitted*

* 1. Generally, the AR balance reflected in the corresponding aging schedules should agree with the book balance of the AR sub-accounts since aging schedule merely provides information on the age of the recorded receivables per agent/debtor. It was noted, however, that the balances of the AR sub-accounts per GL, as shown in Table 9, were greater by P466.230 million when compared with the balances per Aging of AR.
  2. Validation revealed that the Aging of the AR was prepared by the Branch Operations Sector (BOS) and not the ABD since it is the former that monitors the individual agent’s account. The concerned personnel of the National Capital Region (NCR) Department, BOS, further informed that the Aging of AR from the agents in the NCR were prepared based on the subsidiary ledgers maintained by them. The concerned ABD personnel, on the other hand, explained that the discrepancies noted were due to prior period errors in the posting of transactions which remained unreconciled and unadjusted as of December 31, 2019

*Twelve (12) AR sub-accounts totaling P72.089 million cannot be validated due to absence of complete supporting subsidiary ledgers, schedules and the corresponding aging schedule*

* 1. Section 41(2) of Presidential Decree (PD) No. 1445 provides: “*The chief accountant or the official in charge of keeping the accounts of a government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission not later than the fourteenth day of February xxx.”*
  2. Section 3.1 of COA Circular No. 2015-004 dated July 16, 2015 further requires the Chief Accountant/ Head of Accounting Unit to submit directly to then COA Government Accountancy Office (GAO), now Government Accountancy Sector (GAS), and to the Supervising Auditor (SA)/Audit Team Leader (ATL) concerned, the Statement/Aging of Receivables, together with other required year-end financial statements and other related financial reports/schedules in accordance with the existing format and in printed and digital copies on or before February 14 of each year.

* 1. Verification, however, revealed that the AR sub-accounts with balances totaling P72.089 million, details presented in Table 10, were not properly supported with complete subsidiary ledgers, schedules and the corresponding aging schedule.

**Table 10 - AR Sub-accounts not properly supported**

**As of December 31, 2019**

| **Account Code** | **Account Description** | **Balance as of December 31, 2019** | |
| --- | --- | --- | --- |
| 10301010-00-006-000001 | Accounts Receivable-Powerball-Instant Sweepstakes Scratch It | P | 4,718,891.79 |
| 10301010-00-001-000002 | Accounts Receivable-Authorized Sellers |  | 9,463,261.58 |
| 10301010-00-001-000003 | Accounts Receivable-Defaulted Authorized Sellers |  | 378,204.24 |
| 10301010-00-001-000004 | Accounts Receivable-Special Draw |  | 3,758,287.32 |
| 10301010-00-001-000005 | Accounts Receivable-Provincial Distributors/Sales Representative |  | 1,003,059.90 |
| 10301010-00-001-000006 | Accounts Receivable-Defaulted Provincial Distributors |  | 37,141,973.50 |
| 10301010-00-001-000007 | Accounts Receivable-Sales Supervisor |  | (76,181.54) |
| 10301010-00-001-000008 | Accounts Receivable-Defaulted Sales Supervisor |  | 6,157,394.87 |
| 10301010-00-001-000009 | Accounts Receivable-Ticket Account |  | 3,888,407.19 |
| 10301010-00-001-000010 | Accounts Receivable-Others |  | (338,530.00) |
| 10301010-00-001-000011 | Accounts Receivable-Patner Tayo |  | 9,568,698.00 |
| 10301010-00-005-000001 | Accounts Receivable-Peryahan (NCR) |  | (3,574,155.16) |
|  | | **P** | **72,089,311.69** |

* 1. The non-submission of the complete supporting schedules, subsidiary ledgers and aging of the above-stated accounts despite the COA’s written requests hindered the examination thereof. Likewise, alternative audit procedures cannot be resorted to in view of inadequate accounting records. Consequently, the fairness of presentation of the balances of the AR sub-accounts presented in Table 10 cannot be established.
  2. In view of the foregoing deficiencies, the faithful representation of the effects of the transactions relating to the AR account having a balance of P1.096 billion, net of Allowance for Impairment of P163.864 million, as of December 31, 2019 was not established.
  3. **We recommended that Management:**

1. **Direct the concerned Accounting personnel to: (i) conduct an immediate thorough evaluation of the AR sub-accounts with abnormal balances totaling P681.735 million; (ii) undertake closer coordination with the concerned Branch officials and employees in order to determine the specific cause/s thereof, and thereafter, effect the necessary adjusting entries to bring the accounts to their normal balances; and (iii) submit to the Audit Team the complete supporting schedules, subsidiary ledgers and aging schedules for the AR sub-accounts in the total amount of P72.089 million, pursuant to the provisions of PD No. 1445 and COA Circular No. 2015-004.**
2. **Direct the ABD and the BOS to: (i) conduct thorough analysis of the outstanding receivables due from each agent/debtor and reconcile their records in order to determine the causes of the P466.230 million variance between the balance per GL and the aging schedule of the subject receivables; and (ii) effect the necessary adjusting entries thereafter to ensure that the balance of the AR account presented in the financial statements faithfully represents the effects of transactions on the said account and properly supported with reliable financial records.**
   1. Management informed that the following adjustments in the books of accounts totaling P78.575 million were already made:
3. 10301010-00-001-000010

Accounts Receivable – Others - reclassified misposted transactions aggregating net amount of P1,011,750 to the appropriate accounts on July 31, 2020.

1. 10301010-00-002-000002

Accounts Receivable – Ticket Sales – Lotto -Reclassification of entries due to error in account code used aggregating an amount of P22,634,164.99 which were prepared and recorded in July 2020.

1. Accounts Receivable – STL - Reclassification of entries due to error in responsibility code used aggregating an amount of P54,929,426.71 which were prepared and recorded in August 2020.
   1. Management further informed that ABD is now conducting thorough evaluation on the remaining AR with abnormal balances in coordination with branch offices. The PCSO will submit the complete supporting schedules, subsidiary ledgers and aging schedules for the twelve (12) AR sub-accounts totaling P72.089 million.
2. **The faithful representation in the financial statements of the balance of the Property, Plant and Equipment (PPE) account in the carrying amount of P931.244 million as of December 31, 2019 could not be ascertained due to the following deficiencies:**
3. **Net discrepancy of P151.273 million existed between the carrying amount of depreciable PPE per books and the corresponding lapsing schedules; and**
4. **Results of the actual physical count of various PPE comprising the Head Office and the various Branch Offices disclosed material net discrepancy of P157.311 million when compared with the balance per books of the PPE account.**

*Net discrepancy of P151.273 million existed between the carrying amount of depreciable PPE per books and the corresponding lapsing schedules*

* 1. Examination of the acquisition costs and the related accumulated depreciation of the depreciable items of PPE as of December 31, 2019 disclosed a discrepancy of P151.273 millionbetween the amounts recorded in the books and the supporting lapsing schedules, as summarized in Table 11.

