REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
**BUREAU OF INTERNAL REVENUE**
Quezon City

March 17, 2014

**REVENUE MEMORANDUM CIRCULAR NO. 25-2014**

**SUBJECT:** **Publishing the Full Text of Circular Letter No. 2013-16 Dated December 23, 2013 by the Secretary of the Department of Budget and Management, Entitled "Implementation of the Expanded Modified Direct Payment Scheme (ExMDPS) For Accounts Payable Due Creditors/Payees of All National Government Agencies (NGAs)"**

**TO** : **All Internal Revenue Officials, Employees and Others Concerned**

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For the information and guidance of all concerned, quoted hereunder is the full text of Circular Letter No. 2013-16 dated December 23, 2013 by the Secretary of the Department of Budget and Management:

"REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACANANG, MANILA

**CIRCULAR LETTER**

**No. 2013-16**
December 23, 2013

**TO** : All Heads of Departments, Agencies and Other Offices of the National Government, Budget Officers and Heads of Accounting Units, COA Auditors, Heads of Modified Disbursement System-Government Servicing Banks (MDS-GSB), and All Others Concerned

**SUBJECT:** **Implementation of the Expanded Modified Direct Payment Scheme (ExMDPS) For Accounts Payable Due Creditors/Payees of All National Government Agencies (NGAs)**

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## 1.0 Background

Presently, the National Government uses two (2) schemes for payment of Accounts Payables (A/Ps): 1) the Common Fund Scheme where payment is made through issuance of MDS checks, and 2) the Direct Payment Scheme (DPS) via bank debit system, through issuance of Advice to Debit Account (ADA).

The second scheme has two variants: 1) the **DPS** whereby direct payment to the creditors' accounts is effected by MDS-GSB, *upon receipt from the agency of the ADA* based on the Advice of Notice of Cash Allocation Issued (ANCAI) from DBM; and 2) the **Modified Disbursement Payment System** (MDPS) whereby direct payment to the creditors' account is effected by the MDS-GSB, *upon receipt from the DBM of the agency's ADA integrated in the List of Due and Demandable A/P (LDDAP).*

In 2004, the MDPS was initially implemented in selected departments to facilitate settlement of accounts payables due their external creditors, remove the discretion in the payment of A/P and ensure predictability of resource allocation to these creditors. The departments/agencies, i.e., DPWH, DEPED, DOH, CHED, SUCS, and DOLE-TESDA were covered by the decentralized release procedures of the DBM.

The MDPS has contributed to the substantial reduction of agencies' due and demandable A/Ps and has minimized the volume of outstanding checks. In addition, said scheme has addressed cash programming concerns relative to resource predictability requirements by providing specific schedule of payments.

Effective **January 1, 2014,** the ExMDPS shall be adopted for the settlement of A/Ps due creditors/payees of all NGAs and their operating units (OUs), chargeable against their Common Fund.

## 2.0 Purpose

2.1 To provide guidelines in the use of the ExMDPS for payment of A/Ps due creditors/payees of all NGAs/OUs;

2.2 To prescribe the LDDAP-ADA as an accountable form to be used by NGAs/OUs under the ExMDPS;

2.3 To delineate the responsibilities of NGAs/OUs, MDS-GSBs and DBM relative to the adoption of the ExMDPS; and

2.4 To amend/reiterate the policies and procedures prescribed under the pertinent DBM Circulars and issuances.

## 3.0 Coverage

All NGAs/OUs relative to the payment of their due and demandable A/Ps, including pension benefits.

**4.0 Exclusion**

Payment for Terminal Leave and Retirement Gratuity (TL/RG) benefits which is governed by Republic Act No. 10154 as implemented by Civil Service Commission Resolution No. 1300237 and Budget Circular No. 2013-1.

**5.0 Definition of Terms**

The following terms as defined and used under existing guidelines are hereby reiterated or modified for purposes of this Circular:

5.1 **Accounts Payable (A/Ps)** – refer to valid and legal obligations of NGAs/OUs, for which, goods/services/projects have been delivered/rendered/completed and accepted, regardless of the year when these obligations were incurred (i.e., current year or previous years).

5.2 **Advice to Debit Account (ADA)** – refers to an authorization issued by the NGA/OU appearing in the lower portion of the LDDAP. It serves as instruction to the MDS-GSB to debit a specified amount from its available Notice of Cash Allocation (NCA) balance under the regular MDS sub-account for payment of creditors/payees thru the MDPS.

