**PART II – OBSERVATIONS AND RECOMMENDATIONS**

**HEAD OFFICE**

1. **FINANCIAL**
2. **The accounts Guaranty Security Deposits Payable-Cash Bond-STL, Accounts Receivable-STL, and Other Deposits-Lotto/Keno/STL Cash Bond were overstated by P847.369 million, P391.050 million and P847.369 million, respectively, and the accounts Cash-in-Bank, Other Business Income-Operating Fund-STL and Retained Earnings were understated by P847.369 million, P456.319 million and P456.319 million, respectively, contrary to Paragraph 15 of Philippine Accounting Standard 1 due to the failure of PCSO to charge the outstanding liabilities of 55 Authorized Agent Corporations (AACs) totaling P391.050 million against their respective cash bond and to forfeit the cash bond of 18 AACs in total amount of P456.319 million in favor of PCSO, caused by the absence of procedural guidelines to enforce the same, thus, defeating the purpose of cash bond as performance security.**
   1. Paragraph 15 of Philippine Accounting Standard (PAS) 1 states:

*“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. The 2020 Revised Implementing Rules and Regulations (RIRR) for Small Town Lottery (STL) provides:

Section 15.d (ii) – Cash Bond

*“ii. The Cash Bond shall have the following terms and conditions:*

1. *It shall secure the performance by the AAC of all its obligations under this RIRR and the Agency Agreement, including tax liabilities, unpaid PCSO Operating Fund and Charity Fund share in the GMMRR, unpaid penalties or fines for any violation of this RIRR, as well as the Agency Agreement, claims for damages, and other applicable charges, if any;*
2. *All liabilities of the AAC shall be charged to the Cash Bond, subject to its replenishment within five (5) working days from receipt of notice thru email or private/public courier as stated in Section 32;*

*Xxx”*

Section 19.i (ii):

*“Section 19. Restrictions of the AAC in STL Operations. The AAC shall abide by the following restrictions or conditions:*

* 1. *An AAC, at any time during the lifetime of the Agency Agreement, may request for its rescission provided that there is no ground for termination against the AAC. Such withdrawal or rescission of the Agency Agreement shall be subject to the following:*

1. *Xxx;*
2. *Fifty (50%) percent of the remaining CASH BOND shall be forfeited in favor of PCSO as opportunity loss; and*
3. *Xxx.*

Section 26:

*“Section 26. Major Violations. The following major violations by AACs shall be grounds for automatic termination of the Agency Agreement and revocation of ATO:*

1. *Failure to fully and timely remit the PCSO share in the GMMRR;*
2. *Acceptance of bets from minors and/or using minors as sales representatives’/bet collectors. The automatic termination of the Agency Agreement is without prejudice to the filing of the appropriate civil and criminal actions;*
3. *Use of STL as front for illegal lotteries and/or acting as bookies for competing illegal numbers games;*
4. *Failure or refusal to pay the legitimate prize payout without justifiable reason;*
5. *Failure to secure the PCSO’s prior approval for any change in the ownership, members of the Board of the AAC, including changes in the place of business, transfer of ownership or any interest, directly or indirectly, to any person;*
6. *Misrepresentation and/or concealment of material facts and information in the STL application and supporting documents in order to influence the outcome or screening of the AAC, or any stage of the selection process either deliberately or inadvertently;*
7. *Commission of three (3) verified minor violations during the effectivity of the Agency Agreement;*
8. *Commission of fraudulent acts or misrepresentation, such as, but not limited to:*
   1. *Supplying false information regarding the corporation, its stockholders, directors or officers;*
   2. *Providing false or incorrect information on any pertinent fact regarding the STL and management;*
   3. *Fixing, rigging or otherwise manipulating the betting, collection, draw and payment process;*
   4. *Manipulating sales reports;*
   5. *Intra-corporate dispute or squabble not divulged to the PCSO, adversely affecting the interest and reputation of the PCSO in the STL operation; and*
   6. *Failure to act within the reasonable period of time on any official communication from the PCSO that will adversely affect the interest and reputation of the PCSO in STL operations.*

*The termination of the Agency Agreement and revocation of the ATO shall have the following effects:*

1. *Xxx;*
2. *Forfeiture of the Cash Bond by way of penalty, after satisfying all obligations due to PCSO, and without prejudice to the other remedies that may be taken by the PCSO to protect its interest;*

*Xxx”*

* 1. Pro-forma entries pertaining to posting and charging of liabilities to cash bond are as follows:

*To record posting of cash bond Dr Cr*

Other Deposits-Lotto/Keno/STL Cash Bond xxx

Guaranty Security Deposits Payable-Cash Bond-STL xxx

*To record the charging of AACs’ liabilities to cash bond*

Guaranty Security Deposits Payable-Cash Bond-STL xxx

Accounts Receivable-STL xxx

Cash-in-Bank xxx

Other Deposits-Lotto/Keno/STL Cash Bond xxx

*Outstanding liabilities of the 55 AACs totaling P391.050 million were not charged against their respective cash bond*

* 1. Review of the records showed that as at December 31, 2023, a total of P391.050 million outstanding liabilities of 55 AACs were not charged to their respective cash bond contrary to Section 15.d (ii) of the RIRR for STL. The recorded liabilities of 55 AACs comprised of (1) unremitted PCSO share and Guaranteed Minimum Monthly Retail Receipts (GMMRR) shortfall that should be remitted on the next banking day pursuant to Section 18.a of the said RIRR for STL which states *“Deposit/Remit on the next banking day the total amount due to the PCSO pursuant to the Revenue Allocation for STL.”* and (2) excess Prize Fund which should be remitted to PCSO at the end of the year pursuant to Section 18.d of the same RIRR for STL which provides *“All excess Prize Fund at the end of the year shall be remitted to the PCSO.”* Likewise, one terminated AACs has still a remaining liability of P121.556 million that can no longer be covered by its cash bond balance, as summarized in Table 1:

**Table 1 - Summary of Outstanding Liabilities of AACs**

**As at December 31, 2023**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Status of AACs** | **No. of AACs** |  | **Liabilities that can be Covered by Cash Bond** |  | **Liabilities that Cannot be Covered by Cash Bond** |  | **Total Outstanding Liabilities** |
| Operational AACs | 36 | P | 261,798,503.59 | P | - | P | 261,798,503.59 |
| AACs that withdrew from Agency Agreement | 6 |  | 17,933,055.35 |  | - |  | 17,933,055.35 |
| Terminated AACs | 13 |  | 111,318,439.23 | P | 121,556,030.06 |  | 232,874,469.29 |
| **Total** | **55** | **P** | **391,049,998.17** | **P** | **121,556,030.06** | **P** | **512,606,028.23** |

* 1. In compliance with the STL post approval requirements and before the start of operations, all AACs are required to post cash bond equivalent to one month GMMRR and three months PCSO share in the GMMRR. The said cash bond pertains to the performance bond or the security bond of the AACs, which is held in trust by PCSO to answer for all of the AAC’s liabilities.

* 1. The recorded total outstanding liabilities of AACs amounting to P512.606 million (Table 1) as at December 31, 2023 consisted of the under remittance of PCSO share, GMMRR shortfall, and excess Prize Fund (PF) *(Annex A)*. PCSO share refers to the percentage of actual sales or the GMMRR, whichever is higher, that shall be remitted by AACs to PCSO, in accordance with STL Revenue Allocation. GMMRR shortfall pertains to the shortage of actual monthly sales to the GMMRR. The excess PF pertains to the excess of the allocated PF in the STL Revenue Allocation over the actual payments of prizes.
  2. We noted that despite the accumulation of the outstanding liabilities totaling P512.606 million, these were not charged against the respective cash bond of the 55 AACs contrary to Section 15.d (ii) of the 2020 RIRR for STL. The inability to charge the total obligations of the AACs against their respective cash bond defeats the purpose of the cash bond as performance security, resulting in the accumulation of liabilities, depriving the PCSO from the use of the fund, and exposing the PCSO to the risk of non-collection of AACs’ liabilities in excess of the cash bond balance. As can be gleaned in *Annex B*, there were four AACs with liabilities already more than the 50% of their cash bond balances, which is quite alarming as they are still operating and may incur additional liabilities that may exceed their cash bond balances.
  3. Further, one AAC, has a liability of P121.556 million *(Annex B)* that can no longer be covered by its cash bond. We have noted that this AAC has already been terminated by virtue of Board Resolution (BR) No. 238 dated October 11, 2023 due to the stoppage of operation without justifiable reason for more than 3 counts. PCSO has yet to collect from the AAC their outstanding liabilities.
  4. We also have noted that 36 AACs still operate despite the existence of outstanding liabilities totaling P261.799 million (Table 1), while some AACs have to settle their liabilities to continue their operations, thus, creating an issue on fair treatment of AACs.

*Non-forfeiture of cash bond of six AACs that withdrew from Agency Agreement and 12 terminated AACs that committed major violations in total amount of P456.319 million*

* 1. Moreover, as at December 31, 2023, PCSO records showed that the cash bond of six AACs that withdrew from the Agency Agreement with no ground for termination against them and that of the 12 terminated AACs that committed major violations, amounting to P17.963 million and P438.356 million, respectively, or a total cash bond of P456.319 million, were not forfeited in favor of the PCSO contrary to Sections 19.i(ii) and Section 26 of the 2020 RIRR for STL, as summarized in Table 2:

**Table 2 - Cash Bond to be Forfeited in Favor of PCSO**

**As at December 31, 2023**

| **Status of AACs** | **No. of AACs** |  | **Cash Bond Net of Outstanding Liabilities of AACs** |  | **Remaining Cash Bond to be Refunded to AACs** |  | **Amount of Cash Bond to be Forfeited in Favor of PCSO** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| AACs that withdrew from Agency Agreement | 6 | P | 28,072,052.21 | P | 10,109,229.65 | P | 17,962,822.56 |
| Terminated AACs | 12 |  | 438,356,271.05 | P | - |  | 438,356,271.05 |
| **Total** | **18** | **P** | **466,428,323.26** | **P** | **10,109,229.65** | **P** | **456,319,093.61** |

* 1. The withdrawal or rescission and termination of the concerned AACs were confirmed through BRs. For the six AACs with approved voluntary withdrawal, the Board resolved the deduction of their outstanding liabilities, including taxes and other monetary obligations from their respective cash bond and the forfeiture of the 50% of their remaining cash bond in favor of PCSO as opportunity loss in accordance with Section 19.i(ii) of the 2020 RIRR for STL.
  2. For the 12 terminated AACs which committed the major violations as enumerated in Section 26 of the RIRR for STL such as failure to fully and timely remit the PCSO share in the GMMRR; failure to secure the PCSO’s prior approval for any change in the ownership, members of the Board of the AAC, including changes in the place of business, transfer of ownership or any interest, directly or indirectly, to any person; misrepresentation and/or concealment of material facts and information in the STL application and supporting documents in order to influence the outcome or screening of the AAC, or any stage of the selection process either deliberately or inadvertently; and commission of three minor violations during the effectivity of the Agency Agreement, the Board resolved the deduction of their outstanding liabilities, including taxes and other monetary obligations from their respective cash bond and the forfeiture of the remaining cash bond.
  3. However, despite the confirmation of rescission and termination of Agency Agreement of the 18 AACs and the directives to forfeit their corresponding cash bond, the subject cash bonds were still not forfeited in compliance with the pertinent BRs and Section 19.i (ii) and Section 26 of the 2020 RIRR for STL. Verification of the General Ledger for the STL Cash Bond as at December 31, 2023 submitted by Accounting and Budget Department (ABD) disclosed that the cash bond amounting to P456.319 million still remained in the trust fund book and has not yet been forfeited in favor of PCSO *(Annex C).*
  4. Inquiry with ABD personnel disclosed that the charging of the liabilities to cash bond and the forfeiture of the cash bond did not take place since they did not receive any recommendation from the Branch Operations Sector (BOS). Based on the records and as per interview with ABD and BOS personnel, the charging of the AACs’ liabilities to cash bond and the processing of the cash bond forfeitures, as approved by virtue of BRs, emanates from the recommendation of BOS. Thereafter, ABD will forward the recommendation to the Treasury Department (TD) for the transfer of funds. After the transfer, ABD will record the charging of the liabilities to cash bond and the cash bond forfeitures in the books of accounts. However, it was disclosed that there were no procedural guidelines as to the implementation of the forgoing which caused (1) longer lead time from *the confirmation of charges to cash bond and the forfeitures of cash bond* to the *transfer of cash from trust fund to PCSO accounts* *and the recording of the same in the books of accounts*; and (2) the accumulation of outstanding liabilities to be charged to cash bond, as well as, the cash bond to be forfeited.
  5. It was noted that as at March 31, 2024, the charging of the recorded outstanding liabilities of 55 AACs totaling P391.050 million against their respective cash bond has been pending for 40 days to 820 days from the required date of remittance *(Annex D)*. Likewise, the processing of cash bond forfeiture of the 18 AACs totaling P456.319 million had been pending for 172 days to 639 days *(Annex E)* from the date of the confirmation of the termination through BRs. Consequently, the failure of the PCSO to charge the outstanding liabilities of the 55 AACs totaling P391.050 million against their respective cash bond and the failure to forfeit the cash bond of 18 AACs totaling P456.319 million have made the fund idle for the long period and deprived the PCSO of additional funds totaling P847.369 million that could be used in its operations (Annex F).
  6. Likewise, the failure of PCSO to charge the outstanding liabilities of 55 AACs against their cash bond balances and the non-forfeiture of the cash bond of 18 AACs resulted in the overstatement of Guaranty Security Deposits Payable-Cash Bond-STL, Accounts receivable-STL and Other Deposits – Lotto/Keno/STL Cash Bond account by P847.369 million, P391.050 million and P847.369 million, respectively, and understatement of Cash in Bank account and Other Business Income – Operating Fund – STL/Retained Earnings account by P847.369 million and P456.319 million, respectively.
  7. **We recommended and Management agreed to:**
  8. **Direct the ABD to prepare the necessary entries to correct the overstatement of Guaranty Security Deposits Payable-Cash Bond-STL, Accounts receivable-STL and Other Deposits – Lotto/Keno/STL Cash Bond account by P847.369 million, P391.050 million and P847.369 million, respectively, and understatement of Cash in Bank account, Other Business Income – Operating Fund – STL and Retained Earnings account by P847.369 million, P456.319 million, and P456.319 million, respectively;**
  9. **Charge the outstanding liabilities of the 55 AACs in the amount of P391.050 million against their respective cash bond and process the cash bond forfeiture of the 18 terminated AACs in the amount of P465.319 million, or a total of P847.369 million;**
  10. **Provide a guideline/policy in implementing the charging of liabilities against AACs’ cash bond, as well as, the forfeiture of their cash bond in line with Sections 15.d(ii), 19.i(ii) and Paragraph 2(b) Section 26 of the 2020 RIRR for STL, with timelines for each procedure to meet the purpose of the cash bond as performance security;**
  11. **Demand the immediate collection of the remaining liabilities from the terminated AAC amounting P121.556 million that can no longer be covered by its cash bond; and**
  12. **Ensure the strict compliance with Sections 15.d (ii) and 19.i (ii) and Paragraph 2(b) Section 26 of the 2020 RIRR for STL on the charging of AACs liabilities against their respective cash bond and the forfeitures of cash bond to protect the interest of PCSO.**
  13. The Management informed that BOS in coordination with the ABD, is in the process of crafting the procedural guidelines for the forfeiture of cash bond. Also, the Management agreed that they shall include timelines for each procedure to ensure the propriety and timeliness in the processing and booking of transaction and to protect the interest of PCSO. Meanwhile, PCSO shall implement the current practiced of BOS and ABD while the standard procedure is being crafted. Further, BOS and ABD will exercise extra caution in monitoring the accounts to ensure shortened lead time and avoid accumulation of outstanding liabilities of the AACs.
  14. The Management explained that the outstanding liabilities of the 55 AACs were not yet charged against their respective cash bonds, as the BOS and ABD is still verifying and reconciling the amounts.
  15. Further, BOS has already coordinated with ABD and agreed to process the cash bond forfeiture of the AACs who withdrew from Agency Agreement and terminated AACs committing major violations. Based on the status report submitted by BOS, there were cash bond that were already confirmed to be forfeited by BOS and ABD and there were also cash bond that were not yet forfeited and still for reconciliation. Likewise, ABD informed that they shall prepare the necessary entries to correct the misstatements once the BOS endorsed the said accounts for forfeiture.
  16. Also, the Management explained that the remaining liabilities of P121.556 million, after considering the cash bond, was already endorsed by the BOS to the Legal Department for collection. However, adjustments were made on the amount of cash bond of the said AAC last May 2024 due to the interchanged recording of the cash bond on two of its branches amounting to P72.340 million. As a result, the new remaining liability shall only be P59.103 million.
  17. Moreover, the PCSO shall strictly adhere with the provisions of Sec. 15.d (ii) and 19(ii) and Paragraph 2(b) Section 26 of the 2020 RIRR for STL.
  18. As rejoinder, the Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.

1. **The balance of Prizes-STL-Lower Prize 10,000 and Below expense account for calendar year 2023 totaling P9.910 billion was overstated by P71.394 million due to (a) erroneous recognition of STL Prize Fund expense account on the over remittance of the excess Net Prize Fund (NPF) by Authorized Agent Corporations totaling P22.068 million and (b) understatement of excess NPF recorded by the Accounting and Budget Department totaling P49.326 million; thus, resulting in the understatement of the Retained Earning-Prize Fund, Accounts Receivable and Other Payable account by P71.394 million, P72.057 million and P0.663 million, respectively, contrary to Paragraph 15 of Philippine Accounting Standard 1.**
   1. Paragraph 15 of PAS 1 states:

*“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. Section 18(d) of the RIRR for STL provides:

*“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 STL, PCSO entrusted to AACs the 33.90 percent of the income from gaming operations of STL for the prize payout or payment of prizes to winning bettors, as shown in Table 3:

**Table 3 - STL Prize Fund Allocation Before and After the Tax Reform for Acceleration and Inclusion (TRAIN) Law**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Before the TRAIN Law (approved per Board Resolution No. 178, series 2020)** | **After the TRAIN Law** |
| Gross Receipts | 100.000% | 100.000% |
| Printing Cost | 2.000% | 2.000% |
| Net Receipts | 98.000% | 98.000% |
|  |  |  |
| Prize Fund Allocation – 55% of Net Receipts | 53.900% | 53.900% |
| Share of AACs | 10.000% | 10.000% |
| Commission of Sales Force | 10.000% | 10.000% |
| Prize Fund Tax (PFT) – 5% of Prize Fund | 2.695% | - |
| **Net Prize Fund (NPF) – Held-in-trust by AACs** | **31.205%** | **33.900%** |

* 1. At the end of the year, excess NPF will be remitted by AACs to PCSO, in accordance with Section 18(d) of the RIRR for STL. Pro-forma entries are as follows:

1. *To record prize fund allocation for prize payout that were Dr Cr*

*entrusted to AACs:*

*Prizes-STL-Lower Prize 10,000 and below xxx*

*Accounts Receivable xxx*

1. *To record excess NPF that shall be remitted by AACs to PCSO*

*at the end of the year:*

*Accounts Receivable xxx*

*Prizes-STL-Lower Prize 10,000 and below xxx*

1. *To record remittance of excess NPF by AACs to PCSO:*

*Cash in Bank-Prize Fund xxx*

*Accounts Receivable xxx*

1. *To record the adjustment for the over remittance of excess NPF:*

*Accounts Receivable xxx*

*Other Payables-STL Agents-Prize Fund xxx*

* 1. For calendar year (CY) 2023, PCSO reported balance of the *Prizes-STL-Lower Prize 10,000 and below* expense account of P9.910 billion. However, audit disclosed that the account balance was overstated by P71.394 million due to (a) erroneous recognition of STL Prize Fund expense account on the over remittance of the excess NPF by AACs totaling P22.068 million and b) understatement of the excess NPF recorded by the ABD totaling P49.326 million.

*Erroneous recognition of STL Prize Fund expense account on the over remittance of the excess NPF by AACs totaling P22.068 million.*

* 1. Prior to CY 2022, PCSO has been remitting PFT to Bureau of Internal Revenue (BIR). In CY 2022, Secretary Carlos G. Dominguez of the Department of Finance (DOF), through undated letter, informed that PFT has been explicitly repealed under Section 86 of Republic Act (RA) No. 10963 or the TRAIN Law. Likewise, Commissioner Romeo D. Limagui, Jr. of the BIR through letter dated January 24, 2023 informed PCSO that DOF opinion would serve as the basis for the repellence of the five percent PFT and that there’s no longer a need to request for a BIR Ruling.
  2. However, in January and February 2023, PCSO collected P101.182 million from 85 AACs pertaining to the remittance of PFT and recorded the transactions by debiting the Cash in Bank-PF and crediting Accounts Receivable. In compliance with DOF opinion, the collected amount was not remitted to BIR, and remained in the custody of PCSO. Since PFT reduced the amount of NPF to be retained by AACs intended for the payment of prize winnings as shown in Table 3, PCSO considered the remitted PFT totaling P101.182 million as the remittance of excess NPF of the 85 AACs for January and February 2023.
  3. Re-computation of the excess NPF for the months of January and February 2023 showed that after deducting the remittance of 85 AACs pertaining to PFT totaling P101.182 million, 12 AACs and 25 AACs still have remaining excess NPF to be remitted to PCSO for the month of January and February, respectively, totaling P37.208 million, and 73 AACs and 60 AACs have over remittance for the month of January and February, respectively, totaling P22.731 million, as summarized in Table 4:

**Table 4 - Re-computation of the Remaining Excess NPF and the Over Remittance**

**of AACs after the deduction of the Remitted PFT**

**For the period January to February 2023**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** |  | **AACs with Remaining Excess NPF** |  | **AACs with Over Remittance of Excess NPF** |  | **Total** |
| NPF for the payment of prize winnings | P | 414,057,881.84 | P | 1,294,498,448.20 | P | 1,708,556,330.04 |
| Prize Payout based on the Prize Fund Utilization Report submitted by the Branch Operations Sector |  | (355,728,120.90) |  | (1,237,168,703.91) |  | (1,592,896,824.18) |
| Excess NPF to be remitted to PCSO | P | 58,329,760.94 | P | 57,329,744.29 | P | 115,659,505.23 |
| PFT remitted by AACs for January and February 2023 that served as payment of Excess NPF |  | (21,121,392.69) |  | (80,060,642.37) |  | (101,182,035.06) |
| **Net Balance** | **P** | **37,208,368.25** | **P** | **(22,730,898.08)** | **P** | **14,477,470.17** |

* 1. Review of the journal entry to adjust the over remittance amounting to P22.731 million revealed that ABD erroneously debited the *Prizes-STL-Lower Prize 10,000 And Below* expense account and credited Other Payable account for P22.068 million instead of debiting Accounts Receivable account and crediting Other Payable account for P22.731 million, as shown in Table 5:

**Table 5 - Overstatement of the STL Prize Fund Expense Account and Understatement of the Accounts Receivable and Other Payable Account Due to Erroneous**

**Recording of the Over Remittance of Excess NPF**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** |  | **Prizes-STL-Lower Prize 10,000 and Below expense account (Debit)** |  | **Accounts Receivable account (Debit)** |  | **Other Payable account (Credit)** |
| Correct/Should be entry |  | - | P | 22,730,898.08 | P | 22,730,898.08 |
| Less: Erroneous entry made | P | 22,067,673.55 |  | - |  | 22,067,673.55 |
| **(Over)Understatement of accounts** | **P** | **(22,067,673.55)** | **P** | **22,730,898.08** | **P** | **663,224.53** |

* 1. It was noted that the difference of P0.663 million between the amount of over remittance of excess NPF totaling P22.731 million and the amount recorded by ABD amounting to P22.068 million was due to errors in the computation of excess NPF such as the omission of prize payout and the incorrect STL Prize Fund Allocation used for payment of prize winnings.

