**PART II – OBSERVATIONS AND RECOMMENDATIONS**

1. **FINANCIAL**
2. **The accounts Charity Expenses - Other Health and Welfare Related Program in Calendar Year 2021 and Accounts Payable – Charity Fund were both overstated by P200 million and the Retained Earnings was understated by the same amount, thus affecting the fair presentation of these accounts in the Financial Statements, contrary to paragraph 15 of the Philippine Accounting Standard No. 1, due to the recorded transfer of fund to the Office of the President that did not push through amounting to P200 million for the procurement of Coronavirus Disease-2019 vaccines, for being not authorized nor fully documented contrary to Section 4, Item Nos. 5 and 6 of Presidential Decree No. 1445, Section 3.1.1 of COA Circular No. 2012-001 dated June 14, 2012 and Section 3 of Republic Act No. 115251 dated July 27, 2020.**
   1. Paragraph 15 of the Philippine Accounting Standard (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. Section 4 of Presidential Decree (PD) No. 1445 Item Nos. 5 and 6 provide, that the disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials and claims against the government funds shall be supported with complete documentation.
  2. In line thereto, Section 3.1.1 of COA Circular No. 2012-001 dated June 14, 2012 provides for the documentary requirements for transfer of funds to Implementing Agencies, to wit:

*Source Agency:*

* Copy of Memorandum of Agreement (MOA)/Trust Agreement
* Copy of Approved Program of Work (for infrastructure project)
* Approved Project Expenditures or Estimated Expenses indicating the project objective and expected output (for other projects)
* For GOCCs, Board Resolution (BR) ratifying the MOA in case of transfers not incorporated in the Corporate Operating Budget (COB) and/or beyond the signing authority of the Agency Head.
* Certification by the Accountant that funds previously transferred to the Implementing Agency (IA) has been liquidated, post audited and accounted for in the books.
* Copy of the OR issued by the IA to the Source Agency acknowledging receipt of funds transferred (for post-audit activities)
  1. Moreover, Section 3 of Republic Act (RA) No. 115251 dated July 27, 2020 also provides that in the procurement of Coronavirus Disease-2019 (COVID-19)vaccines, the Department of Health (DOH) and the National Task Force (NTF) shall be authorized to negotiate and approve the terms and conditions thereof in behalf of the LGUs and other Procuring Entities including, but not limited to, the price and payment terms, making sure that there is price uniformity and to prevent price competition.
  2. On June 9, 2021, PCSO BR No. 101 s. 2021 was issued, approving the recommendation of the Charity Sector of PCSO for the turn-over of funds amounting to P200 million to the Office of the President (OP). The supposed transfer of fund was for the procurement of COVID-19 vaccines for PCSO employees including their immediate family and households members, confidential agents, job order, and contract of service personnel, security guards and janitors. The OP advised the PCSO to coordinate with the DOH and NTF against COVID-19 for the said procurements in line with Section 3 of RA No. 115251 dated July 27, 2020. This program was not included in the PCSO’s approved COB for the Calendar Year (CY) 2021.
  3. On October 1, 2021, BR No. 187 was issued amending/changing the intention of BR No. 101 s. 2021 to read as *“To approve the turn-over of Two Hundred Million Pesos (P200,000,000.00) to the Office of the President (OP) for health related programs at the disposal of the OP.”* The OP, in a letter dated December 9, 2021, reiterated that PCSO should coordinate with the DOH, as the latter is in a better position to determine the programs where the subject fund are most needed, and likewise informed that once advice from DOH is received, the approval for the release of the fund to DOH will be processed.
  4. Examination of the Accounting records showed that Check No. 457233 dated November 5, 2021 covered by Disbursement Voucher (DV) No CF2111017913 dated November 2, 2021 was drawn payable to OP in the amount of P200 million. The Treasury Department (TD) and Charity Sector personnel however informed that the check remained unreleased as of December 31, 2021 for reason that the OP refused to accept the same pending receipt of advice from the DOH. Apparently, the DV covering the said transfer was processed and the corresponding check was prepared despite the absence of approval of the transaction by the OP. It was also noted that the DV was processed and approved without complete documentation, e.g. Copy of MOA/Trust Agreement, Approved Project Expenditure or Estimated Expenses indicating the project objective and expected output and etc. This practice of approving the disbursement of funds without proper authority and with incomplete supporting documents is contrary to the aforementioned laws and COA Circular.
  5. Meanwhile, the financial assistance granted by PCSO to various beneficiaries are recognized in the books by debiting the expense account related to the program and crediting the corresponding liability account. For the supposed transfer of fund to the OP, the account Other Health and Welfare Related Program (OHWRP) was debited with a corresponding credit to Accounts Payable – Charity Fund account. Further, in the preparation of check voucher, the Accounts Payable – Charity Fund was debited with a corresponding credit to a cash in bank account.
  6. At year end, adjusting entries were prepared to revert the cash for all unreleased checks by debiting the cash in bank account and set-up again the obligation to pay by crediting the AP account as of December 31, 2021. Thus, the accounts OHWRP and AP were overstated by P200 million, which consequently understated the Retained Earnings by the same amount.
  7. **We recommended and Management agreed to instruct the concerned Accounting personnel to:**

1. **Cancel the Check No. 457233 dated November 5, 2021 and the corresponding DV No. CF2111017913 to correct the overstatement of the affected accounts by debiting Accounts Payable – Charity Fund and crediting Retained Earnings – Charity Fund by P200 million; and**
2. **Ensure that transfer of funds are duly authorized and documented in compliance with of Section 4, Item Nos. 5 and 6 of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012.**
   1. Consistent with the instruction from the OP to coordinate with the DOH for the determination of the programs wherein the subject fund are most needed, the Charity Assistance Department (CAD) conducted series of coordination and meeting with representatives of the DOH for the submission of proposal identifying the specific program to be funded. However, no proposal has been received from DOH; hence, on April 22, 2022, the PCSO Board of Directors (BOD) through BR No. 0060 s. 2022, approved the recommendation of the CAD for the revocation of the P200 million vaccination program donation to the OP and the utilization of the said amount for additional funding of the Medical Access Program nationwide in consideration of the high demand for medical assistance to patients.
   2. Correspondingly, with the revocation of the vaccination program donation, the P200 million check which remained in the custody of the TD was cancelled and Journal Entry Voucher (JEV) No. 22050678 dated May 26, 2022 was drawn to record the cancellation.
3. **Approved financial assistance under the Integrated Health for Over-All Productivity and Empowerment program in Calendar Year 2019 amounting to P110.349 million remained as outstanding payable as of December 31, 2021 despite the revocation of its approval in February 2020, thereby overstating the Accounts Payable – Miscellaneous-Charity Fund and understating the Retained Earnings by the same amount, contrary to paragraph 15 of the Philippine Accounting Standard No.1.**
   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. The Integrated Health for Over-All Productivity and Empowerment (I-HOPE) Program of PCSO aims to support the upgrading of the medical facilities of devolved hospitals from the poorest provinces with the end view of rendering accessible and quality health services to the patients in need of medical and health services and to facilitate access to affordable diagnostic procedures and treatment modalities to improve the capability of Rural/ Barangay Health Centers in providing quality primary health care services.
  2. As of December 31, 2021, accounting records disclosed P110.349 million payables under I-HOPE which pertain to the approved grant of financial assistance to four medical facilities in different provinces for the purchase of medical equipment. The grant was approved during the 24th Regular Board Meeting held on December 17, 2019 under BR No. 0454 s. 2019 dated January 10, 2020, details of which are presented in Table 1.

# **Table 1 – List of Financial Assistance approved under the I-HOPE Program in CY 2019**

|  |  |  |
| --- | --- | --- |
| **No.** | **Proponents** | **Amount** |
| 1. | Sulu Provincial Hospital, Province of Sulu | P 7,703,000.00 |
| 2. | Saranggani Provincial Hospital | 48,414,937.00 |
| 3. | Sultan Kudarat Provincial Hospital | 48,414,937.00 |
| 4. | Datu Halun Sakilan Memorial Hospital, Province of Tawi Tawi | 5,816,000.00 |
|  |  | **P 110,348,874.00** |

* 1. Per general ledger, PCSO recorded the accrual of the above approved financial assistance by debiting Charity Expenses-Other Charity Expenses-I-HOPE (424-2B6) and crediting Accounts Payable-Miscellaneous-Charity Fund for the amount of P110.349 million through JEV No. 19121603 dated December 31, 2019.
  2. Verification of the status of the grant of the above financial assistance disclosed that these were not yet released to the proponents as of December 31, 2021. According to Charity Sector personnel, BR No. 0035 dated February 28, 2020 was issued wherein the Board resolved to revoke BR No. 454 s. 2019 due to the discrepancy on the submitted documents, resulting in the cancellation of the approval of the grant of financial assistance to the listed medical facilities. However, examination of accounting records showed that despite the revocation of the BR/cancellation of the approval of the grant of financial assistance, the accrual related thereto was not yet reversed and still reflected as a liability of PCSO as of December 31, 2021. Hence, the Accounts Payable-Miscellaneous-Charity Fund and Retained Earnings account were overstated and understated, respectively, by P110.349 million
  3. Since PCSO already cancelled its obligation to grant financial assistance to the medical facilities as evidenced by the BR No. 0035 s. 2020, it follows that the accrued liability recognized in CY 2019 shall also be reversed. The non-reversal of such liability account made it appear that PCSO still has an obligation to the subject medical facilities under the I-HOPE program, thus a misrepresentation of the transactions that happened and providing misleading information, contrary to Paragraph 15 of the PAS No. 1.
  4. **We recommended and Management agreed to instruct the concerned personnel of the Accounting and Budget Department (ABD) to consider the following adjusting entry to correct the overstatement of the Accounts Payable-Miscellaneous-Charity Fund and understatement of the Retained Earnings account caused by the revocation of the B.R. No 454 s. 2019/cancellation of the approval of the grant of financial assistance under I-HOPE program, to faithfully represent the accounts and transactions in compliance with paragraph 15 of PAS No. 1, to wit:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Title** | | **Debit** | **Credit** |
| **Accounts Payable – Miscellaneous – Charity Fund** | | **P110,348,874.00** |  |
|  | **Retained Earnings – Charity Expenses – Other Charity Expenses – Integrated Health for Over-all Productivity and Empowerment** |  | **P110,348,874.00** |
|  |  | **P110,348,874.00** | **P110,348,874.00** |

* 1. Management has already drawn JEV No. 22050680 dated May 26, 2022 taking up the recommended adjusting entries.

1. **The recognition of the liability for the 2021 Performance-Based Bonus in the amount of P31.353 million pending receipt of the overall and favorable assessment of the Governance Commission for Government-Owned or Controlled Corporations (GCG) and the non-reversal of the accrual for the Calendar Year 2020 PBB with unfavorable results of assessment of the GCG in the amount of P14.748 million, resulted in the overstatement of the Due to Officers and Employees, and the Other Bonuses and Allowances and understatement of Retained Earnings accounts of P46.101 million, P31.353 million and P14.748 million, respectively.**
   1. This is a reiteration with updates of the previous year’s audit observation.
   2. The PAS No. 37 defines a contingent liability as a possible obligation that arises from one events or whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
   3. Paragraph 86 of PAS No. 37 provides:

*“Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:*

1. *an estimate of its financial effect,.....xxx*
2. *an indication of the uncertainties relating to the amount or timing of any outflow; and*
3. *the possibility of any reimbursement.”*
   1. The Performance-Based Bonus (PBB), is a top-up bonus, given to personnel in accordance with their contribution to the accomplishment of their Department’s overall targets and commitments. The grant of PBB shall be based on the overall and favorable assessment of the Governance Commission for Government-Owned or Controlled Corporations (GCG) of PCSO’s performance for the year that passed. The GCG website showed that for the period 2019 to 2020, PCSO applications for PBB were assessed as “Failed” and “Ineligible”. The GCG also informed that the validation and assessment of PCSO’s application for the CY 2021 PBB is on-going.
   2. Examination of the accounting records disclosed that the PBB for CY 2021 was accrued as of December 31, 2021 by debiting the Other Bonuses and Allowances and crediting the Due to Officers and Employees accounts in the amount of P31.353 million. The said accrual was supported with the list of names of employees with the corresponding amount of incentive to be received. Since PCSO’s obligation to pay the PBB will be established only upon receipt of the overall and favorable assessment of the GCG, the accrual of P31.353 million for CY 2021 should not have been recognized or recorded as of December 31, 2021. Instead, a disclosure of the related information following Paragraph 86 of PAS No. 37 should have been made pending the receipt of the result of the GCG’s assessment.
   3. Result of audit likewise showed that the accrual of PBB for the CY 2020 amounting to P14.748 million, with unfavorable validation and assessment from GCG, was still not reversed/adjusted in the books as of December 31, 2021.
   4. The accrual of the 2021 PBB in the amount of P31.353 million, overstated the Due to Officers and Employees, and Other Bonuses and Allowances accounts by the same amount. While the non-reversal of the accrual of PBB for the CY 2020 as of December 31, 2021, resulted in the overstatement and understatement of the Due to Officers and Employees and Retained Earnings accounts, respectively, each by P14.748 million.
   5. **We recommended that Management direct the concerned accounting personnel to:**
4. **Draw a JEV to reverse the accrual made for CYs 2021 and 2020 PBB, as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Title** | | **Debit** | **Credit** |
| **Due to Officers and Employees** | | **P46,101,108.59** |  |
|  | **Retained Earnings** |  | **P46,101,108.59** |
|  |  | **P46,101,108.59** | **P46,101,108.59** |
| ***Proposed adjusting journal entry to correct the misstatement of the accounts due to the accrual of the CY 2021 and non-reversal of the accrual for CY 2020 PBB.*** | | | |

1. **Disclose the related information in the Notes to FS in accordance with Paragraph 86 of PAS No. 37.**
   1. Management has drawn JEV Nos. 22050673 and 22050672 dated May 20, 2022 to take up the recommended adjusting entries.
2. **The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P16.130 billion as of December 31, 2021 cannot be ascertained due to: (a) variance between the balances per books and the confirmed bank balances of the Main and Operating Fund (OF) accounts in the total amount of P14.851 million; (b) variance of P36.780 million between the balances per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts; (c) stale checks and spoiled checks for OF, CF and PF were reported as Outstanding Checks in the Bank Reconciliation Statement (BRS); and (d) closed accounts still having outstanding balances in the books amounting to P3.088 million and P0.689 million, contrary to Paragraph 15 of Philippine Accounting Standard No. 1.**

**Moreover, the late submission of the BRS precluded the timely verification of the transactions affecting the cash account, and is not in accordance with Section 7, Chapter 21 of the Government Accounting Manual, Volume I.**

* 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, 2021, the Cash and Cash Equivalents account had a balance of P16.130 billion. Audit of the account disclosed various deficiencies discussed as follows:

*Variance between the balances per books and the confirmed bank balances of the Main and Operating Fund accounts in the total amount of P14.851 million*

* 1. Examination of the balances per books and the balances confirmed by the corresponding depository banks of the Main and OF accounts of the PCSO disclosed a total discrepancy of P14.851 million, details shown in Table 2, below:

# **Table 2 – Discrepancy between the Balances per Books and**

# **Confirmed Balances of the Cash in Bank – Main and OF Accounts**

# **As of December 31, 2021**

| **Account Title** | **Account Number** | **Balance per Books** | **Balance per Bank Confirmation** | **Discrepancy Over(Under)** |
| --- | --- | --- | --- | --- |
| **Main Account** |  |  |  |  |
| CIB-LC-SA- LBP Online | LBP- 3102-1000-09 | P 239,685,284.37 | P 239,203,842.61 | P 481,441.76 |
| CIB-LC-SA- PNB Online | PNB- 121270003824 | 2,455,590.36 | 80,634.15 | 2,374,956.21 |
| **TOTAL** |  | **P 242,140,874.73** | **P 239,284,476.76** | **P 2,856,397.97** |
| **Operating Fund** |  |  |  |  |
| CIB-LC-CURRENT ACCOUNT - OF-LBP (E. RODRIGUEZ AVE.) | LBP- 3102-1000-33 | 3,536,540,569.25 | 3,551,841,787.69 | (15,301,218.44) |
| CIB-LC-CURREN ACCOUNT- OF-(COMBO)-LBP | LBP– 3101-0076-25 | 193,020,452.71 | 194,198,971.32 | (1,178,518.61) |
| CIB-LC-CA-OF-LBP (STL REMITTANCES) | LBP- 3102-1005-64 | 323,902,339.36 | 325,130,397.74 | (1,228,058.38) |
| **TOTAL** |  | **P 4,053,463,361.32** | **P 4,071,171,156.75** | **P (17,707,795.43)** |
| **GRAND TOTAL** |  | **P 4,295,604,236.05** | **P 4,310,455,633.51** | **P (14,851,397.46)** |

* 1. Verification of the BRS for CY 2021 for the subject accounts disclosed that the said discrepancy pertained to the unadjusted book and bank reconciling items totaling P2.863 million and P11.989 million, respectively, details are shown in Table 3, hereunder.

# **Table 3 – Summary of Book and Bank Reconciling Items As of December 31, 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Book Reconciling Items:** | | | | |
| **Year** | **Unrecorded Deposits/Remittances/DM/CM** | **Erroneous Recording of Fund Transfer** | **Errors in Posting** | **Total** |
| 2006 | P - | P - | P (285,732.10) | P (285,732.10) |
| 2008 | 130,724.09 | - | 22,314.52 | 153,038.61 |
| 2009 | 15,200.00 | - | (3,800.90) | 11,399.10 |
| 2010 | 18,685.00 | - | - | 18,685.00 |
| 2011 | 42,560.00 | - | (0.50) | 42,559.50 |
| 2012 | 451,302.91 | - | (19.06) | 451,283.85 |
| 2013 | 236,625.00 | 210,677.79 | (6,750.00) | 440,552.79 |
| 2014 | 459,000.00 | - | (205,399.63) | 253,600.37 |
| 2015 | 485,250.00 | - | (619,874.50) | (134,624.50) |
| 2016 | - | - | (152,812.50) | (152,812.50) |
| 2017 | - | (16,310.80) | 57,598.37 | 41,287.57 |
| 2018 | 276,014.57 | 29,744.47 | (186,560.76) | 119,198.28 |
| 2019 | 790,078.57 | - | (92,637.75) | 697,440.82 |
| 2020 | (59,513.72) | - | (645,868.51) | (705,382.23) |
| 2021 | 2,439,647.58 | 450,000.00 | (977,449.07) | 1,912,198.51 |
| **Total** | **P 5,285,574.00** | **P 674,111.46** | **P (3,096,992.39)** | **P 2,862,693.07** |

DM – Debit Memo

CM – Credit Memo

**Bank Reconciling Items:**

| **Year** | **Outstanding Checks** | **Unposted Deposits** | **Bank Errors** | **Total** |
| --- | --- | --- | --- | --- |
| 2006 | P - | P - | P (200.00) | P (200.00) |
| 2009 | - | - | (7,748.00) | (7,748.00) |
| 2010 | - | - | 353,393.52 | 353,393.52 |
| 2011 | - | - | (6,727.50) | (6,727.50) |
| 2012 | - | 538,696.10 | (64,918.10) | 473,778.00 |
| 2013 | - | 4,612.50 | 49,436.78 | 54,049.28 |
| 2014 | - | 93,009.10 | (13,352.80) | 79,656.30 |
| 2015 | - | 222,915.00 | (0.01) | 222,914.99 |
| 2016 | - | 134,881.50 | - | 134,881.50 |
| 2017 | - | 1,027,821.45 | (147,701.51) | 880,119.94 |
| 2018 | - | 76,887.46 | (3,854.11) | 73,033.35 |
| 2020 | - | - | (300.00) | (300.00) |
| 2021 | (14,269,010.74) | 3,000.00 | 20,454.97 | (14,245,555.77) |
| **Total** | **P(14,269,010.74)** | **P 2,101,823.11** | **P 178,483.24** | **P (11,988,704.39)** |
| **Net Reconciling Item** | | | | **P (14,851,397.46)** |

* 1. Based on Table 3, the net unadjusted book reconciling items of P2.863 million pertained to unrecorded deposits, remittances, debit and credit memos, erroneous recording of fund transfers and errors in posting of various cash collections of PCSO. It was also noted that book reconciling items were already identified in prior years’ BRS but remained unadjusted/unreconciled.
  2. The bank reconciling items of P11.989 million pertained to outstanding checks (OC), unposted deposits and bank errors. Likewise, bank reconciling items have been identified in the BRS from 2006 to 2021 but remained as reconciling items to date. The unposted deposit in the total amount of P2.102 million for the period 2012 to 2018 that remained unadjusted could have been corrected by the bank had the concerned PCSO personnel promptly brought the matter to the bank’s attention considering the significant amount involved and the length of time that had elapsed.
  3. The same audit observations were already noted in prior years, however, still book and bank reconciling items in the total amounts of P2.863 million and P11.989 million, respectively, remained unadjusted as of December 31, 2021.

*Variance of P36.780 million between the balances per books and the confirmed bank balances of the Prize Fund and Charity Fund account*

* 1. Results of confirmation of the balances of the accounts with various depository banks maintained for the PF and CF as of December 31, 2021 disclosed a variance of P36.780 million when compared with the balances reflected in the financial statements (FS), as shown in Table 4.

