**PART II – OBSERVATIONS AND RECOMMENDATIONS**

**HEAD OFFICE**

1. **FINANCIAL**
2. **The Printing and Publication Expenses – Small Town Lottery (STL) account was understated by P568.561 million, consequently overstating the Retained Earnings account by the same amount due to the non-recognition of printing expense for STL tickets in the Calendar Year 2022, which is not accordance with Paragraph 4.50 of the Conceptual Framework for General Purpose Financial Reporting and Section 6 of Republic Act No. 1169, as amended.**
   1. Paragraph 4.50 of the Conceptual Framework for General Purpose Financial Reporting (CFGPFR) provides that:

“Expenses are recognized in the income statement on the basis of a direct association between costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of cost with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events...xxx”

* 1. Section 6 of RA No. 1169 (PCSO Charter), as amended, provides that from the gross receipts from the sale of sweepstakes tickets, whether for sweepstakes races, lotteries, or similar activities, shall be deducted the printing cost of such tickets, which in no case shall exceed two percent of such gross receipts to arrive at the net receipts to be allocated to Prize, Charity, and Operating Funds with the rates indicated therein.
  2. Likewise, Section 48, Article XI of the 2020 STL Revised Implementing Rules and Regulations (RIRR) provides the rates of PCSO and the Authorized Agent Corporation (AAC) on the Retail Receipts from STL operations, as shown in Table 1:

**Table 1 – PCSO and AAC shares on the Retail Receipts**

**from STL operations**

|  |  |  |
| --- | --- | --- |
| **Income**: | | **Percentage** |
|  |  |  |
|  | *Printing Cost to PCSO* | *2.0000%* |
|  | PCSO Charity Fund | 9.4000% |
|  | PCSO Operating Fund | 14.7000% |
|  | **Total** | **26.1000%** |
|  | |  |
| **Taxes:** | |  |
|  | Expanded Withholding Tax from Agency Commission | 1.5000% |
|  | Vat Withholding from Agency Commission | 0.5000% |
|  | Expanded Withholding Tax from Sales Force Commission | 1.0000% |
|  | Vat Withholding Tax From Sales Force Commission | 0.5000% |
|  | Prize Fund Tax | 2.6950% |
|  | Documentary Stamp Tax | 20.0000% |
|  | **Total** | **26.1950%** |
| ***PCSO Share*** | | ***52.2950%*** |
| ***AAC’s Share*** | | ***47.7050%*** |
| **Total PCSO and AACs shares** | | **100.0000%** |

* 1. As gleaned from Table 1, the 52.2950 percent share of PCSO in the Gross Receipts included the two percent printing cost (expense). Printing Cost/Expense refers to the cost of printing the STL tickets, which shall not exceed two percent of Gross Receipts.
  2. Verification of the accounting records showed that Income from STL Gaming Operations during CY 2022 amounted to P28.428 billion, details of which were as follows:

|  |  |  |
| --- | --- | --- |
| **Area of Operation** |  | **Amount** |
| National Capital Region (NCR) | P | 918,343,079.00 |
| Northern and Central Luzon (NCL) |  | 9,488,280,570.00 |
| Southern Tagalog and Bicol Region (STBR) |  | 6,993,305,624.00 |
| Visayas |  | 6,188,890,206.00 |
| Mindanao |  | 4,839,221,094.00 |
| **Total** | **P** | **28,428,040,573.00** |

* 1. Examination of records, however, disclosed that no printing expenses were recorded during the year for STL operation. Management explained that no printing expense was recognized in the books because the AACs provided the printing of the tickets.
  2. In the Notes to Financial Statements (FS) for the CY 2022, management stated that the printing cost of P568.561 million, equivalent to two percent of the P28.428 billion shall be appropriated from the Operating Fund of PCSO. The AACs can reimburse their printing expenses from PCSO upon submission of complete and valid supporting documents for the actual expenses incurred, but not exceeding two percent, or the Guaranteed Minimum Monthly Retail Receipts (GMMRR), whichever is higher.
  3. However, granting that the AACs have yet to submit their claims for reimbursement for the printing cost of the STL tickets, management should have recognized the amount of P568.56 million in keeping with paragraph 4.50 of CFGPFR – the matching of cost with revenue. Management can make the necessary adjustments in the books as soon as the actual printing cost is determined based on the reimbursement claims of the AACs.
  4. Thus, the non-recognition of the printing expenses of P568.561 million in CY 2022 resulted in the understatement of the Printing and Publication Expenses – STL account and overstatement of the Retained Earnings (RE) account, by the same amount.
  5. **We recommended and Management agreed to instruct the concerned ABD to prepare an adjusting entry for the printing expenses of P568.561 million by debiting the RE and crediting the Other Provision – STL accounts both by the same amount; henceforth, observe Paragraph 4.50 of the CFGFR in recording income and expense.**
  6. Management has drawn JEV Nos. 203050994 dated May 31, 2023, to take up the recommended adjusting entries.

1. **The correctness of the balance of P120.853 million of the Play/Bet Slips and Thermal Rolls Supplies Inventories account as of December 31, 2022, could not be ascertained contrary to Paragraph 15 of the Philippine Accounting Standard 1 due to the: (a) unaccounted discrepancy of P45.418 million between the balances per General Ledger and the Report on the Physical Count of Inventories (RPCI) for Luzon; (b) absence of RPCI for the supplies inventories of Visayas and Mindanao and Printing Materials amounting to P29.362 million and P0.426 million, respectively; and (c) non-maintenance of Supplies Ledger Cards, Stock Cards, and other required inventory records and reports.**
   1. Paragraph 15 of PAS 1 provides:

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

* 1. Section 17, Chapter 8, Vol 1 of the Government Accounting Manual (GAM), enumerates the required and prescribed records, forms and reports to be prepared/maintained for Inventories account, such as the Stock Ledger Card (SLC), Stock Card (SC), Requisition and Issue Slip (RIS), Report of Supplies and Materials Issued (RSMI) and Report on the Physical Count of Inventories (RPCI). These records, forms, and reports, if properly maintained, ensure sound internal control over Inventories, and would support Management’s assertions, particularly on the existence, completeness and correctness of the Inventory account balance reflected in the financial statements.
  2. Play/Bet slips and thermal rolls inventories are lotto supplies used in betting for various lotto games, either outsourced from the Recognized Government Printers (RGPs) or produced by PCSO Security Printing and Production Department (SPPD). Play/Bet slips and thermal rolls are printed in Flx and Microlot printers.
  3. The Notes to FS No. 3.5, PCSO disclosed that the inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs are calculated using the weighted average method.
  4. The Play/Bet Slip and Thermal Rolls Inventories account had a total balance of P120.853 million as of December 31, 2022; details are presented in Table 2:

**Table 2 – Balance of the Play/Bet Slip and Thermal Rolls Inventories**

**As of December 31, 2022**

|  |  |  |
| --- | --- | --- |
| **Account Name** |  | **Amount** |
| Play/Bet Slips and Thermal Rolls Supplies Inventories - Luzon | P | 91,065,641.25 |
| Play/Bet Slips and Thermal Rolls Supplies Inventories - Vismin |  | 29,361,681.46 |
| Play/Bet Slips and Thermal Rolls Supplies Inventories-Printing Materials-Betslips-Lotto |  | 425,609.69 |
| **Total** | **P** | **120,852,932.40** |

* 1. The inventory balance for Luzon of P91.065 million is computed asd follows:

|  |  |  |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| Beginning Balance – 01/01/22 | P | 3,096,830.57 |
| Purchases |  | 297,435,822.73 |
| Consumption – Printer Flx |  | (209,467,012.05) |
| **Ending Balance – 12/31/22** | **P** | **91,065,641.25** |

* 1. The Asset and Supply Management Department (ASMD) submitted the CY 2022 RPCI of the Play/Bet slips and thermal rolls for Luzon. However, comparison of the GL balance and RPCI using the weighted average cost (WAC) per unit showed a discrepancy of P45.418 million, as shown in Table 3:

**Table 3 – Discrepancy between balances of Ply/Bet Slips and Thermal Rolls – Luzon**

**per books and RPCI - Luzon**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Physical Count per RPCI** | |  | **WAC per Unit** | |  | **Amount** | |  |
| **Particulars** | **Flx**  **(a)** | **Microlot**  **(b)** |  | **Flx**  **(c)** | **Microlot**  **(d)** |  | **Flx**  **(a x c)** | **Microlot**  **(b x d)** | **Total WAC** |
| **Total WAC per book – 12/31/22 - Luzon** | | |  |  |  |  |  |  | **P91,065,641.25** |
| Thermal Rolls | 130,151.00 | 23,322.00 |  | 221.02 | 212.00 |  | P28,765,974.02 | P4,944,264.00 | P33,710,238.02 |
| - | 30,000.00 |  | - | 209.00 |  | - | 6,270,000.00 | 6,270,000.00 |
| Betslips 6/58 (pcs) | 542,000.00 | - |  | 0.140 | - |  | 75,880.00 | - | 75,880.00 |
| Betslips 6/55 (pcs) | 146,000.00 | 3,201,000.00 |  | 0.130 | 0.320 |  | 18,980.00 | 1,024,320.00 | 1,043,300.00 |
| Betslips 6/49 (pcs) | 429,000.00 | 8,192,000.00 |  | 0.140 | 0.320 |  | 60,060.00 | 2,621,440.00 | 2,681,500.00 |
| Betslips 6/45 (pcs) | 91,000.00 | - |  | 0.140 | - |  | 12,740.00 | - | 12,740.00 |
| Betslips 6/42 (pcs) | 454,000.00 | - |  | 0.130 | - |  | 59,020.00 | - | 59,020.00 |
| Betslips 4D (pcs) | - | 266,000.00 |  | - | 0.320 |  | - | 85,120.00 | 85,120.00 |
| - | 425,000.00 |  | - | 0.315 |  | - | 133,875.00 | 133,875.00 |
| - | 374,000.00 |  | - | 0.190 |  | - | 71,060.00 | 71,060.00 |
| Betslips 3D (pcs) | - | 4,703,000.00 |  | - | 0.320 |  | - | 1,504,960.00 | 1,504,960.00 |
| **Less: Total WAC per RPCI – 12/31/22** | | |  |  |  |  | **P28,992,654.02** | **P16,655,039.00** | **P45,647,693.02** |
| **Discrepancy** |  |  |  |  |  |  |  |  | **P45,417,948.23** |

* 1. The Audit Team was informed that the discrepancy of P45.418 million pertained to the previously consumed thermal rolls and bet slips supplies that have yet to be recorded in the books as the documents pertaining thereto are still under verification and reconciliation.
  2. The delayed recording of the issued and utilized supplies resulted in the overstatement of the Inventory account balance and understatement of the Other Supplies and Materials Expense by P45.418 million, consequently overstating the RE account by the same amount.
  3. Moreover, no RPCI was submitted for the inventories of Vismin and the printing materials amounting P29.362 million and P425,610 shown in Table 2. The Audit Team/s were precluded from validating these balances, as the ABD and ASMD do not maintain SLC and SC as required in the cited provision of the GAM..
  4. Given the discrepancy of P45.418 million between the balances per GL and the RPCI, the absence of RPCI for VisMin and Printing Materials – Betslips - Lotto and non-maintenance of the required inventory records/reports, the correctness of the year-end balance of P120.583 million of the Play/Bet Slips and Thermal Rolls Supplies Inventories account could not be ascertained, contrary to paragraph 15 of PAS 1.
  5. **We recommended and Management agreed to require the ABD and ASMD personnel to:**

1. **Fast track the verification/reconciliation of the records/documents of the used inventories of P45.418 million and prepare the necessary adjustments or corrections in the books;**
2. **Submit to the respective Audit Team the RPCI of Play/Bet Slips and Thermal Rolls for VISMIN and Printing Materials for Lotto with book balances of P29.362 million and P0.426 million, respectively; and**
3. **Prepare/maintain SLC, SC and other inventory records/reports required in Section 17, Chapter 8, Volume 1 of the GAM.**
4. **The amount billed to and collected by PCSO from the Instant Sweepstakes Authorized Corporation pertaining to the PCSO guaranteed share, Documentary Stamp Tax and Prize Fund Tax for the remaining six months of its operation was short by P76.661 million due to the understatement of the guaranteed sales by P276.804 million, contrary to Section 58 of the Implementing Rules and Regulations for Instant Sweepstakes Program.**
   1. The PCSO is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character through the conduct of sweepstakes, races, lotteries, and other similar activities. To generate additional funds for the agency, PCSO launched the Instant Sweepstakes Program (ISP).
   2. In implementing the ISP, the PCSO approved the Implementing Rules and Regulations (IRR) for ISP per Board Resolution No. 0225 series 2017 dated September 28, 2017.
   3. Pertinent provisions of the IRR provide:

*Section 11. ISAC shall undertake the production, warehousing, advertising, marketing and distribution nationwide of PCSO Instant Sweepstakes tickets on a non-exclusive basis. The ISAC guarantees a total sale of Instant Sweepstakes tickets of Five (5) Billion Pesos (Php5,000,000,000.00) for a period of five (5) years or One Billion Pesos (Php1,000,000,000.00) per year at no cost to PCSO, subject to revisions and amendments with regard to the volume of tickets and guaranteed sales, based on the business judgement of the Board.*

*Section 57. To guarantee payment of the PCSO’s share of Six Hundred Fifty Million Pesos (Php650,000,000.00) for a period of five (5) years in the net proceeds of the sale of the Instant Sweepstakes tickets, the ISAC shall submit to PCSO within one (1) week from the date of execution of the MOA, sixty (60) post-dated checks in equal amounts of Ten Million Eight Hundred Thirty Three Thousand Three Hundred Thirty Three and 33/100 Pesos (Php10,833,333.33) which shall fall due every thirtieth (30th) day of each month following the initial launch and distribution of the Instant Sweepstakes tickets. The obligation to pay the PCSO’s guaranteed share of Six Hundred Fifty Million Pesos (Php650,000,000.00) shall be enforced despite the ISAC’s failure to print and distribute the Instant Sweepstakes Tickets.*

*Section 58 Should sales exceed the annual guaranteed sales in the amount of One Billion Pesos (P1,000,000,000.00) a year, the ISAC undertakes to issue an additional check corresponding to PCSO’s share in the excess,* ***in addition*** *to the next batch of twelve (12) checks. (emphasis supplied)*

* 1. Under Board Resolution (BR) No. 0226 series 2017, the Board of Directors approved the Powerball Marketing and Logistic Corporation (PMLC) as the Instant Sweepstakes Authorized Corporation (ISAC) that will operate the ISP for a period of five years starting from November 2017 and ending November 2022, under a non-exclusive all-in contract involving production, distribution, marketing, advertising and selling of said Instant Sweepstakes tickets nationwide on a considered sold basis and at no cost nor risk to PCSO.
  2. For CY 2018, the PCSO reported a total sales of P1.276 billion. The PCSO guaranteed share and the payments for Documentary Stamp Tax (DST) and Prize Fund Tax (PFT) pertaining to the additional sales over the guaranteed sales, totaling P76.661 million, were already collected by PCSO in CY 2019, as shown in Table 4:

**Table 4 – Computation of PCSO Guaranteed Share, DST and PFT**

**pertaining to the additional sales**

**for the Year 2018**

|  |  |  |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| Total sales recorded | P | 1,276,804,444.44 |
| Guaranteed sales |  | 1,000,000,000.00 |
| **Additional sales** | **P** | **276,804,444.44** |
| PCSO Guaranteed Share (13% of the additional sales) |  | 35,984,577.78 |
| Documentary Stamp Tax (60% of the 20% of the additional sales) |  | 33,216,533.33 |
| Prize Fund Tax (5% x 55% x 98% of the additional sales) |  | 7,459,879.78 |
| **Total collection of PCSO pertaining to the additional sales** | **P** | **76,660,990.89** |

* 1. On November 2, 2022, the PMLC requested to extend the contract under the ISP for the period corresponding to the number of days the PMLC was not allowed to sell instant sweepstakes tickets due to COVID-19 quarantine rules and restrictions. The PCSO granted the request for a six-month extension period, from December 2022 to May 2023, in compliance with the five-year term of the MOA.
  2. The PCSO computed the amount of the guaranteed sales for the six-month extension period amounting to P413.099 million and recorded the corresponding guaranteed sales of P68.849 million for the month of December 2022 thru Journal Entry Voucher (JEV) No. 22122751 dated December 29, 2022. Likewise, JEVs had been drawn to record the guaranteed sales for the remaining months of operation (January to May 2023) in the total amount of P344.249 million. However, verification revealed that the sales recorded for the month of December was understated by P46.134 million due to erroneous computation as shown in Table 5:

**Table 5 – Computation of Guaranteed Sales**

**for the Six-month Extension Period of the Contract**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Computation per PCSO** |  | **Re-computation per Audit** |  | **Difference** | **Remark** |
| PCSO Guaranteed Sales per MOA | P | 5,000,000,000.00 | P | 5,276,804,444.44 | P | 276,804,444.44 | Additional Sales in CY 2018 |
| Less Total Sales Recorded from Jan. 2018 to Nov. 2022 (additional sales from CY2018 included) |  | 4,586,900,605.64 |  | 4,586,900,605.64 |  | - |  |
| Remaining Guaranteed Sales to be billed corresponding to the six months extension | P | 413,099,394.36 | P | 689,903,838.80 | P | 276,804,444.44 | Understatement of the total amount of guaranteed sales corresponding to the six months extension period |
| Number of months extended |  | 6 months |  | 6 months |  | 6 months |  |
| **Monthly Guaranteed Sales to be billed for the six months extension** | **P** | **68,849,899.06** | **P** | **114,983,973.13** | **P** | **46,134,074.07** | **Understatement of sales recorded in December 2022** |

* 1. The PCSO excluded in the total guaranteed sales the P276.804 million additional sales in CY 2018, to which the PCSO had already collected its share in compliance with Section 58 of the IRR for ISP. These understated the computed guaranteed sales for the remaining six-month extension period by P276.804 million which, consequently, understated the total amount billed and collected by PCSO from ISAC by P76.661 million details are shown in Table 6:

**Table 6 – Computation of the understatement of the amount billed to**

**and collected by PCSO from ISAC**

**for the remaining six-month extension period**

|  |  |  |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| PCSO Guaranteed Share for five years (13% of the P5 billion guaranteed sales) | P | 650,000,000.00 |
| Documentary Stamp Tax for five years (60% x 20% of the P5 billion guaranteed total sales) |  | 600,000,000.00 |
| Prize Fund Tax for five years (5% x 55% x 98% of the P5 billion guaranteed sales) |  | 134,750,000.00 |
| Total amount billed to ISAC (based on P5 billion guaranteed sales) | P | 1,384,750,000.00 |
| Total amount collected from ISAC |  | 1,250,278,542.60 |
| Amount billed and collected from ISAC for the remaining six-month extension period – Computation per PCSO | P | 134,471,457.40 |
| Amount that should be billed and collected from ISAC for the remaining six-month extension period (based on P5 billion guaranteed sales plus P276.804 million additional sales) –  Re-computation per Audit |  | 211,132,448.29 |
| **Understatement of the amount billed and collected from ISAC** | **P** | **76,660,990.89** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** |  | **Understatement of the Total Amount of Guaranteed Sales for the Remaining Six Months of Operation** | **Percentage** |  | **Understatement of the Amount Billed and Collected from ISAC** |
| Guaranteed Share | P | 276,804,444.44 | (13% of the Guaranteed Share) | P | 35,984,577.78 |
| Documentary Stamp Tax |  | 276,804,444.44 | (60% of the 20% of the Guaranteed Share) |  | 33,216,533.33 |
| Prize Fund Tax |  | 276,804,444.44 | (5% \* 55% \* 98 of the Guaranteed share) |  | 7,459,879.78 |
| **Total** |  |  |  | **P** | **76,660,990.89** |

* 1. **We recommended that Management direct the ABD to:**

1. **Prepare an adjusting entry to correct the understatement of the guaranteed sales recorded in December 2022 amounting to P46.134 million, and the understatement of the guaranteed sales recorded for January to May 2023 totaling P230.670 million; and;**
2. **Bill the ISAC, and accordingly collect therefrom, the amount of the understatement of the PCSO guaranteed share and the payments for DST and PFT, totaling P76.661 million.**
   1. Management explained that the amount of P134.471 million, billed by PCSO to the ISAC and subsequently paid by the latter, is the remaining balance for the PCSO guaranteed share, DST and PFT corresponding to P5 billion guaranteed sales for five years contract.
   2. Management cited the stipulation under Section 11 of the IRR for the ISP as follows:

*“ISAC shall undertake the production, warehousing, advertising, marketing and distribution nationwide of PCSO Instant Sweepstakes tickets on a non-exclusive basis. The ISAC guarantees a total sale of Instant Sweepstakes tickets of Five (5) Billion Pesos (Php 5B) for a period of five (5) years* ***OR*** *One Billion Pesos (Php 1B) per year at no cost to PCSO, subject to revisions and amendments with regard to the volume of tickets and guaranteed sales, based on the business judgement of the Board”* (emphasis supplied).

