



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 6 – Social, Cultural, Trading, Promotional
and Other Services

June 28, 2018

THE BOARD OF DIRECTORS

Philippine Charity Sweepstakes Office
Sun Plaza Building
1507 Shaw Boulevard
Mandaluyong City



Gentlemen:

We are pleased to transmit the Annual Audit Report on the results of the audit of the accounts and transactions of the Philippine Charity Sweepstakes Office (PCSO) for the year ended December 31, 2017, pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The Report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, and Status of Implementation of Prior Year's Audit Recommendations.

The Auditor expressed an adverse opinion on the fairness of the presentation of the Financial Statements of PCSO as of December 31, 2017 due to the following:

1. 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;
2. 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;
3. 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;
4. 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
5. The mandatory contributions to the National Museum Endowment Fund, Quirino Memorial Center, and OWWA-Congressional Migrant Workers Scholarship Fund of

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 payouts 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 P13.486 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.*

In a letter of even date, we requested the General Manager of PCSO that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form and returning the same to us within 60 days from the date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


WILFREDO A. AGITO
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government – Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The National Library
The UP Law Center
The COA Commission Central Library

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF FINANCIAL POSITION
As of December 31, 2017
(With Corresponding Figures as of December 31, 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
A S S E T S			
CURRENT ASSETS			
Cash and Cash Equivalents	4.1/5	10,344,371,700	5,689,000,346
Short-Term Investments	6	3,188,621,807	3,675,813,503
Receivables - net	4.3/7	1,299,802,818	1,375,089,816
Inventories	4.5/8	36,747,243	223,777,428
Prepayments	9	15,360,906	14,281,764
Other Current Assets	10	19,909,132	20,069,876
Total Current Assets		14,904,813,606	10,998,032,733
NON-CURRENT ASSETS			
Long-term Investments	6	215,933,801	215,068,855
Held-to-Maturity Investments	11	2,954,680,269	2,830,616,974
Property, Plant and Equipment - net	4.4/12	1,140,793,656	1,118,166,451
Other Assets	13	3,342,600,749	752,332,726
Total Non-Current Assets		7,654,008,475	4,916,185,006
TOTAL ASSETS		22,558,822,081	15,914,217,739
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts Payable	14	9,070,509,907	5,925,886,022
Inter-Agency Payables	15	150,246,637	343,570,559
Intra-Agency Payables	16	1,973,791,997	4,748,141,094
Other Current Liabilities	17	4,138,430,240	1,241,776,511
Deferred Credits	18	28,894,257	28,888,338
TOTAL LIABILITIES		15,361,873,038	12,288,262,524
EQUITY		7,196,949,043	3,625,955,215
TOTAL LIABILITIES AND EQUITY		22,558,822,081	15,914,217,739

The notes on pages 11 to 58 form part of these financial statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
OPERATING FUND UTILIZATION STATEMENTS
For the Year Ended December 31, 2017
(With Corresponding Figures for 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
NET RECEIPTS ALLOCATION	19/26	7,791,839,254	5,815,938,394
Other Income	27		
Printing Cost		1,060,114,184	791,284,135
Share from STL		0	6,568,061
Other Income		815,094,465	77,225,740
Printing Cost - STL		0	3,309,202
Printing Cost - Peryahan		0	101,247
Share from Peryahan		0	283,846
		1,875,208,649	878,772,231
		9,667,047,903	6,694,710,625
OPERATING FUND EXPENSES	29		
Personal Services		1,210,519,315	1,281,496,468
Maintenance and Other Operating Expenses		3,042,355,812	1,906,905,220
Printing Expenses		389,792,844	470,968,557
		4,642,667,971	3,659,370,245
OPERATING FUND BEFORE OTHER FINANCIAL INCOME/CHARGES		5,024,379,932	3,035,340,380
Other Financial Income/Charges	28		
Interest Income		52,009,100	60,914,674
Financial Charges		(5,810,803)	(1,328,123)
		46,198,297	59,586,551
UNUTILIZED BALANCE FOR THE YEAR	23	5,070,578,229	3,094,926,931

