

## OBSERVATIONS AND RECOMMENDATIONS

1. A total of 21.18 square meters was not included in the computation of assessment dues for the area occupied by the Bureau of the Treasury (BTr) and Office of the President of the Philippines (OP) due to miscalculation, contrary to Sections 4 (a) and (b), Part II of the Master Deed with Declaration of Restriction (MDDR), Section 1, Article V of the, Amended Bylaws of the PDGCC. Thus, each unit owner is not contributing to the maintenance and operating expenses based on proprietary interest.

- 1.1 Section 4 (a) and (b), Part II of the MDDR of the PDGCC dated 30 August 1976 states that:

(a) *Assessments against Unit Owners or Purchasers for Common expenses (herein referred to as "Common Expenses) shall be made pursuant to the By-Laws of the Condominium Corporation and in **proportion to such Unit Owner's appurtenant interest in the Condominium Corporation** xxx. (Emphasis ours)*

(b) *Particular Units may also be subject to special assessments authorized in accordance with the Declaration of Restrictions or the By-laws of the Condominium Corporation for non-Common Expenses.*

- 1.2 Section 1, Article V of the Amended Bylaws of the PDGCC on Operating Expenses states that:

*The **individual contribution of each member** to the common fund shall be **proportionate to their proprietary interest** or participation in the corporation. The members shall then replenish monthly the common fund with their determined share and/or consumption on any disbursement from the common fund. (Emphasis ours)*

- 1.3 It has been the practice of the Corporation to bill monthly the unit owner/tenant based on the unit area it occupies and on the rate of assessment dues per square meter for its maintenance and operating expenses. In CY 2020, the basis for the computation of assessment dues is PDGCC Board Resolution No. 01, series of 2018, dated January 4, 2018. The said Resolution, which became effective in January 2018, charges each unit owner monthly assessment dues in the amount of P60 per square meter occupied.

- 1.4 The unit area owned by the BTr, Intramuros Administration (IA) and OP are 15,607 square meters (sq.m.), 3,711 sq.m. and 9,590 sq.m., respectively, or a total area of 28,908 sq.m., detailed as follows:

Owner	Date of issuance of Condominium Certificate of Title	Floor	Area (sq.m.)
	August 19, 1981	¼ of ground floor	745
BTr	November 13, 1980	2 <sup>nd</sup>	3,729
	November 13, 1980	3 <sup>rd</sup>	3,711
	November 13, 1980	4 <sup>th</sup>	3,711
	December 20, 1988	6 <sup>th</sup>	3,711
			<b>15,607</b>

Owner	Date of issuance of Condominium Certificate of Title	Floor	Area (sq.m.)
IA	January 30, 1981	5 <sup>th</sup>	<b>3,711</b>
		¾ of ground floor	2,235
OP	November 14, 1980	7 <sup>th</sup>	3,711
		8 <sup>th</sup>	3,644
			<b>9,590</b>
<b>Total</b>			<b>28,908</b>

- 1.5 The computation of the monthly assessment dues based on the board resolution discussed in Paragraph 1.4, are as follows:

Occupants	Assessment		
	Area (sq.m.)	Cost/ sq. m.	Total
<b>Areas owned by BTr:</b>			
Bureau of the Treasury	13,921.81	60	835,309
Pag-IBIG	684.90	60	41,094
TRC	1,000.00	60	60,000
Total	15,606.71		936,403
<b>Areas owned by OP:</b>			
Commission on Election	8,099.71	60	485,983
PACC	745.07	60	44,704
Land Bank of the Philippines	723.50	60	43,410
Total	9,568.28		574,097
<b>Areas owned by IA</b>	3,710.60	60	222,636
<b>Total monthly assessment dues</b>	<b>28,885.59</b>		<b>1,733,136</b>

- 1.6 The Corporation overbilled the BTr by 0.40 square meters and underbilled the OP by 21.58 square meters, or a net under billing of 21.18 square meters, computed as follows:

Occupants	Owned (sq.m.)	Billed (sq.m.)	(Over)/Under billing (sq.m.)
<b>Areas owned by BTr:</b>			
Bureau of Treasury		13,921.81	
Pag-IBIG		684.90	
NTRC		1,000.00	
Total	15,606.31	15,606.71	( 0.40)
<b>Areas owned by OP:</b>			
Commission on Election		8,099.71	
PACC		745.07	
Land Bank of the Philippines		723.50	
Total	9,589.86	9,568.28	21.58
<b>Areas owned by IA</b>			
Intramuros Administration		3,710.60	
Total	3,710.60	3,710.60	0
<b>Grand total</b>	<b>28,906.77</b>	<b>28,885.59</b>	<b>21.18</b>

- 1.7 In summary, the actual areas occupied versus the square meter areas billed showed a difference of 21.18 square meters equivalent to P1,270.80 per month or a total of P15,250 for CY 2020, which was not included in the assessment/billing/collection from the unit owners for the maintenance and operating expenses of the Corporation. Thus, understating the asset and

income accounts for the year by the same amount. The said underbilling has been going on for the past 24 years, approximately. Hence, each unit owner has not been contributing to the maintenance and operating expenses based on proprietary interest.

1.8 The Management is still in the process of identifying the period covered of the overbilling to the BTr and underbilling to the OP.

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

- a. **Determine the covering period of the over/underbilling and recompute the amount to be billed to each unit owner based on the correct areas occupied over the years of over/underbilling;**
- b. **Issue a Statement of Account to BTr and OP for the over/underbilled assessment dues for the current and prior years;**
- c. **Recognize in the books the over and underbilled assessment dues;**
- d. **Collect the assessment dues from OP on the underbilled portion for the current and prior years; and**
- e. **Observe proper review of the PDGCC transactions, particularly on assessment dues.**

2. **The Corporation bills and collects assessment dues, electricity and water consumption directly from the lessees/occupants of the unit owners which are outside of its mandate as stated in Section 4 (a) and (b), Part I of the MDDR, Section 1, Article V of the Amended Bylaws, Letter (k) of Articles of Incorporation, and contrary to Section 2 - Concepts and Pervasive Principles of PFRS for SE, resulting in the misrepresentation of the Due from National Government Agencies (NGA) and Government Corporations (GC) accounts.**

2.1 Section 4(a) and (b), Part II of the MDDR of the PDGCC dated 30 August 1976 states that:

a) ***Assessments against Unit Owners or Purchasers for Common expenses (herein referred to as "Common Expenses) shall be made pursuant to the By-Laws of the Condominium Corporation and in proportion to such Unit Owner's appurtenant interest in the Condominium Corporation xxx.***

b) *Particular Units may also be subject to special assessments authorized in accordance with the Declaration of Restrictions or the By-laws of the Condominium Corporation for non-Common Expenses. (Emphasis ours)*

2.2 Section 1, Article V, Amended Bylaws of the PDGCC on Operating Expenses states that:

*The individual **contribution of each member** to the common fund shall be proportionate to their proprietary interest or participation in the corporation. The **members shall then replenish** monthly the common*

*fund with their determined share and/or consumption on any disbursement from the common fund. (Emphasis ours)*

- 2.3 One of the incidental powers of the Condominium Corporation, as stated in Letter (k) of the Articles of Incorporation, is:

***To levy and collect such assessment against the owners of units in the project as are provided for in the Master Deed with Declaration of Restrictions of the Project and/or as approved and authorized by the Board of Directors. (Emphasis ours)***

- 2.4 Paragraph 3, Section 2 - Concepts and Pervasive Principles, PFRS for SE provides that:

*The objective of financial statements of an entity applying this Framework is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.*

- 2.5 The unit owners are automatically members of the Condominium Corporation, to the exclusion of others [Section 8(b) Part I, MDDR]. The condominium units are owned by the BTr, the IA and the OP. All the units of the eight-storey building project were apportioned and acquired by the said agencies and corresponding Condominium Certificates of Title were issued.

- 2.6 However, the BTr and OP, further entered into tenancy contracts with other government agencies. The Home Development Mutual Fund (HDMF), National Tax Research Center (NTRC), National Coordinating Office (NCO), Municipal Development Fund Office (MDFO) are tenants of the BTr. While the Commission on Election (COMELEC), Presidential Anti-corruption Commission (PACC), and Land Bank of the Philippines (LBP) are tenants of the OP.

