



Republic of the Philippines  
Supreme Court  
Manila

EN BANC

PHILIPPINE HEALTH  
INSURANCE CORPORATION  
REGIONAL OFFICE – CARAGA,  
JOHNNY Y. SYCHUA;  
ABAMONGA, JOCELYN J.;  
AGUDO, CELESTE MONICA N.;  
ARAT, ANDREW B.; ARAT, HEIDI  
JOY H.; ARIAR, RODRIGO D.;  
AUTOR, SARA FAITH P.;  
AVENIDO, SOFIA C.; AZARCON,  
JOCELYN C.; BABASOL,  
CHAROL B.; BACALA, MARY  
ANGELIQUE R.; BARIQUIT,  
JULIETA L.; BOHOLANO,  
LEILANI DANA D.; BOKINGO,  
MARIA ALMA L.; BORLEO,  
JUDY C.; BUCAYON, ROMMEL  
A.; CABALLERO, LOWELL  
RICHARD S.; CABUYOC,  
RICARDO M.; CADELIÑA, JANE  
M.; CALO, ROWENA M.;  
CALOPE, ARMI B.; CAMACHO,  
ZENDA C.; CAÑETE, JOCELYN  
E.; CANTA, HONEY JOY M.;  
CASCARA, SOTICO M.;  
CASTAÑOS, MARICEL M.;  
COLIMA, JR., YBARRA  
ROYRINO A.; COSCOS, ACEL M.;  
DAIRO, MARIA ROWENA B.;  
DE GUZMAN, FEBIE S.; DE  
JESUS, JOEL ARTURO S.; DE  
VEYRA, TERESITA M.; DE  
VILLA, MARIA ESTELLA L.; DE  
VILLA, VICTOR M.; DUMANON,  
LOIDA M.; DURANO, JR.,  
REINERIO M.; DURANO,  
REGGIE Y.; ELMIDO, ALEXIS C.;  
ESGUERRA, EVELYN C.;

G.R. No. 230218

Present:

CARPIO, J.,  
LEONARDO-DE CASTRO,  
PERALTA,  
BERSAMIN,  
DEL CASTILLO,  
PERLAS-BERNABE,  
LEONEN,  
JARDELEZA,  
CAGUIOA,  
TIJAM,  
A. REYES, JR.,  
GESMUNDO, and  
J. REYES, JR., JJ.

MT

ESPAÑOL, PROCORO C.;  
ESPARRAGO, MARITES D.;  
ESPINA, DINAH M.; ETIC,  
ZANDRO B.; GALICTO,  
JELBERT B.; GALIDO, GUADA  
MAE D.; GALOLA, MARICRIS P.;  
GOLEZ, JULIET A.; GONZALES,  
AMADEL A.; GONZALEZ,  
EDUARDO S.; GREFALDE,  
CHRISTLEN Q.; GUILLENA,  
SHEILA M., JAMERO, MARIA  
NIMFA S.; JANDUG, CARYLNE  
A.; JAVA, SHIELA S.; LAFUENTE,  
ROWENA C.; LASCO, CHELO B.;  
LISONDRA, SHEILA M.; LOPEZ,  
JOCELYN A.; LUTA, ANGELINA  
R.; MAG-ISA, ROSEMARIE P.;  
MAGTIBAY, MARCELITO M.;  
MAG-USARA, QUEENIE R.;  
MALLARI, MARITNESS M.;  
MAPUTI, JR., ROBERTO B.;  
MARASIGAN, JEANNE-MARIE  
F.; MARCHAN, MARIA JEZREEL  
CATHEREEN P.; MERO,  
CRISILDA DOLORES U.;  
MICULOB, JONNA G.; MIRO,  
PEMILYN Z.; MOLETA, JO-ANN  
N.; MONTE DE RAMOS, JHONA  
C.; MONTENEGRO, CLAIRE M.;  
MORALES, FLORA M.;  
MOREDAS, MA. MAE T.; NONAN,  
CHERYLLE D.; OLANO, ARA  
VILLA K.; OSO, ARNEL P.;  
PEDROSA, MARY GRACE F.;  
PLAZA, JOHANN A.; PO,  
KENNETH M.; POCON,  
KATHERINE A.; POCON, RICKY  
C.; QUINTO, MITZI V.;  
RAMIREZ, MARILOU M.;  
RAMORAN, MARK ANTHONY  
C.; SABACAJAN, RINA M.;  
SALAZAR, ERIC G.; SANCHEZ,  
CECILIA R.; SANTOS, JANE E.;  
SEGALES, BEBELYN P.; SUAREZ,  
ADELA S.; SYCHUA, JOHNNY Y.;  
TABADA, EILEEN I.;

