

itemized list of the claimants' names, their respective signatures, the date and the amount they received. Details are as follows:

Source documents	Amount	Remarks
Disbursement vouchers	145,393	Without certification from Agency Head
Liquidation reports	203,600	No attached supporting documents
	<b>348,993</b>	

- 5.23 We stress that the requirement to support the DVs with complete documentation is one of the fundamental principles in disbursing government funds to ensure that every transaction is valid, legal and with the correct amount.
- 5.24 Meanwhile, with the implementation of CPCS and subsequent issuance of CPCS Circular No. 2021-010, it can be understood that monetary grant of communication allowances to officers and employees is not allowed, and that reimbursed allowances shall be supported with billing statements and official receipts to be considered regular and be allowed in audit.
- 5.25 Contrary to Item 6.2 of COA Circular No. 2012-001 and other pertinent regulations, telephone expenses totaling P348,993 were not fully supported with the documentary requirements rendering the validity, propriety, and legality of the transactions doubtful.
- 5.26 **We recommended that Management:**
- a. **Institute internal rules, guidelines, and/or procedures following the general guidelines and limitations prescribed under CPCS Circular No. 2021-010 and GCG MC No. 2012-02 (Re-Issued), and consider the important factors enumerated under Section 2.2 of COA Circular No. 2012-003 and the tax implication on the grant of monetary communication allowance;**
  - b. **Stop the grant of excessive or irregular communication allowance;**
  - c. **Immediately submit to the Audit Team the lacking documentary requirements to support the DVs on the payment of telephone expenses amounting to P348,993 in CY 2022 as prescribed in COA Circular No. 2012-001;**
  - d. **Ensure henceforth that the DVs are supported with complete documentation; and**
  - e. **Exercise close supervision over the review of supporting documents attached to the DVs and liquidation reports.**
- 5.27 Management commented that the PDGCC Administrative Committee has prepared Policy/Guidelines on Communication Allowance in compliance

with CPCS, and the same has been slated for consideration of the Board of Directors in their forthcoming meeting. In the meantime, the grant of communication allowance in excess of the limitations provided in the CPCS guidelines is held in abeyance in compliance with the audit recommendations. In addition, the lacking documents will be submitted to the Audit Team upon completion of the documents.

5.28 As an audit rejoinder, the Audit Team will monitor and evaluate the courses of actions to be taken by the management to comply with the audit recommendations.

**6. The PDGCC allowed a lessee from the private sector to access, occupy, and install telecommunication equipment and mobile genset on their premises despite the non-execution of a valid lease contract with the lessee, contrary to the relevant provisions of COA Circular No. 88-282A, hence, the rights and obligations of both parties cannot be ascertained, resulting in the deferred collection of revenues amounting to P560,000 and non-collection of advance lease payments and security deposit aggregating P120,000.**

6.1 Articles 1305 and 1643 of the Civil Code of the Philippines state that:

*Art. 1305. A contract is a **meeting of minds between two persons** whereby one binds himself, with respect to the other, to give something or to render some service.*

*Art. 1643. In the lease of things, one of the parties binds himself to give another the enjoyment or use of a thing for a price certain, and for a period which may be definite or indefinite. xxx (Emphasis supplied)*

6.2 COA Circular No. 88-282A provides:

*The contract of lease shall be embodied in a public instrument and shall integrate all the covenants, understanding and agreements of the LESSOR and LESSEE. Such terms and conditions shall include, but not limited to, the following:*

xxx

*2.2 Rights and Obligations of Both Parties*

***The rights and obligations of both parties shall be clearly defined to preclude ambiguity and shall be fair and equitable to both parties.** (Emphasis supplied)*

6.3 A lease agreement guarantees the lessee the right to the use of the property and serves as the authority of the lessor to assess and collect the regular payments from the lessee for a specific period. It also authorizes the lessor to charge applicable interest should the lessee violate the payment terms stipulated therein and protects both parties and the leased property should any dispute arise.