- 2.7 Though the PDGCC is not a party to the lease/tenancy contract, the Corporation was furnished a copy of the contract for purposes of billing the unit owner's tenants of the water, electricity and assessment dues as stated in the said contract. A reference was made on a copy of CY 2020 Memorandum of Agreement between the BTr and HDMF to illustrate the content of the contract relative to the billings made by the PDGCC to the tenants of the unit owners. To wit:

*3. The **LESSEE**, per proposal from the Bureau of the Treasury of the Philippines which is hereby attached as Annex "B", shall also pay to the Administrator of Palacio del Gobernador building the following:*

*a. Expense charge amounting to **SIXTY PESOS ONLY (Php 60.00)** for every sq. m. every month for the general administrative, maintenance and operating expenses of the building, subject to adjustments that may be approved by the PDGCC Board, with written notice at least thirty (30) days prior to effective date of adjustment. Xxx*

*b. Variable expense charge for light and power based on actual monthly power charges of the building pro-rata to the Leased Premises.*

c. Variable expense charge for water based on actual monthly water charges of the building pro-rata to the number of employees of the LESSEE including janitorial and security personnel for the month.

d. Special Assessments amounting to **ONE HUNDRED FORTY THOUSAND FOUR HUNDRED FOUR PESOS & FIFTY CENTAVOS (Php 140,404.50)** for 2019/2020 representing pro rata contribution for the rehabilitation of 8 male and female comfort rooms, at 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, & 8<sup>th</sup> Floors, as well as the lobby, walls and ceilings in these areas of the Palacio del Gobernador, per attached PDGCC Board Resolution No. 07 Series of 2018 xxx.

2.8 It has been the practice of the Corporation to bill the tenants of the BTr and OP on its electricity usage, water consumption and assessment dues. The following are the journal entries made in booking the receivables from the tenants of the unit owners:

Dr. Due from NGA	Pxxx	
Dr. Due from GC	Pxxx	
Cr. Other payables – Maynilad		Pxxx
Cr. Other payables – Meralco		Pxxx

To set up receivables for water consumption and electricity usage.

Dr. Other receivable – Assessment dues	Pxxx	
Cr. Other business income – Assessment dues		Pxxx

To set up receivables from occupants on the assessment dues.

2.9 The contracts between the unit owners and its tenants are binding between them, as parties in the agreement. The Condominium Corporation is not a party thereto and the tenant/lessees are not of the Corporation, but that of the unit owners. Hence, the Corporation has no definite personality in the agreement.

2.10 Further, the Corporation is mandated by Section 4(a) and (b), Part II of the MDDR, Letter (k) Articles of Incorporation, and Section 1, Article V, Amended By-Laws to assess, levy, and collect from its unit owners.

2.11 Thus, it is inappropriate for the Corporation to directly bill and collect the electricity and water consumption from the lessees/occupants of the unit owners and to use the accounts Due from NGA and GC as the nature of the transactions are due from the tenants of the Corporation's unit owners where the Corporation has no contractual obligations to collect from them. For simplification and regularity of accounting records, the Corporation must record the bill for electricity and water as receivable from BTr and OP instead of directly collecting from the tenants.

2.12 **We recommended that Management:**

- a. **Observe the limitations set forth in Section 4(a) and (b), Part II of the MDDR, Section 1, Article V of the Amended Bylaws and Letter (k) Articles of Incorporation by refraining from levying and collecting assessment dues, electricity and water consumption from the lessees of unit owners; and**

**b. Reclassify the receivables from the tenants/lessees of BTr and OP to receivables from BTr and OP.**

2.13 Management partially agreed to the recommendations. All renewals of lease contracts will include the conforme of PDGCC, thus, making the PDGCC a counterparty to the contract.

2.14 As a rejoinder, the Audit Team considers Management’s comments on the recommendations, however, compliance will be monitored in future contracts of lease.