* 1. Moreover, the management mentioned Section 58 of the same IRR which provides that:

*“Should sales exceed the annual guaranteed sales in the amount of One Billion Pesos (Php 1B) a year, the ISAC undertakes to issue an additional check corresponding to PCSO’s share in the excess, in addition to the next batch of*

*twelve (12) checks.”*

* 1. Management also explained that ISP is a contract of “Five Billion Pesos for a period of five (5) years OR One Billion pesos per year” with emphasis on the “OR”. Hence, it should be understood that the excess or whatever due from the ISAC shall be due and demandable after the 5-year contract when all the sales were reconciled.
  2. Referring further, to the MOA dated 10 November 2017, Par. 10 which states that:

*“10. PCSO GUARANTEED SHARE.*

*The PCSO is guaranteed its share in the net proceeds of the sales of the Instant Sweepstakes tickets in the amount of P650,000,000.00 for a period of five (5) years.*

*x x x*

*“It is hereby agreed that the obligation to pay the PCSO’s guaranteed share of Php650,000,000.00 shall be enforced despite the ISACs failure to print and distribute the Instant Sweepstakes.”*

* 1. Finally, management informed that ISAC complied to remit to PCSO its share despite their failure to print Instant Sweepstakes tickets corresponding with P5 Billion guaranteed sales.
  2. As rejoinders, the Audit Team acknowledged that the ISAC guaranteed a total sale of Five Billion Pesos for five years or One Billion Pesos per year. However, contrary to the position of the Management, the approved ISP guidelines and the MOA expressly provide several stipulations in cases where the actual annual sales are higher than the yearly guaranteed sales.
  3. The Audit Team emphasize that the computation of the excess sales over the guaranteed sales is on per year or annual basis as explicitly stipulated in various provisions of the 2017 RIRR for ISP and the MOA between the PCSO and ISAC, to wit:

1. Section 48(d) of the 2017 RIRR for ISP:

*“Strictly monitor the volume of tickets to be produced corresponding to the amount of guaranteed sales per year of One Billion Pesos (Php1,000,000,000.00).* ***In case actual sales exceed the guaranteed sales per year, the PCSO shall collect the corresponding PCSO share and taxes due****. (emphasis supplied)*

1. Section 58 of the 2017 RIRR for ISP:

*“Should* ***sales exceed the annual guaranteed sales*** *in the amount of One Billion Pesos (Php1,000,000,000.00) a year, the ISAC undertakes to issue an* ***additional*** *check corresponding to the PCSO’s share in the excess, in addition to the next batch of twelve (12) checks. (emphasis supplied)*

1. Paragraph 10 of the MOA between PCSO and the ISAC:

*“The PCSO is guaranteed its share in the net proceeds of the sale of the Instant Sweepstakes tickets in the amount of P650,000,000.00 for a period of five (5) years. To guarantee payment of the PCSO’s share, the ISAC shall submit to PCSO, within one (1) week from the date of execution of this Agreement, sixty (60) post-dated checks in equal amount of Ten Million Three Hundred Thirty-Three Thousand Three Hundred Thirty-Three Pesos and 33/100 (Php10,833,333.33), which shall fall due every 30th day of each and every month following the initial launch and distribution of the Instant Sweepstakes.* ***If at any time during this Agreement, the ticket sales exceed the annual guaranteed sales, ISAC shall issue additional post-dated checks corresponding to PCSO’s share in the excess, in addition to the next batch of twelve (12) checks.*** *(emphasis supplied)*

* 1. Considering the foregoing, the Management response that “it should be understood that the excess or whatever due from the ISAC shall be due and demandable after the 5-year contract when all the sales were reconciled” directly contradicts the requirements of the above-cited provisions to annually compute and collect the PCSO’s shares and tax due from the excess sales.
  2. Moreover, the perspective of the Management that the ISAC had already complied with its obligation to generate P5 billion guaranteed sales was erroneous because the excess sales from year 1 or 2018 cannot be used to cover the insufficiency of the sales for year 5 or 2022. In no case can you find provision/s in the approved 2017 guidelines for ISP and the MOA that allows excess sales from previous years to be used to offset or cover the shortfall of the sales for the remaining years. The Management’s position is detrimental or disadvantageous on the part of the government/PCSO as it will be deprived of its annual guaranteed sales of One Billion Pesos.
  3. In view of the foregoing, the Audit Team maintains its position that the PCSO Guaranteed Share, Documentary Stamp Tax and Prize Fund Tax was understated by P76.661 million due to the understatement of the guaranteed sales by P276.804 million. It reiterates the audit recommendation to prepare an adjusting entry to correct the understatement of the guaranteed sales and bill and collect from the ISAC the amount of the understatement of the PCSO guaranteed share and the payments for DST and PFT, totaling P76.661 million.

1. **The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P20.343 billion as of December 31, 2022, cannot be ascertained due to the : (a) Discrepancy of P50.304 million between the balances per books and the confirmed bank balances of the Main, Operating Fund, Charity Fund and Prize Fund accounts and (b) Closed bank accounts with outstanding balances in the books totaling P3.612 million (negative) and P0.483 million, contrary to Paragraph 15 of the Philippine Accounting Standard 1 and QC12 of the Conceptual Framework for Financial Reporting:**
   1. Paragraph 15 of PAS 1 provides:

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

* 1. The Conceptual Framework for Financial Reporting enumerates faithful representation as one of the qualitative characteristics of a useful financial information. As stated under QC12, *“to be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error”.*
  2. As of December 31, 2022, the Cash and Cash Equivalents account had a total balance of P20.343 billion. Details are shown in Table 7:

**Table 7 – Summary of the Cash and Cash Equivalents Account**

**As of December 31, 2022**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **Amount** |
| Cash in bank |  |  | P 20,140,540,900 |
| Main account | P | 1,732,331,776 |  |
| Operating fund |  | 7,351,767,541 |  |
| Prize fund |  | 6,135,725,007 |  |
| Charity fund |  | 4,536,354,870 |  |
| Others |  | 384,361,706 |  |
| Short-term investments |  |  | 188,965,000 |
| Cash collecting officers |  |  | 12,005,339 |
| Petty cash fund |  |  | 1,254,176 |
| **Total** |  |  | **P 20,342,765,415** |

* 1. Results of the confirmation with the various depository banks disclosed a total discrepancy of P50.304 million, as presented in Table 8:

**Table 8- Discrepancy between the Balances per Books and Confirmed Bank Balances**

**As of December 31, 2022**

| **Account Title** |  | **Balance per Books** |  | **Balance per Bank Confirmation** |  | **Discrepancy** |
| --- | --- | --- | --- | --- | --- | --- |
| **Main Account** |  |  |  |  |  |  |
| CIB-LC-SA- LBP Online | P | 1,729,876,186.11 | P | 1,728,932,090.43 | P | 944,095.68 |
| CIB-LC-SA- PNB Online |  | 2,455,589.90 |  | 80,699.58 |  | 2,374,890.32 |
| **TOTAL** | **P** | **1,732,331,776.01** | **P** | **1,729,012,790.01** | **P** | **3,318,986.00** |
| **Operating Fund** |  |  |  |  |  |  |
| CIB-LC-CA OF- LBP | P | 6,755,385,320.28 | P | 6,783,055,843.58 | P | (27,670,523.30) |
| CIB-LC-CA- OF-(COMBO)-LBP |  | 193,141,558.77 |  | 194,277,741.77 |  | (1,136,183.00) |
| CIB-LC-CA-OF-LBP (STL) |  | 403,240,661.85 |  | 403,394,242.31 |  | (153,580.46) |
| **TOTAL** | **P** | **7,351,767,540.90** | **P** | **7,380,727,827.66** | **P** | **(28,960,286.76)** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Prize Fund** |  |  |  |  |  |  |
| CIB-LC, CA-PF-LBP | P | 5,986,343,824.81 | P | 5,986,771,133.85 | P | (427,309.04) |
| CIB-LC, CA-PF-LBP (STL) |  | 149,381,182.02 |  | 150,893,648.54 |  | (1,512,466.52) |
| **TOTAL** | **P** | **6,135,725,006.83** | **P** | **6,137,664,782.39** | **P** | **(1,939,775.56)** |
| **Charity Fund** |  |  |  |  |  |  |
| CIB-LC, CA-CF-LBP | P | 3,868,999,176.12 | P | 3,892,041,242.06 | P | (23,042,065.94) |
| CIB-LC, CA-CF (STL) |  | 667,355,694.42 |  | 667,037,065.65 |  | 318,628.77 |
| **TOTAL** | **P** | **4,536,354,870.54** | **P** | **4,559,078,307.71** | **P** | **(22,723,437.17)** |
| **GRAND TOTAL** | **P** | **19,756,179,194.28** | **P** | **19,806,483,707.77** | **P** | **(50,304,513.49)** |

* 1. Verification of the Bank Reconciliation Statements (BRSs) and the related Bank Statements for the month of December 2022 disclosed that the discrepancy of P50.304 million pertained to book and bank reconciling items of P14.028 million and P36.276 million, respectively.
  2. Audit showed that the book reconciling items include unrecorded and erroneously recorded bank deposits and remittances, fund transfer and bank debit and credit memos in the total amount of P7.269 million and P20.412 million, respectively, as shown in Table 9 which remained uncorrected/unadjusted in the book of accounts as of December 31, 2022.

**Table 9 – Summary of Book Reconciling Items**

**As of December 31, 2022**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** |  | **Unrecorded**  **Transactions** |  | **Erroneous Recordings/ Posting** |
| LBP - OF | P | 14,108.72 | P | 170,633.01 |
| LBP - Online Main Account |  | 2,484,706.40 |  | 3,497,131.11 |
| LBP - OF-STL |  | 194,827.50 |  | 14,432.04 |
| LBP - OF-Combo |  | 2,078,195.00 |  | 942,012.00 |
| PNB - Online Main Account |  | 145,597.67 |  | 263,418.52 |
| LBP – PF |  | 235,766.00 |  | 669,324.00 |
| LBP – PF-STL |  | 933,601.98 |  | 610,537.48 |
| LBP – CF |  | 180,574.43 |  | 12,975,316.24 |
| LBP – CF-STL |  | 1,001,328.35 |  | 1,269,533.65 |
| **TOTAL** | **P** | **7,268,706.05** | **P** | **20,412,338.05** |

* 1. Audit disclosed that the book reconciling items mainly pertained to previous years’ transactions. Management attributed the non-recording and adjustments of the book reconciling items due to incomplete documentations.
  2. Further examination disclosed that book reconciling items in the amounts of P4.186 million and P2.912 million covering unrecorded and recording errors noted in CY 2006 and included in the previous years’ audit reports have remained unadjusted. In CY 2022, unrecorded and erroneously recorded transactions amounted to P1.524 million and P15.182 million, adding to the accumulated reconciling items from CYs 2006-2021.
  3. Moreover review of the BRSs showed a bank reconciling items totaling P25.611 million which pertained to outstanding checks, deposits in transit and bank errors. The deposits in transit included deposits in total amount of P2.089 million with PNB in CY 2012, but were not yet taken up by the bank or reflected in the monthly bank statement from CYs 2012 to 2022.
  4. Management however, informed that they are continuously coordinating with the depository banks to reconcile the identified differences between the agents’ actual deposits and remittances and accounting records.

*Closed bank accounts with outstanding balance in the books totaling P3.613 million (negative) and P482,683.30*

* 1. Verification of the accounting records showed that three Cash in Bank accounts had abnormal (negative) balances in the books totaling P(3.613) million as shown below:

|  |  |  |
| --- | --- | --- |
| **Account Name** |  | **Balances as of December 31, 2022** |
| Cash in Bank-Local Currency,  Current Account- Branches | P | (2,959,728.25) |
| Cash in Bank-Local Currency,  Current Account- Prize Fund (New) |  | (651,270.59) |
| Cash in Bank-Local Currency,  Current Account-Operating Fund-PNB |  | (1,576.26) |
| **Total** | **P** | **(3,612,575.10)** |

* 1. Inquiry with the ABD revealed that these balances pertained to unadjusted fund transfers by the PCSO Branches and erroneous transactions from prior years. ABD is still trying to retrieve the supporting documents and coordinate with the concerned PCSO Branches and banks, to adjust the said reconciling items.
  2. Likewise, examination of accounting records also disclosed that PNB Account No. 121270002159 maintained at Mandaluyong Shaw-Princeton Branch was already closed in September 2018; however, per PCSO’s books of accounts it still reflected a balance of P482,683.30 as of December 31, 2022.
  3. Further review of the BRSs showed that there were also long-outstanding book reconciling items in CY 2013 and CY 2022 totaling P(482,683.30), the same amount as the balance of the closed PNB account. The reconciling items pertained to fund transfers from the following PCSO Branches, which could not be booked up due to the absence of documents, to wit:

|  |  |  |  |
| --- | --- | --- | --- |
| **Branches** | **Period** |  | **Amount** |
| Nueva Ecija | April 2013 | P | 15,206.00 |
| Nueva Ecija | May 2013 |  | 5,330.00 |
| Zambales | April 2013 |  | (3,219.30) |
| Batangas | October 2022 |  | (500,000.00) |
| **Total** | | **P** | **(482,683.30)** |

* 1. This observation was already brought to the attention of Management in the prior year’s audit. However, the said closed account still had a balance of P482,683.30 as of year-end, resulting in the overstatement of the Cash in Bank account presented in the financial statements as of December 31, 2022, by the same amount.
  2. In view of the foregoing deficiencies, the faithful representation of the Cash and Cash Equivalents account with a balance of P20.343 billion and the related accounts in the financial statements as of December 31, 2022, was not established.
  3. **We reiterated our prior year’s audit recommendation that Management direct the concerned accounting personnel to:**
     1. **Effect the necessary adjustments, after thorough verification of the long–outstanding reconciling items, to correct the affected accounts, the negative balances totaling P3.613 million of the Cash in Bank account and P483,683.30 which pertained to the balance of closed PNB account; and**
     2. **Intensify the efforts in coordinating with the corresponding depository banks to clear out the details of the bank reconciling items and investigate the cause/s of the alleged unposted deposit totaling P2.092 million so that appropriate action may be undertaken.**
  4. Management informed that the ABD is continuously exerting effort to address the causes of the discrepancies between the book and bank balances. Reconciling item for the Charity Fund account in the amount of P12.140 million has been addressed and booked on January 11, 2023. The abnormal (negative) balances are still for verification and adjustments are yet to be made due to lack of necessary documents to support the same.
  5. Furthermore, on June 06, 2022, PCSO sent a letter to PNB concerning the closed account, requesting copies of the Abstract of Collections from December 2004 to December 2015 and reactivation of the account, however, the response from PNB about the request was not yet received as of to date. ABD informed that they are continuously coordinating with the PCSO branch offices for proper resolution on the reconciliation of the account.
  6. As a rejoinder, the Audit Team appreciated Management’s commitment to implement all the recommendations, which will be monitored in the CY 2023 audit.

1. **The faithful representation in the financial statements of the balance of the Accounts Receivable (AR) with a carrying amount of P5.064 billion as of December 31, 2022, cannot be ascertained in view of (a) discrepancies between the GL balances and the schedule of AR with Aging report totaling P558.437 million and P(13.133) million and (b) three (3) AR sub-accounts had abnormal (credit) balances totaling P6.531 million contrary to Paragraph 15 of the Philippine Accounting Standards No. 1 and QC26 of the Conceptual Framework for General Purpose Financial Report.**
   1. Paragraph 15 of the PAS No. 1 states that:

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

* 1. QC26 of CFGFR provides that:

*“Verifiability helps assure that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.”*

* 1. Section 41(2) of PD No. 1445 also provides that:

*“The chief accountant or the official in charge or 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.”*

* 1. This is a reiteration with updates of the observations embodied in the previous years’ AAR as Management has not yet fully implemented the recommendations.
  2. Audit of the AR with a carrying amount of P5.064 billion as of December 31, 2022, disclosed several deficiencies as discussed hereunder which cast doubt on the fair presentation of the account in the financial statements at year-end.

*Discrepancies totaling P558.437 million and P(13.133) million between the AR balance per GL and the schedule of AR with Aging report.*

* 1. Review of the balances reflected in the submitted schedule of AR with Aging report and the corresponding GL balances showed discrepancies totaling P558.437 million and P(13.133) million, respectively from undetermined and unrecorded receivables, as shown in Tables 10 and 11, respectively:

**Table 10 – Discrepancies between the GL balances**

**and Aging of Accounts Receivable**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Outstanding Balance As of December 31, 2022** | | | | |
| **Account Name** |  | **Per GL** |  | **Per Submitted Aging of AR** |  | **Discrepancy** |
| AR – STL | P | 6,152,299,540.35 | P | 5,622,313,007.05 | P | 529,986,533.30 |
| AR – Peryahan\*\* |  | 54,582,529.41 |  | 33,174,564.28 |  | 21,407,965.13 |
| AR – Ticket Sales-Keno |  | 17,851,393.41 |  | 12,773,451.21 |  | 5,077,942.20 |
| AR – Special Draw |  | 3,758,287.32 |  | 2,718,445.26 |  | 1,039,842.06 |
| AR – Defaulted Provincial Distributors |  | 37,141,973.50 |  | 36,648,743.45 |  | 493,230.05 |
| AR – Ticket Account |  | 3,884,307.21 |  | 3,644,836.25 |  | 239,470.96 |
| AR – Authorized Sellers |  | 9,463,261.58 |  | 9,277,104.36 |  | 186,157.22 |
| AR – Defaulted Sales Supervisor |  | 5,489,791.22 |  | 5,483,815.22 |  | 5,976.00 |
| **Total** | **P** | **6,284,471,084.00** | **P** | **5,726,033,967.08** | **P** | **558,437,116.92** |

**\*\*** *Comparison of balances for AR – Peryahan pertains only to the balances of NCL, STBR and VisMIn branches since the Aging of AR-Peryahan (NCR) was not submitted.*

**Table 11 – Negative discrepancies between the GL balances and**

**Aging of Accounts Receivable**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Outstanding Balance As of December 31, 2022** | | | | |
| **Account Name** |  | **Per GL** |  | **Per Submitted Aging of AR** |  | **Discrepancy** |
| AR – Lotto Agents | P | 309,195,148.58 | P | 321,983,252.16 | P | (12,788,103.58) |
| AR – Sales Supervisor |  | (76,181.54) |  | 157,934.11 |  | (234,115.65) |
| AR – Provincial Distributors/Sales Representative |  | 1,003,059.90 |  | 1,113,716.85 |  | (110,656.95) |
| **Total** | **P** | **310,122,026.94** | **P** | **323,254,903.12** | **P** | **(13,132,876.18)** |

* 1. The ABD submitted a schedule of AR with Aging Report showing information on the Agents No., Agents Name, Amount of the outstanding AR balances and classification of the outstanding AR balances into Current (less than 90 days, 91 -365 days) and Past Due (Over 1 year, Over 2 years and Over 3 years and onwards).
  2. Examination of the receivable account disclosed that the discrepancies of P558.437 million (Table 10) pertained to ARs without documentation thus, could not be verified due to the inability to determine from whom these receivables are due contrary to QC26 CFGFR.
  3. The Audit Team was not able to send confirmation letters as an alternative procedure to determine the validity of the P558.437 million receivables since the names of the Agents/Debtors could not be obtained, nor were there documents or SLs to support the said balances. SL, as defined in Appendix 6 of GAM, Volume II, shows the details of the control account in the GL and shall be maintained per account and fund cluster by the Accounting Division/Unit.
  4. Moreover, examination of schedules also revealed that AR sub-accounts totaling P13.133 million (Table 11) with identified Agents’ names/Debtors have not been recorded as they did not form part of the GL balances of the respective AR sub-accounts.

* 1. The discrepancies between the GL balances and schedule of AR with Aging report pertaining to the undetermined and unrecorded receivable cast doubt on the fair presentation of the account in the financial statements at year-end.

*Three (3) AR sub-accounts totaling P6.531 million had abnormal (credit) GL balances.*

* 1. Likewise, verification of the account showed that there were three (3) AR sub-accounts that have abnormal (credit) balances per GL which reduced the balance of the AR account in the total amount of P6.531 million, details are shown in Table 12.

**Table 12 – Accounts Receivable Sub-accounts**

**with Abnormal (Credit) balances**

|  |  |  |
| --- | --- | --- |
| **Account Name** |  | **Balances as of December 31, 2022** |
| 1) AR – Peryahan (NCR) |  | P(4,626,734.49) |
| 2) AR – Mini Sweepstakes |  | (1,827,879.18) |
| 3) AR – Sales Supervisor |  | (76,181.54) |
| **Total** |  | **P(6,530,795.21)** |

* 1. The concerned ABD personnel explained that the abnormal (credit) balances pertained to prior period errors in posting transactions which remained unadjusted as of December 31, 2022. The abnormal (credit) balances of the AR account understated the account by P6.531 million.
  2. **We reiterated our previous year’s audit recommendations that Management direct the concerned personnel of the ABD and Branch Operating Sector to:**

1. **Examine and determine the causes of the discrepancies between the GL balances and the schedule of AR with Aging report as well as the abnormal (credit) balances totaling P558.437 million, P(13.133) million and P6.531 million, respectively and make the necessary adjustments of the affected accounts to ensure that the balances of the affected accounts are fairly presented in the financial statements pursuant to Paragraph 15 of PAS 1.**
2. **Prepare a complete schedule of the AR with aging report and SLs as required under Section 41(2) of PD No. 1445** 
   1. Management informed that ABD is in strong coordination with the BOS in establishing the causes of the discrepancies between the books and the Aging Schedule of Accounts Receivable, especially the AR-STL and AR-Peryahan accounts. ABD further explained that the abnormal (credit) GL balances of the AR-Peryahan account were brought about by the over-remittances by the Globaltech, Inc. to PCSO. With the resolution of the arbitration case with Globaltech Inc. in favor of PCSO, ABD is in the process of reconciling and closing the account. Likewise, the abnormal balances of AR-Sales Supervisor and AR-Mini Sweepstakes accounts were brought about by the reconciling items for the collection of receivables from sweepstakes amounting to P234,115.65 and P1,828 million, respectively, due to misposted transactions. The ABD also informed that reconciliation may take time as these were old accounts thus, obtaining supporting documents that would aid in identifying the reconciling items for proper disposition would be difficult. The management also informed that adequate control procedures will be instituted prospectively to ensure the non-recurrence of the same issues.
3. **The existence, completeness, validity and reliability of the Financial Liabilities totaling P9.169 billion could not be established due to the following deficiencies, contrary to Philippine Accounting Standard 1 and Sections 111 (1) and 114 (2) of Presidential Decree No. 1445:**
4. **Discrepancy between the General Ledger (GL) balances and the supporting schedules of the Financial Liabilities amounting to P466.566 million;**
5. **Existence of long outstanding payables amounting to P462.370 million, P3.889 billion and P745.232 million for Prize Fund, Charity Fund, and AP-Miscellaneous-Operating Fund, respectively;**
6. **Abnormal (debit) GL balances of AP-OF Head Office account, AP-Miscellaneous Branch account amounting to P45.762 million and P35.171 million, respectively; and abnormal balances presented in AP-CF Schedule and Aging of AP-Miscellaneous (OF) amounting to P0.845 million and P90.298 million, respectively;**
7. **Understatement of AP-CF account in the amount of P12.140 million due to erroneous recording of a cancelled check as an issued check; and**
8. **Non-maintenance of SL for each creditor/payee to support the GL balances of the Financial Liabilities.**
   1. Paragraph 15 of the PAS No. 1 states that:

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

* 1. As of December 31, 2022, the Financial Liabilities disclosed a balance of P9.169 billion, as shown in Table 13:

**Table 13 – Composition of Financial Liabilities**

**As of December 31, 2022**

|  |  |  |
| --- | --- | --- |
| **Account Name** |  | **Amount** |
| Miscellaneous Accounts Payable | P | 7,898,209,596 |
| Vouchers Payable-Charity Fund |  | 814,305,209 |
| Accounts Payable-Guaranty Letter |  | 121,233,998 |
| Vouchers Payable-Operating Fund |  | 46,558,527 |
| Vouchers Payable-Prize Fund |  | 15,281,396 |
| Rental and Maintenance |  | 112,708,731 |
| **Total Accounts Payable** | **P** | **9,008,297,457** |
| Due to Officers and Employees |  | 27,354,508 |
| Finance Lease Payable |  | 133,872,186 |
| **Total Financial Liabilities** | **P** | **9,169,524,151** |

* 1. The Miscellaneous Accounts Payable refers to various obligations being accrued at the end of the year. Majority of its components were accrual of Prize Fund expenses, Collective Negotiation Agreement (CNA) bonus, Advertising Expenses, and various Charity Fund expenses.
  2. The Vouchers Payable-Charity Fund refers to various unpaid processed vouchers payable to hospitals and other institutions/agencies as payment for financial assistance under the Medical Assistance Program, Mandatory Contributions and Other Health and Welfare Programs of PCSO.
  3. The Accounts Payable-Guaranty Letters refers to various unpaid issued guaranty letters payable to hospitals and other institutions/agencies as payment for financial assistance under the Medical Assistance Program of PCSO.
  4. The Vouchers Payable-Operating Fund pertains to processed vouchers for various operating expenses that remain unpaid at year-end.
  5. The Vouchers Payable-Prize Fund refers to various unpaid processed vouchers for the payment of jackpot and/or low-tier prizes.
  6. Review of the accounts, however, disclosed the following deficiencies:

*Discrepancies between the General Ledger (GL) balances and the supporting schedules of the Financial Liabilities*

* 1. Verification of the AP accounts per GL, Aging Report of AP and its supporting schedule of the PCSO HO and branch, showed the following discrepancies, details are shown in Table 14:

**Table 14 – Discrepancies between the GL balances and the Supporting Schedules**

**As of December 31, 2022**

| **Account Name** |  |  | **Amount per GL** |  | **Amount per Supporting**  **Schedule** |  | **Discrepancies** |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
| AP-Prize Fund | Head Office | P | 615,202.88 | P | 615,202.88 | P | - |
| AP-Prize Fund | Branch |  | 14,666,192.76 |  | 263,384.00 |  | 14,402,808.76 |
| **Total AP-PF** | | **P** | **15,281,395.64** | **P** | **878,586.89** | **P** | **14,402,808.76** |
|  |  |  |  |  |  |  |  |
| AP-Charity Fund | Head Office | P | 180,503,247.69 | P | 180,503,247.69 | P | - |
| AP-Charity Fund | Branch |  | 633,801,961.42 |  | 359,103,437.48 |  | 274,698,523.94 |
| **Total AP-CF** | | **P** | **814,305,209.11** | **P** | **539,606,685.17** | **P** | **274,698,523.94** |
|  |  |  |  |  |  |  |  |
| AP-Guarantee Letter | Head Office | P | 121,233,998.54 | P | - | P | 121,233,998.54 |
| AP-Guarantee Letter | Branch |  | - |  | - |  | - |
| **Total AP-GL** | | **P** | **121,233,998.54** | **P** | **-** | **P** | **121,233,998.54** |
|  |  |  |  |  |  |  |  |
| AP-Operating Fund | Head Office | P | (45,704,093.22) | P | 23,579,319.60 | P | (69,283,412.82) |
| AP-Operating fund | Branch |  | 92,291,779.10 |  | 6,043,111.50 |  | 86,248,667.60 |
| **Total AP-OF** |  | **P** | **46,587,685.88** | **P** | **29,622,431.10** | **P** | **16,965,254.78** |
|  |  |  |  |  |  |  |  |
| AP-Miscellaneous | Head Office | P | 3,434,855,612.56 | P | - | P | 3,434,855,612.56 |
| AP-Misc.-PF | Head Office |  | 1,433,790,165.32 |  | 1,912,471,278.69 |  | (478,681,113.37) |
| AP-Misc.-CF | Head Office |  | 2,349,482,791.32 |  | 4,599,957,246.99 |  | (2,250,474,455.65) |
| AP-Misc.-OF | Head Office |  | 506,838,451.38 |  | 1,212,538,494.91 |  | (705,700,043.53) |
| **Sub-Total AP-Misc. Head Office** | | **P** | **7,724,967,020.58** | **P** | **7,724,967,020.59** | **P** | **-** |
|  |  |  |  |  |  |  |  |
| AP-Miscellaneous | Branch | P | 43,879,992.77 | P | - | P | 43,879,992.77 |
| AP-Misc.-PF | Branch |  | 2,595,470.29 |  | 177,312.00 |  | 2,418,158.29 |
| AP-Misc.-CF | Branch |  | 161,909,333.55 |  | 202,134,845.94 |  | (40,225,512.39) |
| AP-Misc.-OF | Branch |  | (35,171,379.73) |  | 10,166,600.71 |  | (45,337,980.44) |
| **Sub-Total AP-Misc. Branch** | | **P** | **173,213,416.88** | **P** | **212,478,758.65** | **P** | **(39,265,341.77)** |
| **Total AP- Miscellaneous** | | **P** | **7,898,180,437.46** | **P** | **7,937,445,779.24** | **P** | **(39,265,341.77)** |
| **Grand Total** | |  |  |  |  | **P** | **466,565,927.89** |

* 1. In order to verify the correctness of the GL balances, these should be duly supported with SL. GL balances should reconcile with their SL balances. However, the AP accounts presented in Table 14 were supported only by Schedules, which lists all outstanding obligations as of December 31, 2022, and by aging report, which only shows the age of the outstanding payables.
  2. As can be gleaned in Table 14, discrepancy in total amount of P466.566 million were noted. Moreover, the ABD could not submit any schedules that could support the balance of AP-GL account amounting to P121.234 million.
  3. ABD claimed that some of the discrepancies noted were due to amounts included in the GL balances of the HO that were for the account of the Branches. Moreover, the team was informed that the total discrepancies noted between the accounts’ balances are now subject to verification and reconciliation.
  4. The Audit Team could not trace or account the causes of the discrepancies due to the non-maintenance of SL and the absence or inadequate documents to support the balances.
  5. The discrepancies noted affected the existence and completeness of the recorded obligations, and consequently affected the fair presentation of the Financial Liabilities account as of December 31, 2022.

*Existence of long outstanding payables for Prize Fund, Charity Fund, and AP-Miscellaneous-Operating Fund accounts*

* 1. Review of the Aging of Accounts Payable revealed various long outstanding obligations, as shown in Tables 15, 16 & 17.

**Table 15 – Schedule of Long Outstanding Payables for Prize Fund**

**As of December 31, 2022**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Number of Years Outstanding** | | | | |  |  |
| **Account Name** |  |  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | **Total** |
| AP-Prize Fund | Head Office | P | 17,075.20 | P | - | P | - | P | 17,075.20 |
| AP-Miscellaneous-PF | Head Office |  | - |  | 179,862,703.98 |  | 282,489,204.40 |  | 462,351,908.38 |
| **Sub-total (Head Office)** | | **P** | **17,075.20** | **P** | **179,862,703.98** | **P** | **282,489,204.40** | **P** | **462,368,983.58** |
| AP-Prize Fund | Branch | P | - | P | 840.00 | P | - | P | 840.00 |
| AP-Miscellaneous-PF | Branch |  | - |  | - |  | - |  | - |
| **Sub-total (Branch)** | | **P** | **-** | **P** | **840.00** | **P** | **-** | **P** | **840.00** |
| **TOTAL AP-PRIZE FUND** | | **P** | **17,075.20** | **P** | **179,863,543.98** | **P** | **282,489,204.40** | **P** | **462,369,823.58** |

**Table 16 – Schedule of Long Outstanding Payables for Charity Fund**

**As of December 31, 2022**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Number of Years Outstanding** | | | | | |  | |  | |
| **Account Name** |  |  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | | **Total** | |
| AP-Charity Fund | Head Office | P | 49,629,749.80 | P | 16,213,765.42 | P | 12,130,775.46 | P | | 77,974,290.68 | |
| AP-Miscellaneous-CF | Head Office |  | 111,615,102.16 |  | 732,428,634.13 |  | 2,911,603,732.86 |  | | 3,755,647,469.15 | |
| **Sub-total (Head Office)** | | **P** | **161,244,851.96** | **P** | **748,642,399.55** | **P** | **2,923,734,508.32** | **P** | | **3,833,621,759.83** | |
| AP-Charity Fund | Branch |  | 19,141,819.44 |  | 8,875,900.25 |  | 21,572,086.94 |  | | 49,589,806.63 | |
| AP-Miscellaneous-CF | Branch |  | 1,632,460.35 |  | 342,303.79 |  | 3,996,838.54 |  | | 5,971,602.68 | |
| **Sub-total (Branch)** | | **P** | **20,774,279.79** | **P** | **9,218,204.04** | **P** | **25,568,925.48** | **P** | | **55,561,409.31** | |
| **Total AP-Charity Fund** | | **P** | **182,019,131.75** | **P** | **757,860,603.59** | **P** | **2,949,303,433.80** | **P** | | **3,889,183,169.14** | |

**Table 17 – Schedule of Long Outstanding Payables for**

**Accounts Payable – Miscellaneous – Operating Fund**

**As of December 31, 2022**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Number of Years Outstanding** | | | | |  |  |
| **Account Name** |  |  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | **Total** |
| AP-Miscellaneous-OF | Head Office | P | 74,666,331.00 | P | 94,828,400.67 | P | 574,795,692.84 | P | 744,290,424.51 |
| AP-Miscellaneous-OF | Branch |  | 354,667.22 |  | 237,325.80 |  | 349,708.30 |  | 941,701.32 |
| **Total AP-Miscellaneous-OF** | | **P** | **75,020,998.22** | **P** | **95,065,726.47** | **P** | **575,145,401.14** | **P** | **745,232,125.83** |

* 1. The amount P462.369 million in Table 15 pertains to the Prize Fund expenses of Sweepstakes, Keno and Lotto games. These amounts should have not been outstanding considering Section 6(A) of RA No.1169 which provides that “Prizes not claimed by the public within one year from date of draw shall be considered forfeited, and shall form part of the charity fund xxx”. ABD claimed that the amount pertains to prior years’ accruals that remained unadjusted due to lack of documentation.
  2. On the other hand, Table 16 showed long outstanding payables for Charity Fund totaling P3.889 billion covering various charity programs of PCSO such as the Individual Medical Access Program, currently the Medical Access Program (MAP) which include the payables to Malasakit Centers and ASAP Help Desk for the financial assistance to various patients, the MAP-Expanded pertaining to obligations arising from the financial assistance to various PCSO employees, payables for Endowment Fund Program, Institutional Partnership Program, Medical Equipment Program, currently the Financial Assistance for the Procurement of Medical Equipment Program (FAPMEP), Calamity Assistance Program (CAP), Other Health and Welfare Related Program, Construction/Repair/Renovation of Health Facilities and various obligations payable to LGUs on their share in Charity Fund. Requests have been made from the ABD and the Charity Sector for the supporting documents on the long outstanding payables under the Charity Fund Head Office account, however no documents were submitted to support the reported balance of the obligations.
  3. Moreover, presented in Table 17 are payables under Accounts Payable-Miscellaneous-Operating Fund amounting to P745.232 million which include, among others, Due to Branch account, various Office, Medical, Dental and Laboratory Supplies, Thermal Rolls, Office and Communication Equipment, Other Property, Plant and Equipment, Withholding Tax on Income PCSO Personnel, salaries and bonuses, and obligations for Advertising and Promotions for as early as CY 2010, that have been non-moving and have been long outstanding.
  4. Further, the Aging of Accounts Payable-Miscellaneous (PF, CF, and OF) account for Head Office was presented on a per account basis. Inquiry with the ABD on the details of the accounts revealed that there were no documents to support the long outstanding balances presented in the aging report and that these were still subject for reconciliation and verification.
  5. The absence of documents to support the long outstanding payables recorded under the Prize Fund, Charity Fund and AP-Miscellaneous-Operating Fund accounts amounting to P462.369 million, P3.889 billion and P745.232 million, respectively, affected the validity and the reliability of the recorded obligations, and consequently affected the fair presentation of the Financial Liabilities as of December 31, 2022.

*Abnormal (debit) balances of the AP–OF account of the HO, AP–Miscellaneous account of the Branch, AP-CF Schedule and AP-Miscellaneous (OF)*

* 1. AP account is credited to recognize the obligation or liabilities for the receipt/acquisition of goods or services on account. It is debited upon payment or settlement of liabilities, and/or adjustments. A debit (abnormal) balance of the AP accounts may result from overpayments, erroneous recording of transactions and/or adjustments in the book of accounts.
  2. Analysis of the composition of the AP accounts reflected an abnormal (debit) GL balances totaling P80.933 million of the HO and Branch, as shown in Table 18:

**Table 18 – Schedule of AP accounts with abnormal (debit) balances**

**As of December 31, 2022**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **GL Balance** | | |  |  |
| **Account Name** |  | **Home Office** |  | **Branch** |  | **Amount** |
| AP – Operating Fund | P | 45,704,093.22 | P | - | P | 45,761,515.94 |
| AP - Miscellaneous - OF |  |  |  | 35,171,379.73 |  | 35,171,379.73 |
| **Total** | **P** | **45,761,515.94** | **P** | **35,171,379.73** | **P** | **80,932,895.67** |

* 1. Verification of the records disclosed that the beginning balances of the AP–OF and AP–Miscellaneous–OF accounts were also abnormal (debit) balances of P36.705 million and P30.201 million or an increase in abnormal (debit) balances of P9.056 million and P4.971 million, respectively during the CY 2022.
  2. Inquiry with ABD personnel revealed that the existence of the abnormal (debit) GL balances of the HO and Branch was due to misposting of transactions.
  3. Review of records showed that PCSO records payables of the branch in the GL of the branch; however, payments of the said payables are recorded in the GL of the HO, thus, the abnormal (debit) balances of the payable accounts of HO.
  4. Moreover, review of the AP-CF Schedule disclosed an abnormal (debit) balance amounting to P0.845 million as of December 31, 2022, which has been long outstanding since CY 2019. Likewise, the Aging of AP-Miscellaneous Head Office account disclosed a balance of P90.298 million.
  5. The abnormal balances of the AP-OF HO account, AP-Miscellaneous Branch account amounting to P45.762 million and P35.171 million, respectively, AP-CF account amounting to P0.845 million, and the balance of AP-Miscellaneous account amounting to P90.298 million affected the reliability of the AP-CF and the AP-Miscellaneous accounts.

*Understatement of AP-CF account in the amount of P12.140 million due to erroneous recording of a cancelled check as issued check.*

* 1. On December 22, 2022, the STL Charity Fund Share of PNP amounting to P12.140 million under Disbursement Voucher (DV) No. CF2212034622 was recorded thru Journal Entry Voucher (JEV) No. 22120431 by debiting the Other Payables-STL Share-PNP account and crediting the Accounts Payable-Charity Fund account. The same DV was cancelled thru JEV No. 22122454 dated December 28, 2022, upon the advice of the Treasury Department (TD) per Memorandum No. TD-CFD-2022-0349, debiting the Accounts Payable-Charity Fund account and crediting the Other Payables-STL Share-PNP account, due to wrong signatory. In effect, the set-up of the Accounts Payable-Charity Fund account was cancelled.
  2. However, on December 31, 2022, Check No. 474503 corresponding to DV No. CF2212034622, which was previously declared as a spoiled check, was recorded as issued check thru JEV No. 22122600, debiting the Accounts Payable-Charity Fund account and crediting the Cash-in-Bank account by P12.140 million, despite the absence of the corresponding Accounts Payable account. Inquiry with the ABD disclosed that the check was recorded as issued upon verification with the TD that the check was a cancelled check, not a spoiled one.
  3. Although the erroneous recording of the transaction was adjusted in January 2023, nonetheless the Accounts Payable-Charity Fund account and the Cash-in-Bank account were both understated by P12.140 million as of December 31, 2022.

*Non-maintenance of SL for each creditor/payee to support the GL balances of the Financial Liabilities*

* 1. Section 111 (1) of PD No. 1445 provides *“The account of the agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by the fiscal or control agencies of the government.”* Likewise, Section 114 (2) of the same PD provides *“Subsidiary records shall be kept where necessary.”*
  2. Appendices 5 and 6 of the GAM provide that the GL should be supported by the details in SL since the GL only shows the summary of all transactions recorded for a particular account. Moreover, Appendix 6 of the GAM provides that the SL shall be maintained per account of the creditor and fund cluster by the Accounting Division/Unit.
  3. Review of Financial Liabilities amounting to P9.169 billion revealed that no SLs were maintained by the ABD to support the balances of the AP accounts. Only schedules of accounts and aging reports were used as support to the GL. The schedules only show the lists of outstanding obligations at year-end and the age of payables. It lacked the necessary details that could prove the validity of the recorded liabilities nor could each creditor's individual balance be extracted at any given time.
  4. An aging schedule does not adequately compensate the absence of the required SL since it merely categorizes the subject liabilities into how long they have remained outstanding. An SL captures all the transactions affecting each creditor with the corresponding references of the source documents, which can be verified to prove the validity of the recorded liability. The absence of the SL consequently affected the reliability of the Financial Liabilities amounting to P9.169 billion.
  5. **We recommended Management to direct ABD to:**

1. **Analyze and determine the causes of the discrepancies between the General Ledger balances and the supporting schedules for the Financial Liabilities and make the necessary adjustments. Henceforth, ensure that GL balances are duly supported with SL;**
2. **Verify the validity of the long outstanding payables under Prize Fund, Charity Fund and AP-Miscellaneous-Operating Fund amounting to P462.370 million, P3.889 billion and P745.232 million, respectively, after which prepare and record the required adjusting entries;**
3. **Analyze the abnormal (debit) balances of the AP-OF, AP-CF and AP Miscellaneous accounts and book up the necessary adjustments; and**
4. **Prepare the SL per creditor/payee to support the General Ledger balances of the AP-PF, AP-CF, AP-GL, AP-OF and AP-Miscellaneous accounts both for Head Office and Branches.**
   1. The management explained that ABD has made an initial reconciliation of the AP-OF and found the root cause for the discrepancies. The discrepancies were brought about by the payments made for Branches that were processed at the Head Office. Since the transactions were intended for Branches, responsibility codes were assigned to AP-OF Entries and were eventually posted in the SLs of the concerned Branches. The set-up and payment of the payable accounts were processed at the Head Office thru the JVR-OF and JCI-OF Books. Since JCI-OF is being maintained at the Head Office, no responsibility codes were assigned for each transaction, therefore, all payments were lodged at the Head Office SL, thus, resulted to a negative balance of the HO-OF account.

* 1. The ABD informed that they prepared a reconstructed SL on the affected CY, and were able to reconcile the SL balances with the Aging Schedule submitted to COA. As for AP-OF of the Branches, the ABD is still reconciling the discrepancies noted after the reconstruction made on their SLs. Further, the ABD ensures the posting of all Head Office transactions to the HO SL to void the recurrence of the same errors.
  2. The ABD acknowledges the noted discrepancies and has initially restructured the General Ledgers for AP-PF, AP-CF, and AP-Miscellaneous (PF, CF, OF) accounts according to its branches/responsibility codes to facilitate the reconciliation. The restructured GL of the Accounts Payable – Miscellaneous (OF) has been emailed to concerned branches to start the reconciliation.
  3. On the abnormal balance of AP-OF (HO) the ABD explained that it was brought about by the same cause noted in the first COA observation pertaining to discrepancy in GL balances and Aging Schedule and showed a reconstructed SL effecting the transfer of AP-set-up to the HO as shown below:

|  |  |
| --- | --- |
| Ending balance of AP-OF per SL | (45,761,515.94) |
| Add AP set-up posted at branch SL | 69,340,835.54 |
| Reconstructed Balance per SL | 23,579,319.60 |
| Less Balance per Aging Schedule | 23,579,319.60 |
| Variance | 0.00 |

The ABD also informed that moving forward they shall record each transactions in the respective GLs to ensure proper accounting.

* 1. Moreover, the ABD acknowledged the inadequate maintenance of SL per payee for the AP accounts. ABD informed that they initially prepared manual monitoring of SL for each creditor/payee, but only covers transactions from 2019 to present. The ABD is still establishing the accruals per Payee for transactions of prior years (CY 2018 and below; CY2019 to present) to establish the correct amount of AP-OF. ABD further explained that to correct and expedite the process of establishing SL, in line with the automation of the PCSO Accounting System, the ABD will request a meeting with the software provider to enhance the existing Accounts Payable Report in the system to include the running balance of transaction on a per Vendor/Payee basis, and the possibility of batch uploading of the transaction prior to 2019, once the database for 2018 and below are established.
  2. For the AP-GL account, ABD informed that the Report of Charity Fund’s Accounts Payable Guarantee Letters as of December 31, 2023, were submitted to COA on May 4, 2023, which tallied with the amount per GL.
  3. For the AP-Miscellaneous account, the ABD informed that they initially made adjustments to correct the book discrepancies. The amount indicated in the AP-Miscellaneous (Lump) is reclassified and distributed to the AP-Miscellaneous PF, CF, and OF based on the supporting schedule submitted to COA. On the other hand, the P90.298 million On-going verification charged in the AP-Miscellaneous (OF) is reclassified to AP-Miscellaneous (Lump) to control the movement of the variance which is still subject for verification. Nevertheless, the ABD will continue to analyze, verify and validate the AP balances per Payee to support the GL balances of the AP accounts.
  4. For the existence of long outstanding payables for AP-PF, AP-CF, and AP-Miscellaneous (OF), the ABD informed that only the AP-Miscellaneous (OF) for the period CY 2019 to CY 2022 were properly identified. The balances prior to CY 2019 are still under reconciliation and verification on whether these accruals are outstanding or for reversal. The necessary adjustments will be made once its validity is established.
  5. For AP-Miscellaneous (CF) account, the ABD informed that the accrual balances prior to CY 2021 are still in the process of reconciliation. Further, ABD informed that they will coordinate with the Charity Assistance Department to validate the outstanding balances of these accruals and seek recommendation for its disposition.
  6. Likewise, the ABD informed that they have identified the existing balance of AP-Miscellaneous (PF) attributable to winning from prior years, which were claimed during the ensuing year and was charged to the current year. The ABD said that they will coordinate with the Gaming Technology Department for the forfeitures of prizes and other necessary reports that will help identify the causes of the bloating of accruals.
  7. The ABD informed that the understatement of the AP-CF account amounting to P12.140 million was already corrected last January 2023 when the said amount floats in the bank reconciliation of December 2022.Also, ABD explained that the abnormal balance in the AP-Miscellaneous amounting to P90.298 million was due to numerous payments/adjustments from CY 2014 to the present that were not accrued but posted in the SL as payment for accrual. To control the movement of the ongoing verification, the ABD has reclassified the said balances to AP-Miscellaneous (Lump) account. The said negative balance is under verification and reconciliation. The ABD is thoroughly reviewing and monitoring the transactions noted on the accounts to correct the negative balance.
  8. As a rejoinder, the Audit Team appreciated Management’s commitment to implement all the audit recommendations, which will be monitored in the CY 2023 audit.

