

## EXECUTIVE SUMMARY

### INTRODUCTION

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

The main programs of the PCSO 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 and 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.

The PCSO 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 its fund-management capabilities are also being undertaken by the Agency.

As of December 31, 2021, the Board of Directors of the PCSO is composed of the following:

Anselmo Simeon P. Pinili	-	Chairman
Royina M. Garma	-	Vice-Chairman and General Manager
Marlon U. Balite	-	Member
Sandra M. Cam	-	Member
Ramon Ike V. Señeres	-	Member
Reymar H. Santiago	-	Board Secretary

The total manpower complement of the PCSO as of December 31, 2021 is 1,681, broken down as follows:

Particulars	Head Office	Branch Offices	Total
Permanent employees	551	509	1,060
Co-terminous	64	1	65
Confidential agents	93	61	154
Consultants	36	0	36
Job order	180	186	366
<b>Total</b>	<b>924</b>	<b>757</b>	<b>1,681</b>

The main office of the PCSO is located at the Sun Plaza Building and Conservatory Shaw Plaza Building in Mandaluyong City. It has five branch operation departments, namely: National Capital Region (NCR), Northern and Central Luzon (NCL), Southern Tagalog and Bicol Region (STBR), Visayas and Mindanao. PCSO has 68 branches nationwide as of December 31, 2021.

Proceeds from the sweepstakes draws and the lottery games are the main sources of funds of the PCSO. Various game types have been introduced and other game innovations are constantly being conceptualized.

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Financial Position

	2021	2020 As Restated	Increase/(Decrease)
Assets	36,840,254,450	32,126,223,560	4,714,030,890
Liabilities	20,173,851,533	15,990,275,844	4,183,575,689
<b>Equity</b>	<b>16,666,402,917</b>	<b>16,135,947,716</b>	<b>530,455,201</b>

### II. Comprehensive Income

	2021	2020 As Restated	Increase/(Decrease)
Total income	43,701,111,560	19,468,099,999	24,233,011,561
Total operating expenses	34,304,942,321	14,725,817,304	19,579,125,017
Profit/ (loss) before tax	9,396,169,239	4,742,282,695	4,653,886,544
Income tax expense/benefit	1,014,577,043	134,417,618	880,159,425
Income tax expense/benefit – deferred	(64,246,726)	112,744,245	(176,990,971)
Profit/(loss) after tax	8,445,838,922	4,495,120,832	3,950,718,090
Financial assistance/subsidy/contribution	5,348,481,594	4,536,467,278	812,014,316
Net income/(loss)	3,097,357,328	(41,346,446)	3,138,703,774
Other comprehensive income (loss) for the period	1,200,764	(1,120,115)	2,320,879
<b>Total Comprehensive Income</b>	<b>3,098,558,092</b>	<b>(42,466,561)</b>	<b>3,141,024,653</b>

### III. Comparison of the CY 2020 Budget and Actual Amounts on Comparable Basis

	Approved Corporate Operating Budget	Actual Amounts on Comparable Basis	Variance
Operating Fund			
Personnel services	1,191,522,000.00	937,381,864.00	254,140,136.00
Maintenance and other operating expenses	2,718,502,000.00	1,664,746,141.00	1,053,755,859.00
Capital outlays	3,572,401,000.00	29,301,728.53	3,543,099,271.47
Charity Fund			
Maintenance and other operating expenses	13,630,486,000.00	13,680,962,796.00	(50,476,796.00)
Prize Fund			
Maintenance and other operating expenses	24,989,224,000.00	23,088,247,331.00	1,900,976,669.00
Others (dividend)	858,559,000.00	1,568,102,891.00	(709,543,891.00)
<b>Total</b>	<b>46,960,694,000</b>	<b>40,968,742,751.53</b>	<b>5,991,951,248.47</b>

*Note: Charity Fund MOOE includes Financial Expense and Financial Assistance/Subsidy/Contribution*

## 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, 2021 and 2020 in accordance with International Standards of Supreme Audit Institutions (ISSAIs). It was also conducted to determine 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 a qualified opinion on the fairness of presentation of the financial statements of the PCSO in view of the following:

1. The accounts Charity Expenses - Other Health and Welfare Related Program in Calendar Year 2021 and Accounts Payable – Charity Fund were both overstated by P200 million and the Retained Earnings was understated by the same amount, thus affecting the fair presentation of these accounts in the Financial Statements, contrary to Paragraph 15 of the Philippine Accounting Standard (PAS) No. 1, due to the recorded transfer of fund to the Office of the President that did not push through amounting to P200 million for the procurement of Coronavirus Disease-2019 vaccines, for being not authorized nor fully documented, contrary to Section 4, Item Nos. 5 and 6 of Presidential Decree (PD) No. 1445, Section 3.1.1 of COA Circular No. 2012-001 dated June 14, 2012 and Section 3 of Republic Act No. 115251 dated July 27, 2020.
2. Approved financial assistance under the Integrated Health for Over-All Productivity and Empowerment (I-HOPE) program in Calendar Year 2019 amounting to P110.349 million remained as outstanding payable as of December 31, 2021 despite the revocation of its approval in February 2020, thereby overstating the Accounts Payable – Miscellaneous-Charity Fund and understating the Retained Earnings by the same amount, contrary to Paragraph 15 of the PAS No.1.
3. The recognition of the liability for the 2021 Performance-Based Bonus (PBB) in the amount of P31.353 million pending receipt of the overall and favorable assessment of the Governance Commission for Government-Owned or Controlled Corporations (GCG) and the non-reversal of the accrual for the Calendar Year 2020 PBB with unfavorable results of assessment of the GCG in the amount of P14.748 million, resulted in the overstatement of the Due to Officers and Employee, and the Other Bonuses and Allowances and understatement of Retained Earnings accounts of P46.101 million, P31.353 million and P14.748 million, respectively.
4. The faithful representation in the financial statements of the balance of the Cash and Cash Equivalents account in the amount of P16.130 billion as of December 31, 2021 cannot be ascertained due to: (a) variance between the balances per books and the confirmed bank balances of the Main and Operating Fund (OF) accounts in the total amount of P14.851 million; (b) variance of P36.780 million between the balances per books and the confirmed bank balances of the Charity Fund (CF) and Prize Fund (PF) accounts; (c) stale checks and spoiled checks for OF, CF and PF were reported as Outstanding Checks in the Bank Reconciliation Statement (BRS); and (d) closed accounts still having outstanding balances in the books amounting to P3.088 million and P0.689 million, contrary to Paragraph 15 of PAS No. 1. Moreover, the late submission of the BRS precluded the timely verification of the transactions affecting the cash account, and is not in accordance with Section 7, Chapter 21 of the Government Accounting Manual, Volume I.

5. The faithful representation in the financial statements of the balances of the Leased Assets, Buildings and Other Structures, Interest Expense, Depreciation Expense, Accumulated Depreciation and Lease Liability accounts in the amounts of P316.184 million, P9.089 million, P177.711 million, P445.779 million, and P285.121 million, respectively, cannot be ascertained due to: (a) misapplication of the Philippine Financial Reporting Standard (PFRS) No. 16; (b) non-recognition of Depreciation Expense and (c) no proper classification of finance lease payable, contrary to Paragraphs 22, 23, 26 and 32 of PFRS No. 16 and Paragraphs 60 and 69 of PAS No. 1.
6. The excess prize fund for Small Town Lottery (STL) held in trust by the Authorized Agent Corporations (AACs) amounting to P4.248 million in CY 2021 was not remitted to PCSO at year-end, contrary to Section 18 (d) of the 2020 Revised Implementing Rules and Regulations for STL. Moreover, the Accounting and Budget Department (ABD) failed to record the said excess prize fund, resulting in the overstatement of expenses for prize pay-outs and understatement of the receivable account from the AACs as of December 31, 2021, by the same amount.

For the afore-stated observations, we recommended that Management:

- 1.1. Direct the concerned ABD personnel to cancel the Check No. 457233 dated November 5, 2021 and the corresponding Disbursement Voucher (DV) No CF2111017913 to correct the overstatement of the affected accounts by debiting Accounts Payable – Charity Fund and crediting Retained Earnings – Charity Fund by P200 million.
- 1.2. Ensure that transfer of funds are duly authorized and documented in compliance with of Section 4, Item Nos. 5 and 6 of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012.
- 2.1. Direct the ABD to correct the overstatement of the Accounts Payable-Miscellaneous-Charity Fund and understatement of the Retained Earnings account caused by the revocation of the B.R. No 454 s. 2019 and cancellation of the approval of the grant of financial assistance under I-HOPE program, to faithfully represent the said accounts and the covered transactions in compliance with Paragraph 15 of PAS 1.
- 3.1. Direct the concerned ABD personnel to draw a Journal Entry Voucher to reverse the accrual made for CYs 2021 and 2020 PBB totaling P46.101 million to correct the overstatement of the Due to Officers and Employees and the understatement of Retained Earnings accounts each by P46.101.
- 3.2. Disclose the related information in the Notes to FS in accordance with Paragraph 86 of PAS No. 37.