*Understatement of the excess NPF recorded by*

*ABD totaling P49.326 million.*

* 1. As at December 31, 2023, PCSO recorded Prize Fund Allocation for payment of prize winning for STL in total amount of P10.080 billion. Re-computation of the prize payout using the Prize Fund Utilization Report submitted by the BOS disclosed that out of the P10.080 billion Prize Fund Allocation, P9.839 billion pertained to the prize payout that should be recorded as expense and P240.666 million pertained to the excess NPF*.*
  2. Review of the General Ledger, however, revealed that ABD recorded excess NPF of P191.353 million only, instead of P240.666 million. Moreover, review of the journal entries and based on inquiry, we have noted an adjustment amounting to P14,501.54 intended for Lotto but was posted as adjustment for STL, summarized in Table 6:

**Table 6 – Schedule of understatement of the Excess NPF**

**As at December 31, 2023**

|  |  |  |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| STL Prize Fund Allocation for payment of prize winnings | P | 10,079,949,453.88 |
| Prize Payout based on Prize Fund Utilization Report submitted by BOS |  | (9,839,283,796.25) |
| Recomputed Excess NPF for CY 2023 | P | 240,665,657.63 |
| Excess NPF recorded by ABD |  | (191,353,986.99) |
| Understatement of the Excess NPF | P | 49,311,670.64 |
| Error in the adjustment of STL Excess NPF intended for Lotto |  | 14,501.54 |
| **Total Understatement of the Excess NPF as at December 31, 2023** | **P** | **49,326,172.18** |

* 1. Verification of documents and inquiry disclosed that the understatement of the excess NPF of P49.312 million was due to errors in the computation of excess NPF such as omission of prize payout and incorrect STL Prize Fund Allocation used for payment of prize winnings.
  2. Consequently, the erroneous recognition of STL Prize Fund expense amounting to P22.068 million and the understatement of the excess NPF amounting to P49.326 million resulted in the overstatement of *Prizes-STL-Lower Prize 10,000 And Below* expense account and the understatement of Retained Earnings-Prize Fund (RE-PF) account, Accounts Receivable account and Other Payable account by P71.394 million, P72.057 million and P0.663 million, respectively.
  3. **We recommended and Management agreed to direct ABD personnel to:**

1. **Prepare the necessary adjusting entry by debiting Accounts Receivable account by P72.057 million, and crediting Retained Earnings-Prize Fund and Other Payable account by P71.394 million and 0.663 million, respectively, to correct the balance of the subject accounts; and**
2. **Ensure that all transactions are properly and completely recorded in the books for fair presentation of the account in compliance with PAS 1.**
3. **The Cash-in-Bank-Prize Fund (PF) account was overstated by P397.591 million and the Cash-in-Bank-Charity Fund (CF) account was understated by the same amount as of December 31, 2023 due to the delay in the transfer of cash pertaining to forfeited prizes of Lotto and Keno games from March to December 2023; and, the accounts Cash-in-Bank-CF and Retained Earnings-CF were overstated, and the accounts Cash-in-Bank-PF and Accounts Payable-Miscellaneous-PF were understated, each by P10.908 million due to the discrepancy in reporting amount of forfeited prizes between accounting records and the Data Center Division for the month of February 2023 by P10.908 million as at December 31, 2023, contrary to Section 6(A) of Republic Act No. 1169, as amended, and Paragraph 15 of the Philippine Accounting Standard 1.**
   1. Section 6(A) of RA No. 1169, as amended, the PCSO Charter, provides:

*“A. 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 xxx.”*

* 1. Paragraph 15 of PAS 1, states:

*“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. For CY 2023, a total amount of P397.591 million pertaining to the forfeitures of unclaimed prizes of over one year for Lotto and Keno Games were not yet transferred to CF, contrary to Section 6(A) of RA No. 1169, details are shown in Table 7:

**Table 7 - Schedule of Cash Transfer to CF Pertaining to the Forfeited Prizes**

**For Calendar Year 2023**

|  |  | **Amount Recorded in PCSO Books** |  | **Amount Validated by Audit Team** |  | **Cash Transferred to CF Account** |  | **Remaining Balance to be Transferred to CF** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **(a)** |  | **(b)** |  | **(c)** |  | **(b - c)** |
| January | P | 28,696,914.00 | P | 28,696,914.00 | P | 28,696,914.00 | P | - |
| February |  | 36,049,813.00 |  | 25,141,423.00 |  | 36,049,813.00 |  | (10,908,390.00) |
| **Sub-total** | **P** | **64,746,727.00** | **P** | **53,838,337.00** | **P** | **64,746,727.00** | **P** | **(10,908,390.00)** |
| March |  | 32,240,473.00 |  | 32,240,473.00 |  | - |  | 32,240,473.00 |
| April |  | 24,236,376.00 |  | 24,236,376.00 |  | - |  | 24,236,376.00 |
| May |  | 30,027,710.00 |  | 30,027,710.00 |  | - |  | 30,027,710.00 |
| June |  | 37,901,539.00 |  | 37,901,539.00 |  | - |  | 37,901,539.00 |
| July |  | 52,315,350.00 |  | 52,315,350.00 |  | - |  | 52,315,350.00 |
| August |  | 36,954,881.00 |  | 36,954,881.00 |  | - |  | 36,954,881.00 |
| September |  | 32,073,878.00 |  | 32,073,878.00 |  | - |  | 32,073,878.00 |
| October |  | 44,086,933.68 |  | 44,086,933.68 |  | - |  | 44,086,933.68 |
| November |  | 37,112,431.00 |  | 37,112,431.00 |  | - |  | 37,112,431.00 |
| December |  | 70,641,217.00 |  | 70,641,217.00 |  | - |  | 70,641,217.00 |
| **Sub-total** | **P** | **397,590,788.68** | **P** | **397,590,788.68** | **P** | **-** | **P** | **397,590,788.68** |
| **Grand Total** | **P** | **462,337,515.68** | **P** | **451,429,125.68** | **P** | **64,746,727.00** | **P** | **386,682,398.68** |

* 1. Verification revealed that the journal entries pertaining to the fund transfers of forfeited prizes from RE-PF to RE-CF were already recorded in PCSO books during the month the prizes were forfeited. However, we have noted that the actual cash transfer for the month of January and February 2023 were made only on April 30, 2023, which is already two to three months delayed.
  2. Likewise, as at December 31, 2023, there were no actual cash transfers made pertaining to the prize forfeitures for the months of March to December 2023. It was only upon the request by the Audit Team on February 5, 2024 of the summary of fund transfers to CF that the TD noticed that no cash transfers were made. According to TD, there were no instructions coming from ABD for the transfer of cash pertaining to forfeited prizes. The ABD explained that the delay in the transfer of cash for ten months was due to change of person-in-charge under the ABD-PF Division and the delay in the turn-over of accountabilities from the outgoing to the incoming person-in-charge.
  3. On February 22, 2024, after the receipt of instruction from ABD, TD requested the bank for a transfer of cash from PF account to CF account amounting to P397.591 million pertaining to the forfeited prizes for March to December 2023.
  4. Due to the delay in the transfer of cash from PF account to CF account, the PCSO was deprived of additional funds for its various charitable programs, contrary to Section 6(A) of RA No. 1169, and likewise resulted in the overstatement of *Cash-in-Bank-PF* account by P397.591 million and understatement of *Cash-in-Bank-CF* account by the same amount as at December 31, 2023.
  5. Moreover, the accrual of winnings, forfeitures of prizes, and transfer of funds/cash pertaining to the unclaimed/forfeited prizes are recognized in the books as follows:

1. Accrual of winnings Dr Cr

Prizes-Jackpot Prize-Lotto/Keno xxx

Prizes-Lower Prize Above 10,000-Lotto/Keno xxx

Prizes-Lower Prize 10,000 and Below-Lotto/Keno xxx

Accounts Payable-Miscellaneous-Prize Fund xxx

1. Forfeitures of unclaimed prizes

Accounts Payable-Miscellaneous-Prize Fund xxx

Retained Earnings-Prize Fund xxx

1. Transfer of Funds from Retained Earnings-Prize Fund

(RE-PF) to Retained Earnings-Charity Fund (RE-CF)

Retained Earnings-Prize Fund (RE-PF) xxx

Retained Earnings-Charity Fund (RE-CF) xxx

1. Actual cash transfer of unclaimed/forfeited prizes

Cash-in-Bank, LCCA-Charity Fund xxx

Cash-in-Bank, LCCA-Prize Fund xxx

* 1. As at December 31, 2023, the Statement of RE-PF reported a deduction of P462.338 million due to the forfeitures of unclaimed prizes of over one year. On the other hand, the Statement of Retained Earnings-Charity Fund reported an addition of P462.338 million pertaining to the same prize forfeitures, in compliance with Section 6(A) of RA No. 1169, as amended.
  2. However, validation by the Audit Team on the raw data on forfeited prizes generated directly from the lotto system, disclosed a total amount of P451.429 million only for CY 2023, showing a discrepancy with the recorded amount of forfeited prizes in PCSO books of accounts amounting to P10.908 million, as presented in Table 8:

**Table 8 - Overstatement of the Recorded Amount of Forfeited Prizes in the Books**

**For Calendar Year 2023**

|  |  | **Amount Recorded in PCSO Books** |  | **Amount Validated by Audit Team per EOD 312** |  | **(Over) Understatement of the Amount Recorded** |
| --- | --- | --- | --- | --- | --- | --- |
| **Month of Forfeitures** |  | **(a)** |  | **(b)** |  | **(b-a)** |
| January | P | 28,696,914.00 | P | 28,696,914.00 |  | - |
| February |  | 36,049,813.00 |  | 25,141,423.00 | P | (10,908,390.00) |
| March |  | 32,240,473.00 |  | 32,240,473.00 |  | - |
| April |  | 24,236,376.00 |  | 24,236,376.00 |  | - |
| May |  | 30,027,710.00 |  | 30,027,710.00 |  | - |
| June |  | 37,901,539.00 |  | 37,901,539.00 |  | - |
| July |  | 52,315,350.00 |  | 52,315,350.00 |  | - |
| August |  | 36,954,881.00 |  | 36,954,881.00 |  | - |
| September |  | 32,073,878.00 |  | 32,073,878.00 |  | - |
| October |  | 44,086,933.68 |  | 44,086,933.68 |  | - |
| November |  | 37,112,431.00 |  | 37,112,431.00 |  | - |
| December |  | 70,641,217.00 |  | 70,641,217.00 |  | - |
| **Total** | **P** | **462,337,515.68** | **P** | **451,429,125.68** | **P** | **(10,908,390.00)** |

* 1. Inquiry with the ABD revealed that the basis in recording the forfeited prizes were the signed and reviewed reports submitted monthly by the Data Center Division (DCD), the division under the Gaming, Product Development and Marketing Sector responsible for providing reports on forfeited prizes.
  2. The DCD disclosed that they are forwarding to ABD, on a daily basis through email, the raw data on prize forfeitures. This is in consonance with the Post-draw Procedures which provides that one of the duties and responsibilities of the DCD personnel is to generate, print (effective February 22, 2021) or copy to USB (effective October 1, 2023) all End-of-Day (EOD) reports for distribution to concerned departments. The ABD, however, requested DCD to summarize per month the daily raw data on forfeited prizes. The DCD, in compliance with the request, submitted monthly the summary reports of forfeited prizes to ABD.
  3. The Audit Team requested copies of the raw data on forfeited prizes for CY 2023 from DCD. The daily reports were consolidated and summarized by the Team. Verification disclosed a total amount of forfeited prizes of P451.429 million only for CY 2023, which is P10.908 million lower than the amount of forfeited prizes recorded by ABD. Inquiry with DCD disclosed that error in preparing the summary report for the month of February 2023 was made which caused the difference between the recorded amount of forfeited prizes in the PCSO books and the amount of forfeited prizes per EOD reports totaling P10.908 million.
  4. The DCD also disclosed that the summary reports submitted to ABD are susceptible to errors due to the manual interference from the raw data generated from the system before it was submitted to ABD; hence, they are expecting the ABD to check the monthly summary report with the daily report of forfeited prizes. However, ABD explained that no verifications were being done on the daily report of prize forfeitures since they fully rely on the monthly summary reports prepared, checked, verified and submitted by DCD.
  5. Since the Accounts Payable-Miscellaneous-PF account was debited for forfeited prizes and subsequently credited to RE-CF account as presented in the above pro-forma entries, the absence of measures to verify the completeness and accuracy of data on forfeited prizes by DCD and ABD resulted in the understatement of the Accounts Payable-Miscellaneous-PF account and the overstatement of the RE-CF both by P10.908 million.
  6. Likewise, due to the overstatement of the amount of forfeited prizes recorded in PCSO books, the actual transfer of cash from Cash-in-Bank-PF account to Cash-in-Bank-CF pertaining to February 2023 prize forfeitures were also overstated by P10.908 million.
  7. **We recommended and Management agreed to:**

1. **Instruct ABD on the strict compliance with Section 6(A) of RA No. 1169 on the immediate transfer of cash to Charity Fund pertaining to the forfeited prizes to augment PCSO funds for various charity programs;**
2. **Direct the TD to transfer cash from CF account to PF account amounting to P10.908 million pertaining to the overstatement of the forfeited prizes;**
3. **Direct the ABD to effect the necessary adjustments in the books to correct the overstatement of the Cash-in-Bank-CF account and RE-CF account both by 10.908 million and the understatement of Cash-in-Bank-PF account and Accounts Payable-Miscellaneous-PF also both by P10.908 million; and,**
4. **See to it that measures are in place both in DCD and ABD to ensure the correctness and completeness of data on forfeited prizes.**
   1. The Management has drawn Journal Entry Vouchers 24030439 and 24030555 to effect the adjustments. However, the amount of P10.908 million pertaining to the overstatement of the forfeited prizes is not yet transferred back from Charity Fund to Prize Fund; instead, the same shall be deducted from the amount to be transferred to Charity Fund the next time prize forfeitures are recognized.
   2. As a rejoinder, the Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.
5. **The fair presentation of the Accounts Payable (AP) totaling P10.052 billion as at December 31, 2023 could not be ascertained due to: (a) Non-maintenance of Subsidiary Ledger for each payee/creditor to support the General Ledger balances of the AP-Miscellaneous accounts amounting to P8.758 billion; (b) Discrepancies between the balances per PCSO books and the supporting schedules of the AP accounts in total amount of P332.399 million; (c) Existence of long outstanding payables in the total amount of P3.367 billion; and (d) Existence of abnormal/debit balances of AP accounts in the total amount of P88.120 million, contrary to Paragraph 15 of the Philippine Accounting Standard 1:**
   1. Paragraph 15 of PAS 1 states:

*“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. As at December 31, 2023, the total Accounts Payable (AP) showed a balance of P10.052 billion, details are as follows:

| **Accounts** |  | **Amount** |
| --- | --- | --- |
| AP-Miscellaneous | P | 8,757,546,699.77 |
| AP-Charity Fund (AP-CF) |  | 675,780,975.34 |
| AP-Operating Fund (AP-OF) |  | 222,143,709.30 |
| AP-Guaranty Letters (AP-GL) |  | 198,840,711.15 |
| AP-Prize Fund (AP-PF) |  | 67,676,639.87 |
| **Sub-total** | **P** | **9,921,988,735.43** |
| AP-Rental and Maintenance |  | 129,622,870.59 |
| **Total Accounts Payable** | **P** | **10,051,611,606.02** |

* 1. The AP-Miscellaneous refers to various obligations accrued at the end of the year including accrual of various financial assistance/grants under CF, accrual of winnings for low/high tier prizes and jackpot prizes under PF, and accrual of various OF expenses such as employee bonuses, advertising, and promotions and maintenance and other operating expenses.
  2. AP-CF refers to various unpaid processed vouchers to hospitals and other institutions/agencies as payment for financial assistance under the Medical Assistance Program (MAP), Mandatory Contributions, and other CF programs of PCSO.
  3. AP-GL refers to various unpaid issued Guarantee Letters payable to hospitals and other institutions as payment for financial assistance under MAP.
  4. AP-OF refers to processed vouchers for various operating expenses that remained unpaid at the end of the year.
  5. AP-PF refers to various unpaid processed vouchers for the payment of low/high tier prizes and jackpot prizes.
  6. However, the fair presentation of the AP totaling to P10.052 billion could not be ascertained due to the following:

*Non-maintenance of Subsidiary Ledger for each payee/creditor to support the General Ledger balances of the AP-Miscellaneous accounts amounting to P8.758 billion, contrary to Sections 111(1) and 114(2) of PD No. 1445.*

* 1. Section 111(1) of PD No. 1445, the State Audit Code of the Philippines, provides:

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

* 1. Section 114(2) of PD No. 1445 further provides:

*“Subsidiary records shall be kept where necessary.”*

* 1. Appendices 5 and 6 of the Government Accounting Manual (GAM) provide that GL should be supported by the details in SL since GL only shows the summary of all transactions recorded for a particular account. Moreover, Appendix 6 of the GAM provides that SL shall be maintained per account of the creditor and fund cluster by the Accounting Division/Unit.
  2. Review of the AP accounts revealed that AP-Miscellaneous comprising of AP-Misc.-CF, PF and OF totaling P8.758 billion, equivalent to 87.13 percent of the total AP, was not supported by SL per payee/creditor. Verification of the submitted documents disclosed that AP-Miscellaneous was supported by Aging Reports for all AP accounts, and schedules of expenses under MAP, and Advertising and Promotions only, however, out of the total amount of P1.583 billion for MAP and P482.260 million for Advertising and Promo, only P335.291 million or 21.18% and P100.533 million or 20.85%, respectively, were supported by schedules.
  3. Moreover, it was noted that the ABD submitted SL per payee/creditor for AP-CF and AP-OF. However, the SL submitted for AP-CF and AP-OF do not reflect the correct amount of the outstanding payable of PCSO for each creditor since the balance of the SLs do not include the payables recognized under AP-Miscellaneous accounts. ABD explained that they are still in the process of completing SL per payee/creditor.
  4. Aging Report do not compensate the absence of the required SL since it merely categorizes the liabilities as to how long they have remained outstanding. SL captures all the transactions affecting each creditor with the corresponding references of the source documents, which can be verified to prove the validity of the recorded liability. Consequently, the reliability of the reported AP-Miscellaneous accounts totaling P8.758 billion could not be ascertained due to the absence of the SL per payee/creditor.

*Discrepancies between the balances per PCSO books and the supporting schedules of the AP accounts in total amount of P332.399 million.*

* 1. Examination of the balances of AP accounts per PCSO books as at December 31, 2023 and the supporting schedules disclosed a total discrepancy of P332.399 million as shown in Table 9:

**Table 9 - Discrepancies of AP Accounts per Books and Supporting Schedules**

**As at December 31, 2023**

| **Account Name** | **Head Office (HO)/Branch** |  | **Balances per PCSO Books** |  | **Amount per Supporting Schedules** |  | **Discrepancies** |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **(a)** |  | **(b)** |  | **c (a - b)** |
| AP-Miscellaneous | HO | P | (84,081,674.17) | P | - | P | (84,081,674.17) |
| AP-Misc – Charity Fund (CF) | HO |  | 4,333,519,272.48 |  | 4,286,407,648.14 |  | 47,111,624.34 |
| AP-Misc – Prize Fund (PF) | HO |  | 2,851,141,840.85 |  | 2,851,141,840.85 |  | - |
| AP-Misc - Operating Fund (OF) | HO |  | 1,346,605,697.98 |  | 1,393,717,322.31 |  | (47,111,624.33) |
| **Sub-Total - HO** |  | **P** | **8,447,185,137.14** | **P** | **8,531,266,811.30** | **P** | **(84,081,674.16)** |
| AP-Miscellaneous | Branch | P | 47,045,403.65 | P | - | P | 47,045,403.65 |
| AP-Miscellaneous-CF | Branch |  | 242,113,076.84 |  | 260,175,351.97 |  | (18,062,275.13) |
| AP-Miscellaneous-PF | Branch |  | 4,531,896.84 |  | 1,104,364.00 |  | 3,427,532.84 |
| AP-Miscellaneous-OF | Branch |  | 16,642,026.29 |  | 25,293,235.28 |  | (8,651,208.99) |
| **Sub-Total AP- Branch** |  | **P** | **310,332,403.62** | **P** | **286,572,951.25** | **P** | **23,759,452.37** |
| **Total AP-Miscellaneous** |  | **P** | **8,757,517,540.76** | **P** | **8,817,839,762.55** | **P** | **(60,322,221.79)** |
| AP-CF | HO | P | 137,364,170.99 | P | 138,210,185.48 | P | (846,014.49) |
| AP-CF | Branch |  | 538,416,804.35 |  | 280,789,504.82 |  | 257,627,299.53 |
| **Total AP- CF** |  | **P** | **675,780,975.34** | **P** | **418,999,690.30** | **P** | **256,781,285.04** |
| AP-OF | HO | P | 199,170,421.79 | P | 199,170,421.79 |  | - |
| AP-OF | Branch |  | 22,973,287.51 |  | 22,968,422.48 | P | 4,865.03 |
| **Total AP - OF** |  | **P** | **222,143,709.30** | **P** | **222,138,844.27** | **P** | **4,865.03** |
| AP-Guarantee Letter (GL) | HO | P | 198,840,711.15 | P | 198,768,811.15 | P | 71,900.00 |
| AP-GL | Branch |  | - |  | - |  | - |
| **Total AP-GL** |  | **P** | **198,840,711.15** | **P** | **198,768,811.15** | **P** | **71,900.00** |
| AP-PF | HO | P | 52,303,195.88 | P | 52,303,195.88 |  | - |
| AP-PF | Branch |  | 15,373,443.99 |  | 154,339.93 | P | 15,219,104.06 |
| **Total AP-PF** |  | **P** | **67,676,639.87** | **P** | **52,457,535.81** | **P** | **15,219,104.06** |
| **Grand Total** |  |  |  |  |  | **P** | **332,399,375.92\*** |

*\*Grand total of discrepancies presented in absolute amount*

* 1. The AP accounts were supported by schedules which list the outstanding payables of PCSO under CF, PF, and OF, together with its Aging Report. However, the balances of the supporting schedules do not tally with the balances per book. Inquiry with the ABD disclosed that the total discrepancy of P332.399 million were still for reconciliation. The discrepancies of the GL balances and the supporting schedules and Aging Report had been the subject of prior year audit observation.
  2. Due to lack of SL and incomplete documents to support the balances of the AP accounts, the Audit Team could not verify the causes of the discrepancies in total amount of P332.399 million, thus, the reliability of the reported AP totaling P10.052 billion could not be ascertained.

*Existence of long outstanding payables in the total amount of P3.367 billion as at December 31, 2023.*

* 1. Review of the Aging of Accounts Payable under PF, CF and OF revealed various long outstanding obligations amounting to P2.376 million, P2.562 billion and P803.380 million or a total amount of P3.367 billion, as shown in Tables 10, 11, and 12:

**Table 10 - Schedule of Long Outstanding Payables for Prize Fund**

**As at December 31, 2023**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Name** | **HO / Branch** |  | **Number of Years Outstanding** | | | | |  |  |
|  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | **Amount** |
| AP-PF | HO | P | 433,593.75 | P | 17,075.20 |  | - | P | 450,668.95 |
| AP-Misc.-PF | HO |  | 1,925,810.00 |  | - |  | - |  | 1,925,810.00 |
| **Total** | | **P** | **2,359,403.75** | **P** | **17,075.20** | **P** | **-** | **P** | **2,376,478.95** |

* 1. Section 6(A) of Ra No. 1169, the PCSO Charter, provides:

*“Prizes not claimed by the public within one year from date of draw shall be considered forfeited, and shall form part of the charity fund xxx”*

* 1. Inquiry with ABD on the long outstanding payables under PF of over one year disclosed that AP-PF-HO amounting to of P450,668.95 pertained to the stale checks comprising of three checks totaling P66,675.20 payable to prize winners that did not clear with the bank, 13 checks totaling P27,136.25 pertaining to unclaimed agent’s prize commissions, and one stale check amounting to P356,857.50 pertaining to the refund of the revolving fund for the payment of prizes payable to Comnet Management Corporation.
  2. Likewise, according to interview with ABD, the P1.926 million outstanding payable refers to the payment of accruals charged to current PF expense account instead of AP-Miscellaneous-PF account. Verification of accounting records and based on inquiry, due to voluminous transactions involving accruals, ABD is having a difficulty in monitoring the payment of the subject accruals.