**Table 4 – Comparison of the Balances per Books and per Bank Confirmations**

**As of December 31, 2021**

| **Account No.** |  | **Balance per Books** |  | **Balance per Bank Confirmation** |  | **Net Discrepancy Over (Under)** |
| --- | --- | --- | --- | --- | --- | --- |
| ***Prize Fund:*** |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-17 | P | 3,799,904,432.56 | P | 3,799,839,676.59 | P | 64,755.97 |
| LBP Acct No. 3102-1006-10  (STL Remittance – Prize Fund) |  | 124,878,958.22 |  | 126,520,314.29 |  | (1,641,356.07) |
| ***Charity Fund:*** |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-25 |  | 6,756,348,504.78 |  | 6,790,878,672.56 |  | (34,530,167.78) |
| LBP Acct No. 3102-1005-56  (STL Remittance – Charity Fund) |  | 547,598,896.10 |  | 548,272,439.78 |  | (673,543.68) |
| **Total** | **P** | **11,228,730,791.66** | **P** | **11,265,511,103.22** | **P** | **(36,780,311.56)** |

* 1. Further, verification of the BRSs for the subject accounts revealed that the above discrepancies were caused by the unadjusted book balances from CYs 2013-2021, details are presented in Table 5.

**Table 5 – Summary of Unadjusted Reconciling Items for CYs 2013-2021 As of December 31,2021**

**Book Reconciling Items:**

| **Account No.** |  | **Unrecorded Deposits**  **(a)** |  | **Error in Fund Transfers from PDOs**  **(b)** |  | **Erroneous Recording/**  **Posting**  **(c)** |  | **Total** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Prize Fund*** |  |  |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-17 | P | - | P | (870,563.17) | P | (9,300.00) | P | (879,863.17) |
| LBP Acct No. 3102-1006-10  (STL Remittance -Prize Fund) |  | 1,391,359.12 |  | - |  | 312,976.73 |  | 1,704,335.85 |
| ***Charity Fund*** |  |  |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-25 |  | 65,262.09 |  | 70,000.00 |  | (473,727.13) |  | (338,465.04) |
| LBP Acct No.3102-1005-56  (STL Remittance – Charity Fund) |  | 3,049,565.98 |  | - |  | (2,615,720.18) |  | 433,845.80 |
| **Total** | **P** | **4,506,187.19** | **P** | **(800,563.17)** | **P** | **(2,785,770.58)** | **P** | **919,853.44** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Bank Reconciling Items:** |  |  |  |  |  |  |  |
| **Account No.** |  |  | **Outstanding Checks**  **(d)** |  | **Bank Error**  **(e)** |  | **Total** |
| ***Prize Fund*** |  |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-17 |  | P | (815,107.20) | P | - | P | (815,107.20) |
| LBP Acct No. 3102-1006-10  (STL Remittance -Prize Fund) |  |  | - |  | 62,979.79 |  | 62,979.79 |
| ***Charity Fund*** |  |  |  |  |  |  |  |
| LBP Acct No. 3102-1000-25 |  |  | (34,879,725.69) |  | 11,092.86 |  | (34,868,632.83) |
| LBP Acct No.3102-1005-56  (STL Remittance – Charity Fund) |  |  | - |  | (239,697.88) |  | (239,697.88) |
| **Total** |  | **P** | **(35,694,832.89)** | **P** | **(165,625.23)** | **P** | **(35,860,458.12)** |
| **Net Reconciling Items** |  |  |  |  |  | **P** | **(36,780,311.56)** |

* 1. Verification of the reconciling items disclosed the following:

1. the unrecorded deposits amounting to P4.506 million represent deposits of remittances from various Small Town Lottery (STL) Authorized Agent Corporations (AACs) that have not been considered in the total Summary of Remittances;
2. the error in the recording of fund transfer from Provincial District Offices (PDO) in the amount of P0.801 million had already been the subject of the previous years’ audit observation which remained unacted upon as of December 31, 2021, due to lack of supporting documents;
3. the erroneous recording/posting totaling P2.786 million were remittances erroneously or interchangeably deposited among CF, PF, and OF bank accounts. These deposits came directly from AACs and mostly from Eastern NCR, Pateros, Quezon City, Makati, Muntinlupa and Parañaque;
4. the OC amounting to P35.695 million pertained to checks that were issued by PCSO but not yet cleared with the bank as of December 31, 2021. These include stale and spoiled checks as discussed in paragraphs 4.13 to 4.18; and
5. the Bank Errors amounting to P0.166 million were remittances erroneously or interchangeably credited/validated by the bank to the three Fund accounts of PCSO (CF, PF, and OF). The ABD informed that the bank was already advised of the errors and correction shall be made once the errors have been corrected by the bank.
   1. Further, interview disclosed that one of the reasons for the existence of the unadjusted and long outstanding reconciling items was the yearly instead of monthly submission of the copy of the BRSs to the designated staff preparing the JEV involving cash in bank transactions that requires adjustment and correction. Had these BRSs been submitted by ABD on a monthly basis, reconciling items could have been promptly acted upon, adjusted, and recorded as required under Sections 4 and 6, Chapter 21 of the GAM which reads as follows:

*“Section 4. Method of Bank Reconciliation*. *The monthly BRS shall be prepared by the Chief Accountant/designated staff for each of the bank accounts maintained by the agency/entity using the Adjusted Balance Method. Under this method, the book balance and the bank balance are brought to an adjusted cash balance that must appear on the Statement of Financial Position.”*

“*Section 6. Recognition of Adjustments. The Chief Accountant/Designated Staff shall prepare a JEV to recognize all reconciling items that require adjustment and correction in the books of accounts.”*

* 1. Pending reconciliation and adjustments of the aforementioned book and bank reconciling items, the Cash in Bank account presented in the FS as of December 31, 2021, is of doubtful validity and reliability, contrary to PAS No. 1.

*Stale checks and spoiled checks for Operating Fund, Charity Fund and Prize Fund were reported as Outstanding Checks in the BRS.*

* 1. Section 44, Chapter 6 of the GAM provides:

*“Sec. 44. Accounting for Cancelled Checks. Checks may be cancelled when they become stale, voided or spoiled. The depository bank considers a check stale, if it has been outstanding for over six months from date of issue or as prescribed.*

* 1. Verification of the BRS showed that out of the P35.695 million OC, P15.296 million pertained to 368 stale checks as of December 31, 2021 which have been outstanding for a period of seven months up to five years.
  2. Verification with the Treasury Department (TD) showed that the stale checks were mostly issued to the payees or transmitted to the branches but not yet presented to the bank while some were already returned by the TD to ABD but no adjustments were made on the books as of yearend.
  3. Since the OCs amounting to P15.296 million were already stale checks and will no longer be accepted by the bank for encashment/deposit, an adjustment should have been made in the books restoring the said amount to Cash and Payable accounts. Since the ABD failed to prepare the adjustment, the Cash in Bank and Accounts Payable (AP) are both understated by the same amount.

.

* 1. Moreover, review of the Monthly Report of Accountability of Accountable Forms (RAAF) and the list of spoiled checks showed that 54 checks amounting to P14.272 million, were included or part of the reported OCs of P35.695 million. The spoiled checks were caused by printing errors and errors in the spelling of the payees’ name. The amount of the spoiled checks were included/reflected in the Report of Checks Issued hence it formed part of the OCs. However, since the TD has been submitting the monthly RAAF to the ABD containing the monthly list of spoiled checks, adjustments should have already been made on the same, but the latter also failed to do so. Similar with the stale checks, this also resulted in the understatement of the Cash in Bank and Payable Account both by P14.272 million. We also noted that despite the submission by TD of the RAAF containing the monthly list of spoiled checks, the subject deficiency was not detected nor reported immediately by ABD to the in charge in the preparation of the JEV to effect the necessary adjustment.
  2. Considering that the P29.568 million checks were already confirmed as stale and spoiled, these should have been cancelled, in conformance with Section 44, Chapter 6 of GAM Volume I, thus excluded in the OC and accordingly adjusted in the books of accounts as of December 31, 2021 to correct the understatement of the cash in bank account and corresponding liability account.

*Closed accounts still having outstanding balances in the books amounting to P3.088 million and P0.689 million*

* 1. Examination of the accounting records disclosed that three Cash in Bank accounts maintained with the Philippine National Bank (PNB) for OF and CF & PF were already closed in CYs 2018 and 2019 but still have remaining book balances in the net amount of P3.088 million and P0.690 million, thus, overstating the Cash in Bank account by P3.778 million. Details are shown in Table 6.

**Table 6 – Closed Bank Accounts with remaining book balances As of December 31, 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Description** |  | **Balance per Books** | **Date Closed** |
| PNB Acct No. 121270002159 (Operating Fund) | P | 3,088,082.74 | September 04 2018. |
| **Sub-Total** | **P** | **3,088,082.74** |  |
| PNB Acct No. 10102020-00-220-000001 (Charity Fund) | P | 1,400,000.00 | September 05, 2018 |
| PNB Acct No. 10102020-00-120-0000 (Prize Fund) |  | (710,009.76) | January 04, 2019 |
| **Sub-Total** | **P** | **689,990.24** |  |
| **Grand Total** | **P** | **3,778,072.98** |  |

* 1. The observation was already brought to the attention of Management in prior year’s audit but the said closed accounts still had a remaining total book balance of P3.778 million as of year-end resulting in the overstatement of the Cash and Cash Equivalents account presented in the FS as of December 31, 2021 by the same amount.

*Late submission of Monthly BRS for the CY 2021*

* 1. Section 7, Chapter 21 of the GAM Volume I, states:

“*Sec. 7. Reporting. The Chief Accountant shall submit the BRS within twenty days after receipt of the monthly BS to the following:*

*Original – COA Auditor (with all the supporting documents and JEVs)*

*Copy 2 – Head of Agency/Entity*

*Copy 3 – Accounting Division/Unit file C*

*Copy 4 – Bank, if necessary “*

* 1. Verification of the records disclosed that there were delays in the submission of the BRSs that ranges from three to seven months from the period in the GAM, as shown in the Table 7:

**Table 7 – Summary of Submission of BRS for Charity and Prize Fund accounts**

|  |  |  | **Dates the BRS were Submitted to COA** | | |
| --- | --- | --- | --- | --- | --- |
| **Account Title** | **Account Code (Old)** | **Bank Account No.** | **Jan - Mar** | **Apr-Jun** | **Jul-Dec** |
| CIB-LCCA PRIZE FUND-LBP (E. RODRIGUEZ AVE.) | 111-J | 3102-1000-17(LBP) | Jul. 28, 2021 | Oct. 21, 2021 | Apr. 12, 2022 |
| CIB-LCCA PRIZE FUND-LBP (E.RODRIGUEZ AVE.) STL | 111-R1 | 3102-1006-10(LBP) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |
| CIB-LCCA CHARITY FUND-LBP (E. RODRIGUEZ AVE.) | 111-L | 3102-1000-25(LBP) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |
| CIB-LCCA CHARITY FUND (STL REMITTANCES) | 111-U | 3102-1005-56(LBP) | Aug. 2, 2021 | Dec. 10, 2021 | Apr.12, 2022 |
| CIB-LCCA PRIZE FUND (NEW) | 111-B | 121270002148(PNB) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |
| CIB-LCCA CHARITY FUND (NEW) | 111-D | 121270002171(PNB) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |
| CIB-LCCA PRIZE FUND-LBP- PERYAHAN | 111 | 3102-1006-70(LBP) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |
| CIB-LCCA CHARITY FUND-LBP- PERYAHAN | 111 | 3102-1006-61(LBP) | Aug. 2, 2021 | Dec. 10, 2021 | Apr. 12, 2022 |

* 1. Management attributed the delay in the submission of the BRSs to the delay in the receipt of bank statements from the depository banks, quarterly updates of the Subsidiary Ledgers and manpower constraints. The delay in the preparation and submission of the BRS had precluded that Audit Team from timely review of the cash account transactions and ascertaining the correctness of the ending balances of cash in bank accounts.
  2. In summary, due to the foregoing deficiencies, the faithful representation of the balance of the Cash and Cash Equivalents account of P16.130 billion presented in the FS as of December 31, 2021 cannot be ascertained.
  3. **We recommended and Management agreed to direct the concerned Accounting personnel to:**
     1. **Effect the necessary adjustments, after a thorough evaluation of the reconciling items for each of the bank accounts.**
     2. **Intensify the efforts in coordinating with the corresponding depository banks to clear out the details of the bank reconciling items giving priority to investigate the cause/s of the alleged unposted deposits with a total amount of P2.102 million under the Operating Fund accounts so that appropriate action may be taken thereafter.**
     3. **Prepare the necessary adjusting entries to correct the understatement of the Cash in Bank account resulting from the non-reversal/cancellation of stale and spoiled checks reported as outstanding checks amounting to P29.568 million by debiting the Cash in Bank and crediting the AP by the same amount.**
     4. **Regularly coordinate with the TD for the immediate reconciliation of accounts, verification of reports and timely adjustments of stale and spoiled checks and exert effort to call the attention of the payees who are holding stale checks for cancellation and reissuance of new checks.**
     5. **Verify the reported book balance of P3.778 million for the closed bank accounts, after which make the necessary adjusting entries in the books in order to correct the overstatement of the Cash and Cash Equivalents account.**
     6. **Make proper representation with the depository bank for the regular and timely receipt of the monthly bank statements, and update the Subsidiary Ledgers on a monthly basis.**

* 1. **Moreover, we recommended that Management address the issue on manpower constraints to ensure the timely preparation of monthly BRS for all the bank accounts of the PCSO and facilitate the prompt reconciliation of discrepancies.**
  2. Management further informed that the following adjustments were already made in the books of accounts:

| **Journal Voucher (JV) No.** | **Date** |  | **Amount** | **Remarks** |
| --- | --- | --- | --- | --- |
| Unnumbered | May 31, 2022 | P | 1,030,754.07 | Adjustments for Stale Checks are included in the BRS for OF accounts. |
| 22030371 | March 31, 2022 |  | 57,000.00 |
| 22030365 | March 31, 2022 |  | 9,306.13 |  |
| **Sub-Total** |  | **P** | **1,097,060.20** |  |
| 2210057 | January 31, 2022 |  | 1,439,084.53 | Adjustments for Stale and Spoiled Checks are included in the BRS for CF & PF accounts. |
| 22020217 | February 28, 2022 |  | 575,563.95 |
| 22030357 | March 24, 2022 |  | 153,870.07 |
| 22030360 | March 31, 2022 |  | 1,146,716.33 |  |
| 22040557 | April 28, 2022 |  | 3,000.00 |  |
| Unumbered | June 02, 2022 |  | 2,518,604.23 |  |
| **Sub-Total** |  | **P** | **5,836,839.11** |  |
| **Grand Total** | | **P** | **6,933,899.31** |  |

* 1. Management likewise committed to (a) identify and address the causes of variances between the book and bank balances; (b) provide the Audit Team with a quarterly update on the status of float items; (c) coordinate with PNB and PCSO branches on the book balances of the closed bank accounts; (d) take immediate actions on the stale and spoiled checks; (e) provide concerned departments/offices with a list of checks issued on a weekly basis to track down and inform respective payees; and (f) discuss with the depository bank for the prompt receipt of bank statements.
  2. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.

1. **The faithful representation of the balance of the Accounts Receivable (AR) with a carrying value of P6.400 billion as of December 31, 2021 was not established due to a) variance of P499.782 million between the balance per General Ledger and the aging schedule of the AR; b) abnormal/credit balances of some accounts totaling P29.070 million, and c) five AR-sub-accounts totaling P239.595 million were without adequate records and supporting documents, contrary to Paragraph 15 of the Philippine Accounting Standard No. 1:**
   1. This is a reiteration of the previous year’s audit observation with updates.
   2. Paragraph 15 of PAS No. 1 provides:

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

* 1. Faithful representation as defined by PAS No. 1 means that the information provides a true, correct and complete depiction of the economic phenomena that it purports to represent. Also, faithful representation means that the actual effects of the transactions shall be properly accounted for and reported in the FS.
  2. Item Nos. 3 and 4 of the PCSO Agency Agreement for On-line Lottery provide:

*“****3. Sales Remittance*** *– Make a daily remittance/deposit of his Total Net Cash Balance in full and in cash, in strict conformity with the Rules and Regulations governing the conduct and operation of the Philippine On-line Lottery. The Agent should maintain zero accountability at all times and must not incur any outstanding balance”*

*“****4. Automatic Shut-off*** *– In case of Agent’s failure to remit/deposit the sales proceeds as mentioned above or in case of violation of any of the provisions of this Agreement, including the LOTTO Rules and Regulations, the Agent shall be considered in default, and the PRINCIPAL shall effect an automatic shut-off of the AGENT’s terminal without need or prior notice of demand.”*

* 1. Item No. 8 of PCSO Agency Agreement for the STL provides:

*“****8. Obligations of AAC*** *Xxx*

1. *Deposit/remit on the next banking day the total amount due to the PCSO pursuant to the Revenue Allocation of STL. xxx”* 
   1. The monthly collections from all PCSO branches are reported in the Monthly Collection Report (MCR) prepared by the Branch Operating Sector (BOS). This is compared with the Monthly Sales Report (MSR) generated by the PCSO Data Center, and any unremitted/undeposited sales proceeds are accounted as AR.
   2. As of December 31, 2021, the AR has a balance of P6.564 billion with a carrying value of P6.400 billion.

*Variance in the total amount of P499.782 million between the account balance per GL and the Aging of AR of some accounts.*

* 1. Examination and comparison of the balances of the AR per GL and its Aging Schedule disclosed significant discrepancies in the total amount of P499.782 million, as shown in Table 8.

# **Table 8 – Variances between GL balances and Aging Report of AR**

|  |  | **Outstanding Balance as of December 31,2021** | | |
| --- | --- | --- | --- | --- |
| **Account Name** | **Account Code** | **Per GL** | **Per Submitted Aging of AR** | **Variance** |
| AR-Lotto Agents | 10301010-00-002-000001 | P 126,156,306.16 | P 137,039,146.39 | P (10,882,840.23) |
| AR- Sales Supervisor | 10301010-00-001-000007 | (76,181.54) | 157,934.11 | (234,115.65) |
| AR- Provincial Distributors/Sales Representative | 10301010-00-001-000005 | 1,003,059.90 | 1,113,716.85 | (110,656.95) |
| AR- STL -NCR | 10301010-00-004-000001 | 6,071,119,652.71 | 5,611,921,477.70 | 459,198,175.01 |
| AR- excluding Peryahan-NCR | 10301010-00-005-000001 | 76,560,414.60 | 29,754,798.24 | 46,805,616.36 |
| AR-Ticket Sales-Keno | 10301010-00-003-000001 | 10,209,927.53 | 6,928,813.47 | 3,281,114.06 |
| AR- Special Draw | 10301010-00-001-000004 | 3,758,287.32 | 2,718,445.26 | 1,039,842.06 |
| AR- Defaulted Provincial Distributors | 10301010-00-001-000006 | 37,141,973.50 | 36,648,743.45 | 493,230.05 |
| AR- Authorized Sellers | 10301010-00-001-000002 | 9,463,261.58 | 9,277,104.36 | 186,157.22 |
| AR- Defaulted Sales Supervisor | 10301010-00-001-000008 | 5,489,791.22 | 5,483,815.22 | 5,976.00 |
| **TOTAL** |  | **P6,340,826,492.98** | **P5,841,043,995.05** | **P499,782,497.93** |

* 1. The concerned ABD personnel explained that these balances pertained to current and prior years, and these discrepancies have yet to be traced and verified.

*Abnormal (credit) balances of four AR sub-accounts totaling P29.070 million*

* 1. As discussed in the Revised Chart of Accounts for Government Corporations (RCAGC) AR has a normal debit balance. However, analysis of the AR accounts of PCSO disclosed that four out of the 17 sub-accounts have a credit or abnormal balance amounting to P29.070 million. The breakdown is presented hereunder:

# **Table 9 – Schedule of AR accounts with abnormal (credit) balances**

# **As of December 31, 2021**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Code** | **Account Name** |  | **Balances as of December 31, 2021** |
| 1) 10301010-00-001-000001 | Accounts Receivable - Mini Sweepstakes | P | (1,580,823.10) |
| 2) 10301010-00-003-000001 | Accounts Receivable -Ticket Sales-Keno |  | (832,291.05) |
| 3) 10301010-00-001-000007 | Accounts Receivable - Sales Supervisor |  | (76,181.54) |
| **Total** |  | **P** | **(2,489,295.69)** |
| 4) 10301010-00-005-000001 | Accounts Receivable - Peryahan |  | (26,581,132.37) |
| **Grand Total** |  | **P** | **(29,070,428.06)** |

* 1. The concerned Accounting personnel informed that the credit balance totaling P2.489 million pertained to prior years’ errors in posting while the P26.581 million pertained to the over remittance of sales collection from Globaltech Mobile Online Corp (GMOC).
  2. The same observation was already brought to the attention of the Management in previous years, however, the same remained unadjusted as of December 31, 2021.