5.3 **Common Fund Scheme** – refers to the budgetary policy whereby cash allocation released to NGAs/OUs under the regular MDS sub-account may be used to cover payment of current year and prior years' A/Ps of creditors/payees, after satisfying those programmed obligations as reflected/considered in the **Monthly Disbursement Program (MDP),** Budget Execution Document No. 3 per National Budget Circular No. 550.

5.4 **Creditors/Payees** – refers to internal and external creditors/payees of the NGA/OU, as enumerated but not limited to the following:

5.4.1 Internal creditors/payees, enumerated but not limited to the following:

5.4.1.1 Employees of the department or agency;

5.4.1.2 Other NGAs;

5.4.1.3 Government corporations, such as Government Service Insurance System, PHILHEALTH, Home Development Mutual Fund, and others;

5.4.1.4 Local government units;

5.4.1.5 Utility companies, such as: supplier of petroleum, oil and lubricants, water, illumination and power

services, telephone, internet and other communication services, insurance and rents;

5.4.1.6 Right-of-way (ROW) claimants; and

5.4.1.7 Others, such as:
- Government scholars;
- Service providers, such as janitorial, security services, contracted services; and
- Non-regular suppliers/contractors of the agency, with one-time transactions regardless of the amount of claim.

5.4.2 External creditors/payees, referring to creditors of NGAs/OUs not among those enumerated under item 5.4.1.

5.5 **List of Due and Demandable Accounts Payable with Advice to Debit Account (LDDAP-ADA)** – refers to an accountable form integrating the ADA with the LDDAP which is a list reflecting the names of creditors/payees to be paid by the NGA/OU and the corresponding amounts of their unpaid claims, duly certified and approved by the heads of the accounting unit and the agency, or authorized officials.

5.6 **List of Not Yet Due and Demandable Obligations (LNYDDO)** – refers to a list reflecting the NGA/OU obligations charged against prior years' budget for which, goods, services, and projects are **not yet** delivered, rendered, nor completed/accepted as of December 31 of the preceding year.

5.7 **Letter of Introduction (LOI) –** refers to a letter addressed to the MDS-GSB, issued by the NGA/OU to its creditors/payees for the purpose of opening an account or validation of an existing account.

5.8 **Modified Disbursement System, Government Servicing Banks (MDS-GSBs) –** refer to the authorized government servicing banks, such as Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and Philippine Veterans Bank (PVB), to which DBM issues the NCAs for crediting to the MDS sub-accounts of NGAs.

5.9 **Expanded Modified Direct Payment Scheme (ExMDPS)** – refers to the payment procedure whereby the MDS-GSB shall pay the creditors/payees listed in the LDDAP-ADA not later than 48 hours but not earlier than 24 hours upon receipt of the said document from the NGA/OU, thru:

5.9.1 Direct credit to the creditor's current/savings/ATM account (CA/SA/ATM) maintained with the MDS-GSB; or

5.9.2 Bank transfer, if creditor's account is maintained outside the agency's MDS-GSB, where corresponding bank charges shall be borne/paid by the creditor/payee concerned.

5.10 **Monthly Disbursement Program (MDP)** – refers to the monthly breakdown of the total disbursement requirements of the NGA/OU for the fiscal year corresponding to its commitments and obligations.

5.11 **National Government Agencies (NGAs)** – refers to entities which perform functions not normally undertaken by the private sector, wholly dependent on the government for their budgetary requirements. These include departments, agencies, and their operating units.

5.12 **Operating Units (OUs)** – refers to an "agency" receiving NCAs directly from DBM.

## 6.0 General Guidelines

6.1 The following budgetary policies on the treatment of A/Ps shall continue to be observed:

6.1.1 Only valid and legal A/Ps (i.e., obligations incurred by the NGA/OU within the prescriptive period of the covering allotment and covered by an approved contract with specific creditors/suppliers) for which, goods/services/projects have been delivered/rendered/completed and accepted, shall be considered for payment.

6.1.2 Obligations, for which goods/services/projects have **not yet** been delivered/rendered/completed by the creditor and accepted by the NGA/OU, **shall not** be recorded as A/Ps at the end of the year. These obligations shall only be recognized as A/Ps on the date of delivery/rendition/completion and acceptance of the goods/services/projects, regardless of the year of incurrence of such obligations.