- 4.1. Instruct the concerned ABD personnel to:
- a. Effect the necessary adjustments, after a thorough evaluation of the reconciling items for each of the bank accounts.
  - b. Intensify the efforts in coordinating with the corresponding depository banks to clear out the details of the bank reconciling items giving priority to investigate the cause/s of the alleged unposted deposits with a total amount of P2.102 million under the Operating Fund accounts so that appropriate action may be taken thereafter.
  - c. Prepare the necessary adjusting entries to correct the understatement of the Cash in Bank account resulting from the non-reversal/cancellation of stale and spoiled checks reported as outstanding checks amounting to P29.568 million by debiting the Cash in Bank and crediting the Accounts Payable (AP) by the same amount.
  - d. Regularly coordinate with the Treasury Department for the immediate reconciliation of accounts, verification of reports and timely adjustments of stale and spoiled checks and exert effort to call the attention of the payees who are holding stale checks for cancellation and reissuance of new checks.
  - e. Verify the reported book balance of P3.778 million for the closed bank accounts, after which make the necessary adjusting entries in the books in order to correct the overstatement of the Cash and Cash Equivalents account.
  - f. Make proper representation with the depository bank for the regular and timely receipt of the monthly bank statements, and update the Subsidiary Ledgers on a monthly basis.
  - g. Moreover, we recommended that Management address the issue on manpower constraints to ensure the timely preparation of monthly BRS for all the bank accounts of the PCSO and facilitate the prompt reconciliation of discrepancies.
- 5.1. Direct the concerned ABD personnel to: (a) effect the necessary adjusting journal entries to correct the overstatements of the Leased Assets, Buildings and Other Structures, Interest Expense, Depreciation Expense and Accumulated Depreciation by P1.627 million, P0.895 million, P0.542 million and P0.542 million respectively, and the understatement of Prepaid Rent by P2.522 million (b) record the depreciation expense on the additional lease asset for CY 2021 amounting to P3.189 million; and (c) present and classify the current and non-current portion of the Finance Lease Payable as separate items in the Statement of Financial Position.
- 6.1. Direct the concerned ABD personnel to cause the immediate collection of the excess prize fund held in trust, in compliance with Section 18 of the 2020 RIRR for STL.

- 6.2. Instruct the concerned ABD personnel to prepare adjusting entry at year-end for all unutilized prize fund held in trust by the AACs to reflect the correct expense for prize pay-outs in CY 2021 and the receivable from AACs as of December 31, 2021.

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

7. Thirteen out of the 35 financial assistance granted under the Financial Assistance for the Procurement of Medical Equipment Program for Calendar Years 2017-2021 amounting to P144.674 million remained unliquidated as of December 31, 2021, contrary to the provisions stipulated in the Memorandum of Agreement, thereby casting doubt on whether the financial assistance given are utilized for the intended purpose. Likewise, 13 liquidation reports received in CYs 2020-2021 amounting to P189.323 million were submitted beyond the prescribed period.

7.1 We recommended and Management agreed to:

- a. Demand from the 13 beneficiaries the immediate submission of their liquidation reports or return the financial assistance if it still unutilized;
- b. Require the beneficiaries to submit a written explanation on the delayed submission of liquidation reports to further assess whether the beneficiaries should be disqualified from receiving future and other financial assistance from PCSO, otherwise, require the refund of the financial assistance granted, and determine whether there is a need to revisit the policies and procedures relative to the liquidation of the grants; and
- c. Intensify the monitoring and reporting controls by conducting an on-site visit by the concerned personnel both in Head Office and Branches to ensure that the financial assistance granted to the beneficiaries were utilized for the purchase of the medical equipment and to validate whether these were indeed used for patients in need.

8. Financial assistance for the procurement of medical equipment amounting to P144.011 million were granted to 10 beneficiaries for the Calendar Years 2020 to 2021 despite incomplete documentation, contrary to Item B, Section III of the Financial Assistance for the Procurement of Medical Equipment Program Implementing Guidelines, thus, casting doubt on the impartiality, objectivity and consistency of the evaluation/assessment/recommendation process in the approval of the grant.

8.1 We recommended that Management:

- a. Submit a written explanation for processing of the grant of financial assistance for the procurement of medical equipment despite the non-compliance by the applicants/ intended beneficiaries with the documentary requirements provided under Item B, Section III of the Implementing Guidelines;
- b. Submit the lacking documentary requirements mentioned in Table 21 of the report; and

- c. Create a control mechanism such as preparation of a checklist of documentary requirements with confirmation of complete submission in the Assessment Report to ensure the consistency, and impartiality in the evaluation/ assessment/ recommendation process in the approval of the grant.
- 9. Timelines in the evaluation, assessment, and recommendation of the request for financial assistance for the procurement of medical equipment up to the processing of the disbursement vouchers were not clearly defined in the Implementing Guidelines of the program which resulted to: a) longer lead time from processing and granting of the request, making the fund idle for a long period; and b) accumulation of the long outstanding payables under the program as of December 31, 2021 amounting to P195.947 million.
- 9.1 We recommended and Management agreed to: (a) revisit the process of evaluation/assessment/recommendation and processing of disbursement vouchers stated in the Implementing Guidelines of the Financial Assistance for the Procurement of Medical Equipment Program (FAPMEP) and consider the inclusion of timelines on each process for strict monitoring and efficient implementation of the program; and (b) re-evaluate the approved applications under FAPMEP that were accrued amounting to P195.948 million to determine whether the beneficiaries are still interested and eligible to receive the grant. Further, identify the validity of the recorded obligations and effect the adjustments in the books of accounts, if necessary.

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

The unsettled audit suspensions and disallowances as of December 31, 2021 amounted to P87.197 million and P2.691 billion, respectively, and the details and status thereof are shown in Part IV-Annex A of this Report. There was no Notice of Charge issued during the year.

## **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Out of the 24 audit recommendations embodied in the previous year's Annual Audit Report, two were implemented, 18 were partially implemented and four were not implemented. Details are presented in Part III of this Report.