

EXECUTIVE SUMMARY

A. Introduction

The Philippine Charity Sweepstakes Office (PCSO) was created under Philippine Legislature Act No. 4130 on October 30, 1934 and later amended by Republic Act (RA) No. 1169 in 1954 and Batas Pambansa Blg. 42 on September 24, 1979. It is the principal government agency for raising and providing funds for health programs, medical assistance and services, and charities of national character.

The PCSO's main programs consist of endowment fund/quality health care, individual medical assistance, community outreach, ambulance donation, national calamity and disaster, and hospital renovation and improvement of health care facilities. It also gives mandatory contributions to various agencies and institutions.

Likewise, the PCSO extends regular contributions to charitable institutions engaged in giving welfare services to the children and youth who are either abandoned or exploited, the elderly, and the physically and mentally handicapped, among others. It holds and conducts charity sweepstakes, races, and lotteries and engages in health and welfare-related investments, projects, and activities to provide for permanent and continuing sources of funds for its programs. It also undertakes other activities to enhance and expand such fund-generating operations as well as strengthen the agency's fund-management capabilities.

PCSO is managed by a Board of Directors, composed of the following members as of December 31, 2017: Jose Jorge E. Corpuz (Chairman); Alexander F. Balutan (Vice-Chairman and General Manager); Marlon U. Balite (Member); Sandra M. Cam (Member); Atty. Jesus Manuel C. Suntay (Member); Atty. Michael A. Medado (Board Secretary).

As of December 31, 2017 PCSO has a total manpower of 2,497, as presented:

	Head Office	Branch Office	TOTAL
Permanent employees	628	1,099	1,727
Co-Terminus	50	54	104
Confidential Agents	153	243	396
Consultants	44	44	88
Job Order	71	111	182
Total	946	1,551	2,497

The PCSO Main Office is located at the Sun Plaza Building and Conservatory Shaw Plaza Building in Mandaluyong City. It has five branch operations/departments, namely: National Capital Region (NCR), Northern and Central Luzon (NCL), Southern Tagalog and Bicol Region (STBR), Visayas and Mindanao. PCSO has Fifty Nine (59) branches as of December 31, 2017.

The main sources of funds of the PCSO are the Sweepstakes and the Lottery games. Various game types have been introduced and other game innovations are constantly being conceptualized.

B. Financial and Operational Highlights

PCSO's financial condition and results of operations are presented below:

I. Comparative Financial Position (in thousand pesos):

	2017	2016 (As Restated)	Increase (Decrease)
Assets	22,558,822	15,914,218	6,644,604
Liabilities	15,361,873	12,288,263	3,073,610
Equity	7,196,949	3,625,955	3,570,994

II. Comparative Results of Fund Utilization (in thousand pesos):

	2017			2016 (As Restated)		
	Operating Fund	Charity Fund	Prize Fund	Operating Fund	Charity Fund	Prize Fund
Net Receipts Allocation	7,791,839	15,583,679	28,570,077	5,815,938	11,631,877	21,325,107
Rental and Maintenance of Equipment		1,178,371	2,160,346		1,048,756	1,922,617
Commission Expense			3,773,764			2,607,249
Net Fund	7,791,839	14,405,308	22,635,967	5,815,938	10,583,121	16,795,241
Other Income	1,875,209	295,053	0	878,772	699,069	0
Net Fund, including Other Income	9,667,048	14,700,361	22,635,967	6,694,710	11,282,190	16,795,241
Total Fund Expenses	4,642,668	18,017,941	23,380,343	3,659,370	13,389,520	16,742,688
Net Fund before Other Financial Income (Charges)	5,024,380	(3,317,580)	(744,376)	3,035,340	(2,107,330)	52,553
Other Financial Income (Charges)	46,198	64,418	2,802	59,587	112,280	5,298
Unutilized Fund for the Year	5,070,578	(3,253,162)	(741,574)	3,094,927	(1,995,050)	57,851
Fund, Beg of the Year		2,686,998	2,061,143		3,177,048	2,566,473
Adjustments		1,500,000	(279,613)		1,505,000	(563,181)
Fund, End of the Year	5,070,578	933,836	1,039,956	3,094,927	2,686,998	2,061,143