**Table 11 - Schedule of Long Outstanding Payables for Charity Fund**

**As at December 31, 2023**

| **Account Name** | **HO / Branch** |  | **Number of Years Outstanding** | | | | |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | **Amount** |
| AP-CF | HO | P | 13,805,164.88 | P | 42,825,865.88 | P | 6,225,387.95 | P | 62,856,418.71 |
| AP-Misc.-CF | HO |  | 608,006.39 |  | 48,072,793.86 |  | 2,416,131,974.07 |  | 2,464,812,774.32 |
| **Sub-total** | | **P** | **14,413,171.27** | **P** | **90,898,659.74** | **P** | **2,422,357,362.02** | **P** | **2,527,669,193.03** |
| AP-CF | Branch | P | 4,960,681.23 | P | 4,374,438.10 | P | 19,498,176.75 | P | 28,833,296.08 |
| AP-Misc.-CF | Branch |  | 5,173,688.91 |  | 13,325.00 |  | 3,000.00 |  | 5,190,013.91 |
| **Sub-total** | | **P** | **10,134,370.14** | **P** | **4,387,763.10** | **P** | **19,501,176.75** | **P** | **34,023,309.99** |
| **TOTAL** | | **P** | **24,547,541.41** | **P** | **95,286,422.84** | **P** | **2,441,858,538.77** | **P** | **2,561,692,503.02** |

* 1. Verification revealed that out of the P62.856 million balance of the long outstanding AP-CF-HO account, 27 disbursement vouchers (DVs) reported in AP-CF schedule totaling P12.095 million have corresponding checks issued per Journal of Checks Issued (JCI). Further verification revealed that the subject checks were not included in the report of cancelled or stale checks submitted by PCSO to the Audit Team. Moreover, we have noted that 28 DVs reported in the AP-CF schedule totaling P143,875.97 have corresponding checks issued per JCI, but the recorded amount of the subject checks totaling P1.461 million is higher than the amount recorded in the AP-CF schedule by P1.317 million.

**Table 12 - Schedule of Long Outstanding Payables for Operating Fund**

**As at December 31, 2023**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Name** | **HO / Branch** | **Number of Years Outstanding** | | | | | |  |  |
|  | **Over 1 Year** |  | **Over 2 Years** |  | **Over 3 Years** |  | **Amount** |
| AP-OF | HO | P | 3,515,136.90 | P | 755,544.13 | P | 1,733,154.36 | P | 6,003,835.39 |
| AP-Misc.-OF | HO |  | 21,445,816.72 |  | 67,580,367.61 |  | 702,788,143.24 |  | 791,814,327.57 |
| **Sub-total** | | **P** | **24,960,953.62** | **P** | **68,335,911.74** | **P** | **704,521,297.60** | **P** | **797,818,162.96** |
| AP-OF | Branch | P | 366,157.72 | P | 297,889.73 | P | 2,161,400.01 | P | 2,825,447.46 |
| AP-Misc.-OF | Branch |  | 267,433.75 |  | 326,067.86 |  | 2,142,705.73 |  | 2,736,207.34 |
| **Sub-total** | | **P** | **633,591.47** | **P** | **623,957.59** | **P** | **4,304,105.74** | **P** | **5,561,654.80** |
| **Total** | | **P** | **25,594,545.09** | **P** | **68,959,869.33** | **P** | **708,825,403.34** | **P** | **803,379,817.76** |

* 1. Verification of the long outstanding payable under AP-OF-HO account revealed that 79 DVs in total amount of P3.388 million have corresponding checks per JCI with the same amount.

*Existence of abnormal/debit balances of AP accounts in the total amount of P88.120 million.*

* 1. Review of the submitted schedule of AP accounts revealed that there were abnormal/debit balances in total amount of P88.120 million as at December 31, 2023, as shown in Table 13:

**Table 13 - Schedule of Abnormal/Debit Balances of the AP Accounts**

**As at December 31, 2023**

| **Account** | **No. of DV/ Guarantee Letter** |  | **Amount** |
| --- | --- | --- | --- |
| AP-Miscellaneous | - | P | (84,081,674.17) |
| AP-CF | 2 |  | (1,846,014.49) |
| AP-OF | 14 |  | (2,191,944.02) |
| **Total** |  | **P** | **(88,119,632.68)** |

* 1. AP-Miscellaneous pertain to the one-line item in the Aging Report that served as the balancing figure of the account. ABD disclosed that reconciliation is still on-going for the account. The Audit Team could not verify the total debit amount of P84.082 million for AP-Miscellaneous due to the absence of documents to support the same.
  2. Out of the total amount of P1.846 million debit balance for AP-CF, P1 million pertained to the erroneous reversing entry made for the cancellation of Endowment Fund (EF) granted to MDH, a beneficiary hospital. On December 19, 2019, accrual of the EF for MDH, among others, were made through Journal Entry Voucher (JEV) No. 19121603, debiting EF expense account and crediting AP-Miscellaneous-CF by P1 million. However, the cancellation of the EF was recorded through JEV No. 20100702 dated October 21, 2020 by debiting AP-CF account and crediting RE-CF account by P1 million. The erroneous entry made in the cancellation of the EF for MDH overstated the AP-Miscellaneous-CF account and understated the AP-CF account by P1 million as at December 31, 2023.
  3. The remaining debit balance of P0.846 million for AP-CF pertained to the undetermined amount of the AP-CF. ABD is still in process of reconciliation for the said amount.
  4. The debit balance of AP-OF totaling P2.192 million refers to five erroneous entry due to double cancellation totaling P242,910.64, two adjustments with wrong payee name totaling P1.720 million, one check for the payment of utility without the corresponding set-up/recognition of payable amounting to P165,595.40, four checks that should be charged to CF but was charged to OF totaling P59,995.66, and two DVs that was already paid but still included in AP-OF schedule as debit in the amount of P3,899.87.

* 1. **We recommended and Management agreed to direct ABD to:**

1. **Prepare SL per payee/creditor to support the balance of AP-Miscellaneous accounts totaling P8.758 billion and to reflect the correct balance of outstanding payable per payee/creditor;**
2. **Analyze and determine the causes of the discrepancies totaling P332.399 million between the balances of PCSO books and the supporting schedules, and prepare the necessary adjusting entries;**
3. **Verify the validity of the long outstanding AP totaling P3.367 billion and prepare the necessary adjusting entries; and**
4. **Analyze the abnormal/debit balances of the AP accounts in total amount of P88.120 million and book up the necessary adjusting entries.**
   1. The Management informed that ABD acknowledges that there was no subsidiary ledger maintained per payee/creditor for AP-Miscellaneous as of date. However, with the resumption of the Computerized Accounting System last June 10, 2024, the ABD will ask the System Provider to extract the AP-Miscellaneous ledger per payee/creditor. In the meantime, the ABD will construct a much-detailed schedule for AP-Miscellaneous as of date.
   2. The ABD has initially reconstructed the Subsidiary Ledger for AP-Operating (Advertising Expenses) and AP-Charity (Medical Access Program (MAP)). The 70% or P1.05 billion of the remaining balance (P1.583 billion) in the AP-Charity MAP pertains to the long-outstanding GLs which could not be properly identified and adjusted just yet due to lack of details. Such amount was booked in 2019 as compliance to Internal Audit Services (IAS) recommendation. As a course of action, the ABD is closely coordinating with IAS and CAD for the breakdown of the account, and eventually determine if these really are still outstanding GLs or not. For the AP-Operating (Advertising Expenses) for prior years from 2018, the ABD is also in the process of reconciling the prior years’ accruals in order to establish the correct amount of accruals and reverse the over/excess accruals, if any.
   3. For the other remaining accounts, the ABD is in the process of preparing a schedule per payee/creditor. For the AP-Miscellaneous account, the P84 million discrepancy between the balances in the books as against the supporting schedules, is a result of the adjustments made by the Agency from last year’s reclassification on the account “On-Going Verification” amounting to P90.298 million.
   4. The account AP-Miscellaneous-Branch amounting to P47.045 million is yet to be broken down into three (3) accounts, which will serve as beginning of AP-Miscellaneous PF, AP-Miscellaneous CF, and AP-Miscellaneous OF. This explains the reason why there are no submitted schedules from the Branches for the said account. The schedules submitted are already in accordance with the corresponding AP fund accounts.
   5. The same will be done to the other Payable accounts, which are to be broken down into per Branch level to enable the ABD – Branch Accounting Division to initiate a proper reconciliation. As of this period, transactions per Branch are sorted out from 2013 to 2023, and will be sent to the Branches upon finalization.
   6. As of date, balances of the AP-Prize Fund account of the Branches from the Visayas and Mindanao Departments were finalized and initial reconciliation was done.
   7. The ABD has already made the adjustments particularly on the Accounts Payable-Prize Fund. The corresponding JEVs effecting the identified adjustments have been drawn, and a comparison of the SL balances vs Schedules of Visayas and Mindanao Branches have been made.
   8. With regard to the existing P32.7 million balance of AP-Miscellaneous PF, the ABD verified that these balances have already been claimed and/or forfeited, but were not charged to appropriate account. The discrepancy was adjusted last December 2023 after the submission of the Schedule of AP-Miscellaneous to the COA for audit. Various adjustments have also been made relative to AP – Miscellaneous - PF account.
   9. For the AP-Miscellaneous OF, the ABD has already identified the accruals per payee for 2019 up to present, and is still in the process of establishing the accruals per payee/creditor for 2018 and earlier. The ABD has identified that some overdue accruals, especially compensation and other bonuses, are over- or excess accruals that are subject for adjustment.
   10. To verify the long outstanding AP-OF, the aging method was used to group payables according to the length of time it has been outstanding to confirm the long overdue AP-OF.
   11. Confirmation slips were sent to the supplier/payee for Accounts Payable for over 1 year and onwards. However, because of information restrictions pertaining to addresses, student name in case of financial assistance, and other details necessary to identify the nature of the transaction, only 36 confirmation slips were sent, and five (5) of them were returned.
   12. Four (4) suppliers responded to the 31 successfully issued confirmation slip. One of them has no disparities in amount, whereas the other 3 have. Additionally, the negative balances of five (5) suppliers/payees are adjusted/re-classified to AP-Charity.

* 1. As for the AP-Miscellaneous CF, the ABD has verified most of the MAP accruals, except for the amount of adjustments made in compliance with the IAS recommendation during their audit last 2019. In addition, the ABD is also in the process of preparing the detailed schedule of the AP-Miscellaneous CF balance, and a copy of the schedule shall be provided to COA, once finished.
  2. The P84 million abnormal balance in the AP-Miscellaneous (Lump) is the result of the reconciliation made in 2023 in order to establish the correct balance of the AP-Miscellaneous accounts, which represents payments made from 2014 to present which could not be traced due to unavailability of the accounting records for verification. Nevertheless, the ABD is continuously reconciling and verifying these payments in order to address the negative balance.
  3. Per ABD-Operating, it is verified that out of P9.481 million, P2.192 million pertains to AP-OF-HO as stated with abnormal/debit balances. The Analysis Report of the abnormal/debit balances of AP-OF, along with copies of JEVs effecting adjustments as contained in the Remarks column, have already been submitted to COA.
  4. As a rejoinder, the Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.

1. **The faithful representation in the financial statements of the balance of the Accounts Receivable (AR) with a carrying amount of P4.298 billion as at December 31, 2023 cannot be ascertained in view of (a)** **Unreconciled balances of AR in the General Ledger and the Subsidiary Ledger or the Schedule of AR with Aging report amounting to P389.732 million and P(2.389) million, respectively, (b) two (2) AR sub-accounts had abnormal (credit) balances amounting to P(1.610) million, (c) three (3) AR sub-accounts were not provided with allowance for impairment loss and (d) the accounting policy of PCSO on the age classification of outstanding receivables was not uniformly adopted and applied contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) 1, Paragraph 9 of PAS 36 and Paragraph 5.5.15 (a) of the Philippine Financial Reporting Standard 9 on the Expected Credit Loss model.**
   1. Paragraph 15 of the PAS 1 provides:

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

* 1. Faithful representation as defined by PAS 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 Financial Statements (FS).
  2. Likewise, Paragraph 9 of PAS 36, also provides:

*“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. Moreover, Paragraph 5.5.15 (a) of Philippine Financial Reporting Standards (PFRS) 9, states, that:

*“An entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses (ECLs) for trade receivables or contract assets (expected credit losses that result from all possible default events over the life of the financial instruments).”*

* 1. This is a reiteration with updates of the observations embodied in the previous years’ Annual Audit Report as Management has not yet fully implemented the recommendations.
  2. Audit of the Accounts Receivable (AR) with a carrying amount of P4.298 billion, net of Allowance for Impairment in the amount of P2.760 billion as at December 31, 2023, disclosed the following deficiencies to wit:

*Unreconciled balances amounting to P389.732 million**and P(2.389) million between AR balance per GL and the SL/Schedule of AR with Aging Report.*

* 1. Note No. 7 of the 2023 Notes to the FS disclosed that AR pertains to unremitted sales of Sweepstakes, Keno and Lotto Agents, STL AACs, and Peryahan (Globaltech Mobile Online Corporation).
  2. Examination of the balances of AR in the GL and the submitted SL/Schedule of AR with Aging Report showed significant unreconciled balances in the amount of P389.732 million and P(2.389) million, respectively, as summarized in Table 14.

**Table 14 - Summary of AR balances per GL and the balance**

**of SL/Schedule of AR with Aging Report**

|  |  |  | **Outstanding Balance As at December 31, 2023** | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Account Name** |  | **Per GL** |  | **Per Submitted SL/Schedule of AR with Aging Report** |  | **Difference** |
| 1 | AR-Lotto Agents | P | 423,929,145 | P | 390,797,088 | P | 33,132,057 |
| 2 | AR - STL |  | 5,925,675,794 |  | 5,573,245,614 |  | 352,430,180 |
| 3 | AR-Ticket Sales-Keno |  | 19,628,182 |  | 17,423,434 |  | 2,204,748 |
| 4 | AR- Authorized Sellers |  | 9,463,262 |  | 9,277,104 |  | 186,158 |
| 5 | AR- Special Draw |  | 3,758,287 |  | 2,718,445 |  | 1,039,842 |
| 6 | AR- Defaulted Provincial Distibutors |  | 37,141,974 |  | 36,648,743 |  | 493,231 |
| 7 | AR- Defaulted Sales Supervisor |  | 5,489,791 |  | 5,483,815 |  | 5,976 |
| 8 | AR- Ticket Account |  | 3,884,307 |  | 3,644,836 |  | 239,471 |
| **Sub-total** | | **P** | **6,428,970,742** | **P** | **6,039,239,079** | **P** | **389,731,663** |
| 9 | AR-Trade- Branches |  | 59,631,349 |  | 59,735,599 |  | (104,250) |
| 10 | AR- Provincial Distibutors/Sales Representative |  | 1,003,060 |  | 1,113,717 |  | (110,657) |
| 11 | AR- Account Receivables (Others) |  | 673,220 |  | 1,080,000 |  | (406,780) |
| 12 | AR- Sales Supervisor |  | (76,182) |  | 157,934 |  | (234,116) |
| 13 | AR - Excess Prize Fund - STL |  | 540,912,965 |  | 540,912,965 |  | - |
| 14 | AR- Peryahan |  | 10,408,598 |  | 10,408,598 |  | - |
| 15 | AR- Defaulted Authorized Sellers |  | 378,204 |  | 378,204 |  | - |
| 16 | AR- Account Receivables (Patner Tayo) |  | 9,568,698 |  | 9,568,698 |  | - |
| 17 | AR-Ticket Sales-ELotto |  | 7,658,970 |  | 7,658,970 |  | - |
| 18 | AR- Mini Sweepstakes |  | (1,533,629) |  | - |  | (1,533,629) |
| **Sub-total** | | **P** | **628,625,253** |  | **631,014,685** | **P** | **(2,389,432)** |
| **Total** | | **P** | **7,057,595,995** | **P** | **6,670,253,764** |  |  |
| **Grand total in absolute amount** | |  |  |  |  | **P** | **392,121,095** |

* 1. The Schedule of AR with Aging Report submitted by the Accounting Budget and Department (ABD) shows the information on the Agents No., Agents Name, Amount of the outstanding AR balances and classification of the outstanding AR balances into Current (less than 90 days, 91-365 days) and Past Due (Over 1 year, Over 2 years and Over 3 years and onwards).
  2. Review of the schedule and receivable account disclosed that the unreconciled balance totaling P392.121 million pertained to AR balances in the GL without supporting SL/Aging Report in the amount of P391.265 million (Item Nos. 1-8 & 18) and AR balances with SL/Aging Report in the amount of P0.856 million (Item Nos. 9-12) but were not recorded in the books as part of the GL balance.
  3. The concerned ABD personnel explained that these balances were related to current and prior years posting errors and reconciling items without supporting documents thus, could not be verified which cast doubt on the fair presentation of the account balance in the FS at year-end contrary to Paragraph 15 of the PAS 1.

*Two AR sub-accounts totaling P1.610 million with abnormal (credit) GL balances.*

* 1. The Revised Chart of Accounts for Government Corporations provides that the AR normal balance is a debit balance. However, verification revealed that there were two AR sub-accounts that have abnormal (credit) balances per GL, which reduced the balance of the AR account in the total amount of P1.610 million (Item Nos. 12 and 18 in Table 14).
  2. The concerned ABD personnel explained that the abnormal (credit) balances pertained to prior years’ errors in posting, however, remained unadjusted as at December 31, 2023.

*Three (3) AR sub-accounts totaling P71.224 million were not provided with allowance for impairment loss and the accounting policy of PCSO on the age classification of outstanding receivables was not uniformly adopted and applied.*

* 1. Note 3.3 of the 2023 Notes to FS disclosed that PCSO calculated ECLs based on the lifetime expected credit losses and applied the simplified approach for trade receivables. A provision matrix has been established based on its historical credit loss experience, adjusted forward-looking factors specific to the debtors and the economic environment. After which, 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 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** |
| *Past Due:* |  |
| *11 years and over* | *100* |
| *7 to 10 years* | *75* |
| *4 to 6 years* | *50* |
| *2 to 3 years* | *25* |
| *1 to 2 years* | *0* |
| *Current:* |  |
| *91-365 days* | *0* |
| *Less than 90 days* | *0* |

* 1. However, verification disclosed that the Allowance for Impairment of the three AR sub-accounts that were already past due for over two to three years and onwards totaling P71.224 million were not provided with Allowance for Impairment thus, has not presented the true net realizable value of the AR as at December 31, 2023, contrary to Paragraph 9 of PAS No. 36. Details are shown in Table 15.

**Table 15 - Schedule of AR sub-account without Allowance for Impairment**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **AR Sub-Account** |  | **Balance per Aging Report** |  | **Age of Receivable** | | |  | **Allowance for Impairment per Book** |
|  |  | **Past Due over 2 Years** |  | **Past Due over 3 Years and Onwards** |  |
| AR - Trade-Branches | P | 59,735,599 | P | 202,126 | P | 59,533,473 | P | - |
| AR - Others |  | 1,080,000 |  | - |  | 1,080,000 |  | - |
| AR - Peryahan |  | 10,408,598 |  | - |  | 10,408,598 |  | - |
| **Total** | **P** | **71,224,197** | **P** | **202,126** | **P** | **71,022,071** | **P** | **-** |

* 1. Moreover, review of the submitted aging of AR as at December 31, 2023, 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* | *2 to 3 years* | *25* |
| *Over 1 year* | *1 to 2 years* | *0* |
| *91-365 days* | *91-365 days* | *0* |
| *Less than 90 days* | *Less than 90 days* | *0* |

**Table 16 - Aging of AR from PCSO branches consolidated by BOS**

**As at December 31, 2023**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Game** |  | **> than 90 days** |  | **91-365 days** |  | **Over 1 year** |  | **Over 2 years** |  | **Over 3 years and onwards** |
| Lotto | P | 206,288,837 | P | 12,133,942 | P | 3,262,677 | P | 2,706,795 | P | 35,520,767 |
| Keno |  | 438 |  | - |  | 787,201 |  | 11,126,312 |  | 3,780,572 |
| STL |  | 1,031,014,116 |  | 5,356,436 |  | 4,616,589 |  | 127,371,319 |  | 3,444,302,568 |
| **Total** | **P** | **1,237,303,391** | **P** | **17,490,378** | **P** | **8,666,467** | **P** | **141,204,426** | **P** | **3,483,603,907** |

* 1. The foregoing data showed that the PCSO branches provided a 50% allowance for impairment loss on outstanding receivables aged 3 years and onwards 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. These affected the validity and reliability in the measurement of impairment loss of receivables of over 3 years and onwards in the total amount of P3.484 billion, as shown in Table 16.
  2. The disclosures in Notes to FS on the age of the Receivable in measuring the ECL using the percentages provided by PCSO is misleading information on the accounting policy on the impairment of financial assets since it is not uniformly adopted by the ABD in the Head Office and PCSO Branches.
  3. **We reiterated our previous years’ audit recommendations that Management direct the concerned personnel of the ABD and BOS to:**

1. **Conduct a thorough examination to determine the causes of the unreconciled balance of P389.732 million and P(2.389) million, respectively, between AR balance per GL and the SL/Schedule of AR with Aging Report and make the necessary adjustments duly supported with reliable financial records;**
2. **Effect the necessary adjusting entries on the abnormal (credit) balances totaling P1.610 million which pertained to prior years’ errors in posting.**
3. **Ensure that the allowance for impairment loss on all financial assets that are already past due for two to three years and onwards is provided in compliance with Paragraph 9 of PAS No. 36 and is uniformly adopted and applied by the ABD and BOS, and uniformly adopt the PCSO accounting policy on the age classification of outstanding receivables to ensure reliability in the measurement of impairment loss allowances for financial assets.**
   1. The Management informed that ABD in coordination with BOS is continuously reconciling the balance of the AR accounts. Further, the reconciliation team under the monitoring of the ABD prepared a Reconciliation Work Plan which aims to reduce the reconciling items of the accounts by 50 percent before the end of CY 2024.
   2. Management has drawn JEV No. 24050858 dated May 15, 2024 to recognize the allowance for impairment loss based on the Ageing of the said receivables. The ABD also submitted the revised detailed Ageing Schedules/AR Monitoring and Analysis Report of the Branches showing the categorization of the receivables for the purpose of computing the allowance for impairment loss to uniformly adopt the classification of the outstanding receivables based on the disclosure in the Notes to Financial Statements.
   3. As a rejoinder, the Audit Team appreciated Management actions to reconcile the balances of the Receivable accounts which will be monitored in CY 2024 audit.
4. **The faithful representation in the financial statements of the balance of the Property, Plant and Equipment (PPE) account with a carrying amount of P5.859 billion as at December 31, 2023, excluding Land and Other Land Improvements accounts was not established due to unaccounted discrepancy of P130.413 million and P207.396 million, respectively, when compared with the balance per Lapsing Schedules/PPE Ledger Cards and the Report on the Physical Count of PPE of the Head Office and various Branch Offices, thus affecting the fair presentation of the balance of the account in the Financial Statements contrary to Paragraph 15 of the Philippine Accounting Standard 1 and Section 6.3 of COA Circular No. 2020-006 dated January 31, 2021.**
   1. Paragraph 15 of PAS No. 1 provides:

*“The 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. Likewise, Section 6.3 of COA Circular No. 2020-006 dated January 31, 2021 also provides:

*“The Property and Accounting Units shall undertake collaborative procedures to ensure that all PPEs included in the RPCPPE are duly recorded in their respective records and that the Property Cards (PCs) maintained by the Property Unit and the PPELCs maintained by the Accounting Unit are reconciled. The reconciliation shall be completed within ten (10) days from rendition of the RPCPPE by the Inventory Committee. Xxx”*

* 1. The PPE account as presented in the financial statements had a carrying amount of P6.343 billion as at December 31, 2023 as shown in Table 17.