6.4 Review of the lease contracts of PDGCC with tenants disclosed that a lessee from the private sector executed an undated Memorandum of Conformity on Commercial Terms (MCCT) in lieu of a standard contract of lease with the conforme of a representative of PDGCC. The MCCT includes, among others, the following commercial terms:

- a. *The Lessee shall lease a total area of nine square meters on the PDGCC property for a period of five years or such terms and conditions mutually acceptable to the parties;*
- b. *The commencement of the lease period shall be upon the start of the construction, including the delivery or installation of any or all equipment owned by the lessee;*
- c. *The monthly rental is P40,000 payable quarterly beginning on the day of delivery or installation of any or all of the lessee's equipment;*
- d. *The Lessee shall be allowed to access the leased premises, installation of mobile genset and commencement of the installment of telecommunication facilities, equipment and appurtenances; and*
- e. *The Lessee agrees to pay the lessor before commencement of said installations two months deposit and one month advance rental payment, subject to an annual escalation rate of 4.5 per cent on the 4<sup>th</sup> and 5<sup>th</sup> year of the lease.*

6.5 Inquiry with Management disclosed that the lessee's authorized representatives started the delivery of equipment, and the construction works on September 4, 2021, without a standard contract of lease. Furthermore, examination of the Cash Receipts Journal and bank statements revealed that the said lessee paid the PDGCC only on November 3, 2022, for a total amount of P720,000, or P40,000 a month, for the lease periods from September 2021 to March 2023. Details are as follows:

<b>OR No.</b>	<b>Lease period*</b>	<b>Amount</b>
8936318	September 7, 2021 – December 7, 2021	120,000
8936319	December 7, 2021 – March 7, 2022	120,000
8936320	March 7, 2022 – June 7, 2022	120,000
8936321	June 7, 2022 – September 7, 2022	120,000
8936322	September 7, 2022 – December 7, 2022	120,000
8936323	December 7, 2022 – March 7, 2023	120,000
<b>Total</b>		<b>720,000</b>

\*as stated in the Official Receipts (ORs)

- 6.6 Analysis of the payments showed that the lessee failed to adhere to the commercial terms stipulated in the MCCT by not settling the payments for the security deposit and advance rental aggregating P120,000 before the commencement of the installation of mobile genset, telecommunication facilities, equipment, and appurtenances. Moreover, the monthly lease payments for the period September 7, 2021 up to December 7, 2022 were not settled on time, which should be on a quarterly basis. The delays in the payments are presented below:

Particulars	Delay* (in days)
Security deposit	542
Advance monthly rental	542
For the quarter September 4 to December 3, 2021	425
For the quarter December 4, 2021 to March 6, 2022	334
For the quarter March 4 to June 3, 2022	244
For the quarter June 4 to September 3, 2022	152
For the quarter September 4 to December 3, 2022	60

\*As at February 28, 2023

- 6.7 Absence of a valid lease contract between the PDGCC and the lessee prevents the Audit Team from determining the applicable interest chargeable to the lessee as a result of the aforementioned delays.
- 6.8 Additionally, the rights and obligations of both parties not clearly defined resulted in the deferred collection of revenues from September 7, 2021 to November 3, 2022, in the total amount of P560,000, and non-collection of advance lease payments and security deposit totaling P120,000.
- 6.9 **We recommended and Management agreed to:**
- a. **Expedite the execution of a lease contract with the lessee;**
  - b. **Bill and collect from the lessee any chargeable interest and penalties due for the delayed payments; and**
  - c. **Submit the same to the Audit Team with all the documents forming part thereof within five working days from the execution, for auditorial and legal review.**

## 7. Remittance of mandatory contributions

- 7.1 For CY 2022, the Corporation complied with the mandatory contributions required under 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, except for the non-compliance noted under Observation No. 5. Further, the Corporation also deducted loan amortizations due from their employees and diligently remitted the same including the employer's share to the respective agencies within the prescribed period.

7.2 The PDGCC committed to comply with GSIS PPG No. 383-22 as supported by GSIS MC No. 036, s. 2022, on compulsory membership of its employees in CY 2023.

**8. Status of Audit Suspensions, Disallowances and Charges**

8.1 There are no audit suspensions, disallowances, and charges as at December 31, 2022.