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

**AUDIT RECOMMENDATIONS**

Out of the 29 audit recommendations embodied in the previous year’s Annual Audit Report (AAR), seven (7) were fully implemented, 21 were partially implemented and one (1) was not implemented. Details as follows:

| **REFERENCE** | **OBSERVATIONS** | **RECOMMENDATIONS** | **ACTION TAKEN/ COMMENTS** |
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| **Financial** | | | |
| Audit Observation (AO) No. 1,  Page 87 | 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. | 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. | Partially Implemented.  PCSO already recognized the receivables from the GMMRR shortfall dues. However, there were some amounts still for reconciliation as of December 31, 2020.  Partially Implemented.  In November 2020, PCSO started to record the STL revenues on accrual basis.  Partially Implemented.  Adjusting entry was made through GJ No. 2012149 dated December 31, 2020 but the adjustment made did not completely reflect the unrecorded GMMRR shortfall dues. |
| AO No. 2, Page 91 | 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). | 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. | Partially Implemented.  The share of PCSO in the net proceeds of the ISP equivalent to 13% share was disclosed in the Notes to Financial Statements. |
| AO No. 3, Page 93 | 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. | 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. | Partially Implemented.  BOS already required the AACs to submit the reports of prize fund utilization, however, it was still not considered in the recording of prize fund expenses. |
| AO No. 4, Page 95 | 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:   1. 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; 2. 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; 3. Closed accounts still having outstanding balances in the books amounting to P12.020 million and P39.280 million (negative); 4. 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 5. 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. | 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. | Partially Implemented.  Reiterated with updates under Part II – Observation and Recommendation No. 3 of this Report.    Partially Implemented  Partially Implemented.  Fully Implemented  Fully Implemented. |
| AO No. 5, Page 102 | 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:   1. Abnormal (credit) balances of four (4) AR sub-accounts totaling P681.735 million; 2. 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 3. 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. | 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:   b.1. 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  b.2 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. | Partially Implemented.  Reiterated with updates under Part II – Observation and Recommendation No. 2 of this Report.  Partially Implemented.  Partially Implemented. |
| AO No. 6,  Page 106 | 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:   1. Net discrepancy of P151.273 million existed between the carrying amount of depreciable PPE per books and the corresponding lapsing schedules; and 2. 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. | 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.  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. | Partially Implemented.  Reconciliation between ABD and ASMD is still ongoing.  Partially Implemented.  Partially Implemented. |
| AO No. 7, Page 108 | 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. | 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. | Fully Implemented. |
| **Other Observations** | | | |
| AO No. 8,  Page 113 | 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. | 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. | Partially Implemented.  Out of the 17 beneficiaries for the Procurement of Medical Equipment Program, seven have submitted the Liquidation reports and supporting documents  Fully Implemented. |
| AO No. 9, Page 116  AO No. 10, Page 119 | 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:   1. 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); 2. 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 3. 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.   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. | 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.   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. | Fully Implemented.  Partially Implemented.  Letters have been sent to beneficiaries, awaiting for their compliance.  Partially Implemented.  Letters have been sent to beneficiaries, awaiting for their compliance.  Partially Implemented.  The 2020 STL IRR, as approved by the President, provides that the entire printing cost shall be remitted to PCSO. On the other hand, there were no revisions yet to the IRR of the Instant Sweepstakes to address the audit recommendation.  Partially Implemented.  As per 2020 STL IRR, this recommendation is not anymore applicable to AACs. However, there is still no submitted liquidation of the amounts retained by ISAC for the printing cost. |
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| AO No. 11,  Page 121 | 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.  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). | 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.  We recommended that Management continue complying with the GAD related law, rules and regulations and commitments. | Not Implemented.  PCSO GPB and AR were not yet submitted to COA.  Reiterated with updates under Part II – Observation and Recommendation No. 8 of this Report  Fully Implemented. |
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| AO No. 13,  Page 123 | 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. | 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. | Fully Implemented. |
| AO No. 15, Page 124 | 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. | 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. | Partially Implemented  The HRD have partially updated the data of the employees.  Validation of the electronic copy of the Journal of Checks Issued for CY 2020 showed that PCSO have indeed made various payments for the unremitted GSIS premiums from previous months/ year.  Partially Implemented.  The ERF Officer is continuously reconciling the total amount of premiums withheld from salaries of the employees from previous years/months which remained unremitted. |
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