**Table 17 - Balance of Property Plant and Equipment Account**

**As at December 31, 2023**

| **Particulars** |  | **Cost** |  | **Accumulated Depreciation** |  | **Carrying Amount** |
| --- | --- | --- | --- | --- | --- | --- |
| Buildings and Other Structure | P | 65,016,394 | P | 19,694,529 | P | 45,321,865 |
| Machinery and Equipment |  | 593,569,432 |  | 211,850,593 |  | 381,718,839 |
| Transportation Equipment |  | 287,513,922 |  | 165,562,912 |  | 121,951,010 |
| Furnitures, Fixtures and Books |  | 4,677,473 |  | 4,996,587 |  | (319,114) |
| Leased Assets |  | 6,189,801,320 |  | 914,174,322 |  | 5,275,626,998 |
| Leased Assets Improvements |  | 81,173,207 |  | 46,634,522 |  | 34,538,685 |
| Other Property, Plant & Equipment |  | 12,302,429 |  | 12,520,834 |  | (218,405) |
| **Sub-total** | **P** | **7,234,054,177** | **P** | **1,375,434,299** | **P** | **5,858,619,878** |
| Land | P | 484,296,000 | P | - | P | 484,296,000 |
| Land Improvements |  | 102,000 |  | - |  | 102,000 |
| **Sub-total** | **P** | **484,398,000** | **P** | **-** | **P** | **484,398,000** |
| **Grand total** | **P** | **7,718,452,177** | **P** | **1,375,434,299** | **P** | **6,343,017,878** |

* 1. The faithful and fair representation of the account could not be established for the reasons enumerated hereunder:

*Unaccounted discrepancy of P130.413 million between the carrying amount per books and the corresponding lapsing schedule/* *PPE Ledger Cards (PPELCs)*

* 1. Examination of the lapsing schedules/PPELCs submitted by the ABD to support the balances of the recorded PPE and the related accumulated depreciation in the books as at December 31, 2023 disclosed a discrepancy of P130.413 million between the amounts recorded in the books and the supporting lapsing schedules/PPELCs, as shown in Table 18:

**Table 18 - Comparison of PPE and the related accumulated depreciation amounts per books and amounts per lapsing schedules**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Balance Per** | | | | |  |
| **Particulars** |  | **Books** |  | **Lapsing Schedule** |  | **Discrepancy** |
| Acquisition Cost | P | 7,234,054,177.82 | P | 7,116,735,345.02 | P | 117,318,832.80 |
| Accumulated Depreciation |  | (1,375,434,299.23) |  | (1,388,528,189.05) |  | 13,093,889.82 |
| **Carrying amount** | **P** | **5,858,619,878.59** | **P** | **5,728,207,155.97** | **P** | **130,412,722.62** |

* 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 which was also maintained by the ABD should reconcile with the balances of the controlling PPE accounts in the GL. It was noted, however, that there was a discrepancy of P130.413 million between the balances of depreciable items of PPE and the related accumulated depreciation when compared with the balances reflected in the lapsing schedules/PPELCs contrary to Section 6.3 of COA Circular No. 2020-006 dated January 31, 2021.
  2. The ABD labeled the discrepancies between the balances of the accounts in the books and the schedules/PPELCs as “For Reconciliation/Misposting”. The concerned accounting personnel informed that these discrepancies were of previous years and its reconciliation are difficult due to absence of pertinent information and supporting documents.
  3. The Audit Team’s review of the lapsing schedules also noted the following:

1. Some of the PPE items included in the lapsing schedules totaling P5.095 million have no details/information on the date of acquisition, property number, accountable officer and department;
2. Items of PPE in the lapsing schedule amounting to P316,000.00 were not included in the RPCPPE;
3. Details of the lapsing schedule is different from the details of the Acknowledgement Receipt for Equipment such as property number, accountable officer and acquisition cost; and
4. Items of PPE in the lapsing schedule have the same property number.
   1. The existence of the above-mentioned unaccounted discrepancy of P130.413 million and the deficiencies noted in the lapsing schedules that support the balances of the PPE account cast doubt on the fairness of presentation of the balances of items of PPE in the financial statements as at December 31, 2023, contrary to Paragraph 15 of PAS No. 1.

*Unaccounted discrepancy of P207.396 million between the records of ABD and the Report on the Physical Count of PPE (RPCPPE) of the Asset Management Department at the Head Office and Branch Offices*

* 1. After the physical inventory-taking, the Inventory Committee shall reconcile the results of the count with the property and accounting records. On the other hand, the inventory listing of equipment shall be checked against the property card maintained by the Property and with the equipment ledger cards maintained by the accounting and the total thereof shall be compared with those in the general ledger. All discrepancies between physical and book inventories must be investigated, cleared and reconciled immediately. If necessary, written explanation shall be required from the accountable and responsible person(s). (Chapter V of the Manual on Property Custodianship)
  2. Comparison of the balances between the PPE accounts per books and the RPCPPE at the PCSO-Head Office (HO) and various Branches as at December 31, 2023 showed a discrepancy of P207.396 million contrary to Paragraph 6.3 of COA Circular No. 2020-006 dated January 31, 2021, details in Table 19:

**Table 19 - Discrepancy between Balance per Books and Balance per RPCPPE**

**As at December 31, 2023**

|  | **Balance (at cost) Per** | | | | | **Discrepancy** |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts** |  | **Books** |  | **RPCPPE** |  | **(Absolute Figure)** |
| Office Equipment | P | 169,867,794.46 | P | 32,783,470.28 | P | 137,084,324.18 |
| Information and Communication Technology Equipment |  | 88,226,910.23 |  | 66,963,010.99 |  | 21,263,899.24 |
| Communication Equipment |  | 4,883,628.02 |  | 3,075,423.06 |  | 1,808,204.96 |
| Military, Police and Security Equipment |  | 1,839,372.96 |  | - |  | 1,839,372.96 |
| Medical Equipment |  | 15,477,369.68 |  | 5,065,670.00 |  | 10,411,699.68 |
| Printing Equipment |  | 303,197,875.60 |  | 301,133,331.00 |  | 2,064,544.60 |
| Other Machinery and Equipment |  | 10,076,480.64 |  | 1,612,800.00 |  | 8,463,680.64 |
| Motor Vehicles |  | 287,513,922.40 |  | 271,093,083.48 |  | 16,420,838.92 |
| Furniture and Fixtures |  | 4,502,473.25 |  | 6,478,496.05 |  | 1,976,022.80 |
| Books |  | 175,000.00 |  | - |  | 175,000.00 |
| Other Property, Plant and Equipment |  | 12,302,428.92 |  | 18,190,771.09 |  | 5,888,342.17 |
| **TOTAL** | **P** | **898,063,256.16** | **P** | **706,396,055.95** | **P** | **207,395,930.15** |

* 1. Based on the examination of the submitted reports and documents by the ABD and ASMD, the difference of P207.396 million could be attributed among others, to the items of PPE that were taken up in the books but were not included in the RPCPPE totaling P83.868 million while there were items of PPE that were included in the RPCPPE but were not taken up in the books totaling P22.641million.
  2. Moreover, review of ABD and ASMD records showed various items of PPE with the same property number, others are without property number, with different item descriptions and no detailed information on the date of acquisition, accountable officer and department.
  3. The lack of proper monitoring and coordination between ABD, ASMD and PCSO departments and branches caused the non-establishment of the accuracy of the PPE balances presented in the financial statements.
  4. The same audit observations were already noted in previous years, but the balances of the depreciable PPE per books totaling P5.859 billionand the RPCPPE remained unreconciled as at December 31, 2023. In view of the unaccounted discrepancy of P207.396 million between the books and the RPCPPE, the faithful representation of the balance of the depreciable items of PPE in the financial statements as at December 31, 2023 was not established.
  5. **We reiterate our previous years’ recommendation that Management direct the concerned ABD personnel to:**

1. **Conduct an immediate reconciliation of the balances of the items of PPE per books with the balances in the corresponding lapsing schedules/PPELCs to determine the causes of the discrepancy of** **P130.413 million as at December 31, 2023;**
2. **Coordinate with the concerned ASMD personnel and conduct immediate reconciliation of the balances of the items of PPE per books with the balances per RPCPPE as at December 31, 2023 in order to determine the causes of the discrepancy of P207.396 million and conduct an investigation considering the balance per book is greater than actual physical count which may indicate missing items of PPE; and**
3. **Effect the necessary adjustments in the books or corrections in the lapsing schedule and RPCPPE to arrive at reconciled balances.** 
   1. The ABD and ASMD informed that they are in the process of validation/reconciliation to establish the reconciled amount of the PPE accounts which will also be used in the One-Time Cleansing Activity of PCSO. The ABD also responded to the observations noted in the Audit Observation Memorandum (AOM) to wit:

* Some of the PPE items in the Lapsing Schedules have no details/information on the date of acquisition, property number and accountable officer:

The ABD explained that these items were accrued at year end, hence, the information needed are not yet available until ASMD submit the Property Acknowledgment Receipt. As of April 2024, the Lapsing Schedules were already updated including the needed information mentioned in the AOM.

* Items of PPE in the Lapsing Schedule were not coordinated with ASMD to include in their RPCPPE Report.

The Management informed that adjustments were made by ABD and ASMD to reflect the correct information in their respective reports.

* Details of the lapsing schedule are different from the Property Acknowledgment Receipt.

The Management informed that ASMD will revise the Property Acknowledgment Receipts accordingly.

* 1. The Branch Accounting Division also informed that they have coordinated with the Branch Offices to verify/validate and adjust the discrepancies in the updated schedule of comparison and analysis of the SL and the lapsing schedule of PPE.
  2. Also, according to ASMD some items categorized under Military, Police, and Security Equipment and Books were incorrectly classified as Office Equipment but were still recorded in the RPCPPE. There were also some PPEs that were already disposed but were not accounted in the books. The ASMD informed that they will provide ABD with the list of disposed properties and the corresponding disposal documentations to reconcile the books.
  3. The Management explained that the primary cause of the discrepancies were the costs of PPE’s that were already condemned, in-storage and transferred to various Branches which are still in the records of the Head Office. The items included in the RPCPPE of the ASMD are active forms only while the ABD records contain all properties unless disposed.
  4. ABD informed that the necessary adjustments will be prepared once the validation procedures are done. These adjustments will reduce the discrepancy of PPE accounts in the branches by P17,479,453.49.
  5. The Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.

1. **The accounts Leased Assets, Buildings and Other Structures, Finance Lease Payable, Depreciation Expense, Accumulated Depreciation, Interest Expense and Interest Payable were understated by P0.634 million, P0.634 million, P95,959, P95,959, P356,156 and P356,156, respectively, thus, affecting the fair presentation of these accounts in the financial statements due to misapplication of the Philippine Financial Reporting Standard No. 16 for the lease of GSIS Pasig Central Business Park Warehouse Office Complex.**
   1. Paragraph 22 of PFRS 16, states: *“at the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.”*
   2. 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 October 26, 2023 PCSO entered into a lease contract with the Government Service and Insurance System (GSIS) for the lease of property located at 461 Amang Rodriguez Ave., Manggahan, Pasig City, known as the Pasig Central Business Park (PCBP) Warehouse Complex specifically, Units 109,110 and 111 with an approximate area of 4,140 square meters. The contract has a term of three years commencing on July 18, 2023 and expiring on July 17, 2026.
  2. Section 2.10 of the Contract of Lease provides that upon execution of the contract, PCSO shall pay the Lessor three (3) months advance rental amounting to P3.992 million exclusive of 12% VAT, applicable to the last three (3) months of the lease term. In addition, PCSO shall pay additional advance rental to cover the increase in the monthly rental fee and/or escalation rate starting on the 2nd and 3rd year of the lease term in accordance with the following schedule:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Three (3) months advance rental**  **(A)** | **Increment**  **(B)** | **7% VAT**  **(C)** | **5% VAT**  **(D)** | **Total amount inclusive of VAT**  **(A or B) + C+ D** |
| 1st Year | 3,992,160.60 | - | 279,451.24 | 199,608.03 | 4,471,219.87 |
| 2nd Year |  | 299,446.20 | 20,961.23 | 14,972.31 | 335,379.74 |
| 3rd Year |  | 321,926.40 | 22,534.85 | 16,096.32 | 360,557.57 |

* 1. The lease contract price amounts to P57.780 million, inclusive of VAT, with an escalation rate of 7.5% applied in the monthly rental rate after one (1) year or beginning on the 2nd year and 3rd year of the lease term as shown below:

|  |  |  |
| --- | --- | --- |
| **Period** | **Monthly Rental** | **Rental Fee per Annum** |
| 07/18/2023- 07/17/2024 | P 1,490,406.62 | 17,884,879.44 |
| 07/18/2024- 07/17/2025 | 1,602,199.87 | 19,226,398.44 |
| 07/18/2025- 07/17/2026 | 1,722,385.73 | 20,668,628.76 |
| **Total** |  | **57,779,906.64** |

* 1. The concerned personnel of the ABD informed that the incremental borrowing rate (IBR) used for the measurement of lease liability was 6.222 percent based on the prevailing rate of a three-year treasury bond.
  2. Review of the amortization schedule of lease payments from ABD disclosed a total Right-of-Use Asset in the amount of P52.836 million and Lease Liability of P48.365 million. However, re-computation showed that, the amount of the Right-of-Use Asset should have been P53.469 million and the Lease Liability should have been P48.998 million or a discrepancy of P0.634 million for both the Right-of-Use Asset and Lease Liability.
  3. Verification of the computation disclosed that the difference was due to the non-inclusion of the advance rent increment in the amount of P335,380 and P360,558 payable at the beginning of the 2nd and 3rd year of the lease term, respectively, which is not in line with Paragraphs 24 (a) and (b) and 26 of PFRS 16 on the measurement of the Leased Asset and Liability thus, resulting in the understatement of the Leased Assets, Buildings and Other Structures and Finance Lease Payable, each by a total amount of P0.634 million as shown in Table 20:

**Table 20 - Result of the re-computation of Right-of-Use Asset**

**and Lease Liability per Audit**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Difference** |
| **Particular** |  | **Per ABD** |  | **Per Audit** |  | **Under (Over)** |
| Right-of-Use-Asset | P | 52,835,818.85 | P | 53,469,489.39\*\* | P | 633,670.54 |
| Lease Liability |  | 48,364,598.98 |  | 48,998,269.53 |  | 633,670.55 |

*\*\* Annex A – PV of lease payments*

* 1. Further review of records of the lease payments showed recognized interest expense of P0.811 million in CY 2023 when it should have been P1.167 million resulting in the understatement of the Interest Expense and Interest Payable accounts in the amount of P356,155.60 as shown in Table 21:

**Table 21 - Amortization Schedule of the Lease Liability per audit**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** |  | **Carrying Value** |  | **Payment** |  | **Principal** |  | **Interest** |
| CY 2023 | P | 53,469,489.39 | P | - | P | - | P |  |
| 07/18/2023 |  | 48,998,269.53 |  | 4,471,219.86 |  | 4,471,219.86 |  | - |
| 07/18/2023 |  | 47,507,862.91 |  | 1,490,406.62 |  | 1,490,406.62 |  | - |
| 08/18/2023 |  | 46,263,784.56 |  | 1,490,406.62 |  | 1,244,078.35 |  | 246,255.86 |
| 09/18/2023 |  | 45,013,255.66 |  | 1,490,406.62 |  | 1,250,528.90 |  | 239,807.01 |
| 10/18/2023 |  | 43,756,242.77 |  | 1,490,406.62 |  | 1,257,012.89 |  | 233,324.73 |
| 11/18/2023 |  | 42,492,712.27 |  | 1,490,406.62 |  | 1,263,530.50 |  | 226,808.86 |
| 12/18/2023 |  | 41,222,630.36 |  | 1,490,406.62 |  | 1,270,081.91 |  | 220,259.21 |
| **Per Audit** |  |  | **P** | **8,942,439.72** | **P** | **7,775,639.17** | **P** | **1,166,800.55** |
| **Per ABD** |  |  |  |  |  |  |  | **(810,644.95)** |
| **Difference** |  |  |  |  |  |  | **P** | **356,155.60** |

* 1. Likewise, examination of the accounting records disclosed that the Depreciation Expense for the Leased Asset recognized by the ABD for CY 2023 was P8.001 million when it should have been P8.097 million, thus, understated the Depreciation Expense and Accumulated Depreciation by P95,959 details are shown in Table 22.

**Table 22 - Depreciation schedule of Right-of-Used Asset**

| **Year** |  | **Carrying Value** |  | **Accumulated Depreciation** |  | **Depreciation Expense** |
| --- | --- | --- | --- | --- | --- | --- |
| 07/18/2023 | P | 53,469,489.39 | P | - | P | - |
| 07/18/2023 |  | 52,798,725.19 |  | 670,764.20 |  | 670,764.20 |
| 08/18/2023 |  | 51,313,461.59 |  | 2,156,027.80 |  | 1,485,263.59 |
| 09/18/2023 |  | 49,828,198.00 |  | 3,641,291.39 |  | 1,485,263.59 |
| 10/18/2023 |  | 48,342,934.40 |  | 5,126,554.98 |  | 1,485,263.59 |
| 11/18/2023 |  | 46,857,670.81 |  | 6,611,818.58 |  | 1,485,263.59 |
| 12/18/2023 |  | 45,372,407.22 |  | 8,097,082.17 |  | 1,485,263.59 |
| **Per Audit** |  |  |  |  | **P** | **8,097,082.17** |
| **Per ABD** |  |  |  |  |  | **(8,001,123.11)** |
| **Difference** |  |  |  |  | **P** | **95,959.07** |

* 1. In summary, the foregoing observations resulted in the understatement of the accounts Leased Assets, Buildings and Other Structures, Finance Lease Payable, Interest Expense, Interest Payable, Depreciation Expense and Accumulated Depreciation by P0.634 million, P0.634 million, P356,156, P356,156, P95,959 and P95,959, respectively.
  2. **We recommended and Management agreed to direct the concerned ABD personnel to effect the necessary adjusting journal entries to correct the understatement of the accounts Leased Assets, Buildings and Other Structures, Finance Lease Payable, Interest Expense, Interest Payable, Depreciation Expense and Accumulated Depreciation in the amount of P0.634 million, P0.634 million, P356,156, P356,156, P95,959 and P95,959, respectively.**
  3. The Management has drawn JEV No. 24061157, 24061158 and 24061159 dated June 10, 2024, to correct the understatement of the accounts.

1. **Finance Lease Payable was not properly classified and presented as Current and Non-Current Liabilities in the Statement of Financial Position as at December 31, 2023 contrary to Paragraphs 60 and 69 of the Philippine Accounting Standard No. 1 on the Presentation of Financial Statements.**
   1. Paragraph 60 of PAS No. 1 on the Presentation of FS provides that:
   2. *“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.”*
   3. Paragraph 69 of the same standard further provides that, “an entity shall classify a liability as current when:
2. *It expects to settle the liability in its normal operating cycle;*
3. *It holds the liability primarily for the purpose of trading;*
4. *The liability is due to be settled within twelve months after the reporting period; or*
5. *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 for the following Lease Contract entered into by PCSO for the CY 2023 showed a total of P5.486 billion. As shown below:

|  | **Particulars** |  | **Present Value of Lease Payments** |
| --- | --- | --- | --- |
| 1. | Lease Contract/ Memorandum of Agreement (MOA) between PCSO and Joint Venture (JV) between Philippine Gaming Management (PGMC) and Pacific Online Systems Corporation (POSC) for the Philippine Lottery System (PLS) | P | 4,984,537,388.72 |
| 2. | 3 years renewal lease contract of office space with the Joint Venture of Sun Plaza Development Corporation, Conservatory Shaw Plaza Inc., and AP Securities Inc., (JV Sun Plaza) |  | 452,721,809.13 |
| 3. | Lease contract with the GSIS for the lease of property located at 461 Amang Rodriguez Ave., Manggahan, Pasig City, known as the Pasig Central Business Park (PCBP) Warehouse Complex (Units 109,110 and 111) |  | 48,998,269.53 |
| **TOTAL FINANCE LEASE PAYABLE** | | **P** | **5,486,257,467.38** |

* 1. The schedules of amortization of lease payments computed by the Audit Team disclosed that the Finance Lease Payable amounting to P5.486 billion should be presented in the Statement of Financial Position as at December 31, 2023, as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** |  | **Current Liability** |  | **Non-Current Liability** |
| JV PGMC | P | 892,405,364.26 | P | 2,534,181,753.22 |
| JV Sun Plaza |  | 135,248,577.66 |  | 303,219,906.65 |
| GSIS |  | 16,788,215.06 |  | 24,434,415.30 |
| **Total** | **P** | **1,044,442,156.98** | **P** | **2,861,836,075.17** |

* 1. Review of the accounting records, however, disclosed that the total finance lease payable of P5.486 billion was presented as Non-Current Liabilities in the Statement of Financial Position as at December 31, 2023. Its current portion was only P6,217.97 instead of P1.044 billion which is not in accordance with Paragraphs 60 and 69 of PAS No.1. This resulted in the understatement of the Current Liabilities and overstatement of the Non-Current Liabilities by P1.044 billion representing the lease payments due for settlement within 12 months.
  2. **We recommended and Management agreed to instruct ABD to properly 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.**
  3. The Management has drawn JEV No. 24061160 dated June 10, 2024 to properly present and classify the current and non-current portion of the Finance Leased Payable in the Statement of Financial Position.