**Table 11 – Comparison of PPE amounts recorded per books**

**versus amounts per lapsing schedules**

| **Particulars** | **Balances Per** | | | | **Variance** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Books** | | **Lapsing Schedule** | |
| Acquisition cost | P | 703,909,175.86 | P | 566,564,782.99 | P | 137,344,392.87 |
| Accumulated depreciation |  | (364,945,232.26) |  | (378,874,259.82) |  | 13,929,027.56 |
|  | **P** | **338,963,943.60** | **P** | **187,690,523.17** | **P** | **151,273,420.43** |

* 1. Normally, the lapsing schedule should agree with the book balances of the various items comprising the PPE account since it merely provides specific accounting data such as original purchase cost, accumulated depreciation, additions, and disposal for each item of PPE that were recorded in the books. It was noted, however, that the balances of the depreciable items of PPE per books were greater by P151.273 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 labelled as “For Reconciliation”.
  2. The same audit observation was already noted in prior years, but the balances of the depreciable PPE per books and the corresponding lapsing schedules remained unreconciled as of December 31, 2019. The existence of the above-mentioned discrepancy of P151.273 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, 2019.

*Results of the actual physical count of various PPE comprising the Head Office and the various Branch Offices disclosed material net discrepancy of P157.311 million when compared with the balance per books of the PPE account*

* 1. Likewise, comparison of the balances reflected in the Physical Inventory Report as of December 31, 2019 with the corresponding balances per books as of the same date disclosed a discrepancy of P157.311 million, details in Table 12:

**Table 12 – Variance between Balance per Books and Balance per Inventory Report**

**As of December 31, 2019**

|  | **Balance Per** | | | |  | |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts** | **Books** | | **Inventory Report** | | **Variance** | |
| Office equipment | P | 169,967,740.52 | P | 37,408,475.83 | P | 132,559,264.69 |
| Information & communication Technology equipment |  | 109,689,027.46 |  | 100,482,931.71 |  | 9,206,095.75 |
| Communication equipment |  | 8,776,917.61 |  | 3,654,547.58 |  | 5,122,370.03 |
| Military, police & security equipment |  | 1,474,829.96 |  | 172,410.00 |  | 1,302,419.96 |
| Medical equipment |  | 16,268,645.68 |  | 8,586,118.00 |  | 7,682,527.68 |
| Printing equipment |  | 102,682,475.60 |  | 100,114,881.00 |  | 2,567,594.60 |
| Motor vehicles |  | 170,327,886.26 |  | 176,131,904.48 |  | (5,804,018.22) |
| Furniture & fixtures |  | 10,879,274.54 |  | 6,702,581.73 |  | 4,176,692.81 |
| Books |  | 70,000.00 |  | 54,520.00 |  | 15,480.00 |
| Other property, plant & equipment |  | 17,710,550.08 |  | 17,227,878.44 |  | 482,671.64 |
| **Total** | **P** | **607,847,347.71** | **P** | **450,536,248.77** | **P** | **157,311,098.94** |

* 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 discrepancy of P157.311 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, 2019.
  2. **We reiterated our prior years’ recommendation that Management direct the concerned Accounting personnel to: (a) conduct an immediate reconciliation of the balances per books with the balances in the corresponding lapsing schedules to determine the causes of discrepancy of P151.273 million as of December 31, 2019; and (b) thereafter, effect the necessary adjusting entries to correct the balances of the affected accounts so that the PPE account shall be fairly presented in the financial statements.**
  3. **We also recommended that Management:**

1. **Direct the concerned officials and employees to: (i) conduct immediate reconciliation of the balance per books with the corresponding balances per inventory report as of December 31, 2019 in order to determine the causes of the material net discrepancy of P157.311 million as of December 31, 201; and (ii) thereafter, effect necessary adjusting entries so that the balance of the PPE account shall be fairly presented in the financial statements.**
2. **Conduct deeper investigation considering that the balance per books was greater than the balance per physical count, which may indicate missing items of PPE, and undertake the appropriate legal and/or administrative actions under the circumstances.**
   1. Management explained that:

a. For CY 2016 up to the present, all newly purchased PPEs were already being reconciled with the ASMD records. The PPE lapsing schedule prepared by the ABD were mainly composed only of current purchases and available/active inventory. Any differences between the accounted PPE in the lapsing schedule versus the balance per book were labeled as “For Reconciliation” since these were composed of PPEs from 2009 and below which do not have any supporting documents and were lost due to frequent transfer of PCSO office and fire incidents that happened in 2007 and 2010.

b. Compared with what was noted under COA AOM No. 19-023, the PPE discrepancies decreased due to the recording of sale of unserviceable properties and reconciliations made by the ABD and ASMD. The ABD and ASMD will continue reconciling the PPE accounts, any unreconciled/unidentified PPE due to transfer of office/fire incidents will be reported to the Management for appropriate action.

1. **The measurement of right-of-use asset and lease liability was not in accordance with the Philippine Financial Reporting Standard (PFRS) 16 – Leases, resulting in the overstatement of the Finance Lease Payable, Prepaid Rent and Depreciation Expense accounts by P26.508 million, P24.631 million and P1.473 million, respectively, and the corresponding understatement of Leased Assets, Accumulated Depreciation, Interest Expense, Rent Expense and Retained Earnings accounts by P97.512 million, P98.985 million, P1.063 million, P0.874 million and P0.868 million, respectively**.
   1. Paragraph 22 of PFRS 16, which took effect on or after January 1, 2019, states: *“at the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.”*
   2. Review of the contract of lease for office space and parking lots entered into by PCSO with the Joint Venture of Sun Plaza Development Corporation, AP Securities, Inc. and Conservatory Shaw Plaza, Inc. disclosed that it has a term of three years commencing on January 1, 2018 and expiring on December 31, 2020. The total contract price for the lease was P310.591 million, inclusive of Value Added Tax (VAT) and Association Dues, with an escalation rate of 5% per annum, as summarized in Table 13:

**Table 13 – Summary of Contract Price for the Lease of Office Space and Parking Lots**

**For the Period 2018-2020**

|  |  |  |
| --- | --- | --- |
| **Period** | **Monthly**  **Rental** | **Rental Fee**  **per Annum** |
| 2018 | P 8,210,190.24 | P 98,522,282.88 |
| 2019 | 8,620,699.75 | 103,448,397.00 |
| 2020 | 9,051,734.74 | 108,620,816.88 |
| **Total** |  | **P 310,591,496.76** |

