## OBSERVATIONS AND RECOMMENDATIONS

### FINANCIAL AUDIT

1. **The propriety and reliability of the Government Equity and Retained Earnings Appropriated and Unappropriated accounts amounting to P21.113 million, P5.916 million and P6.100 million, respectively, as of December 31, 2018, cannot be ascertained due to lack of subsidiary ledgers and supporting schedules, contrary to Section 111 of Presidential Decree (PD) No. 1445. This poses risk in the distribution of the net assets to the members in case of involuntary dissolution by way of liquidation of PDGCC as provided in Section 12 of Republic Act (RA) No. 4726.**

1.1 Section 111 of PD No. 1445, known as the Government Auditing Code of the Philippines, requires that:

> *1. The accounts of an 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.*
>
> *2. The highest standards of honesty, objectivity, and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.*

1.2 As presented in the Statement of Changes in Equity as of December 31, 2018, the Government Equity, Retained Earnings Appropriated and Unappropriated accounts have balances of P21.113 million, P5.916 million and P6.100 million, respectively.

1.3 The correctness of the balances, however, cannot be verified due to the following:

a. The Articles of Incorporation obtained from Securities and Exchange Commission has no data on capital structure upon incorporation of PDGCC;

b. No available schedule for the Government Equity account; and

c. While the Retained Earnings account was divided into "Appropriated" and "Unappropriated", there were no schedules and subsidiary ledgers to support the balances of these accounts.

1.4 The unreliability of the Government Equity account poses risk, in the event of involuntary dissolution by way of liquidation, in the distribution of the net assets to the members of PDGCC as provided in Section 12 of RA No. 4726, to wit:

*In case of involuntary dissolution of a condominium corporation for any of the causes provided by law, the common areas owned or held by the corporation shall, by way of liquidation, be transferred pro indiviso and in proportion to their interest in the corporation to the members or stockholders thereof, subject to the superior rights of the corporation creditors. Such transfer or conveyance, the provisions of this Act governing undivided co-ownership of, or undivided interest in, the common areas in the condominium projects shall fully apply.*

**1.5 Considering that the prior year's recommendations were only partially implemented, we reiterated our recommendations that Management:**

**a. Determine the initial balance of the capital account upon incorporation of PDGCC;**

**b. Provide schedule for the Government Equity account showing the reconstructed capital structure;**

**c. Provide schedules and subsidiary ledgers for Retained Earnings accounts; and**

**d. Restate retrospectively the balances of the Government Equity and Retained Earnings accounts in the Statement of Changes in Equity.**

## COMPLIANCE AUDIT

**2. The propriety and validity of the disbursements for security and janitorial services totaling P3.483 million and P2.304 million, respectively, as at December 31, 2018 cannot be ascertained due to incomplete documentation, contrary to Section 4(6), PD No. 1445.**

2.1 One of the fundamental principles governing financial transactions and operations of any government agency, as laid down in Section 4(6), PD No. 1445, is that *claims against government funds shall be supported with complete documentation.* For the security and janitorial services paid by the PDGCC however, this requirement was not complied with, discussed as follows:

*Security Services*

2.2 On October 30, 2017, PDGCC entered into a security services agreement covering the period December 1, 2017 to November 31, 2018 with a contract cost of P3.392 million.

2.3 Section L.1.b of the technical specifications, which forms part of the contract provides:

*L. Terms of Payment*

*Payment shall be based on actual services rendered by the Security Agency*

*1. For and in Consideration of the services to be rendered by the Security Agency, PDGCC shall, during the existence of this contract, pay the Security Agency the monthly amount to be paid into two equal installments, on the 15th day and 30th day of the calendar month.*

*The following documents should be submitted and checked/evaluated by the PDGCC:*

*a)* xxxxx

*b) Daily Time Record (DTR) summary to be submitted by all security personnel; duly signed by security personnel and supervisor and countersigned by PDGCC authorized personnel.*

*c)* xxxxx

2.4 Verification of the disbursement revealed that claims for security services were paid even though some security personnel have no daily time record. It is informed that such claims were paid based on the report submitted by the security agency.

2.5 This practice is not compliant to the requirements provided under Section L.1.b of the technical specifications and runs counter to the fundamental principle that claims against public funds must be supported with complete documentation.

*Janitorial Services*

2.6 Review of the disbursements of PDGCC showed that in calendar year 2018, a total amount of P2.304 million was paid for janitorial services.