*Five AR sub-accounts totaling P239.595 million were without supporting records/documents.*

* 1. Section 3.1 of COA Circular No. 2015-004 dated July 16, 2015 requires the Chief Accountant/ Head of Accounting Unit to submit directly to the Government Accountancy Office (GAO), Government Accountancy Sector (GAS), and to the Supervising Auditor (SA)/Audit Team Leader (ATL) concerned, the Statement/Aging of Receivables, together with other required year-end FS and other related financial reports/schedules in accordance with the existing format and in printed and digital copies.
  2. Verification disclosed of the five AR sub-accounts with credit balances totaling P239.595 million, were not supported with adequate records and documents. These balances were neither backed-up by Subsidiary Ledgers nor included in the Aging Schedule of AR, casting doubt on the validity and existence of the balances which is not compliant with Section 3.1 of COA Circular No. 2015-004 dated July 16, 2015. The absence of adequate records and documents have precluded the Audit Team from applying alternative audit procedures. Below is the breakdown:

# **Table 10 – AR accounts not properly supported with SL and Aging of AR As of December 31, 2021**

| **Account Code** | **Account Name** | **Balances as of December 31, 2021** |
| --- | --- | --- |
| 1) 10301010-00-006-000001 | AR- Powerball- Instant Sweepstakes Scratch It | P176,170,038.66 |
| 2) 10301010-00-001-000012 | AR- Trade- Branches | 55,311,097.95 |
| 3) 10301010-00-001-000001 | AR- Mini Sweepstakes | 3,556,245.82 |
| 4) 10301010-00-001-000009 | AR- Ticket Account | 3,884,307.21 |
| 5) 10301010-00-001-000010 | AR- AR (Others) | 673,220.00 |
| **Total** |  | **P239,594,909.64** |

* 1. In view of the foregoing deficiencies, the correctness of the AR account with a net carrying value of P6.564 billion as of December 31, 2021 could not be ascertained thus, affecting the fair presentation of the account in the FS contrary to Paragraph 15 of PAS No. 1.
  2. **We reiterated our previous year’s recommendations that Management directs the concerned personnel of ABD and the BOS to:**

1. **Determine the causes of the P499.782 million variance between the balance per GL and the aging schedule, after which make the necessary adjustments to ensure that the balance of AR account presented in the FS faithfully represents the effects of transactions on the said account and properly supported with reliable financial records pursuant to Paragraph 15 of PAS No. 1;**
2. **Conduct thorough evaluation/analysis of transactions relating to the receivable accounts with credit or abnormal balances to determine the cause/s thereof and to effect the necessary adjusting entries;**
3. **Draw a JEV to reclassify from AR to AP account the over remittance from GMOC by debiting the AR – Peryahan account and crediting the AP account, each by P26.581 million.**
4. **Submit to the Audit Team the complete supporting schedules and aging of the AR with credit balances totaling P29.070 million, in compliance with COA Circular No. 2015-004; and**
   1. **Moreover, we recommended that Management demand the daily remittance/deposit the amount due to PCSO from the sale of lotto tickets otherwise, impose the remedies provided under the covering agency agreement to minimize the accumulation of the AR and increase collection efficiency.**
   2. Management informed that ABD, in coordination with the BOS, will determine the causes of discrepancies and will aim to maintain reconciled balances at all times. In addition, the ABD, per recommendation of the Internal Audit Services, has drawn an Action Plan to address the issues of unreconciled balances of the Accounts Receivable accounts, along with the related Allowance for Doubtful Accounts.
   3. Management further informed that the abnormal (credit) balance of the AR – Peryahan arise from the continuous remittances by Globaltech even after a Stop Order was issued to them. Its old accounts amounting to P39 million was even paid but PCSO did not apply the said payment, due to on-going arbitration. Also, the ABD commits to comply with the submission of complete supporting schedules, subsidiary ledgers, and the corresponding aging schedule.
   4. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.
5. **PCSO did not provide the allowance for impairment loss of the Account Receivables for the period 2016 to 2021 which is not in accordance with Paragraph 9 of the Philippine Accounting Standards No. 36 and Paragraph 5.5.15(a) of the Philippine Financial Reporting Standards No. 9 on the Expected Credit Loss model, thus, the Account Receivables for the Calendar Years 2016, 2017, 2018, 2019, 2020 and 2021 amounting to P1.224 billion, P1.167 billion, P1.217 billion, P1.095 billion, P6.297 billion and P6.400 billion, respectively, were not stated at its true Net Realizable Value. Likewise, PCSO’s accounting policy on the age classification of outstanding receivables was not uniformly adopted and applied, thus, the doubtful reliability in the measurement of impairment losses.**
   1. Paragraph 9 of the PAS No. 36, states, that:

*“An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.”*

* 1. Paragraph 5.5.15 (a) of PFRS 9 provides that an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses (ECL) for trade receivables or contract assets (expected credit losses that result from all possible default events over the life of the financial instruments).
  2. Note 3.3 of the 2021 Notes to FS of PCSO disclosed the following:

*“For trade receivables, the PCSO has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The PCSO has established a provision matrix that is based on its historical credit loss experience, adjusted forward-looking factors specific to the debtors and the economic environment.”*

* 1. Also Note 3.3 of the Notes to FS showed that PCSO records an allowance for “expected credit loss” based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the PCSO expects to receive.
  2. In addition, the Notes to FS disclosed that starting January 1, 2018, PCSO considered the age of the Receivable in measuring the ECL using the following percentages, to wit:

|  |  |  |
| --- | --- | --- |
| **Age of Receivable** |  | **Percentage (%) of uncollectibility** |
| *11 years and over* |  | *100* |
| *7 to 10 years* |  | *75* |
| *4 to 6 years* |  | *50* |
| *Over 2 to 3 years* |  | *25* |
| *Over 1 year to 2 years* |  | *0* |
| *Current:* |  |  |
| *91-365 days* |  | *0* |
| *Less than 90 days* |  | *0* |

* 1. Verification disclosed that the Allowance for the Impairment of AR as of December 31, 2021 in the amount of P163.677 million was the same amount of allowance provided since CY 2016, with a decrease of P6,088.27 in 2018 and P186,273.50 in 2021 due to an adjusting entry made for a misposted transaction, which indicates that no allowance for impairment loss was provided for CYs 2016 to 2021 contrary to Paragraph 9 of PAS No. 36. Thus, Note 3.3 of the 2021 Notes to FS gives a misleading information that PCSO has calculated ECL. Details of these are shown in Table 11:

# **Table 11 – Summary of Allowance for Impairment and NRV of the AR for the period 2016 to 2021**

| **Year** |  | **Account Receivable** |  | **Allowance for Impairment** |  | **Net Realizable Value** |  | **Impairment**  **Loss (expense account)** |  | **Remarks** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **(a)** |  | **(b)** |  | **( a - b )** |  |  |  |
| 2016 | P | 1,388,098,632.00 | P | 163,869,686.00 | P | 1,224,228,946.00 | P | - |  |  |
| 2017 |  | 1,330,401,291.00 |  | 163,869,686.00 |  | 1,166,531,605.00 |  | - |  |  |
| 2018 |  | 1,381,360,212.00 |  | 163,863,597.00 |  | 1,217,496,615.00 |  | - |  | The decrease of P6,088.27 from the 2017 balance was due to an adjusting entry made in 2018 to correct the misposted transaction of Isabela branch |
| 2019 |  | 1,259,395,132.00 |  | 163,863,597.00 |  | 1,095,531,535.00 |  | - |  |  |
| 2020 |  | 6,460,949,168.00 |  | 163,863,597.00 |  | 6,297,085,571.00 |  | - |  |  |
| 2021 |  | 6,563,787,173.00 |  | 163,677,323.00 |  | 6,400,109,850.00 |  | - |  | The decrease of P186,273.50 was due to error in recording. |

* 1. Moreover, review of the submitted aging of AR as of December 31, 2021, prepared by the BOS, showed that the age classification of AR used by the Northern & Central Luzon (NCL), Southern Tagalog & Bicol Region (STBR), Visayas and Mindanao (VisMin) Departments was different from the age classification adopted by the ABD of PCSO as disclosed in the Notes to FS, as shown below:

|  |  |  |
| --- | --- | --- |
| **Age classification used by NCL, STBR and VisMin Departments** | **Age classification adopted by PCSO as Disclosed in the Notes to FS** | **Percentage (%)** |
| *-* | *11 years and over* | *100* |
| *-* | *7 to 10 years* | *75* |
| *Over 3 years and onwards* | *4 to 6 years* | *50* |
| *Over 2 years* | *Over 2 to 3 years* | *25* |
| *Over 1 year* | *Over 1 year to 2 years* | *0* |
| *91 – 365 days* | *91 – 365 days* | *0* |
| *Less than 90 days* | *Less than 90 days* | *0* |

**Table 12 – Aging of AR from PCSO branches consolidated by BOS**

**As of December 31, 2021**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Game** |  | **> than 90 days** |  | **91-365 days** |  | **Over 1 year** |  | **Over 2 years** |  | **Over 3 years and onwards** |
| Lotto | P | 49,763,829.93 | P | 987,408.53 | P | 2,179,393.39 | P | 2,211,571.48 | P | 33,693,198.00 |
| Keno |  | (2,424,242.62) |  | 1,338.96 |  | 7,061,353.58 |  | 390,974.79 |  | 3,704,836.89 |
| STL |  | 108,918,086.56 |  | 39,163,259.46 |  | 15,629,106.12 |  | 2,921,441,264.75 |  | 1,567,899,412.63 |
| Peryahan |  | - |  | - |  | - |  | - |  | 29,754,798.24 |
| **Total** | **P** | **156,257,673.87** | **P** | **40,152,006.95** | **P** | **24,869,853.09** | **P** | **2,924,043,811.02** | **P** | **1,635,052,245.76** |

* 1. As can be gleaned from the foregoing data, for outstanding receivables aged 3 years and onwards, the PCSO branches provided a 50% allowance for impairment loss while the ABD also of PCSO has further reclassified the age of the receivable to 4 to 6 years, 7 to 10 years and 11 years and over and provided a percentage impairment loss of 50%, 75%, and 100%, respectively. This resulted in the doubtful reliability in the measurement of impairment loss of receivables of over 3 years and onwards computed at P1.635 million as shown in Table 12.
  2. The failure of the PCSO to provide the allowance for impairment of AR for the years 2016 to 2021, has not presented the true net realizable value of the AR for CYs 2016, 2017, 2018, 2019, 2020 and 2021 in the amount of P1.224 billion, P1.167 billion, P1.217 billion, P1.095 billion, P6.297 billion and P6.400 billion, respectively. Moreover, the disclosures in Notes 3.3 of the Notes to FS provided misleading information on PSCO’s accounting policy on the impairment of financial assets since no impairment losses were indeed recognized in CYs 2016 to 2021.
  3. **We recommended that Management:**

1. **Provide annually the measurement of loss allowance for financial assets in compliance with Paragraph 9 of PAS No. 36 and see to it that this is uniformly adopted and applied by the ABD, BOS and PCSO branches.**

1. **Direct the concerned personnel of ABD and BOS to adopt the PCSO accounting policy on the age classification of outstanding receivables to ensure reliability in the measurement of loss allowances for financial assets.**
   1. Management informed that the Allowance for Doubtful Accounts balance in the accounting books was the amount set up in 2008, which, admittedly, did not move since then. The amount set up was based on the old aging classification prescribed by COA as follows:

|  |  |
| --- | --- |
| **LOTTO** | **Percentage** |
| 8-10 years outstanding | 100% allowance to be set up |
| 5-7 years outstanding | 75% allowance to be set up |
| 4-6 years outstanding | 50% allowance to be set up |
| 2-3 years outstanding | 25% allowance to be set up |
| **SWEEPSTAKES** |  |
| 11 years and over outstanding | 100% allowance to be set up |
| 7-10 years outstanding | 75% allowance to be set up |
| 4-6 years outstanding | 50% allowance to be set up |
| 2-3 years outstanding | 25% allowance to be set up |

* 1. Management further informed that since 2016, the new aging classification format prescribed by COA was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Current** | | **Past Due** | | |
| 1-90  days | 91-365 days | Over 1 year | Over 2 years | Over 3 years |
|  |  |  |  |  |

The ABD attempted to establish the balances of the Allowance for Doubtful Accounts on the basis of the new aging classification by running the latter parallel to the old aging classification, thus it appeared that all those aged 4 years and above would fall under the Column Over 3 years in the new aging classification, with different rates depending on the old aging classification.

* 1. An action plan has been drawn to address the issues of reconciling the balances of the A/R accounts with the Aging schedule, once the A/R accounts are reconciled/analyzed, the ABD will propose to close the account Allowance for Doubtful Accounts and set up a new provision for doubtful accounts that will be implemented and monitored strictly.
  2. As a rejoinder, the Audit Team recommended that PCSO adopt PAS No. 36 and PFRS No. 9 on ECL model on Impairment of Asset which is the new standard applicable effective CY 2018. The proposed action to close the account allowance for doubtful accounts and set up a new provision for doubtful accounts is not in accordance with PAS No. 8 – Change in Accounting Estimates which should be applied currently and prospectively.

1. **Claims for disallowed payments of employees’ benefits of P12.965 million and P26.720 million representing payments to various advertising agencies were accounted as Other Asset – Contingent Asset contrary to the Updated Revised Chart of Accounts for Government Corporation (2019) resulting in the understatement of the Account Receivables – Disallowances/Charges and overstatement of the account Other Asset each by a total amount of P39.685 million.**
   1. The Updated Revised Chart of Accounts for Government Corporation (2019), prescribed under COA Circular No. 2020-002 dated January 28, 2020, provides the use of the accounts Receivables – Disallowances/Charges for receivables arising from final audit disallowances and charges.
   2. Review of the Other Asset as of December 31, 2021 disclosed that it included claims for disallowed payments of employees’ benefits of P12.965 million and P26.720 million representing payments to various advertising agencies which are under court litigation.
   3. Also, review of the previous year’s Notes to FS disclosed that the said amounts were previously recognized in the FS as Accounts Receivable –disallowances account, however in CY 2018 FS, the amounts were reclassified as Other Asset - Contingent Asset account it being under court litigation.
   4. We have also noted that the details and the nature of the Other Asset were not disclosed in the Notes to FS for the CY 2021 as required in Paragraph No. 112 of PAS No. 1 which states that the notes shall provide information that is not presented elsewhere in the FS, but is relevant to an understanding of any of them.
   5. The recording of the claims for disallowed payments as Other Asset account instead of a Receivable – Disallowances/Charges is not in accordance with the Updated Revised Chart of Accounts.

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

**a. Draw a JEV to reclassify the claim for disallowed payments from Other Asset account to Receivable – Disallowances/Charges in compliance with the Updated Revised Chart of Accounts.**

**b. Disclosed in the Notes to FS the nature and the details of the Receivable – Disallowances/Charges account to provide adequate information on the nature of the transactions as required in Paragraph No. 112 of PAS No.1.**

* 1. Management informed that JEV No. 22050671 dated May 16, 2022 was already drawn to reclassify the claim for disallowed payments from Other Asset to Receivable – Disallowances/Charges.
  2. ABD requested to be given ample time to establish the breakdown/list of those from whom the disallowed payments were to be charged. ABD will coordinate with the PCSO Legal Department on the matter.

* 1. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.

1. **The faithful representation in the financial statements of the account Receivables – Disallowances/Charges totaling P9.716 million as of December 31, 2021 could not be established due to the discrepancy of P21.532 million between the balance per books and the Schedule of Notice of Disallowances with Finality of Decision per audit, and the non-maintenance of Subsidiary Ledgers supporting the balance of the account.** 
   1. Item 6 of COA Circular No. 2009-006 dated September 15, 2009 states:

*“A Notice of Finality of Decision (NFD) shall be issued to inform the agency head that a decision of this Commission or its authorized representatives has become final and executory, which shall be the basis for recording the disallowance/charge in the agency’s books of accounts.”* (Underscoring supplied).

* 1. Section 7.2.1 of the 2009 Rules and Regulations on the Settlement of Accounts provides that, the Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that:

1. *Xxx*
2. *Xxx*
3. *the audit suspensions, disallowances and charges including their settlements, are properly monitored and recorded and reconciled with the SASDC issued by the Auditor in accordance with these Rules;*
4. *the disallowances and charges that have become final and executory as contained in the Notice of Finality of Decision (NFD) are recorded in the books of accounts, and settlements thereof under NSSDC are dropped therefrom; and*
5. *the subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended.*
   1. As of December 31, 2021, the account Receivable – Disallowances/Charges had a balance of P9.716 million. Audit of the account, however, disclosed a total discrepancy of P21.532 million existed between the account balance per books and the Schedule of Notice of Disallowances with Finality of Decision per audit, as shown in Table 13:

|  |  |
| --- | --- |
| Balance per books as of December 31, 2021 | P 9,715,683.45 |
| Balance per audit schedule (Table 13) | 31,247,286.85 |
| **Difference** | **P(21,531,603.40)** |

Table 13 – Schedule of Notice of Disallowances with Finality of Decision per audit

As of December 31, 2021

| **Notice of Finality of Decision (NFD)/**  **COA Order of**  **Execution (COE)** | **Notice of Disallowance (ND)** | **Date** | **Particular** | **Outstanding Balance per audit** |
| --- | --- | --- | --- | --- |
| ***Head Office*** |  |  |  |  |
| NFD No. 2019-318  dated August 23, 2019 | 2012-004 (11) | 01/10/2013 | Salaries | P1,950,000.00 |
|  | 2012-005 (11) | 01/10/2013 | Representation Allowance, Gasoline Allowance, COLA & Amelioration | 4,310,790.00 |
|  | 2012-006 (11) | 01/10/2013 | Medicine Allowance, Rice Allowance, Staple Food Allowance & Hazard Pay | 590,625.00 |
|  | 2012-007 (11) | 01/10/2013 | Anniversary, Bonus, Cash Gift, 13th Month Pay, Grocery Bonus, Christmas Bonus, EAB, Productivity Incentive Pay (PIP), RPIP & Clothing Allowance | 4,379,814.25 |
|  | 2012-008 (11) | 01/10/2013 | Weekly Draw Allowance | 621,000.00 |
|  | 2012-009 (11) | 01/10/2013 | Daily Draw Allowance | 1,899,000.00 |
| **Total** |  |  |  | **P13,751,229.25** |
| ***Branches*** |  |  |  |  |
| Un-numbered NFD from COA CP Adjudication and Secretariat Support Services Office  dated September 24, 2015 | 10-001-101-OF-(09) | 08/10/2010 | Productivity Incentive Pay | 84,382.47 |
|  | 10-002-101-OF-(09) | 08/10/2010 | COLA | 288,000.00 |
|  | 10-004-101-OF-(09) | 08/10/2010 | Anniversary Cash Gift | 240,000.00 |
|  | 10-005-101-OF-(09) | 08/10/2010 | Hazard Pay | 259,200.00 |
|  | 10-006-101-OF-(09) | 08/10/2010 | Christmas Bonus | 1,245,472.26 |
|  | 10-007-101-OF-(09) | 08/10/2010 | Grocery Allowance | 600,000.00 |
|  | 10-009-101-OF-(09) | 08/10/2010 | Staple Food Allowance | 57,600.00 |
| COE No. 2015-046  dated June 2, 2015 | 10-02-09-OF-(PCSO) | 09/21/2010 | COLA | 120,000.00 |
|  | 10-03-10-OF-(PCSO) | 11/17/2010 | COLA | 80,000.00 |
| COE No. 2016-035  dated May 26, 2016 | 11-0001-OF-(10) | 03/09/2011 | COLA | 152,249.98 |
| Un-numbered NFD from COA CP Adjudication and Secretariat Support Services Office  dated June 6, 2017 | 2011-001-(2010) | 04/04/2011 | COLA | 96,000.00 |
| Un-numbered NFD from COA CP Adjudication and Secretariat Support Services Office | 11-001-101-(10) | 05/16/2011 | COLA | 133,701.28 |
| NFD No. 2019-241  dated June 26, 2019 | 2011-101-001 to 2011-101-016 | 06/15/2011 | Year-End Benefits to the officials and employees of PCSO-IPDO | 1,316,822.04 |
| Un-numbered NFD from COA RO NO. IV-A dated June 25, 2015 | 11-001-OP-(10) | 07/20/2011 | Year-End Bonus, Cash Gift, PEIP | 531,607.03 |
| COE No. 2017-121  dated December 18, 2017 | 11-001-101 (09) | 10/27/2011 |  | 4,637,197.52 |
|  | 11-002-101 (10) | 10/27/2011 |  | 2,397,838.20 |
|  | 11-004-101 (2010) | 10/27/2011 |  | 5,206,126.36 |
| COE No. 2017-073 dated August 14, 2017 | 12-001-7-12-(10) | 06/14/2012 | COLA (Cebu) | 49,860.46 |
| **TOTAL** |  |  |  | **17,496,057.60** |
| **GRAND TOTAL** |  |  |  | **P31,247,286.85** |

* 1. Based on Table 13, the outstanding balance of the Notice of Disallowances with Finality of Decision amounted to P31.247 million as of December 31, 2021, the amount that should have been reflected in the Receivable – Disallowances/Charges account as of December 31, 2021 in accordance with Item 6 of COA Circular No. 2009-006 dated September 15, 2009.
  2. Verification of the Accounting records disclosed that the balance of the account Receivable – Disallowances/Charges as of December 31, 2021 was P9.716 million only compared to the outstanding balance of audit disallowances with Notice of Finality of Decision, per Table 13 above of P31.247 million or a discrepancy of P21.532 million. This book balance was likewise not supported with Subsidiary Ledger, accordingly, the audit suspensions, disallowances and charges including its settlements were not properly and completely monitored contrary to Section 7.2.1 (c) (d) (e) of the 2009 Rules and Regulations on the Settlement of Accounts (RRSA). The absence of the Subsidiary Ledger affected the determination of the validity of the reported balance of the account in the General Ledger.
  3. The discrepancy between the balance per books and the balance per audit of P21.532 million resulted in the understatement of the Receivable – Disallowances/Charges account by the same amount with the corresponding overstatement of the affected expense accounts thus, casting doubt on the validity and reliability of the balances of the accounts presented in the CY 2021 FS.
  4. It must be noted that as discussed in the preceding observation, some disallowances were booked under Other Assets instead of AR – Disallowances/Charges in addition to this noted variance, hence, may result in an increase in the total variance.
  5. **We recommended and management agreed to:**