1. **The faithful representation in the financial statements of the balance of the Play/Bet Slips and Thermal Rolls Supplies Inventories account in the amount of P59.348 million as at December 31, 2023, could not be ascertained contrary to Paragraph 15 of the Philippine Accounting Standard 1 due to the: (a) unaccounted discrepancy of P36.342 million between the balances per General Ledger and the Report on the Physical Count of Inventories (RPCI) in Luzon; and (b) absence of RPCI and Report of Supplies and Materials Issued for the supplies inventories for Visayas and Mindanao and Printing Materials amounting to P6.715 million and P360,305.02, respectively.**
   1. Paragraph 15 of PAS 1 provides:

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

* 1. Section 17, Chapter 8, Volume 1 of the GAM, enumerates the required and prescribed records, forms and reports to be prepared/maintained for Inventories account, such as the Stock Ledger Card (SLC), Stock Card (SC), Requisition and Issue Slip, Report of Supplies and Materials Issued (RSMI) and RPCI. These records, forms, and reports, if properly maintained, ensure sound internal control over Inventories, and would support Management’s assertions, particularly on the existence, completeness and correctness of the Inventory account balance reflected in the financial statements.
  2. The Play/Bet Slips and Thermal Rolls Inventories are lotto supplies used in betting for various lotto games, either outsourced from the Recognized Government Printers or produced by PCSO Security Printing and Production Department (SPPD). The Play/bet slips and thermal rolls are printed in Flx and Microlot printers.
  3. The Notes to FS No. 3.5, PCSO disclosed that the inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs are calculated using the weighted average cost (WAC) method. When inventories are consumed, the carrying amount of those inventories is recognized as an expense in the statement of comprehensive income.
  4. The Play/Bet Slips and Thermal Rolls Inventories had a total balance of P59.348 million as at December 31, 2023, details are presented in Table 23:

**Table 23 - Balance of the Play/Bet Slip and Thermal Rolls Inventories**

**As at December 31, 2023**

|  |  |  |
| --- | --- | --- |
| **Account Name** |  | **Amount** |
| Play/Bet Slips and Thermal Rolls Supplies Inventories - Luzon | P | 52,272,415.38 |
| Play/Bet Slips and Thermal Rolls Supplies Inventories - Vismin |  | 6,715,363.46 |
| Play/Bet Slips and Thermal Rolls Supplies Inventories-Printing Materials-Betslips-Lotto |  | 360,305.02 |
| **Total** | **P** | **59,348,083.86** |

* 1. The inventory balance for Luzon of P52.272 million is computed as follows:

|  |  |  |
| --- | --- | --- |
| **Particulars** |  | **Amount** |
| Beginning balance – 01/01/23 | P | 91,065,641.25 |
| Purchases |  | 261,337,648.21 |
| Consumption/expensed during the year |  | (289,112,859.08) |
| PY consumption adjustment |  | (11,018,015.00) |
| **Ending balance - 12/31/23** | **P** | **52,272,415.38** |

* 1. The Asset and Supply Management Department (ASMD) submitted the CY 2023 RPCI of the Play/Bet slips and thermal rolls for Luzon. However, comparison of the GL balance and RPCI using WAC per unit showed a discrepancy of P36.342 million, as shown in Table 24:

**Table 24 - Discrepancy between balances of Play/Bet Slips and Thermal Rolls - Luzon**

**per books and RPCI – Luzon**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Physical Count per RPCI** | |  | **WAC per Unit** | |  | **Amount** | | **Total WAC** |
| **Flx**  **(a)** | **Microlot**  **(b)** |  | **Flx**  **(c)** | **Microlot**  **(d)** |  | **Flx**  **(a x c)** | **Microlot**  **(b x d)** |
| **Total WAC per book – 12/31/23 - Luzon** | | |  |  |  |  |  |  | **P 52,272,415.38** |
| Thermal Rolls | 33,624 | - |  | 219.000 |  |  | 7,363,656 | - | 7,363,656.00 |
| Betslips 6/58 (pcs) | 2,096,000 | 63,000 |  | 0.315 | 0.417 |  | 660,240 | 26,271 | 686,511.00 |
| Betslips 6/55 (pcs) | 3,733,000 | 1,420,000 |  | 0.315 | 0.315 |  | 1,175,895 | 447,300 | 1,623,195.00 |
|  |  | 184,000 |  |  | 0.281 |  | - | 51,704 | 51,704.00 |
| Betslips 6/49 (pcs) | 3,542,000 | 2,988,000 |  | 0.315 | 0.315 |  | 1,115,730 | 941,220 | 2,056,950.00 |
| Betslips 6/45 (pcs) | 1,313,000 | 864,000 |  | 0.315 | 0.315 |  | 413,595 | 272,160 | 685,755.00 |
|  | 200,000 |  |  | 0.260 |  |  | 52,000 | - | 52,000.00 |
| Betslips 6/42 (pcs) | 3,696,000 | 522,000 |  | 0.315 | 0.262 |  | 1,164,240 | 136,764 | 1,301,004.00 |
|  | 205,000 |  |  | 0.270 |  |  | 55,350 | - | 55,350.00 |
| Betslips 6D (pcs) | 388,000 | 328,000 |  | 0.315 | 0.315 |  | 122,220 | 103,320 | 225,540.00 |
|  | 145,000 |  |  | 0.308 |  |  | 44,660 | - | 44,660.00 |
| Betslips 4D (pcs) | 39,000 | 330,000 |  | 0.315 | 0.406 |  | 12,285 | 133,980 | 146,265.00 |
|  | 935,000 |  |  | 0.301 |  |  | 281,435 | - | 281,435.00 |
| Betslips 3D (pcs) | 416,000 | 1,935,000 |  | 0.300 | 0.315 |  | 124,800 | 609,525 | 734,325.00 |
|  |  | 280,000 |  |  | 0.280 |  | - | 78,400 | 78,400.00 |
| Betslips 2D (pcs) | 495,000 | 1,252,000 |  | 0.301 | 0.315 |  | 148,995 | 394,380 | 543,375.00 |
| **Less: Total WAC per RPCI –12/31/23** | | |  |  |  |  | **12,735,101** | **3,195,024** | **P 15,930,125.00** |
| **Discrepancy** | | | | | | | | | **P 36,342,290.38** |

* 1. The Audit Team was informed that the discrepancy of P36.342 million pertained to previously consumed thermal rolls and bet slips supplies that have yet to be recorded in the books as the documents pertaining thereto are still under verification and reconciliation.
  2. The delayed recording of the issued and utilized supplies resulted in the overstatement of the Inventory account balance and understatement of the Other Supplies and Materials Expense by P36.342 million, consequently overstating the RE account by the same amount.
  3. Likewise, review of the consumption of Supplies Inventory for Luzon in amount of P289.113 million during the CY 2023 showed the following deficiencies to wit:

1. Supply inventory consumption discrepancy of P0.656 million between the GL balance and the inventory consumption reported in the RPCI computed as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Consumption** | |  | **Difference** | | | |
| **Month** | **Particular** | **Per GL** | **Per RPCI** |  | **Quantity** | **WAC** |  | **Amount** |
| March 2023 | Betslips 4D | - | 148,000 |  | (148,000) | 0.135 | P | (19,980.00) |
| September 2023 | Betslips 6D | 19,000 | 54,000 |  | (35,000) | 0.325 |  | (11,375.00) |
| November 2023 | Thermal Rolls (Flx) | 29,500 | 32,327 |  | (2,827) | 221 |  | (624,767.00) |
| **Total** |  |  |  |  |  |  | **P** | **(656,122.00)** |

1. Accrual of expenses for CY 2023 amounting to P43.759 million were not included in the consumption Supplies Inventory for Luzon and were not deducted in the GL balance of the Supplies Inventory account.
   1. Moreover, no RPCI and RSMI were submitted for the inventories and supplies issuances of Vismin and printing materials in the amount of P6.715 million and P360,305, respectively, as shown in Table 23. The Audit Team were precluded from validating these balances, as the ABD and ASMD do not properly maintain SLC and SC as required in the cited provision of the GAM.
   2. Given the discrepancy of P36.342 million between the balances per GL and the RPCI and the absence of RPCI and RSMI for Vismin and Printing Materials – Betslips – Lotto, the correctness of the P59.348 million of the Play/bet Slips and Thermal Rolls Supplies Inventories account as at December 31, 2023 could not be ascertained, contrary to Paragraph 15 of PAS 1.
   3. **We recommended that Management require the ABD and ASMD personnel to:**
2. **Fast tract the verification/reconciliation of records/documents for the discrepancy of P36.342 million between the GL and RPCI for Luzon and prepare the necessary adjustments or corrections in the books; and**
3. **Submit to the Audit Team the RPCI of Play/Bet Slips and Thermal Rolls for VISMIN and Printing Materials for Lotto with book balances of P6.715 million and P360,305.02, respectively, to determine the existence and correctness of their reported balances.**
   1. The Management has drawn JEV No. 24061163 amounting to P44.559 million representing reversal of an accrual made on September 2023 under JEV No. 23091892 which was recorded twice on December 31, 2023. Likewise, JEV No. 24061164 has drawn to adjust the overstatement of Thermal Rolls consumption for November and December 2023 amounting to P0.047 million and P0.218 million, respectively. Moreover, JEV No. 24061165 has drawn to adjust the understatement of 4D Betslip consumption for Pacific Online Systems Corporation POSC Luzon for March 2024 amounting to P0.20 million.
   2. Also, ASMD informed that RPCI and RSMI for CY 2023 for Visayas and Mindanao, Printing Materials for the play/bet slips and thermal rolls will be provide to COA Audit Team once available.
   3. The Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.
4. **The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account amounting to P20.382 billion as at December 31, 2023 could not be established due various long outstanding book reconciling items totaling P19.669 million that remained unadjusted as at year-end due to absence of supporting documents and closed bank accounts still having outstanding balances in the books amounting to P3.304 million and P(1.019) million, respectively, contrary to Paragraph 15 of Philippine Accounting Standard No. 1 and Qualitative Characteristic No. 12 of the Conceptual Framework for General Purpose Financial Reporting.** 
   1. Paragraph 15 of PAS provides:

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

* 1. The Conceptual Framework for General Purpose Financial Reporting (CFGPFR) enumerates faithful representation as one of the qualitative characteristics of a useful financial information. As stated under QC12, *“to be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. ”*
  2. The balance of the Cash and Cash Equivalent account presented in the Statement of Financial Position as at December 31, 2023 had a total balance of P20.382 billion. Of the said amount, P20.054 billion pertained to the Cash in Bank account consisting of various bank accounts of the Head Office and Branches in the total amount of P19.618 billion and P0.436 billion, respectively.
  3. Results of confirmation of the balances of the accounts with various depository banks maintained by PCSO as at December 31, 2023 showed a net difference of P11.545 million when compared with the balances reflected in the financial statements, as shown in Table 25.

**Table 25 - Comparison of Balances between Confirmed Bank Balance and Per Books**

**As at December 31, 2023**

| **Account Name** | | **Confirmed Bank Balances** | **Bank Balance**  **per Books** | **Difference** | **Book**  **Reconciling Items** | **Bank**  **Reconciling Items** |
| --- | --- | --- | --- | --- | --- | --- |
| 1. | LBP - Main Account | P 512,326,440 | P 512,941,324 | P (614,884) | P (950,333) | P 335,449 |
| 2. | LBP CA – PF | 7,851,480,667 | 7,853,274,173 | (1,793,506) | (2,819,324) | 1,025,818 |
| 3. | LBP (STL Remittances)  Current Account – PF | 103,466,032 | 102,669,799 | 796,233 | 962,206 | (165,973) |
| 4. | LBP CA – CF | 5,061,188,770 | 5,062,203,611 | (1,014,841) | (2,329,747) | 1,314,906 |
| 5. | LBP (STL Remittances)  Current Account – CF | 736,168,508 | 737,306,276 | (1,137,768) | (483,132) | (1,252,427) |
|  |  |  |  |  |  | 597,791 |
| 6. | LBP - OF | 4,738,722,688 | 4,720,732,697 | 17,989,991 | (2,265,633) | 20,255,624 |
| 7. | LBP (STL Remittances) - OF | 431,643,830 | 433,065,437 | (1,421,607) | (50,352) | (1,371,255) |
| 8. | LBP (Combo) - OF | 194,356,933 | 193,410,750 | 946,183 | 946,183 | - |
| 9. | PNB –SA - Online  Main Account | 80,765 | 2,455,738 | (2,374,973) | (117,821) | (2,257,152) |
| 10. | PNB – CA - PF (New) | - | 848,729 | (848,729) | (817,709) | (31,020) |
| 11. | PNB – CA - OF (New) | - | (1,017,317) | 1,017,317 | 1,017,317 | - |
| 12. | PNB – CA - OF | - | (1,576) | 1,576 | 1,576 | - |
| **Grand Total** | | **P19,629,434,633** | **P19,617,889,641** | **P11,544,992** | **P(6,906,769)** | **P18,451,761** |

* 1. Review of the Bank Reconciliation Statements (BRss) submitted by the ABD for the bank accounts in Table 1 disclosed book reconciling items totaling P19.669 million which remained unadjusted in the books as at December 31, 2023 as shown in Table 26:

**Table 26 - Summary of Book Reconciling Items**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Name** | | **Unrecorded Debit Memo** | **Unrecorded Credit Memo** | **Unrecorded Fund Transfer** | **Unrecorded Deposits & Remittances** | **Erroneous Recording of Fund Transfers** | **Erroneous Recording of Deposits & Remittances** | **Total** |
| 1. | LBP - Main Account | P (135,026) | P 1,867,238 |  | P 185,301 |  | P (2,867,846) | P (950,333) |
| 2. | LBP CA – PF |  |  |  |  | (2,819,324) |  | (2,819,324) |
| 3. | LBP (STL) CA - PF |  |  |  |  |  | 962,206 | 962,206 |
| 4. | LBP CA – CF |  |  |  |  |  | (2,329,747) | (2,329,747) |
| 5. | LBP (STL) CA - CF | (550,395) |  | (81,987) | 56,968 |  | 92,282 | (483,132) |
| 6. | LBP – OF |  |  |  |  | (2,265,633) |  | (2,265,633) |
| 7. | LBP (STL) - OF |  |  | 29,744 | 134,140 |  | (214,236) | (50,352) |
| 8. | LBP (Combo) - OF |  |  |  | 1,888,195 |  | (942,012) | 946,183 |
| 9. | PNB – Main Account |  | 1,929 | (525) | 144,194 |  | (263,419) | (117,821) |
| 10. | PNB – CA - PF (New) |  |  |  |  | (817,709) |  | (817,709) |
| 11. | PNB – CA - OF (New) |  |  | 1,000,000 |  | 17,317 |  | 1,017,317 |
| 12. | PNB – CA - OF |  | 1,576 |  |  |  |  | 1,576 |
| **Grand Total** | |  |  |  |  |  |  | **P (6,906,769)** |
| **Grand Total in Absolute Amount** | | **P 685,421** | **P 1,870,743** | **P 1,112,256** | **P 2,408,798** | **P 5,919,983** | **P 7,671,748** | **P 19,668,949** |

* 1. Verification of the book reconciling items disclosed that there were unrecorded transactions since CY 2008 to 2023 such as unrecorded debit to bank accounts and credit memos, issued checks, fund transfer from PCSO branches, deposits and remittances from agents. On the other hand, there were also erroneous recording of fund transfers, deposits and remittances erroneously or interchangeably deposited among PCSO bank accounts and book reconciling items caused by the difference between the ABD’s Summary of Remittances and Deposits appearing in the bank statements as summarized in Table 26.
  2. The said book reconciling items remained unadjusted in the books as at December 31, 2023 due to absence of necessary supporting documents. The ABD informed that they are coordinating with the concerned PCSO departments and concerned depository banks for the needed documents.
  3. Moreover, examination of the accounting records disclosed that four Cash in Bank accounts maintained with the Philippine National Bank (PNB) that were already closed/dormant since in CY 2018 but still have remaining book balances. This observation was already brought to the attention of the Management in prior years’ audit but the said closed/dormant accounts still had balances in the amounts of P3.304 million and P(1.019) million which remained reconciling items in the book as at year-end. Further review of the BRS of the PNB closed/dormant accounts also disclosed unposted remittances and deposit totaling P2.288 million in the bank statements as shown in Table 27.

**Table 27 - Closed Bank Accounts with remaining book balances**

**As at December 31, 2023**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Account Name** | | **Confirmed Bank Balances** | **Bank Balances per Books** | **Difference** | **Book Reconciling Items** | **Bank Reconciling Items** |
| 1. | PNB –SA - Online  Main Account | P80,765 | P 2,455,738 | P (2,374,973) | P (117,821) | P(2,257,151) |
| 2. | PNB – CA - PF (New) | - | 848,729 | (848,729) | (817,709) | (31,020) |
| **Total** | | **P80,765** | **P 3,304,467** | **P (3,223,702)** | **P (935,530)** | **(2,288,171)** |
| 3. | PNB – CA - OF (New) | - | P(1,017,317) | P 1,017,317 | P1,017,317 | - |
| 4. | PNB – CA - OF | - | (1,576) | 1,576 | 1,576 | - |
| **Total** | |  | **P(1,018,893)** | **P 1,018,893** | **P1,018,893** | **-** |
| **Grand Total in Absolute Amount** | | **P80,765** | **P 4,323,360** | **P4,242,595** | **P1,954,423** | **P2,288,171** |

* 1. The Management sent a letter to PNB on September 5, 2023 requesting to effect the necessary adjustments to finally settle the remaining unposted remittances and deposits in the PCSO PNB accounts in the amount of P2.288 million.
  2. Though, the same audit observations were already noted in prior years, still, the book reconciling items in the total amounts of P19.669 million remained unadjusted as at December 31, 2023. Pending reconciliation and adjustments of the aforementioned book reconciling items, the Cash in Bank account presented in the Financial Statements as at December 31,2023, is doubtful of validity and reliability, contrary to Paragraph 15 of PAS No. 1 and QC 12 of CFGPFR.
  3. **We reiterated our previous year’s recommendations that Management direct the concerned Accounting personnel to:**

1. **Continue the verification of the long-outstanding book reconciling items of each bank account, thereafter, effect the necessary adjustments supported with complete documents so that the balances of the affected Cash and Cash Equivalents account in the total amount of P20.382 billion shall be presented faithfully in the financial statements as at December 31, 2023;**
2. **Effect the necessary adjusting entries, after a through verification of the book reconciling items, in order to correct the balances of the closed/dormant accounts in the amount of P3.304 million and P(1.019) million, respectively; and**
3. **Intensify the efforts in coordinating with the corresponding depository banks to clear out the details of the bank reconciling items with regard to the remittances not reflected in the bank statements amounting to P2.288 million.**
   1. The Management informed that adjustments in the books were already made to correct and significantly reduced the long-outstanding book reconciling items as of CY 2023. ABD further informed that they are in close coordination with PNB and Landbank to ensure accurate reconciliation of PCSO bank accounts.

* 1. The Audit Team will monitor the full implementation of the audit recommendations in CY 2024 audit.

1. **The validity and accuracy of the reported net sales totaling P80.558 billion for the Calendar Years 2021 to 2023 was not established due to cancelled sales totaling P367.207 million for the same period, which were not validated caused by the inadequate internal control procedures on the accounting, monitoring and validating the canceled sales of lotto tickets. Likewise, the 2019 Game Rules and Regulations on the cancellation of sales of Lotto and Digit games which allows lotto agents to initiate cancelation of valid tickets of significant amounts has exposed the Agency to a material loss of funds. Hence, not in adherence to the policy of the State that government funds and property should be fully protected and conserved under Section 2 of Presidential Decree No. 1445 dated June 11, 1978, as amended.** 
   1. Section 2 of PD No. 1445 dated June 11, 1978, as amended states:

“It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguard against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.”

* 1. The PCSO’s Income from Gaming Operations are recognize from the gross receipts generated from the sale of tickets from major game operations of the agency such as lotto, sweepstakes or similar activities.
  2. The PCSO lotto games are Lotto 6/42, MegaLotto 6/45, SuperLotto 6/49, GrandLotto 6/55 and UltraLotto 6/58. The agency also conducts lotto digit games, the 6D, 4D, 3D and 2D. The games played in Luzon, Visayas and Mindanao are 4D, 3D and 2D. 6D played only in Luzon.
  3. The Philippine Gaming Management Corporation (PGMC) is providing the systems for the Lotto Games of PCSO in the NCR and certain areas in Luzon. While the Pacific Online System Corporation (POSC) catered those in Visayas and Mindanao and other areas in Luzon pursuant to the individual, Equipment Lease Agreements entered into by PCSO with both of them. On October 1, 2023, the PCSO launched the new Philippine Lottery System (PLS) with the Joint Venture PGMC, as the system provider.
  4. Examination of the sales report submitted by PCSO DCD disclosed sales of lotto tickets, net of canceled sales in the amount of P20.644 billion, P28.248 billion and P31.666 billion for the CYs 2021, 2022 and 2023, respectively, as shown in Table 28:

**Table 28 - Summary of Sales and Cancel Sales of lotto tickets**

**for CYs 2021, 2022 and 2023**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Calendar Year** | | | | |  |  |
|  |  | **2021** |  | **2022** |  | **2023** |  | **Total** |
| **Sales:** |  |  |  |  |  |  |  |  |
| PGMC | P | 14,071,492,320 | P | 19,481,449,900 | P | 14,798,769,270 | P | 48,351,711,490 |
| POSC |  | 6,527,520,275 |  | 8,603,038,370 |  | 7,880,274,800 |  | 23,010,833,445 |
| PLS |  | **-** |  | **-** |  | 8,827,873,390 |  | 8,827,873,390 |
| **Total** | **P** | **20,599,012,595** | **P** | **28,084,488,270** | **P** | **31,506,917,460** | **P** | **80,190,418,325** |
| **Cancel Sales:** |  |  |  |  |  |  |  |  |
| PGMC | P | 30,095,340 | P | 107,002,320 | P | 80,784,820 | P | 217,882,480 |
| POSC |  | 15,036,512 |  | 56,469,390 |  | 54,594,300 |  | 126,100,202 |
| PLS |  | **-** |  | **-** |  | 23,224,480 |  | 23,224,480 |
| **Total** | **P** | **45,131,852** | **P** | **163,471,710** | **P** | **158,603,600** | **P** | **367,207,162** |
| **Net Sales** | **P** | **20,644,144,447** | **P** | **28,247,959,980** | **P** | **31,665,521,060** | **P** | **80,557,625,487** |

* 1. Also shown in Table 28 are canceled sales for the same period in the amount of P217.882 million, P126.100 million and P23.224 million for PGMC, POSC and PLS, respectively. Records showed that the Net Sales recorded in books are after the deduction of canceled sales from the sale of lotto tickets.
  2. Examination of documents disclosed that the validity, accuracy and completeness of canceled sales were not fully examined by PCSO, which cast doubt on the reliability of the recorded net sales. The concerned official from PCSO explained that there were only two Account Specialist and one Supervising Account Management Specialist assigned at the PCSO San Marcelino, Manila Office to check the sales reports and supporting documents submitted by the PCSO lotto agents for the National Capital Region (NCR). These documents were disposed of after one-year retention period as prescribed by the National Archives of the Philippines.
  3. Results of our validation, however, disclosed that the Account Specialists did not properly accomplished the Received and Checked by portion of the Abstract of Paid and Cancelled Tickets and Agents Settlement Forms, thus, the validity and accuracy of the reported figures in the subject documents could not be established. The concerned personnel clarified that due to large volume of documents; they just randomly checked the documents received.
  4. According to the 2019 Game Rules and Regulations for lotto and digit games, as amended, per BR No. 0038, Series of 2019, ticket can only be voided (cancelled) by returning the ticket to the selling agent within five (5) minutes from the time it was purchased as indicated in the ticket. In the event that a ticket is voided (canceled) in accordance with the provisions of this rule, the customer shall be entitled to a refund from the agent a sum equivalent to the price of the ticket. Since there is no system in place to check whether canceled tickets are returned back to the selling agent to support the cancellation, this gives the lotto agents opportunities to initiate cancelation of valid tickets of significant amounts, resulting in material loss of funds through cancellation of a valid sales for personal advantage.
  5. The same game rules and regulations mentioned that, it shall be the sole responsibility of the customer to verify the accuracy of the number selection(s) and other particulars printed on the ticket. The making of a selection is at the customer’s own risk through the agent who is acting on behalf of the customer in entering the selection(s). This means that cancellation of tickets due to customers and operators’ related problems like non-payment of customers for the sold lotto tickets and wrong input of numbers or game type by the operator/cashier are for the account of the customers and operators and not for the account of PCSO. Likewise, tickets printed in error due to hardware/machine related problems such as unreadable or mutilated tickets, no bet receipt produced and printing problem or defective tickets shall be for the account of the System Provider and also not for the account of PCSO. Since the reported canceled sales involved for the account of customers, operators, system provider and PCSO, the Audit Team cannot rely on the validity of the canceled sales deducted to the sales of lotto tickets totaling P367.207 million for CYs 2021 to 2023.
  6. Sales report also revealed that canceled sales have increased over the past 3 years with the highest amount of P163.472 million in CY 2022. In the analysis of data provided to the Audit Team for the covered period disclosed the following information regarding canceled sales:

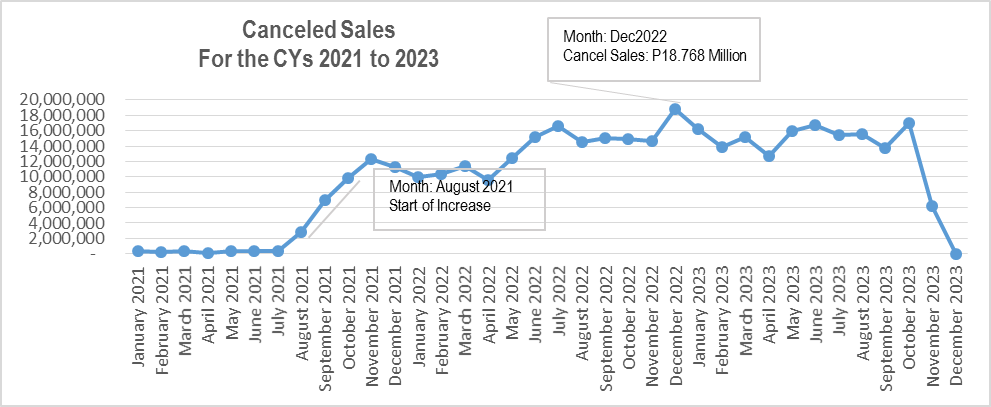
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Figure 1 - Canceled Sales Trend

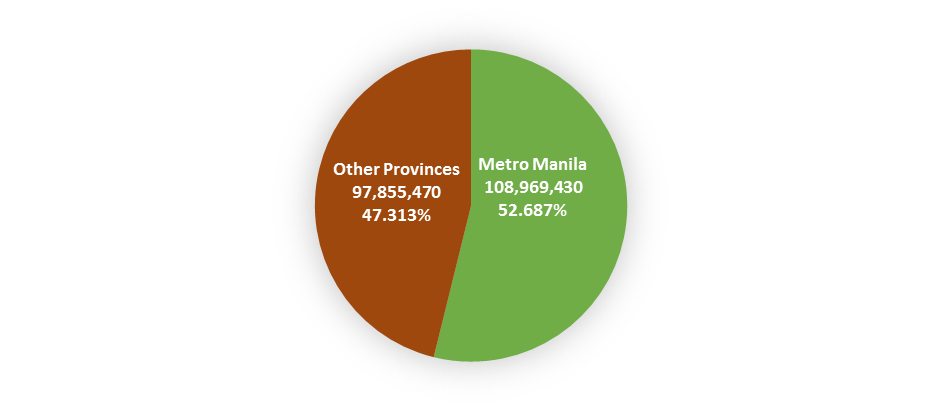
* 1. Canceled sales have increased almost month-on-month with sharp increases starting in August 2021 with the highest-ever amount of total canceled sales in December 2022. Canceled sales have started to drop since then and hovered between 12 to 15 million each month until September 2023. It was noted that in October 2023 during first month of PCSO operation using the new PLS, canceled sales ballooned up to P17 million or an average of P0.549 million daily which were unreasonable and/or irregular. There were sudden decreased of canceled sales in November 2023 and in December 2023, no canceled sales were reported. This is due to the Management decision to stop/disable the cancelation feature of the PLS system due to the noticeable large amount of cancellation of lotto tickets.