The notes on pages 11 to 58 form part of these financial statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
CHARITY FUND UTILIZATION STATEMENTS
For the Year Ended December 31, 2017
(With Corresponding Figures for 2016)
(In Philippine Peso)

	Note	2017	2016 (As Restated)
NET RECEIPTS ALLOCATION	19/26	15,583,678,507	11,631,876,787
Share in Rentals and Maintenance of Equipment		1,178,370,512	1,048,756,422
NET CHARITY FUND		14,405,307,995	10,583,120,365
Other Income	27		
Forfeitures of Prizes		279,613,107	563,180,953
Share in "Scratch and Match" Project		15,440,013	134,882,382
Share from Peryahan		0	1,005,784
		295,053,120	699,069,119
		14,700,361,115	11,282,189,484
CHARITY FUND EXPENSES	30		
Regular and Traditional Beneficiaries		10,259,614,934	7,654,981,232
Documentary Stamps Tax		5,298,392,921	3,955,205,813
STL Shares (PNP, LGU, Provincial & Congressional)		1,119,831,508	643,882,056
Mandatory Contributions		1,095,554,316	755,726,346
Charity Clinic Expenses		74,847,636	76,498,240
Other Programs and Projects		169,699,600	303,226,600
		18,017,940,915	13,389,520,287
CHARITY FUND BEFORE OTHER FINANCIAL INCOME/CHARGES		(3,317,579,800)	(2,107,330,803)
Other Financial Income/Charges	28		
Interest Income-net		63,131,830	95,683,952
Gain (Loss) on Foreign Exchange		1,286,296	16,596,150
		64,418,126	112,280,102
UNUTILIZED BALANCE FOR THE YEAR	16	(3,253,161,674)	(1,995,050,701)
FUND BALANCE, BEGINNING	16	2,686,997,978	3,177,047,599
Adjustments			
Transfer from Operating Fund		1,500,000,000	1,505,001,080
Prior Year's Adjustment			
		4,186,997,978	4,682,048,679
FUND BALANCE, ENDING	16	933,836,304	2,686,997,978

The notes on pages 11 to 58 form part of these financial statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
PRIZE FUND UTILIZATION STATEMENTS
For the Year Ended December 31, 2017
(With Corresponding Figures)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
NET RECEIPTS ALLOCATION	19/26	28,570,077,263	21,325,107,444
Share in Rentals and Maintenance of Equipment		2,160,345,940	1,922,617,467
Share in Commission Expenses		3,773,764,029	2,607,248,918
		5,934,109,969	4,529,866,385
NET PRIZE FUND		22,635,967,294	16,795,241,059
PRIZE FUND EXPENSE	31		
Jackpot Prizes		2,933,638,559	2,500,465,372
Low Tier Prizes		15,886,655,508	10,705,780,787
Keno Prizes		3,123,413,819	2,444,710,505
Winning Tickets Sweepstakes		2,222,727	21,559,126
5% Prize Fund Tax		1,428,503,864	1,066,255,140
Sellers Prize		284,091	792,255
Sellers Share/Commission-Sweepstakes		5,625,000	3,125,000
		23,380,343,568	16,742,688,185
PRIZE FUND BEFORE OTHER FINANCIAL INCOME/CHARGES		(744,376,274)	52,552,874
Other Financial Income/Charges	28		
Interest Income-net		2,919,559	5,567,999
Gain (Loss) on Foreign Exchange		(117,600)	(270,000)
		2,801,959	5,297,999
UNUTILIZED BALANCE FOR THE YEAR	16	(741,574,315)	57,850,873
FUND BALANCE, BEGINNING	16	2,061,143,116	2,566,473,196
Adjustments			
Prior Year's Adjustment			
Forfeitures of Prizes for the Year 2015		(279,613,108)	(563,180,953)
		1,781,530,008	2,003,292,243
FUND BALANCE, ENDING	16	1,039,955,693	2,061,143,116