1. **Adjust the Receivable – Disallowances/Charges account as of December 31, 2021 based on the outstanding balances of the Notice of Disallowances with Notice of Finality of Decisions and the corresponding affected expense accounts to correct the discrepancy of P21.532 million and to comply with Item 6 of COA Circular No. 2009-006 dated September 15, 2009.**
2. **Maintain Subsidiary Ledger for Receivable – Disallowances/Charges account for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended to properly monitor and update audit suspensions, disallowances and charges including settlements to comply with Section 7.2.1 (c) (d) (e) of the 2009 RRSA.**
   1. Management informed that they will make the necessary Journal Entry upon establishing the schedule of the Notices of Disallowances per official/employee, copies of which have already been provided by the Legal Department. A worksheet will be prepared from the schedule provided, to be compared with the Receivables - Disallowances/Charges account per book. Accordingly, Subsidiary Ledgers will be maintained for monitoring, updating of audit suspensions, disallowances and charges, including settlement thereof.
   2. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.
3. **The balance of the Property, Plant and Equipment account having a carrying value of P1.105 billion as of December 31, 2021 could not be ascertained due to the unaccounted discrepancy of P394.050 million and P211.003 million, respectively, compared with the balance per lapsing schedule and the balance per Report on Physical Count of PPE/Physical Inventory Report, thus affecting the fair presentation of the account in the Financial Statements contrary to paragraph 15 of Philippine Accounting Standard No. 1.** 
   1. Paragraph 15 of PAS No. 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. x x x.”*

* 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 of the Philippine Financial Reporting Standards (PFRS), *“To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error.”*
  2. 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.”*

*Unaccounted net discrepancy of P394.050 million between the carrying amount per books and the corresponding lapsing schedules*

* 1. Examination of the acquisition costs and the related accumulated depreciation of the depreciable items of PPE as of December 31, 2021 disclosed a discrepancy of P394.050 million between the amounts recorded in the books and the supporting lapsing schedules/PPELCS, as summarized in Table 14:

# **Table 14 – Comparison of PPE amounts per books**

# **and amounts per lapsing schedules**

# **As of December 31, 2021**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Balance Per** | | |  |  |
| **Particulars** |  | **Books** |  | **Lapsing Schedule** |  | **Discrepancy** |
| Acquisition Cost | P | 1,398,350,202.80 | P | 669,136,186.23 | P | 729,214,016.57 |
| Accumulated Depreciation |  | (781,115,694.59) |  | (445,951,619.27) |  | (335,164,075.32) |
| **Carrying amount** | **P** | **617,234,508.21** | **P** | **223,184,566.96** | **P** | **394,049,941.25** |

* 1. Lapsing schedules/PPELCs provide the specific accounting record of the acquisition, description, custody, estimated life, depreciation, impairment, disposal, transfer/adjustment, repair history and other information about the PPE (Section 42 (e), GAM Vol. 1). These schedules/PPELCs should tally with the balances of the controlling PPE accounts in the GL. It was noted, however, that the balances of the depreciable items of PPE per book were greater by P394.050 million, net of the related accumulated depreciation, when compared with the balances reflected in the lapsing schedules/PPELCs submitted by the ABD. Furthermore, examination also disclosed that the lapsing schedule/PPELCs for Other Land Improvements and Leased Assets, Buildings and Other Structures was not maintained, contrary to Paragraph 6.1.2 of COA Circular No. 2020-006 dated January 31, 2021.
  2. The concerned accounting personnel informed that the PPE lapsing schedule has been prepared only for current purchases and active records. Discrepancies between the balance of the PPE in the schedule and the balance per book were labeled as “For Reconciliation”. ABD also informed that since these were composed of PPEs from previous years, the supporting documents could no longer be located due to frequent transfer of PCSO office and fire incidents that happened in 2007 and 2010.
  3. The same audit observation was already noted in prior years, but the balances of the depreciable PPE per books and the corresponding lapsing schedules/PPELCs totaling P1.105 billion remained unreconciled as of December 31, 2021. The existence of the discrepancy of P394.050 million and the absence of the lapsing schedule of Other PPE accounts cast doubt on the fairness of the presentation of the balances of the depreciable items of PPE in the financial statements as of December 31, 2021, contrary to Paragraph 15 of PAS No. 1 and the Conceptual Framework for Financial Reporting, under QC12 of the PFRS.

*Unreconciled discrepancy of P211.003 million between the records of Accounting Budget Department and the Report on Physical Count of PPE/Physical Inventory Report of the Asset Management Department of various PPPE at the Head Office.*

* 1. COA Circular No. 80-124 dated**January 18, 1980** provides that inventory reports of regional/branch offices shall be submitted to the head of the agency not later than January 20 for consolidation and the consolidated inventory report shall be submitted to the Auditor not later than January 31 of each year.
  2. Verification of the submitted RPCPPE as of December 31, 2021, however, disclosed that the PPE of PCSO Branches were not included. Inquiry also revealed that actual physical count of the PPE, located at the PCSO Branches were not conducted contrary to COA Circular No. 80-124 dated**January 18, 1980.**
  3. Likewise, comparison of the balances reflected in the RPCPPE/Physical Inventory Report at the PCSO- Head Office as of December 31, 2021, prepared by the Asset and Supply Management Department (ASMD) with the corresponding balances per books as of the same date showed a discrepancy of P211.003 million contrary to Paragraph 6.3 of COA Circular No. 2020-006 dated January 31, 2021, details in Table 15:

**Table 15 – Variance between Balance per Books and Balance per Inventory Report As of December 31, 2021**

|  |  | **Balance Per** | | |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts** |  | **Books** |  | **Inventory Report** |  | **Variance** |
| Office Equipment | P | 160,043,182.53 | P | 12,536,729.26 | P | 147,506,453.27 |
| Information and Communication Technology Equipment |  | 86,771,490.62 |  | 72,764,831.49 |  | 14,006,659.13 |
| Communication Equipment |  | 9,569,029.06 |  | 3,810,204.75 |  | 5,758,824.31 |
| Medical Equipment |  | 16,338,645.68 |  | 9,773,199.00 |  | 6,565,446.68 |
| Other Machinery and Equipment |  | 8,381,859.92 |  | 50,000.00 |  | 8,331,859.92 |
| Motor Vehicles |  | 133,519,440.89 |  | 116,236,340.26 |  | 17,283,100.63 |
| Furniture and Fixtures |  | 6,726,381.56 |  | 4,106,313.46 |  | 2,620,068.10 |
| Other PPE |  | 12,201,394.14 |  | 108,345,259.60 |  | 7,543,610.14 |
| Printing Equipment |  | 103,617,475.60 |  | - |  |  |
| Books |  | 70,000.00 |  | - |  |  |
| Military, Police and Security Equipment |  | 1,332,509.96 |  |  |  | 1,332,509.96 |
| Sports Equipment |  | 54,790.00 |  | - |  | 54,790.00 |
| **Total** | **P** | **538,626,199.96** | **P** | **327,622,877.82** | **P** | **211,003,322.14** |

* 1. The existence of a material discrepancy of P211.003 million between the RPCPPE and the corresponding balances per books casts doubt on the fairness of the presentation of the balance of the PPE account in the financial statements as of December 31, 2021.
  2. **We reiterated our prior years’ recommendation and Management agreed to direct the concerned Accounting personnel to:**

1. **Conduct an immediate reconciliation of the balances per books with the balances in the corresponding lapsing schedules/** **PPELCs to determine the causes of the net discrepancy of P394.050 million as of December 31, 2021;**
2. **Coordinate with the concerned personnel of ASMD and conduct immediate reconciliation of the balance per books with the balances per RPCPPE/inventory report as of December 31, 2021 in order to determine the causes of the discrepancy of P211.003 million, conduct deeper investigation considering that the balance per books was greater than the balance per physical count, which may indicate missing items of PPE and undertake the appropriate legal and/or administrative actions under the circumstances; and**
3. **Effect the necessary adjusting entries to correct the balances of the affected accounts so that the PPE account shall be fairly presented in the financial statements;**
   1. **We also recommended that Management: (i) conduct physical inventory taking of PPE for PCSO Branches and submit inventory reports to the Audit Team not later than January 31 of each year in compliance with COA Circular No. 80-124 dated January 18, 1980 and (ii) maintain lapsing schedule/PPELCs for Other Land Improvements and Leased Assets, Buildings and Other Structures to comply with Paragraph 6.1.2 of COA Circular No. 2020-006 dated January 31, 2021.**
   2. Management informed that ABD will comply with the COA recommendation to conduct an immediate reconciliation of the book balances and lapsing schedules of the PPE accounts. The ABD will revisit/review the accounting treatment for condemned properties, as this may also be one of the causes of discrepancy. The process of inventory-taking will be strictly adopted as a regular procedure in order to properly monitor the PPE as to its existence, condition and accountability. The COA Circular (No. 2020-006 dated January 31, 2020) on Guidelines and Procedures in the Conduct of Physical Count of Property, Plant and Equipment (PPE), Recognition of PPE Items Found at Station, and Disposition for Non-Existing/Missing PPE Items, for the One-Time Cleansing of PPE Account Balances of Government Agencies, if so warrant, shall be adopted and implemented after a thorough evaluation, analysis and inventory-taking of all PPE.
   3. The Assets and Supply Management Department (ASMD) further explained that, the figures reflected in the submitted Inventory Report only includes active/serviceable PPE. It excludes unserviceable PPE as these are reflected in the Inventory and Inspection Report from Unserviceable Properties (IIRUP). The ABD records derecognized unserviceable PPE from its books only once sold/disposed. Furthermore, ASMD and ABD have already reconciled all PPE acquisition from CYs 2010 to 2019 and CY 2021 adjustments pertaining thereto were recognized. The remaining PPE acquisitions for CY 2020 are still being reconciled since this occurred in the midst of the pandemic. All other unaccounted PPEs for the earlier years, especially those properties which were engulfed/destroyed by the fire in San Marcelino Office in 2007 are closely coordinated with the ABD for the appropriate course of action in order that discrepancies/variances may finally be closed, based on the procedures enumerated per COA Circular No. 2020-006 starting this CY 2022. In addition, the ASMD has initiated the submission by the Branches of their monthly PPE report every 3rd working day of the month through a Memorandum from the Branch Operations Sector dated January 27, 2022.
   4. As a rejoinder, the Audit Team will monitor the implementation of the audit recommendations in the CY 2022 audit.
4. **The faithful representation in the financial statements of the balances of the Leased Assets, Buildings and Other Structures, Interest Expense, Depreciation Expense, Accumulated Depreciation and Lease Liability accounts in the amounts of P316.184 million, P9.089 million, P177.711 million, P445.779 million, and P285.121 million, respectively, cannot be ascertained due to: (a) misapplication of the Philippine Financial Reporting Standard (PFRS) No. 16; (b) non-recognition of Depreciation Expense and (c) no proper classification of finance lease payable, contrary to Paragraphs 22, 23, 26 and 32 of PFRS No. 16 and Paragraphs 60 and 69 of Philippine Accounting Standard No. 1.**

*Misapplication of Philippine Financial Reporting Standard No. 16*

* 1. Paragraph 22 of PFRS 16, states: *“at the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.”*

On the measurement of the right-of-use asset, paragraphs 23 and 24 of PFRS 16 provide:

|  |  |  |
| --- | --- | --- |
| *“23* | *-* | *At the commencement date, a lessee shall measure the right-of-use asset at cost.* |
| *24* | *-* | *The cost of the right-of-use asset shall comprise:* |
|  |  | 1. *the amount of the initial measurement of the lease liability, as described in paragraph 26;* 2. *any lease payments made at or before the commencement date, less any lease incentives received;* 3. *Any initial direct costs incurred by the lessee; and* 4. *Estimate of dismantling cost.”* |

* 1. Paragraph 26 of PFRS 16 likewise states that:

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

* 1. On December 18, 2020 PCSO renewed lease contract with the Joint Venture of Sun Plaza Development Corporation, AP Securities, Inc. and Conservatory Shaw Plaza, Inc. The contract has a term of three years commencing on January 1, 2021 and expiring on December 31, 2023.
  2. Section 4 of the Contract of Lease provides that, immediately upon signing of the contract, PCSO shall pay the Lessor a three (3) month advance rental at P11.335 million per month to be applied to the last three months of the lease period.
  3. The lease contract showed a total contract price for the lease of P428.800 million, inclusive of VAT and Association Dues, with an escalation rate of 5% per annum, as shown below:

|  |  |  |
| --- | --- | --- |
| **Period** | **Monthly Rental** | **Rental Fee per Annum** |
| 2021 | P 11,334,925.45 | P 136,019,105.40 |
| 2022 | 11,901,671.72 | 142,820,060.60 |
| 2023 | 12,496,755.33 | 149,961,063.70 |
| **Total** |  | **P 428,800,229.70** |

* 1. The concerned personnel of the ABD informed that the incremental borrowing rate (IBR) used for the measurement of lease liability was 2.86 percent based on the prevailing rate of a three-year treasury bond.
  2. Review of the amortization schedule of lease payments from ABD showed a total Lease Liability of P375.573 million. However, re-computation of the Lease Liability using the same rate provided by the ABD of 2.86 percent, the amount of the Lease Liability should have been P376.468 million or a discrepancy of P0.895 million. It was noted during the verification of the amortization schedule of lease payments provided by ABD that the difference pertains to the interest for January 2021 which forms part of the 1st monthly lease payment of P11.335 million. Since no interest yet due in January 2021, the commencement date of the lease payment, it should have been credited instead to Finance Lease Liability to form part of cost of the right-of-use-asset. The inability to do so is not in line with Paragraphs 24 (a) and 26 of PFRS 16 on the measurement of Lease Liability and the cost of the right-of-use-asset, resulting in understatement of Finance Lease Payable and Lease Asset, Building and Other Structures, each by a total amount of P0.895 million.
  3. Also, the management recorded the three months advance rental at P36.527 million. Computation, however, by the team of the three months advance rental at P11.335 million per month, per contract of lease, the advance rental should only be P34.005 million (P11.335 million x 3 mos.) or a difference of P2.522 million. Since the account Prepaid Rent was credited by management upon its recognition as part of the right of use of asset, consequently the accounts Lease Asset, Buildings and Other Structures and Prepaid Rent were overstated and understated (due to excess computation of prepaid rent), respectively, each by P2.522 million.
  4. Further review of the amortization schedule of ABD disclosed that leased payments for the CY 2021 resulted in a reduction of Finance Lease Payable (Principal payment) for the 1st year of CY 2021 by P126.930 million and recognition of Interest Expense of P9.089 million. However, computation of the team showed that the reduction of Finance Lease Payable should be P127.826 million and Interest Expense of P8.193 million only. Thus, overstating both the Finance Lease Payable and Interest Expense by P0.895 million.
  5. Likewise, examination of the accounting records disclosed that the Depreciation expense for the Lease Assets for CY 2021 was P137.366 million when it should only be P136.824 million thus, overstated the Depreciation Expense - Leased Assets, Buildings and Other Structures and Accumulated Depreciation - Leased Assets, Buildings and Other Structures each accounts and understated the Leased Assets, Buildings and Other Structures by P542,184.96.
  6. In summary, the foregoing observations resulted in the overstatement of the accounts Leased Assets, Buildings and Other Structures (net), Interest Expense, Depreciation Expense and Accumulated Depreciation by P1.627 million (P2.522 million – P0.895 million), P0.895 million, P0.542 million and P0.542 million respectively.

*Non-recognition of Depreciation Expense*

* 1. Paragraph 32 of PFRS 16 states that:

*“If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.” (*Underscoring ours).

* 1. On October 18, 2021 PCSO entered into a new lease contract with the Joint Venture of Sun Plaza Development Corporation, AP Securities, Inc., and Conservatory Shaw Plaza, Inc. to lease the 2nd Floor Shaw Plaza One and Two Buildings with a total leasable office area of 1,275 sq.m. including 17 parking slots with a term of three years commencing on November 1, 2021 and expiring on December 31, 2023.
  2. The total contract price for the lease was P44.625 million, inclusive of VAT and Association Dues, with an escalation rate of 5% per annum, to wit:

|  |  |  |
| --- | --- | --- |
| **Period** | **Monthly Rental** | **Rental Fee per Annum** |
| 2021 | 1,663,251.44 | P 1,663,251.44 |
| 2022 | 1,746,414.01 | 20,956,968.14 |
| 2023 | 1,833,734.71 | 22,004,816.55 |
| **Total** |  | **P 44,625,036.14** |

* 1. Section 3 of the said contract grants PCSO free of rent for a period of two months commencing on November 1, 2021 up to December 31, 2021 to conduct the fit-out works on the leased premises. Advance rental for 3 months amounting P4.990 million (inclusive of 12% VAT and Parking Fees) to be applied to the last three months of the Contract shall be paid upon signing the lease contract.
  2. Examination of the accounting records disclosed that the depreciation expense for CY 2021 for the additional lease of office space was not recognized in the books covering the period November 1, 2021, the commencement date, up to December 31, 2021. The non-recognition of the expense has understated the Depreciation Expense - Leased Assets, Buildings and Other Structures and Accumulated Depreciation - Leased Assets, Buildings and Other Structures and overstated the Leased Assets, Buildings and Other Structures each accounts by P3.189 million*.*

*No proper classification of Finance Lease Payable*

* 1. Paragraph 60 of PAS No. 1 on the Presentation of FS provides that:

*“An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position xxx.”*

* 1. Paragraph 69 of the same standard further provides that, “an entity shall classify a liability as current when:

1. *It expects to settle the liability in its normal operating cycle;*
2. *It holds the liability primarily for the purpose of trading;*
3. *The liability is due to be settled within twelve months after the reporting period; or*
4. *It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.*

*An entity shall classify all other liabilities as non-current.”*

* 1. The computation of the Present Value of Leased Payments and Cost of Leased Asset for the 3 years renewal lease contract of office space and 2 years additional lease office space of PCSO showed a total of P285.104 million. As shown below:

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Present Value of Lease Payments** | **Remarks** |
| 3 years renewal lease contract | P 248,642,213.07 | Carrying amount of Finance Lease payable as of December 31, 2021 |
| 2 years additional lease contract | 36,461,831.54 |  |
| **Total Finance Lease Payable** | **P 285,104,044.61** |  |

* 1. The schedules of amortization of lease payments disclosed that the Finance Lease payable amounting to P157.658 million for the renewal lease contract and the additional lease contract of office space of P137.500 million and P20.158 million respectively, should be presented in the Statement of Financial Position as of December 31, 2021 as part of the Current Liability since these are due to be settled within 12 months after the reporting period.
  2. Whereas, Finance Lease Payable amounting to P127.446 million for the renewal lease contract and the additional contract of lease of office space of P111.142 million and P16.304 million, respectively, should be presented as part of Non-Current Liability.
  3. Review of the accounting records, however, disclosed that the total finance lease payable totaling P285.104 million was presented as Current Liabilities. Its current and non-current portion of P157.658 million and P127.446 million, respectively, were not separately classified as current and non-current liabilities in the Statement of Financial Position which is not in accordance with Paragraphs 60 and 69 of PAS No. 1 on the presentation of financial statements. This resulted in the overstatement of the Current Liabilities and understatement of the Non-Current Liabilities by P127.446 million representing the lease payments due for settlement of more than 12 months.
  4. In view of the foregoing deficiencies, the faithful representation of the effect of the transactions relating to the Leased Assets, Buildings and Other Structures, Interest Expense, Depreciation Expense, Accumulated Depreciation and Lease Liability accounts cannot be ascertained.
  5. **We recommended and Management agreed to direct the concerned Accounting personnel to:**
     1. **effect the necessary adjusting journal entries to correct the above-stated misstatements as follows:**

|  |  |  |
| --- | --- | --- |
| **Account Title** | **Debit** | **Credit** |
| **1. Leased Assets, Buildings and Other Structures** | **P 895,381.05** |  |
| **Finance Lease Payable** |  | **P 895,381.05** |
|  |  |  |
| **Prepaid Rent** | **2,521,935.90** |  |
| **Leased Assets, Buildings and Other Structures** |  | **2,521,935.90** |
| ***To record adjustment on the recognition of Lease Asset and Liability accounts for the CY 2021*** |  |  |
|  |  |  |
| **2. Finance Lease Payable** | **895,375.27** |  |
| **Retained Earnings - Interest Expense** |  | **895,375.27** |
| ***To record adjustment of interest on lease payments for CY 2021.*** |  |  |
|  |  |  |
| **3. Accumulated Depreciation – Lease Asset, Buildings and Other Structures** | **542,184.96** |  |
| **Retained Earnings - Depreciation Expense – Lease Asset, Buildings and Other Structures** |  | **542,184.96** |
| ***To record adjustment on the recorded depreciation of Lease Asset for the CY 2021.*** |  |  |

* + 1. **Recognize and record the depreciation expense on the additional lease asset for CY 2021 as follows:**

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
|  |  |  |
| **Retained Earnings - Depreciation Expense – Lease Asset, Buildings and Other Structures** | **3,188,583.53** |  |
| **Accumulated Depreciation – Lease Asset, Buildings and Other Structures** |  | **3,188,583.53** |
| ***To record Depreciation on the additional lease asset for the CY 2021.*** |  |  |

* + 1. **Present and classify the current and non-current portion of the Finance Lease Payable as separate items in the Statement of Financial Position as required under Paragraphs 60 and 69 of PAS No. 1.**

1. **The unclaimed and forfeited prizes for Keno games in CY 2021 amounting to P16.115 million were not transferred to the Charity Fund, contrary to Section 6(A) of Republic Act No. 1169, depriving the PCSO of the increase in Charity Fund that could have been used for the various charitable programs. Likewise, P3.820 million of the P16.115 million were still recorded as Retained Earnings - Prize Fund (RE-PF), instead of Retained Earnings -Charity Fund (RE-CF), thus overstating the RE-PF and understating the RE-CF by the same amount.**
   1. One of the sources of revenues of the PCSO is Keno game. This game is electronically drawn thru an application program called “Random Number Generator”. Retail Receipts from the Keno game were allocated to PF for payment of prize winning claims and PF related taxes; CF for utilization to various health and medical programs of PCSO; and OF as an addition for the payment of various operating expenses.
   2. Section 6 (A) of the RA No. 1169 provides:

**“*SECTION 6.****Allocation of Net Receipts – xxx*

1. *Xxx*

*Prizes not claimed by the public within one year from date of draw shall be considered forfeited, and shall form part of the charity fund for disposition as stated below.”*

* 1. The unclaimed and forfeited prizes are recorded by debiting the RE-PF and crediting the RE-CF accounts. To record the actual transfer of fund, the account Cash in Bank - CF is debited and the Cash in Bank - PF account is credited.
  2. Review of submitted documents from the Gaming Sector disclosed that for CY 2021, the unclaimed forfeited prizes under Keno game amounted to P16.115 million. Of the unclaimed forfeited prizes, P3.820 million remained in the RE-PF, resulting in an overstatement of the latter and understatement of the RE-CF account, as shown in Table 16:

# **Table 16 –** **Computation of the Unclaimed and Forfeited**

# **Keno Prizes remained in the RE – PF**

# **As of December 31, 2021**

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| **Total unclaimed and forfeited Keno prizes in CY 2021** | **P16,114,799.00** |
| **Journal Entry to recognize the unclaimed and forfeited Keno Prizes** |  |
| JEV No. 21030274 dated 03/31/2021 | (7,959,687.00) |
| JEV No. 21101087 dated 10/31/2021 | (2,167,564.00) |
| JEV No. 21121605 dated 12/31/2021 | (2,167,564.00) |
| **Unclaimed and Forfeited KENO Prizes in RE-PF**  **as of December 31, 2021 that shall be recorded to RE-CF** | **P 3,819,984.00** |

* 1. Further verification of records revealed that the P16.115 million unclaimed and forfeited prizes were not transferred from CIB-PF to CIB-CF as of December 31, 2021, contrary to Section 6(A) of RA No. 1169. The non-transfer of fund from PF to CF deprived PCSO of the increase of charity fund which could have been used to finance its various charitable programs.
  2. **We recommended that Management direct the concerned officials/personnel of the ABD to immediately process the transfer of the unclaimed/forfeited prizes of P16.115 million from PF to CF; likewise draw a JEV to recognize the transfer of the remaining amount of P3.820 million from the RE-PF to RE-CF.**
  3. Management informed the Audit Team on June 12, 2022 that the transfer from Cash in Bank – PF to Cash in Bank – CF of the P16.115 million unclaimed and forfeited prizes under Keno games were already included in the P196.491 million bank transfer effected by LBP on March 17, 2022 and recorded in the books under JEV No. 22030338 dated March 31, 2022. They likewise informed that the remaining P3.820 million was already transferred from RE-PF to RE-CF under JEV No. 22050679 dated May 31, 2022.

