**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS**

Out of the 33 audit recommendations embodied in the previous year’s Annual Audit Report (AAR), 13 were implemented, 14 were partially implemented and six (6) were not implemented. Details as follows:

| **REFERENCE** | **OBSERVATIONS** | | **RECOMMENDATIONS** | **ACTION TAKEN/ COMMENTS** |
| --- | --- | --- | --- | --- |
| **Financial Audit** | | | | |
| Audit Observation (AO) No. 1  Page 90 | Presumptive Monthly Retail Receipts (PMRR) Shortfalls for calendar years (CYs) 2018 and 2017 in the total amounts of P7.320 billion and P7.589 billion and the corresponding amounts of Shortfalls due to PCSO totaling P3.051 billion and P2.983 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Small Town Lottery (STL) Agents (ASAs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of revenues, Retained Earnings and receivables - STL by P7.320 billion, P2.983 billion and P6.034 billion, respectively. | | We recommended that Management:   1. Recognize as part of the PCSO’s revenues the PMRR shortfalls incurred in CYs 2018 and 2017 and recognize as among the receivables the net amount representing unsettled PMRR shortfalls due to PCSO in 2018 and 2017. 2. Record the STL transactions on accrual basis to ensure that the same are recognized in the period in which they were earned and not when cash was collected pursuant to Paragraphs 27 and 28 of PAS 1 and the CFFR. | Partially Implemented.  PCSO recorded a settlement of P1.886 billion for GMMRR Shortfall due in CYs 2017-2018. However, P4.287 billion GMMRR Shortfall due in CYs 2017-2018 were not collected and remained unrecorded as receivable as of December 31, 2019.  Not Implemented.    Reiterated and updated in Part II – Observation and Recommendation No. 1 of this Report. |
| AO No. 2  Page 93 | The faithful representation of the balance of Cash and Cash Equivalents account amounting to P9.815 billion as at December 31, 2018 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the Philippine Accounting Standard 1 and QC12 of the Conceptual Framework for Financial Reporting:   1. Variance of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund accounts and Main account; 2. Variance of P497.338 million between the balance per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts; 3. Closed accounts still having outstanding balances in the books amounting to P22.254 million and P18.178 million (negative); and 4. Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash. | | We recommended that Management direct the concerned accounting personnel to:   1. Effect the necessary adjustments, after a thorough verification of the book reconciling items for each of the subject bank accounts, in order to present fairly the balance of the Cash in Bank account in the financial statements; 2. Intensify the efforts in coordinating with the corresponding depository banks to thresh out the details of the bank reconciling items and investigate the cause/s of the alleged unposted deposits totaling P10.574 million under Operating Fund accounts and P26.841 million under the Charity Fund/Prize Fund accounts so that appropriate action may be taken thereafter; 3. Effect the necessary adjusting entries, after a thorough verification of the long-outstanding reconciling items, in order to correct the P22.254 million overstatement of the Cash and Cash Equivalents account and the negative balance of P18.178 million, which pertained to book balances of closed PNB accounts; and 4. Effect the necessary adjusting entries that will correct the P8.631 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2018 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks. | Partially Implemented.  Reiterated and updated in Part II – Observation and Recommendation No. 4 of this Report.  Partially Implemented.  Partially Implemented.  Fully Implemented. |
| AO No. 3  Page 99 | Assets generated as well as the liabilities incurred from the P2.5 billion trust fund intended for the construction of the PCSO building maintained with the Land Bank of the Philippines (LBP) were not reported separately in the Statement of Financial Position as at December 31, 2018. Instead, the equity from the said trust account in the amount of P2.603 billion was recognized under the Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) account, which was tantamount to offsetting of assets and liabilities that is not allowed under Sections 32 and 33 of Philippine Accounting Standard (PAS) 1, resulting in the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, while the Financial Assets was overstated by P524.336 million. | | We recommended that Management direct the concerned accounting personnel to effect the necessary adjusting entries pertaining to the CY 2018 transactions of the trust fund with the LBP, which was intended for the construction of the PCSO building, so that the balances of the affected accounts shall faithfully represent the effects of the said transactions pursuant to Paragraph 15 of PAS 1. | Fully Implemented. |