**3. The Corporation is charging the unit owners/occupants on a monthly basis the amount of P60 per square unit area occupied based on Board Resolution No. 01, series of 2018, contrary to Section 1, Article V, Amended By-Laws of the Corporation resulting in Management’s limited action on repair, rehabilitation, among others, on the aging building.**

3.1 Section 1, Article V, Amended Bylaws of the PDGCC on Operating Expenses states that:

*Section 1. Common Fund for Operating Expenses. Since the general maintenance of the condominium is the responsibility of the Corporation, the Board of Directors shall, **from time to time and at least annually, prepare an estimate of the condominium’s monthly expenses.** To ensure the smooth operation of the condominium specially in regard to its consumption for utilities and other expenses being billed by suppliers and/or contractors directly to the Corporation, the Board of Directors shall require each member to contribute to a common fund for such expenses in an amount equivalent to **at least three (3) months estimated expenses.** (Emphasis ours)*

3.2 The PDGCC Board issued Resolution No. 01, series of 2018, dated January 4, 2018, charging each unit owner monthly assessment dues in the amount of P60 per square meter occupied, effective January 2018. On October 27, 2020, Board Resolution No. 08 was issued increasing the assessment dues from P60 to P75 per square meter effective January 2021. Such was issued based on the Management’s annual planned projects for the maintenance of the PDG Building and Annual Budget for CY2021. Ergo, from January 2018 to December 2020, assessment dues per square meter occupied by the unit owner is at P60. For three years, the Corporation has a fixed annual total collection of P20.798 million for assessment dues.

3.3 The planned projects of the Corporation for CYs 2020 and 2021 amounted to P21.997 million and P27.837 million, respectively. Thus, the annual collection of P20.798 million for CY 2020 and P25.997 million for CY 2021, computed at the rate of P60 and P75 per occupied square meter, respectively, is not enough to finance the planned projects. Details are as follows (in millions):

<b>Particulars</b>	<b>Cost of Planned Projects</b>	<b>Annual Collection</b>	<b>Deficit</b>
CY 2020	21.997	20.798	1.199
CY 2021	27.837	25.997	1.840

- 3.4 Inquiry with the PDGCC personnel disclosed that the Management prepares and limits its budget based on the expected assessment dues collection for the year. Hence, their annual projects are limited only to the most urgent needing repair/rehabilitation, among others. Others were set aside due to limited funds.
- 3.5 The Management's practice of charging monthly its unit owner/occupants based on assessment cost per square unit occupied is a deviation from the requirement of the Corporation's Amended Bylaws that each member is obliged to contribute to a common fund for its maintenance and operating expenses in an amount equivalent to at least three months estimated expenses resulting in a fixed amount collection for the year. Thus, constraining Management's action on other pressing projects that needs to be accomplished.
- 3.6 **We recommended and Management agreed to:**
- a. **Prepare a short-term, mid-term (three years), and long-term plan (at least five years), for repairs and maintenance of the building. The plan should be responsive to the requirements of the aging building;**
  - b. **Based on the plan, prepare a budget of monthly expenses of the Corporation for maintenance and operating expenses; and**
  - c. **Bill the unit owners in an amount that will raise the common fund to a balance equivalent to at least three months estimate of expenses of the Corporation on maintenance and operating expenses as provided in Section 1, Article V, Amended Bylaws of the Corporation.**
4. **The fidelity bond of the Collecting and Disbursing Officer is not sufficient to cover his actual accountability, contrary to Section 7.3 of Treasury Circular (TC) No. 02-2009 exposing the Corporation, in cases of losses resulting from the unlawful deposit, use, or application of public funds, and for all losses attributable to negligence in the keeping of such funds.**
- 4.1 Section 7.3 of TC No. 02–2009 states that: *Any increase in the amount of accountability, resulting to an increase in the amount of bond shall be subject to increase in premium.*
- 4.2 Further, Section 4.5 of TC No. 02–2009 provides that: *Every officer, agent and employee accountable for public funds shall be liable for all losses resulting from the unlawful deposit, use, or application thereof, and for all losses attributable to negligence in the keeping of such funds.*
- 4.3 Cash examination conducted on January 20, 2021 for the period covering January 1, 2020 to January 20, 2021 disclosed that the accountable officer has an approved bond in the amount of P100,000 as per confirmation letter dated February 19, 2020.
- 4.4 Annex C of TC No. 02–2009 that provides the revised schedule of premium rates shows that the approved bond of the accountable officer in the amount of P100,000 covers the maximum cash accountability of P250,000.