2.7 Validation disclosed that there is no contract between PDGCC and the service provider for the janitorial services rendered. It was informed that the bidding for the procurement of the services failed. As a gap measure, PDGCC extended the services of the current service provider, however, there were no documents on file that would show the failure of bidding and the contract extension.

2.8 The absence of contract and supporting documents cast doubt on the existence of the obligation between the parties. As such, the validity of the disbursements for security and janitorial services could not be established.

2.9 **We recommended and Management agreed to:**

a. **Submit the complete documents relative to payments made for security services and the procurement documents for the janitorial services, otherwise a Notice of Suspension shall be issued;**

b. **Ensure that the terms and conditions of the contract for security services are strictly complied with by the service provider; and**

c. **Ensure that disbursements of public funds are supported with complete documentation as required in Section 4(6), PD No. 1445.**

2.10 Management committed to submit the copy of the DTRs of the concerned security guards, as well as copy of the minutes of Bids and Awards Committee declaring failure of bidding and Board Resolution approving the extension of contract.

3. **The procurement of various repair and maintenance services through shopping with an aggregate cost of P2.124 million does not comply with the conditions laid down under Section 52 of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184.**

3.1 Section 10, RA No. 9184, known as the Government Procurement Reform Act, requires that *all procurement should be done through Competitive Bidding, except as provided for in Article XVI of this Act.*

3.2 Section 48.2, Rule XVI, The 2016 Revised IRR of RA No. 9184 states that *in accordance with Section 10 of this IRR, as a general rule, the procuring entities shall adopt competitive bidding as the general method of procurement and shall see to it that the procurement program allows sufficient lead time for such competitive bidding. Alternative methods of procurement shall be resorted to only in highly exceptional cases provided for in this Rule.*

3.3 Section 52.1 of the same IRR provides that *Shopping is a method of procurement of goods whereby the procuring entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method of procurement shall be employed in any of the following cases:*

*(a) When there is an unforeseen contingency requiring immediate purchase: Provided, however, that the amount shall not exceed the thresholds prescribed in Annex "H" of this IRR.*

*(b) Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex "H" of this IRR.*

3.4 As clarified under Section 52.2 of the same IRR, the phrase "ordinary or regular supplies" shall be understood to include those supplies, commodities, or materials which are necessary in the transaction of official businesses, and consumed in the day-to-day operations. It does not include services such as repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security and related or analogous services.

3.5 Records disclosed that PDGCC procured various repair and maintenance services in the total amount of P2.124 million via the alternative method of shopping, as follows:

| Service Procured | Duration | Amount |
|---|---|---|
| Preventive Maintenance of Fire Detection and Alarm System | 1 year | 108,000 |
| Preventive Maintenance Service of the 500 KVA Cummins Genset, Sump Pump, Jockey Pump, and Booster Pump | 1 year | 300,000 |
| Preventive Maintenance of LVSG, Synchronizing Panel, ATS, and Capacitor Bank | 1 year | 516,000 |
| Supply of labor and materials, tools, equipment, and engineering supervision for the overhauling of 550KVA Genset | 7 days | 305,000 |
| Preventive Maintenance of 31 Cooling Towers | 1 year | 895,000 |
| Total | | 2,124,000 |

3.6 As can be gleaned from the above matrix, the procured items are not unforeseen contingency that require immediate purchase. The availed services are maintenance of equipment and are preventive in nature most of which must be done regularly on a monthly basis. Therefore, the procurement through shopping mode is not proper.

**3.7 We recommended and Management agreed to strictly comply with the provisions of RA No. 9184 and its IRR in procuring goods.**

**4. The employee handling cash advances was not duly appointed or designated as disbursing officer and did not maintain cashbook for each fund in his custody, contrary to Items 4.1.5, 4.3.3 and 6.2 of COA Circular No. 97-002.**

4.1 Item 4.1.5 of COA Circular No. 97-002 dated February 10, 1997 provides, among others, that *only duly appointed or designated officers may perform disbursing functions.* Relatively, Item 4.3.3 of the same Circular requires that *the cash advance shall be supported by a copy of authority by the Agency Head, copy of approved application for bond, and estimate of expenses.*

4.2 Examination disclosed that the accountable officer, aside from his regular function as collecting officer, was granted cash advances for petty cash fund to defray expenses for petty operating expenses and as disbursing officer for allowances, honoraria and other operating expenses. The grant of cash advances to him was not supported by authority issued by the Head of Agency appointing or designating him as disbursing officer.