| AO No. 4  Page 100 | The Accounts Payable – Miscellaneous with a balance of P5.340 billion as at December 31, 2018 and Other Charity Expenses account totaling P198.977 million were overstated by P255.949 million and P23.348 million, respectively, while the Retained Earnings – Charity Fund account with balance of P2.772 billion was understated by P232.600 million as at December 31, 2018 due to erroneous recording of various charity expenses and payments, as follows:   1. Erroneous recording of expenses of P23.348 million pertaining to Individual Partnership Program (IPP) and Endowment Fund (EF) Program which were already accrued in 2015; 2. Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program; and 3. Erroneous recording of payments for mandatory contributions totaling P206.523 million. | | We recommended that Management:   1. Direct the concerned accounting personnel to immediately effect the necessary adjusting entries to correct the overstatements of P255.949 million and P23.348 million of the Accounts Payable-Miscellaneous and Charity Expenses accounts, respectively, as well as the understatement of the Retained Earnings – Charity Fund account by P232.600 million as at December 31, 2018. 2. Ensure compliance with Section 111 (2), Chapter 2 of PD No. 1445 by directing the concerned accounting personnel to be more efficient and careful in the recording of the financial transactions of the PCSO to avoid inaccurate or misleading information. | Fully Implemented.  Fully Implemented. |
| AO No. 5  Page 104 | Cash bonds of six (6) terminated Authorized Agent Corporations/ Authorized STL Agents (AACs/ASAs) totaling P497.183 million were not yet forfeited as of December 31, 2018 despite the issuance of forfeiture order/request by the Branch Operations Sector (BOS), resulting in the overstatement of the Performance Bonds Payable account with a balance of P4.044 billion by P497.183 million and misstatement of the balances of the other affected accounts by the corresponding amounts, which affected the faithful presentation of the balances of subject accounts in the financial statements as of December 31, 2018. | | We recommended that Management direct the concerned accounting personnel to effect the necessary adjusting entries to recognize in the books the forfeitures of the cash bonds of the said six (6) terminated AACs so that the balances of the Performance/Bidder’s Bonds Payable account and other affected accounts shall be fairly presented in the financial statements. This should be accompanied with the actual transfer of funds to the Charity Fund, pursuant to Board Resolution No. 111, series of 2018, so that the same can be utilized to fund the various charitable programs of the PCSO, particularly the IMAP. | Partially Implemented.  Adjustments were made by the PCSO, however, these were recorded as Miscellaneous Income and not part of the revenue and receivable in the year these were earned. |
| AO No. 6  Page 105 | The faithful representation of the balance of the Due to BIR-Documentary Stamp Taxes account totaling P681.801 million as at December 31, 2018 was not established due to the unreconciled amount of P109.252 million, contrary to Paragraph 15 of PAS 1. | | We recommended that Management direct the concerned accounting personnel to conduct immediate reconciliation/ analysis of the transactions affecting the Due to BIR-DST account in order to determine the cause/s of the material discrepancy of P109.252 million. Thereafter, effect the necessary adjusting entries so that the balance of the said account shall reflect a faithful representation of the effects of transactions in accordance with Paragraph 15 of PAS 1. | Partially Implemented.  The ABD started its reconciliation where part of the overstatement in remittance for the DST pertained to a certain STL agent with sales amounting to P23.031 million and corresponding DST of P4.606 million. The amount was offset in the remittance due to BIR in January 2019. Further reconciliation is being conducted to bring the account to its correct balance. |
| AO No. 7  Page 106 | PCSO recognized in its books the full amount of CY 2018 retail receipts generated by the Instant Sweepstakes Authorized Corporation (ISAC) in the amount of P1.149 billion despite the fact that only 13 per cent of the ISAC’s gross receipts accrue to the PCSO as guaranteed share, which was tantamount to misrepresentation of the actual revenues derived from the ISP, contrary to PAS 1 and Paragraph 4.47 of the Conceptual Framework for Financial Reporting (CFFR). | | We recommended that Management direct the concerned accounting personnel to effect the necessary adjusting entry/ies in order to reflect the correct amount of retail receipts from the ISP accruing to the PCSO pursuant to Section 4 of the Revised IRR for the ISP in accordance with Paragraphs 15 and 4.47 of PAS 1 and CFFR, respectively. | Not Implemented.  Reiterated and updated in Part II – Observation and Recommendation No. 2 of this Report. |