- 4.5 The Corporation maintains a bank account for their regular operations. Deposits therein are collections from unit owners and tenants which are, either, in the form of cash, checks, credit memos, money orders, and Advices to Debit Account. Except for cash and several check collections, they are all directly deposited to the Corporation's bank account by the unit owners and tenants.
- 4.6 The Report of Collections and Deposits for CY2020 shows a total collection of P51.814 million, broken down as follows:

<b>Particulars</b>	<b>Amount</b>
Cash	4,485
Advices to debit account	8,561,000
Checks	13,524,319
Money orders	29,724,016
<b>Total</b>	<b>51,813,820</b>

- 4.7 The actual cash collection of the accountable officer (AO) for CY 2020 totaling P4,485 represents cash refunds, electricity bills, and room rentals. These range from as low as P23 and as high as P2,500. Moreover, his CY 2020 check collections ranged from P5,411 to P672,164, or a total of P13,524,319, from payments of unit owner/tenants on electricity bill, water consumption, and assessment dues.
- 4.8 It was observed that there were instances that cash and check collections of the AO reached beyond his maximum cash accountability of P250,000 representing collection from IA and BTr on utility bills and assessment dues. On January 20, 2020, the AO has a total check collection of P1.502 million.
- 4.9 It was also observed that PDGCC Board Resolution No. 01, series of 2019, designating the said AO as Collecting and Disbursing Officer of the PDGCC does not specify the amount of his total accountability. His maximum accountability of P250,000 is stated in the PDGCC's Request for Bonding and/or cancellation of Bond of Accountable Officials and Employees of the Republic of the Philippines, signed by the Chairman, PDGCC Administrative Committee, instead of the Head of the Agency as required in 5.1 TC No. 02-2009 dated August 6, 2009.
- 4.10 The range of cash and check collections of the AO was not reviewed by the Administrative Committee. Thus, exposes the Corporation to the risk of incurring indemnifiable losses such as defalcations, shortages, unrelieved losses in the handling of public funds, among others.
- 4.11 **We recommended and Management agreed to:**
- a. **Monitor the average daily collections and disbursements of the AO; and**
  - b. **Update the amount of bond based on the AO's average daily accountability in accordance with the BTr TC No. 02-2009.**

5. **Annual physical count of Inventories and Property and equipment (PE) accounts with balances of P237,851 and P10.724 million, respectively, were not conducted and lack proper documentation, contrary to the pertinent provisions of Presidential Decree (PD) No. 1445, COA Circular Nos. 80-124, 2016-006, 2020-006 and Treasury Circular No 02-2009.**

5.1 Chapter 2, Title III of PD No. 1445 provides that:

*Section 111. Keeping of accounts.*

*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.*

5.2 COA Circular No. 80-124 dated January 18, 1980 on Inventory of Fixed Assets provides that:

*III. Responsibility and Accountability*

*X x x.*

*Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof shall be properly bonded in accordance with law.*

*X x x.*

*IV. Period of Inventory*

*Physical inventory of fixed assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated herein.*

*V. Guidelines for Inventory –Taking*

*X x x.*

*2. Government property shall be properly labelled and identified by the Inventory Committee. Inventory labels of special materials shall contain among others the individual property number to be provided by the corporation concerned. These numbers shall be uniformly printed in India Ink, to achieve permanence and best results, and shall be posted on a prominent but secure portion of the property for easy identification.*

*X x x.*

5.3 Sections 5.6 and 5.7 of COA Circular No. 2020-006 dated January 31, 2020 provide that:

*Each government agency shall adopt a uniform property identification system for PPE wherein a unique Property Number shall be assigned for each PPE item, using the following numbering system: xxx*

For easy identification, the Property Number shall be prominently shown in the property sticker, in addition to the following vital information on the PPE item:

- a. Description of the property
- b. Model Number
- c. Serial Number
- d. Acquisition Date/Cost
- e. Person Accountable
- f. Space for the validation/signature of the Inventory Committee

5.4 COA Circular No. 2016-006 dated December 29, 2016 provides:

**5.4.3 Inventory Custodian Slip (ICS) shall be issued to end-user to establish accountability over the semi-expendable property.** Accountability shall be extinguished upon return of the item to the Property and Supply Division/Unit or in case of loss, upon approval of the relief from property accountability. (Emphasis ours)

5.5 Section 4 of Treasury Circular No. 02-009 dated August 6, 2009 provides that:

*4.4 Accountability for Public Property - Every officer, agent and employee, accountable for public property shall be liable for its money value in case of improper or unauthorized use or misapplication thereof, by himself or any person for whose acts he may be responsible. He shall likewise be liable for all losses, damages or deterioration due to negligence in the keeping or use of the property, whether or not it be, at the time of such loss, damage or deterioration, in his actual custody.*

5.6 The carrying amount of the Inventories and PE accounts in the Statement of Financial Position as at December 31, 2020 are as follows:

Account title	Carrying amount
<b>Inventories:</b>	
Office supplies inventory	98,818
Accountable forms, plates and stickers inventory	4,700
Other supplies and materials inventory	48,490
Semi-expendables - Information and communication technology equipment	54,971
Semi-expendables - Furniture and fixtures	30,872
<b>Sub-total</b>	<b>237,851</b>
<b>Property and equipment:</b>	
Office equipment	29,426
Information and communication technology equipment	9,717
Furniture and fixtures	3,446
Other property, plant and equipment	10,490,042
Transportation equipment - motor vehicle	191,008
<b>Sub-total</b>	<b>10,723,639</b>
<b>Grand total</b>	<b>10,961,490</b>

5.7 Inquiry with PDGCC staff and validation from pertinent records disclosed the following:

- a. There is no physical inventory conducted for the above-mentioned assets in CY 2020;
  - b. There is no Property/Equipment Ledger Card maintained by the bookkeeper of the Corporation for each category of PE where records of acquisition, description, custody, estimated useful life, rate of depreciation, disposal and other obligations incurred are maintained;
  - c. Property/Equipment Cards are not maintained for each class of PE and inventories by the Supply and Property Officer of the Corporation;
  - d. The items in PE account are not covered by PAR or ARE or MR. Hence, there is no acknowledgement of receipt by the end-user of the issued PE, resulting in difficulty in establishing the accountability thereof;
  - e. The property tag attached to the PE has no specific space for model number, serial number, person accountable on the PE, and the property numbering system are not compliant with the requirements of COA Circular No. 2020-006;
  - f. Non-use of the ICS form in the issuance of semi-expendable items;
  - g. Custodians of PE and inventories are not properly bonded; and
  - h. The property custodian was not sent to any training on supply and property management.
- 5.8 The above-mentioned deficiencies are indications that the Corporation has poor internal control over the PE and inventories, and non-compliant with pertinent government rules and regulations on proper. The Corporation's assets are not safeguarded, thus, exposing them to risk of loss.

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

- a. **Create a committee or assign personnel to conduct annual physical count of all PE and Inventories to establish the existence and determine the condition of the assets;**
- b. **Prepare a Report of Physical Count of Property and Equipment and reconcile with the accounting records to establish the correct value of PE and submit copies to the Office of the Auditor;**
- c. **Maintain and update the Subsidiary Ledger, Property Card and PAR for each item of PE and ICS for semi-expendable inventories;**
- d. **Assign property numbers to all PE;**
- e. **Include the accountability on PE and Inventory on the fidelity bond calculation; and**
- f. **Send to trainings/seminars the Property Custodian on the keeping, maintenance and disposition of PE for proper guidance in property management.**

6. **Unserviceable/obsolete property and equipment (PE) with net book value of P79,875 were not yet disposed, contrary to Section 79 of the P.D. No. 1445, thus, exposing them to further deterioration and depriving the Corporation of additional funds from the proceeds of sale thereof.**