* 1. Section 4 of the said Contract of Lease provides that, immediately upon signing of the contract, the PCSO shall pay the Lessor the amount of P24,630,570.72, representing three months’ advance rental to be applied to the last three months of the lease contract.
  2. Examination of the Accounting records disclosed that the following entries were made to recognize the right-of-use asset and lease liability as of December 31, 2019:

**Table 14 – Accounting Entries made by PCSO to recognize the right-of-use asset and lease liability**

**as of December 31, 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Account Code** |  | **Debit** |  | **Credit** |
| Leased assets, buildings and other structures | 10608020 | P | 100,457,763.87 |  |  |
| Interest expense | 50301020 |  | 8,166,381.42 |  |  |
| Depreciation | 50501080 |  | 100,457,763.87 |  |  |
| Finance lease payable | 20101070 |  |  | P | 105,633,512.16 |
| Rent expenses | 50299050 |  |  |  | 103,448,397.00 |

* 1. Verification, however, revealed that the recognition of the lease payments in the books of accounts was not in accordance with the provisions of PFRS 16, resulting in the misstatements of the Finance Lease Payable, Prepaid Rent, Depreciation Expense, Leased Assets, Accumulated Depreciation, Interest Expense, Rent Expense and Retained Earnings accounts, in view of the following:
  2. *Measurement of Lease Liability*
  3. Validation revealed that the incremental borrowing rate (IBR) used by PCSO for the measurement of lease liability was based on the prevailing rate of 5.18% in 2019 for a five-year government security. The concerned personnel of the Accounting and Budget Department (ABD) informed that the IBR was determined based on the assumption that the PCSO will extend the lease for another three years. While there was an assumption of lease extension for another three years, which would modify the lease term to five years, the same ABD personnel explained that the lease liability was determined based on the present value (PV) of the remaining lease payments of two years because the lease payments that will be required for the contract extension were not identified in the contract.
  4. Paragraph B34 of PFRS 16 states:

*In determining the lease term and assessing the length of the non-cancellable period of a lease, an entity shall apply the definition of a contract and determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.*

* 1. Section 2 of the Contract of Lease provides that the lease shall be for a period of three years, *“subject to extension as may be agreed upon by the parties with at least 60 days prior written notice, under the same terms, until PCSO shall have awarded a new contract to the winning bidder, unless sooner terminated under the conditions provided in this Agreement or as may be allowed by law.”*
  2. Clearly, the extension of the lease requires a mutual agreement of both parties, hence, the contract shall be enforceable only until December 31, 2020. Using the rate for a five-year government security as its IBR, based on the assumption that PCSO will extend the lease for another three years, was not in conformity with the above-stated provision under PFRS 16.
  3. Likewise, Paragraph 26 of PFRS 16 states:

*At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee’s incremental borrowing rate.* *(*Underscoring supplied*)*.

* 1. It was noted, however, that in the determination of the PV of the remaining lease payments, PCSO included the months of October, November and December 2020 to which the advance payment of P24,630,570.72 (already paid upon signing of the contract) shall be applied. In effect, the lease liability was measured for the period January 2019 until December 2020 when in fact the lease liability should only be for 21 months, that is, from January 2019 up to September 2020.
  2. *Measurement of Right-of-Use Asset*
  3. On the measurement of the right-of-use asset, Paragraphs 23 and 24 of PFRS 16 provide:

|  |
| --- |
| *23. At the commencement date, a lessee shall measure the right-of-use asset at cost.* |
| *24. The cost of the right-of-use asset shall comprise:* |
| 1. *the amount of the initial measurement of the lease liability, as described in paragraph 26;* 2. *any lease payments made at or before the commencement date, less any lease incentives received xxx.* |

* 1. Considering that the cost of the right-of-use asset includes the initial measurement of lease liability, the effects of the errors noted in the measurement of lease liability were carried over to the measurement of the asset.
  2. Paragraph 30(a) of the same Standard further states that to apply the cost model, a lessee shall measure the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. Validation, however, revealed that the right-of-use asset was not measured at cost, instead, the amount of leased asset recognized in the books was net of the accumulated depreciation of P100.458 million. Thus, while there was a recognition of depreciation expense, the corresponding accumulated depreciation was not recorded in the books.
  3. *Adjustment of Rent Expense*
  4. Under the finance lease, the lease payments shall be recognized as interest expense and a reduction to the lease liability, thus, the rent expense recognized in CY 2019 had to be adjusted. Verification revealed that the amount of rent expense that was credited upon initial recognition of the lease liability was P103.448 million, while the rent expense recognized in CY 2019 that needs to be adjusted was P102.574 million, resulting in a discrepancy of P0.874 million, see details in Table 15.

**Table 15 – Breakdown of the P0.874 million discrepancy noted in**

**the Rent Expense account upon recognition of Lease Liability**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | |
| Overpayment made in CY 2018 that was applied to the CY 2019 lease payments was recognized in the books as a reduction to Rent Expense account instead of making an adjustment to Retained Earnings | P | 868,122.78 |
| Unpaid CY 2019 rent was not recorded in the books |  | 6,221.61 |
| **Total** | **P** | **874,344.39** |

* 1. For purposes of measuring the lease liability and right-of-use asset as of December 31, 2019, the Audit Team used the 7.061% rate for a two-year corporate security posted at the PDS Group website, with an issue date of December 7, 2018 and maturity date of December 7, 2020, as the IBR since the corporate security has a term of two years which was similar to the remaining lease term for the lease of PCSO’s office space and parking slots. Thus, the entries to record lease liabilities and right-of-use assets should have been as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **Debit** |  | **Credit** |
| **To Record Finance Lease Asset and Liability** | |  |  |  |  |
|  | Leased Assets, Buildings and Other Structures | P | 197,969,594.70 |  |  |
|  | Finance Lease Payable |  |  | P | 173,339,023.98 |
|  | Prepaid Rent |  |  |  | 24,630,570.72 |
|  |  |  |  |  |  |
| **To record Depreciation of Leased Assets** | |  |  |  |  |
|  | Depreciation Expense - Lease Assets | P | 98,984,797.35 |  |  |
|  | Accumulated Depreciation - Leased Assets |  |  | P | 98,984,797.35 |
|  |  |  |  |  |  |
| **To record lease payments for CY 2019** | |  |  |  |  |
|  | Finance Lease Payable | P | 94,219,385.26 |  |  |
|  | Interest Expense |  | 9,229,011.74 |  |  |
|  | Rent Expense |  |  | P | 102,574,052.61 |
|  | Retained Earnings |  |  |  | 868,122.78 |
|  | Finance Lease Payable |  |  |  | 6,221.61 |

* 1. The misapplication of PFRS 16 resulted in the overstatement of Finance Lease Payable, Prepaid Rent and Depreciation Expense accounts by P26.508 million, P24.631 million and P1.473 million, respectively, and the corresponding understatement of Leased Assets, Accumulated Depreciation, Interest Expense, Rent Expense and Retained Earnings accounts by P97.512 million, P98.985 million, P1.063 million, P0.874 million and P0.868 million, respectively.
  2. **We recommended that Management direct the concerned Accounting personnel to effect the necessary adjusting entries to correct the erroneous entries made on the transition from operating lease to finance lease in accordance with PFRS 16 as well as to correct the misstatements in various accounts.**
  3. Management informed that the subject misstatements have been corrected in the August 2020 Financial Statements.
  4. As a rejoinder, the Audit Team has still to validate the adjusting/correcting entries made in the August 2020 Financial Statements of PCSO.