1. **The faithful representation in the financial statements of the balance of the Property, Plant and Equipment (PPE) account with a carrying amount of P996.545 million as of December 31, 2022 could not be ascertained due to: (a) Variance of P276.970 million between the balance of the PPE account per books and the Report on the Physical Count of Property, Plant and Equipment of the Head Office and various Branch Offices; and (b) Variance of P265.787 million between the carrying amount of depreciable PPE per books and the corresponding Lapsing Schedules/PPE Ledger Cards (PPELCs), thus affecting the fair presentation of the balance of the account in the Financial Statements contrary to paragraph 15 of Philippine Accounting Standard 1.**
   1. Paragraph 15 of PAS 1 Presentation of Financial Statements states that:

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

* 1. Likewise, Section IV of COA Circular No. 80-124 dated January 18, 1980 provides:

*“Physical inventory of fixed assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated herein.*

*Inventory reports of regional/branch offices, shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory shall be submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman upon prior request of the head of agency concerned.”*

* 1. Also, Section 42, Chapter 10, Government Accounting Manual (GAM) Volume 1 requires the Accountant to maintain the PPE Ledger Cards (PPELCs) for each category of PPE. For check and balance, the Property and Supply Office/Unit shall likewise maintain Property Cards (PCs) for PPE in their custody to account for the receipt and disposition of the same. The balance per PC shall be reconciled with PPELC maintained by the Accounting Division/Unit.
  2. As of December 31, 2022, the PPE account had a carrying amount of P996.545 million. Audit of the account disclosed several deficiencies as discussed hereunder:

*Variance of P276.970 million between the balances of PPE accounts per books and the RPCPPE.*

* 1. Section 38, Chapter 10 of GAM, Volume 1 requires the agency to conduct a Physical Count and reconcile it with the records of the Accounting Division/Unit.
  2. The Report on the Physical Count of Property, Plant and Equipment (RPCPPE) is the form used to report on the physical count of PPE by types such as land, land improvements, infrastructure, building and other structures, machinery and equipment, transportation equipment, furniture, fixtures and books, which are owned by the agency. (GAM Volume II, Appendix 73).
  3. Comparison between the balances of PPE accounts per books and the RPCPPE of PCSO - Head Office (HO) and various Branches showed a variance of P276.970 million contrary to Section 38, Chapter 10 of GAM, Volume 1, details as shown in Table 19:

**Table 19 – Variance between the balances of PPE accounts per books and RPCPPE**

|  |  | **Balance (at cost) Per** | | |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts** |  | **Books** |  | **RPCPPE** |  | **Variance** | |
|  |  |  |  |  |  |  | |
| Military, Police & Security Equipment | P | 1,445,979.96 |  | - | P | 1,445,979.96 | |
| Printing Equipment |  | 103,261,675.60 |  | - |  | 103,261,675.60 | |
| Other Machinery and Equipment |  | 9,367,796.12 |  | - |  | 9,367,796.12 | |
| **Total** | **P** | **114,075,451.68** | **P** | **-** | **P** | **114,075,451.68** | |
|  |  |  |  |  |  |  | |
| Leased Assets Improvements, Building |  | 52,376,475.17 |  | 2,202,333.30 |  | 50,174,141.87 | |
| Office Equipment |  | 165,781,817.98 |  | 14,124,070.31 |  | 151,657,747.67 | |
| Information & Communication Technology Equipment |  | 56,733,234.27 |  | 38,011,024.98 |  | 18,722,209.29 | |
| Communication Equipment-Telecommunications Equipment |  | 5,669,075.02 |  | 738,455.00 |  | 4,930,620.02 | |
| Medical Equipment |  | 15,477,369.68 |  | 750,000.00 |  | 14,727,369.68 | |
| Motor Vehicles |  | 278,795,665.26 |  | 262,062,972.00 |  | 16,732,693.26 | |
| **Total** | **P** | **574,833,637.38** | **P** | **317,888,855.59** | **P** | **256,944,781.79** | |
|  |  |  |  |  |  |  | |
| Furniture & Fixtures |  | 5,130,492.98 |  | 8,384,166.00 |  | (3,253,673.02) | |
| Other Property, Plant & Equipment |  | 14,505,263.92 |  | 105,301,759.15 |  | (90,796,495.23) | |
| **Total** | **P** | **19,635,756.90** | **P** | **113,685,925.15** | **P** | **(94,050,168.25)** | |
| **Grand Total** | **P** | **708,544,845.96** | **P** | **431,574,780.74** | **P** | **276,970,065.22** | |

* 1. Results of the Audit Team’s validation and inquiry disclosed some of the causes of the variance as follows:

1. Non-inclusion in the RPCPPE of real properties and machinery & equipment of the land, other land improvements, buildings, other structures, leased assets, buildings and other structures, military, police and security equipment, printing equipment, other machinery and equipment;
2. Purchases of PPEs for the CY 2022 were taken up in the books but were not included in the RPCPPE;

c. Items of PPE recorded twice in the RPCPPE; and

d. The recorded amounts of items of PPE in the books do not match with the amounts in the RPCPPE.

* 1. Moreover, the ASMD was not able to conduct a complete physical count/inventory taking of properties in the head office and various branches, resulting in an incomplete RPCPPE or Physical Inventory Report.
  2. The unreconciled variance of the balance of PPE per book and the RCPPE as well as the inability to conduct a complete physical count of PPE resulted in unreliable balances of the PPE accounts as of December 31, 2022.

*Variance of P265.787 million between the balances of PPE accounts per books and the lapsing schedule.*

* 1. The ABD submitted lapsing schedules to support the balances of the PPE accounts per books. Lapsing schedules/PPELCs provide the specific accounting records of the acquisition, description, custody, estimated life, depreciation, impairment, disposal, transfer/adjustment, repair history, and other information about the PPE (Section 42 (e), GAM Volume 1). The balances of the PPE accounts should reconcile with the balance of the schedules/PPELCs. However, examination disclosed a net variance of P265.787 million between the carrying amount of the PPE accounts per books and the supporting lapsing schedules/PPELCs, as shown in Table 20:

**Table 20 – Comparison of PPE amounts per books and**

**amounts per lapsing schedules**

**As of December 31, 2022**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Balance Per** | | |  |  |
| **Particulars** |  | **Books** |  | **Lapsing Schedule** |  | **Variance** |
| Acquisition Cost | P | 1,415,036,203.12 | P | 674,331,140.93 | P | 740,705,062.19 |
| Accumulated Depreciation |  | (902,889,626.47) |  | (427,972,044.50) |  | (474,917,581.97) |
| **Carrying amount** | **P** | **512,146,576.65** | **P** | **246,359,096.43** | **P** | **265,787,480.22** |

* 1. The variance between the balance per books and the schedules was labeled as “For Reconciliation/For Adjustment” by the ABD. The concerned accounting personnel informed that the noted variances were due to the absence of pertinent information needed for inclusion in the lapsing schedules as the supporting documents for these items could no longer be found. Further examination also disclosed that one of the causes of the variance was the non-maintenance of lapsing schedules/PPELCs for Buildings, Other Lease Assets, Military, Police and Security Equipment accounts by the branch contrary to Section 42, Chapter 10, GAM Volume 1.
  2. The existence of the variance of P265.787 million and the absence of the lapsing schedule of some depreciable items of PPE in the branch cast doubt on the fairness of the presentation of the balances of the PPE accounts in the financial statements as of December 31, 2022, contrary to Paragraph 15 of PAS 1.
  3. The same audit observation was already noted in prior years, but the balances of the PPE accounts per books, RPCPPE and the corresponding lapsing schedules remained unreconciled as of December 31, 2022.
  4. **We recommended Management to:**

1. **Direct the concerned personnel of ASMD to:**
   1. **Include in the RPCPPE the real properties and machinery & equipment, the land, other land improvements, buildings, other structures, leased assets, buildings and other structures, military, police and security equipment, printing equipment, other machinery and equipment;**
   2. **Review the items in the RPCPPE and correct those that have been recorded twice.**
   3. **Conduct the annual physical inventory and prepare and submit a complete RPCPPE as required under COA Circular No. 80-124 dated January 18, 1980. Property records shall be updated based on the results of the physical inventory and the RPCPPE shall be reconciled with the PPELC, PC and the GL/control accounts. Any discrepancies shall be immediately verified and adjusted.**
2. **Direct the ASMD and ABD see to it that the correct amount of item of PPE are those that are recorded both in the property and accounting records.**
3. **ABD to Maintain Lapsing Schedule/PPELCs for all items of PPE accounts both at the head office and branches.**
4. **Furthermore, evaluate the possible application of COA Circular No. 2020-006 dated January 31, 2020 on one-time cleansing of PPE account balance to come up with a reliable PPE balances that are verifiable as to existence, condition and accountability.**
   1. The Management informed that ASMD will coordinate with ABD and PCSO departments and branches for the monitoring of PPE accounts. ABD explained that the Head Office included all items of PPE account in the lapsing schedule except for the Leased Assets, Buildings and Other Structures account amounting to P163.011 million since, an amortization schedule for this account is already maintained. However, said schedule was not submitted to COA for examination. ABD informed that they will submit the said documents to COA for verification.
   2. The ABD informed that they will reclassify all PPEs issued to and used by the branch offices. These PPEs shall be included in the branch lapsing schedules for proper accountability and monitoring. ASMD and ABD are continuously reconciling and reviewing the supporting documents to finally establish the correct amount of the PPE accounts. Moreover, the management is crafting a more efficient and timely procedural guideline for recording of the receipt, issuance and disposal of PPEs.
   3. The management also informed that they are considering COA Circular No. 2020-006 on the one-time cleansing of the PPE accounts. However, the ABD and ASMD are still in the process of reconciling the records to establish more reliable data/reports prior to the inventory taking. The ASMD has scheduled a physical inventory of all PPE accounts for Metro Manila offices on May 08 to June 08, 2023. The result of the physical inventory shall be forwarded to the ABD for final reconciliation with the books after which, ASMD in coordination with ABD, will recommend the constitution of the Inventory Committee for the one-time cleansing of the PPE accounts.
   4. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.
5. **The Semi-Expendable Machinery and Equipment Expenses, Retained Earnings and Accumulated Depreciation–Office Equipment accounts were overstated by P5.383 million, P1.166 million and P4.217 million, respectively, due to incorrect recording of semi-expendable properties previously classified as Property, Plant and Equipment contrary to Paragraph 15 of Philippine Accounting Standard 1. Moreover, management failed to maintain the prescribed forms, registries, and reports required under COA Circular No. 2022-004, dated May 31, 2022.** 
   1. Paragraph 15 of PAS 1 states that:

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

* 1. Section 4 of COA Circular No. 2022-004 dated May 31, 2022 provides the Guidelines on the Implementation of Section 23 of the General Provisions of RA No. 11639 also known as the General Appropriations Act (GAA) for Fiscal Year (FY) 2022 relative to the increase in the capitalization threshold from P15,000.00 to P50,000.00.
  2. Sections 4.1 to 4.3 of the same Circular states that:

“Section 4.1 - Tangible items which meet the definition and recognition criteria of PPE but cost below fifty thousand pesos (P50,000.00) shall be accounted in the books of accounts of the agencies as semi-expendable property.”

“Section 4.2 - The increase in the capitalization threshold from P15,000.00 to P50,000.00 shall be considered as a change in accounting policy and shall be applied retrospectively, which means that the new capitalization threshold of P50,000.00 shall be applied for all tangible items purchased in CY 2022 onwards and in the prior years.”

“Section 4.3 - For issued tangible items acquired prior to CY 2022 with amounts from P15,000 to below P50,000 previously classified as Property, Plant and Equipment (PPE), the carrying amount shall be expensed/charged to the RE/(Deficit) account for Government Corporations (GCs) classified as Commercial Public Sector Entities. The corresponding accumulated depreciation and accumulated impairment loss shall be closed in the books of accounts.”

*Incorrect recording of semi-expendable properties previously classified as PPE.*

* 1. Review of the accounting documents showed that the JEV made by the ABD to reclassify the office equipment previously classified as PPE as of December 31, 2022, are as follows:

|  |  |  |
| --- | --- | --- |
| **Entry made per Journal Voucher No. 22081431 dated August 31, 2022** | |  |
| **Account Name** | **Debit** | **Credit** |
| Semi – Expendable Machinery and Equipment Expenses | P 5,540,853.36 |  |
| Retained Earnings | 157,976.76 |  |
| Accumulated Depreciation | 1,323,835.46 |  |
| Office Equipment |  | P 7,022,665.58 |
| **Total** | **P 7,022,665.58** | **P 7,022,665.58** |
| *Particulars: To adjust previously classified office equipment account to semi-expendable expense, in compliance to COA Circular No. 2022-004 dated May 31, 2022.* | |  |

* 1. However, examination of the lapsing schedule showed a total accumulated depreciation of P5.541 million and issuance of semi-expendable properties in CY 2022 of P157,976.76 thus, the appropriate journal entry should have been as follows:

**Should be**

|  |  |  |
| --- | --- | --- |
| **Account Name** | **Debit** | **Credit** |
| Semi – Expendable Machinery and Equipment  Expenses (CY 2022 Purchase) | P 157,976.76 |  |
| Retained Earnings | 1,323,835.46 |  |
| Accumulated Depreciation | 5,540,853.36 |  |
| Office Equipment |  | P 7,022,665.58 |
| **Total** | **P 7,022,665.58** | **P 7,022,665.58** |
| *Particulars: To adjust previously classified office equipment account to semi-expendable expense, in compliance with COA Circular No. 2022-004 dated May 31, 2022.* | |  |

* 1. The incorrect recording of the ABD to reclassify the office equipment previously classified as PPE overstated the Semi-Expendable Machinery and Equipment Expenses, RE, and Accumulated Depreciation– Office Equipment accounts by P5.383 million, P1.166 million, and P4.217 million, respectively contrary to paragraph 15 of PAS 1 and Section 4.3 of COA Circular No. 2022-004 dated May 31, 2022.

*Non-maintenance of registry, forms and reports as required under COA Circular No. 2022-004.*

* 1. Section 4.7 of COA Circular No. 2022-004, prescribed the forms, registries and reports to strengthen controls over the semi-expendable property, as enumerated in Table 21 below:

**Table 21 – Required Forms, Registry and Reports for Semi-Expendable Property**

|  |  |  |
| --- | --- | --- |
| **Annex** | **Particular** | **Persons/Department Responsible** |
| A.1 | Semi-Expendable Property Card (SPC) | Supply and/or Property Division/Unit |
| A.2 | Semi-Expendable Property Ledger Card (SPLC) | Accounting Division |
| A.3 | Inventory Custodian Slip (ICS) | Supply and/or Property Division/Unit |
| A.4 | Registry of Semi-Expendable Property Issued (RegSPI) | Supply and/or Property Division/Unit |
| A.5 | Inventory Transfer Report (ITR) | Accountable Officer/ Supply and/or Property Division/Unit/Accounting |
| A.6 | Receipt of Returned Semi-Expendable Property (RRSP) | Accountable Officer/ Supply and/or Property Division/Unit/Accounting |
| A.7 | Report of Semi-Expendable Property Issued (RSPI) | Supply and/or Property Division/Unit/Accounting Division |
| A.8 | Report on the Physical Count of Semi-Expendable Property (RPCSP) | Inventory Committee |
| A.9 | Report of Lost, Stolen, Damaged or Destroyed Semi-Expendable Property (RLSDDSP) | Accountable Officer |
| A.10 | Inventory and Inspection Report of Unserviceable Semi-Expendable Property (IIRUSP) | Supply and/or Property Division/Unit |

* 1. During the CY 2022, PCSO procured various semi-expendable properties in the head office and various branches in the amount of P1.334 million and P3.847 million, respectively. Based on the reports submitted to the Audit Team, there were only P69,753.76 unissued semi-expendable properties that remained in the custody of the branch as of December 31, 2022. The ABD informed that the said unissued semi-expendable properties were already issued in CY 2023.
  2. Examination of the transactions disclosed that upon issuance of the semi-expendable properties, ASMD issued ICS form to the accountable officer/end user to establish accountability over the property however; RegSPI was not maintained contrary to Section 4.7 of COA Circular No. 2022-004. The registry shall be maintained and the property custodian shall promptly record the issue, return, reissue, disposal and other information to keep track of the semi-expendable properties since it was already derecognized in the books of accounts.
  3. The enumerated forms, registries and reports in Table 21 above were designed to strengthen controls, address the risks of property losses and misuse and provide reasonable assurance to safeguard the semi-expandable properties against those risks. Non-maintenance of these required documents exposed the semi-expendable properties to a high risk of losses and misuse.
  4. **We recommended Management to:**

1. **Direct the ABD personnel to provide an adjusting entry to adjust the overstatement of the Semi-Expendable Machinery and Equipment Expenses, RE and Accumulated Depreciation– Office Equipment accounts of P5.383 million, P1.166 million and P4.217 million, respectively.**
2. **Direct all concerned personnel to prepare and maintain the forms, registry and reports required under Section 4.7 of COA Circular No. 2022-004 dated May 31, 2022.**
   1. Management has drawn JEV No. 23010053 dated January 31, 2023, to take up the adjusting entries to adjust the overstatement of the Semi-Expendable Machinery and Equipment Expenses, RE and Accumulated Depreciation-Office Equipment accounts amounting to P5.383 million, P1.166 million and P4.217 million.
   2. The management informed that in order to strengthen the controls in establishing and monitoring accountabilities on semi-expendable properties, the ASMD will incorporate the required forms, registries and reports on the policy and guidelines being crafted. The said policy/guidelines will be institutionalized and disseminated to the branches for proper guidance and compliance.
   3. The Audit Team recognized and appreciated management’s immediate action on the recommendations and will monitor the full implementation of the remaining audit recommendations in the CY 2023 audit.
3. **Journal Entry Voucher for the donation of the 12 units of Patient Transport Vehicle (PTV) to Local Government Units involving a total amount of P23.868 million was drawn despite the absence of Deeds of Donation, contrary to Section 5 of the Implementing Rules and Regulations for the Medical Transport Vehicle Donation Program. Likewise, two PTVs for donation still in the custody of PCSO were already recorded as donated, thereby understating the Other Assets-Mobile Clinics/Ambulance for Donation account and overstating the Charity Expenses-Other Charity Expenses-Ambulance Donation Program account both by P3.978 million.**
   1. Section 5 of the approved IRR for MTVDP outlines the procedural guidelines of the program, from Review and Assessment of Request in Section 5.1, Approval, Assignment and Documentation of the MTV Donation in Section 5.2, the Release of MTV Grant in Section 5.3 and the Monitoring of Grant in Section 5.4.
   2. Section 5.2.2 provides that CAD shall request the Legal Department to prepare the DOD to be signed by PCSO and the beneficiary. Section 5.3.3 provides that the ASMD shall send representative/s during the release of the MTV unit to facilitate proper accounting and lawful documentation of the disposition of the MTV unit which forms part of the Agency’s assets.
   3. Prior to the release of PTVs to the intended beneficiaries, the DOD should be signed by PCSO and the beneficiaries.
   4. On December 31, 2022, JEV No. 22122874 was drawn to record the donation of the 44 units of PTV to various LGUs. Review of the supporting documents, however, revealed that of the 44 units, only 30 were supported by Deed of Donation and Unit Release Form. The remaining 12 units were booked up as donated to LGUs despite the absence of the DOD, contrary to the above provisions of the IRR.
   5. Also, review of the General Ledger of the Other Assets-Mobile Clinics/Ambulance for Donation account showed a balance of zero as of December 31, 2022. However, the monitoring report maintained by the Charity Assistance Department (CAD) disclosed two unreleased PTVs which are still in the custody of PCSO, one PTV kept in the supplier’s warehouse and one in the PCSO Davao Branch Office. The two PTV units were recorded as already donated thru JEV No. 22122874, resulting in the understatement of the Other Assets-Mobile Clinics/Ambulance for Donation account and overstatement of the Charity Expenses-Other Charity Expenses-Ambulance Donation Program account, both by P3.978 million, and consequently understating the Retained Earning – Charity Fund account by the same amount, as of December 31, 2022. Inquiry with CAD disclosed that these two units of PTV remained unreleased as of May 24, 2023.
   6. **We recommended Management to direct the ABD to:**
4. **Ensure that JEVs drawn to record the release of PTVs were supported with DODs; and,**
5. **Prepare the necessary adjusting entries to correct the understatement of Other Assets-Mobile Clinics/Ambulance for Donation account and Retained Earning – Charity Fund amounting to P3.978 million resulting from the erroneous recording of the PTV units still for donation.**
   1. The CAD has supplied corresponding remarks for those that still lack the Deed of Donation, as follows:

|  | **Beneficiary** | **DOD** | **Remarks** |
| --- | --- | --- | --- |
| 1 | General Luna, Surigao Del Norte | x | PTV was released on March 24, 2022 (campaign/election period) through the representative of the Mayor; the DOD was given to the claimant to be signed by the Mayor, however, despite frequent follow-ups made through the Branch Office, the said documents have not yet been submitted |
| 2 | Ilocos Sur District Hospital-Baesang Pass, Ilocos Sur | x | The PTV was released during the transition period of the new management from GM Garma to GM Robles.  The DOD was prepared prior to the assumption of the new governor and of GM Robles.  CAD requested for the preparation of the new set of DOD upon issuance of the Board Resolution No. M-0020 s. 2022 approving the authority of GM Robles to sign the DODs submitted by the beneficiaries.  The modified DODs with GM Robles as PCSO signatory was received by SPD-CAD on January 26, 2023.  To date, the SPD-CAD is still awaiting for the submission of the new SP Resolution authorizing the newly elected Governor as signatory in the DOD. |
| 3 | Magsingal District Hospital, Ilocos Sur | x |
| 4 | Salcedo District Hospital, Ilocos Sur | x |
| 5 | Mercedes, Easter Samar | x | The PTV was released during the transition period of the new management from GM Garma to GM Robles, while the DOD was already prepared prior to the assumption of office of GM Robles.  CAD requested for the preparation of the new set of DOD upon issuance of Board Resolution No. M-0020 s. 2022 approving the authority of GM Robles to sign the DODs submitted by the beneficiaries.  The modified DODs were received by SPD-CAD on January 28, 2023 and immediately emailed to the Branch concerned for signing; however, to date, SPD is still awaiting submission of said documents. |
| 6 | Kapatagan, Lanao Del Norte | x |
| 7 | Sapad, Lanao Del Norte | x |
| 8 | Sultan Naga Dimaporo, Lanao Del Norte | x |
| 9 | Misamis Occidental Provincial Hospital | x |
| 10 | Lambayong, Sultan Kudarat | x |
| 11 | Loreto, Agusan Del Sur | x |
| 12 | Danglas, Abra | x | The PTV was donated to Danglas, Abra to assist the LGU to immediately respond to the needs of the victims/areas affected by the earthquake in Luzon.  Awaiting the submission of SB Resolution prior to the preparation of the DOD. |

* 1. Management has drawn JEV No. 23050788 dated May 30, 2023, to reverse JEV No. 22122874 dated December 31, 2022, involving a total amount of P3.978 million for the two unreleased units of PTV as of May 24, 2023 for the reasons: (a) PTV unit intended for the Marilog District Hospital, Davao City is yet to be released since the LGU requested for a change of beneficiary from Marilog District Hospital to City of Davao. The request for a change of beneficiary name was approved by GM Robles on January 18, 2023 and the modified DOD was received by SPD-CAD on February 22, 2023. The duly signed and notarized DOD submitted by Davao City was received on April 28, 2023 and (b) the request for change of beneficiary name from Mariano J. Cuenco, Cebu City to Province of Cebu was approved by GM Robles on January 4, 2023. The duly signed and notarized DOD from the Province of Cebu was received on April 27, 2023. The two units intended for Davao City, Davao Del Sur and the Province of Cebu will be released and recorded accordingly upon completion of the documentation process.
  2. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.