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TANANGKINGSING, MARY  
GRACE S.; TARE, ROBERTO M.;  
VALENCIA, ROBERT A.;  
VERACION, MINDA A.; VERDUN,  
SHERWIN E.; YBAÑEZ,  
KRISTINE A.; YUCHITCHO,  
ETHEL L.; ALMEDA, JR.,  
RODULFO G.; AMPOLOQUIO,  
RYAN GOLDBERG B.; ANGUB,  
JOVANIE T.; APRESTO, MARIA  
LIMAYA B.; ASIDERA, JOANNE  
MAE A.; ATO, BERNADITH B.;  
AVILA, RHEZA C.; BADIANG,  
DAISY MAE P.; BAJAO, JEROME  
C.; BALAGOLAN, RACHEL MAE  
U.; BALAGOSA, CARLO JAE C.;  
BANTASAN, LESLIE ANN M.;  
BASCO, FRANZ JOSEF L.;  
BATULAN, CATHERINE P.;  
BENSON, DEGRAN A.; BERDIN,  
BIENVENIDO A.; BERTULFO,  
ROSELLE E.; BESANDE,  
CHARLES C.; BETIA, ARBELLE  
L.; BLANCO, MARY GRACE T.;  
BRIONES, MARIEDITH GRACE  
S.; BUQUE, EMMIELOU B.;  
BUSA, IAN A.; BUYAN, PARLEY  
U.; CABANBAN, KRIZZIA BELLE  
A.; CABATINGAN, GEMMA  
COREEN S.; CAHILOG,  
MARISAL A.; CALIMPUSAN,  
JORN Y L.; CALLANTA, DARRYL  
L.; CALO, ALMA LOURDES  
ROSARIO S.; CALO, JESRYL N.;  
CAMPOS, EUNICE D.;  
CANDONTOL, ERICK VAL S.;  
CANINDO, JOSEPH M.; CARLOS,  
KRISTINE JOY SHALOM P.;  
CASIMERO, MAIRENE S.;  
CASTILLO, JR., RUFINO O.;  
CAYBOT, CHARISSE AIKO B.;  
COMANDANTE, GRACE  
SHARINA C.; CIANO, EPHRELYN  
C.; COLLADO, JANUARY T.;  
CORVERA, MARYDEL D.;  
CORVERA, JUNALYN C.;



**CUARES, JAN ANTHONY A.;  
CURATO, GERTRUDE VALERIE  
O.; DACUYA, MARILOU B.;  
DANGOY, GLIZELLE B.; DE  
CLARO, ODESSA MAR S.; DE LA  
CRUZ, JR., SILVANO C.; DIGAL,  
ALBERT M.; DISCAYA, JO-IAN  
S.; DOLINOG, ROLAND P.;  
DOLORICON, JAFF ERIC L.;  
DOMINGO, ROY ANDREI M.;  
DUMDUMAYA, JAN MICHAEL  
C.; ELMIDO, JEANETTE T.;  
ENRIQUEZ, PAULYN VIERNE T.;  
ESPINOSA, ARES P.; EUSEBIO,  
JINGLE A.; FACURIB, JANIT C.;  
FEBRA, MICHAEL E.;  
FORSUELO, JOSEPH HOUSSEN  
G.; FRAYCO, TWINKLE JANE F.;  
FUMAR, SHIELA V.; GACAL,  
JETHRO M.; GACAL, ROSE  
JANE R.; GALEON, DINO H.;  
GALVAN, NEIL E.; GAMBA,  
RODEL B.; GARGAR, ROGEMAE  
R.; GOLORAN, JOSEPHINE M.;  
GONZAGA, SUZETTE ANNE M.;  
INGLES, CLARK ARIES A.;  
JAYOMA, CLARK ERICSON M.;  
JUMONONG, JR., VIRGILIO C.;  
LAAG, HAZEL GRACE R.;  
LEMOSSIONERO, JUNEIAN  
FLORENCE P.; LIBRES, SARAH  
JANE D.; LIGAYA, EDUARD L.;  
MAKINANO, ELLEN ROSE G.;  
MALAQUE, DIONA LORRAINE  
G.; MARQUEZ, CRISTY P.;  
MARTINEZ, EVANGELINE C.;  
MASCARIÑAS, ENGELI M.;  
MATURAN, MANELYN I.;  
MEJIAS, GRACE C.; MENDOZA,  
SHEENA KATRINA S.; MILLAN,  
ICELLE R.; MOJICA, MERIEJO  
L.; MONDARES, PHOEBE B.;  
MONTERO, RUEL G.;  
MONTILLA, JR., ROLANDO U.;  
MORALES, JR., FELICITO O.;  
NEIS, CHRISTINE CARLA R.;**