6.1.2.1 Pursuant to NBC No. 550, all NGAs/OUs shall submit the MDP to DBM-CO/ROs on or before **November 30 of each year**. Said MDP shall reflect those not yet due and demandable obligations cited under item 6.1.2 above, projected to become A/Ps during the budget year, computed as the sum of actual A/Ps as of September and the estimated obligation for the fourth quarter.

6.1.2.2 Said data shall serve as basis in determining the monthly NCA level to be released to cover these prior years' obligations which shall become A/Ps due for payment in the current year.

6.2 Starting **January 1, 2014,** A/Ps due creditors/payees of all NGAs/OUs shall be settled thru the ExMDPS chargeable against the NCAs credited under the regular MDS sub-account (Common Fund) of the NGA. Pursuant to Circular Letter No. 2013-12 (dated November 21, 2013) the NCAs for crediting to NGAs/OUs' regular MDS sub-accounts for any month of a given quarter, **shall be valid until the last working day of the 3rd month of that quarter.**

6.3 All NGAs/OUs shall use the **LDDAP-ADA,** format shown as **Annex A**, which shall be considered an **accountable form,** in processing payment of A/Ps under the ExMDPS. **The printing, use and reporting of the same shall be pursuant to the Commission on Audit's existing rules and regulations governing accountable forms.**

6.4 To facilitate the use of the ExMDPS, all NGAs/OUs shall encourage or advise their creditors/payees to open a Current or Savings Account (CA/SA) with any branch of their authorized MDS-GSB. For creditors/payees, where opening of a CA/SA with MDS-GSBs is not feasible or difficult due to company policy, they shall be advised to open an account with any of the banks included in the **List of Participating Banks in the Electronic Peso Clearing System (EPCS)** as shown in **Annex B**.

6.4.1 The NGA/OU shall issue a **Letter of Introduction (LOI)**, format shown as **Annex C**, addressed to its MDS-GSB for the opening by the creditor/payee of an account, i.e., for those without an existing account with any branch of the agency's MDS-GSB, **or**, for the validation of an existing account of the creditor/payee with the MDS-GSB.

6.4.2 The MDS-GSB shall, for purposes of opening an account, indicate in the lower portion of the LOI issued by agencies to their creditors/payees, the CA/SA number and bank branch and return the same to the NGA/OU concerned.

6.4.3 The NGA/OU shall ensure that the bank branch and account number of its creditors/payees per LDDAP-ADA are correct based on the validated LOI.

6.5 For creditors/payees without existing accounts with the NGA/OU's MDS-GSB, i.e., with accounts in other GSBs or private banks, the payment of their claims shall be through **bank transfer**.

Payment thru issuance of a **Manager's Check** by the MDS-GSB of the NGA/OU shall be discontinued to minimize cases of late payments.

6.6 All payments for A/Ps due creditors/payees reflected in the LDDAP-ADA are assumed duly programmed in the agency-submitted MDP as evaluated by DBM pursuant to NBC No. 550:

6.6.1 DBM shall include in the comprehensive NCAs the requirements for the payment of A/Ps as reflected in the MDP for FY 2014. The MDP also includes the requirements for the settlement of prior years' not yet due and demandable obligations.

6.6.2 DBM shall issue additional NCAs in the following cases :

6.6.2.1 The Common Fund balance is insufficient to cover outstanding obligations/due and demandable A/Ps of the agency; and

6.6.2.2 Cash requirements corresponding to additional allotment releases chargeable against special purpose funds, e.g., Calamity Fund, e-Gov, etc., if necessary.

6.7 DBM shall release NCAs directly to OUs of agencies including those cash requirements corresponding to the transferred allotments representing the OUs' share or allocation from lump-sum funds and centrally-managed items (CMIs) within the agency specific budgets fleshed out during budget execution. The issuance of Notice of Transfer of Allocation (NTA) shall be discouraged.

6.8 In support of prospective implementation of the Treasury Single Account, validation of the MDS sub-accounts of all NGAs/OUs shall be undertaken by the DBM and BTr together with the MDS-GSB.

6.9 For the payment of TL/RG benefits, NCAs corresponding to the pertinent SARO issued shall continue to be credited to the NGA/OU's special MDS sub-account being maintained solely for the purpose. All other existing provisions under DBM Budget Circular No. 2013-1 shall remain in force.

## 7.0 Specific Guidelines and Responsibilities

7.1 **NGAs/OUs** shall:

7.1.1 Require their creditors to furnish them with their respective bank account numbers and bank branches to which the amounts for release shall be credited.