1. **The validity and reliability of the Miscellaneous Payable-Congressional Claims (STL) account as of December 31, 2022, amounting to P156.951 million could not be established due to (a) the long outstanding claims by the Congressional Districts (CD) from the STL Charity Fund, and (b) the non-maintenance of Subsidiary Ledgers to support the General Ledger balance of the account with details of the amount due each CD, contrary to Paragraph 15 of Philippine Accounting Standard 1 and Sections 111 and 114 (2) of Presidential Decree No. 1445.**
   1. Paragraph 15 of PAS 1 states that:

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

* 1. Section 111 of PD No. 1445 provides:

*“(1) The accounts of an agency shall be kept in such detail as is necessary to meet the need of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*

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

* 1. Section 114 of PD No. 1445 likewise provides that subsidiary records shall be kept where necessary. An SL captures all the transactions affecting each creditor with the corresponding references of the source documents, which can be verified to prove the validity of the recorded liability.
  2. In line with the implementation of the STL operation, the PCSO allocated a portion of its sales from STL to Congressional District (CD) as approved by the Board of Directors. The said share of CDs is accounted as a debit to Charity Expenses-STL account and a credit to Miscellaneous Payable-Congressional Claims (MPCC) account during the period of recognition. Upon settlement, the MPCC account is debited and the corresponding cash in bank account is credited.
  3. However, the recognition of the obligation to CDs was discontinued in October 2018 due to the approval of the new STL Revenue Allocation thru BR No. 0282 series 2018, STL Circular No. 2019-003 series 2019, and BR No. 0178 series 2020, which excluded the CDs as one of the recipients of the STL Charity Fund Share.
  4. As of December 31, 2022, review of the MPCC account still showed a balance of P156.951 million pertaining to the allocated STL Charity Fund Share of the CDs that remained unclaimed. Verification of the accounting records disclosed that since October 2018, numerous unclaimed and stale checks were reverted back to the MPCC account totaling P33.026 million. It was likewise noted that from January 2020 up to date, no check issuances were drawn against the MPCC account.
  5. Inquiry with the concerned personnel disclosed that some CDs refused to claim their STL Charity Fund Share as they have no official receipt to acknowledge the receipt of the fund. Moreover, since the checks were made payable to the office, they could not deposit the same as the CDs have no bank account under the name of the office of the CD. It was also noted that the STL Charity Fund Share of CDs was not covered by a MOA, thus they were not formally informed of the requirements on the receipt of the fund. Moreover, since LGUs with STL Operations are already receiving shares from STL Charity Fund, the grant of STL Shares to CDs (which is comprised of LGUs) is a duplication of the allocation of shares of the LGUs from STL Charity Fund.
  6. Further, the Audit Team noted that the ABD did not maintain SL showing the balance of its liability for each Congressional District. ABD submitted various schedules and aging reports; however, the details of the payables per CD were not included which was not in keeping with Sections 111 and 114 of the PD No. 1445.
  7. The existence of long outstanding payables intended for medical and health-related services under the MPCC account and the absence of SL that would provide the details of payables in a particular CD pose doubt on the validity and reliability of the obligations recorded.
  8. **We recommended Management to:**

1. **Conduct an assessment on the validity of the long outstanding MPCC Claims and accordingly make the necessary adjustments in the books of accounts; and**
2. **Direct the ABD to maintain SL for all valid claims.**
   1. Both the ABD and the BOS have taken the initial steps to address the COA audit observation:
   2. The BOS has instructed the Branches to reconstruct their SL of the account to determine the correct balances.
   3. The ABD has already broken down the amount of P156.951 million to the following balances:

|  |  |
| --- | --- |
|  | **Balances** |
| Head Office | P 37,892,610.72 |
| Branch | 119,058,875.07 |
| **Total** | **P156,951,485.79** |

With the balance already determined, the same was forwarded to the concerned Branches to aid them in reconstructing their respective schedules.

The management also informed that ABD will further coordinate with the BOS to determine the CD that would no longer claim their STL shares that were recognized up to September 2018, in order that reversal of the account could be made accordingly, along with the P33.026 million stale checks were was already reverted back to MPCC (STL).

* 1. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.

1. **NON-FINANCIAL**
2. **Allocations of the Net Receipts from gaming operations of PCSO for the CY 2022 to the Prize, Charity and Operating Funds were short by P462.089 million, P252.049 million and P126.024 million, respectively, or a total of P840.162 million due to the misapplication of the two (2) percent printing cost to arrive at the Net Receipts contrary to Section 6 of the Republic Act No. 1169, as amended by Batas Pambansa Blg. 42 and Presidential Decree No. 1157.**
   1. Section 6 of RA No. 1169, as amended, provides that from the gross receipts from the sale of sweepstakes tickets, whether for sweepstakes races, lotteries, or similar activities, shall be deducted the printing cost of such tickets, **which in no case shall exceed two percent of such gross receipts to arrive at the net receipts** to be allocated as follows: (emphasis ours)
3. 55 percent shall be set aside as prize fund for the payment of prizes;
4. 30 percent shall be set aside as contribution to the charity fund; and
5. 15 percent shall be set aside for operating expenses and capital expenditures
   1. Pursuant to the above provision, printing cost (cost of sales) refers to cost of printing tickets to be deducted from the Gross Receipts *(but not to exceed two percent of such Gross Receipts)* of PSCO gaming operations to arrive at Net Receipts for allocation to the different funds with the rates indicated therein.
   2. Review of the schedule of Allocation of Net Receipts for the period ended December 31, 2022, showed that two percent of the P57.468 billion Gross Receipts from PCSO gaming operations or P1.149 billion was deducted from such Gross Receipt as printing cost to arrive at Net Receipts of P56.318 billion which was allocated to Prize, Charity and Operating funds as shown in Table 22:

**Table 22 – Schedule of Allocation of Net Receipts using**

**the 2% of Gross Receipts as printing cost**

**For the period ended December 31, 2022**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **PCSO Games** |  | **Gross/Retail Receipts** |  | **2% Printing Cost** |  | **Net Receipts** |
| Lotto | P | 27,916,438,190.00 | P | (558,328,763.80) | P | 27,358,109,426.20 |
| Keno |  | 54,466,787.90 |  | (1,089,335.76) |  | 53,377,452.14 |
| STL |  | 28,428,040,573.00 |  | (568,560,811.46) |  | 27,859,479,761.54 |
| NISP |  | 1,068,849,899.05 |  | (21,376,997.98) |  | 1,047,472,901.07 |
| **Total** | **P** | **57,467,795,449.95** | **P** | **(1,149,355,909.00)** | **P** | **56,318,439,540.95** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Allocation of Net Receipts** | | | | |
| **PCSO Games** |  | **Net Receipts** |  | **Prize Fund (55%)** |  | **Charity Fund (30%)** |  | **Operating Fund (15%)** |
| Lotto | P | 27,358,109,426.20 | P | 15,046,960,184.41 | P | 8,207,432,827.86 | P | 4,103,716,413.93 |
| Keno |  | 53,377,452.14 |  | 29,357,598.68 |  | 16,013,235.64 |  | 8,006,617.82 |
| STL |  | 27,859,479,761.54 |  | 15,322,713,868.85 |  | 8,357,843,928.46 |  | 4,178,921,964.23 |
| NISP |  | 1,047,472,901.07 |  | 576,110,095.59 |  | 314,241,870.32 |  | 157,120,935.16 |
| **Total** | **P** | **56,318,439,540.95** | **P** | **30,975,141,747.53** | **P** | **16,895,531,862.28** | **P** | **8,447,765,931.14** |

* 1. Verification of the accounting records showed that the actual printing cost incurred for the CY 2022 totaled P309.193 million only, as shown below:

| **Account Code** | **Particulars** |  | **Amount** |
| --- | --- | --- | --- |
| 50203990-00-402-000001 | Other Supplies Expense - Thermal/Betslips | P | 183,468,429.35 |
| 50203990-00-402-000002 | Other Supplies Materials-Betslips-Lotto |  | 102,752,320.24 |
| 50203990-00-402-000003 | Other Supplies and Materials Expenses-Printing Materials-Betslips-Lotto |  | 506,400.00 |
|  | Total printing cost for Lotto | P | 286,727,149.59 |
| 50203990-00-403-000004 | Other Supplies Materials-Thermal Rolls and Betslips-KENO |  | 1,089,335.81 |
| 50299020-00-306-000001 | Printing and Publication Expenses-NISP |  | 21,376,997.98 |
| **Total printing cost for the CY 2022** | | **P** | **309,193,483.38** |

* 1. In strict compliance with Section 6 of RA No. 1169, as amended, only the *actual* printing cost of P309.193 million (Table 23) which does not exceed two percent of the Gross Receipts of P57.468 billion (also in Table 23) and not P1.149 billion should have been deducted from such Gross Receipts to arrive at Net Receipts of P57.159 billion and not P1.149 billion. This resulted in the reduction of the Net Receipts for allocation for Prize, Charity and Operating funds in a total amount of P840.162 million, (Table 24):

**Table 23 – Schedule of Allocation of Net Receipts using the actual printing cost**

**For the period ended December 31, 2022**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **PCSO Games** |  | **Retail Receipts** |  | **Actual**  **Printing Cost** |  | **Net Receipts** |
| Lotto | P | 27,916,438,190.00 | P | (286,727,149.59) | P | 27,629,711,040.41 |
| Keno |  | 54,466,787.90 |  | (1,089,335.81) |  | 53,377,452.09 |
| STL |  | 28,428,040,573.00 |  | - |  | 28,428,040,573.00 |
| NISP |  | 1,068,849,899.05 |  | (21,376,997.98) |  | 1,047,472,901.07 |
| **Total** | **P** | **57,467,795,449.95** | **P** | **(309,193,483.38)** | **P** | **57,158,601,966.57** |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  | **Allocation of Net Receipts** | | | | |
| **PCSO Games** |  | **Net Receipts** |  | **Prize Fund (55%)** |  | **Charity Fund (30%)** |  | **Operating Fund (15%)** |
| Lotto | P | 27,629,711,040.41 | P | 15,196,341,072.23 | P | 8,288,913,312.12 | P | 4,144,456,656.06 |
| Keno |  | 53,377,452.09 |  | 29,357,598.65 |  | 16,013,235.63 |  | 8,006,617.81 |
| STL |  | 28,428,040,573.00 |  | 15,635,422,315.15 |  | 8,528,412,171.90 |  | 4,264,206,085.95 |
| NISP |  | 1,047,472,901.07 |  | 576,110,095.59 |  | 314,241,870.32 |  | 157,120,935.16 |
| **Total** | **P** | **57,158,601,966.57** | **P** | **31,437,231,081.62** | **P** | **17,147,580,589.97** | **P** | **8,573,790,294.98** |

**Table 24 – Schedule of Under Allocation of Net Receipts**

**For the period ended December 31, 2022**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Fund** |  | **Actual Amount Allocated during CY 2022** |  | **Amount that should have been Allocated pursuant to RA No. 1169, as amended** |  | **Under Allocation** |
| Prize | P | 30,975,141,747.53 | P | 31,437,231,081.61 | P | 462,089,334.08 |
| Charity |  | 16,895,531,862.28 |  | 17,147,580,589.97 |  | 252,048,727.69 |
| Operating |  | 8,447,765,931.14 |  | 8,573,790,294.99 |  | 126,024,363.85 |
| **Total** | **P** | **56,318,439,540.95** | **P** | **57,158,601,966.57** | **P** | **840,162,425.62** |

* 1. The P840.162 million under allocation of Net Receipts for the Prize, Charity and Operating Funds was not in accordance with the provisions under Section 6 of RA No. 1169, as amended, thus, reducing the fund allocated for payment of Prize, Charity programs and activities and Operating and Capital Expenditures by P462.089 million, P252.049 million, P126.024 million, respectively.
  2. **We recommended and Management agreed to:**

1. **Consider the actual printing cost in the computation of the Net Receipts, which shall not exceed two percent of the Gross Receipts in compliance with Section 6 of RA No. 1169, as amended. Subsequently, allocate the Net Receipts to the different funds in accordance with the rates indicated in the RA.**
2. **Provide the additional fund allocations for Prize, Charity and Operating funds amounting to P462.089 million, P252.049 million and P126.024 million, respectively.**
3. **The expenses recorded under the Prize Fund of Small Town Lottery totaling P14.370 billion for calendar year 2022 were not duly supported with documents required under Section 18 (f.ii and f.iii) of the 2020 Revised Implementing Rules and Regulations for STL, constituting non-conformance with Section 4(6) of Presidential Decree No. 1445.**
   1. In accordance with 2020 RIRR for STL, PCSO allocated 53.90 percent of the Gross Receipts from STL operations as Prize Fund for the payment of the following:
4. Agent’s Commission – the share of AAC in the sale of STL, equivalent to 10 percent of the Guaranteed Minimum Monthly Retail Receipts (GMMRR) or the actual Sales, whichever is higher;
5. Commission of Sales Force – commission paid to the sales force, which include cabos and cobradores, equivalent to 10 percent of the GMMRR or the actual Sales, whichever is higher;
6. Prize Fund Tax (PFT) – tax equivalent to 5 percent of the total Prize Fund (or 2.695 percent of the GMMRR or the actual Sales, whichever is higher) as provided under Section 4 of RA No. 1169; and
7. Net Prize Fund – the residual amount after deducting the Agent’s Commission, Commission on Sales Force, and PFT from the gross Prize Fund, equivalent to 31.205 percent of the GMMRR or the actual Sales, whichever is higher. This is the fund used for the payment of prize winnings under the STL.
   1. The STL Prize Fund, with the exception of PFT, is retained to AACs subject to submission of the following report as provided in Section 18 (f.ii and f.iii) of the RIRR for STL:

*“ii. Summary of all prizes and winnings paid and charged against the Prize Fund;*

*iii. Summary of the payroll and/or commissions paid to Sales Representatives as proof of disbursement of the share of the AAC’s sales force xxx;”*

* 1. Section 4(6) of PD No. 1445 provides that claims against government funds shall be supported with complete documentation.
  2. For CY 2022, accounting records showed that the following expenses were charged to STL Prize Fund, as shown in Table 25:

**Table 25 – Schedule of Expenses Charged to STL Prize Fund**

**As of December 31, 2022**

|  |  |  |
| --- | --- | --- |
| **Particular** | **Account Name** | **Amount** |
| Pay-out of Prize Winnings | Prizes-STL-Lower Prize 10,000 And Below | P 8,685,374,336.99  P 8,685,374,336.99 |
| Payment of Agent’s Commission on sales | Fees And Commission Expenses-STL-Agent's Commission On Sales | 2,842,804,057.29 |
| Payment of Sales Force Commission | Fees and Commission Expenses-Sales Force Commission on Sales-Prize Fund-STL | 2,842,804,057.29 |
| **Total** |  | **P14,370,982,451.57** |

* 1. Review of the Journal Entry Voucher (JEV) relative to the above expenses disclosed that these were supported only by the Computation of the Revenue Allocation based on the recorded Income from Gaming Operations from STL certified by the ABD. It was noted that the allocated amounts for the STL Prize Fund disbursements were recorded as an outright expense without proper documentation. No supporting documents attached to the JEV would show that the recorded expenses were actually paid and distributed properly to the intended recipients.
  2. The summary of all prizes and winnings paid and charged against the prize fund, which could support the amount recorded for the payment of prizes, and the summary of the payroll and/or commissions paid to sales representatives as proof of disbursement of the share of the AAC’s sales force as required under Section 18 (f.ii and f.iii) of the RIRR for STL, were not attached to the JEV. The ABD disclosed that AACs submitted these reports, but these were in the custody of the PCSO Branches and were not attached to the JEV, thus, the check and balance of the account could not be attained.
  3. Likewise, it was noted that AACs did not issue official receipts (ORs) as proof of collection and as a supporting document on the amount expended and paid by PCSO to AACs pertaining to the agent’s commission from the sale of STL tickets/ GMMRR collection.
  4. Though the RIRR states that Prize Fund allotted for the above expenses are to be retained by AACs, these funds are still government funds and still owned by the PCSO out of the sales from STL tickets/ GMMRR collection and these should be supported and well accounted for when disbursed and recorded as an expense in compliance with Section 4(6) of PD No. 1445.
  5. **We recommended Management to:**

1. **Require the ABD to submit the summary of all prizes and winnings paid and charged against the Prize Fund and the summary of the payroll and/or commissions paid to sales representatives;**
2. **Require the AAC to issue Official Receipt pertaining to the commission from STL Operations paid by PCSO and use it as an attachment to the recorded Agent’s Commission Expense; and,**
3. **Ensure that the recorded expenses charged to STL Prize Fund are supported with complete documents evidencing the disbursement of fund**
   1. The management informed that the recorded expenses arising from the STL Prize Fund were supported by (1) Prize Fund Utilization for the Net Prize Fund; (2) Monthly Alpha list for the Sales Force Commission; and (3) Monthly Alpha list for the Agent’s Commission while the Net Prize Fund which is held in trust by STL AACs was supported by the Prize Fund Utilization Report (this is part of the Year-end Reports and Schedules submitted by the Branch Operations Sector to the COA on March 10, 2023). This complies with Section 18(d) of the 2020 RIRR for STL stating that “All excess Prize fund at the end of the year shall be remitted to the PCSO”, which is deemed equivalent to liquidation.
   2. Moreover, the agent’s commission and sales force commission are computed based on the STL Revenue Allocation, and such is supported by the monthly alpha list prepared and remitted to BIR. The ABD will the copies of the Monthly Alpha list for CY 2022 both for the Sales Force Commission and Agent’s Commission to COA via email.
   3. The management also informed that PCSO agrees with the COA’s recommendation that the STL AACs should issue corresponding official receipts for the agent’s commission, and as such, PCSO will discuss the matter with the AACs.
   4. As a rejoinder, the Audit Team reiterates the submission of summary of all prizes and winnings paid and charged against prize fund prepared by the AACs to support the Prize Fund Utilization prepared and submitted by the BOS. The monthly alpha list for the sales force commission is a support for the payment of withholding tax and not a proof of disbursement or receipt of the sales force commission by the AAC’s sales agents.
   5. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.
4. **Deficiencies were noted in the grant and releases of the Small Town Lottery Charity Fund Share granted to the Philippine National Police (PNP) and the National Bureau of Investigation (NBI) amounting to P619.618 million in CYs 2017-2022 and P119.863 million in CYs 2019-2022, respectively, thus, affecting the evaluation and monitoring of the proper utilization and complete documentation of the funds.**
5. **The lack of clear provisions in the MOA on the monitoring of the STL Charity Fund Shares granted to PNP and NBI, and the lack of proper dissemination of the copies of the MOA to the concerned PCSO departments resulted in the continuous release of the STL Charity Fund Share to PNP and NBI despite the absence of Fund Utilization Reports from the date of the execution of the MOA; and**
6. **The rate of the PNP STL Charity Fund Share provided in the MOA was still the old rate of 2.50 percent, instead of the new rate of 0.50 percent as approved per Board Resolution No. 0178 series 2020.**
   1. The PCSO, as the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character through the conduct of sweepstakes, races, lotteries, and other similar activities, has launched the nationwide STL operations to increase its charity fund generation. As such, the PCSO needs investigative assistance and intensified law enforcement against illegal lottery and numbers game operations. The National Bureau of Investigation (NBI) and the Philippine National Police (PNP) commit to give their full support and cooperation in PCSO’s STL operations. In return, PCSO supports the NBI and PNP by providing the needed medical and health services to their constituents by allocating a portion of the charity fund generated from STL sales. In this regard, the PCSO entered a MOA with PNP and NBI.
   2. In CYs 2017-2022, PCSO released P619.618 million to PNP on the grant of their STL Charity Fund Share in accordance with the MOA signed on November 22, 2016. Likewise, the PCSO released P119.863 million to NBI for the period 2019-2022 in compliance with the signed MOA dated September 20, 2019, representing their STL Charity Fund Share. However, various deficiencies were noted in connection to the releases and utilization of the funds as presented below:

*The lack of clear provisions in the MOA on the monitoring of the STL Charity Fund Shares granted to PNP and NBI, and the lack of proper dissemination of the copies of the MOA to the concerned PCSO departments resulted in the continuous release of the STL Charity Fund Share to PNP and NBI despite the absence of Fund Utilization Reports from the date of the execution of the MOA.*

* 1. Section V(b) of the MOA between PCSO and PNPprovides that the PNP shall *“Utilize the STL Share according to the PCSO Charter, subject to submission of a Fund Utilization Report to PCSO of said STL share on a semi-annual basis”*.