**B**. **OTHER OBSERVATIONS**

1. **Seventeen (17) beneficiaries/recipients of the financial assistance for the procurement of medical equipment in the total amount of P206.286 million were unable to submit the Terminal Financial and Accomplishment Reports required under the Memorandum of Agreement (MOA) executed with the PCSO as well as the Terminal/Liquidation Reports provided under Section E.4 of the Implementing Guidelines of the Financial Assistance for the Procurement of Medical Equipment Program, hence, it cannot be determined whether the financial assistance was spent by the concerned beneficiaries for the purpose this was given. Likewise, the Disbursement Vouchers (DVs) for the grant of medical equipment assistance to eight (8) beneficiaries/recipients during CY 2019 amounting to P105.328 million were processed despite the absence of certified copies of Abstract of Bids duly signed by the Bids and Awards Committee (BAC) Members and certified true copies of the Purchase Orders (POs) or Contracts, contrary to Section D.1 of the Financial Assistance for the Procurement of Medical Equipment Program Implementing Guidelines.**
   1. The MOA entered into by the beneficiaries/recipients of the financial assistance for the procurement of medical equipment with the PCSO states:

*The beneficiary shall submit to the PCSO a Terminal Financial and Accomplishment Report within ninety (90) days from receipt of the financial assistance or purchase of the medical equipment, whichever comes earlier, with Credit Notice from in-house Commission on Audit (COA).*

* 1. Likewise, Section E.4 - Implementation, Monitoring and Liquidation of the Implementing Guidelines for Financial Assistance for the Procurement of Medical Equipment Program provides:

*The beneficiary shall submit a Terminal/Liquidation Report within forty-five (45) days from the completion of the delivery as stated in the Purchase Order or Contract. This must be supported by the following documents:*

*a) Certified copy of the official receipts;*

*b) Certificate of Inspection;*

*c) Certificate of Acceptance by the end-user;*

*d) COA Credit Notice; and*

*e) Photos of the installed medical equipment within the institution.*

* 1. Verification, however, disclosed that 17 recipients/beneficiaries of the financial assistance for the said program of the PCSO in the total amount of P206.286 million, breakdown shown in Table 16, have not submitted the required Terminal Financial and Accomplishment Reports and Terminal/Liquidation Reports as of December 31, 2019, which was an utter disregard of the above-stated requirements. In the absence of the said reports, it cannot be determined whether the financial assistance granted to the concerned beneficiaries/recipients was spent for the purpose this was given.

**Table 16 – Summary of Beneficiaries/Recipients which have not submitted**

**the Terminal Financial and Accomplishment Report**

**and Terminal/Liquidation Report**

**As of December 31, 2019**

|  |  |  |
| --- | --- | --- |
| **Year**  **Granted** | **Number of**  **Beneficiaries/Recipients** | **Total Amount**  **Granted** |
| 2017 | 3 | P 33,675,000.00 |
| 2018 | 5 | 76,664,000.00 |
| 2019 | 9 | 95,946,975.00 |
| **Total** | **17** | **P 206,285,975.00** |

* 1. Moreover, Section D.1 of the Implementing Guidelines of the PCSO Financial Assistance for the Procurement of Medical Equipment Program provides:

*(1) The following shall form part of the documentary requirements for the processing of the Disbursement Voucher:*

1. *Signed MOA,*
2. *Notice of Award,*

*c) Certified copy of the Abstract Bids duly signed by the BAC Members; and*

*d) Certified true copy of the Purchase Order (PO) or Contract.*

* 1. Verification, however, disclosed that the DVs for the grant of medical equipment assistance to eight (8) beneficiaries/recipients during CY 2019 amounting to P105.328 million were processed despite the absence of certified copies of Abstract of Bids duly signed by the BAC Members and certified true copies of the Purchase Orders (POs) or Contracts, contrary to the above-stated requirements, details presented in Table 17.

**Table 17 - Disbursements for Medical Equipment Assistance**

**With lacking supporting documents**

| **Check No.** | **Date** | **Payee** | **Amount** | **Lacking Document (x)** | |
| --- | --- | --- | --- | --- | --- |
| **Certified True Copy of the Abstract of Bids duly signed by the BAC Members** | **Certified True Copy of Purchase Order or Contract** |
| 381204 | 3/18/2019 | PAF TRUST LIABILITIES- AIRFORCE GENERAL HOSPITAL | P 28,880,000.00 | **x** | **x** |
| 381206 | 3/18/2019 | PAF TRUST LIABILITIES-AIRFORCE CITY HOSPITAL CLARK AIRBASE PAMPANGA | 19,440,000.00 | **x** | **x** |
| 381205 | 3/18/2019 | PAF TRUST LIABILITIES- BASA AIRBASE HOSPITAL | 19,440,000.00 | **x** | **x** |
| 375141 | 1/15/2019 | LUIS HORA MEM. REGIONAL HOSP. | 13,875,000.00 | **x** | √ |
| 381927 | 3/20/2019 | NORTHERN CAGAYAN DISTRICT HOSPITAL | 10,000,000.00 | √ | **x** |
| 381202 | 3/18/2019 | COLLECTING OFFICER, FCPA - KUTA MAJOR CESAR L. SANG-AN STATION HOSPITAL | 6,691,875.00 | **x** | **x** |
| 381201 | 3/18/2019 | COLLECTING OFFICER, FCPA -ARMY GENERAL HOSPITAL | 3,834,300.00 | **x** | **x** |
| 381203 | 3/18/2019 | COLLECTING OFFICER, FCPA - CAMP GENERAL MATEO CAPINPIN ARMY STATION HOSPITAL | 3,166,900.00 | **x** | **x** |
|  |  | **TOTAL** | **P105,328,075.00** |  |  |