6.1 Section 79 of P.D. No. 1445 otherwise known as the Government Auditing Code of the Philippines provides:

*Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*

6.2 Based on the lapsing schedule of Property and Equipment (PE) as at December 31, 2020, ocular inspection and inquiry were conducted to determine the status of PE items listed therein. It was observed that 11 items with net book value totaling P79,875 are already unserviceable, out of order, worn out, among others. Details are as follows:

Particulars	Cost	Scrap value	Net book value	Remarks
Automatic drop bar barrier	68,707	3,435	3,435	Out of order;
Automatic drop bar barrier	68,707	3,435	3,435	Replaced by auto
Smart automatic drop bar barrier	44,800	2,240	2,240	roll-up/down basement gate, for disposal
HDTV closed television system	33,353	1,668	27,016	Unserviceable
Scanjet PRO 4500 FN1	44,946	2,247	16,480	Unserviceable
Desktop pc with 23.6" Samsung monitor	41,800	2,090	19,298	Obsolete
Robin genset - RG3500	23,310	1,166	1,166	For testing, left idle since 2014
3M Nomad heavy traffic with backing/ matting	60,988	3,049	5,015	Worn-out
Carrier split type aircon 2.0 HP/1.5 indoor	17,900	895	895	Unserviceable
Carrier split type aircon 2.0 HP/1.5 outdoor	17,900	895	895	Unserviceable
<b>Total</b>	<b>422,411</b>	<b>21,120</b>	<b>79,875</b>	

6.3 Moreover, various PE were also found in other parts of the basement area and storeroom that are neither included in the lapsing schedule nor recorded

in the books, but seemingly, are for disposal. The Management has no policy on disposal of unserviceable assets.

- 6.4 The Management's inaction on the above-stated PE items resulted in its inability to avoid unnecessary expenses and prevent further deterioration. On the other hand, the Corporation can obtain fair return; relieve the accountable officers from accountability; and make available space for the Corporation if these will be immediately sold or disposed.
- 6.5 **We recommended and Management agreed to:**
  - a. **Conduct physical inventory of the PE to determine the disposable/unserviceable items and report them in the Inventory and Inspection Report of Unserviceable Property (IIRUP); and**
  - b. **Establish the Corporation's policies and guidelines on the disposal of unserviceable assets, and immediately dispose the items for disposal.**
7. **The Chief Executive Officer and Appointive Directors of the PDGCC did not pass through the process of review and nomination of the GCG and approval of appointment by the President of the Philippines due to inconsistency between Section 1, Article III of the Amended Bylaws and Sections 3b and 5e, Chapter 1 and Sections 15 and 16 of Chapter IV, Republic Act (RA) No. 10149, resulting in the Corporation's inability to exercise check and balance.**
  - 7.1 Paragraph 2, Section 3b, Chapter 1 of RA No. 10149 otherwise known as GOCC Governance Act of 2011 defines Appointive Directors as:

*(2) In the case of non-chartered GOCCs, members of its Board of Directors/Trustees whom the State is entitled to nominate, to the extent of its percentage shareholdings in such GOCC; xxx*
  - 7.2 Section 5(e), Chapter 1 of RA No. 10149 provides that:

*(e) In addition to the qualifications required under the individual charter of the GOCCs and in the bylaws of GOCCs, without original charters, the GCG shall identify necessary skills and qualifications required for Appointive Directors and recommend to the President a shortlist of suitable and qualified candidates for Appointive Directors;*
  - 7.3 Section 15, Chapter IV of RA No. 10149 on the Appointment of the Board of Directors/Trustees of GOCCs, states that:

*An Appointive Director shall be appointed by the President of the Philippines from a short list prepared by the GCG.*
  - 7.4 Section 16, Chapter IV of RA No. 10149 on Fit and Proper states that:

*All members of the Board, the CEO and other officers of the GOCCs including appointive directors in subsidiaries and affiliate corporations shall be qualified by the Fit and Proper Rule to be determined by the GCG in consultation and coordination with the relevant government*

*agencies to which the GOCC is attached and approved by the President.*

7.5 The GCG Memorandum Circular No. 2012-05 entitled *Fit and Proper Rule for Appointive Directors and CEOs of GOCCs* provides six criteria under Minimum Qualification of Appointive Directors and CEOs; nine criteria for permanent disqualification; and 21 criteria on Temporary Disqualification.