Figure 2- PGMC Canceled Sales Distribution

* 1. Analysis of the data from PGMC covering the period CY 2021 to 2023 disclosed that Metro Manila had the highest aggregate amount of canceled sales. The data shows that its canceled sales were so high that its aggregate amount exceeded the combined amount of canceled sales from all other provinces in Luzon, as shown in Figure 2.
  2. While POSC data for the same period showed that Visayas had the highest aggregated amount of canceled sales, followed by Mindanao, as shown in Figure 3:

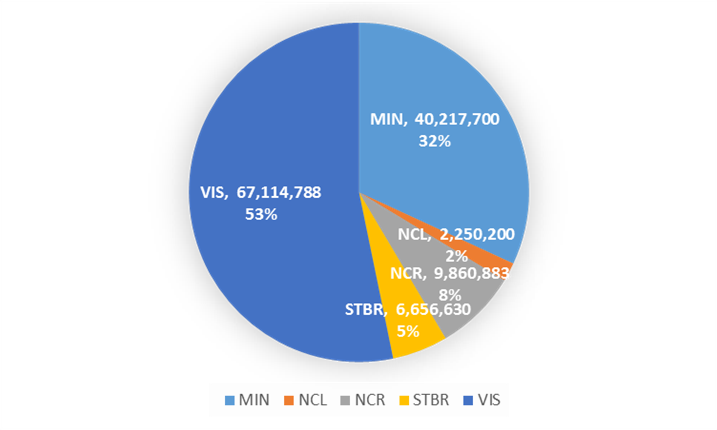
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Figure 3 - POSC Canceled Sales Distribution

* 1. Moreover, review of PGMC, POSC and PLS data for CY 2023 showed that the concentration of the canceled sales was on the Digit games specifically 3D and 2D as shown in Figure 4:

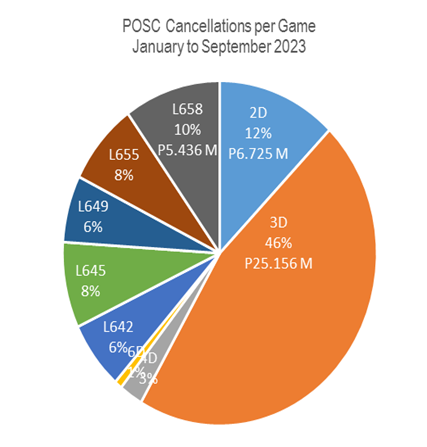
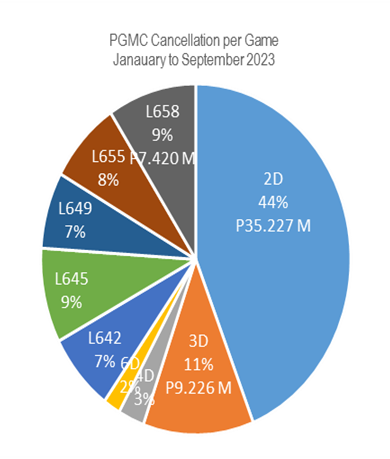
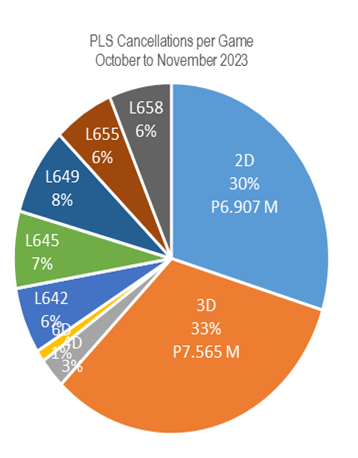


Figure 4 - Cancelled Sales per Game

* 1. Using the foregoing results of data analysis, for the period October 1-31, 2023 and November 1-12, 2023, PCSO under the PLS, registered canceled sales for P17 million and P6.220 million, respectively. It means that the average daily cancelation of lotto tickets is computed at P0.540 million (P17 million+P6.220 million)/43 days). Likewise, assuming that bettors bet a ticket of 2D or 3D games for P10, it is estimated to be equivalent to a daily 2D and 3D canceled tickets of 34,020 (P0.540 million x 63%)/P10) tickets, which is unreasonable and a large amount of sales opportunity loss for PCSO.
  2. The inability of the Management to identify immediately the irregular and/or unusual large amount of canceled tickets by the PCSO lotto agents over the past 3 years indicates internal control weaknesses. Similarly, the Agency’s inadequate internal control policy/procedures in the accounting, monitoring and validating the canceled sales of lotto tickets cast doubt on the accuracy and reliability of the sales reports used as basis in the recording of revenues in the books totaling P79.697 billion. A strong and responsive internal control system enhance the integrity of operations and improve organizational outcomes and results.
  3. **We recommended that Management:**

1. **Update the Game Rules and Regulations for lotto and digit games to clearly define conditions of a valid cancelation of tickets and this should be captured by the system accordingly;**
2. **Enhance the existing internal control policy and adopt measures that will ensure the accuracy, validity and reliability of the reported canceled sales to address the risk of improper cancelation of sales of lotto tickets; and**
3. **Conduct deeper investigation to determine the cause/s of the large amount of canceled lotto tickets and if warranted, undertake appropriate legal and/or administrative charges against those responsible of the irregularities.**

* 1. The Management informed that the COA recommendation on the necessity of updating the Game Rules and Regulations in order to address the issues on cancelled lotto ticket sales, especially the digit games is well taken. The Management also informed that cancelled tickets determined to be legitimate and captured by the system shall be for the account of the System Provider.
  2. The Management further informed that the present control policy of PCSO caused the deactivation of the cancellation feature of the PLS effective November 13, 2023.  The Management explained that for CY 2021 to November 13, 2023, the physical presence of the cancelled tickets is the most important evidence of a legitimate cancellation, which have to be validated against the submitted sales report by the system provider on a per agent basis.
  3. Moving forward, the Management informed that they will institute measure in case the PLS cancellation feature be reactivated such as, any cancellation will now be subject for reimbursement only if found to be valid, which means that cancelled tickets will not be deducted from the sales to arrive at the net pay-off until it is presented physically and validated against the sales report.  This measure will require a system fix for its implementation.
  4. The Management also informed that the Internal Audit Services (IAS) personnel are currently conducting special audit in different Branches to determine the validity and legitimacy of reported cancelled tickets.  Further, the Management tasked the IAS to recommend improvements to existing internal control policies to ensure further the accuracy, validity and reliability of reported transactions.  Moreover, the Management informed that they will pursue appropriate legal and/or administrative charges against those responsible of any irregularities.

1. **NON-FINANCIAL**
2. **The non-submission of the detailed monthly Prizes and Winners Summary Report for calendar years (CY) 2018 to 2023, the delay in the submission of the monthly Inventory and Sales Report, and the incomplete submission of the Production Report and its supporting documents by the Powerball Marketing and Logistic Corporation (PMLC) for CYs 2022 and 2023, and the lack of written approval of the PCSO on the production of 2 million tickets of *Go for Gold 50* game variant constitute non-compliance of PMLC with Sections 31(b), 34, and 41 of the 2017 RIRR for ISP and Section 7 of the Memorandum of Agreement between PCSO and PMLC, and inadequate program monitoring by PCSO contrary to Section 47 of the 2017 Revised Implementing Rules and Regulations for ISP.**
   1. The 2017 RIRR for ISP provides:

Section 31(b) – Specific Obligations of the ISAC (Production)

*“In case the game variant has been previously approved, the ISAC shall be exempted from the requirement as stated above provided that the ISAC shall obtain the approval of the PCSO Board to reprint the game variant.”*

Section 34 – Specific Obligations of the ISAC (Production)

*“Submit a Production Report from the start of production to shipment of Instant Sweepstakes tickets which shall be inspected by PCSO Representatives, with the attached supporting documents, to wit:*

1. *Copies of all purchase orders for PCSO Instant Sweepstakes;*
2. *Ticket serial numbers of Instant Sweepstakes tickets printed;*
3. *Copies of shipping documents of PCSO Instant Sweepstakes tickets and invoices;*
4. *Bill of Lading;*
5. *Commercial invoices;*
6. *Bureau of Customs Certification for Shipment Details;*
7. *Insurance Certificate;*
8. *Bank Credit/Letter of Credit; and*
9. *Other related documents for Inspection.”*

Section 41 – Specific Obligations of the ISAC (Distribution):

*“Submit the following reports in soft and hard copies on the last week of the month:*

1. *Inventory report;*
2. *Sales report per game; and*
3. *Prizes and Winners Summary report.”*

Section 47 – Rights and Obligations of PCSO

*“Exercise direct control and supervision through GPDMS over the details of operations, including but not limited to, the actual printing, inventory, sales and distribution of Instant Sweepstakes tickets.”*

* 1. Section 7 of the Memorandum of Agreement (MOA) between PCSO and PMLC provides:

*“The ISAC hereby expressly undertakes that it shall faithfully and strictly comply with its duties and obligations, and all other provisions contained in this Agreement and the Revised Instant Sweepstakes Rules as well as other rules and regulations that the PCSO may issue from time to time. Xxx”*

* 1. The PCSO, as the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character through the conduct of sweepstakes, races, lotteries, and other similar activities, approved the ISP to generate continuing additional revenues for the agency. Under BR No. 0226 series 2017, the Board of Directors approved the Powerball Marketing and Logistic Corporation (PMLC) as the Instant Sweepstakes Authorized Corporation (ISAC) who will operate the ISP for a period of five years, under a non-exclusive all-in contract involving production, distribution, marketing, advertising and selling of said Instant Sweepstakes tickets nationwide on a considered sold basis and at no cost nor risk to PCSO. Among the duties and obligations of PMLC are the submission of the monthly reports which include the Prizes and Winners Summary (PWS) Report, the Inventory Report and the Sales Report.
  2. Based on inquiry and review of the records requested by the Audit Team from the Product and Standard Development Department (PSDD), the department under the Gaming, Product Development and Marketing Sector in-charge to monitor and supervise the ISP, we have noted that PMLC did not submit to PCSO on a monthly basis, the detailed PWS Report since January 2018, the start of operation of PMLC. The monthly PWS Report should show the data on the number of winners and the amount of winnings per game variant in accordance with the approved prize payout structure. The approved prize payout structure includes the details such as the amount of prize per ticket, the number/quantity of the winning ticket, and the total prize winnings. Upon checking, the PMLC submitted the following reports instead of the monthly PWS report:
* Signed copy of the Prize Payout Report as at September 15, 2018 (no date of receipt by PCSO) and November 30, 2018 (received by PCSO on December 10, 2018), which include only the total amount of payout per game variant. The report does not include information on the number of winners and the amount of winnings per game variant.
* Signed copy of the Summary of Prize Payout Report which include only the total amount of payout per game variant per year from CY 2018 to CY 2022. The report does not include information on the number of winners and the amount of winnings per game variant and was submitted only on March 2023 upon the request of the Audit Team.
* Signed lists of Jackpot Prize/High Tier winner for CYs 2018 to 2022 which were not presented per game variant.
* Unsigned Prize Claimed and Unclaimed Report as at September 2023 which include only the total amount of payout per game variant per tier. The report does not include information on the number of winners and the amount of winnings per game variant and was submitted only on October 2023 upon the request of the Audit Team.
  1. Non-submission of the monthly PWS Report by PMLC hindered the PCSO in determining and monitoring the details of the total number of winners per game, the total prizes claimed and the balance of the unclaimed prizes per game variant, which is not compliant to Section 41 of the 2017 RIRR for ISP, and likewise, hindered the PCSO in determining the balance of unclaimed prizes of over one year to be forfeited and to be refunded by PMLC to PCSO, since the Prize Fund for the payment of winnings were being held in trust by PMLC.
  2. Moreover, review of the Inventory and Sales Reports submitted revealed that PMLC was already seven to 143 days delayed from the required date of submission as shown in Table 29. Per inquiry with PSDD, the PMLC requested to adjust the submission of the Inventory and Sales Report due to time constraint in preparing and submitting the report at the same time on the last day of the month. However, upon verification on the date of submission of the report, we noted that even if the deadline of submission were adjusted to the next business day, the PMLC was still delayed by seven to 141 days.

Table 29 - Number of Days Delayed on the Submission of the

**Inventory Reports and Sales Reports by PMLC**

| **Months** | **Date of the Reports** | **Date Received by PSDD** | **Required Date of Submission per 2017 RIRR – Last Week of the Month** | **No. of Days Delayed** |
| --- | --- | --- | --- | --- |
| ***CY 2022*** |  |  |  |  |
| January | February 7, 2022 | No stamp date | January 31, 2022 | 7\* |
| February | March 8, 2022 | March 8, 2022 | February 28, 2022 | 8 |
| March | April 7, 2022 | April 8, 2022 | March 31, 2022 | 8 |
| April | May 11, 2022 | May 12, 2022 | April 30, 2022 | 12 |
| May | June 9, 2022 | June 10, 2022 | May 31, 2022 | 10 |
| June | July 12, 2022 | July 12, 2022 | June 30, 2022 | 12 |
| July | August 10, 2022 | August 10, 2022 | July 31, 2022 | 10 |
| August | September 7, 2022 | September 8, 2022 | August 31, 2022 | 8 |
| September | November 9, 2022 | November 10, 2022 | September 30, 2022 | 41 |
| October | November 9, 2022 | November 10, 2022 | October 31, 2022 | 10 |
| November | January 16, 2023 | January 16, 2023 | November 30, 2022 | 47 |
| December | May 23, 2023 | No stamp date | December 31, 2022 | 143\* |
| ***CY 2023*** |  |  |  |  |
| January | May 23, 2023 | No stamp date | January 31, 2023 | 112\* |
| February | May 23, 2023 | No stamp date | February 28, 2023 | 84\* |
| March | May 23, 2023 | No stamp date | March 31, 2023 | 53\* |
| April | May 23, 2023 | No stamp date | April 30, 2023 | 23\* |
| May | May 23, 2023 | No stamp date | May 31, 2023 | - |

\**The date of the report was used in the computation of the number of days delayed for the*

*reports with no date of receipt.*

* 1. The Inventory and Sales Report included, in both quantity and amount, the information on the beginning ticket inventory, additional tickets imported, withdrawal of tickets, ending balance of ticket inventory, and the number of tickets sold for the month and to date. The delay of PMLC in the submission of the monthly Inventory and Sales Report hindered the PCSO in verifying the actual tickets sold and the actual sales for the month which would be the basis in determining whether the actual sales for the year is higher or lower than the annual guaranteed sales, contrary to Section 41 of the 2017 RIRR for ISP.
  2. Further, we have noted that per PCSO letter dated May 17, 2022, PCSO approved the production/re-printing of 18 million Instant Sweepstakes (IS) tickets in total amount of P420 million as shown in Table 30. On October 7, 2022, PMLC informed PCSO that they already ordered the approved IS tickets. On March 2023, the IS tickets were delivered to PMLC.

Table 30 - Schedule of IS Tickets Approved by PCSO to be Produced and

**the Actual Tickets Produced/Re-printed by PMLC**

**in Calendar Year 2022**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Game Variant** | **No. of IS Tickets Approved by PCSO to be Produced/Re-printed** | **No. of IS Tickets Produced/Re-printed by PMLC** |  | **Amount/ Price per Ticket** |  | **Total Amount of Tickets/ Sales Approved by PCSO** |  | **Total Amount of Tickets/ Sales that should be Generated by PMLC** |
| Go Bananas | 6,000,000 | 6,000,000 | P | 20.00 | P | 120,000,000.00 | P | 120,000,000.00 |
| Red Hot 7s | 6,000,000 | 6,000,000 |  | 20.00 |  | 120,000,000.00 |  | 120,000,000.00 |
| Money Tree | 4,000,000 | 4,000,000 |  | 20.00 |  | 80,000,000.00 |  | 80,000,000.00 |
| Cash Extravaganza | 2,000,000 | - |  | 50.00 |  | 100,000,000.00 |  | - |
| Go for Gold 50 | - | 2,000,000 |  | 50.00 |  | - |  | 100,000,000.00 |
| **Total** | **18,000,000** | **18,000,000** |  |  | **P** | **420,000,000.00** | **P** | **420,000,000.00** |

* 1. Verification of the records submitted revealed that PMLC did not submit to PCSO the Production Report pertaining to the 18 million IS tickets including the supporting documents such as Purchase Order, Ticket Serial Number, Bureau of Customs Certification and Bank Credit/Letter of Credit as required under Section 34 of the 2017 RIRR for ISP, which hindered PCSO in verifying the details of the tickets such as the total quantity, the game variant and the serial number of the tickets produced/re-printed by PMLC.
  2. Likewise, as can be gleaned in Table 30, Go for Gold 50 game variant was produced/re-printed by PMLC instead of the Cash Extravaganza which was not authorized by PCSO, contrary to Section 31(b) of the 2017 RIRR for ISP. Review of the physical inventory reports for IS tickets conducted and prepared by PCSO for the months of March, April and May 2023 revealed that the tickets for Go for Gold 50 were actually delivered to PMLC and not the Cash Extravaganza. In a letter dated April 12, 2023, PMLC confirmed that there was an error in the preparation of their order that caused the delivery of Go for Gold 50 tickets instead of the Cash Extravaganza tickets. Inquiry with the PSDD personnel disclosed that neither the amendment on the letter dated May 17, 2022 pertaining to the approval of production/ re-printing of the 18 million IS tickets nor the written approval/authority by the PCSO on the erroneous order made by PMLC was issued by PCSO.
  3. The non-submission of the monthly PWS Reports, the delay in submission of the monthly Inventory and Sales Reports, the incomplete submission of the Production Report and its supporting documents and the lack of written authority of PCSO on the production of Go for Gold 50 tickets constitute non-compliance of PMLC with the relevant provisions of the 2017 RIRR and Section 7 of the MOA between PCSO and PMLC which requires PMLC to faithfully and strictly comply with its duties and obligations, and all other provisions contained in the MOA and the 2017 RIRR for ISP as well as other rules and regulations that the PCSO may issue from time to time. The foregoing instances also resulted in the incomplete validation of the reports due to the inadequate monitoring, direct control and supervision of PCSO over the details of operations, including but not limited to, the actual printing, inventory, sales and distribution of Instant Sweepstakes tickets as required under Section 47 of the 2017 RIRR for ISP.
  4. Despite the non-compliance of the PMLC, the PCSO failed to impose the sanctions provided in Sections 60 and 61 of the 2017 RIRR for ISP and to charge the same against the cash bond or forfeit the cash bond of PMLC as provided under Section 10(b and b.3) of the 2017 RIRR for ISP, to wit:

*“Section 60. The PCSO may suspend, cancel, revoke or terminate the MOA of any ISAC on any of the following grounds:*

1. *Violation of any of the provisions contained in this IRR and the MOA;*
2. *Xxx*
3. *Xxx*
4. *Failure to submit any document and report as required in this IRR and the MOA, within the period prescribed by PCSO;*
5. *Failure to secure approval from the Board prior to the production of the Instant Sweepstakes tickets;*
6. *Xxx*
7. *Commission of: (1) anomalies in the management of fund; (2) irregularities in the production and inventory of tickets; (3) improper warehousing; (4) such other fraud and/or irregularities which may reflect inaccurate data and information in its financial reports submitted to PCSO; and (5) any act placing PCSO at an undue disadvantage.*

*Section 61. In case of delay in the performance by the ISAC of its obligations, it shall be liable to pay the penalty of one tenth (1/10) of one (1) percent of the cost of the unperformed portion for every day of delay until actual delivery or performance.*

*Section 10(b) Cash Bond – Xxx. The agreed bond shall also answer for any and all of the ISAC’s liabilities, including but not limited to taxes, penalties and charges, damages for default or violation of any of its obligations under these IRR and the MOA. Xxx.* (underscoring ours)

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

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

1. **Require the PMLC to submit the PWS Reports pertaining to the five-year contract with PCSO from CY 2018 to CY 2023, including the details such as the number of winners per game variant and the amount of winnings. Henceforth, we recommend the timely submission of the monthly reports required under the approved guidelines for ISP;**
2. **Require the PMLC to submit the Production Reports including its complete supporting documents pertaining to the production/re-printing of the 18 million IS tickets in CY 2022;**
3. **Require ISAC the strict compliance on the approval of PCSO before the production of IS tickets; and,**
4. **Impose the sanctions or remedies available in the 2017 RIRR for ISP and the MOA between PCSO and PMLC for the above stated non-compliance of PMLC.**
   1. The Management informed that PCSO shall request PMLC to submit the PWS Reports for CY 2018 to CY 2023 and the Production Report of the 18 Million IS tickets approved for production/re-printing in CY 2022. The Management also explained that in the approval of the NISP Memorandum of Agreement, the game variant Go for Gold had its previous approval in 2017. There was only an error in the purchase order and delivery of the tickets from Cash Extravaganza to Go for Gold but both with the same value of P50.00. Nevertheless, both game variants were previously approved by former General Manager of PCSO. Likewise, the Management informed that they will refer the same to the Legal Department for review of the sanctions or remedies available under the MOA or the 2017 RIRR.
   2. As rejoinder, the Audit Team acknowledged the Management reply that the game variant Go for Gold 50 had been previously approved by PCSO through its former General Manager. However, to clarify the audit observation, it is the re-production/re-printing of the tickets that have not been approved by PCSO Board, contrary to Section 31(b) of the 2017 RIRR for ISP, which read as follows:

*“In case the game variant has been previously approved, the ISAC shall be exempted from the requirement as stated above provided that the ISAC shall obtain the approval of the PCSO Board to* ***reprint*** *the game variant.” (emphasis ours)*

* 1. Nevertheless, the Audit Team will monitor the implementation of the audit recommendation.