4.3 Further, it was observed that he did not maintain separate cashbook for each fund in his custody. This practice is not in accordance with Item 6.2 of COA Circular No. 97-002 which requires that *the AO shall maintain separate cashbooks for salaries, wages, allowances, etc. and for petty operating expenses. The AO shall record the transactions in the prescribed cashbook daily. He may record each invoice/receipt/voucher individually or the total disbursements for the day depending on the volume of the transactions.*

**4.4 We recommended and Management agreed to:**

**a. Issue the authority to the employee handling cash advances duly appointing or designating him to perform disbursing functions; and**

**b. Require the accountable officer to maintain separate cashbooks to record the transactions of the funds he is handling.**

**5. The Corporate Operating Budget (COB) for FY 2018 of PDGCC was not submitted for review to the Department of Budget and Management (DBM), contrary to Section 6 of Executive Order (EO) No. 518 dated January 23, 1979, Section 19, Chapter 3, Book VI of EO No. 292 series of 1987, and DBM Corporate Budget Circular (CBC) No. 22 dated December 1, 2016, thereby leaving the determination of the agency's operating budget to the estimation of management.**

5.1 Section 6, EO No. 518, Establishing a Procedure for the Preparation and Approval of the Operating Budgets of Government Owned or Controlled Corporations, provides:

> *Operating Budget. – Each government-owned or controlled corporation (GOCC) shall prepare an operating budget consisting of (1) estimates of revenues, (2) estimates of expenditure, and (3) estimates of borrowings. The expenditure estimates shall cover current operating and capital expenditures. The operating budget of each government owned or controlled corporation shall be prepared following such procedure and guidelines as may be determined by the President/Prime Minister. They shall be prepared prior to the beginning of the fiscal year and recommended by the Governing Board of the Corporation, for consideration and final approval by the President/Prime Minister.*

5.2 Section 19, Chapter 3, Book VI of EO No. 292, Administrative Code of 1987, reads:

> *Budgetary Requirements of the Government-Owned and Controlled Corporations. – The internal operating budgets of government-owned or controlled corporations and of chartered*

*institutions shall be approved by their respective governing boards in accordance with a budget calendar and format as may be approved by the President: Provided, that such budgets shall be subject to review and approval as part of the budget process in cases where national government budgetary support is needed, in terms of (a) capital or equity inputs, (b) operating contributions to support specific activities undertaken by the institution as part of its regular functions, and (c) guarantee of the national government for obligations or contracts entered into by the corporations: provided, further, that the submission of interim financial statements may be required by the Secretary.*

5.3 Item 3.1 of DBM CBC No. 22 dated December 1, 2016, bearing on the subject *Submission of the Corporate Operating Budget for FY 2017 and Thereafter*, covering GOCCs and Government Financial Institutions (GFIs) with or without budgetary support from the national government, requires that:

*GOCCs/GFIs shall prepare and submit their COBs to the Department of Budget and Management (DBM) prior to the beginning of the ensuing fiscal year but not later than December 31 of the current year. For GOCCs/GFIs receiving budgetary support from the national government, release thereof shall depend on the timely submission of their COBs.*

5.4 Verification showed that PDGCC did not submit its Board approved COB for FY 2018 to DBM. Instead, it was submitted to the Governance Commission for Government-Owned and Controlled Corporations (GCG) reasoning that since PDGCC does not receive support from the national government, its COB must be submitted to and approved by the GCG pursuant to Section 4, EO No. 203 dated March 22, 2016.

5.5 This action of PDGCC is not in accordance with the requirements of DBM CBC No. 22, being the more recent issuance. Granting, for the sake of argument, that PDGCC was correct, such submission to the GCG is still not complying with the provisions of the DBM CBC No. 22 as the COB was submitted 80 days late from the deadline.