x ***– unsubmitted***

***√ - submitted***

* 1. **We recommended that Management cause the immediate submission of the:**

1. **Terminal Financial and Accomplishment Reports required under the MOA as well as the Terminal/Liquidation Reports required under Section E.4 of the Implementing Guidelines for the subject program by the concerned beneficiaries/recipients in order to properly monitor and determine whether the financial assistance granted was utilized for the purpose it was given as well as to ensure that there was no wastage of government resources; and**
2. **Certified true copies of the Abstract of Bids duly signed by the BAC Members and certified true copies of the POs or Contracts required under Section D.1 of the Implementing Guidelines for the Financial Assistance for the Procurement of Medical Equipment Program to support the corresponding DVs processed and approved pertaining to the grant of the financial assistance to eight (8) beneficiaries/recipients. Otherwise, the transactions shall be suspended in audit for lack of necessary supporting documents.**
   1. Management informed that of the enumerated 17 beneficiaries of the Financial assistance for the Procurement of Medical Equipment Program for CYs 2017 to 2019, four (4) have already submitted the Financial Liquidation reports as of July 2020. Despite several Letters of Reminder and Demand Letters from the Legal Department, the remaining 13 beneficiaries have not submitted their Financial Liquidation Reports. Continuous and constant follow-up of the full liquidation of the Abra Provincial Hospital and Philippine National Red Cross Quezon, Lucena Chapter, as well as the submission of Financial Liquidation Report and the Terminal Financial Accomplishment Report for all non-compliant beneficiaries and that corrective actions are being done/undertaken to properly monitor the utilization of assistance. The CAD submitted the Certified Copies of the Abstract of Bids duly signed by the BAC members and Purchase Orders of Contracts of the eight (8) hospital recipients listed in the audit observation.
3. **The implementation of the Ambulance Donation Program of the PCSO, particularly those pertaining to the 221 units of ambulance released to the approved beneficiaries/recipients during CY 2017 disclosed the following deficiencies:**
4. **Recipients of the thirteen (13) units of ambulance did not cover the said vehicles with comprehensive insurance to answer for any damage sustained or caused by these to any third party, contrary to the requirement under Section 2, Article III of the Deed of Donation (DOD);**
5. **Forty-one (41) beneficiaries did not submit to the Assets and Supply Management Division (ASMD) of the PCSO a report on the utilization of the donated ambulance units as required under Section 3, Article III of the DOD; and**
6. **Fifteen (15) donated ambulances have not been put into operation for a long period of time due to various engine problems, defeating the purpose for which these were given.**

*Recipients of the 13 units of ambulance did not cover the said vehicles with comprehensive insurance to answer for any damage sustained or caused by these to any third party, contrary to the requirement under Section 2, Article III of the DOD*

* 1. Section 2, Article III of the DOD provides:

*Section 2. The DONEE shall have the vehicle covered by a yearly comprehensive insurance based on its current value to answer for any damage sustained or caused by it to any third party xxx*

* 1. Results of confirmation with the one hundred-one (101) beneficiaries of the subject ambulance units disclosed that thirteen (13) donated units were not covered with annual comprehensive vehicle insurance, contrary to the above-mentioned provision.
  2. Prior to the release of the ambulance units to the selected beneficiaries during CY 2017, all units were registered with the Land Transportation Office (LTO) for three (3) years and were covered already by a one-year comprehensive insurance. However, thirteen of those who responded informed that the ambulance units they received were no longer covered with annual comprehensive insurance after its expiration.
  3. Considering that the ownership of the six (6) out of the said 13 units of ambulance has not yet been transferred under the name of the beneficiaries, the PCSO is faced with the risk of being sued for damages/penalties in case of accidents or misuse by the beneficiaries thereof in the absence of a comprehensive insurance coverage.

*Forty-one (41) beneficiaries did not submit to the ASMD of the PCSO a report on the utilization of the donated ambulance units as required under Section 3, Article III of the DOD*

* 1. Section 3, Article III of the DOD requires the Donee to submit a semi- annual report to the PCSO ASMD on the utilization of the PCSO donated ambulance units. Verbal inquiry, however, disclosed that 41 beneficiaries did not submit the said utilization reports as of May 2019. The concerned ASMD personnel admitted that they did not strictly enforce compliance with the said requirement.
  2. The utilization report to be submitted by the Donee shall enable PCSO to monitor whether the ambulance unit was used exclusively and solely for emergency medical services, as clearly stated in the DOD. In the absence of the said report, PCSO shall have no basis of determining if the same was utilized for the intended purpose.

*Fifteen (15) donated ambulance units have not been put into operation for a long period of time due to various engine problems, defeating the purpose for which these were given*

* 1. Results of the ocular inspection conducted on one hundred-one (101) units of donated ambulance disclosed that there were fifteen (15) units that were defective; hence, these were not utilized for the intended purpose. Some of the beneficiaries informed during the interview that repairs of the units took longer period due to unavailability of spare parts especially those in the regions.
  2. Review of the Special Condition of the Contract for the procurement of said ambulance units disclosed that the Supplier guarantees the availability of Original Equipment Manufacturer (OEM) spare parts and accessibility of repair facilities for all ambulance units delivered nationwide for a period of seven (7) years from the date of delivery. Likewise, the Supplier will provide complete technical back-up whenever necessary, and practical back-up, i.e. provision of loaner ambulance unit, if the ambulance unit delivered and brought in for repair was not repaired within ten (10) working days due to unavailability of spare parts.
  3. In case the Supplier will be unable to provide the PCSO and the beneficiaries of the ambulance units with accessible and sufficient OEM spare parts and repair facilities as required, the PCSO and/or concerned beneficiary may exhaust all reasonable legal remedies available for recovery of damages, as may be applicable.
  4. Had the PCSO, specifically the ASMD, properly monitored the conditions/status of the donated ambulance units and properly informed the beneficiaries about the terms/conditions pertaining to the repairs thereof as stipulated in the Special Condition of the Contract with the Supplier, the donated ambulance could have been repaired and put into operation the soonest possible time.
  5. **We recommended that Management:**