1. **The excess prize fund for Small Town Lottery (STL) held in trust by the Authorized Agent Corporations (AACs) amounting to P4.248 million in CY 2021 was not remitted to PCSO at year-end, contrary to Section 18 (d) of the 2020 Revised Implementing Rules and Regulations for STL. Moreover, the Accounting and Budget Department failed to record the said excess prize fund, resulting in the overstatement of expenses for prize pay-outs and understatement of the receivable account from the AACs as of December 31, 2021, by the same amount.**
   1. Section 18 of the 2020 Revised Implementing Rules and Regulations (RIRR) for the STL provides for the duties and obligations of the AAC and one of these is to:

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

* 1. In line with the operations of the STL, PCSO entrusted 31.2050 per cent of the sale of STL tickets for the prize pay-out or payment of prizes to winning bettors. For CY 2021, PCSO reported P21.551 billion sales from STL, wherein P6.725 billion was allotted for the prize pay-out.
  2. Review of the General ledger disclosed that the prize fund entrusted to the AAC was recognized by debiting Prize-Lower Prize 10,000 Below-STL (expense account) with a corresponding credit to Accounts Receivable-STL account since the prize fund is automatically deducted from the periodical remittances of AAC to PCSO from sale of STL tickets. However, it was noted that no adjusting entry was prepared at year end in order to reflect the correct balance of the prize pay-out expense account. Correspondingly, no receivable from AAC account was established.
  3. For CY 2021, the P6.725 billion prize fund was recognized as Prize Fund Expense-STL, implying that almost all prize fund entrusted to the AACs for CY 2021 were expended for prize pay-out and there was no excess prize fund remained in their custody, to wit:

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| Prize Fund Entrusted to AACs for payment of winning tickets for CY 2021 (prize pay-out allotment) | P 6,724,901,613.87 |
| Remittance of Excess Prize Fund from AAC in Olongapo | (7,897.64) |
| **STL Prize Fund Expenses for CY 2021** | **P6,724,893,716.23** |

* 1. It was noted that one AAC had remitted the excess prize fund for CY 2021 amounting to P7,987.64. However, verification of Prize Fund Utilization Report submitted by the Branch Operations Sector showed that 10 AACs have excess prize fund for CY 2021 amounting P4.248 million, details are shown in Table 17.

# **Table 17 –** **Summary of AACs with Excess Prize Fund for the Current Year (CY) 2021**

| **Authorize Agent Corporation** | **Area of Operations** | **Excess Prize Fund** |
| --- | --- | --- |
| 1. 888 Good Fortune Gaming Venture Corp | Makati City | P 76,236.62 |
| 2. Glowing Fortune Opc -01 | Malabon | 8.32 |
| 3. Oceania Sur Gaming Corporation | Sorsogon | 1,037,991.72 |
| 4. Great Lion Gaming Ventures Inc. | Aklan | 45,785.21 |
| 5. System Development & Ventures Corp. | Eastern Samar | 202,982.98 |
| 6. Chivalric Inc. | NCR-Eastern District | 3,018.47 |
| 7. First Golden Fortune Leisure, Inc. | Mandaue City | 1,738,982.05 |
| 8. Four Aces Resouces Management Group Corporation | Negros Oriental | 4,969.51 |
| 9. Mavta Gaming and Leisure Corporation | Province of Northern Samar | 807,463.86 |
| 10. 10.Victoria Development and Construction Supply Corporation | Tacloban City | 330,347.44 |
| **Total** |  | **P 4,247,786.18** |

* 1. Further verification showed that the P4.248 million excess prize fund was not remitted to PCSO at year-end, contrary to the above-stated provision. Likewise, accounting books disclosed that there were no posting/recording relative to the reversal of Prize Fund Expense-STL nor recognition of asset to recognize the excess prize fund to be returned by the concerned AACs to PCSO, resulting in the understatement of the asset balance and overstatement of expense account.
  2. Considering that the excess prize fund is actually fund of PCSO that was entrusted only to AACs, though not remitted to PCSO at year-end, the same should still form part of their asset and should be excluded from prize fund expense account to faithfully represent the accounts and transactions in compliance with paragraph 15 of the PAS 1.
  3. **We recommended that Management:**

1. **Cause the immediate collection of the excess prize fund held in trust, in compliance with Section 18 of the 2020 RIRR for STL; and**
2. **Direct the concerned ABD personnel to prepare adjusting entry at year-end for all unutilized prize fund held in trust by the AACs to reflect the correct expense for prize pay-outs in CY 2021 and the receivable from AACs as of December 31, 2021.**
   1. Management submitted the following information to the Audit Team on June 7, 2021:

| **No.** | **AAC** | **Area of Operation** | **Excess Prize Fund** | **Remarks** |
| --- | --- | --- | --- | --- |
| 1 | 888 Good Fortune Gaming Venture Corp. | Makati City | P 76,236.62 | Will be charged against their cash bond |
| 2 | Glowing Fortune OPC | Malabon | 8.32 | Still for remittance |
| 3 | Oceania Sur Gaming Corp. | Sorsogon | 1,037,991.72 | Still for remittance |
| 4 | Great Lion Gaming Ventures, Inc. | Aklan | 45,785.21 | No excess prize fund (per revised report from the branch) |
| 5 | System Dev. and Ventures Corp. | Eastern Samar | 202,982.98 | Still for remittance |
| 6 | Chivalric, Inc. |  | 3,018.47 | Remitted April 11, 2022 |
| 7 | First Golden Fortune Leisure, Inc. | Mandaue City | 1,738,982.05 | Will be charged against their cash bond |
| 8 | Four Aces Resources Mgt. Corp. | Negros Oriental | 4,969.51 | Remitted on Jan. 26, 2022 |
| 9 | Mavta Gaming and Leisure Corp. | Northern Samar | 807,463.86 | Remitted on Jan. 17, 2022 |
| 10 | Victoria Dev. and Ventures Corp. | Tacloban City | 330,347.44 | Still for remittance |
|  | **Total** |  | **P 4,247,786.18** |  |

* 1. Management also informed that for the AACs that already stopped its STL operations, all obligations, including the excess prize fund, shall be deducted from their respective remaining cash bond.
  2. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.

1. **Release of two Emergency Medical Service Vehicles (EMSV) to beneficiaries in CYs 2020 and 2021 were not recorded in the books which resulted in the overstatement of Other Assets-Mobile Clinics/Ambulances for Donation amounting to P4.696 million and understatement of Charity Expenses-Other Charity Expenses-Ambulance Donation Program by P2.348 million for the unrecorded distribution of EMSV in CY 2021 and Retained Earning – Charity Fund also by P2.348 million for the unrecorded distribution in CY 2020, contrary to Paragraph 15 of the Philippine Accounting Standard No 1.**
   1. Paragraph 15 of the PAS, provides:

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

* 1. One of the charity programs implemented by PCSO is the MTVDP which aims to provide medical transport vehicles to the LGUs in the provincial, municipal and cities located in conflict-stricken areas and vulnerable communities and those geographically-isolated and disadvantaged areas.
  2. Purchases of the EMSVs are recorded as *Other Assets-Mobile Clinics/Ambulances for Donation* while awaiting their distribution to the intended beneficiaries. Upon turnover to the beneficiaries, the Account *Charity Expenses-Other Charity Expenses-Ambulance Donation Program* is debited and Other Asset account is credited.
  3. By virtue of BR No, 0203 series 2020 dated November 18, 2020, the release of the three remaining units of EMSVs out of the 45 units procured was approved. Inquiry with the CAD – Special Project Division (SPD) revealed that the two units of EMSVs with Unit Nos. PCSO EMSV 45 and PCSO EMSV eight were released to the intended beneficiaries on December 11, 2020 and February 16, 2021, details as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Unit No.** | **Description** | **CS No.** | **Engine No.** | **Date release to Beneficiary** | **Beneficiary** | **Amount** |
| PCSO EMSV 45 | NV350 Urvan | F1K419 | YD25035616B | Dec. 11, 2020 | Regional II Trauma and Medical Center | P 2,348,000.00 |
| PCSO EMSV 8 | NV350 Urvan | F2I950 | YD25053999B | Feb. 16, 2021 | South Cotabato Provincial Hospital | 2,348,000.00 |
| **Total** |  |  |  |  |  | **P 4,696,000.00** |

* 1. However, review of accounting records disclosed that the release of the two EMSV to the beneficiaries in CYs 2020 and 2021 were not recorded in the books which resulted in the overstatement of Other Assets-Mobile Clinics/Ambulances for Donation amounting to P4.696 million and understatement of Charity Expenses-Other Charity Expenses-Ambulance Donation Program by P2.348 million for the unrecorded distribution of EMSV in CY 2021 and RE–CF also by P2.348 million for the unrecorded distribution in CY 2020, contrary to Paragraph 15 of the PAS No. 1.
  2. It was also noted that no documents on the release of the above-mentioned EMSVs were forwarded to COA despite request for its submission from CAD-SPD. The remaining unissued unit is at the PCSO Warehouse- San Marcelino, awaiting its distribution and submission of the Deed of Donation.
  3. **We recommended and Management agreed to direct the ABD to record the release of the two units of EMSV in the books amounting to P4.696 million. Moreover, we recommended proper coordination between the CAD and the ABD for the timely recording of the releases of EMSVs to the intended beneficiaries.**
  4. Management informed the Audit Team on June 8, 2022 that the pertinent documents of the two units, for the Region 2 Trauma and Medical Center, Province of Nueva Viscaya (released in December 2020) and for South Cotobato Provincial Hospital (released in February 2021) are already attached to the JEV No. 22060895 dated June 07, 2022 recognizing the release of the two EMSV.

1. **NON-FINANCIAL**
2. **The selection process of media proponents** **for advertising, placement and sponsorship activities of PCSO is not in accordance with the specific guidelines and procedures set forth under Annex ‘’H” of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184, thus, affecting the transparency, efficiency and economy of the agency’s procurement process.** 
   1. Section 53 of the 2016 RIRR of RA No. 9184 defines Negotiated procurement as a method of procurement of Good, Infrastructure Projects and Consulting Services, whereby the Procuring Entity directly negotiates a contract with a technically and financially capable supplier, contractor or consultant.
   2. Annex “H” of the same RIRR provides for the Consolidated Guidelines for the Alternative Methods of Procurement.
   3. Pertinent sections of Annex “H” of the RIRR of RA No. 9184 state:

Section V**.** Specific Guidelines.

*Section V (D), Item No. 6(a) Scientific, Scholarly Or Artistic Work, Exclusive Technology and Media Services.*

*“To justify the need to procure through this negotiated modality, the End-User shall conduct a market study and determine the probable sources. This study should confirm that the supplier, contractor or consultant could undertake the project at more advantageous terms. In all cases, the market study must be conducted prior to the commencement of the procurement process.”*

* 1. Item 6(b) Procedure

1. *“The BAC shall undertake the negotiation with a technically, legally and financially capable supplier, contractor or consultant based on the Technical Specifications, Scope of Work or Terms of Reference prepared by the End-User.”*
2. *“Upon successful negotiation, the BAC shall recommend the award of contract to the HoPE in accordance with Section (IV) (L) of this Guidelines.”* 
   1. Section 12.1 of the 2016 RIRR likewise provides that, *“The BAC shall have the following functions: (a) advertise and/or post the invitation to bid/request for expressions of interest; (b) conduct pre-procurement and pre-bid conference; (c) determine the eligibility of prospective bidders; (d) receive and open bids; (e) conduct the evaluation of bids; (f) undertake post-qualification proceedings; (g) resolve request for reconsideration; (h) recommend award of the contracts to the HoPE or his duly authorized representative: (i) recommend the imposition of sanctions in accordance with Rule XXIII; (j) recommend to the HoPE the use of Alternative Methods of Procurement as provided in Rule XVI hereof; k) conduct any of the Alternative Methods of Procurement; I) conduct periodic assessment of the procurement processes and procedures to streamline procurement activities pursuant to Section 3(c) of this IRR; and m) perform such other related functions as may be necessary, including the creation of a Technical Working Group (TWG) from a pool of technical, financial, and/or legal experts xxx..:”*
   2. Moreover, Section 12.2 thereof states that, “*The BAC shall be responsible for ensuring that the procuring Entity abides by the standards set forth by the Act and this IRR, and it shall prepare a Procurement Monitoring Report (PMR) in the form prescribed by the GPPB. Xxx”*
   3. Section IVof Annex H on the *General Guidelines* likewiseprovides:

Section IV (L), Item No. 2 *Posting of Notice of Award, Contract and Notice to Proceed.*

*“...the Bids and Awards Committee (BAC), through its Secretariat, shall post the NOA, Contract/PO, including the NTP if necessary, for information purposes, in the PhilGeps website, the website of the Procuring Entity concerned, if available, and at any conspicuous place reserved for this purpose in the premises of the Procuring Entity within ten (10) days from their issuance, except for contracts with ABC of Fifty Thousand Pesos (P50,000.00) and below.”*

* 1. Section 9 of COA Circular No. 2012-001 dated June 14, 2012 also provides that all Invitation to apply for Eligibility and to Bid, Notices of Award and all other procurement related notices shall be posted in the PhilGEPS Electronic Bulletin Board in accordance with the RIRR of RA No. 9184, regardless of the method of procurement used.
  2. As of December 31, 2021, the Advertising, Promotional and Marketing Expenses of PCSO amounted to P140.506 million. Review of the approved Annual Procurement Plan (APP) for the CY 2021 showed that the procurement for Advertising, Promotion and Marketing shall be through Negotiated Procurement.
  3. We reviewed the Workflow of the Advertising Placement and Sponsorship Activities of PCSO, and noted the following procedures, to wit:

1. All advertising proposals by Media/Advertising Proponents were submitted to the Office of the General Manager (OGM) for evaluation.
2. Proposals for PR, advertising and promotion of institutional/corporate goodwill campaigns and promotions were endorsed directly to the Corporate Planning Department (CPD) while proposals for gaming products promotion were endorsed directly to the Product & Standard Development Department (PSDD).
3. Upon receipt of the endorsed proposals, a feedback report and recommendation is submitted by the CPD and PSDD to OGM for approval/disapproval.
4. The approved proposal is forwarded to the Advertising Division for processing and preparation of the Telecast/Broadcast/ Insertion order and Media Plan.
   1. The foregoing procedures are contrary to the guidelines provided under Annex “H” and pertinent provisions of the 2016 RIRR of RA No. 9184, considering that:

No market research was conducted prior to the commencement of the procurement to confirm that the supplier could undertake the project/services at a more advantageous term;

The BAC was never part or was not involved in the procurement processes of said services; and

Advertising and/or posting requirements were not complied.

* 1. These deficiencies/lapses in the procurement process cast doubt on the regularity of the procurement activities thus, affects the transparency, efficiency and economy of the agency’s procurement process on the selections of media proponents for advertising, placement and sponsorship activities of PCSO.
  2. **We recommended and Management agreed to strictly adhere to the guidelines provided in Annex H and other pertinent provisions of the 2016 RIRR of RA No. 9184 in the procurement of media services for advertising, sponsorship, and other activities of PCSO.**
  3. Management informed that the Advertising Division is following the PCSO MSS Manual of Operations created on December 31, 2013, and sees the need to update and amend the current workflow process for the selection of media proponents for advertising, placement and sponsorship activities of PCSO to incorporate and involve the Bids and Awards Committee (BAC) to conform to the specific guidelines and procedures set forth under Annex “H” of the 2016 RIRR of RA No. 9184.
  4. Management further informed that COA’s recommendations are accepted by BAC, CPD, and PSDD. BAC Memorandum dated May 20, 2022 stated its compliance to the COA observation, thus:

“*BAC shall ensure compliance of the procedure required for the procurement of media services under Section V (D), Item No. 6 (Negotiated – Scientific, Scholarly or Artistic Work, Exclusive Technology and Media Services), Annex H of the 2016 RIRR of RA No. 9184 upon receipt of approved documents.”*

CPD Memorandum dated 25 May 2022 states:

*“The CPD conforms with the suggestion of the AGM for MSS that the said workflow be amended to incorporate and involve the Bids and Awards Committee (BAC) in all procurement activities. The Corporate Planning Department will follow and comply to any recommendation subject to PCSO Management directives.”*

PSDD Memorandum No. PSDD-2022-168 dated 25 May 2022 states:

“*Be that as it may, recognizing the recommendation of COA to include BAC in the process, PSDD have requested CPD to coordinate with the BAC in the procurement of advertising media placements for the remaining budget this year to comply with the existing rules and regulations in engaging the services of media placement provided under Annex “H” of the 2016 Revised Implementing Rules and Regulations of the Republic Act No. 9184. Said request was communicated through PSDD Memorandum No. 2022-166 dated 24 May 2022.”*

* 1. Finally, as part of its commitment to comply with COA’s instructions and recommendations, PCSO will perform a redesign of the aforementioned workflow process, managed by the Corporate Planning Department (CPD), to adhere to the 2016 RIRR of RA No. 9184.
  2. The Audit Team will monitor the implementation of the audit recommendations in the CY 2022 audit.

1. **Thirteen out of the 35 financial assistance granted under the Financial Assistance for the Procurement of Medical Equipment Program for Calendar Years 2017-2021 amounting to P144.674 million remained unliquidated as of December 31, 2021, contrary to the provisions stipulated in the Memorandum of Agreement, thereby casting doubt on whether the financial assistance given are utilized for the intended purpose. Likewise, 13 liquidation reports received in CYs 2020-2021 amounting to P189.323 million were received beyond the prescribed period.**
   1. Part of the obligations of the beneficiary of the Financial Assistance for the Procurement of Medical Equipment Program (FAPMEP), as stated in the MOA, is the submission of a Terminal Financial and Accomplishment Report (TFAR)/Liquidation Report. For grants approved based on the 2018 Implementing Guidelines of FAPMEP, the MOA states:

“*Section 2.e.* ***Within forty-five days from completion of delivery of the equipment as stated in the Purchase Order/Contract,*** *submit to the CAD, a Terminal/Liquidation Report, supported by the following documents:*

1. *Certified copy of the Official Receipt;*
2. *Certificate of Inspection;*
3. *Certificate of Acceptance of End-user;*
4. *COA Credit Notice;*
5. *Photos of installed medical equipment within the institution.*

*Failure to submit the Terminal/Liquidation Report and its supporting documents within the prescribed period shall result to the suspension of the privilege of the Beneficiary to avail itself of the financial assistance under the program.”* (emphasis supplied)

* 1. On the other hand, for those grants that were approved before the implementation of the 2018 Implementing Guidelines of FAPMEP, the MOA provides:

*“Section 4. The BENEFICIARY shall submit to the PCSO a Terminal Financial and Accomplishment* ***report within 90 days from receipt of the grant or upon purchase of the medical equipment, whichever comes earlier*** *with Credit Notice from in-house 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.”* (emphasis supplied)

* 1. Based on the monitoring of the submission of liquidation reports for the grants in CYs 2017-2021, it showed that as of December 31, 2021, 13 recipients/beneficiaries with grants totaling P144.674 million have not submitted their TFAR/Liquidation Reports, as shown in Table 18.