**5.6 We recommended and Management agreed to submit the COB of PDGCC for the succeeding years to DBM in compliance with the provisions of DBM CBC No. 22 dated December 1, 2016.**

## COMPLIANCE WITH BIR RULES AND REGULATIONS

**6. PDGCC incurred unnecessary expenses in the total amount of P136,196.52 in penalty, interest and surcharge imposed by the Bureau of Internal Revenue (BIR) for its failure to file on time the withholding tax return and pay the corresponding tax due on taxes withheld for the month of May 2018 amounting to P386,010.**

6.1 Section 2.58, Item A.2.a of BIR Revenue Regulation (RR) No. 2-98 dated April 17, 1998 requires that *the withholding tax return, whether creditable or final, shall be filed and payments should be made within ten (10) days after the end of each month except for taxes withheld for December which shall be filed on or before January 25 of the following year.*

6.2 Section 248(A)1, National Internal Revenue Code (NIRC) of 1997 provides, that *there shall be imposed, in addition to the tax required to be paid, a penalty equivalent to twenty-five percent (25%) of the amount due in case of failure to file any return and pay the tax due thereon as required under the provisions of this Code or rules and regulations on the date prescribed.*

6.3 Section 248(A), NIRC of 1997 provides that *in general, there shall be assessed and collected on any unpaid amount of tax, interest at the rate of twenty percent (20%) per annum, or such higher rate as may be prescribed by rules and regulations, from the date prescribed for payment until the amount is fully paid.*

6.4 Review of the transactions showed that the withholding tax return for the taxes withheld amounting to P386,010 for the month of May 2018 and the payment for the corresponding tax thereon was eight days late from the prescribed 10-day period under Section 2.58, Item A.2.a of BIR RR No. 2-98.

6.5 As a consequence, PDGCC incurred unnecessary expenses in the form of interest, penalty and surcharge in the total amount of P136,197.

6.6 Inquiry disclosed that the withheld amount was not timely remitted because the other check signatories were on official travel abroad. The check was signed and submitted for payment thru bank on June 11, 2018 but it was not accepted and was instructed to pay directly to BIR. The check was submitted to BIR on June 13, 2018 since June 12, 2018 was a regular holiday. Further, it is informed that the BIR computed the penalty up to June 18, 2018 since the payment was processed after the computation.

6.7 The incurrence of additional expenses due to late payment of withheld taxes is considered unnecessary expenses. Unnecessary expenses as defined in Section 4.1 of COA Circular No. 2012-003 dated October 29, 2012 *pertains to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation. This would also include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time. An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary. The mission and thrusts of the agency incurring the expenditures must be considered in determining whether or not an expenditure is necessary.*

**6.8 We recommended and Management partially agreed to:**

**a. Hold the persons responsible for the late payment of taxes; and**

**b. Henceforth, strictly comply with BIR rules and regulations to avoid the incurrence of unnecessary expenses.**

6.9 Management explained that the issue on check signatories occasionally posed a challenge since the designated signatories are members of the Board of Directors. They are not expected to be always there all the time for PDGCC processes since they are busy officials in their respective offices and at times they are on official travel, either local or abroad.

6.10 As an area of improvement, PDGCC will request all concerned check signatories to inform in advance the employee in-charge whenever they have official travels.

6.11 As a rejoinder, we suggested that levels of signing authority be defined so as to fill the gap and to avoid the occurrence of the same in the future.

## GENDER AND DEVELOPMENT

**7. PDGCC did not create a GAD Focal Point System (GFPS) as required under Item 4.1 of the Philippine Commission on Women (PCW), National Economic Development Authority (NEDA), and Department of Budget and Management (DBM) Joint Circular No. 2012-01 resulting in non-integration of gender related programs, activities and projects (PAPs), non-implementation of the GAD Plan and Budget, and improper preparation of GAD Accomplishment Report.**

7.1 Item 4.1 of PCW-NEDA-DBM Joint Circular No. 2012-01 provides that *as required by the Magna Carta for Women (MCW) and following the PCW Memorandum Circular No. 2011-01 (Guidelines for the Creation, Strengthening and Institutionalization of the Gender and Development [GAD] Focal Point System), all agencies should have an institutionalized and functional GAD Focal Point System (GFPS).*

7.2 As defined in Item 3.5 of PCW Memorandum Circular No. 2011-01 dated October 21, 2011, *GAD Focal Point System is an interacting and interdependent group of people in all government instrumentalities tasked to catalyze and accelerate gender mainstreaming. It is a mechanism established to ensure and advocate for, guide, coordinate, and monitor the development, implementation, review and updating of their GAD plans and GAD-related programs, activities and projects (PAPs).*

7.3 The GFPS serves as the lead in gender mainstreaming in the agency PAPs, coordinate the preparation of the agency GAD Plan and Budget (GPB) and the GAD Accomplishment Report (AR), monitor its implementation and report on its results, and provide technical assistance to offices or units within their agency on gender mainstreaming.