1. **The payment of Lottery Draw Service Pay in the amount of P1.095 million to the Members of the Board of Directors who served as Lottery Business Operations Head in the PCSO Lottery Draws for Calendar Year 2023 lacks the necessary approval from the Governance Commission for GOCCs and the Office of the President contrary to Section 23 of the Republic Act No. 10149 or the “GOCC Governance Act of 2011” and Section 8, of Executive Order No. 24 dated February 10, 2011.**
   1. Section 23 of RA No. 10149 or the GOCC Governance Act of 2011 mandates and empowers the Governance Commission for GOCCs (GCG) to set the limits to the compensation, per diem, allowance and incentive entitlements of members of the Board of Directors of GOCCs, the charters of each of the GOCCs to the contrary notwithstanding.
   2. Likewise, Section 8, of Executive Order (EO) No. 24 defines the “Compensation Structure” for members of the Governing Board of Government Owned and Controlled Corporations (GOCCs) to be limited to Per diems, but subject to limits as provided for under Sections 9 and 10 and Performance-Based Incentives, based upon metrics as provided under Section 11 thereof.
   3. Moreover, Section 8 of EO No. 24 also provides that Salaries, **Allowances**, Benefits and other Bonuses **are not allowed** to be given to the members of the Board, **unless** specifically authorized by law or the charter and approved by the President of the Philippines, provided further that even when so allowed the total of the foregoing compensation and per diems shall not exceed the limits stipulated under Section 9 (Per Diems for Board Meetings) and Section 10 (Per Diems for Committee Meetings) hereof.
   4. Examination of the disbursement and liquidation vouchers for CY 2023 showed that Lottery Draw Service Pay in the total amount of P1.095 million was paid to the following Board of Directors (BODs) who witnessed and acted as Lottery Business Operations Head during the conduct of the 2PM, 5PM and 9PM lottery draw activities of PCSO:

|  |  |  |
| --- | --- | --- |
| **Name of Board of Directors** |  | **Amount** |
| Janet De Leon-Mercado | P | 525,000.00 |
| Jennifer E. Liongson-Guevara |  | 410,000.00 |
| Judge Felix P. Reyes (Ret.) |  | 105,000.00 |
| Junie E. Cua |  | 55,000.00 |
| **Total** | **P** | **1,095,000.00** |

* 1. As opined by the PCSO Legal Department, the conduct of draws is peculiar to the agency’s operations in its effort to raise and provide funds hence, the inclusion of the BOD may be considered in the grant of the Lottery Draw Service Pay provided that the roles of the Members of the Board be defined as part of the justification.
  2. Review of documents however showed that the grant of the lottery draw service pay to members of the BODs under BR No. 0147 Series 2022 dated July 14, 2022 was not approved by the GCG and the Office of the President nor was there a law specifically authorizing the grant thereof, thus, not in accordance with Section 23 of RA No. 10149 and Section 8, of EO No. 24. The payment therefore of the Lottery Draw Service Pay to the Members of BOD in the total amount of P1.093 million for CY 2023 has no legal basis.
  3. **We recommended that Management:**

1. **Secure the approval of the GCG and the Office of the President of BR No. 0147 series of 2022 granting the lottery draw service pay to the Members of the Board of Directors in strict compliance with RA No. 10149 and Section 8 of EO No. 24 to support the payment of the lotto draw service pay of P1.095 million to the Board of Directors of PCSO for the CY 2023.**
2. **Refrain from paying Lottery Draw Service Pay to the Members of the Board of Directors, in the absence of a legal basis.**
3. **Ensure that the compensation structure for the members of the Board of Directors remain limited to the Per Diems and Performance-Based Incentives as duly provided under Section 8 of EO No. 24 dated February 10, 2011.** 
   1. The Management informed that a letter by PCSO General Manager was sent to the Office of the President on February 29, 2024 which was duly received by the OP on March 4, 2024, requesting favorable consideration on the grant of honorarium to the PCSO Board of Directors for their attendance and participation in the lottery draw proceedings. The Office of the President responded through a letter dated 14 March 2024 endorsing the request to the Governance Commission for GOCC’s (GCG), PCSO is still waiting for GCG’s response. The Management further informed that the COA recommendation to refrain from paying Lottery Draw Service Pay to the Members of the BOD is well taken. They said that ABD will recommend to the Management the temporary exclusion of the BOD members in attending and participating in the lottery draw proceedings, until a favorable response from GCG is secured.
4. **Disbursements of the cash advances of the Accountable Officer for the payment of Lotto Draw Service Fee for the period June 28 to September 21, 2023 totaling P13.865 million were assigned to various personnel from the Treasury Department contrary to Sections 4.1.5 and 4.1.6 of COA Circular No. 97-002 dated February 10, 1997.**
   1. Sections 4.1.5 and 4.1.6 of COA Circular No. 97-002 provides that:

*“Section 4.1.5 – Only duly appointed or designated disbursing officers may perform disbursing functions... xxx”*

*“Section 4.1.6 – Transfer of cash advance from one Accountable Officer (AO) to another shall not be allowed.”*

* 1. The AO was designated as Cash Disbursing Officer under Special Order No. 2023-336 dated June 8, 2023. She was responsible for the cash payment of the Lottery Draw Service Fee of the PCSO personnel attending the lotto draws on Wednesdays and Thursdays. However, during the examination of the cash and accounts, it was noted that the disbursements of her cash advances for the period June 28 to September 21, 2023 totaling P13.865 million were assigned to various personnel from the TD.
  2. The AO maintained a logbook where the assigned personnel/paymaster affix his/her signature to acknowledge the receipt/transfer for disbursements of the Lottery Draw Service Fee.
  3. The practice of transferring the cash advances to various TD personnel/paymasters to do the disbursing function is not in accordance with Sections 4.1.5 and 4.1.6 of COA Circular No. 97-002 dated February 10, 1997.
  4. **We recommended that Management direct the concerned Accountable Officer and the Treasury Department to stop the practice of transferring cash advance from one AO to another and ensure that only duly appointed or designated disbursing officers perform the disbursing function as required under COA Circular No. 97-002 dated February 10, 1997.**
  5. The TD informed that the COA recommendation will be for compliance as soon as the new recommended paymasters are approved by the General Manager and their equivalent fidelity bonds are processed.
  6. The Team will monitor the strict compliance of Sections 4.1.5 and 4.1.6 of COA Circular No. 97-002 dated February 10, 1997.

1. **The cash advances granted to Accountable Officer in the amount of P16.815 million for the payment of Draw Service Fee for the period June 28, 2023 to September 21, 2023 was not equal to the net amount of the payroll for the same period in the amount of P13.865 million, contrary to Section 4.2.1 of COA Circular No. 97-002 dated February 10, 1997.**

* 1. Section 4.2.1 of COA Circular No. 97-002 dated February 10, 1997 provides that the cash advance shall be equal to the net amount of the payroll for a pay period.
  2. Review of the DVs) and Liquidation Vouchers of the AO disclosed that there was a difference in the total amount of P2.950 million between the granted cash advances for the payment of Draw Service Fee for the period June 28 to September 21, 2023 and the net amount per payroll for same period, as shown below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Period** |  | **Total amount granted** |  | **Total net amount paid per payroll** |  | **Difference**  **(Refunded)** |
| June 28-29, 2023 | P | 1,800,000.00 | P | 1,247,070.00 | P | 552,930.00 |
| July 5-6, 2023 |  | 1,800,000.00 |  | 1,277,932.00 |  | 522,068.00 |
| July 12-13, 2023 |  | 1,510,000.00 |  | 1,273,325.00 |  | 236,675.00 |
| July 19-20, 2023 |  | 1,490,000.00 |  | 1,239,890.00 |  | 250,110.00 |
| August 2-3, 2023 |  | 1,442,000.00 |  | 1,227,840.00 |  | 214,160.00 |
| August 9-10, 2023 |  | 1,486,000.00 |  | 1,249,570.00 |  | 236,430.00 |
| August 16-17, 2023 |  | 1,444,000.00 |  | 1,213,480.00 |  | 230,520.00 |
| August 23-24, 2023 |  | 1,443,000.00 |  | 1,231,375.00 |  | 211,625.00 |
| September 6-7, 2023 |  | 1,430,000.00 |  | 1,289,265.00 |  | 140,735.00 |
| September 13-14, 2023 |  | 1,480,000.00 |  | 1,284,600.00 |  | 195,400.00 |
| September 20-21, 2023 |  | 1,490,000.00 |  | 1,330,350.00 |  | 159,650.00 |
| **Total** | **P** | **16,815,000.00** | **P** | **13,864,697.00** | **P** | **2,950,303.00** |

* 1. Further examination of the accounts showed that the cash requirement for the cash advances of the AO were estimated based on the previous payments of the lottery draw service fee for two days plus a buffer of P50,000.00 to P100,000.00 per day thus, an excessive cash amount for refund is always incurred as shown in the preceding table above.
  2. Since the payroll for the Lottery Draw Service Fee was a prerequisite requirement before the grant of the cash advances, it should have been based on the net amount of payroll for a pay period in compliance with Section 4.2.1 of COA Circular No. 97-002 dated February 10, 1997.
  3. **We recommended and Management agreed to direct the concerned officials and employees of the ABD and the Treasury Department to grant cash advances for the payroll of Lottery Draw Service Fee equal to the net amount of the payroll for a pay period in strict compliance with Section 4.2.1 of COA Circular No. 97-002 dated February 10, 1997.**

1. **Upon ceasing to act as an accountable officer (AO), the Report of Accountability of the AO was not submitted to the Office of the Auditor which precluded the Audit Team to examine her accounts before she was relieved from her accountability contrary to COA Memorandum No. 2013-004 dated July 9, 2013 and Section 80 of Presidential Decree No. 1445.**
   1. COA Memorandum No. 2013-004 dated July 9, 2013 of the Revised Cash Examination Manual, Chapter II, Laws and Rules Relevant in Cash Examination, states that:

“*When government funds or property are transferred from one accountable officer to another, or from an outgoing officer to his successor, it shall be done upon properly itemized invoice and receipt, which shall invariably support the clearance to be issued to the relieved or outgoing officer, subject to regulations of the Commission.”*

* 1. Further, Section 80 of PD No. 1445 provides that:

*Final report of accountable officers.*

1. *An accountable officer, upon ceasing to act in his official capacity as such, shall submit to the auditor of the agency concerned a report of his accountability.*
2. *Any remaining balance of such accountability shall be deposited in the proper treasury without unnecessary delay.*
   1. During the cash examination on September 25, 2023, the AO has no cash and accountable forms. The Audit Team was informed that she was already transferred from TD to SPPD as Supply Officer III effective March 1, 2023. She assumed office on March 26, 2023 and all of her remaining accountabilities such as ORs were assumed by a Collection Officer from the TD.
   2. Review of the Report of Collections and Deposits (RCD) dated March 24, 2023 showed that a total of P18,898.98 collection of the AO were deposited to PCSO LBP account on March 27, 2023 after her transfer. However, upon verification it was revealed that the Report of Accountability showing all accountabilities of the AO before her transfer was not submitted to the Office of the Auditor as required under COA Memorandum 2013-004 or the Revised Cash Examination Manual and Section 80 of PD 1445.
   3. The Report of Accountability shall consist of the following:
3. Report of Collections and Deposits (RCD) prior to her transfer, showing that all her collections were already deposited;
4. Cash Receipts Record (CRR), a form used by the designated Collecting Officer to record his/her collections and deposits; and
5. Documents showing that all her unused accountable forms are either returned or turned over to other accountable officer.
   1. The non-submission of the Report of Accountability of the AO precluded the Audit Team from examining her accounts before she was relieved from her accountability.
   2. **We recommended that Management strictly comply with the provisions of COA Memorandum No. 2013-004 dated July 9, 2013 or the Revised Cash Examination Manual and Section 80 of PD No. 1445 on the submission of the Report of Accountability by the concerned AO upon ceasing to act as an accountable officer.**
   3. The Audit Team appreciated Management’s commitment to implement the recommendation and will monitor Management strict adherence to COA Memorandum No. 2013-004 dated July 9, 2013 and Section 80 of PD No. 1445.
6. **The handling, custody and disposition of the Petty Cash Fund (PCF) granted to the AO, designated as Petty Cash Fund Custodian (PCFC), amounting to P2.674 million for the period February 7 to September 25, 2023 were being done by non-permanent employees who were not designated as PCFC, contrary to Sections 4.1.4, 4.1.5, and 4.1.6 of COA Circular No. 97-002.**
   1. Sections 4.1.4, 4.1.5, 4.1.6 and 6.4 of COA Circular No. 97-002 provide:

*“4.1.4 Only permanently appointed officials shall be designated as disbursing officers. Xxx*

*4.1.5 Only duly appointed or designated disbursing officers may perform disbursing functions. Xxx*

*4.1.6 Transfer of cash advance from one Accountable Officer (AO) to another shall not be allowed.”*

* 1. During the examination of the cash and accounts of the AO, we noted that the cashbox, cashbox key, and the steel cabinet where the cashbox and the cashbox key were being kept were in the possession and custody of of PCSO employee, Private Secretary II-Office of the General Manager, and not with the AO, the PCFC. Review of the letter by AO to the Private Secretary dated January 30, 2023 revealed that as instructed by their superiors, he would help the AO in the processing, accounting, and safekeeping of PCF. However, inquiry with the AO disclosed that as instructed by their superiors, starting January 31, 2023, his only role as PCFC is the filing of replenishment to the Computerized Accounting System, claiming and encashment of check, and turn-over of cash to the Private Secretary, while the handling, custody, and disposition of the PCF were being done by the later and two Confidential Agents who are not permanent employees of PCSO and were not officially designated as PCFC, thus, not eligible to become PCFC as provided in Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002.
  2. The AO, likewise, cannot transfer his cash advance/accountability to another as this was not allowed under Section 4.1.6 of COA Circular No. 97-002.
  3. **We recommended and Management agreed to ensure that the duly designated PCFC, shall perform the disbursing functions. He/she shall be responsible for the proper handling, custody and disposition of the PCF and the proper recording and accounting thereof. Transfer of his PCF to another is strictly prohibited under Section 4.1.6 of COA Circular No. 97-002.**

1. **Replenishment of Petty Cash Fund as soon as disbursements therefrom reaches 75% was not observed by the Accountable Officer, contrary to Section 4.3.1 of COA Circular No. 97-002 dated February 10, 1997.**
   1. Section 4.3.1 of the COA Circular No. 97-002 states that:

*“The cash advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements.”*

* 1. During the cash count, we noted that the AO was granted an initial cash advance of P100,000.00 for the petty operating expenses of the BOS. Review of replenishments of the expenses paid out of the PCF for the period January-September 2023 disclosed that the average amount of expenses processed before replenishment is P88,605.85 or 88.61% of the PCF, which was not in consonance with Section 4.3.1 of COA Circular No. 97-002, details are shown in Table 31:

Table 31 - Schedule of PCF Replenishments

**As at September 25, 2023**

| **Date** | **Check No.** | **Amount Check Replenishment** | **Disbursement/ PCF Granted (%)** | **Balance of PCF** | **Disbursements before the receipt of replenishment check** | **Fund Insufficiency** |
| --- | --- | --- | --- | --- | --- | --- |
| 03/13/2023 | 282329 | P 84,248.22 | 84.25% | P 15,751.78 | P 16,676.39 | P(924.61) |
| 04/12/2023 | 282954 | 96,403.07 | 96.40% | 3,596.93 | - | - |
| 04/26/2023 | 283301 | 96,738.07 | 96.74% | 3,261.93 | - | - |
| 05/18/2023 | 283791 | 80,653.43 | 80.65% | 19,346.57 | 17,907.95 | - |
| 05/31/2023 | 284103 | 75,782.03 | 75.78% | 24,217.97 | 16,864.53 | - |
| 06/09/2023 | 2844364 | 83,884.58 | 83.88% | 16,115.42 | - | - |
| 07/26/2023 | 285082 | 95,198.94 | 95.20% | 4,801.06 | - | - |
| 08/01/2023 | 285178 | 96,727.89 | 96.73% | 3,272.11 | - | - |
| 09/06/2023 | 285762 | 87,816.45 | 87.82% | 12,183.55 | - | - |
| **Total** | | **P 797,452.68** |  | **P102,547.32** |  |  |
| **Average** | | **P 88,605.85** | **88.61%** | **P 11,394.15** |  |  |

* 1. It can be gleaned in Table 31 that replenishments exceeded the 75% of PCF as required under Section 4.3.1 of COA Circular No. 97-002. We noted that in March 2023, PCF balance had been insufficient to reimburse the expenses made by the department resulting in a deficiency of P924.61.
  2. The practice of not replenishing the PCF as soon as disbursements reached 75% may result to recurrence of insufficient funds to cover immediate need for supplies or other minor cost items of various offices and departments, thus defeating the purpose for which the PCF was granted.
  3. **We recommended and Management agreed that PCF be replenished as soon as disbursements thereof reaches 75% or as needed in compliance with** Section 4.3.1 of COA Circular No. 97-002**.**

1. **Excessive Petty Cash Fund amounting to P100,000.00 were granted to Accountable Officer when her monthly disbursements ranges only from P8,000.00-P36,000.00 or an average of P20,000.00 per month contrary to Sections 1.1.2 and 1.2 of COA Circular 2012-001; thus, a considerable amount of cash remained in the possession of the Petty Cash Fund Custodian, exposing it to the risk of losses or misused.**
   1. Sections 1.1.2 and 1.2 of COA Circular No. 2012-001 states:

*“1.1.2 The PCF to be set up shall be sufficient for the recurring petty operating expenses of the agency for one month. Xxx”*

*“1.2 Petty Cash Fund (PCF) – as soon as the disbursements reaches 75% or as needed, the PCF shall be replenished which shall be equal to the total amount of expenditures made therefrom. Xxx”*

* 1. On November 3, 2022, the AO was granted P100,000.00 cash advance pursuant to Special Order No. 2022-715 dated September 27, 2022 for the petty operating expenses of the Office of the Chairperson. Review of the disbursements and replenishments showed that the PCF granted was excessive based on the computed average monthly disbursements out of the PCF, as presented in Table 32:

Table 32 - Summary of Disbursements and Replenishments of PCF

**As at September 25, 2023**

|  | **Month** |  | **Replenishments** |  | **Disbursements** | **Percentage of Disbursements to Total PCF** |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Initial Grant, November 3, 2022** | | | **P** | **100,000.00** |  |
| 1 | November 2022 |  |  | P | 27,413.30 | 27.41% |
| 2 | December 2022 |  |  |  | 31,392.00 | 31.39% |
| 3 | January 2023 | P | 23,238.30 |  | 36,244.10 | 36.24% |
| 4 | February 2023 |  | 35,567.00 |  | 30,052.09 | 30.05% |
| 5 | March 2023 |  |  |  | 20,648.50 | 20.65% |
| 6 | April 2023 |  | 36,244.10 |  | 16,014.65 | 16.01% |
| 7 | May 2023 |  | 51,342.59 |  | 29,775.05 | 29.78% |
| 8 | June 2023 |  | 33,746.65 |  | 11,554.45 | 11.55% |
| 9 | July 2023 |  |  |  | 14,662.00 | 14.66% |
| 10 | August 2023 |  |  |  | 8,656.05 | 8.66% |
| 11 | September 2023 |  |  |  | 9,491.05 | 9.49% |
|  | **Total Expenses** |  |  | **P** | **235,903.24** |  |
|  | **Average Monthly Expenses** | | | **P** | **21,445.75** |  |

* 1. As can be gleaned in Table No. 32, the monthly disbursements out of the PCF ranges only from P8,000.00 to P36,000.00, which is only 36%, at most, of the total PCF granted to AO. Likewise, Table No. 32 showed that AO replenished the PCF five times only out of the 11-month period, which mean that the amount of PCF is excessive for the monthly disbursements of the AO as required under Section 1.1.2 COA Circular No. 2012-001. The same Circular also requires that the initial cash advance be supported with the *approved estimates of petty expenses for one month.* However, upon inquiry, no approved estimates of petty expenses were made for the initial cash advance of the AO. Post audit of the DVs for cash advances also revealed that no estimates of petty expenses were attached to the DVs.
  2. Absence of the approved estimate of petty expenses for one month precluded the PCSO to better assess the required cash advance that should have been granted to AO resulting in the excessive cash advances, thus, exposing the fund to the risk of losses and misuse.
  3. **We recommended and Management agreed to reduce the amount of PCF from P100,000.00 to P50,000.00 based on the historical data on the average monthly disbursements charged to the PCF.**

**GENDER AND DEVELOPMENT (GAD)**

1. **The correctness of the amount attributable to Gender and Development (GAD) as shown in the GAD Accomplishment Report totaling P3.663 billion could not be ascertained due to the inconsistencies of the amount of the Annual Program Expenditure (APE) with the accounting records and the supporting schedules, the incomplete documentations to support the APE and the erroneous computation of the Harmonized Gender and Development Guidelines Project Implementation and Management, and Monitoring and Evaluation score, contrary to Sections 1.6.2 and 1.6.3 of the Philippine Commission on Women Memorandum Circular No. 2023-05 dated December 19, 2023.**
   1. Section 1.6.2 and 1.6.3 of the Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2023-05 provides:

*1.6.2 The score in the HGDG assessment shall be the basis for determining the actual cost/expenditure that can be attributed to GAD and reflected in the GAD AR. The percentage score of the program/project in HGDG PIMME/FIMME assessment shall correspond to the percentage of the expenditure (****not*** *the budget) of the agency’s major program/project that may be attributed to GAD, provided that programs/projects with HGDG PIMME/FIMME scores below 4.0 shall* ***not*** *be eligible for attribution. The formula for computation shall be as follows:*

*(HGDG PIMME/ FIMME Score)/Total HGDG Points x 100% = % of annual program expenditure attributable to GAD*

*(% of annual program expenditure attributable to GAD) x (annual program expenditure)*

*= amount attributable to GAD in the AR*

*e.g. 16.5/20 X 100% = 82.5%*

*82.5% X Php 50 million = Php 41,250,000.00*

*1.6.3 PDF copies of the accomplishment HGDG PIMME/FIMME checklist, the program brief and accomplishment report, details of expenditure, as well as the relevant MOVs for the agency self-rating shall be attached to the agency’s GAD AR submission, such as activity reports, monitoring and evaluation reports, and list of sex disaggregated data or gender statistics that were used and/or collected, among others.*

