

EXECUTIVE SUMMARY

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 program, and hospital renovation and improvement of health care facilities. It also gives mandatory contributions to various agencies and institutions.

The PCSO also 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. Other activities to enhance and expand such fund-generating operations as well as strengthen the agency's fund-management capabilities are also being undertaken by the agency.

PCSO is being managed by a Board of Directors, composed of the following members as of December 31, 2018:

Anselmo Simeon P. Pinili	-	Chairman
Alexander F. Balutan	-	Vice-Chairman and General Manager
Marlon U. Balite	-	Member
Sandra M. Cam	-	Member
Atty. Wesley A. Barayuga	-	Board Secretary

Former board member Atty. Jesus Manuel C. Suntay resigned in October 2018 when he filed for candidacy in the 2019 national elections. On the other hand, former General Manager Alexander F. Balutan resigned effective March 2019.

As of December 31, 2018, PCSO has a total manpower complement of 1,750, broken down as follows:

	Head Office	Branch Office	Total
Permanent employees	595	444	1,039
Co-Terminus	54	4	58
Confidential Agents	264	241	505
Consultants	75	-	75
Job Order	48	25	73
	1,036	714	1,750

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 sixty seven (67) branches as of December 31, 2018.

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.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Financial Position

	2018	2017 As Restated	Increase/ (Decrease)
Assets	22,936,407,955	22,523,277,800	413,130,155
Liabilities	14,703,168,205	12,447,552,355	2,255,615,850
Equity	8,233,239,750	10,075,725,445	(1,842,485,695)

II. Comprehensive Income

	2018	2017 As Restated	Increase/ (Decrease)
Total Income	63,097,326,870	53,987,626,669	9,109,700,201
Total Operating Expenses	49,285,524,062	39,942,910,349	9,342,613,713
Profit/ (Loss) Before Tax	13,811,802,808	14,044,716,320	(232,913,512)
Income Tax Expense/ Benefit	627,822,438	-	627,822,438
Income Tax Expense / Benefit - Deferred	(5,583,636)	-	5,583,636
Profit/(Loss) After Tax	13,189,564,006	14,044,716,320	(855,152,314)
Financial Assistance/Subsidy/Contribution	11,678,375,035	12,654,060,832	(975,685,797)
Net Income/(Loss)	1,511,188,971	1,390,655,488	120,533,483
Other Comprehensive Loss for the period	(62,791,067)	(12,132,570)	(50,658,497)
Total Comprehensive Income	1,448,397,904	1,378,522,918	69,874,986

III. Comparison of 2018 Budget and Actual Amounts on Comparable Basis

	Approved Corporate Operating Budget	Actual Amounts on Comparable Basis	Variance
Operating Fund			
Personnel Services	1,208,819,000	909,557,281	299,261,719
Maintenance and Other Operating Expenses	6,136,013,000	6,871,379,354	(735,366,354)
Capital Outlays	3,995,769,000	60,596,928	3,935,172,072
Charity Fund			
Maintenance and Other Operating Expenses	64,962,000	21,966,525	42,995,475
Others	18,098,544,000	21,007,123,575	(2,908,579,575)
Prize Fund			
Maintenance and Other Operating Expenses	31,567,535,000	32,781,694,801	(1,214,159,801)
TOTAL	61,071,642,000	61,652,318,464	(580,676,464)*

*PCSO submitted to the Department of Budget and Management a request for approval of the increase in the 2018 PCSO COB in the amount of P2,743,152,966.37 on October 19, 2018. PCSO has not received any action on the said request to date.

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of the accounts, transactions and operations of the PCSO to enable us to express an opinion on the financial statements for the years ended December 31, 2018 and 2017 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). It was also conducted at determining the PCSO's compliance with pertinent laws, rules and regulations and adherence to prescribed policies and procedures.