1. **Direct the concerned official to closely monitor compliance by the Donees with Section 2, Article III of the DOD in order to ensure that donated ambulance units are covered with the required annual comprehensive insurance;**
2. **Direct the concerned personnel of the ASMD to ensure compliance by the Donees with Section 3, Article III of the DOD, which requires the submission of a semi-annual report to the ASMD on the utilization of the PCSO donated ambulance units in order to determine whether the said units were utilized for the intended purpose; and**
3. **Monitor all donated units of ambulance to determine their status/conditions and assist/inform the beneficiaries with defective units on how to coordinate with the concerned supplier/dealer of the ambulances regarding the provisions under the Special Condition of the Contract with the Supplier.**
   1. Management commented that they started the conduct of inspection of PCSO-Donated Ambulances in CY 2018 as part of the monitoring functions delegated by the Board under Resolution No. 0247, series of 2017 dated October 11, 2017. It covered the ambulance units procured from 2010 to 2017. During the inspection, the units presented were checked by the ASMD personnel using a Monitoring Tool. It sought to gather information about the vehicle, the completeness of the medical accessories, the condition of the vehicle at the time of inspection, the state of the ambulance decals and the utilization of the unit. The beneficiaries/donees were also asked to submit the Ambulance Utilization Report, photocopies of the OR/CR and Comprehensive Insurance to check if they complied with the provisions stipulated in the DOD. After the conduct of inspection, the beneficiaries that were observed to have committed a violation were sent a letter requiring them to comply with the requirements under the DOD. In summary, the ASMD and the Branch Offices are jointly monitoring the ambulances donated by PCSO on top of their regular duties and functions. Nonetheless, PCSO took note of the observations made by COA and will strengthen and develop additional measures in order to strictly monitor the beneficiaries’ compliance with the provisions set forth in the DOD.
4. **Absence of provisions in the 2019 Revised Implementing Rules and Regulations (RIRR) for the Small Town Lottery (STL)** **and the 2017 RIRR for the Instant Sweepstakes of the PCSO on the proper accounting and monitoring of the allocation for printing costs retained by the Authorized Agent Corporations (AACs) and the Instant Sweepstakes Authorized Corporation (ISAC) in the total amount of P197.284 million during CY 2019 resulted in apparent absence of internal control system that will ensure that government funds are safeguarded against loss or wastage through illegal or improper disposition, contrary to Section 2 of Presidential Decree (PD) No. 1445.**
   1. Verification of the Printing and Publication expense account totaling P197.541 million for CY 2019 disclosed that P197.284 million thereof pertained to the amounts retained by the AACs and ISAC for the printing of STL and Instant Sweepstakes tickets pursuant to the corresponding provisions embodied in the 2019 RIRR for the STL and the 2017 RIRR for the Instant Sweepstakes of the PCSO, respectively.
   2. Review of the said RIRRs, however, disclosed the absence of any provision on the proper accounting and monitoring of the said allocation for printing costs retained by the AACs and ISAC. Apparently, there are no controls in place to ensure that government funds are safeguarded against loss or wastage through illegal or improper disposition thereof, contrary to Section 2 of PD No. 1445, which provides that: “*all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government*.”
   3. Section 48 of the 2019 RIRR for the STL provided the table for the STL revenue allocation where it showed that 1.5% of the 2% printing cost was allocated to the AAC, while the remaining 0.5% shall be the PCSO’s share in the printing cost.
   4. Further verification disclosed that prior to the issuance of the 2019 RIRR for the STL in August 2019, Board Resolution No. 0498, Series 2018 was passed by the PCSO Board of Directors during its meeting on December 19, 2018, approving the retention by the AACs of the 2% printing cost from the gross receipt of STL, provided that the amount shall be exclusively used for Official Retail Receipt (ORR) printed by any of the recognized government printers. Pending the implementation of the ORR in all STL areas of operation, the AACs, in the interim, shall retain 0.50% of the printing cost for the production of STL tickets and the remaining 1.50% shall be remitted directly to PCSO.
   5. Section 56 of the 2017 RIRR for Instant Sweepstakes, on the other hand, provided the revenue allocation of net receipts from Instant Sweepstakes wherein the 2% printing cost shall be deducted from the gross receipts to arrive at the net receipts. However, there was no mention on the said provision on the accounting and monitoring of the actual amount expended for the printing of Instant Sweepstakes tickets.
   6. Examination of the Accounting records disclosed that the Printing and Publication expense account totaled to P197.541 million for the year ended December 31, 2019, wherein P197.284 million thereof pertained to the amounts retained by the AACs and ISAC for the printing of STL and Instant Sweepstakes tickets in accordance with the allocation embodied in the subject RIRRs, see details in Table 18. Apparently, said allocation was recognized as outright expense in the books of accounts of PCSO despite without valid supporting documents.

**Table 18 – Breakdown of the Printing Costs Retained**

**by the AACs and ISAC During CY 2019**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Period** |  | **Retail Receipts** |  | **Printing Cost Retained by AACs/ISAC** | **% of Retail Receipts** |
| STL | January to August | P | 11,253,140,748.86 | P | 56,265,703.74 | 0.5% |
| April to July \* |  | 1,667,773,677.00 |  | 33,355,473.54 | 2% |
| September to December |  | 5,367,076,827.83 |  | 80,506,152.42 | 1.5% |
| STL – from Shortfall Collection | January to December |  | 1,587,364,493.30 |  | 7,936,822.47 | 0.5% |
| Instant Sweepstakes | January to December |  | 961,013,773.30 |  | 19,220,275.47 | 2% |
| **Total** |  | **P** | **20,836,369,520.29** | **P** | **197,284,427.64** |  |

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

1. **Revisit the 2019 RIRR for the STL and the 2017 RIRR for the Instant Sweepstakes and consider amending certain provisions relating to the printing costs of** **STL and Instant Sweepstakes tickets to include guidelines on the proper accounting, reporting and monitoring thereof; and**
2. **Require the AACs and ISAC to liquidate the amounts retained by them for the printing of STL and Sweepstakes tickets, submit the original documents to support the utilization of funds and return to PCSO any unutilized amounts.**
   1. Management informed that the Branch Operations Sector is ready to require the STL-AACs to liquidate the amount retained by them for the printing of STL tickets and to submit the original documents to support the utilization of funds and to return any unutilized amount to PCSO, as recommended by COA.