Section 2.B of the MOA between PCSO and NBI provides:

*“B. The NBI shall:*

1. *xxx*
2. *Utilize the STL share for NBI health program, medical assistance and charitable services, including but not limited to medical/dental missions, donation of medicines, hospitalization assistance for NBI personnel, procurement of medical supplies/equipment, and calamity assistance, subject to applicable accounting and auditing rules and regulations.*
3. *Furnish PCSO with the approved copy of the Detailed Guidelines for the above health programs, medical assistance and charitable services. The Detailed Guidelines shall include, among others, provisions on allowable expenses and its documentary requirements, and prohibited expenses.*
4. *xxx*
5. *xxx*
6. *xxx*
7. *xxx”*
   1. COA Circular No. 2016-002 states that one of the documentary requirements for the fund transfer is the submission of the certification by the Accountant that funds previously transferred to the Implementing Agency have been liquidated and accounted for in the books.
   2. Requests on the monitoring of fund utilization of STL Charity Fund Share to PNP and NBI have been made but no reports were submitted by PCSO. Inquiry with the ABD, the Branch Operations Sector, the Charity Assistance Department, and the Internal Audit Services revealed that they did not receive any utilization report from the PNP and that the monitoring thereof was not among their functions. Section V(b) of the MOA between PCSO and PNP states that the PNP shall submit a Fund Utilization Report, however, there was no provision in the MOA on who will be responsible in the monitoring of the said utilization reports.
   3. Likewise, inquiry with the ABD revealed that no Fund Utilization Reports were submitted by the NBI and that they were not informed of their responsibility to monitor the utilization of the grants to NBI since no copy of the MOA was furnished to ABD from the date of its execution. Also, no copy of the Detailed Guidelines was submitted by the NBI in compliance with Section 2.B (3) of the MOA between PCSO and NBI.
   4. Review of the accounting records revealed that continuous releases of STL Charity Fund Share were made to PNP and NBI starting from the date of execution of their MOA despite the absence of Fund Utilization Reports for previous fund releases contrary to the provisions of MOA and COA Circular 2016-002.
   5. Fund releases should be well accounted for in the books of account before the release of additional grant to in order to avoid wastage, loss, and misappropriations. Absence of Fund Utilization Reports hindered the verification of whether the funds were used for their intended purposes, whether the objectives of the PCSO to grant such assistance to PNP and NBI were met, and whether the disbursements against the fund were supported with complete and valid documents.
   6. Moreover, the lack of clear provisions in the MOA on the monitoring of the grants and the utilization of STL Charity Fund Share to PNP and NBI, and the lack of proper dissemination of the copies of the MOA to properly inform the concerned departments and officials/employees of their duties to monitor such grant resulted in the accumulation of the unsubmitted Fund Utilization Reports from the date of the execution of the MOA, thereby casting doubt on whether the funds granted to PNP and NBI amounting to P619.618 million in CYs 2017-2022 and P119.863 million in CYs 2019-2022, respectively, were used accordingly. Further, the continuous release of funds to PNP and NBI despite the absence of the Fund Utilization Reports runs counter to COA Circular No. 2016-002 and can be grounds for the termination of the Agreement as provided in the MOA.

*The PNP STL Charity Fund Share rate provided in the MOA was still the old rate of 2.50%, instead of the new rate of 0.50% as approved per Board Resolution No. 0178 series 2020.*

* 1. Section IV (c) of the MOA between the PCSO and the PNP provides that the PCSO should allocate 2.50% of the Charity Fund in favor of the PNP. However, per BR No. 0178 series 2020, the new allocation rate for PNP should be 0.50%, details shown in Table 26 :

**Table 26 – Revenue Allocation Rate for PNP**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Revenue Allocation** | |
| **Old Rate Provided in the MOA**  **(2.50%)** | **Latest Approved Rate per Board Resolution No. 0178 series 2020** |
| National Headquarters | 0.40% | 0.50% |
| Police Regional Office | 0.40% | - |
| Police Provincial Office | 0.50% | - |
| Local Police Station | 0.70% | - |
| CIDG-National | 0.20% | - |
| CIDG-Regional | 0.20% | - |
| CIDG-Provincial | 0.10% | - |

* 1. The MOA between the PCSO and the PNP was executed on November 22, 2016. It provides the allocation rate for the PNP's national, regional, provincial, and local offices, including the Criminal Investigation and Detection Group. However, these were revised in the latest approved allocation rate provided under BR No. 0178 series 2020 which likewise limits only to the National Office of the PNP the allocation for STL Charity Fund Share in the rate of 0.50%. Though the new rate has already been adopted by PCSO, the PNP STL Charity Fund Share rate en amended. The rate of the PNP STL Charity Fund Share provided in the MOA was still the old rate of 2.50%, instead of the new rate of 0.50% as approved per BR No. 0178 series 2020.
  2. **We recommended Management to:**

1. **Direct the ABD and the Charity Sector to strictly monitor the releases and utilization of the STL Charity Fund Share granted to PNP and NBI by requiring the submission of the Fund Utilization Reports for the previously transferred funds prior to the release of the additional fund and the submission of the Fund Utilization Reports and/or required reports within the period stipulated in the MOA;**
2. **For the STL Charity Fund Share granted to PNP and NBI amounting to P619.618 million in CYs 2017-2022 and P119.863 million in CYs 2019-2022, respectively, require the immediate submission of the Fund Utilization Reports, otherwise, enforce the remedies provided in the MOA;**
3. **Consider revision of the STL implementing guidelines to include the following and use the same to amend the MOA:**
   1. **To whom the Fund Utilization Reports shall be submitted to establish accountabilities on the monitoring of the timely and complete submission of the required Fund Utilization Reports;**
   2. **To issue guidelines on the utilization of the grant of financial assistance to PNP and NBI;**
   3. **To change the rate of the PNP STL Charity Fund Share in accordance with the latest approved STL Revenue Allocation.**
   4. The management informed that ABD is coordinating with NBI regarding the monitoring of the fund utilization of its share in the STL. The NBI reported that out of the shares granted to them, it had utilized the amount of about P300,000.00 which is now with COA NBI for issuance of Credit Notice and the remaining amount is still in their Trust Fund with the Bureau of Treasury. The ABD is requesting that the NBI issue a certification to this effect.
   5. While on the non-monitoring of submission of fund utilization reports, the Management informed that they are considering to centralize the monitoring of fund utilization with the Charity Sector, along with all other disbursements from the Charity Fund, since the PCSO is implementing the Fund Accounting System.
   6. Likewise, the management informed that they have already suspended the grant and release of the corresponding STL Charity Fund Shares to LGUs, PNP and NBI, as well as, withholding those checks already prepared for release to them.
   7. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.
4. **Lotto and Small Town Lottery Charity fund shares granted to 13 out of the 17 Local Government Units in the National Capital Region totaling P166.245 million for calendar years 2021 to 2022 were released despite the absence of Memorandum of Agreement (MOA) for the initial releases and Fund Utilization Reports for subsequent releases, thereby affecting the faithful adherence by the parties of their obligations under Executive Order 357-A series 1996, and the MOA, and the determination of the efficient and effective utilization of the fund.**
   1. The PCSO recognizes the role of the Local Government Units (LGUs) as partners in raising revenues, thus, supports the LGUs in providing the needed medical and health services to their constituents, by sharing a portion of the PCSO’s Charity Fund generated from sales of Lotto and STL in their respective locality.
   2. Executive Order (EO) 357-A dated October 7, 1996 provides:

*“SECTION 1. Approval of Grant to LGUs. A proportionate grant from thirty percent (30%) Lotto Charity Fund in favor of local government units where lotto tickets are sold, subject to the applicable provisions on the use thereof under RA No. 1169, is hereby approved.*

* 1. Through a Memorandum dated May 22, 2020, PCSO provided the template for the MOA covering the grant to Provinces/Cities/Municipalities of Lotto and STL Charity Fund Share. It spells out, among others, the obligations of both the PCSO and LGUs. The PCSO shall allocate and release the Lotto charity fund share generated from the sales of lotto within the jurisdiction of the LGU pursuant to EO No. 357-A and STL charity fund share (as may be approved by the PCSO Board of Directors and confirmed by the Office of the President) generated from the sales of STL within the jurisdiction of LGU, during the effectivity of the STL Agency Agreement of PCSO with its Authorized STL Agent Corporation operating within the jurisdiction of LGU.
  2. While among the obligations of the LGUs are:

1. Utilize the fund for its health programs, medical assistance and charitable services, consistent with the PCSO Charter, subject to applicable accounting and auditing rules and regulations, including but not limited to:
   1. Medical/Dental missions;
   2. Medicine Donation
   3. Hospitalization Assistance
   4. Procurement of medical supplies/equipment; or
   5. Milk Feeding/Nutrition Program
2. Submit to PCSO Internal Audit Services (IAS) a Fund Utilization Report at least thirty (30) days prior to the turn-over of the subsequent semi-annual share for the Lotto charity fund share and at least 15 days before the last day of June and 15 days before the end of the CY for STL charity fund share.
   1. For CYs 2021-2022, the PCSO granted P170.780 million and P17.470 million as Lotto charity fund share and STL charity fund share, respectively, to the 17 LGUs in the National Capital Region (NCR), as shown in Table 27:

**Table 27 – Lotto and STL Charity Fund Share Granted to LGUs in the NCR**

**for CYs 2021-2022**

| **No.** | **Cities/Municipality** | **Lotto Share** | **STL Share** | **Total** |
| --- | --- | --- | --- | --- |
| ***With MOA*** | | |  |  |
| 1 | Marikina City | P 7,022,941.03 | P 2,575,985.00 | P 9,598,926.03 |
| 2 | Muntinlupa City | 4,327,933.73 | 2,152,703.09 | 6,480,636.82 |
| 3 | Navotas City | 2,769,517.04 | 731,709.97 | 3,501,227.01 |
| 4 | San Juan City | 2,423,990.16 | - | 2,423,990.16 |
| Subtotal | | **P 16,544,381.96** | **P 5,460,398.06** | **P 22,004,780.02** |
| ***Without MOA*** | | |  |  |
| 5 | Quezon City | P 41,938,568.01 | 3,763,557.64 | P 45,702,125.65 |
| 6 | Manila City | 24,428,032.67 | - | 24,428,032.67 |
| 7 | Caloocan City | 13,872,122.32 | 337,656.68 | 14,209,779.00 |
| 8 | Paranaque | 11,199,998.79 | 1,606,468.73 | 12,806,467.52 |
| 9 | Pasig City | 9,650,000.22 | 4,850,782.63 | 14,500,782.85 |
| 10 | Taguig City | 9,196,644.56 | 552,968.69 | 9,749,613.25 |
| 11 | Pasay City | 8,858,011.56 | - | 8,858,011.56 |
| 12 | Las Piñas City | 8,368,011.32 | - | 8,368,011.32 |
| 13 | Makati City | 7,951,440.66 | 25,647.27 | 7,977,087.93 |
| 14 | Valenzuela City | 7,480,100.28 | - | 7,480,100.28 |
| 15 | Mandaluyong City | 7,075,549.96 | 418,943.11 | 7,494,493.07 |
| 16 | Malabon City | 3,427,209.02 | 146,929.62 | 3,574,138.64 |
| 17 | Municipality of Pateros | 789,725.61 | 306,880.71 | 1,096,606.32 |
| Subtotal | | **P 154,235,414.98** | **P 12,009,835.08** | **P 166,245,250.06** |
| **Grand Total** | | **P 170,779,796.94** | **P 17,470,233.14** | **P 188,250,030.08** |

* 1. As shown in Table 27, out of the 17 LGUs that were granted financial assistance, 13 LGUs were not covered by MOA, which is not in accordance with Section 4.6 of the PD No. 1445 and Section 3.1 of COA Circular No. 2012-001 which provide:

*Section 4.6 PD No. 1445*

*“Claims against government fund shall be supported with complete documentation.”*

*Section 3.1 COA Circular No. 2012-001 – Documentary Requirements of Fund Transfers to Implementing Agency*

* ***Copy of MOA/Trust Agreement***
* *xxx*
* *xxx*
* *xxx*
* *xxx*
* *xxx*
* *Copy of OR issued by the IA to the Source Agency acknowledging receipts of Funds transferred (for post audit activities)*
  1. It was also noted that 12 of the post-audited DVs involving a total amount of P44.225 million were claimed by LGU representatives but no authorization letter nor the identification card (ID) of the person who claimed the checks were attached to the vouchers.
  2. Further, review of the monitoring report from the IAS relative to the utilization of the Lotto and STL Charity fund share granted to 17 LGUs in the NCR disclosed that none submitted the Fund Utilization Report, contrary to the above-stated provisions in the MOA. We also noted that PCSO continually released the grants to these LGUs despite the non-submission of the Fund Utilization Report for the prior year releases, contrary to COA Circular No. 2016-002 which requires the submission of the certification by the Accountant that funds previously transferred to the Implementing Agency has been liquidated and accounted for in the books.
  3. Without the MOA covering the grant to the LGUs of their Lotto and STL Charity Fund Share, there is no assurance of faithful compliance by the LGUs of their obligations under the Agreement. Further, the absence of Fund Utilization Reports cast doubts on whether the funds were used for medical and health services as required under EO 357-A and MOA.
  4. **We recommended Management ensure that the Lotto and STL charity fund shares granted to LGUs are covered with MOA for initial releases and Fund Utilization Report for subsequent releases and that the remedies available therein for the non-compliance thereof are enforced. We also recommend that the receipt of the grant other than the collecting officer be supported by proper authority and government-issued ID, as required.**
  5. During the Exit Conference, Management committed to implement the audit recommendation.

1. **Accomplishment and Liquidation Reports for the financial assistance under the Calamity Assistance Program (CAP) granted to 105 beneficiaries totaling P65.005 million and under the Financial Assistance for the Procurement of Medical Equipment Program (FAPMEP) granted to three beneficiaries amounting to P25.705 million were not submitted to PCSO, contrary to Item C(1) Section VI of the Revised Implementing Guidelines for CAP and the Memoranda of Agreement between PCSO and the beneficiaries, thus affecting the PCSO’s verification on the proper utilization of the financial assistance. Likewise, two financial assistance grants under FAPMEP amounting to P34.940 million were partially liquidated.**
   1. In line with the mandate of the PCSO to raise and provide funds for health programs, medical assistance and services, and charities of national character, the agency has implemented the CAP with the objective of providing assistance to families, individuals affected by calamities/disasters or to health facilities, authorized agencies and entities which are in the forefront of addressing the hazards and effects of calamities, disasters, or medical emergencies; and, the FAPMEP with the intention to enhance the capability of medical facilities and enable them to provide efficient and quality medical services.
   2. The implementation of the CAP is governed by the Implementing Guidelines approved under BR No. 0308 series 2018, revised under BR No. 003 series 2019, and followed by a series of amendments through BR Nos. 0074, 0100, and 0102 series 2020. Moreover, BR No. 0079 series 2020 provides for the execution of the covering MOA between the PCSO and the LGUs. For the financial assistance under FAPMEP granted before the approval of the FAPMEP 2018 Implementing Guidelines, the PCSO entered into a MOA between the beneficiaries in the implementation of the FAPMEP. Both the CAP and FAPMEP require the submission of Liquidation Report as part of the obligations of the beneficiaries, to wit:

Item C (1) Section VI of the Revised Implementing Guidelines for CAP provides:

*“The LGU-beneficiary shall submit Accomplishment and Liquidation Report to Charity Assistance Department (CAD) thru the PCSO Branch Offices upon full utilization of the financial assistance and in no later than 60 days from receipt of the assistance.”*

Section 4 of the MOA between PCSO and beneficiary under FAPMEP provides:

*“Section 4. The BENEFICIARY shall submit to the PCSO a Terminal Financial and Accomplishment report within 90 days from receipt of the financial assistance or upon purchase of the medical equipment, whichever comes earlier with Statement of Receipt and Utilization Report as verified by the Commission on Audit. Failure to submit such document/s will result to the denial of any future or other financial assistance from the PCSO without prejudice to recourse to possible legal action.”*

* 1. However, the monitoring schedule of the Charity Assistance Department (CAD) revealed that 105 beneficiaries of CAP in CYs 2019-2021 with a total grant amounting to P65.005 million and three beneficiaries of FAPMEP with a total grant of P25.705 million have not yet submitted their liquidation reports to CAD, as summarized in Tables 28 and 29:

**Table 28 – List of CAP Beneficiaries that have not submitted the Accomplishment/Liquidation Report**

**As of March 15, 2023**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **CY** | **NO. OF ASSISTANCE  PER YEAR** | **TOTAL AMOUNT OF FINANCIAL ASSISTANCE (FA)** | **NO. OF UNSUBMITTED LIQUIDATION** | **TOTAL AMOUNT OF UNLIQUIDATED FA** | **PERCENTAGE** |
| 2019 | 277 | P 167,683,000.00 | 59 | P 26,858,000.00 | 21% |
| 2020 | 65 | 64,545,000.00 | 22 | 15,932,000.00 | 34% |
| 2020 (COVID) | 82 | 447,000,000.00 | 0 | 0 | 0% |
| 2021 | 52 | 51,601,000.00 | 24 | 22,215,000.00 | 46% |
| **TOTAL** | **476** | **P 730,829,000.00** | **105** | **P 65,005,000.00** | **22%** |

**Table 29 – List of Beneficiaries under FAPMEP that have not submitted the Liquidation Report**

**As of December 31, 2022**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **CY** | **Check No.** | **Recipients** |  | **Amount** | **Date of Official Receipt/**  **Date of Release of Grant** | **No. of Days to liquidate per MOA** | **Date of Deadline of submission of Liquidation** | **No. of Days delayed as of 12/31/22** |
| 1 | 2016 | 293937 | Davao Oriental Provincial Hospital Gov. Generoso | P | 1,995,000.00 | 09/29/2016 | 90 | 12/28/2016 | 2,194 |
| 2 | 2017 | 329452 | Abuyog District Hospital |  | 13,798,000.00 | 01/10//2018 | 90 | 04/10/2018 | 1,725 |
| 3 | 2017 | 329453 | Hilongos District Hospital |  | 9,912,000.00 | 01/10//2018 | 90 | 04/10/2018 | 1,725 |
| **Total** | |  |  | **P** | **25,705,000.00** |  |  |  |  |

* 1. These are reiterated audit observations. Of the 195 unsubmitted liquidation reports in CY 2021, 94 or 48 percent liquidation reports have already been submitted. As can be gleaned in Table 28, the remaining 101 or 52 percent together with the unsubmitted liquidations reports in CY 2022 of four or a total of 105 liquidation reports are still due for submission as of December 31, 2022, from 105 beneficiaries under the CAP. Interview with the CAD-Special Project Division revealed that they keep on monitoring the financial assistance with pending Liquidation Reports and keep on communicating with the beneficiaries by sending demand letters and continuous follow-ups through the PCSO Branches.
  2. As shown in Table 29, the Liquidation Reports due from three FAPMEP beneficiaries remained unsubmitted for 1,725 to 2,194 days or four to more than six years as of December 31, 2022, contrary to the provisions stipulated in the MOA. CAD also informed that the said non-compliance was already communicated to the beneficiaries thru phone calls and a letter dated September 21, 2022, to PCSO Branch Offices.
  3. On the other hand, verification of the monitoring report also disclosed that two beneficiaries of financial assistance under FAPMEP totaling P34.940 million have submitted partial liquidation only, as shown in Table 30:

**Table 30 – List of Beneficiaries under FAPMEP that**

**submitted partial Liquidation Reports**

**As of December 31, 2022**

| **No.** | **Check Date** | **Check No.** | **Recipients** |  | **Amount** |
| --- | --- | --- | --- | --- | --- |
| 1 | 12/20/2021 | 460186 | PNP General Hospital | P | 16,300,000.00 |
| 2 | 08/05/2016 | 293853 | Quezon Medical Center |  | 18,640,000.00 |
| **Total** |  |  |  | **P** | **34,940,000.00** |

CAD informed us that they already required the concerned beneficiaries on the complete submission of the required documents.