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 in view of the following:

1. Presumptive Monthly Retail Receipts (PMRR) Shortfalls for calendar years (CYs) 2018 and 2017 in the total amounts of P7.320 billion and P7.589 billion and the corresponding amounts of Shortfalls due to PCSO totaling P3.051 billion and P2.983 billion, respectively, were not recognized in the books of PCSO despite being valid revenues and receivables from the Authorized Small Town Lottery (STL) Agents (ASAs), as defined under the Philippine Accounting Standard (PAS) 1 and the Conceptual Framework for Financial Reporting (CFFR), resulting in the understatement of revenues, Retained Earnings and receivables - STL by P7.320 billion, P2.983 billion and P6.034 billion, respectively.
2. The faithful representation of the balance of Cash and Cash Equivalents account amounting to P9.815 billion as at December 31, 2018 was not established due to various deficiencies enumerated below, contrary to Paragraph 15 of the PAS 1 and QC12 of the CFFR:
 - a. Variance of P11.882 million between the balance per books and the confirmed bank balances of the Operating Fund (OF) and Main accounts;
 - b. Variance of P497.338 million between the balance per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts;
 - c. Closed accounts still having outstanding balances in the books amounting to P22.254 million and P18.178 million (negative); and
 - d. Checks totalling P8.631 million already presented to and cleared by bank were erroneously included as unreleased checks that were reverted back to cash.
3. Assets generated as well as the liabilities incurred from the P2.5 billion trust fund intended for the construction of the PCSO building maintained with the Land Bank of the Philippines (LBP) were not reported separately in the Statement of Financial Position as at December 31, 2018. Instead, the equity from the said trust account in the amount of P2.603 billion was recognized under the Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) account,

which was tantamount to offsetting of assets and liabilities that is not allowed under Sections 32 and 33 of PAS 1, resulting in the understatement of Cash and Cash Equivalents, Receivables, Prepayments and Liabilities accounts by P509.424 million, P16.801 million, P1.549 million and P3.438 million, respectively, while the Financial Assets account was overstated by P524.336 million.

4. The Accounts Payable – Miscellaneous with a balance of P5.340 billion as at December 31, 2018 and Other Charity Expenses account totaling P198.977 million were overstated by P255.949 million and P23.348 million, respectively, while the Retained Earnings – Charity Fund account with balance of P2.772 billion was understated by P232.600 million as at December 31, 2018 due to erroneous recording of various charity expenses and payments, as follows:
 - a. Erroneous recording of expenses of P23.348 million pertaining to Individual Partnership Program (IPP) and Endowment Fund (EF) Program which were already accrued in 2015;
 - b. Over recording of expenses amounting to P26.077 million under the Purchase of Medical Equipment Program; and
 - c. Erroneous recording of payments for mandatory contributions totaling P206.523 million.
5. Cash bonds of six (6) terminated Authorized Agent Corporations/Authorized STL Agents (AACs/ASAs) totaling P497.183 million were not yet forfeited as of December 31, 2018 despite the issuance of forfeiture order/request by the Branch Operations Sector (BOS), resulting in the overstatement of the Performance Bonds Payable account with a balance of P4.044 billion by P497.183 million and misstatement of the balances of the other affected accounts by the corresponding amounts, which affected the faithful presentation of the balances of subject accounts in the financial statements as of December 31, 2018.

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

- 1.1 Direct the Accounting and Budget Department (ABD) to:
 - a. Recognize as part of the PCSO's revenues the PMRR shortfalls incurred in CYs 2018 and 2017 and recognize as among the receivables the net amount representing unsettled PMRR shortfalls due to PCSO in 2018 and 2017.
 - b. Record the STL transactions on accrual basis to ensure that the same are recognized in the period in which they were earned and not when cash was collected pursuant to Paragraphs 27 and 28 of PAS 1 and the CFFR.