| AO No. 8  Page 109 | The Documentary Stamp Taxes (DST) and Prize Fund Taxes (PFT) accounts in the amounts of P9.441 billion and P1.419 billion for CY 2018 were overstated by P137.894 million and P30.968 million, respectively, due to the recognition of the amount paid for DST and PFT by the Powerball Marketing and Logistics Corporation (PMLC) as part of PCSO’s expenses. | | We recommended that Management direct the concerned accounting personnel to effect the necessary adjustment/s to correct the overstatement of P137.849 million and P30.968 million of the DST and PFT accounts so that their balances shall be fairly presented in the financial statements. We further recommended that Management remind the concerned official and employees to observe the highest standards of objectivity and consistency in the recording of financial transactions to avoid inaccurate or misleading information. | Not Implemented.  In connection with AOM No. 2020-021, ABD still records the gross sales of NISP based on PCSO Charter, RA No. 1169. |
| AO No. 9  Page 111 | The faithful representation of the balance of the consolidated Property, Plant and Equipment (PPE) accounts with a carrying value of P795.330 million in the financial statements as of December 31, 2018 could not be ascertained due to the following deficiencies:   1. A net discrepancy of P109.983 million existed between the carrying amount of depreciable PPE per books as of December 31, 2018 and the corresponding lapsing schedules as of the same date; 2. The inventory report for CY 2018 submitted by the Assets and Supply Management Department (ASMD) was incomplete considering that it only contained the results of the physical count of the assets at the PCSO – Head Office, hence, the integrity of property custodianship of the entire PPE belonging to PCSO was not checked; and 3. Results of the actual physical count of the assets comprising the PPE Head Office account disclosed a material net discrepancy of P177.434 million when compared with the balance per books of the said account. | | We recommended that Management:   1. Direct the concerned accounting personnel to conduct an immediate reconciliation of the balances per books of the PPE account with the corresponding balances per lapsing schedules to determine the cause/s of the net discrepancy of P109.983 million as of December 31, 2018. Thereafter, effect the necessary adjusting entries to correct the balances of the affected accounts so that the same shall be fairly presented in the financial statements; 2. Direct the concerned official of the ASMD to prepare and submit a consolidated inventory report for all the assets belonging to PCSO to check the integrity of property custodianship thereof as well as to determine if the balance of the PPE account reflected in the financial statements was fairly presented; 3. Direct the concerned officials and employees to conduct immediate reconciliation of the balance per books of the PPE- Head Office account with the corresponding balances per inventory report as of December 31, 2018 in order to determine the cause/s of the material net discrepancy of P177.434 million as of December 31, 2018. Thereafter, necessary adjusting entries should be effected so that the balance of the PPE account shall be fairly presented in the financial statements; and 4. Considering that the balance per books was greater than the balance per physical count, which may indicate missing items of PPE, conduct deeper investigation thereon and undertake the appropriate legal and/or administrative actions under the circumstances. | Partially Implemented.  Reiterated and updated in Part II – Observation and Recommendation No. 6 of this Report.  Fully Implemented.  Partially Implemented.  Partially Implemented. |
| AO No. 10  Page 115 | The fairness of presentation in the financial statements of the balances of the Other Assets-Other Deposits (POSC/PGMC) accounts in the total amount of P6.643 million as of December 31, 2018 was doubtful due to: (a) variance of P2.531 million between the balances confirmed by the PNB and the balances per books of the said accounts; and (b) non-preparation of the Bank Reconciliation Statements (BRSs) for the subject bank accounts. | | We recommended that Management direct the concerned accounting personnel to immediately prepare the required bank reconciliation statements for PNB account Nos. 374428800013 and 374441700012 for POSC and PGMC, respectively, in order to determine the cause/s of the discrepancies. Thereafter, effect the necessary adjusting entries to ensure the fairness of presentation of the balances of the OA-OD-POSC and OA-OD-PGMC accounts in the financial statements. | Fully Implemented. |