III. Budget and Actual Expenses (in thousand pesos):

	2017		2016 (As Restated)	
	Budget	Actual	Budget	Actual
Operating Fund				
Personnel Services	929,620	1,249,000	963,303	1,324,142
Maintenance and Other Operating Expenses	4089,066	3,399,479	3,606,279	2,336,556
Capital Outlays	611,366	77,759	3,108,833	158,684
Charity Fund				
Personnel Services	42,190	67,981	42,827	65,979
Maintenance and Other Operating Expenses	45,742	6,867	60,069	10,518
Capital Outlays	1,375	-	5,449	-
Others	18,571,648	19,121,464	13,205,700	14,361,778
Prize Fund				
Maintenance and Other Operating Expenses	26,594,529	29,314,571	22,020,086	21,272,825

C. Scope of Audit

The audit covered the examination, on a test basis, of the accounts and financial transactions of the PCSO for CY 2017 in accordance with the Philippine Public Sector Standards on Auditing (PPSSA). It also includes determination of PCSO's extent of compliance with existing laws, rules and regulations, as well as internal policies of PCSO. To a limited extent, the evaluation of the adequacy and effectiveness of systems and procedures of certain aspects of PCSO's operations was also undertaken.

D. Independent Auditor's Report on the Financial Statements

We rendered an adverse opinion on the fairness of presentation of the financial statements of the PCSO for the year 2017 due to the following: (a) the Accounts Receivable (A/R) net account balance of P1.166 billion was grossly misstated and, therefore, unreliable considering the negative (credit) balances of 134 sub-accounts totaling P22.306 billion and the non-elimination of prior years' intra-agency transactions overstating the receivables by P20.412 million; (b) the Cash and Cash Equivalents account totaling P10.344 billion was grossly misstated and, therefore, unreliable considering the negative (credit) balances of 119 sub-accounts totaling P1.140 billion and the discrepancies between the balances recorded in the books and the records of the various branch offices totaling P149.358 million; (c) discrepancies totaling P706.514 million were noted between the balance per books and the balance per bank confirmations pertaining to the various accounts of the Main Accounts, Operating Fund, Charity Fund and Prize Fund casting doubt on the validity and reliability of the balance of the Cash in Bank account presented in the financial statements as of December 31, 2017; (d) the recorded balance of the Share of Local Government Units (LGUs) account was overstated by P243.042 million as of December 31, 2017 due to the non-reversal of the CY 2016 accruals affecting the subject account, resulting in the overstatement of the Charity Fund expenses presented in the Statement of Charity Fund Utilization for the period ended December 31, 2017; and (e) the mandatory contributions to the National Museum Endowment Fund, Quirino Memorial Center, and OWWA-Congressional Migrant Workers Scholarship Fund of P321.847 million was erroneously recorded as P521.646 million resulting in the understatement of Due to Other Funds-Charity account and overstatement of Miscellaneous Accounts Payable account both by P199.799 million.

For the above observations, which caused the issuance of an adverse opinion, we recommended that Management:

1. Direct the concerned officials of the ABD and the different PCSO Branch Offices to conduct a thorough evaluation and reconciliation of the receivable accounts and determine the cause/s of the negative balances of the 134 sub-accounts. Thereafter, effect the necessary adjusting entries relating thereto as well as that pertaining to the P20.412 million overstatement;
2. Direct the concerned officials of the ABD and the different PCSO Branch Offices to conduct a thorough analysis and reconciliation of the cash and cash equivalents account in order to determine the cause/s of the negative balances of the 119 sub-accounts and discrepancies in balances totaling P149.358 million. Thereafter, effect the necessary adjusting entries to provide accurate and reliable information, pursuant to paragraph 15 of PAS 1;
3. Direct the concerned accounting personnel to effect the necessary adjusting entries, after a thorough verification of the book reconciling items for each of the subject bank accounts, in order to present fairly the balance of the Cash in Bank account in the financial statements. Moreover, direct the concerned official to intensify coordination with the corresponding depository bank to thresh out the details of the subject reconciling items, especially the unposted deposits totaling P8.823 million, so that necessary adjustments will be effected in the books.
4. Effect the necessary adjustment/s to correct the P243.042 million overstatement of the Share of LGUs account as of December 31, 2017 and present the correct expenses in the

Statement of Charity Fund Utilization for the period ended December 31, 2017. Direct the Accounting and Budget Department (ABD) to safeguard against inaccurate or misleading information in the keeping of accounts; and

5. Direct the concerned ABD personnel to effect the necessary adjusting entries to correct the understatement and overstatement of Due to Other Funds-Charity and Miscellaneous Accounts Payable accounts, respectively.