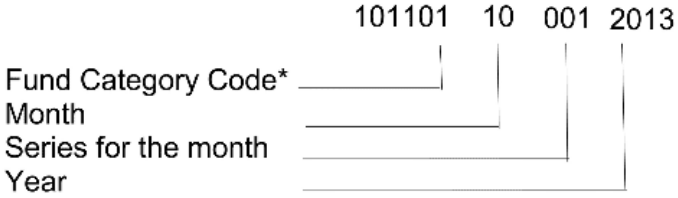
7.1.2 Observe the following policies and procedures in preparing the LDDAP-ADA:

7.1.2.1 Take extra effort in providing accurate information, i.e., creditor's name, bank account number/branch based on the validated LOI. The NGA/OU shall ensure that the mirror image approach re: creditor's name is adopted to avoid cases of typographical errors and subsequent delays in crediting of funds.

7.1.2.2 Arrange the LDDAP-ADA on a "first-in, first out" (FIFO) basis, that is according to the date of receipt by the NGA/OU of the creditor's billings with complete supporting documents.

7.1.2.3 Prepare separate LDDAP-ADA for creditors/payees with CA/SA maintained with other banks outside the NGA/OU's MDS-GSB. Example: The MDS-GSB of the NGA/OU is LBP, but some of its creditors are maintaining accounts with DBP, PVB and private banks. One LDDAP shall be prepared for creditors with LBP accounts, while separate LDDAPs shall be prepared for those with accounts outside LBP.

7.1.2.4 Adopt the following coding structure in numbering the LDDAP with signed ADA.




**consistent with the Unified Accounts Code Structure per DOF-DBM-COA Joint Circular No. 2013-1.*

7.1.2.5 Each page of the LDDAP-ADA shall be taken independently, with amounts of claims added and duly certified by NGA/OU officials concerned as follows:

Agency Head/Authorized Official

*"I hereby assume full responsibility for the veracity and accuracy of the listed claims, and the authenticity of the supporting documents submitted by the claimants."*

Head of Agency Accounting Unit

*"I hereby warrant that the above List of Due and Demandable Accounts Payable was prepared in accordance with existing budgeting, accounting and auditing rules and regulations."*

7.1.2.6 Furnish creditor/payees the LDDAP-ADA number for purposes of inquiries on the status of their claims.

7.1.3 In case of insufficient balance of its Common Fund under regular MDS Account, submit a request for release of additional NCA to cover payment to creditors/payees to the following DBM offices:

7.1.3.1 For SUCs and Regional Offices (RO) of DPWH, DOH, DepEd, CHED, TESDA, MMDA, and PRRC – to their DBM RO counterparts; and

7.1.3.2 For Central Offices of the NGAs/OUs and other entities – to the Budget and Management Bureau concerned in the DBM-CO.

7.1.4 Consistent with auditing regulations, remind their creditors/payees of the following:

7.1.4.1 Automatic issuance of evidence of receipt of payment for disbursement thru official receipts (ORs), whether:

- in electronic form consistent with COA Circular No. 2004-006 dated September 9, 2004 or in paper, upon crediting of payment to their respective bank accounts; or

- provisional receipt once creditors are included in the LDDAP-ADA, subject to replacement of OR immediately after actual receipt of payment.

7.1.4.2 Non-issuance of ORs may be a ground for referral to the Bureau of Internal Revenue (BIR) for violation of regulations.

7.1.5 Post on its website the following:

7.1.5.1 The LDDAP-ADA numbers endorsed for direct payment to the MDS-GSB. This will serve as notice to the creditors/payees concerned on the status of their claims.

7.1.5.2 Agency's established procedures in processing A/Ps as reflected in its Citizen's Charter, i.e., through a flowchart including the timelines.

7.2 **The DBM shall**:

7.2.1 Include in the comprehensive NCAs, requirements of NGAs/OUs for payment of due and demandable A/Ps corresponding to the required amount as indicated in the submitted MDP.

7.2.2 Post on its website www.dbm.gov.ph, the MDP of the NGA/OU and the total amount of NCAs issued to NGAs/OUs.

7.3 **The MDS-GSB shall**:

7.3.1 Prior to implementation of this Circular in January 1, 2014, provide DBM on or before December 15, 2013, with a complete list of MDS accounts being maintained by all NGAs/OUs, inclusive of regular, special and trust accounts, classified according to status, i.e., active or dormant (no transactions for at least one year), by department/agency/OU.