**GENDER AND DEVELOPMENT (GAD)**

1. **The PCSO’s Annual GAD Plan and Budget (GPB) duly endorsed by the Philippine Commission on Women (PCW) 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, the Audit Team was unable to promptly assess whether the PCSO’s accomplishments relating to GAD programs, activities and projects were within the approved GPB.**
   1. Item V of COA Circular No. 2014-001 dated March 18, 2014 states:

*The Audited agency shall submit a copy of the Annual GAD Plan and Budget (GPB) to the COA Audit Team assigned to the agency within five (5) working days from the 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 shall be furnished the said Audit Team within five (5) working days from the end of January of the preceding year.*

* 1. Review of the PCSO’s GPB disclosed that this was reviewed and endorsed through the Gender Mainstreaming Monitoring System (GMMS) of the PCW on December 18, 2019, while the GAD AR was under the unendorsed status. However, the PCW-endorsed GPB and the unendorsed AR were submitted to the Audit Team only on July 16, 2020, contrary to the above-stated provision.
  2. Due to the long delay in the submission of the GPB and the corresponding AR, the Audit Team was not able to promptly and properly assess/audit the propriety of the expenses incurred and whether the GAD programs, activities and projects indicated therein correspond to the Agency’s mandate.
  3. **We reiterated our prior year’s recommendation that Management direct the concerned official and employees to comply with the provisions of Item V of COA Circular No. 2014-001 on the submission of the PCW-endorsed GPB as well as the GAD AR within the prescribed period.**
  4. Management informed that the PCSO GAD Focal Point System (GFPS) submitted to PCW GMMS its 2019 GAD AR, for review (as evidenced by the System Administrator [sysadmin@pcw.gov.ph](mailto:sysadmin@pcw.gov.ph) email dated February 28, 2020. They explained that the 2019 GAD AR was not yet endorsed by the PCW due to the requirement to submit a HGDG PIMME Report for the GAD attributed IMAP-ASAP-UHC-Malasakit Center hospitalization assistance. The same had been prepared together with the SDD report, and an advanced copy was furnished to COA-PCSO. To avoid repetition of delayed GAD reports to COA, the agency-wide gender mainstreaming of GAD PPAs will include decentralized GAD fund utilization by concerned units, to include preparations of GAD AR and SDDs. For this reason, a Guide was prepared by the GFPS to hasten GAD Gender mainstreaming budget and plans starting CY 2020, subject to PCW Memorandum Circular No. 2020-03 (Re: *Review of 2020 GPB Use of GAD funds for COVID-19 response*) in relation to DBM National Budget Circular 580, series of 2020 (*Observance of austerity measures due to COVID-19)*.

1. **The PCSO was able to allocate five per cent of its 2019 Approved Budget for CY 2019 GPB, in accordance with Joint Circular No. 2012-01 of the PCW, National Economic and Development Authority (NEDA) and the Department of Budget and Management (DBM).**
   1. Section 6.1 of the 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. Verification disclosed that the PCW-endorsed GPB of the PCSO for CY 2019 amounting to P4.471 billion met the required five per cent of the approved Agency’s Corporate Operating Budget (COB) amounting to P69.319 billion. Likewise, as can be gleaned from Table 19, the PCSO’s GAD Accomplishment Report for CY 2019 reflected actual expenditures of P5.923 billion.

**Table 19 – Actual Expenditures Relating to GAD For CY 2019**

| **No.** | **GAD Accomplishment** | **Amount** |
| --- | --- | --- |
| 1 | No. of Grant and Subsidy (PCW national campaign/ event sponsorship) – At least One (1) PCW – initial national activity during the 18-DAYS CAMPAIGN to end Violence Against Women and their Children) | P 1,666,843.32 |
| 2 | No. of Grant and Subsidy (IAC-VAWC operations & activities c/o PCW as Secretariat) - At least one (1) Grant & Subsidy for operations and activities for Inter-agency Committee on Violence Against Women and their Children (DOH-DILG-DND-DepEd, etc.) with PCW as beneficiary, in its capacity as IAC-VAWC Secretariat | 2,000,000.00 |
| 3 | Campaign support to PCSO’s GEDSI Program (Outreach for Indigenous People Communities) | 1,959,412.89 |
| 4 | PCSO- Presidential Legislative Liaison Office (PLLO)- Inter-agency Meeting | 105,468.75 |
| 5 | Conduct of seminar on Magna Carta of Women and Violence Against Women and Children for NCL Department on June 5 & 6, 2019 | 1,364,828.93 |
| 6 | Conduct of HGDG capability building activities for GFPS and Partner Institutions | 1,599,833.27 |
| 7 | GEDSI (GAD) capacity building for employees thru training (2019 GEDSI “Serbisyo Para Kay Juana” in Northern & Central Luzon) | 243,148.15 |
| 8 | PCSO GFPS Joint HGDG Workshop on Universal Health Care (UHC) with PhilHealth | 131,767.50 |
| 9 | For hiring of consultants and data encoder for GAD related activities | 1,836,000.00 |
| 10 | Procurement of Office equipment for GAD related activities | 270,000.00 |
| 11 | Conduct of Regular & Special Meetings for GAD related  activities | 189,392.36 |
| 12 | Attributed Programs to GAD – Implementation of UHC, IMAP-ASAP Program | 5,911,513,622.82 |
| **Total** | | **P 5,922,880,317.99** |

* 1. **We recommended that Management continue complying with the GAD related law, rules and regulations and commitments.**

**COMPLIANCE WITH TAX LAWS**

1. **Applicable taxes for draw allowances paid by PCSO in CY 2019 in the total amount of P182.087 million were not withheld, in violation of the National Internal Revenue Code (NIRC) of the Philippines and depriving the National Government of additional revenue.**
   1. Section 23 (A) of the NIRC of 1997, as amended by Republic Act (RA) No. 10963 states: *“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. Examination of the Cash Disbursements Journal (CDJ) disclosed that draw allowances in the total amount of P182.087 million were paid during CY 2019. Further verification, however, revealed that the applicable taxes were not withheld from the said allowances despite the audit observation in CY 2018 which was included in the Annual Audit Report (AAR).
   4. The PCSO’s inability to withhold taxes from the said draw allowances and to remit the same to the BIR deprived the National Government of additional revenue to fund its priority programs and projects, notwithstanding the fact that such was a clear violation of the above-stated law and regulations, subject to the penalties provided therein.
   5. **We reiterated our prior year’s recommendation 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 the concerned PCSO officials and employees and other individuals and to remit the same to the BIR.**
   6. Management informed that PCSO has implemented the withholding of taxes on draw allowance for CY 2020.
6. Taxes withheld and due to the Bureau of Internal Revenue (BIR) for January to November 2019 in the total amount of P 10.816 billion were deducted and remitted within the prescribed period. The taxes withheld for the month of December 2019 amounting to P497.672 million were remitted to the BIR in January 2020 as shown in Table 20.