* 1. The non-submission of Liquidation Reports for the financial assistance granted to 105 beneficiaries under CAP totaling P65.005 million and to three beneficiaries under FAPMEP totaling P25.705 million hindered the PCSO in verifying whether the funds granted were used for its intended purpose/s. Moreover, the submission of partial liquidation reports only totaling P34.940 million cause the delay in the validation and verification by PCSO on the compliance of the beneficiaries with the agreed terms in the MOA.
  2. **In view of the foregoing, we recommended that Management require the beneficiaries the immediate submission of liquidation reports under CAP and FAPMEP totaling P65.005 million and P25.705 million, respectively; and to submit complete liquidation documents for the partially liquidated financial assistance in the amount of P34.940 million, and/or cause the refund of any unutilized amount.**
  3. The CAD acknowledged the observation, as it continuously monitors all unliquidated grants under the CAP. On March 28, 2023, the CAD sent Reminder Letters to the beneficiaries which were sent through regular mail and official e-mails of the concerned Branch Offices (BOs). CAD is also coordinating with concerned BOs for them to follow up the liquidation of the beneficiaries within their area of operation. The Special Project Division of CAD prepared the demand letters using the template from the Legal Department for the 105 beneficiaries with unliquidated assistance. Thereafter, follow-up and coordination will be made by CAD to the concerned BOs via phone calls and e-mails.
  4. For the FAPMEP, the CAD submitted the following comments, to wit:

1. On the three (3) beneficiaries that have not submitted the Terminal/Liquidation Reports as of December 31, 2022, updates are as follows.
2. Abuyog District Hospital and Hilongos District Hospital submitted only the Fund Utilization Report through email and until now, have yet to submit the full liquidation in spite of Letter to Liquidate sent, and even reminders made through the Office of the AGM-Branch Operation Sector. Communication with Dr. Lesmes C. Lumen, Provincial Health Officer II of the Province of Leyte, through phone call, was also done, and reminded of their obligation to submit the other liquidation supporting documents.
3. Davao Oriental Provincial Hospital, Gov. Generoso – has not submitted its liquidation until now despite the reminders letter sent.
4. On the two beneficiaries that submitted partial liquidation reports as of December 31, 2022, updates are as follows:
5. Quezon Medical Center – liquidation was submitted in December 2022, but with unutilized amount of P87,000.00. This has been coordinated with the concerned Branch Office regarding the return of unutilized amount and a demand letter will be prepared by the Legal Department.
6. PNP General Hospital – partial liquidation was submitted in December 2022 and a letter requiring them to submit the lacking documents will be prepared by CAD.

CAD requested the Legal Department through a Memorandum dated 26 May 2023 to prepare demand letters to the aforesaid two hospitals for the return of the unutilized fund and submission of the lacking liquidation documents.

* 1. CAD will be in close coordination with the Branch Offices concerned via phone calls and emails for monitoring and follow-up of the matter.
  2. The Audit Team appreciates management actions that resulted in the partial implementation of the audit recommendations and will monitor the full implementation of the audit recommendations in the CY 2023 audit.

1. **The Philippine Charity Sweepstakes Office could have avoided the incurrence of rent and leasehold improvements expenses totaling P714.411 million from April 2016 to December 2022 and the effects of the increase in the cost of construction materials and labor due to inflation had it expedited the implementation of the construction of its own building with target completion date in March 2016, considering that the funds for the project was already available in calendar year 2013.**
   1. Section 7.3.3 of RA No. 9184 provides that:

*“In order to hasten project implementation, Procuring Entities which may not have the proficiency or capability to undertake a particular procurement, as determined by the HOPE concerned, may outsource the procurement tasks by:*

*a) Requesting other GoP agencies to undertake such procurement for them, through the execution of a MOA containing specific arrangements, stipulations and covenants, in accordance with government budgeting, accounting and auditing rules; xxx.*

*b) Engaging private procurement agents to directly undertake the procurement for them, subject to the guidelines to be issued by the GPPB; or*

*c) Recruiting or engaging consultants to assist them directly and/or train their staff in the management of the procurement function.*

* 1. On March 15, 2012, the Board of Directors, under Resolution No. 092, Series 2012, approved the creation of an Inter-Agency Project Management Office (PMO) to conduct an extensive study on the construction of building for PCSO offices in Metro Manila. On May 22, 2013, upon the recommendation of the PMO, the Board of Directors, under Resolution No. 117, Series of 2013, approved its construction at the San Marcelino property.
  2. In the 2013 project brief, PMO illustrated the initial architectural design, work program, implementation schedule and budgetary requirements of the project. The Architectural and Engineering (A&E) Design Services, Construction Supervision and Management Services (CSMS) and Building Construction shall be through bidding in accordance with RA No. 9184 and shall be implemented from June 2013 to March 2016 with an estimated cost of P2.054 billion if low-cost finish, P2.130 billion if medium cost finish or P2.208 billion if high-cost finish.
  3. Review of the Annual Procurement Plan (APP) showed that since 2013 the said project was included in the APP with a three billion budget in 2022 and public bidding was the mode of procurement specified therein. However, there had been shifts in the procurement framework from public bidding under RA No. 9184 in CY 2013 to Public-Private Partnership (PPP) under RA No. 6957, as amended by RA No. 7718, otherwise known as the Build-Operate-Transfer (BOT) Law, in CY 2016, and in CY 2017 PCSO shifted back to public bidding.
  4. Inquiry from PMO disclosed that PCSO is currently in coordination with the Department of Public Works and Highways (DPWH) for the conduct of bidding of the PCSO building construction project.
  5. The series of BRs relating thereto are enumerated below:

| **Reference** | **Date** | **Particulars** |
| --- | --- | --- |
| BR No. 117, S. 2013 | May 22, 2013 | Approval of the construction of PCSO building in San Marcelino, Manila, subject to the availability of budget and compliance with applicable laws, rules and regulations. |
| BR No. 078, S. 2015 | Mar. 11, 2015 | Approval of the 2013 Project Brief and to make an addendum to BR. No. 117, S. 2013. |
| BR No. 326, S. 2015 | Aug. 12, 2015 | Reactivation and reconstitution of PMO for the purpose of developing an updated project brief in order to integrate expected escalation in construction costs and advancements in engineering technologies. |
| 2015 Project Brief prepared by PMO | 2015 | Improved version of the 2013 Project Brief with a more detailed project components and requirements. |
| BR No. D-0015, S. 2016 | Sept. 28, 2016 | Approval of the time table of the project with a maximum implementation duration from Sept. 28, 2016 – Jun. 3, 2022 which would include bidding of A&E Design Services; CSMS; and Building Construction in accordance to RA 9184 and its 2016 IRR. |
| Memo Order No. 2016-173 issued by the GM | Nov. 8, 2016 | Creation of a Project Management Team (PMT) tasked to facilitate the preparation of Public-Private Partnership (PPP) documents and needed project coordination and monitoring pursuant to RA 6957, as amended by RA No. 7718, otherwise known as the Build-Operate-Transfer (BOT) Law, and its IRR. |
| Memo issued by PMT Leader for the GM | Nov. 14, 2016 | PMT’s request for approval from the GM of the project’s implementation plan and budgetary requirements. |
| Project Implementation Plan prepared by the PMT | Nov. 14, 2016 | Project Implementation Plan duly approved by the GM showing the timeline of the four phases of the project, namely: development, approval, procurement and cooperation from November 10, 2016 – June 14, 2021. The total budget for the project was set at P2.5 billion. |
| BR No. 0162, S. 2017 | July 13, 2017 | Upon consultation with the PPP Center, the GM and PMT recommended to proceed with the project pursuant to the BOT Law, as amended, and it’s IRR. Said recommendation was duly approved by the BOD. |
| BR No. 0235, S. 2017 | Sept. 28, 2017 | Approval to proceed with the project pursuant to RA No. 9184 and its 2016 IRR on the ground that further review and study of the project revealed that such initiative would be more advantageous for the agency. |
| Special Order No. 2017-307 issued by the GM | Sept. 29, 2017 | Reactivation and reconstitution of the PMO to administer shift from PPP back to procurement methods for infrastructure projects under RA 9184 and its 2016 IRR. |
| Memorandum from PMO for the Chairman of the BOD | Jan. 4, 2018 | Transmittal of updated proposed project design and construction schedule, among others, for appropriate action of the BOD. |
| MOA with DPWH | Sept. 14, 2020 | Under the MOA, DPWH will serve as Procuring Agent for the project in accordance with Sec.7.3.3 of RA 9184 and its Revised Implementing Rules and Regulations. |
| Board Resolution No. 0020 series of 2021 | Feb. 11, 2021 | BR no. 0020 S 2021 was issued approving the engagement of the services of DPWH as provider of the Construction Supervision and Management Services (CSMS) |
| Preliminary Meeting | Aug. 4 2022 | Preliminary meeting was held between DPWH UPMO-BSPMC and the General Services Department (GSD) of the PCSO; the former informed the latter to submit a formal request for DPWH to resume the Technical Assistance and to conduct the competitive bidding of the project pursuant to Article 1(B) of the MOA. |
| Letter to DPWH | Dec. 14, 2022 | PCSO sent a letter to DPWH requesting for the latter’s assistance in the project. The letter reflected the provision of the MOA that DPWH-Unified Project Management Office – Buildings and Special Projects Management Cluster (DPWH UPMO-BSPMC) Unit will be assisting PCSO. |
| DPWH reply | Jan 27, 2023 | DPWH sent a reply letter with an attached internal memo, stating that the project will be transferred from the DPWH UPMO-BSPMC Unit to the DPWH-NCR. However, PCSO through letter dated Feb 16, 2023, sought to have the project retained under the DPWH UPMO-BSPMC. |
| Board Resolution No. 133 | May 24, 2023 | Board Resolution No. 133 was passed approving the Terms of Reference, and Conceptual Plans authoring the General Manager to sign and execute documents in relation to the project. The approval of the Board Resolution is a step to the fore development that is expected the construction of the Corporate Center |

* 1. Examination of the financial documents showed that PCSO had set aside funds restricted for the subject construction, which accumulated to P2.5 billion as of December 31, 2017, as shown below:

|  |  |  |
| --- | --- | --- |
| **Period** | **Restricted Capital** | |
| CY 2013 | P | 800,000,000.00 |
| CY 2014 |  | 2,000,000,000.00 |
| CYs 2015 - 2016 |  | 2,400,000,000.00 |
| CY 2017 |  | 2,500,000,000.00 |

* 1. Moreover, under BR No. 158 series of 2014 dated April 23, 2014, as amended by BR No. 357 series of 2014 dated August 13, 2014, PCSO entered into a Trust Agreement with the Land Bank of the Philippines through its Trust Banking Group (Trustee) on August 26, 2014, for the management and administration of the fund intended for the construction of the PCSO Building.
  2. The Statement of Financial Position for the PCSO-Building Trust Fund prepared by the Trustee as of December 31, 2022, showed that the total equity of PCSO was P2.928 billion, broken down as follows:

|  |  |  |
| --- | --- | --- |
| Principal | P | 2,500,000,000.00 |
| Retained earnings |  | 391,373,196.16 |
| Net income for the period |  | 45,521,397.89 |
| Net unrealized gains/losses – AFS |  | (8,758,434.34) |
| **Total Equity** | **P** | **2,928,136,159.71** |

* 1. The PCSO-Building Trust Fund earned various income totaling P428.136 million, net of unrealized losses of P8.758 million or 17 percent during the CYs 2014 to 2022.
  2. On the other hand, records showed that for the lease office spaces during the period April 2016 to December 2022, PCSO paid rent in the amount of P669.430 million, details are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **CY** | **Rent Expenses – Angpin & Associates Securities, Inc. (AP Securities, Inc.** | **Rent Expenses – Conservatory Shaw Plaza, Inc.** | **Rent Expenses – Sunplaza Development Corporation** | **Total Rent Expenses Incurred** |
| 2016 | P 6,609,872.44 | P 23,328,195.57 | P 9,647,385.86 | P 39,585,453.87 |
| 2017 | 5,270,224.50 | 27,129,759.54 | 10,021,414.66 | 42,421,398.70 |
| 2018 | 17,417,547.88 | 66,658,597.59 | 39,362,938.76 | 123,439,084.23 |
| 2019 | 16,175,880.00 | 54,139,382.61 | 32,258,790.00 | 102,574,052.61 |
| 2020 | 9,907,726.50 | 38,509,610.27 | 27,070,423.83 | 75,487,760.60 |
| 2021 | 20,177,028.62 | 68,095,728.97 | 59,711,857.78 | 147,984,615.37 |
| 2022 | 20,335,392.00 | 69,084,864.00 | 78,517,122.53 | 167,937,378.53 |
| **Total** | **P 95,893,671.94** | **P346,946,138.55** | **P256,589,933.42** | **P 699,429,743.91** |

* 1. In addition, PCSO spent a total amount of P14.981 million for leasehold improvements of the leased properties for the CYs 2016 to 2022, or a total of P714.411 million expenses for the rent and leasehold improvements.
  2. Also, the growth in wholesale and retail prices of building materials accelerated to the highest level in 14 years in 2022, as construction activity picked up. Data from the PSA showed the construction materials price index (CMWPI) in the National Capital Region (NCR) averaged 8.3 percent in 2022, faster than the 3.2 percent in 2021. This was the highest pace in 14 years or since the 10.7 percent in 2008. (BusinessWorld, News, January 19, 2023).
  3. Almost 10 years after the approval of the building construction in 2013, PCSO was still at the development stage of the proposed project design and construction plan. The shifts in the mode of procurement to be adopted in the construction of its own building, the lack of proficiency or capability to undertake the procurement and well-coordinated plan on the appropriate timing/phasing of related project activities did not only cause a delay in the completion thereof but also resulted in the incurrence of expenses for the lease of its office spaces and leasehold improvements during the pendency of the construction.
  4. Had the procurement planning for the PCSO office building project been efficiently undertaken and fully implemented as of March 2016 per original schedule, the rent and leasehold improvements expenses from April 2016 to December 31, 2022, totaling P714.411 million and the expected increase in the cost of construction materials and labor due to inflation could have been lly avoided considering that there was already available fund for the project as early as CY 2013. Moreover, if there will be a continuous delay in the construction of the building project of PCSO and with a yearly escalation rate of 5 percent in the rent of office spaces, by CY 2033, the rent expenses to be incurred by PCSO will already exceed the P3 billion budget for the PCSO building.
  5. **We recommended that Management expedite the completion of the design and hasten the implementation of the construction of the PCSO building in order to avoid the incurrence of expenses for rent and leasehold improvements as well as the effects of the increase in the cost of construction materials and labor due to inflation.**
  6. The General Services Department (GSD) enumerated updates and information on the PCSO Corporate Center Project and further explained that assistance from DPWH, as the construction arm of the government, is a correlative endeavor ensuring appended/supplemented manpower as well as technical know-how to spur the entire project in actualization. Moreover, DPWH will furnish PCSO with aid as regards public bidding.
  7. The management also explained that the recent developments laid down, specifically the passage of the BR and the preparation of documents necessary for the conduct of the competitive bidding, are manifestations of the PCSO’s efforts to expedite the PCSO Corporate Center Project. The availability of the approved conceptual plans, terms of reference, and certificate of financial availability indicates the commitment of PCSO to jump-start the project. Once the DPWH finds PCSO’s submissions fitting, the competitive bidding will commence and construction will set off.
  8. In brief, the construction of PCSO’s Corporate Center is in the best interest of the Agency as it would translate into less operational costs. As a revenue-generating institution whose mandate is to offer medical and health programs, the defrayed expenses will afford PCSO the necessary means to expand and improve its services.
  9. As a rejoinder, the Audit Team noted management’s comment, however, they are concerned that to date it is still in the planning stage or almost 10 years from the approval of the building construction, and it appearing that there is uncertainty on DPWH to accommodate the project due to the volume of procurement projects it handles. PCSO may consider other options or alternatives mode of procurement in line with RA No. 9184 to expedite the completion of the project.

1. **Disposal of unserviceable properties costing P25.941 million has not been undertaken, contrary to Section 79 of Presidential Decree No. 1445.**
   1. Section 79 of PD No. 1445 provides that:

*When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee. xxx in the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission xxx.*

* 1. Furthermore, COA Circular No. 89-296 dated January 27, 1989 prescribes the following modes of disposal/divestment: Public Auction, Sales thru negotiation, Barter, Transfer to Other Government Agencies and Destruction or Condemnation.
  2. Review of the IIRUP as of December 31, 2022, disclosed undisposed unserviceable properties with a total cost of P25.941 million details are shown in Table 31 below:

**Table 31 – Total Cost of Unserviceable Properties**

**As of December 31, 2022**

| **Particulars** |  | **Amount** |
| --- | --- | --- |
| Desktop/ Monitor | P | 1,161,475.00 |
| Cabinet |  | 77,228.75 |
| Vehicle |  | 23,616,996.00 |
| UPS |  | 183,944.00 |
| Printer |  | 446,728.00 |
| Storage device |  | 15,455.00 |
| Scanner |  | 31,260.00 |
| Chair |  | 44,980.75 |
| Table |  | 27,036.39 |
| Typewriter |  | 54,730.00 |
| Television |  | 24,995.00 |
| Shredder Machine |  | 27,700.00 |
| Tires |  | 228,330.00 |
| **Total Cost** | **P** | **25,940,858.89** |

* 1. The management informed that the last disposal of some unserviceable property (1 lot) was made on February 13, 2019, with PCSO OR No. 064219 and subsequently de-recognized in the books in 2019. However, there are still remaining unsold/undisposed unserviceable properties acquired since 2017 contrary to Section 79 of PD No. 1445.
  2. Unserviceable properties should be disposed of as soon as possible to avoid further deterioration, wastage, or possible losses and reduction of economic values due to prolonged exposure to natural elements.
  3. **We recommended that Management direct the concerned ASMD and ABD officials and personnel to:**

1. **Require the Disposal and Appraisal Committee to undertake the immediate disposal of the unserviceable property in compliance with Section 79 of PD No. 1445; and**
2. **Submit the duly accomplished IIRUP to the ABD to serve as a basis for dropping from the books of accounts the unserviceable property.**
   1. The management explained that the ASMD is diligent in monitoring the Agency’s unserviceable property through its IIRUP which is endorsed to the Disposal and Divestment Committee (DDC) after inspection of the ABD and approval of the HOPE. DDC submitted the Action Plan for 2023 and the status of its implementation shall be coordinated through ASMD.
   2. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.

**GENDER AND DEVELOPMENT (GAD)**

1. **Gender and Development (GAD) Focal Point System was not created for calendar year 2022 that would catalyze and accelerate the gender mainstreaming of the agency, contrary to Section 37-C of the Implementing Rules and Regulations (IRR) for Republic Act No. 9710 Magna Carta of Women and Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2011-01, resulting in the following:**
2. **Non-preparation of the GAD Agenda in compliance with PCW MC No. 2018-04, thus, the direction in the setting of the agency’s GAD initiatives towards the achievement of their gender equality and women's empowerment goals and the monitoring of such initiatives has not been met.**
3. **The institutionalization of the GAD database/Sex-disaggregated data was not implemented as required under Section 37-D of the IRR for RA No. 9710 and Section 4.4 of the PCW-National Economic Development Authority-Department of Budget and Management (PCW-NEDA-DBM) Joint Circular No. 2012-01, casting doubt on whether the PCSO’s GAD Plan and Budget (GPB) truly reflect the existing gender issues of the Agency’s employees and external clients.**
4. **The propriety of the attributed programs of PCSO in its GAD Accomplishment Report for CY 2022 amounting to P492.095 million could not be established due to the non-submission of supporting documents.**
5. **The GAD fund has not been fully utilized, thus, various GAD-related PAPs of PCSO for CY 2022 GPB were not implemented.**
6. **Delayed submission of the GAD Accomplishment Report which precluded the Audit Team to conduct a more comprehensive audit of GAD to determine the economy, efficiency, and effectiveness of interventions in addressing gender issues.**
   1. Section 3.5 of PCW Memorandum Circular (MC) No. 2011-01 describes the GAD Focal Point System (GFPS) as an interacting and interdependent group of people in all government instrumentalities tasked to catalyze and accelerate gender mainstreaming. It was also described as a mechanism established to ensure and advocate for, guide, coordinate, and monitor the development, implementation, review and updating of their GAD plans and GAD-related programs, activities and projects (PAPs).
   2. Section 4.1 of the same MC also provides that the head of agencies shall issue appropriate directives to institutionalize the creation of the GFPS in their respective agencies.
   3. Section 37-C of the IRR for RA No. 9710 or the Magna Carta of Women provides that:

*“All government departments including their attached agencies, offices, bureaus, SUCs, GOCCs, LGUs, and other government instrumentalities shall establish or strengthen their GFP System or a similar GAD mechanism to catalyze and accelerate gender mainstreaming within the agency or LGU. The head of agencies or LCEs shall sign appropriate issuances to institutionalize the creation of the GFP in their respective agencies or LGUs. The tasks and functions of the members of the GFP shall form part of their regular key result areas and shall be given due consideration in their performance evaluation.”*

* 1. Review of the records submitted by PCSO showed that Special Order (SO) No. 01-50/042 dated January 28, 2021, was issued designating the officers of the GFPS for CY 2021 with a term ending December 31, 2021, renewable at the discretion of the General Manager. Likewise, SO No. 2023-108 dated February 3, 2023, was issued designating the officers of the GFPS for CY 2023 with a term ending December 31, 2023. However, GFPS for CY 2022 was not reconstituted contrary to Section 37-C of the IRR for RA No. 9710 and PCW MC No. 2011-01, which resulted in the following:

*GAD Agenda was not prepared contrary to PCW MC No. 2018-04, thus, affecting the setting of direction of the agency’s GAD initiatives towards the achievement of their gender equality and women's empowerment goals.*

* 1. GAD Agenda, as defined in Section 3.1 of PCW MC No. 2018-04 dated September 19, 2018, is the agency’s strategic framework and plan on mainstreaming and achieving women’s empowerment and gender equality. It serves as a basis for identifying the programs, activities, and projects to achieve the GAD goals and outcome. It also provides the monitoring and evaluation framework for assessing GAD results that strengthen the mainstreaming of a GAD perspective in the agency’s operations and programs.
  2. Section 4 of PCW MC No. 2018-04 provides for the content and the timeframe of the GAD Agenda, to wit:

*“The GAD Agenda is a two-part document consisting of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP). The GADSF outlines the agency’s GAD Vision, Mission and Goals anchored on the mandate of the agency, while GADSP defines the strategic interventions, indicators, and targets to be pursued to achieve GAD goals over a period of time. The timeframe of the GAD Agenda is six years.”*

* 1. On January 30, 2023, request has been made on the submission of the PCSO GAD Agenda. However, the PCSO submitted their GAD Strategy MAP (2018-2022) as approved per BR No. 0102-D series 2018 dated May 4, 2018, which PCSO referred as their GAD Agenda per transmittal letter dated February 9, 2023.
  2. Review of the submitted PCSO GAD Strategy MAP disclosed that it did not conform to the prescribed format and components of the GAD Agenda as provided under Section 4 and Annexes D and E of PCW MC No. 2018-04. Under the prescribed PCW template, the GAD Strategic Framework (GADSF) requires the agency at a minimum to indicate its Mandate, GAD Vision, GAD Mission and GAD Goals. The GAD Strategic Plan (GADSP), on the other hand, requires the agency to indicate the gender issue or mandate, expected outcome, indicator, baseline, and responsible unit. The GADSP should also reflect the target, corresponding PAPS and estimated budget for the 6 years implementation of the agency’s GAD Agenda.
  3. The PCSO’s GAD Strategy Map (2018-2022), however, contains only the information on (1) how to sustain revenue growth, (2) the introduction of capability-building programs/information, education and campaigns, (3) strategy to achieve efficient and effective delivery system and (4) ways to empower workforce. The PCSO Strategy Map does not contain the elements needed for GADSF and GADSP. Moreover, the PCSO GAD Strategy Map do not comply with the stipulated time frame of 6 years for the GAD Agenda.
  4. Section 9 of PCW MC No. 2018-04 also provides that the agencies are encouraged to prepare their GAD Agenda upon the effectivity of the MC for CY 2020-2025, while the agencies with existing GAD Agenda should review and recalibrate, as necessary, their GAD Agenda in line with the MC. It was noted, however, that the PCSO GAD Strategy Map was not reviewed and recalibrated in compliance with the above circular.
  5. Likewise, due to the absence of the GAD Agenda, the PCSO could not submit the 3-year Progress Report, which is prepared to reflect the status of the accomplishments based on the analysis of the desired results and outcomes, as well as variances, as required under Section 8 of PCW MC No. 2018-04:

*“The GAD Agenda, progress and end-term reports shall be submitted by agencies to PCW for the purpose of monitoring, evaluation, reporting of GEWE results and as necessary, provision of technical assistance on its implementation.”*

* 1. The absence of the GAD Agenda affected the determination of whether the programs, activities, and projects of the PCSO are aligned to their GAD Vision, GAD Mission, and GAD Goals and whether their GAD initiatives are set towards achieving the agency’s gender equality and women’s empowerment goals.