7.3.2 Upon receipt of the NCA, credit the same to the NGA/OU's regular MDS sub-account. Consistent with the creditors included in the LDDAP-ADA forwarded by the NGA/OU, the MDS-GSB shall effect payment thru the MDPS not earlier than 24 hours but not later than 48 hours after receipt of the said document.

7.3.3 In the case of far-flung location of certain MDS-GSB branches as specifically identified by the MDS-GSB Head Office (where fax/wire/cable cannot be used), the MDS-GSB HO/RO concerned shall monitor the direct payments to be made by these branches.

The reckoning time for the crediting will be the actual receipt by the said specific MDS-GSB branch, of the copy of the LDDAP-ADA sent via pouch, from either its MDS-GSB HO, i.e., for DBM CO releases, for MDS-GSB RO branch, i.e., for DBM RO releases.

7.3.4 On the next banking day, provide the NGA/OU concerned with copy of the duly validated/posted ADA, to inform the NGA/OU of the following:

7.3.4.1 Direct payments effected in favor of creditors, i.e., machine validation shown in the lower portion of the said document; and

7.3.4.2 Non-payments to creditors/payees indicated under "remarks" column, due to any inconsistency of information (i.e., bank branch, account name/number) between bank records and LDDAP-ADA.

7.3.5 Provide the BTr Head Office (Asset Management Service), or its nearest Regional/District/Provincial Office, a copy of the received LDDAP-ADA from the agency on the same day of receipt of said document, to provide advance information on the cash requirements of agencies.

**8.0 Changes/corrections in the names of creditors** shall be pursuant to the following guidelines:

8.1 The NGA/OU head or his/her representative shall be the sole authority in approving any correction in the names of creditors/payees and in certifying the consistency in the identity of its creditors/payees.

8.2 Corrections shall be made through a letter authority to the MDS-GSB to be signed by the NGA/OU head or his authorized representative who are signatories in the LDDAP-ADA.

8.3 Only the following corrections shall be allowed:

8.3.1 Change of one letter in the name of creditor/retiree, **e.g., a to o**;

8.3.2 Abbreviations used in the business name, **e.g., Co. to Company; Inc. to Incorporated or vice versa**;

8.3.3 Correction in the name of creditor/retiree referring to one and the same person or company, Examples:

- Change in family name as a result of change in status;
- Omission of "Jr." or "Sr." from the name of creditor or "Company/Incorporated, Co./Inc." for the business name.

8.3.4 In cases of non-payment due to errors not falling under the allowable typographical errors enumerated above, the NGA/OU concerned shall include the creditors/payees concerned in the succeeding LDDAP-ADA to be prepared.

8.3.4.1 If the LDDAP-ADA issued covers only one creditor/payee, it can be cancelled.

8.3.4.2 In case of multiple payees per one (1) ADA, the provisions of item 7.3.4.2 of this circular shall prevail.

8.4 In the event that a creditor/payee dies after the NCA has been issued and his claim for payment of A/P is still being processed by the NGA, the latter shall pay the amount due to the heirs. The payment of the same, shall be honored by the MDS-GSB provided the documents cited below are submitted by the NGA/OU to the MDS-GSB:

8.4.1 Copy of the death certificate of creditor/payee;

8.4.2 Judicial or Extra Judicial Settlement of Estate; and

8.4.3 Other documents as may be required by the MDS-GSB.

**9.0 Reporting Requirements**

9.1 NGA/OUs shall prepare and submit a Monthly Report of Disbursements (MRD) to DBM on or before the **30th day following the quarter** covered by the report as prescribed under DBM-COA Joint Circular No. 2013-1.

9.2 The MDS-GSBs shall provide DBM with a monthly report on NCAs credited and utilized per MDS accounts of NGA/OUs by fund on or before the **2nd working day following the month** covered by the report. Said data will be used by DBM in validating the actual NCAs disbursements of NGAs/OUs reported per MRD.

**10.0 Accountability**

Payment of claims shall be subject to existing accounting and auditing rules and regulations.

**11.0 Saving/Repealing Clause**

11.1 Provisions of existing circulars, which are not consistent with these guidelines are hereby repealed and/or modified accordingly.

11.2 Cases not covered by this Circular shall be referred to the DBM Secretary for resolution.

**12.0 Effectivity**

These guidelines shall take effect starting January 1, 2014.

(original signed)
**FLORENCIO B. ABAD**
Secretary"

All concerned are hereby enjoined to be guided accordingly and give this Circular a wide publicity as possible.

(Original Signed)
**KIM S. JACINTO - HENARES**
Commissioner of Internal Revenue

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