**Table 18 –** **List of Beneficiaries/Recipients that have not submitted**

**theTFAR/Liquidation Report**

**As of December 31, 2021**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **CY** | **Check No.** | **Recipients/Beneficiaries** | **Amount** | **Delivery date of equipment as specified in PO/contract** | **No. of days to liquidate per MOA** | **Deadline of submission of liquidation** | **No. of days delayed as of December 31, 2021** |
| **For grants approved within the 2018 Implementing Guidelines** | | | | | | | | |
| 1 | 2021 | 444219 | Philippine Military Academy – Fort Del Pilar Station Hospital, Baguio City | P 7,996,000.00 | \* | 45 | - | - |
| 2 | 2021 | 455033 | AFP Health Service Command – Victoriano Luna Medical Center | 19,685,000.00 | \* | 45 | - | - |
| 3 | 2020 | 433306 | Bislig District Hospital | 18,792,000.00 | \* | 45 | - | - |
| 4 | 2020 | 435779 | Masbate Provincial Hospital | 23,623,100.00 | September 28, 2020 | 45 | November 12, 2020 | 414 |
|  |  |  | **Subtotal** | **P 70,096,100.00** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| **No.** | **CY** | **Check No.** | **Recipients/Beneficiaries** | **Amount** | **Date of Official Receipt / Date of Release of Grant** | **No. of days to liquidate per MOA** | **Deadline of submission of liquidation** | **No. of days delayed as of December 31, 2021** |
| **For grants approved before the approval of the 2018 Implementing Guidelines** | | | | | | | | |
| 5 | 2019 | 381250 | Collecting Officer – Camp General Emilio Aguinaldo Station Hospital | P 2,243,900.00 | April 1, 2019 | 90 | June 30, 2019 | 915 |
| 6 | 2019 | 380053 | Presidential Security Group | 2,250,000.00 | April 1, 2019 | 90 | June 30, 2019 | 915 |
| 7 | 2019 | 381202 | Collecting Officer, FCPA – Kuta Major Cesar L. Sang An | 6,691,875.00 | April 1, 2019 | 90 | June 30, 2019 | 915 |
| 8 | 2019 | 381201 | Collecting Officer, FCPA – Army General Hospital | 3,834,300.00 | April 1, 2019 | 90 | June 30, 2019 | 915 |
| 9 | 2019 | 381203 | Collecting Officer, FCPA – Camp General Mateo Capinpin | 3,166,900.00 | April 1, 2019 | 90 | June 30, 2019 | 915 |
| 10 | 2019 | 381927 | Northern Cagayan District Hospital | 10,000,000.00 | July 29, 2019 | 90 | October 27, 2019 | 796 |
| 11 | 2018 | 373385 | Batangas Provincial Hospital | 22,681,000.00 | January 29, 2019 | 90 | April 29, 2019 | 977 |
| 12 | 2017 | 329452 | Abuyog District Hospital | 13,798,000.00 | January 10, 2018 | 90 | April 10, 2018 | 1,361 |
| 13 | 2017 | 329453 | Hilongos District Hospital | 9,912,000.00 | January 10, 2018 | 90 | April 10, 2018 | 1,361 |
|  |  | **Subtotal** | | **P 74,577,975.00** |  |  |  |  |
|  |  | **GRAND TOTAL** | | **P144,674,075.00** |  |  |  |  |
| *\*The date of completion of delivery of the equipment cannot be identified due to the absence of delivery terms in the Contract Agreement and the P.O. attached to the DV for the grant of financial assistance.* | | | | | | | | |

* 1. Status of Liquidation Reports submitted by the CAD confirmed that liquidation reports for the said grants/disbursements were not yet submitted by the beneficiaries, which were 414 days to 1,361 days or one to three years delayed as of year-end, contrary to the provisions stipulated in the MOA. CAD informed that demand letters were already sent to the beneficiaries/recipients.
  2. Confirmation Letters were sent to the beneficiaries by the Audit Team and two confirmation replies were received as of April 30, 2022 which confirmed their receipt of the financial assistance, however, the concerned auditors informed that they could not verify the utilization of the grant as no liquidation reports yet were submitted to their Office.
  3. The inability of the beneficiaries to submit the required accomplishment reports/liquidation reports involving a total amount of P144.674 million affected the verification of the utilization of the financial assistance for its intended purpose.
  4. Moreover, verification of documents also disclosed that 13 recipients/beneficiaries of financial assistance amounting to P189.323 million have submitted their TFAR/Liquidation Reports in CYs 2020-2022 beyond the prescribed period, as shown in Table 19:

**Table 19 –** **List of Beneficiaries/Recipients that submitted their TFAR/Liquidation Reports**

**beyond the required period**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Check No.** | **Recipients** | **Amount** | **Delivery date of equipment as specified in PO/contract** | **No. of days to liquidate per MOA** | **Deadline of submission of liquidation** | **Date received by PCSO CAD** | **No. of days delayed** |
| **For grants approved within the 2018 Implementing Guidelines** | | | | | | | | |
| 1 | 447847 | Agusan Del Norte Provincial Hospital | P 29,995,000.00 | May 19, 2021 | 45 | July 3, 2021 | December 1, 2021 | 151 |
| 2 | 432453 | Camarines Norte Provincial Hospital | 22,265,050.00 | May 29, 2020 | 45 | July 13, 2020 | July 19, 2021 | 371 |
| 3 | 375141 | Luis Hora Memorial Regional Hospital | 13,875,000.00 | March 19, 2019 | 45 | May 3, 2019 | February 21, 2020 | 294 |
|  | | | | | | | | |

| **No.** | **Check No.** | **Recipients** | **Amount** | **Date of Official Receipt / Date pf Release of Grant** | **No. of days to liquidate per MOA** | **Deadline of submission of liquidation** | **Date received by PCSO CAD** | **No. of days delayed** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **For grants approved before the approval of the 2018 Implementing Guidelines** | | | | | | | | |
| 4 | 432258 | PAF Trust Liabilities-Air Force General Hospital | 1,744,357.32 | October 7, 2020 | 90 | January 5, 2021 | June 11, 2021\* | 157 |
| 5 | 432259 | PAF Trust Liabilities-Basa Air Base Hospital | 1,438,688.20 | October 7, 2020 | 90 | January 5, 2021 | June 11, 2021\* | 157 |
| 6 | 432260 | PAF Trust Liabilities-Air Force City Hospital | 2,172,027.32 | October 7, 2020 | 90 | January 5, 2021 | June 11, 2021\* | 157 |
| 7 | 381204 | PAF Trust Liabilities-Airforce General Hospital | 19,440,000.00 | April 1, 2019 | 90 | June 30, 2019 | October 13, 2020 | 471 |
| 8 | 381206 | PAF Trust Liabilities-Airforce City Clark Airbase | 28,880,000.00 | April 1, 2019 | 90 | June 30, 2019 | October 13, 2020 | 471 |
| 9 | 381205 | PAF Trust Liabilities-Basa Airbase Hospital | 19,440,000.00 | April 1, 2019 | 90 | June 30, 2019 | October 13, 2020 | 471 |
| 10 | 366027 | Angel Salazar Memorial Hospital | 29,990,000.00 | October 17, 2018 | 90 | January 15, 2019 | March 2, 2020 | 412 |
| 11 | 2641987 | Philippine Red Cross Quezon-Lucena Chapter (PRCQ-LC) | 2,890,000.00 | March 7, 2018 | 90 | June 5, 2018 | June 1, 2020 | 727 |
| 12 | 2641986 | Luis Tirso M. Rivilla General Hospital | 7,228,000.00 | March 7, 2018 | 90 | June 5, 2018 | December 10, 2020 | 919 |
| 13 | 306105 | Abra Provincial Hospital | 9,965,000.00 | May 10, 2017 | 90 | August 8, 2017 | July 30, 2018 | 356 |
|  |  | **Total** | **P189,323,122.84** |  |  |  |  |  |
| *\*The Date received by the COA-PCSO Head Office was used in the computation of the No. of Days Delay due to unavailability of date received by PCSO-CAD of the liquidation report.* | | | | | | | | |

* 1. It can be gleaned from the table above that the submission of the liquidation reports has been delayed from 151 days to 919 days or five months to more than two years, which consequently delays the validation and verification of compliance of the beneficiaries with the agreed terms in the MOA thus affects the effectiveness of the implementation and monitoring of the attainment of the objective of the program.
  2. Review of liquidation reports showed that some of the reasons for the delay in the submission of the liquidation report were (a) payment of medical equipment to the supplier was quite far (113 days to 540 days) from the required date of the delivery of the equipment per Purchase Order (PO)/Contract (for 45-day liquidation period) or from the release of grant (for 90-day liquidation period), thereby the Official Receipt (OR) required in the liquidation report could not be provided on time; (b) the beneficiary was able to pay the supplier within the liquidation period but has not submitted the liquidation report on time; and (c) release of FA to the beneficiaries despite the absence of a certified copy of the PO/Contract (which were subject of the audit observations in CY 2019), thus the running of the 90-day liquidation requirement started earlier than the date of the contract/PO.
  3. **We recommended and Management agreed to:**

1. **Demand from the 13 beneficiaries the immediate submission of their liquidation reports or return the financial assistance granted if it still unutilized;**
2. **Require the beneficiaries to submit a written explanation on the delayed submission of liquidation reports to further assess whether the beneficiaries should be disqualified from receiving future and other financial assistance from PCSO, otherwise, require the refund of the financial assistance granted, and determine whether there is a need to revisit the policies and procedures relative to the liquidation of the grants; and**
3. **Intensify the monitoring and reporting controls by conducting an on-site visit by the concerned personnel both in Head Office and Branches to ensure that the financial assistance granted to the beneficiaries were utilized for the purchase of the medical equipment and to validate whether these were indeed used for patients in need.**
   1. On June 8, 2022 Management informed the Audit Team that of the 13 beneficiaries, four have already submitted their Liquidation Reports in May 2022, four with partial liquidation reports, one for issuance of Demand Letter and the remaining four were already directed to submit their Liquidation Reports.
   2. For the releases made despite the absence of certified copy of the PO/Contract, these refer to the three PAF beneficiaries (Air Force General Hospital, Basa Air Base Hospital, and Air Force City Hospital) which payment were divided into two tranches as there were items (medical equipment) that were subject of a failed bidding, thus were processed at a later date.
   3. The delayed submission of Liquidation/Fund Utilization Report by the beneficiaries has been a perennial problem and contentious issue encountered by the CAD, despite number of notices (written and verbal), and even demand letters. The PCSO has resorted to officially ask the assistance of the appropriate agencies (DILG for LGUs) and even the Office of the Chairperson of COA, to compel these institutions to comply.
   4. For the Liquidation Reports with incomplete documentation, Management informed that a letter shall be sent to the concerned beneficiaries requiring them to submit the lacking documents.
   5. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.
4. **Seven Liquidation Reports for the financial assistance granted for the procurement of medical equipment, received in Calendar Years 2020-2021 amounting to P116.208 million were not supported with documents required under Item E.4, Section III of the Financial Assistance for the Procurement of Medical Equipment Program Implementing Guidelines. Likewise, monitoring reports required under E.5 of the same guidelines were not submitted, thereby monitoring and evaluation whether the objective of the program was attained could not be satisfied.**
   1. Sections III, Item E.4 and E.5 of the FAPMEP Implementing Guidelines provide that:

*E. Implementation, Monitoring and Liquidation*

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

*a. Certified copy of Official Receipt;*

*b. Certificate of Inspection;*

*c. Certified of Acceptance by the end-user;*

*d. COA Credit Notice;*

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

*(5) To monitor completion and utilization, the beneficiary shall submit the following documents to CAD:*

1. *Photo of the medical equipment together with a medical facility official;*
2. *Quarterly Report indicating the name of the patients served, address, date of check-up or admission, diagnosis, assistance provided and amount; and*
3. *Annual Utilization Report to include number of patients served and the equivalent amount per patient for a period of three (3) years*
   1. Seven out of 13 liquidation reports submitted by the beneficiaries to PCSO in CYs 2020-2021 in the amount of P116.208 million have incomplete supporting documents contrary to Item E.4 of the above stated guideline, as shown in Table 20.

**Table 20 –** **List of Liquidation Reports that lack supporting documents**

|  | **Check Date** | **Check Number** | **Payee** | **Amount** | **Lacking Documentary Requirements (x)** | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. **Certified copy of Official Receipt** | 1. **Certificate of Inspection** | 1. **Certificate of Acceptance by the end-user** | 1. **Certification of Accountant** | 1. **Photos of the installed medical equipment** |
| 1 | May 27, 2021 | 447847 | Agusan Del Norte Provincial Hospital | P 29,995,000.00 | ✓ | ✓ | ✓ | x | ✓ |
| 2 | June 25, 2020 | 432453 | Camarines Norte Provincial Hospital | 22,265,050.00 | ✓ | ✓ | ✓ | x | ✓ |
| 3 | January 15, 2019 | 375141 | Luis Hora Memorial Regional Hospital | 13,875,000.00 | ✓ | ✓ | ✓ | ✓ | x |
| 4 | October 16, 2018 | 366027 | Angel Salazar Memorial Hospital | 29,990,000.00 | x | x | x | x | x |
| 5 | February 9, 2018 | 2641987 | Philippine Red Cross Quezon-Lucena Chapter (PRCQ-LC) | 2,890,000.00 | ✓ | ✓ | ✓ | ✓ | x |
| 6 | February 9, 2018 | 2641986 | Luis Tirso M. Rivilla General Hospital | 7,228,000.00 | ✓ | ✓ | x | ✓ | x |
| 7 | February 14, 2017 | 306105 | Abra Provincial Hospital | 9,965,000.00 | x | x | x | x |  |
|  |  |  | **Total** | **P116,208,050.00** |  |  |  |  |  |

* 1. Further verification also showed that the beneficiaries were not able to submit the monitoring reports as required under Section E.5 of the approved guideline.
  2. The incomplete documentation of the Liquidation Reports and the non-submission of the monitoring reports affected the verification of the payment and receipt of the medical equipment by the beneficiaries, evaluation of its performance and the determination on whether the objectives of the FAPMEP were attained.
  3. **We recommended that Management:**

1. **Strictly impose to the recipients of financial assistance the submission of liquidation and monitoring reports as required in the Implementing Guidelines of the program;**
2. **Conduct orientation prior to the release of the financial assistance so that the beneficiaries are well informed of the conditions and requirements of the program, specifically the implementation, monitoring and liquidation requirements mentioned in the Implementing Guidelines; and**
3. **Strictly enforce the rule provided in the approved guidelines for the non-compliant beneficiaries by suspending/revoking their privileges to avail future financial assistance under the program.**
   1. The Management assured enforcing the provisions in the MOA on the submission of the liquidation and monitoring reports and consider inclusions of the penalty clause for non-compliance with the requirements of the program.
4. **Financial assistance for the procurement of medical equipment amounting to P144.011 million were granted to 10 beneficiaries for the Calendar Years 2020 to 2021 despite incomplete documentation, contrary to Item B, Section III of the Financial Assistance for the Procurement of Medical Equipment Program Implementing Guidelines, thus, casting doubt on the impartiality, objectivity and consistency of the evaluation/assessment/recommendation process in the approval of the grant.**
   1. In line with the mandate of the PCSO to raise and provide funds for the health programs, medical assistance, services and charities of national character, the agency has implemented the FAPMEP with the intention of enhancing capability of medical facilities and providing efficient and quality medical services. The implementation of the program is governed by the FAPMEP Implementing Guidelines. Section III. General Policies, Item B. Documentary Requirements and Item C. Evaluation/ Assessment/ Recommendation of the implementing guidelines provide:

*“B. Documentary Requirements*

1. *Letter request addressed to PCSO Chairman or GM*
2. *Project Proposal with the information provided in B.1.2.*
3. *Profile of the Medical Facility to include info on B.1.3.*
4. *License to operate from DOH*
5. *Price Quotations from three (3) suppliers*
6. *Maintenance and other Operating Expenses (MOOE)- Commitment*
7. *Source of Revenue/Funding of Medical Facility*
8. *Certificate of Declaration of an active Bids and Awards Committee including its members*
9. *Liquidation Report for the previous released PCSO Grant (Annex C) or Certification from the CAD Department Manager if no previous PCSO grant (if applicable)*

*C. Evaluation/Assessment/Recommendation*

1. *The CAD shall prepare an Assessment Report on the applicant’s request, taking into consideration the following:*
2. *Recommendation from DOH thru the issuance of a certification xxx;*
3. *Compliance to Documentary Requirements;*
4. *On Site Assessment of the host branch office, in case of provincial request; and*
5. *Availability of Counterpart Funding from the Medical Facility or other funding entity, if available/applicable;”*
   1. For CYs 2020-2021, PCSO granted financial assistance for the procurement of medical equipment amounting to P144.011 million to 10 beneficiaries. However, review of documents showed that Financial Assistance was granted despite incomplete documentation as shown in Table 21:

**Table 21 –** **Financial Assistance with Incomplete Documentation**

| **No.** | **Check Date** | **Check No.** | **Payee** | **Amount** | **Lacking Documentary Requirements (x)** | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 1 | June 22, 2020 | 432559 | PAF Trust Liabilities – Basa Air Base Hospital | P 1,438,688.20 | x | x | x | x | ✓ | x | x | na | x |
| 2 | June 22, 2020 | 432260 | PAF Trust Liabilities – Air Force City Hospital | 2,172,027.32 | x | x | x | x | ✓ | x | X | na | x |
| 3 | June 25, 2020 | 432453 | Camarines Norte Provincial Hospital | 22,265,050.00 | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | x | x |
| 4 | June 22, 2020 | 432258 | PAF Trust Liabilities – Air Force General Hospital | 1,744,357.32 | x | x | x | x | ✓ | x | x | na | x |
| 5 | July 23, 2020 | 433306 | Bislig District Hospital | 18,792,000.00 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | x |
| 6 | September 22, 2020 | 435779 | Masbate Provincial Hospital | 23,623,100.00 | ✓ | x | ✓ | x | ✓ | x | x | x | x |
| 7 | March 1, 2021 | 444219 | Philippine Military Academy – Fort Del Pilar Station Hospital, Baguio City | 7,996,000.00 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | x |
| 8 | May 27, 2021 | 447847 | Agusan Del Norte Provincial Hospital | 29,995,000.00 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | x |
| 9 | October 1, 2021 | 455033 | AFP Health Service Command – Victoriano Luna Medical Center | 19,685,000.00 | ✓ | x | x | ✓ | ✓ | x | x | x | x |
| 10 | December 15, 2021 | 460186 | Philippine National Police | 16,300,000.00 | x | x | ✓ | ✓ | ✓ | x | x | na | x |
|  |  |  | **Total** | **P144,011,222.84** |  |  |  |  |  |  |  |  |  |
|  | *x-unsubmitted* |  |  |  |  |  |  |  |  |  |  |  |  |
|  | *✓-submitted* |  |  |  |  |  |  |  |  |  |  |  |  |

* 1. During the post-audit of Disbursement Vouchers (DVs), we noted that the recipients of the financial assistance shown in Table 21 lack one or more documentary requirements needed for the evaluation of the application to qualify as a beneficiary of the program. As stated in the Guidelines, upon submission of complete documentary requirements CAD will endorse the request to the DOH for the issuance of certification, however, the requests of these beneficiaries were endorsed to DOH despite incomplete documentation, contrary to Section III, Items B and C of the foregoing Implementing Guidelines.
  2. Further, out of the 10 financial assistance (FA) granted, only the FA granted to Bislig District Hospital was supported by an Assessment Report prepared by the CAD that documents the process of evaluation conducted such as compliance with the documentary requirements, on site assessment and availability of counterpart funding as required in Item C, Section 3 of the Implementing Guidelines. Interview with CAD personnel disclosed that the assessment reports/recommendation documents for the approval of the General Manager and Board of Directors were not returned to them thus the same were not attached to the DV.
  3. The complete documentary requirements serve as basis in confirming the appropriateness of the medical equipment to the level and capability of the hospital to operate and maintain the same, therefore these are vital in the proper evaluation of the eligibility of the applicant to receive the grant of FA. The absence of the required documents and the assessment report for each approved applicants affected the determination of the consistency of the evaluation/assessment/recommendation process in the approval of the grant of the FA.
  4. **We recommended that Management:**
  5. **Submit a written explanation for processing of the grant of financial assistance for the procurement of medical equipment despite the non-compliance by the applicants/ intended beneficiaries with the documentary requirements provided under Item B, Section III of the Implementing Guidelines;**
  6. **Submit the lacking documentary requirements mentioned in the list provided in Table 21; and**
  7. **Create a control mechanism such as preparation of a checklist of documentary requirements with confirmation of complete submission in the Assessment Report to ensure the consistency, and impartiality in the evaluation/ assessment/ recommendation process in the approval of the grant.**
  8. The CAD explained that:

1. In the course of the implementation of the FAPMEP program, periodic revisits/reviews of its provisions from 2017 Implementing Rules and Regulations (IRR) were undertaken. These reviews include shortlisting of documentary requirements for purposes of facilitating the process without compromising its integrity.
2. The IRR used as reference by COA was the approved 2017 BR. The 10 beneficiaries presented in Table 20 are those without required documents. Subsequent revisions of these requirements, although not yet approved officially, were partly implemented, e.g.: the DOH certification was required directly from the requesting party as part of the documentary requirements to be submitted, instead of the PCSO submitting them to DOH for certification purposes, as provided in the IRR.
3. Additionally, in issuing such certification, the DOH only requires a letter from the requesting party considering that the Agency has the database of information about these medical facilities, including the appropriate medical equipment for the facility, and the estimated price list.
4. There exists already a CAD checklist of documentary requirements prior to recommendation for approval and submission to ABD for processing of DV. This control mechanism, however, is open to improvement for consistency and impartiality, as recommended by COA.
5. To correct all these, it is imperative that the revised IRR be submitted for approval immediately while CAD comply to the recommendation of COA to request from the 10 beneficiaries the enumerated lacking documents in compliance with the FAPMEP IRR.
   1. The Audit Team will monitor the implementation of the audit recommendations in the CY 2022 audit.
6. **Financial assistance (FA) amounting to P5.355 million for the procurement of medical equipment for the 3 beneficiaries were released in Calendar Year (CY) 2020 before the submission of the Terminal Financial and Accomplishment Report or Liquidation Report for the first grant of FA released in CY 2019 amounting to P67.760 million, contrary to Section 4 of the Memorandum of Agreement between PCSO and the beneficiaries and Section III, B.9 of the Implementing Guidelines for Financial Assistance for the Procurement of Medical Equipment Program Implementing Guidelines.**
   1. Section 4 of the MOA between PCSO and the beneficiary states that:

“*The BENEFICIARY shall submit to the PCSO a Terminal Financial and Accomplishment report within 90 days from receipt of the grant or upon purchase of the medical equipment, whichever comes earlier with Credit Notice from in-house 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. Records showed that the following beneficiaries had a MOA with PCSO to avail the FA and were granted the following amounts:

|  |  |  |
| --- | --- | --- |
| **Beneficiary Name** | **Date of MOA** | **Maximum Amount of FA** |
| Airforce General Hospital | June 04, 2018 | P 32,020,000.00 |
| Airforce City Hospital | June 04, 2018 | 22,880,000.00 |
| Basa Airbase Hospital | June 04, 2018 | 22,400,000.00 |
| **Total** |  | **P 77,300,000.00** |

* 1. Post-audit of DVs disclosed that these FA were granted into two tranches despite the provision stated in the MOA that the amount shall be payable in one-time release. The first tranche was released in CY 2019 and the second tranche was released in CY 2020, as shown in Table 22:

**Table 22 –** **List of Beneficiaries Granted Second Tranche of Financial Assistance**

**without prior Liquidation of the First Tranche of FA.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Beneficiary Name** | **First Tranche** | | **Second Tranche** | | **Total** |
| **Amount** | **Date Released** | **Amount** | **Date Released** |
| Airforce General Hospital | P 28,880,000.00 | Apr. 01, 2019 | P 1,744,357.32 | Oct. 07, 2020 | P30,624,357.32 |
| Airforce City Clark Airbase | 19,440,000.00 | Apr. 01, 2019 | 2,172,027.32 | Oct. 07, 2020 | 21,612,027.32 |
| Basa Airbase Hospital | 19,440,000.00 | Apr. 01, 2019 | 1,438,688.20 | Oct. 07, 2020 | 20,878,688.20 |
| **Total** | **P 67,760,000.00** |  | **P 5,355,072.84** |  | **P73,115,072.84** |

* 1. Interview with Charity Sector disclosed that the first tranche released to the beneficiary pertained to medical equipment procured in CY 2019. The team, however noted that the release of the grant was effected despite incomplete documentation. This is the subject of AOM No. 20-009, dated July 24,2020. Meanwhile, the second tranche pertained to the FA for the remaining medical equipment with procurement documents submitted only in CY 2020.
  2. As shown in Table 22, the beneficiaries received the FA for the first batch of medical equipment to be procured amounting to P67.760 million on April 1, 2019. However, verification of documents showed that the said beneficiaries submitted their TFAR/liquidation report only on October 13, 2020 which was 471 days beyond the prescribed period stipulated in Section 4 of the MOA which is within 90 days from the release of the grant. It should have been submitted on or before June 30, 2019. It was also noted that the second tranche was released on an earlier date, October 7, 2020, from the date of submission of the TFAR/liquidation report to CAD which was October 13, 2020. Allowing the supplier to deliver the equipment beyond the 90-day period from the release of the grant will not facilitate the meeting of the reporting deadlines. The submission of the TFAR /Liquidation Reports is a requirement prior to the release of additional/subsequent financial assistance it being a part of the liquidation report of earlier grants. The inability to submit the TFAR is a ground for denial of any or future or other financial assistance from PCSO. Thus, the practice of PCSO of releasing financial assistance prior to submission of TFAR is not in line with Section III, B.9 of the approved Implementing Guidelines.
  3. Moreover, review of liquidation reports submitted on October 13, 2020 showed that some of the reasons for the delay in the submission of the liquidation report are (a) release of FA to the beneficiaries despite the absence of a certified copy of the PO/Contract, thus the running of the 90-day liquidation requirement started earlier than the date of the contract/PO; (b) required delivery of the equipment indicated in the Notice to Proceed (NTP) issued by the beneficiaries to the winning supplier is within 90-120 days from the date of the NTP when the MOA requires 90-day liquidation period from the release of the grant; and (c) receipt of payment for the delivery of the medical equipment is quite far from the delivery of the equipment which is two to seven months from the date of the delivery, thus the delay in the issuance of the OR which is required as one of the supporting documents of the liquidation report. Details are shown in Table 23:

**Table 23 –** **List of Beneficiaries Granted Second Tranche of Financial Assistance**

**with Delayed Liquidation Report**

| **Beneficiary** | **Amount Release** | **Date Release** | **Date of Contract/PO** | **Date of NTP** | **Delivery Period as per NTP** | **Date of Delivery Receipt** | **Date of Official Receipt** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Airforce General Hospital | P28,880,000.00 | April 01, 2019 | May 24, 2019 | May 27, 2019 | 120 days | July 05, 2019 | Feb. 4, 2020 |
| Airforce City Clark Airbase | 19,440,000.00 | April 01, 2019 | May 15, 2019 | May 17, 2019 | 90 days | July 24, 2020 | Sep. 22, 2022 |
| Basa Airbase Hospital | 19,440,000.00 | April 01, 2019 | May 15, 2019 | May 17, 2019 | 90 days | July 06, 2020 | Sep. 22, 2020 |
| **Total** | **P67,760,000.00** |  |  |  |  |  |  |

* 1. **We recommended that Management strictly adhere with the provisions of the MOA on the liquidation of the financial assistance for the procurement of medical equipment before the grant of subsequent financial assistance, to ensure that the previous grants have served its purpose and the beneficiaries have complied with the conditions of the program and deserved to receive an additional FA.**
  2. **We also recommended and Management agreed to address the causes of the delay in the preparation and submission of the liquidation reports.**

1. **Disbursements under Financial Assistance for the Procurement of Medical Equipment Program totaling P46.412 million for CY 2020-2021 were processed even without the certified copy of the Abstract of Bids duly signed by the BAC Members and certified true copy of the Purchase Order or Contract, contrary to Item D.1, Section III of Implementing Guidelines of the program.**
   1. Item D.1 of the FAPMEP Implementing Guidelines provides that:

*“D. Processing of Disbursement Voucher*

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

*a. Signed MOA,*

*b. Notice of Award,*

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

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

* 1. Post-audit of DVs on the grant of FA disclosed that five hospitals were granted financial assistance totaling P46.412 million in CYs 2020-2021 despite non submission of the certified copy of the Abstract of Bids duly signed by the BAC Members and certified true copy of PO or Contract, contrary to Item D.1 of the Implementing guidelines of FAPMEP, as shown in Table 24.

**Table 24 –** **List of DVs Processed with Incomplete Procurement Documents**

| **No.** | **Check Date** | **Check No.** | **Payee** | **Amount** | **Lacking Documents (x)** | |
| --- | --- | --- | --- | --- | --- | --- |
| **Certified copy of the Abstract of Bids duly signed by the BAC Members** | **Certified True Copy of PO or Contract** |
| 1 | June 22, 2020 | 432258 | PAF Trust Liabilities – Air Force General Hospital | P 1,744,357.32 | ✓ | x |
| 2 | June 22, 2020 | 432259 | PAF Trust Liabilities – Basa Air Base Hospital | 1,438,688.20 | ✓ | x |
| 3 | June 22, 2020 | 432260 | PAF Trust Liabilities – Air Force City Hospital | 2,172,027.32 | ✓ | x |
| 4 | June 25, 2020 | 432453 | Camarines Norte Provincial Hospital | 22,265,050.00 | x | ✓ |
| 5 | July 23, 2020 | 433306 | Bislig District Hospital | 18,792,000.00 | x | ✓ |
|  |  |  | **Total** | **P 46,412,122.84** |  |  |

* 1. As shown in Table 24, two beneficiaries were granted FA despite the non-submission of the certified copy of the Abstract of bids duly signed by the BAC members.
  2. Likewise, DVs for the grant of FA to three beneficiaries were processed even without the certified copy of the PO or contract. The Implementing Guidelines of the program provides that the amount to be released by PCSO shall be the amount reflected in the PO/contract, which should not go beyond the amount of grant approved by the PCSO Board of Directors. The absence of PO/Contract casts doubt as to the basis of PCSO in determining the amount of the grant reflected in the DV and the check.
  3. **We recommended that Management submit the certified copy of the duly signed Abstract of Bids and Certified true copy of the PO or Contract, in compliance with Section D.1 of the FAPMEP Implementing Guidelines. Henceforth, ensure that all disbursement vouchers processed are supported with complete documentary requirements and complied with the prevailing implementing guidelines.**
  4. Management informed that per record of CAD, these mentioned documents of five beneficiaries were submitted as attachments to the DVs forwarded to ABD for processing. In addition, ABD would not process the disbursements if the DVs lack the required documents.
  5. The team has noted the management comment on the matter, but maintains its stand in requiring complete submission of the supporting documents.

1. **Timelines in the evaluation, assessment, and recommendation of the request for financial assistance for the procurement of medical equipment up to the processing of the disbursement vouchers were not clearly defined in the Implementing Guidelines of the program which resulted to: a) longer lead time from processing and granting of the request, making the fund idle for a long period; and b) accumulation of the long outstanding payables under the program as of December 31, 2021 amounting to P195.947 million.**
   1. Per implementing Guidelines of the FAPMEP, upon submission of the applicant beneficiary of the complete documentary requirements for the request of financial assistance, PCSO will endorse the beneficiary’s request to the DOH for the issuance of certification that confirms the appropriateness of the medical equipment to the level and capability of the hospital to operate and maintain the same. Afterward, PCSO will make the evaluation, assessment, and recommendation process, as follows:

*C. Evaluation/Assessment/Recommendation*

1. *The CAD shall prepare an Assessment Report on the applicant’s request; XXXX*
2. *The CAD shall conduct a parallel orientation on the parameters of the PCSO ASAP Desk. In addition, it shall request a Certificate of Fund Availability (CFA) from the ABD, to form part of the recommendation before the Board;*
3. *Upon approval, CAD shall request the Legal Department to prepare a Memorandum of Agreement (MOA) covering the obligations of the parties, which shall be transmitted to the beneficiary for its concurrence/ signing;*
4. *The CAD shall notify the beneficiary of the approval of the grant and issue the CFA to be used as basis by the medical facility in the conduct of their procurement (mode of procurement for Government Hospitals is Public Bidding)*
   1. Since the evaluation process started from the issuance of certificate from the DOH, we compared the same with the date of the approval of grant and issuance of certificate of availability of fund to compute the period consumed in the evaluation/ assessment/ recommendation/ approval of the request for financial assistance. Analysis showed that the financial assistance granted in CYs 2020-2021 amounting to P144.011 million had an average of 18 months from the issuance of DOH certificate to the notice of approval of the grant and issuance of certificate of availability of fund. Likewise, we also noted that an average of 23 months from the approval of the grant and issuance of certificate of availability of fund to the preparation of the DV, thus the fund becomes idle for a long period of time. The lead-time likewise for each process differs from each request, which is summarized in Table 25.

**Table 25 –** **Lead Time on the Evaluation Process of Financial Assistance**

|  | **Process** | | **Average Days/Months/Years consumed** | **Average Period** |
| --- | --- | --- | --- | --- |
|  | **From** | **To** |
| 1 | Issuance of certification from DOH | Assessment and Recommendation by the CAD to the Board, and Board approval | Min – 23 days or 7 months  Max – 485 days or 16 months  Average – 296 days or 10 months | 18 months |
| 2 | Board approval | Notice of approval of the grant and issuance of certificate of availability of fund to the applicant | Min – 50 days or 2 months  Max – 889 days of 30 months  Average – 249 days or 8 months |
| 3 | Notice of approval of the grant and issuance of certificate of availability of fund to the applicant | Execution of MOA (signing of both parties) | Min – 77 days or 2.5 months  Max – 374 days or 12.5 months  Average – 250 days or 8 months | 16 months |
| 4 | Notice of approval of the grant and issuance of certificate of availability of fund to the applicant | Procurement by beneficiary of the Medical Equipment, preparation and submission of the beneficiary of the required procurement documents to CAD and DV preparation by CAD | Min – 253 days or 8 months  Max – 994 days to 33 months  Average – 682 days or 23 months | 23 months |
| 5 | DV Preparation | Check Preparation | Min – same day of preparation of check  Max – 102 days or 3 months  Average 34 days or 1 month | 1 month |
| 6 | Check Preparation | Release of Check | Min – 4 days  Max – 107 days or 3.5 months  Average – 46 days or 1.5 months | 1.5 months |

* 1. Moreover, review of payables pertaining to the FA since the procurement of medical equipment showed that P195.947 million were accrued from CYs 2016-2019 and remained obligated and unreleased to the beneficiaries as of December 31, 2021. Interview with Charity Sector disclosed that said accruals pertains to approved FAs for beneficiaries which did not submit yet the necessary documents for the processing of DV such as signed MOA, Notice of Award and Contract/PO.
  2. Review of the CAD Report and interview with CAD on the Status of Outstanding Approved Financial Assistance for the FAPMEP disclosed that four of the 17 FA accrued amounting to P47.947 million were not supported with MOA due to non-return of the signed MOA by the beneficiary and non-submission of complete documentary requirements despite several follow-ups, as shown in Table 26:

**Table 26 –** **Schedule of Long Outstanding FA with Incomplete Documents**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **No.** | **CY** | **Beneficiaries** | **JEV No.** | **Date of JEV** | **Amount** |
| **Did not return the signed MOA to PCSO** | | | | | |
| 1 | 2018 | Baguio General Hospital and Medical Center | 18121769 | December 28, 2018 | P 23,800,000.00 |
| 2 | 2016 | Negros Oriental Provincial Hospital | 16121201 | December 29, 2016 | 10,000,000.00 |
| **Did not submit documentary requirements** | | | | | |
| 3 | 2018 | Legazpi City Hospital | 18121769 | December 28, 2018 | 5,000,000.00 |
| 4 | 2017 | Philippine Navy’s Strategic Sealift Vessels (SSV) | 17122508 | December 29, 2017 | 9,146,780.00 |
| **Total** |  |  |  |  | **P 47,946,780.00** |

* 1. Likewise, it was also noted that one of the reasons for the late submission of required procurement documents for the processing of DV is the long process of bidding.
  2. **We recommended and Management agreed to: (a) revisit the process of evaluation/assessment/recommendation and processing of disbursement vouchers stated in the Implementing Guidelines of the FAPMEP and consider the inclusion of timelines on each process for strict monitoring and efficient implementation of the program; and (b) re-evaluate the approved applications under FAPMEP that were accrued amounting to P195.948 million to determine whether the beneficiaries are still interested and eligible to receive the grant. Further, identify the validity of the recorded obligations and effect the adjustments in the books of accounts, if necessary.**
  3. The management informed that in its periodic review, CAD will include the timelines to be observed in the step-by-step procedure in evaluating, assessing, and recommending of requests for FA and re-evaluate the approved requests and also those that are accrued for a long time, as recommended by COA. Moreover, ABD will coordinate with CAD as to the status of FA granted, in order that appropriate action on outstanding payables will be undertaken in time.

1. **One hundred ninety-five out of the 472 financial assistance granted under the Calamity Assistance Program (CAP) for CYs 2019-2021 amounting to P251.952 million remained unliquidated, contrary to Item C (1), Section VI of the Operating Procedures of the Implementing Guidelines for CAP** **and Item 4.8 of the Board Resolution No. 0100 s.2020, thereby casting doubt on whether the financial assistance given were utilized for its intended purpose/s.**
   1. In line with the mandate of the PCSO to raise and provide funds for health programs, medical assistance, services, and charities of national character, the agency has implemented the CAP with the objective of providing assistance to areas or communities affected by calamities/disasters and to health facilities which are in the forefront of addressing the hazards and effects of public emergencies. The implementation of the program is governed by the CAP Implementing Guidelines approved under BR No. 0308 s. 2018 and BR No. 0100 s.2020.
   2. Item C (1), Section VI of the Operating Procedures of the Implementing Guidelines for CAP provides:

*“Item C. Liquidation of Assistance*

1. *The LGU-beneficiary shall, upon full utilization of the financial calamity/disaster assistance, and in no later than sixty (60) days from receipt of the assistance, submit a Credit Notice issued by the LGUs Commission on Audit (COA) Resident Auditor, accompanied by an Accomplishment and Liquidation Report, and the following documents, xxx”*

Likewise, Item 4.8.3 of the BR No. 0100 s.2020 provides that:

*“Upon full utilization of the Calamity Assistance or within sixty (60) days from receipt of the same, whichever comes earlier, submit to the PCSO CAD thru the PCSO Branch Office a Credit Notice/ appropriate document issued by the COA Resident Auditor of the LGU, accompanied by a copy of the Liquidation Report, xxx”*

* 1. Verification of the submission of liquidation reports for the financial assistance granted in CYs 2019-2021 under the CAP showed that 195 recipients/beneficiaries under the program with total grants of P251.952 million have not submitted their Accomplishment/Liquidation Reports to CAD, as shown in Table 27.

**Table 27 –** **List of Liquidation Reports that lacks supporting documents**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CY** | **No. of Assistance**  **Per Year** | **Total Amount of Financial Assistance (FA)** | **No. of Liquidation Reports Received as of May 31, 2022** | **No. of  Unsubmitted Liquidation** | **Total Amount of Unliquidated FA** | **Percentage** |
| 2019 | 277 | P 167,683,000.00 | 166 | 111 | P 62,714,000.00 | 40% |
| 2020 | 65 | 64,545,000.00 | 37 | 28 | 25,023,000.00 | 43% |
| 2020 (COVID) | 82 | 447,000,000.00 | 65 | 17 | 127,000,000.00 | 21% |
| 2021 | 48 | 48,209,000.00 | 9 | 39 | 37,215,000.00 | 81% |
| **Total** | **472** | **P 727,437,000.00** | **277** | **195** | **P 251,952,000.00** | **41%** |

* 1. It can be gleaned from Table 27 that 41 per cent of the beneficiaries of the CAP for CY 2019-2021 have not yet submitted the Accomplishment/Liquidation reports for the total grants of P251.952 million contrary to the aforecited provisions of the implementing guidelines for CAP, which consequently delays the validation and verification of the utilization of the financial assistance.
  2. Moreover, the Status of Liquidation Reports submitted by the CAD confirmed that liquidation reports for the said grants/disbursements were not yet submitted as of February 16, 2022. CAD informed that demand letters were sent and frequent reminders by PCSO Branches have been made to the beneficiaries/recipients, and in response, some recipients/beneficiaries explained that the reasons for the non-submission/delay of the required liquidation reports were difficulty in documentation, change of LGU Head of Office and waiting for the issuance of Credit Notice.
  3. The Audit Team sent 169 confirmation letters in March 2022 to several beneficiaries with no Accomplishment/Liquidation Reports submitted to PCSO and 56 confirmation replies were received confirming the receipt of the financial assistance from PCSO totaling P196.023 million. Out of the 56 confirmation replies received, 21 beneficiaries specified their reason for the delay/non-submission of liquidation report, as shown in the Table 28.

**Table 28 –** **Reasons for the Non-submission of Liquidation Report**

**Specified in the Confirmation Replies**

|  |  |  |
| --- | --- | --- |
| **Reasons for Non-submission** | **No. of Replies** | **Amount of FA** |
| 1. Financial Assistance was not yet utilized | 4 | P 4,688,000.00 |
| 1. Financial Assistance was not fully utilized | 4 | 4,782,000.00 |
| 1. Late receipt of MOA | 4 | 4,017,000.00 |
| 1. Lacking/Incomplete supporting documents | 4 | 3,305,500.00 |
| 1. Due to COVID-19 pandemic situation | 3 | 1,892,000.00 |
| 1. Late commencement of bidding for goods for donation | 2 | 1,046,000.00 |
| **Total** | **21** | **P 19,730,500.00** |

* 1. As presented in Table 28, there were four beneficiaries with financial assistance amounting to P4.688 million remained unutilized as of the confirmation period and there were four beneficiaries with financial assistance amounting to P4.782 million that were not fully utilized. It was also noted that four beneficiaries informed that there were delays in the transmittal of the executed MOA to provide assistance on how to utilize and liquidate the funds granted, resulting in the delay/non-utilization of the granted financial assistance with a total amount of P4.017 million and non-submission of the liquidation report. Further review of confirmation replies, showed that there were four beneficiaries with a total grant of P3.306 million that were not able to submit the liquidation reports on time due to lack or non-completion of supporting documents required in the implementing guidelines for CAP. Three beneficiaries that received P1.892 million and two beneficiaries that received P1.046 million FA from PCSO attributed the delay/non-submission of the liquidation report to COVID-19 pandemic and late commencement of bidding for the goods for donations, respectively.
  2. Consequently, the inability of the beneficiaries to submit the required accomplishment/liquidation reports with a total amount of P251.952 million affected the verification of whether the financial assistance was utilized for its intended purpose/s.
  3. **We recommended that Management require the beneficiaries for the immediate submission of the liquidation reports of the financial assistance under the CAP together with a written explanation on the delay on submission of the liquidation reports and cause the immediate refund of the unutilized grants.**
  4. The CAD informed that they will send a demand letter to all beneficiaries who have not yet liquidated the assistance granted them, requiring for an updated status report on utilization of the grant received, together with a written explanation on their failure to submit the liquidation report within the prescribed period.