* 1. For CY 2023, PCSO’s GAD Accomplishment Report (AR) reported actual GAD expenditure totaling P3.669 billion which is 6.25% of the approved Corporate Operating Budget of P58.742 million. However, the correctness of the amount of Actual GAD Expenditure as shown in the GAD AR totaling P3.669 billion could not be ascertained due to the inconsistencies of the amount of the Annual Program Expenditure (APE) with the accounting records and the supporting schedules, the incomplete documentations to support the APE and the erroneous computation of the Harmonized Gender and Development Guidelines (HGDG) Project Implementation and Management, and Monitoring and Evaluation (PIMME) score.
  2. In compliance with Section 1.1 of the PCW MC No. 2023-05, which provides the deadline for submission of GAD AR of different government agencies, PCSO submitted its GAD AR to PCW via Gender Mainstreaming Monitoring System on March 1, 2024, summarized in Table 33:

Table 33 - Summary of GAD Budget and Actual Cost Per GAD AR

| **GAD Programs and Activities** |  | **GAD Budget based on GAD Plan and Budget** |  | **Amount Attributed to GAD reported in GAD AR** |
| --- | --- | --- | --- | --- |
| *Attributed Program* |  |  |  |  |
| Universal Health Care (UHC) | P | 1,034,462,245.61 | P | 726,646,318.51 |
| Ambulance Donation Program |  | 730,089,726.62 |  | 575,310,704.58 |
| Medical Access Program (MAP) |  | 849,273,599.47 |  | 887,418,276.23 |
| STL/Agent’s Commission |  | 229,127,789.17 |  | 1,204,609,164.65 |
| Corporate Social Responsibility (CSR) Program |  | 47,628,328.01 |  | 62,527,500.00 |
| LGU Support as Mandatory Contributions of PCSO |  | 184,468,536.00 |  | 184,858,506.23 |
| PCSO Shuttle Service |  | - |  | 21,970,003.45 |
| *Subtotal* | *P* | *3,075,050,224.88* | *P* | *3,663,340,473.65* |
| *Client-focused activities* |  | *9,074,000.00* |  | *3,966,968.00* |
| *Organizational-focused activities* |  | *5,632,000.00* |  | *2,124,361.06* |
| **Total** | **P** | **3,089,756,224.88** | **P** | **3,669,431,802.71** |
| **% Utilization of Budget (Actual cost per GAD AR / GAD Budget)** |  |  |  | **118.76%** |
| **Approved Budget per COB** |  |  |  | **58,741,739,000.00** |
| **% of GAD Expenditure over the approved budget per COB** |  |  |  | **6.25%** |

* 1. The amount attributed to GAD reported in GAD AR totaling P3.663 million was computed based on the amount of the APE multiplied by the HGDG score as provided under Section 1.6.2 of PCW MC No. 2023-005. APE should be supported with details of expenditures and other relevant documents in order to establish the correct amount that would be the basis for GAD attribution.
  2. Section 1.6.3 of PCW MC No. 2023-05 provides the documents that should be attached to GAD AR. However, we noted the submission of incomplete documents of five out of the seven Programs, Activities, Projects (PAPs) attributed to GAD, as shown in Table 34:

Table 34 - Documents Submitted as Support to the PAPs

**Attributed to PCSO GAD**

|  | **PAPs Attributed to GAD** | **HGDG PIMME Checklist** | **Program Brief and Accomplishment Report** | **Details of Expenditures** | **Relevant Means of Verification (MOV) to facilitate the validation of HGDG score** | **Remarks on the Amount Attributed per GAD AR** |
| --- | --- | --- | --- | --- | --- | --- |
| 1. | UHC | ✓ | ✓ | ✓ | ✓ |  |
| 2. | Ambulance Donation Program | ✓ | ✓ | X | X | The attached details of expenditures were insufficient to support the APE. |
| 3. | MAP | ✓ | ✓ | X | ✓ | The attached details of expenditures were insufficient to support the APE. |
| 4. | STL/Agent’s Commission | ✓ | ✓ | ✓ | ✓ | Amount pertained to payments of Lotto Agent’s Commission |
| 5. | CSR Program | ✓ | ✓ | X | ✓ | The attached details of expenditures were insufficient to support the APE. |
| 6. | LGU Support as Mandatory Contributions of PCSO | ✓ | ✓ | X | ✓ | The reported APE was greater than the balance reported per accounting records. |
| 7. | PCSO Shuttle Service | ✓ | ✓ | X | ✓ | The reported APE cannot be determined using the attached details of expenditures. |

* 1. The incomplete submission of the required documents hindered the Auditor in verifying the correctness of the amount of APE and the amount of PAPs that should be attributed to GAD.
  2. Likewise, we noted inconsistencies of the amount of APE used in HGDG PIMME checklist with the submitted supporting documents and with the accounting records as shown in Table 35. This hindered the Auditor in verifying the correctness of the amount of APE.

Table 35 - Inconsistencies in the Amount of APE used in HGDG PIMME Checklist with the Submitted Supporting Documents and the Accounting Records

| **Attributable Program** |  | **Amount of APE as reported in HGDG PIMME Checklist** |  | **Documents submitted by the concerned departments to support the APE** |  | **Related Expenses Recorded per Trial Balance/ Accounting Records** |
| --- | --- | --- | --- | --- | --- | --- |
| UHC | P | 1,728,053,076.13 | P | 1,728,053,076.13 | P | 1,762,797,869.67 |
| Ambulance Donation Program |  | 730,089,726.62 |  | 281,829,000.00 |  | 275,600,000.00 |
| MAP |  | 1,886,117,484.02 |  | 1,852,448,861.46 |  | 1,970,032,972.20 |
| STL/Agents Commission |  | 2,066,224,982.25 |  | 2,066,224,982.25 |  | 2,252,310,686.85 |
| CSR Program |  | 105,000,000.00 |  | 101,387,376.00 |  | \* |
| LGU Support as Mandatory Contributions of PCSO |  | 516,364,542.55 |  | 516,364,542.55 |  | 495,853,197.67 |
| Shuttle Service |  | 33,593,277.45 |  | \*\* |  | \* |

*\*Amount per Trial Balance or accounting records could not be determined.*

*\*\*Amount cannot be determined using the supporting documents submitted by the concerned departments.*

* 1. The amount of APE for UHC, STL/Agents Commission and Local Government Unit (LGU) Support as Mandatory Contributions of PCSO were the same with the amount of the submitted supporting schedules, but were different with the amount per accounting records. Inquiry with the ABD revealed that the total amount of these programs was based on revenue, so the actual expenses might be different from the approved budget. Also, inquiry with PCW disclosed that the amount of APE or the amount attributed to GAD may be more than the approved budget provided that they can justify the variance.
  2. The APE for Ambulance Donation Program amounting to P730.090 million were supported by a list of beneficiaries under the program submitted by Charity Assistance Department in total amount of P281.829 million only, which is also different from the accounting book balance of P275.6 million.
  3. The APE for MAP totaling P1.886 billion which was supported by CY 2023 MAP Accomplishment Report and Sex Disaggregated Data submitted by Charity Assistance Department (CAD) with a total amount of P1.852 billion only. Inquiry disclosed that the P1.852 billion pertained to the Guarantee Letter issued for CY 2023 financial assistance granted under MAP-General and MAP-Malasakit. However, the accounting records reported a total amount of P1.970 billion for MAP for CY 2023, which is different from the amount of APE and its supporting documents.
  4. The APE for CSR Program totaling P105 million was supported by CSR Accomplishment Report with showed a total fund utilization of P101.387 million only. The total amount of CSR cannot be determined in the financial statements as these were incorporated in various Trial Balance accounts.
  5. For Shuttle Service, we noted that the APE amounting P33.593 million were supported by Accomplishment Report of the program disclosing the Fuel and Toll Fees in CY 2023 of P3.057 million. Also, there were schedules/documents attached to the report showing the cost of buses and mini coaster used as shuttle service, salary of the driver and maintenance cost. Moreover, based on HGDG PIMME checklist, we have noted that PCSO procured three buses amounting P29.500 million, but these were supported only by sales invoice with total amount of P19.500 million. Based on the review, the supporting documents attached could not support the total of APE.
  6. Moreover, review of the HGDG PIMME checklist disclosed the incorrect computation/summation of the HGDG PIMME score, which affected the computation of the amount attributable to GAD, as shown in Table 36. Likewise, since the correct amount of APE could not be established as discussed above, the effect of the incorrect computation/summation in the amount to be attributed to GAD could also not be established.

Table 36 - Incorrect Computation/Summations of the HGDG PIMME Score

|  |  |  |  |
| --- | --- | --- | --- |
| **Attributable Programs** | **HGDG PIMME Score Computed by PCSO** | **Re-computation of the HGDG PIMME Score by COA** | **Discrepancies in the computation of the HGDG PIMME Score** |
|  | **(a)** | **(b)** | **c (b-a)** |
| Universal Health Care | 8.41 | 9.66 | 1.25 |
| Ambulance Donation Program | 15.76 | 9.91 | (5.85) |
| Medical Access Program | 9.41 | 10.16 | 0.75 |
| **Total** | **33.58** | **29.73** | **(3.85)** |

* 1. Due to the inconsistencies of the amount of the APE with the accounting records and the supporting schedules, the incomplete documentations to support the APE and the erroneous computation of the HGDG PIMME score, the correctness of the amount of Actual GAD Expenditure as shown in the GAD AR totaling P3.669 billion could not be ascertained. Interview with the GAD Focal Point System (GFPS) revealed that the first review of the GAD AR by PCW were received by PCSO on May 14, 2024 and they are now addressing the comment of the PCW on the GAD AR. Likewise, GFPS will give the Audit Team the updated GAD AR once they have submitted the same with PCW on or before June 15, 2024.
  2. **We recommended and Management agreed to instruct the GFPS to effect the necessary adjustments in the GAD AR, specifically, the APE and the HGDG PIMME scores to reflect the correct amount of expenditures attributable to GAD duly supported with complete documentation.**

**BRANCHES**

1. **The reported Small Town Lottery Retail Receipts of the Authorized Agent Corporations under PCSO Ilocos Norte, Ilocos Sur, Pangasinan, Kalinga, Nueva Vizcaya, Quirino, Cagayan, Isabela, Albay, Camarines Sur, Camarines Norte, Sorsogon, Aklan, Antique, Capiz, Guimaras, and Iloilo for CY 2023 could not be ascertained due to: a) lack of supporting documents to prove the reported retail receipts and absence of verification by PCSO to assess the correctness of the amount; and b) manual processing of transactions that is prone to fixing, rigging, and easy manipulation of monthly retail receipts/sales reports, thus cast doubt on the completeness of remittances due to PCSO representing 52.295% (January 2023) and 49.6% (February to December 2023) of the monthly retail receipts or Guaranteed Minimum Monthly Retail Receipts, whichever is higher.**
   1. **We recommended that Management:**
2. **Conduct verification of the reported retail receipts of the STL AACs for CY 2023 and review the 2020 Revised STL IRR to consider revisions such as the inclusion of a mechanism that will enhance the verifiability of the AACs’ reported retail receipts submitted to PCSO; and**
3. **Engage in a collaborative effort with AACs to expedite the implementation of automation of the STL operations or the transition to Fixed and Mobile Handheld System from manual entries.**
   1. Management commented that the GMMRR is the guaranteed amount offered and voluntarily committed by the AAC to PCSO and is expressly provided in the Agency Agreement. It was also explained that the STL Core Group conducts review of the existing GMMRR and subject them to escalation in case of renewal of the Agency Agreement after the 3-year Regular Status of the AAC. While Management acknowledged the need to verify the sales report submitted by the AAC, they emphasized that it is also equally important to note that as long as the AAC complies with the GMMRR duly approved by the Board, the AAC satisfies one of its duties and responsibilities as provided under the 2020 Revised STL IRR. And that assures and guarantees the office of the funds needed in providing our government for its health programs, assistance and medical services.
   2. The PCSO Branch mentioned the importance of establishing effective controls in mitigating inaccurate recording of sales and they informed the Audit Team that PCSO management has been discussing to carry on its provision in implementing Fixed and Mobile Handheld Terminal System to comply with the observation. Likewise, the review of the 2020 RIRR provisions will be endorsed to the Head Office.

* 1. As a rejoinder, strict monitoring of the full implementation of the audit recommendations will be undertaken by the Audit Team.

1. **Non-submission of financial records and other relevant documents for the utilization of prize fund and sales force commission of the STL operations in the Province of Albay, Camarines Sur, Camarines Norte and Sorsogon, contrary to 2020 STL RIRR, precluded the timely and relevant audit thereof, hence, the correctness of recording and the validity of transactions could not be established.**
   1. **We recommended that Management:**
2. **Require the AACs to immediately submit the complete financial records and other relevant documents supporting the prize payouts, and sales force commission payments in CY 2023. Thereafter, the Branch Accountant should verify the correctness of the submitted supporting documents/financial records and submit to the Auditor for further verification; and**
3. **Impose the appropriate penalties under Article VI of the STL RIRR to prevent the AACs from neglecting their duties and responsibilities, especially on the prompt and complete submission of STL- related financial records and documents for purposes of inspection by PCSO and COA.**
   1. The Management stated that the STL AAC submits its monthly reports to PCSO, including the prize utilization report, however, no supporting documents or breakdown are provided to them. As to the PF payouts, it has been the practice in the area that the Winnings are claimed by the Sales Supervisors, then handed down to the Sales Representative, then to the winner. Due to this, the AAC and the branch office have difficulty in producing the paid payrolls for the sales force commission and the winners.
   2. As rejoinder, the Audit Team stand with its audit recommendations and request Management to implement the same to avoid the unfavorable effects of non- submission and non- verification of supporting documents in the accounting and audit of government transactions. Likewise, the Audit Team shall monitor and evaluate the subsequent compliance by Management with the above-cited audit recommendations.
4. **The charges or payments out of the Prize Fund for calendar year 2023 reported by the AAC STL operator for its operations in Baguio City and Benguet are not reliable which instance may have resulted in the excessive charging against such Prize Funds by the AAC due to undocumented payment of winnings and the fact that payees of prize payouts were all members of the AAC’s sales force.**
   1. **We recommended and Management agreed to**
5. **Require the AAC to use the STL tickets prescribed by the PCSO pursuant to Section 21 of the 2020 STL RIRR in the collection of bets in order to ensure that actual collections are properly accounted for. The issuance of other forms to acknowledge STL bets other than STL tickets prescribed by the PCSO shall be deemed illegal and therefor, shall not be allowed;**
6. **Scrutinize the process and documentation of the payment of prize winnings and determine whether the payments are supported with valid STL tickets;**
7. **Inquire why the payees of prize payouts were members of the AAC’s sales force which instance is contrary to Section 23 of the 2020 STL RIRR; and**
8. **Evaluate the operations of the AAC and report any violations of the AAC pursuant to Section 8 of the 2020 STL RIRR in relation to Section 26.h of same RIRR**
   1. Management commented that the STL AAC consistently submits reports on prize claims along with supporting documents. Going forward, the Branch stated that they will advise the AAC to use pre-numbered prize claim forms in for STL prize/s.
   2. Likewise, AAC has submitted an affidavit-explanation stating that by way of substantial compliance, the AAC submitted the list of Sales Supervisors or Representatives (CABOs) in lieu of Actual Winners for prizes above P10,000.00. By way of tradition since time immemorial, betting as part of the gaming culture, there is fiduciary trust relationship between the bettor and the CABO. This is akin to an ‘honor code”. The idea of palabra de honor (a word is good) is a concrete promise. Hence, betting as the lifeblood of STL, honor is the lifeblood of betting. Thus, in Baguio- Benguet, winnings are delivered to the winning bettor without any document being signed
   3. Further, the Benguet Branch explained that they have consistently upholds its commitment to providing excellent services to the public. Consequently, any deviation by the STL-AAC from established standards cannot be tolerated.
   4. The audit team maintains that the management should establish guidelines on the manner of validating the authenticity of payment for STL winnings. The management shall likewise ensure that claims or pay-out from the prize fund should be properly supported by complete documents. This is in line with the rule that disbursement of public funds should be properly documented since the Prize Fund falls under this category
   5. The audit team is also not amenable on the explanations by the AAC as contained in the Affidavit-Explanation with regard to the concept of fiduciary trust in the receipt of winnings by the CABO from the AAC instead of the winning bettor, directly. This concept of fiduciary trust runs counter with the requirement of the 2020 STL RIRR which provides that winners should claim the winnings from the AAC
   6. The affidavit of the AAC president submitted by management to the audit team is a clear admission by said AAC that its practice directly violated the pertinent provision of the 2020 STL RIRR which violation is being tolerated by management. It is advised that management religiously comply with its obligations in relation to the STL operations as mandated by the 2020 STL RIRR.
9. **The Fund Utilization Report with Statement of Receipt for the Small Town Lottery charity fund share transferred to various Local Government Units (LGUs) in the Province of Batangas, Laguna, Rizal and Quezon, were not submitted to the Philippine Charity Sweepstakes Office Internal Audit Service (IAS), contrary to the Memorandum of Agreement (MOA) entered into by the PCSO and each of the LGUs thus hampering the ability of the IAS to validate the proper utilization of the fund.**
   1. **We recommended that the Branch Manager inform/remind the LGUs of their obligations outlined in the MOA and require the submission of the Fund Utilization Report with Statement of Receipt to the PCSO IAS for the funds transferred in Year 2023 to facilitate the latter’s timely evaluation/determination of the proper utilization of the funds.**
   2. Management commented that there were LGUs which had already submitted Fund Utilization Reports to the Branch for submission to IAS as at March 20, 2024. Further, the Management assured that follow-up letters will be sent to the remaining LGUs that have not yet submitted the required fund utilization reports.
   3. As rejoinder, the Audit Team will monitor the implementation of these measures to ensure compliance and transparency.
10. **Guarantee Letters (GLs) totaling to ₱2.681milion were still accepted and paid by PCSO Ilocos Norte, Ilocos Sur, Pangasinan, despite being over the 30-day validity period which is not in conformance with Section VIII of PCSO Revised Implementing Rules and Regulations (IRR) of the Medical Access Program (MAP), thereby affecting the validity of payments made**
    1. **We recommended that Management:**
11. **Follow-up from concerned beneficiaries, hospitals/PHFs/retailers the timely submission of SOAs, reminding the terms and conditions embodied in the GL; and**
12. **Elevate the matter to the NCL and suggest for the inclusion of sanctions on defaulting hospitals/PHFs/retailers in the IRR**
    1. Management commented that the Revised IRR of the Medical Access Program (MAP) provides that the processing of payments shall be made within 30 days commencing from the day the Partner Health Facilities (PHFs) demand payment or when their issued Statements of Accounts (SOAs) are duly received by concerned PCSO Office. However, the RIRR is silent as to the treatment of those SOAs received by PCSO Offices more than 60 days from the day the assistance (product or service) was given by the PHF to the patients. The PCSO has always been keen and mindful in processing payments to its PHFs, and most importantly, the PCSO has been deeply religious in reminding the PHFs to submit their SOAs immediately after the assistance has been provided to the patients. Nevertheless, in these inevitable instances, PCSO is reminded that it gives utmost regard to its commitment to its Partner Health Facilities, hence, payments will still be processed by the concerned offices subject to the approval of the management. To better address this concern, we will elevate this matter to the CAD and suggest to them that a clause be drafted in the IRR to quote that payments for late SOAs shall be made solely at the discretion of the management.
    2. As a rejoinder, it should be emphasized that the terms and conditions, including the validity period, were explicitly stated in the GL, hence should have been strictly imposed by the Branch Office
13. **The non-enforcement of the policies of the Medical Assistance Program (MAP) in PCSO Leyte and Western Samar had resulted in the payments of Guarantee Letters (GLs) that were submitted beyond the prescribed period, with days’ delay ranging from 1 day up to 233 days, contrary to Section 2 of Presidential Decree No. 1445 and pertinent provisions of the Revised Implementing Rules and Regulations for the MAP, thus, depleting the Charity Fund and depriving other qualified beneficiaries the opportunity to avail the MAP, as well as casting doubt on the validity and propriety of the transactions.**
    1. **We recommended that Management require the concerned officials and personnel to strictly enforce the policy guidelines of the MAP. Also, ensure that controls are embedded in the process to ensure that all submitted GLs are accurate, 100 percent validated, reviewed, approved for payment in accordance with the Revised Rules and Regulations of the MAP.**
    2. Management commented that they will recheck the transaction documents for payments of Guarantee Letters with noted deficiencies to ensure that the transaction was supported with the correct documents as sent online by the health facilities and will comply with the audit recommendations.
    3. As a rejoinder, the Audit Team emphasized the importance of ensuring that MAP policy guidelines are strictly enforced. The Audit Team likewise encourage management that all submitted Guarantee Letters be reviewed, validated, and compliant with the RIRR for MAP before approval/payment.
14. **Payment requests for the guarantee letters (GLs) amounting P489,930.71 issued to the partner health facilities were still processed beyond 45 days by PCSO Agusan Del Norte and Surigao Del Sur, with delays ranging from 8 to 267 days, contrary to the Revised Guidelines of the Medical Access in Malasakit Centers Program, thus affected the financial viability of the partner health facilities.**
    1. **We recommended that Management communicate with the head office to explore the possibility of streamlining the process. Moreover, instruct the person in charge of processing the request to strictly adhere to the existing guidelines and ensure the completion of the request processing within forty-five (45) calendar days.**
    2. Management commented that the delay in the processing of such transactions was mainly due to the established process which are beyond the control of the branch. It was also disclosed that the matter has already been communicated to the management yet there were no significant changes in the procedures made. However, this shall be discussed with the management for whatever solution is necessary to further reduce delays and be compliant.

**COMPLIANCE WITH TAX LAWS**

1. For the CY 2023, PCSO remitted taxes withheld and documentary stamp taxes amounting to P16.856 billion to the BIR. Likewise, taxes withheld for the month of December 2023 amounting to P664.445 million were remitted to the BIR in January 2024, as shown in Table 37.

Table 37 - Remittances of Taxes Withheld During the Month of December 2023

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Date Remitted** |
| Final Income Taxes Withheld | P80,586,322.48 | January 26, 2024 |
| Creditable Income Taxes Withheld (Expanded) | 104,927,348.08 | January 30, 2024 |
| VAT and Other Percentage Taxes Withheld | 67,171,498.89 | January 10, 2024 |
| Documentary Stamp Tax | 402,196,764.59 | January 04, 2024 |
| Taxes Withheld on Compensation | 9,563,489.98 | January 15, 2024 |
| **Total** | **P664,445,424.02** |  |

**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 2023 premium contributions to the GSIS amounting P105.267 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 P9.934 million as premiums in CY 2023. PCSO also remitted the amounts of P1.754 million and P1.627 million to the Home Development Mutual Fund, 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 P13.065 million were also remitted to PhilHealth in CY 2023.

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

1. The unsettled audit suspensions and disallowances as at December 31, 2023 amounted to P87.197 million and P2.691 billion, respectively, as summarized in Table 38 and the details thereof are shown in Part IV-Annex G of this Report. There was no Notice of Charge issued during the year.

Table 38 - Summary of Audit Suspensions and Disallowances

**As at December 31, 2023**

| **Particulars** | **Balance,**  **1/1/2023** | **Adjustments** | **Issued**  **This period** | **Settlement**  **This period** | **Balance,**  **12/31/2023** |
| --- | --- | --- | --- | --- | --- |
| Notices of Suspension | P 87,197,278.31 | P - | P - | P - | P 87,197,278.31 |
| Notices of Disallowance | 2,690,965,615.64 | - | - | - | 2,690,965,615.64 |
| **Total** | **P 2,778,162,893.95** | **P -** | **P -** | **P -** | **P 2,778,162,893.95** |