E. Summary of Significant Audit Observations and Recommendations

In addition to the audit observations which we considered in the rendition of our adverse opinion, presented below are other significant audit observations and recommendations, which are discussed in detail in Part II of the Report:

1. The sales collections reported by seventy-one (71) Authorized Agent Corporations (AACs) for CY 2017 were lower than their corresponding Presumptive Monthly Retail Receipts (PMRR) by P10.012 billion contrary to Section 18 (e) of the 2016 RIRR for the STL.

We recommended the strict implementation of Section 18 of the 2016 RIRR for the STL, particularly paragraph (e) thereof, which provides that in no case shall the total monthly sales collection be lower than the approved PMRR in the area.

2. Shares in sales collections remitted by 71 AACs were short by P4.032 billion due to the P10.012 billion shortfall in their PMRRs while the remittances of seven (7) AACs that met their PMRRS were short by P17.344 million, making a total of P4.049 billion under remittances during CY 2017.

We recommended immediate collection from the concerned AACs of the short remittances totaling P4.049 billion.

3. The On-line Keno Gaming Operations incurred deficits in its Prize Fund from CYs 2006 to 2017, which accumulated to P4.283 billion as of December 31, 2017, due to pay-outs that exceeded the allocated amount for prizes, which could result to possible depletion of the reserve fund for lotto games.

We recommended that Management revisit the existing policies and guidelines for the Keno operations and determine the cause/s of the continuous incurrence of deficit in the Prize Fund; implement new strategies and/or improvements to arrest the incurrence of deficits for the said on-line game. Otherwise, consider the possibility of discontinuing the Keno operations if it will continuously incur deficits in the prize fund which is detrimental to the stability of the consolidated Prize Fund.

4. The Sales Without Advance Draws reported by the Pacific Online System Corporation (POSC) for CY 2017, as recorded in the books amounted to P13.466 billion while the system-generated sales report for the same period provided by POSC directly to the Audit Team, upon request, amounted to P12.778 billion reflecting a material discrepancy of P688.517 million between the two reports generated from the very same system, casting doubt on the accuracy and reliability of the recorded amount of the subject POSC sales for CY 2017.

We recommended that Management:

- a. Direct the concerned personnel of the MCC Head Office to determine the cause/s of the P688.517 million material discrepancy between the Sales Without Advance Draws reported by the POSC and the system-generated report of the same sales provided directly to the Audit Team and apply the appropriate corrections and/or interventions necessary under the circumstances; and*
 - b. Consider the possibility of requiring the MCC Head Office to prepare/generate sales reports to counter check the sales reports being submitted by the service providers before the same are recorded in the books to ensure the accuracy and reliability of the recorded amounts.*
5. Allocations/transfers of the collections received from the various lotto and keno agents in the National Capital Region (NCR) during CY 2017 to the Prize, Charity and Operating Funds were short by P44.186 million, P1.072 billion and P755.722 million, respectively, or a total of P1.872 billion, in violation of Section 6 of Republic Act (RA) No. 1169, as amended by Batas Pambansa (BP) Blg. 42 and Presidential Decree (PD) No. 1157.

We recommended that Management:

- a. Ensure compliance with Section 6 of RA No.1169, as amended, and allocate/transfer the shares of the Prize, Charity and Operating Funds in accordance with the rates provided therein; and*
 - b. Transfer the amount of P1.872 billion remaining in the LBP and PNB main accounts correspondingly to the Prize, Charity and Operating Funds' individual accounts in order to reflect the correct amount of their allocations from the collections received from the various lotto and keno agents in the NCR.*

F. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2017, PCSO had an unsettled audit suspension and disallowance in the amount of P13,501,329.18 and P950.260,097.29, respectively.

G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' RECOMMENDATIONS

Out of the 73 audit recommendations embodied in the previous year's Annual Audit Report, 29 were fully implemented, 28 were partially implemented and 16 were not implemented.