- 2.1 Direct the concerned accounting personnel to:
- a. Effect the necessary adjustments, after a thorough verification of the book reconciling items for each of the subject bank accounts, in order to present fairly the balance of the Cash in Bank account in the financial statements;
 - b. Intensify the efforts in coordinating with the corresponding depository banks to thresh out the details of the bank reconciling items and investigate the cause/s of the alleged unposted deposits totaling P10.574 million under Operating Fund accounts and P26.841 million under the CF/PF accounts so that appropriate action may be taken thereafter;
 - c. Effect the necessary adjusting entries, after a thorough verification of the long-outstanding reconciling items, in order to correct the P22.254 million overstatement of the Cash and Cash Equivalents account and the negative balance of P18.178 million, which pertained to book balances of closed Philippine National Bank (PNB) accounts; and
 - d. Effect the necessary adjusting entries that will correct the P8.631 million overstatement of the Cash and Cash Equivalents and Accounts Payable accounts as of December 31, 2018 brought about by the erroneous entry reverting back to cash the issued checks that were already cleared by the concerned depository banks.
- 3.1 Direct the concerned accounting personnel to effect the necessary adjusting entries pertaining to the CY 2018 transactions of the trust fund with the LBP, which was intended for the construction of the PCSO building, so that the balances of the affected accounts shall faithfully represent the effects of the said transactions pursuant to Paragraph 15 of PAS 1.
- 4.1 Direct the concerned accounting personnel to immediately effect the necessary adjusting entries to correct the overstatements of P255.949 million and P23.348 million of the Accounts Payable-Miscellaneous and Charity Expenses accounts, respectively, as well as the understatement of the Retained Earnings – CF account by P232.600 million as at December 31, 2018.
- 4.2 Ensure compliance with Section 111 (2), Chapter 2 of Presidential Decree (PD) No. 1445 by directing the concerned accounting personnel to be more efficient and careful in the recording of the financial transactions of the PCSO to avoid inaccurate or misleading information.
- 5.1 We recommended and Management agreed to direct the concerned accounting personnel to effect the necessary adjusting entries to recognize in the books the forfeitures of the cash bonds of the said six (6) terminated AACs so that the balances of the Performance/Bidder's Bonds Payable account and other affected accounts shall be fairly presented in the financial statements. This should be accompanied with the actual transfer of funds to the Charity Fund, pursuant to Board Resolution No. 111, series of 2018, so that the same can be utilized to fund the various charitable programs of the PCSO, particularly the Individual Medical Assistance Program (IMAP).

The other significant audit observations and recommendations that need immediate action are as follows:

6. The PMRR shortfalls due to PCSO in the amount of P4.607 billion, net of the waived PMRR amounting to P665.200 million and reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million, remained unsettled as of December 31, 2018 in violation of Section 18 (e) of the Implementing Rules and Regulations (IRR) for the STL.
- 6.1 We recommended that Management intensify collection of the PMRR shortfalls due from the concerned AACs/ASAs in the total amount of P4.607 billion so that the same can be utilized for the various charitable programs of the PCSO, particularly the IMAP. Otherwise, implement Section 27 (f & g) of the Revised IRR for STL and suspend and/or revoke their Authorities to Operate (ATO) and forfeit their cash bonds corresponding to the amount of their PMRR Shortfalls.
7. Unremitted shortfalls in the PMRR as of December 31, 2018 were reduced by a total amount of P1.427 billion due to: (a) waived PMRR shortfalls due to PCSO amounting to P665.200 million based on various Board Resolutions; and (b) reduced PMRR as a result of implementation of Board Resolution No. 401, series 2018 in the amount of P761.909 million.
- 7.1 We recommended that Management:
 - a. Nullify the waiver given to the subject AACs and restore the PMRR shortfalls due from them in the total amount of P665.200 million considering that the PCSO Board of Directors has no authority to condone or waive valid claims by PCSO pursuant to Section 36.1 of PD No. 1445/Section 20(1), Chapter 4, Subtitle B, Title I, Book V of Executive Order (EO) No. 292 or the Administrative Code of 1987; and
 - b. Consider the possibility of recalling Board Resolution (BR) No. 0401, series of 2018 and instead, follow the provisions in the STL Agency Agreement until its renewal, in view of the undue disadvantage suffered by PCSO on account of its issuance.
8. The total amount of P684.302 million, consisting of forfeited prizes for Keno games during CYs 2015 to 2017 in the total amount of P184.302 million as well as the remaining balance of the 2017 unutilized operating fund of P500 million, were not yet transferred to the Charity Fund, contrary to Sections 6.A and 6.D of Republic Act (RA) No. 1169, otherwise known as the PCSO Charter, which could have provided the much-needed fund for the various charitable programs of the PCSO, most specially the IMAP.
- 8.1 We recommended that Management direct the concerned officials of the PCSO to immediately transfer to the CF the total amount of P684.302 million, representing forfeited prizes for Keno games and remaining unutilized CY 2017 operating fund pursuant to Sections 6.A and 6.D of RA No. 1169 to augment the funds that may be utilized for the various charity programs of the PCSO, particularly the IMAP.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, there were no unsettled audit charges, while the unsettled audit suspension and audit disallowances amounted to P4.350 million and P2.068 billion, respectively. The details are presented in Part IV, Annex A of this Report.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the 70 audit recommendations embodied in the previous year's Annual Audit Report, 22 were fully implemented, 45 were partially implemented and three (3) were not implemented. Details are presented in Part III of this Report.