7.6 Section 1, Article III of the Amended Bylaws of the PDGCC provides a section on composition, election and term of office which states that:

*The Corporation shall be governed and its affairs managed and controlled by a Board of Directors composed of Nine (9) members – eight (8) members of who shall be elected by and from among the non-delinquent members of the Corporation and One (1) ex-officio member to be appointed by the duly elected directors.*

7.7 In compliance with the amended Bylaws and in reference to the PDGCC Board of Directors (BOD) Minutes of Members' Meeting dated 28 August 2020, its members elected the current PDGCC Officers. However, inquiry with PDGCC personnel disclosed that there was no list of nominations for the PDGCC Board membership submitted to GCG, ergo, the members of the PDGCC BOD were not approved by the President of the Philippines as required in several provisions of R.A. No. 10149 as herein quoted in paragraphs 7.1 to 7.4. Hence, they do not have appointment from the OP.

7.8 Notably, R.A. No. 10149 took effect only in 2011 while the Bylaws of the PDGCC was inked in 1982. The PDGCC was not able to incorporate Section 15, Chapter IV of RA No. 10149 in their Bylaws. Further, it is observed that there are inconsistencies between the provisions of Section 15, Chapter IV of RA No. 10149 and Section 1, Article III of the Amended Bylaws of the PDGCC concerning the election and appointment of the Board of Directors of the Corporation. The former requires that the Appointive Director must be appointed by the President of the Philippines from a short list prepared by the GCG, while the latter requires that election be done by and from among the non-delinquent members of the Corporation and one ex-officio member to be appointed by the duly elected directors.

7.9 Thus, the Corporation was not able to exercise check and balance espoused by the Fit and Proper Rule as provided in Section 16, Chapter IV of RA No. 10149 and GCG Memorandum Circular No. 2012-05 since its governing board did not pass through the process of review and nomination of the GCG. Instead, the owners appoint the members of the governing board who are also occupying positions as officers of the Corporation.

**7.10 We recommended that Management:**

- a. **Submit a list of nominations for the chief executive officer and appointive directors of the PDGCC to the GCG in accordance with the provisions of RA No. 10149; and**
- b. **Bring to the attention of the BOD the amendment of the PDGCC's Bylaws effecting the provisions of Section 15, Chapter IV of RA No. 10149.**

- 7.11 Management commented that the PDGCC is the smallest GOCC in terms of complement and finances. Membership in the Board is limited to the three National Government Agencies that own the building. Traditionally, each of the heads of three owner-agencies designates their representative/s to the PDGCC Board. The top officer of the Owner-Agency designates agency officer/s who are familiar with the operations of the PDGCC, or who are competent to assist in the management of the building. Opening the Board Membership to outsiders might not redound to the benefit of PDGCC. The subject has also been raised by the GCG a few years ago. But Management explained the PDGCC situation to the GCG in the letter to GCG dated December 4, 2014 which was not yet answered as of writing. However, the Management agreed to the recommendation and sought the Audit Team's assistance to address the issue.
- 7.12 The Audit Team recognizes the distinctiveness of PDGCC from other GOCCs for the fact that it was only organized for the purpose of holding title to all the common areas in the building where they hold office. However, we are not amenable that opening the Board seats to outsiders who are experts on the management of buildings might not be beneficial to the Corporation. Instead, it could be an opportunity for improvement. Thus, we maintain our recommendations. Otherwise, follow up the request for exemption from the requirements of Section 15, Chapter IV of RA No. 10149 to the GCG.

## **8. Remittance of mandatory SSS, PhilHealth and HDMF Contribution**

- 8.1 For CY 2020, the Corporation complied with the mandatory contributions required under the RA No. 11199 or the Social Security Act of 2018, IRR of RA No. 7875, as amended, otherwise known as the National Health Insurance Act of 2013, and IRR of RA No. 9679 or the Home Development Mutual Fund Law of 2009. Further, the Corporation also deducted amortizations due from their employees and diligently remitted the same including the employer's share to the respective agencies within the prescribed period.