| **Compliance Audit** | | | | |
| AO No. 11  Page 117 | PCSO has not declared and remitted dividends to the National Government (NG) for dividend years (DYs) 1994 to 2016 in the total amount of P8.426 billion, contrary to the provision under Section 3 of Republic Act (RA) No. 7656. | | We recommended that Management settle the P8.426 billion dividends in arrears due to the NG in compliance with RA No. 7656, once their request for exemption will be denied by the Department of Finance | Partially Implemented.  Reiterated in AOM No. 20-002 dated March 3, 2020. |
| AO No. 12  Page 119 | The Presumptive Monthly Retail Receipts (PMRR) shortfalls due to PCSO in the amount of P4.607 billion, net of the waived PMRR amounting to P665.200 million and reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million, remained unsettled as of December 31, 2018 in violation of Section 18 (e) of the IRR for the STL. | | We recommended that Management intensify collection of the PMRR shortfalls due from the concerned AACs/ASAs in the total amount of P4.607 billion so that the same can be utilized for the various charitable programs of the PCSO, particularly the IMAP. Otherwise, implement Section 27 (f & g) of the Revised IRR for STL and suspend and/or revoke their Authorities to Operate (ATO) and forfeit their cash bonds corresponding to the amount of their PMRR Shortfalls | Partially Implemented.  In CY 2019, P1.886 billion shortfalls due in CY 2017-2018 were settled. |
| AO No. 13  Page 121 | Unremitted shortfalls in the PMRR as of December 31, 2018 were reduced by a total amount of P1.427 billion due to: (a) waived PMRR shortfalls due to PCSO amounting to P665.200 million based on various Board Resolutions; and (b) reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million. | | We recommended that Management:   1. Nullify the waiver given to the subject AACs and restore the PMRR shortfalls due from them in the total amount of P665.200 million considering that the PCSO Board of Directors has no authority to condone or waive valid claims by PCSO pursuant to Section 36.1 of PD No. 1445/Section 20(1), Chapter 4, Subtitle B, Title I, Book V of EO No. 292 or the Administrative Code of 1987; and 2. Consider the possibility of recalling BR No. 0401, series of 2018 and instead, follow the provisions in the STL Agency Agreement until its renewal, in view of the undue disadvantage suffered by PCSO on account of its issuance. | Fully Implemented.  The waiver was nullified through Board Resolution (BR) No. 315 dated August 28, 2019.  Fully Implemented.  BR No. 401 was recalled through BR No No. 315 dated August 28, 2019. |
| AO No. 14  Page 125 | The total amount of P684.302 million, consisting of forfeited prizes for Keno games during CYs 2015 to 2017 in the total amount of P184.302 million as well as the remaining balance of the 2017 unutilized operating fund of P500 million, were not yet transferred to the Charity Fund, contrary to Sections 6.A and 6.D of Republic Act (RA) No. 1169, otherwise known as the PCSO Charter, which could have provided the much-needed fund for the various charitable programs of the PCSO, most specially the Individual Medical Assistance Program (IMAP). | | We recommended that Management direct the concerned officials of the PCSO to immediately transfer to the Charity Fund the total amount of P684.302 million, representing forfeited prizes for Keno games and remaining unutilized CY 2017 operating fund pursuant to Sections 6.A and 6.D of RA No. 1169 to augment the funds that may be utilized for the various charity programs of the PCSO, particularly the IMAP. | Fully Implemented. |
| AO No. 15  Page 126 | Three (3) AACs/ASAs were allowed to operate STL during CY 2018 despite the non-settlement of their cash bond deficiencies totaling P106.349 million as of December 31, 2018, contrary to Section 16 of the 2016 Revised IRR for the STL. | | We recommended that Management:   1. Enforce collections of the cash bond deficiencies totaling P106.349 million from the subject AACs/ASAs to answer for whatever PMRR shortfall due to PCSO that may not be remitted in the future; and 2. Undertake appropriate actions under the circumstances in accordance with Section 17 of the Revised IRR for the STL to protect the interest of the PCSO. | Not Implemented  These AACs were already terminated and suspended as of December 31, 2019.  Fully Implemented. |