The notes on pages 11 to 58 form part of these financial statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2017
(With Corresponding Figures for 2016)
(In Philippine Peso)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Sales of Lotto, Keno and Sweepstakes tickets		26,625,189,998	24,198,668,186
Remittance of STL Agents		5,945,368,359	2,096,476,363
Remittance of share on Sweepstakes Instant Tickets		14,073,734	134,882,382
Interest Income		25,383,808	79,122,782
Miscellaneous Income		15,679,934	20,656,645
Income from Franchise Tax		0	511,305
Other Service Income		770,444,039	35,746,762
Fines and Penalties		4,260,442	3,778,787
Inspection/Installation/Application/Processing fees		23,457,953	16,815,430
Rent Income		11,829	5,600
Guaranty Deposits		163,800	7,446,408
Miscellaneous Receivables/Cash Collections/Cash Bonds/Refunds		186,055	4,680,702
Prize Fund Seed from PGM/C/POSC		5,000,000	45,225,322
Collection of Accounts Receivable		47,525	237,215
Collection for payment of Employees' Loans and Contributions		0	30,332,189
Cash Bond/Performance Bond/Bidder's Bond		5,780,055	20,107,866
Fund Transfer to/from Branches/ODM		1,700,000	
Fund Transfer to Home Office		11,914,836	
Payment to Winners, Beneficiaries, Employees, Suppliers, Non-Gov't. Organizations and National Gov't. Agencies	32	(29,196,256,379)	(32,211,287,296)
NET CASH PROVIDED BY OPERATING ACTIVITIES		4,252,405,988	(5,516,593,352)
CASH FLOWS FROM INVESTING ACTIVITIES			
Termination of Short-Term Investments		548,933,450	1,934,657,435
Short-Term Investments placements		0	(794,638,074)
Other Investments and Marketable Securities		0	(400,000,000)
Disposal of Assets		14,168	270
Purchase of Equipment		(4,073,378)	(40,601,189)
Purchase of IT Equipment		(41,057,155)	(49,658,774)
Purchase of Motor Vehicles		0	(5,621,802)
Purchase of Furniture and Fixtures		(328,729)	(3,073,393)
Purchase of Library Books		0	(60,571)
Leasehold Improvements/Renovations		(412,311)	(2,871,478)
Construction of Office Building		0	(338,751)
Other Assets		(110,679)	(11,862)
Investment in Bonds		(100,000,000)	200,000,000
NET CASH USED IN INVESTING ACTIVITIES		402,965,366	837,781,811
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,655,371,354	(4,678,811,541)
CASH AND CASH EQUIVALENTS, BEGINNING		5,689,000,346	10,367,811,887
CASH AND CASH EQUIVALENTS, ENDING		10,344,371,700	5,689,000,346

The notes on pages 11 to 58 form part of these financial statements.

PHILIPPINE CHARITY SWEEPSTAKES OFFICE
STATEMENTS OF ACCUMULATED SURPLUS/(DEFICIT)
For the Year Ended December 31, 2017
(With Corresponding Figures for CY 2016)
(In Philippine Peso)

	Notes	2017	2016 (As Restated)
APPRAISAL CAPITAL	21	708,617,561	708,617,561
RESTRICTED CAPITAL	22	2,500,000,000	2,400,000,000
CONTINGENT SURPLUS		5,678,727	5,678,727
GOVERNMENT EQUITY		421,009	5,410
RETAINED EARNINGS(DEFICIT)	23		
Beginning Balance, January 1		511,653,517	(678,272,334)
Add: Unutilized Operating Fund		5,070,578,229	3,094,926,931
Total Retained Earnings		5,582,231,746	2,416,654,597
Add (Less):			
Appropriation for Building Construction		(100,000,000)	(400,000,000)
Transfer to Charity Fund		(1,500,000,000)	(1,505,001,080)
Ending Balance, December 31		3,982,231,746	511,653,517
EQUITY		7,196,949,043	3,625,955,215

The notes on pages 11 to 58 form part of these financial statements.