**Table 20 – Remittances of Taxes Withheld**

**During the Month of December 2019**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Date Remitted** |
| Final Income Taxes Withheld | P 106,060,044.45 | January 27 & 29, 2020 |
| Creditable Income Taxes Withheld (Expanded) | 74,192,624.81 | January 30, 2020 |
| VAT and Other Percentage Taxes Withheld | 62,313,647.99 | January 10, 2020 |
| Documentary Stamp Tax | 255,105,677.38 | January 6, 2020 |
| **Total** | **P 497,671,994.63** |  |

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

1. **The PCSO was unable to remit all the contributions to the Government Service Insurance System (GSIS) as there was under remittance of contributions in the total amount of P1.631 million due to the inability of the Agency to update its employees’ records with the GSIS, which was not in accordance with the provisions under Section 6 of Republic Act (RA) No. 8291.**
   1. Section 6 of RA No. 8291 provides:

*“(a) The employer shall report to the GSIS the names of all its employees, their corresponding employment status, positions, salaries and such other pertinent information, including subsequent changes therein, if any, as may be required by the GSIS; the employer shall deduct each month from the monthly salary or compensation of each employee the contribution payable by him xxx*

*(b) Each employer shall remit directly to the GSIS the employees’ and employer’s contributions within the first ten (10) days of the calendar month following the month to which the contributions apply xxx.*

* 1. Moreover, Section 11.1, Rule III of the Implementing Rules and Regulations (IRR) of RA No. 8291 states:

*Xxx effective January 1, 2003, the rate of contribution payable by the member and government agency shall be 9% and 12%, respectively, based on the actual monthly salary of the member.*

* 1. Examination of the financial records pertaining to the GSIS contributions withheld from the salaries of PCSO personnel assigned at the Head Office disclosed that contributions equivalent to 9% of the employees’ monthly salary were deducted for the period January to December 2019 in the total amount of P25.009 million. However, total remittances for the same period amounted only to P23.378 million, thereby having net under remittance of P1.631 million.
  2. Verbal Inquiry with the PCSO’s Electronic Remittance File (ERF) Officer, the personnel responsible for the remittance of contributions to the GSIS, revealed that discrepancies between the amounts withheld and remitted were due to the delay in the updating of employees’ records through the GSIS eBilling and Collection System (eBCS). She explained that remittances of contributions to the GSIS cannot exceed the amounts reflected in the monthly Electronic Billing Files (EBFs), which were generated from the eBCS.
  3. Hence, if an employee had an increase in salary but his/her record in the eBCS was not updated, the amount of contribution that would be remitted will still be based on his/her previous salary rate. In the same manner, if there was a newly hired employee or if there was an employee from the branch office that was transferred to the Head Office but the employee’s record was not updated in the eBCS, the mandatory contribution will not be remitted to the GSIS. The correct mandatory contributions will only be remitted to the GSIS once the employees’ records are updated and reflected in the EBFs.
  4. As provided in the GSIS website, the Agency Authorized Officer (AAO) shall coordinate with the ERF officer to ensure that the changes in the membership records submitted to GSIS are duly reflected in the next generated remittance file, and the Reconciliation Billing Issues (RBIs) forwarded by the GSIS are addressed and the appropriate membership updating forms are prepared and transmitted to GSIS before the following month’s remittance. The ERF Officer, on the other hand, shall coordinate with the AAO to ensure that membership updating forms are forwarded to the GSIS membership coordinators before the monthly remittance is paid.
  5. The delay in the updating of employees’ records with the GSIS resulted in the under remittance of P1.631 million, contrary to Section 6 of RA No. 8291. Moreover, the concerned personnel of the PCSO were unjustly disadvantaged by the neglect of the AAO and the ERF Officer to update their records with the GSIS considering that it has an effect on the computation of their retirement and other membership benefits.
  6. **We recommended that Management direct:**

1. **The concerned official of the PCSO to coordinate with the GSIS and take the necessary steps towards the immediate remittance of the GSIS contributions amounting to P1.631 million; and**
2. **The AAO and the ERF Officer of the PCSO to coordinate with each other to ensure that the employees’ records are promptly updated with the GSIS so that the correct amount of monthly contributions shall be remitted to the said Agency.**
   1. Management informed that the HRD prepared a draft letter for signature of the General Manager addressed to the Department Manager, NCR Department III of GSIS to request for a meeting to address the immediate remittance of unremitted GSIS contributions of concerned PCSO officials and employees. Likewise, the HRD transmitted the list of employees whose records have been updated or created to the GSIS portal or through email by the AAO through Memorandum dated August 19, 2020. The HRD shall schedule a meeting with the Accounting and Budget Department for the reconciliation of employees records and the unremitted contributions to the GSIS.
3. Premiums due to GSIS, Pag-IBIG and PhilHealth for January to November 2019 were deducted from the salaries of PCSO-Head Office personnel in the total amount of P53.590 million and remitted within the prescribed period. The premiums deducted in December 2019 in the total amount of P5.481 million were remitted in January 2020, details presented in Table 21.

**Table 21 – GSIS, Pag-IBIG and PhilHealth Deductions and Remittances**

**During the month of December 2019**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Agency** | **Premiums collected and remitted in 2019 (January to November 2019)** | **Premiums collected in December 2019 and remitted in January 2020** | **Date Remitted in 2020** | **Total** |
| GSIS | P 47,000,170.41 | P 4,771,649.02 | January 8, 2020 | P 51,771,819.43 |
| Pag-IBIG | 1,724,392.50 | 168,892.50 | January 14, 2020 | 1,893,285.00 |
| PhilHealth | 4,865,715.40 | 540,339.61 | January 16, 2020 | 5,406,055.01 |
| **Total** | **P 53,590,278.31** | **P 5,480,881.13** |  | **P 59,071,159.44** |

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

1. The total unsettled audit suspensions and disallowances amounted to P2.114 billion as at December 31, 2019, details presented in Table 22. There was no Notice of Charge issued during the year.

**Table 22 – Summary of Audit Suspensions and Disallowances**

**As of December 31, 2019**

| **Particulars** | **Balance,**  **1/1/2019** | **Issued**  **This period** | **Settlement**  **This period** | **Balance,**  **12/31/2019** |
| --- | --- | --- | --- | --- |
| Notices of Suspension | P 4,350,400.18 | P36,380,172.02 | P2,731,464.39 | P 37,999,107.81 |
| Notices of Disallowance | 2,067,686,833.22 | 8,851,200.00 | 56,540.05 | 2,076,481,493.17 |
| **Total** | **P2,072,037,233.40** | **P45,231,372.02** | **P2,788,004.44** | **P2,114,480,600.98** |

* 1. The Notice of Disallowance issued during CY 2019 amounting to P8.851 million represents excessive per diems paid to the members of the PCSO Board of Directors. On the other hand, the Notices of Suspension issued during the year totaling P36.380 million pertained to the non-submission of documentary requirements for the financial assistance granted by PCSO and for the liquidation of cash advances for travel expenses amounting to P33.107 million and P3.273 million, respectively. The details of unsettled suspensions and disallowances at year-end are shown in Part IV-Annex A of this Report.