*The institutionalization of the GAD database/Sex-disaggregated data was not implemented as required under Section 37-D of the IRR for RA No. 9710 and Section 4.4 of the PCW-National Economic Development Authority-Department of Budget and Management (PCW-NEDA-DBM) Joint Circular No. 2012-01, casting doubt on whether the PCSO’s GAD Plan and Budget (GPB) truly reflect the existing gender issues of the Agency’s employees and external clients.*

* 1. Section 37-D of the IRR for RA No. 9710 provides:

*“All departments, including their attached agencies, offices, bureaus, SUCs, GOCCs, LGUs, and other government instrumentalities shall develop and maintain GAD database containing GAD information to include gender statistics, and age- and sex-disaggregated data, that have been systematically produced/gathered, regularly updated to serve as inputs or bases for planning, programming, and policy formulation. xxx”*

* 1. Likewise, Section 4.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01 states that:

*“Institutionalizing GAD Database/Sex-disaggregated Data: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation.”*

* 1. The CY 2022 GPB aims to maintain database for external clients only, but is silent on the GAD database for the employees of PCSO. Request has been made for the PCSO’s GAD database/Sex-disaggregated data, but no documents were submitted.
  2. The GAD database/Sex-disaggregated data is an important tool in conducting gender analysis. It helps identify the current gender gaps or issues faced by PCSO’s employees and external clients. It serves as input in planning, budgeting, programming, and policy formulation and in determining whether the PAPs of the PCSO are gender-responsive. The Absence of the GAD database/Sex-disaggregated data cast doubt on whether the GPB truly identifies and addresses the gender issues of PCSO’s employees and external clients.

*The propriety of the attributed programs of PCSO in its GAD Accomplishment Report for CY 2022 amounting to P492.095 million could not be established due to the non-submission of supporting documents.*

* 1. Section 37-A of the IRR for RA No. 9710 states that the cost of implementing GAD programs or gender mainstreaming in PCSO’s mandate and operations should be at least five percent of the total approved budget of PCSO.
  2. The GAD budget for CY 2022 amounted to P4.937 billion, or equivalent to 9.72% of the total approved Corporate Operating Budget (COB). Of the total GAD budget, P492.095 million was utilized.
  3. However, the propriety of the attributed programs amounting to P492.095 million could not be ascertained as the submitted Accomplishment Report was not substantiated by supporting documents, such as the result of the Harmonized Gender and Development Guidelines (HGDG) Project Implementation and Management, and Monitoring and Evaluation (PIMME) or Facility Implementation, Management, and Monitoring and Evaluation (FIMME) checklist as well as any relevant means of verification (MOVs) for the agency’s self-rating assessment, summary/accomplishment of the program, copies of reported policy issuances related to the PAPs, and details of expenditures, in compliance with PCW MC No. 2022-07.
  4. Moreover, the GAD Accomplishment Report (AR) included Medical Access Program for external clients amounting to P321.302 million, which was not included in the GPB endorsed by the PCW. Supporting documents were also not attached for the attribution of the program.
  5. The absence of the supporting documents resulted in the inability to establish the propriety of the attributed programs which casts doubt on whether the PAPs addressed the gender issues of PCSO.

*The GAD fund has not been fully utilized, thus, various GAD-related PAPs of PCSO per CY 2022 GPB were not implemented.*

* 1. Review revealed that while the GPB showed a total GAD budget of P4.937 billion, the PCSO managed to utilize P492.095 million only, equivalent to 0.97% of the total COB, details shown in Table 32:

**Table 32 – Percentage of GAD Budget Utilization against the total**

**Corporate Operating Budget**

**For the CY 2022**

|  |  |
| --- | --- |
| Total amount of PAPs attributed per GAD Accomplishment Report | P 492,095,064.30 |
| CY 2022 approved COB | P 50,789,626,655.45 |
| **Percentage of PAPs to Total COB** | **0.97%** |

* 1. Verification of the AR showed that out of the 21 GAD-related PAPs, only three were partially implemented per GPB and one GAD-related program was added by PCSO. 18 PAPs per GPB in the total amount of P4.766 billion were unimplemented as of December 31, 2022, as summarized in Table 33, below:

**Table 33 – Percentage of Actual GAD Expenditures against the Total GAD Budget**

**As of December 31, 2022**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **GAD Plan and Budget** | | **GAD Accomplishment Report** | | **Percentage of Accomplishment** |
|  | **No. of PAPs** | **Total Budget** | **No. of PAPs** | **Actual Expenditures** |
| Client-focused Activities | 1 | P 3,000,000.00 | 0 | P - | - |
| Organization-focused Activities | 13 | 6,916,000.00 | 0 | - | - |
| Attributed Programs | 7 | 4,927,253,208.96 | 3 | 170,793,000.00 | 9.97% |
| Additional Attributed Program per GAD Accomplishment Report | - | - | 1 | 321,302,064.30 |
|  | **21** | **P 4,937,169,208.96** | **4** | **P 492,095,064.30** | **9.97%** |
|  |  |  |  |  |  |

* 1. It was noted that most of the activities in the Client- and Organization-focused activities were limited only to the orientation and trainings of PCSO external clients, officials, and employees, especially, the GFPS.
  2. It was also noted that the PCSO did not attribute the disbursements incurred during National Women’s Month celebration for CY 2022, such as the “Ticket Para Kay Super Pinay” promotional project.
  3. The inability to fully utilize the GAD fund, which resulted in the non-implementation of various GAD-related PAPs of PCSO for CY 2022 has deprived the intended beneficiaries of the maximum benefit therefrom.

*Delayed submission of the GAD Accomplishment Report which precluded the Audit Team to conduct a more comprehensive audit of GAD, contrary to PCW MC No. 2022-07.*

* 1. PCW MC No. 2022-07 states that the deadline for submission for the GOCCs of their GAD Accomplishment Report for fiscal year 2022 is on March 17, 2023. However, the PCSO, on April 4, 2023, had requested PCW to extend the deadline for submission of the GAD Accomplishment Report on April 28, 2023, due to the failure of PCSO to reconstitute their GFPS, to which the PCW granted the request. On April 28, 2023, the PCSO submitted their GAD Accomplishment Report, and was later returned back with comments by PCW, subject to re-submission on June 17, 2023.
  2. Due to untimely submission of the GAD AR, the Audit Team was precluded to conduct a more comprehensive audit of the PCSO GAD-related PAPs for CY 2022 to determine the economy, efficiency, and effectiveness of interventions in addressing gender issues.
  3. Had the GFPS been established for CY 2022, the following could have been facilitated: (a) preparation of GAD Agenda; (b) institutionalization of the GAD database/Sex-disaggregated data; (c) submission of documentation of GAD disbursements; (d) maximum utilization of GAD fund; and (e) timely submission of GAD Accomplishment Report.
  4. **We recommended that Management reconstitute its GFPS every year to catalyze and accelerate the gender mainstreaming of the PCSO. Likewise, we recommended that the GFPS:**

1. **Closely coordinate with the PCW and prepare the GAD Agenda in compliance with PCW MC No. 2018-04;**
2. **Institutionalize GAD database/Sex-disaggregated data to better identify the actual gender issues faced by PCSO and consider these issues in the preparation of the GPB for a more gender-responsive PAPs;**
3. **Submit supporting documents to substantiate the propriety of the attributed program and to facilitate the validation of the GAD Accomplishment Report. Likewise, we recommended to ensure the implementation of the GAD-related PAPs to achieve gender mainstreaming in PCSO’s overall operations;**
4. **Maximize the utilization of GAD funds and provide capacity-building activities to PCSO officials and employees to ensure the proper implementation of the GAD-related PAPs. We also recommended the attribution of the direct GAD-related programs and activities in the annual GAD Accomplishment Report; and**
5. **Strictly comply with the submission deadlines of the GAD Accomplishment Reports to enable the Audit Team to conduct a more comprehensive audit on PCSO’s GAD-related PAPs.**
   1. The Management informed that they shall:
6. Reconstitute its GFPS every year to catalyze and accelerate the gender mainstreaming of PCSO;
7. Closely coordinate with the PCSO and comply with the preparation of the GAD Agenda in compliance with PCW Circular No. 2018-04. The GFPS will work with a PCW-certified highly technical assistance provider to assist the agency in the preparation of the GAD Agenda following the PCW-prescribed template and procedure. Further, the GAD Agenda Workshop is in the 2023 pipeline. The newly reconstituted GFPS will develop a GAD Agenda for CY 2023 and onwards, which will be the basis of PCSO’s GAD Planning in the ensuing years;
8. Comply with institutionalization of GAD database/Sex-disaggregated data to better identify the actual gender issues faced by PCSO and consider these issues in the preparation of the GPB for a more gender-responsive PAPs. The 2023 GAD Plan and Budget includes the establishment and maintenance of the sex-disaggregated data for internal and external clients;
9. Comply with the submission of supporting documents to substantiate the propriety of the attributed program and to facilitate the validation of the GAD Accomplishment Report. We will also ensure the implementation of the GAD-related programs and activities in the annual GAD Accomplishment Report. For CY 2023, the GFPS included two (2) separate activities on the Harmonized GAD Guidelines (HGDG) to review and integrate GAD perspectives in the agency’s regular PAPs at the design and implementation stages. This shall ensure that the agency’s regular PAPs are properly attributed in both the GPB and GAD AR; and,
10. Comply with the deadlines of submission of the GAD Accomplishment Reports. The newly-reconstituted GFPS shall be pro-active in implementing and monitoring the 2023 GAD Plan.
    1. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2023 audit.

**BRANCHES**

1. **The utilization of the allocated shares from Lotto and STL operations released by PCSO to Local Government Units (LGUs) in the Provinces of Ilocos Norte, Pangasinan, Ilocos Sur and Abra, Cagayan, Isabla, Kalinga, Nueva Vizcaya, Marinduque, Oriental Mindoro, Albay, Camarines Norte, Camarines Sur, Sorsogon, Aklan, Antique, Capiz, Guimaras, Iloilo, Cavite, Batangas, Municipality of Albat, and Agusan Del Norte cannot be ascertained due to the (a) absence of an approved 3 in 1 Memoranda of Agreement (MOA) that define the specific obligations of the PCSO and LGU’s concerned and (b) non-submission of Fund Utilization Reports and/or liquidation reports on the share allocations in the conduct of STL operations contrary to applicable Board Resolutions and Sections of the Revised Implementing Rules and Regulations for STL, thus casting doubts on the reliability on disbursed funds:**
   1. **We recommended and Management agreed to:**
      1. **Furnish the Audit Team with complete duly-executed MOA between PCSO and Provincial/Local Government Units (PLGUs/LGUs);**
      2. **Direct the concerned head of the provincial and municipal government units to cause the immediate submission of utilization reports to account the disbursed funds properlyunds; and**
      3. **Ensure compliance by LGUs in the implementation of their respective MOAs for health programs, medical assistance and services and charity programs of national character pursuant to the objectives set forth under the 2020 STL-RIRR.**
2. **The reported Retail Receipts from STL Authorized Agent Corporation of PCSO Aklan, Antique, Capiz, Guimaras, and Iloilo for CY 2022 were doubtful due to lack of necessary supporting documents to prove and support the actual sales and no verification was conducted by PCSO to assess the correctness of the sales amount, thus, cast doubt on the completeness of remittances due to PCSO representing 52.295% of the monthly retail receipts or Guaranteed Minimum Monthly Retail Receipts, whichever is higher.**
   1. **We recommended Management to:**
3. **Conduct verification of the reported sales retail receipts of STL AAC for CY 2022 and review the 2020 Revised STL IRR and consider revisions such as the inclusion of a mechanism that will enhance the verifiability of the reported retail receipts submitted to PCSO, or for AAC with electronic betting to submit system generated reports that were properly validated by PCSO personnel, or submit additional requirements and supporting documents that will allow the PCSO to verify these reports.**
   * 1. **Elevate the audit recommendation to the concerned department of the PCSO Central Office, and provide updates on the status of the implementation on the automation of the STL operation.**
   1. Management explained that one of the duties and responsibilities of the AAC provided under the 2020 Revised STL IRR is to

*“Deposit/remit on the next banking day the total amount due to the PCSO pursuant to the Revenue Allocation for STL. In no case shall the total monthly sales collection be lower than the approved GMMRR in the area”.*

GMMRR is the guaranteed amount offered and voluntarily committed by the AAC to PCSO.

Moreover, management informed that while they acknowledged the need to verify the sales report submitted by the AAC, it is equally important to note that as long as the AAC complies with the GMMRR duly approved by the Board, the AAC satisfies one of its duties and responsibilities as provided under the 2020 Revised STL IRR. This assures and guarantees the office of the funds needed in providing the government for its health programs, assistance and medical services. Nevertheless, the Branch assured that it will refer the recommendation to the Branch Operations Sector for evaluation.

1. **Non-submission of financial records and other relevant documents for the sales, utilization of prize fund, and sales force commission of the STL operations in the Province of Albay, Camarines Norte, Camarines Sur and Sorsogon contrary to the 2020 STL RIRR which precluded the timely and relevant audit thereof, hence, the correctness and completeness of recording as well as validity of transactions could not be established.**
   1. **We recommended Management to require the AACs to immediately submit the complete financial records and other relevant documents supporting their reported actual sales, prize fund payouts, and sales force commission payments in CY 2022. Thereafter, the Branch Accountant should verify the correctness and completeness of the submitted supporting documents/ financial records and submit to the Auditor for further verification. Also, we recommended that Management strictly impose the appropriate penalties under Article VI 5 of the STL RIRR to prevent the AACs from neglecting their duties and responsibilities, especially on the prompt and complete submission of STL - related financial records and documents for purposes of inspection by PCSO and COA.**
2. **Documents pertaining to the lotto operations of various lotto agents operating within Baguio City, Benguet, and Mountain Province, were found to be deficient which may present a question on the legitimacy of the continued operations of such lotto agents to wit:**
3. **Expired and unrenewed agency agreements;**
4. **Agency Agreements were not duly signed by both the Assistant General Manager who represents the PCSO as Principal and by the PCSO Branch Department Manager as witness;**

1. **Notices of Extension/ Renewal Agency Agreement were not signed by the Assistant General Manager; and**

1. **Documents that were not acknowledged before a notary public.** 
   1. **We recommended and Management agreed to submit to the audit team copies of duly executed Agency Agreements and Notice of Extension/ Renewal of Agency Agreement of the concerned lotto agents in order to support the agents’ legitimate continued operations.**
2. **The Guaranteed Minimum Monthly Retail Receipts shortfall amounting to P153.459 million of Speed game Incorporated, a former Authorized Agent Corporation under the jurisdiction of the Branch, remained unsettled as of December 31, 2022 contrary to the provisions of the 2020 Revised Implementing Rules and Regulation of STL, thus, depriving the Branch of additional funds which it could have used in its operations for the attainment of the objectives of the STL.**
   1. **We recommended that the OIC Branch Manager immediately coordinate with the PCSO NCL Department on the status of the Demand Letter forwarded by the Legal Department in compliance with the issued Board Resolution No. 0121 series 2020 to collect the balance due and/or unpaid amounts by Speed game, Inc. to the PCSO.**
   2. The OIC-Branch Manager made another follow-up with the OIC–DM of NCL through text message. However, no response and update on the status of the Demand Letter has been received yet.
3. **Proper implementation on the distribution of the procured drugs and medicines donated to 35 barangay-beneficiaries totaling ₱729,741.30 could not be determined due to the failure of the PCSO Marinduque Branch Office to submit the liquidation reports in accordance with the Implementing Guidelines of PCSO Medicine Donation Program, thus there is no assurance that said medicines were actually received by the intended beneficiaries.**
   1. **We reiterated our previous year’s audit recommendation that the Financial Management Officer I submit the documents required by the Implementing Guidelines of the Medicine Donation Program and cause the submission of the liquidation reports as proof that the procured medicines were received by the supposed beneficiaries.**
4. **Implementing Guidelines of the Medicine Donation Program was not strictly observed by PCSO Oriental Mindoro and Palawan Branch in the procurement and distribution of medicines to various barangays and municipalities in Oriental Mindoro and Palawan rendering the regularity and propriety of the transaction doubtful.**
   1. **We recommended and Management agreed to require the concerned personnel to:**
5. **Strictly adhere to the pertinent provisions of the Implementing Guidelines of Medicine Donation Program in determining eligible institutions as beneficiaries of the Program; and**
6. **Cause the submission of the lacking supporting documents to the Office of the Auditor to facilitate review and validation.**
7. **Payment requests for the guarantee letters (GLs) of PCSO Agusan Del Norte and Surigao Del Norte issued to the partner health facilities, totaling P306,820.65 and P823,922.92, respectively, were processed beyond 45 days, with delays ranging from 9 to 50 days, contrary to the Revised Guidelines of Medical Access in Malasakit Centers (MAM) Program, thus affected the financial viability of the partner facilities.**
   1. **We recommended that Management instruct the person in charge of processing the request to strictly observe the existing guidelines and ensure that the processing of the request will be completed within forty-five (45) calendar days.**
   2. The processing of MAP & MAM of Agusan Del Sur branch, classified as branch C was set up with DV payments to be certified by the Office of the Department Management Mindanao (ODMM) accounting, recommended by the branch head, and approved by the Department Manager. Several factors affect the delay in turnaround time, including approval and check issuance, which are beyond the control of the branch. The branch strives to do its part at the earliest time possible, but mailing, certifying and approval, sending back to the branch, and check issuance pose a huge delay due to distance and time. This may be discussed and presented further to next level of management for other possible solutions.
   3. The Surigao Del Norte branch explained that the delay may be attributed to the following: (a) resignation of the previous FMO of the SDN Branch; (b) lack of proper training for those who were left in the SDN Branch; (c) the province of SDN was severely affected by Typhoon Odette in the first and second quarters of 2022 and its employees had to report to the nearest branch, which is Agusan del Norte, due to the absence of water electricity in the province; and lack of manpower.

**COMPLIANCE WITH TAX LAWS**

1. For the CY 2022, PCSO remitted taxes withheld and documentary stamp taxes amounting to P14.317 billion to the Bureau of Internal Revenue (BIR). Likewise, taxes withheld for the month of December 2022 amounting to P593.189 million were remitted to the BIR in January 2023, as shown in Table 34.

**Table 34 – Remittances of Taxes Withheld During the Month of December 2022**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Date Remitted** |
| Final Income Taxes Withheld | P41,811,610.02 | January 24, 2023 |
|  | 1,725,750.00 | January 27, 2023 |
| Creditable Income Taxes Withheld (Expanded) | 99,471,735.82 | January 27, 2023 |
| VAT and Other Percentage Taxes Withheld | 60,935,936.27 | January 10, 2023 |
| Documentary Stamp Tax | 377,179,078.82 | January 05, 2023 |
| Taxes Withheld on Compensation | 12,064,980.83 | January 13, 2023 |
| **Total** | **P593,189,091.76** |  |

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

1. In compliance with RA No. 8291, otherwise known as the GSIS Act of 1997, PCSO remitted for CY 2022 premium contributions to the GSIS amounting P73.453 million. Likewise, in compliance with the inventory and insurance of all insurable assets and interest of the government pursuant to RA No. 656, otherwise known as the Property Insurance Law, PCSO paid to the GSIS a total of P2.724 million as premiums in CY 2022. PCSO also remitted the amounts of P1.834 million and P1.730 million to the Home Development Mutual Fund (HDMF), which represent the contributions and loan payments, respectively, in compliance with Rule VII, Section 3 of the IRR of RA No. 9679, or the Pag-IBIG Fund Law of 2009. Further, contributions in the total amount of P10.934 million were also remitted to PhilHealth in CY 2022.

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

1. The unsettled audit suspensions and disallowances as of December 31, 2022 amounted to P87.197 million and P2.691 billion, respectively, as summarized in Table 35 and the details thereof are shown in Part IV-Annex A of this Report. There was no Notice of Charge issued during the year.

**Table 35 – Summary of Audit Suspensions and Disallowances**

**As of December 31, 2022**

| **Particulars** | **Balance,**  **1/1/2022** | **Adjustments** | **Issued**  **This period** | **Settlement**  **This period** | **Balance,**  **12/31/2022** |
| --- | --- | --- | --- | --- | --- |
| Notices of Suspension | P 87,197,278.31 | P - | P - | P - | P 87,197,278.31 |
| Notices of Disallowance | 2,690,965,615.64 | - | - | - | 2,690,965,615.64 |
| **Total** | **P 2,778,162,893.95** | **P -** | **P -** | **P -** | **P 2,778,162,893.95** |