| AO No. 16  Page 128 | Copies of twenty-five (25) contracts executed by PCSO during CYs 2017 and 2018 in the total amount of P131.480 million together with the pertinent supporting documents were not furnished to the Office of the Auditor within five (5) working days upon execution thereof, contrary to Section 3.1.1 of COA Circular No. 2009-001, thereby precluding the Audit Team from conducting timely review and evaluation of the said contracts. | | We recommended that Management ensure compliance with the provisions of COA Circular No. 2009-001 dated February 12, 2009, requiring submission to the Auditor of all contracts entered into by concerned government agencies, together with each of all the documents forming part thereof by reference or incorporation, within five (5) working days from the execution thereof so that timely review of the contractual covenants and evaluation of PCSO’s compliance with applicable laws, rules and regulations can be promptly undertaken by this Office. | Partially Implemented.  Reiterated in AOM No. 20-017 dated July 30, 2020. |
| AO No. 17  Page 129 | The propriety of the payments made to RLIAC in the total amount of P5.063 million was doubtful due to lack of and/or questionable supporting documents required under Section VII of the IRR of the Individual Medical Assistance Program (IMAP). | | We recommended that Management:   1. Cause the submission of the valid identification cards of the patients and representatives comprising the one hundred-one (101) cases amounting to P2.168 million who claimed financial assistance from PCSO through the RLIAC, otherwise a Notice of Suspension shall be issued; 2. Conduct deeper investigation on the claims of the subject partner hospital with unusual circumstances to establish the validity thereof and furnish this Office with the results for our evaluation and determination of the next audit action to take; and 3. Direct Charity Assistance Department (CAD) to ensure compliance with the pertinent provisions of the IRR on IMAP and to conduct prudent evaluation of the documentary requirements being submitted by patients to forestall fictitious claims. Cause the institution of a mechanism in the database of CAD that would allow the concerned personnel to access information pertaining to previous claims of the patients to facilitate the validation process. | Not Implemented.  PCSO was not able to furnish copies of photocopies of valid IDs of various patients enumerated in the AOM.  Issued NS. No. 2019-009 (16/17) dated December 11, 2019 and ND No. 20-002 (16/17) dated July 17, 2020.  Fully Implemented.  Fully Implemented. |
| **Gender and Development** | | | | |
| AO No. 18  Page 131 | | PCSO was not able to allocate at least five percent of its total Approved Budget for CY 2018 for GAD activities, contrary to Joint Circular (JC) No. 2012-01 of the Philippine Commission on Women (PCW), National Economic Development Authority (NEDA) and Department of Budget and Management (DBM). | We recommended that Management:   1. Comply with Section 6.1 of PCW-NEDA-DBM Joint Circular No. 2012-01, prescribing at least five per cent of the COB shall be allocated for GAD; and 2. Exert more effort to comply with Section 4.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on the institutionalization of GAD Database/ Sex-disaggregated Data to ensure a more effective GAD planning & budgeting as well as implementation of GAD activities. | Fully Implemented.  Partially Implemented.  PCSO was not able to submit their Sex-disaggregated Data. |
| AO No. 19  Page 133 | | The PCW-endorsed Annual GAD Plan and Budget (GPB) and the corresponding Accomplishment Report (AR) were not submitted to COA within the period prescribed under Section V of COA Circular No. 2014-001, hence, we were unable to promptly evaluate if the PCSO’s accomplishments relating to GAD activities were within its approved GPB. | We recommended that Management direct the concerned official and employees to comply with COA Circular No. 2014-001 on the submission of the GPB as well as the GAD Accomplishment Report within the prescribed period. | Partially Implemented.  Management was not able to submit their GPB and AR within the prescribed period. |
| **Compliance to Tax Laws** | | | | |
| AO No. 20  Page 134 | Applicable taxes for draw allowances paid by PCSO to its employees and other individuals during CY 2018 in the total amount of P202.908 million were not withheld, in violation of the National Internal Revenue Code (NIRC) of the Philippines. | | We recommended that Management ensure compliance with Section 251 of the NIRC of 1997, as amended by RA No. 10963, and direct the concerned officials to cause the withholding of the applicable taxes from the draw allowances being paid to concerned officials and employees and other individuals and remit the same to the BIR. | Not Implemented.  Reiterated and updated in Part II – Observation and Recommendation No. 13 of this Report. |