1. **The unremitted share of Instant Sweepstakes Authorized Corporation (ISAC) for the payment of CY 2021 Documentary Stamp Tax and Prize Fund Tax totaling P4.148 million were paid out of the PCSO Charity Fund and Prize Fund due to inability of the ISAC to remit the same to PCSO, thus defeating the purpose of the cash bond posted by the ISAC, contrary to Section 24 of the Implementing Rules and Regulation.**
   1. Section 24 of the Implementing Rules and Regulations (IRR) for Instant Sweepstakes Program (ISP) provides for the obligations of the Instant Sweepstakes Authorized Corporation (ISAC)/Authorized Distributor, as follows:

*Section 24- Remit to PCSO every last week of the month for tax payment of Documentary Stamp Tax and Prize Fund Tax which shall be fixed monthly based on the guaranteed sales per year, subject to adjustment based on the actual sales if higher than the guaranteed sales including payment of deficiency tax, penalties and surcharges.*

* 1. Likewise, Sections 4(b) and 10 (b.3) of the IRR state that:

*Section 4(b) Cash Bond — The agreed bond which shall answer for any and all of the Authorized Distributor's liabilities, including but not limited to taxes, penalties and charges, damages for default or violation of any of its obligations under these Rules and the Memorandum of Agreement, such as non-remittance/under-remittance, among others;*

*Section 10(b.3) The cash bond shall be forfeited in the event that it is duly established that the Authorized Distributor is in default of any of its obligations under its Authority, without prejudice to PCSO’s claim for damages and other appropriate legal action;*

* 1. In compliance with Section 24 of the IRR, the Powerball Marketing Logistics Company (PMLC) as ISAC is required to remit to PCSO every last week of the month the payment for the Documentary Stamp Tax (DST) and the Prize Fund Tax (PFT). However, verification of records showed that PMLC did not remit to PCSO its full share for the payment of DST and PFT. For CY 2021, PMLC is due to remit P140.243 million for its share to DST and PFT but they only remitted P136.095 million, resulting in a deficiency of P4.148 million, as presented in Table 29:

**Table 29 –** **Schedule of Unremitted Share of ISAC**

**for the payment of DST and PFT**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **DST Share** | **PFT Share** | **Total DST and PFT** |
| Sales Recorded in CY 2021 | P 954,358,663.00 | P 954,358,663.00 | - |
| % share to be remitted | 20%x 60% share of ISAC\* | 5% of Prize Fund (53.90%) | - |
| Should be amount of remittance | 114,523,039.56 | 25,719,965.97 | 140,243,005.53 |
| Amount remitted by ISAC | 111,135,678.97 | 24,959,221.20 | 136,094,900.17 |
| **Unremitted share to PCSO** | **P 3,387,360.59** | **P 760,744.77** | **P 4,148,105.36** |
| *\*based on 60%-40% percentage share of ISAC and PCSO per Revenue Allocation* | | | |

* 1. It was noted that PCSO CF and PF were used to cover the unremitted share of PMLC for the payment of DST and PFT amounting P4.148 million to BIR, contrary to Section 24 of the IRR for ISP, thus reducing the CF and PF intended for health programs, medical assistance and services, and charities of national character, as well as payment of prizes for the existing games of PCSO. Further, verification of the Report of Collection and Deposit (RCD) prepared by the TD revealed that these shares of PMLC for payment of taxes remained unremitted by the ISAC to PCSO as of April 30, 2022.
  2. Moreover, accounting records showed that PMLC posted a cash bond of P40 million which could have answered its liability to PCSO pertaining to the deficiency of its share for the remittance of taxes as specifically provided in Sections 4(b) and 10(b.3) of the IRR. However, verification of records showed that these unremitted shares for taxes amounting to P4.148 million were not charged against the cash bond balance posted by PLMC, defeating the purpose of the cash bond in protecting the interest of PCSO, contrary to Section 10 (b.3) of the IRR.
  3. **We recommended that Management demand the immediate collection from the ISAC of the unremitted shares for the payment of DST and PFT in CY 2021 amounting to P4.148 million or charge the amount against the cash bond of PMLC. Henceforth, ensure that the ISAC complies with Sections 24 and 10 (b.3) of the IRR.**
  4. Management informed that the Gaming, Product Development and Marketing Sector (GPDMS) through Product Standard Development Department (PSDD), upon receipt of ABD reconciliation of the Instant Sweepstakes remittances of the ISAC PMLC for the years 2017 to present, a demand letter will be prepared and issued to PMLC for the collection of the under-remittance on the guaranteed share from sales of instant sweepstakes ticket. The COA will be regularly apprised of the said compliance.
  5. The Audit Team will monitor the full implementation of the audit recommendations in the CY 2022 audit.

1. **The Instant Sweepstakes Authorized Corporation incurred an under remittance of P3.669 million on the 13 per cent PCSO guaranteed share for CY 2021 sales of instant sweepstakes tickets to PCSO, contrary to Sections 4(i) and 57 of the Implementing Rules and Regulations for Instant Sweepstakes Program (IRR for ISP), thus depriving the PCSO to utilize the amount for its operations. Likewise, the settlement period for the said under remittance on the 13 per cent PCSO guaranteed share was not clearly provided in the IRR for ISP, resulting in the uncertainty of the collection period.** 
   1. Section 4 (i) and Section 57 of the Implementing Rules and Regulations (IRR) of the Instant Sweepstakes Program (ISP), provides:
2. *Guaranteed Share refers to 13% of Gross Receipts payable to PCSO based on the Five (5) Billion pesos ticket sales for a period of Five (5) years as described in Section 57.*

*Section 57- To guarantee payment of the PCSO's share of P650,000,000.00 for a period of five (5) years in the net proceeds of the sale of the Instant Sweepstakes tickets, the Authorized Distributor shall submit to PCSO within one (1) week from the date of execution of the Memorandum of Agreement, sixty (60) post-dated checks in equal amounts of Ten Million Eight Hundred Thirty Three Thousand Three Hundred Thirty Three and 33/100 (P10,833,333.33) which shall fall due every 30th day of each and every month following the initial launch and distribution of the Instant Sweepstakes tickets. The obligation to pay the PCSO’s guaranteed share of P650, 000,000.00 shall be enforced despite the Authorized Distributors failure to print and distribute the Instant Sweepstakes Tickets.*

* 1. For CY 2021, PCSO reported Income from Gaming Operations- NISP/Gross Receipts of P954.359 million with an equivalent 13 per cent PCSO guaranteed share amounting to P124.067 million for remittance to PCSO. However, review of records showed that PMLC accumulated remittance for the year was only P120.397 million, disclosing P3.670 million under remittance of shares to PCSO, as shown in Table 30.

**Table 30–** **Schedule of Unremitted 13 per cent Guaranteed Share of ISAC**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Period (CY 2021)** | **Actual Sales** | **13 Per Cent Guaranteed Share** | **Guaranteed Share Credited (Post-dated Check)** | **Under remittance/ Unremitted 13 Per cent Guaranteed Share** |
| January | P 108,705,000.00 | P 14,131,650.00 | P 10,833,333.33 | P 3,298,316.67 |
| February | 82,049,000.00 | 10,666,370.00 | 10,833,333.33 | (166,963.33) |
| March | 87,474,000.00 | 11,371,620.00 | 10,833,333.33 | 538,286.67 |
| April | 38,245,000.00 | 4,971,850.00 | 4,971,850.00 \* | - |
| May | 54,552,325.00 | 7,091,802.25 | 7,091,802.21 \* | 0.04 |
| June | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| July | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| August | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| September | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| October | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| November | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| December | 83,333,334.00 | 10,833,333.42 | 10,833,333.33 | 0.09 |
| **Total** | **P 954,358,663.00** | **P 124,066,626.19** | **P 120,396,985.51** | **P 3,669,640.68** |
| *\*checks issued as replacement for the post-dated check of 10.833 million* | | | | | |

* 1. It was noted that PMLC 12 postdated checks (PDCs) for CY 2021 in compliance with Section 57 of the IRR, however, PCSO did not deposit the two PDCs amounting to P21.667 million (10.333 million x2), instead two checks in the amount of P4.972 million and P7.092 million, respectively, were deposited for the months of April and May, due to the approval of the PCSO General Manager on the request of PMLC to remit the guaranteed share based on the actual sales in consideration of the declaration of Modified Enhance Community Quarantine and suspension of selling of tickets.
  2. Likewise, it can be gleaned from the above table that there were months that the PDCs issued by PMLC as guarantee payment to PCSO were not sufficient to cover the required 13 per cent guaranteed share which accumulated to an under remittance of share of P3.670 million as of year-end. Examination of the RCD revealed that this remained uncollected as of April 30, 2022. Further, interview with the ABD also disclosed that this under remittance of share was not yet billed against PMLC as of April 30, 2022.
  3. The noted deficiency has been the subject of prior year’s audit observation under AOM No. 21-012, wherein deficiency on the PCSO guaranteed shares in CY 2020 remained unremitted and unbilled as of June 21, 2021. In response to the AOM, PCSO sent a billing statement for the said unremitted share on June 29, 2021, however, verification of records revealed that this was only collected on December 15, 2021, per Official Receipt No. 176404.
  4. Moreover, it was observed that billing for the under remittance of the share from sales of instant sweepstakes tickets was not done periodically by PCSO as there were no clear provisions in the IRR for ISP relative to the settlement period of the same. Thus, the collection period for the under remittance of shares is also uncertain, depriving PCSO of the immediate use of the earned income for its operations.
  5. **We recommended that Management:**

1. **Demand the immediate collection from the ISAC of the under remittance on the 13 per cent guaranteed share from sales of instant sweepstakes tickets amounting to P3.670 million; and**
2. **Revisit the IRR for ISP and consider the inclusion of a clear settlement period for the under remittance on the guaranteed share from sale of instant sweepstakes tickets to ensure its prompt collections and increase available funds for PCSO’s operations.**
   1. Management informed that the PCSO Board in its BR No. 0027 s. 2022 approved the 2022 Revised Rules and Regulations for the PCSO’s paper Instant Games revising the 2017 IRR of the NISP. The salient features of the 2022 RIRR that safeguard PCSO’s interest in the event of under-remittance on the 13 per cent guaranteed share from the sale of instant sweepstakes tickets is stated in Section 24 paragraph 2, thus:

“*Section 24. REMITTANCES AND SETTLEMENTS. The IGAC shall ensure to:*

*Xxx*

*2. Remit to PCSO any adjustment for tax payment of Documentary Stamp Tax and all other related taxes as provided by law, based on the excess of the guaranteed monthly Retail Receipts,* ***on or before the 3rd day of the ensuing month, in time for the BIR remittance of the Agency which fall before the 5th day of the ensuing month;*** (emphasis supplied)

* 1. In addition thereto, stated in the following provisions are PCSO’s safety net in instances of IGAC’s failure to comply with Section 24 of the 2022 RIRR-NISP:

*Section 41. PCSO shall cancel, revoke, or terminate the MOA of IGAC in any of the following instances:*

*1. Automatic termination of the MOA in any of the following instances:*

*a. Failure or unwarranted refusal of the IGAC to remit or maintain or replenish the Cash Bond within ten (10) calendar days from receipt pf written notice from PCSO;*

*b. Failure or unwarranted refusal of the IGAC to remit or maintain or replenish the Seed Prize Fund, after exhaustion of the Cash Bond, and within ten (10) calendar days from receipt of written notice from PCSO;*

*c. Failure or unwarranted refusal to pay all applicable taxes due and owing from the IGAC, after exhaustion of the Cash Bond, and within ten (10) calendar days from receipt of written notice from PCSO;*

*xxx*

*2. The three (3) strike rule justifying imposition of penalty until exhaustion of the Cash Bond, imposition of sanctions and warranting recommendation by the IGEC to terminate the MOA of the IGAC shall apply in the following instances:*

*a. Delay in the payment of PCSO’s guaranteed share at any given time within the duration of the MOA;*

*b. Delay in the remittance to PCSO of Documentary Stamp Tax payments and other applicable taxes as prescribed by law;*

*xxx*

*3. In case of delay in the performance of any obligations to PCSO or commission of any acts mentioned in the immediately preceding sub-paragraph, the IGAC shall be liable to pay the penalty of one tenth (1/10) of one (1) percent of its cash bond for every day of delay until actual delivery or performance.*

* 1. The Audit Team has duly noted the information provided by management regarding the approval by the PCSO Board of the 2022 Revised Rules and Regulations for the PCSO. The Audit Team likewise appreciate the immediate action of the Management.

1. **The efficiency, competitiveness and propriety of procurement of various drugs and medicines under the Medicine Donation Program totaling P28.877 million cannot be established due to the absence of an Approved Annual Procurement Plan and non-preparation of Project Procurement Management Plan, contrary to Sections 7.2 and 7.3.2 of the 2016 Revised Implementing Rules and Regulations of Republic Act No. 9184.**
   1. Sections 7.2 and 7.3.2 of the 2016 RIRR of RA No. 9184 provides that:

*“7.2. No procurement shall be undertaken unless it is in accordance with the approved APP, including approved changes thereto. The APP must be consistent with the duly approved yearly budget of the Procuring Entity and shall bear the approval of the HOPE or second ranking official designated by the HOPE to act in his behalf.”*

*7.3.2 In the preparation of the indicative APP, the end-user or implementing units of the Procuring Entity shall formulate their respective Project Procurement Management Plans (PPMPs) for their different programs, activities, and projects (PAPs).* The PPMP shall include:

*a. information on whether PAPs will be contracted out, implemented by administration in accordance with the guidelines issued by the GPPB, or consigned;*

*b. the type and objective of contract to be employed;*

*c. the extent/size of contract scopes/packages;*

*d. the procurement methods to be adopted, and indicating if the procurement tasks are to be outsourced as provided in Section 7.3.3 of this IRR;*

*e. the time schedule for each procurement activity and for the contract implementation; and*

*f. the estimated budget for the general components of the contract.*

* 1. Medicine Donation Program (MDP) is one of the charity programs of PCSO which aims to support and promote the primary health care services of the government which are deemed inadequate due to lack of basic essential medicines through partnership with various organizations that pursue primary health services. Applications under the program are being processed by the Medical Service Department (MSD) and Branch Offices based on criteria set in the MDP Implementing Guidelines.
  2. For the year ended December 31, 2021, financial statements of PCSO disclosed drugs and medicine expenses in the amount of P45.407 million. Out of these expenses, we noted that P28.877 million or 63 per cent worth of drugs and medicines were procured and distributed to the approved beneficiaries under MDP. However, review of the Annual Procurement Plan (APP) of PCSO for CY 2021 revealed that these procured drugs and medicines were not part of the APP that shows the appropriate mode of procurement as approved by the BAC, contrary to Section 7.2 of the 2016 IRR of RA No. 9184. Interview with the ABD personnel confirmed that the procured drugs and medicines were not part of the APP, but had a budget of P58 million as reflected in the 2021 COB.
  3. Consequently, we have requested MSD to provide a copy of the Project Procurement Management Plan (PPMP) for the various drugs and medicines for donation, however, the document submitted was Project Design Report which only shows the program description, objectives, project beneficiaries, process flows with timelines, funding requirements, and monitoring evaluation scheme; thus, not tantamount to PPMP which provides the appropriate mode of procurement, estimated budget and the schedule of activities, as stated in Section 7.3.2 of the 2016 IRR of RA No. 9184.
  4. Considering that no PMPP was prepared and no APP was approved, the basis of the budget for MDP amounting P58 million cannot be established. Likewise, the absence of an approved APP/PPMP as basis in the procurement of drugs and medicine amounting to P28.877 million is an indication of poor planning, affecting the efficiency, competitiveness, and propriety of the procurement. Considering that the procurement of the drugs and medicines is under the MDP, which was in pursuit of the principal mandate of PCSO, it shall be meticulously and judiciously planned and included in the APP in conformity with the government fiscal measures.
  5. **We recommended and Management agreed to instruct MSD to include procurement of drugs and medicine under MDP in the preparation of PPMP for its inclusion in the APP, to ensure the consistency of the budget proposals, compliance with the budgeting rules and implementation of appropriate procurement modality. Henceforth, ensure that all procurements are in accordance with the approved APP.**

**GENDER AND DEVELOPMENT (GAD)**

1. **PCSO has not submitted a copy of the required Philippine Commission on Women(PCW)-endorsed Gender and Development (GAD) Plan and Budget and the revised GAD Accomplishment Report to the Audit Team, contrary to PCW Memorandum Circular Nos. 2020-05 and 2021-06.**
   1. Section 1.2.5.3 of PCW Memorandum Circular No. 2020-05 dated September 11, 2020 provides:

*“PCW-endorsed GPBs shall be authenticated by Gender Mainstreaming Monitoring System (GMMS) with a QR code. Agencies shall print the PCW-endorsed GPB for signature of their agency head, and disseminate the signed copy to their concerned units. Agencies shall also furnish their respective Commission on Audit (COA) Audit Team copy of their signed GPB within 5 working days from its endorsement.”*

* 1. Likewise, Section 4 of the same PCW MC provides that the deadline of encoding and submission to PCW of CY 2021 GPBs through the GMMS was on November 10, 2020.
  2. For CY 2021, all government agencies, including PCSO, are required to prepare GBP which shows a**systematically designed set of programs, projects and activities** to address the gender issues and concerns in their sectors and constituents. This GPB shall be encoded and submitted to PCW through GMMS on/or before November 10, 2020, which will be subsequently endorsed by PCW for dissemination to the concerned units of the Agency and COA. However, as of December 31, 2021, the Audit Team has not yet received a copy of authenticated PCW endorsed GPB of PCSO, contrary to the above stated provisions.
  3. On February 10, 2022, the Audit Team issued a Memorandum requesting the submission of the various documents in relation to the audit of CY 2021 PCSO accounts and transactions, including the CY 2021 Approved GPB and Accomplishment Report (AR) with the details of expenses attached as supporting schedule. In response, PCSO submitted the unendorsed and unauthenticated copy of the GPB on February 17, 2022. Verification with PCW disclosed that the GPB submitted to the Audit Team was not submitted to PCW nor endorsed by them, contrary to Section 1.2.5.3 of PCW MC No. 2020-05 dated September 11, 2020.
  4. On the other hand, Section 1 of the PCW MC No. 2021-06 dated December 10, 2021 requires all government corporations to submit the GAD AR to PCW on March 18, 2021. Section 3.1 of the same MC states that:

*“Concerned agencies shall print the returned GAD AR with PCW’s final observations and remarks with signature, and submit signed copies to the PCW and their respective COA Audit Team.”*

* 1. In compliance with Section 1 of the PCW MC No. 2021-06, inquiry with the PCW disclosed that PCSO submitted the GAD AR on March 18, 2021. However, it was also informed that the said GAD AR was returned to PCSO on April 4, 2022 for various revisions as recommended by the PCW. According to PCW personnel, the revised GAD AR shall be submitted within 30 days from the date of return, but PCSO was not able to resubmit the same, thus the inability of PCSO to submit to the COA Audit Team the required GAD AR with PCW’s final observation and remarks, contrary to Section 3.1 of the PCW MC No. 2021-06. As of May 31, 2022, PCW noted that PCSO has yet to submit their revised AR.
  2. It was also noted that the submitted GAD AR to the Audit Team on May 24, 2021 was not generated thru the GMMS, and did not follow the prescribed format under the Annex B of PCW-National Economic Development Authority (NEDA)-Department of Budget and Management (DBM) Joint Circular No. 2012-01.
  3. Consequently, due to the non-submission of the PCW-endorsed GPB and revised GAD AR, the Audit Team was not able to determine whether the GAD funds were actually devoted or used for projects that are within the context of the agency’s mandate, as approved by the Head of the agency, contrary to PCW MC No. 2020-05 and 2021-06, and PCW-NEDA-DBM Joint Circular No. 2012-01.
  4. **We recommended and Management agreed to strictly comply with the requirements of PCW memorandum circulars and PCW-NEDA-DBM Joint Circular No. 2012-01 relative to the preparation, endorsement, and submission of GPB and GAD AR.**
  5. The Audit Team will monitor the implementation of the audit recommendation in the CY 2022 audit.

**COMPLIANCE WITH TAX LAWS**

1. For the period January to November 2021, PCSO remitted taxes withheld and documentary stamp taxes amounting to P11.152 billion to the Bureau of Internal Revenue (BIR). Likewise, taxes withheld for the month of December 2021 amounting to P629.409 million were remitted to the BIR in January 2022, as shown in Table 31.

**Table 31 – Remittances of Taxes Withheld During the Month of December 2021**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Date Remitted** |
| Final Income Taxes Withheld | P266,100,115 | January 27, 2022 |
| Creditable Income Taxes Withheld (Expanded) | 81,346,576 | January 27, 2022 |
| VAT and Other Percentage Taxes Withheld | 43,708,141 | January 10, 2022 |
| Documentary Stamp Tax | 232,092,065 | January 05, 2022 |
| Taxes Withheld on Compensation | 6,162,546 | January 14, 2022 |
| **Total** | **P629,409,443** |  |

**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 2021 premium contributions to the GSIS amounting P59.797 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 P2.079 million as premiums in CY 2021. PCSO also remitted the amounts of P1.857 million and P2.259 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 P7.282 million were also remitted to PhilHealth in CY 2021.

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

1. The unsettled audit suspensions and disallowances as of December 31, 2021 amounted to P87.197 million and P2.691 billion, respectively, as summarized in Table 32 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 32 – Summary of Audit Suspensions and Disallowances**

**As of December 31, 2021**

| **Particulars** | **Balance,**  **1/1/2021** | **Adjustments** | **Issued**  **This period** | **Settlement**  **This period** | **Balance,**  **12/31/2021** |
| --- | --- | --- | --- | --- | --- |
| Notices of Suspension | P 87,197,278.31 | P - | P - | P - | P 87,197,278.31 |
| Notices of Disallowance | 2,690,968,584.64 | - | - | 2,969.00 | 2,690,965,615.64 |
| **Total** | **P 2,778,165,862.95** | **P -** | **P -** | **P 2,969.00** | **P 2,778,162,893.95** |