**OCHAVILLO, KAREN L.;  
OCULAM, CYNTHIA S.; OLANO,  
JOHNWEVEN DALE M.; OÑEZ,  
ALCEL MARC A.; ONTUA, JR.,  
ALEXANDER L.; ORTIZ,  
MERCHEL M.; OTACAN,  
STEPHANIE SUZANNE D.;  
OYDA, ALFREDO M.;  
PABILLIORE, ALFIE  
SEMONETTE P.; PAHIT,  
KATHLEEN O.; PALACIO,  
SHEILA MARIE B.; PALER,  
MARY KRISTY B.; PALOMA,  
JEREMY A.; PASCO, LUIDE IVAN  
U.; PAYAC, MARY ANN M.;  
VERGAS, JUNAHLYN P.;  
POMBO, MICHELLE G.; PULTA,  
MAXIMO B.; QUEVEDO,  
DIOSDADO III L.; QUINTO,  
MARLETZ D.; RABISANTO,  
JAYZL M.; RAGAS, JESABEL  
R.; REGLOS, JENNIFER M.;  
SALA, JR., RESTITUTO O.;  
SALA, MICHELLE A.;  
SALMORO, IRISH R.; SANCHEZ,  
JENNET N.; SILAGAN,  
MICHELLE A.; SIMBAJON,  
FLORELYN T.; SUANTE, GLARIS  
MAE C.; TAC-AL, JESUS L.;  
TAMISAN, MA. KARINA JOY J.;  
TAYAG, EFREN ALEXIS A.;  
TIMBAL, ROZCIEL C.;  
TORCULAS, AILYN C.;  
TORRALBA, JENNY MAE A.;  
UMBA, CATHERINE E.;  
VALCURZA, MARK M.; VAPOR,  
CRISTIE G.; YBAÑEZ, KRISTAL  
GAYLE L.,**

Petitioners,

- versus -

**COMMISSION ON AUDIT,  
CHAIRPERSON MICHAEL G.  
AGUINALDO, MA. GRACIA  
PULIDO-TAN, HEIDI L. MENDOZA,  
JOSE F. FABIA,**

Promulgated:

August 14, 2018

Respondents.

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## DECISION

**TIJAM, J.:**

Before Us is a petition for *certiorari*<sup>1</sup> under Rule 65, filed by petitioner Philippine Health Insurance Corporation Regional Office CARAGA (Philhealth CARAGA) to annul and set aside the Decision No. 2014-250<sup>2</sup> dated September 11, 2014 and Resolution No. 2016-029<sup>3</sup> dated November 17, 2016 of respondent Commission on Audit (COA), which disallow the various benefits Philhealth CARAGA granted to its officers, employees and contractors in the total amount of ₱49,874,228.02.

### The Factual Antecedents

On 2008, Philhealth CARAGA granted its officers, employees and contractors various benefits, among others are: contractor's gift, special events gifts, project completion incentive, nominal gift, and birthday gifts, amounting to ₱49,874,228.02.<sup>4</sup>

On 2009, the Audit Team Leader (ATL) of Philhealth CARAGA issued Notice of Disallowance (ND) Nos. 09-005-501-(09) to 09-019-501-(09) on the payment of benefits to officers, employees and contractors of Philhealth CARAGA in the calendar year of 2009 in the total amount of ₱49,874,228.02.<sup>5</sup>

The reason for the disallowance was the lack of approval from the Office of the President (OP) through the Department of Budget and Management (DBM) as required under the laws, such as: Section 6 of the

<sup>1</sup> *Rollo*, pp. 84-131.

<sup>2</sup> Penned by Chairperson Ma. Gracia M. Pulido-Tan, concurred in by Commissioner Heidi L. Mendoza and Jose A. Fabia; id. at 135-141.

<sup>3</sup> Id. at 142.

<sup>4</sup> Id. at 135.

<sup>5</sup> Id.

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Presidential Decree (P.D.) No. 1597,<sup>6</sup> Memorandum Order (M.O.) No. 20<sup>7</sup> dated June 25, 2001, and Administrative Order (A.O.) No. 103<sup>8</sup> dated August 31, 2004.<sup>9</sup>

The Audit Team Leader (ATL) ruled that although Philhealth CARAGA was exempted from the coverage of Republic Act (R.A.) No. 6758,<sup>10</sup> also known as the Compensation and Position Classification Act of 1989, and that the Philhealth CARAGA Board of Directors members acted within their powers to fix the compensation of its personnel, the additional compensation package should have been reviewed and approved by the OP through the DBM before it was implemented.<sup>11</sup> Thus, the grants were considered irregular and illegal.

Philhealth CARAGA challenged the constitutionality and applicability of the above-mentioned laws. Philhealth CARAGA also averred that the laws cited by the ATL divested the Philhealth CARAGA Board of Directors of its prerogative to fix compensation as granted by its charters. Philhealth CARAGA further averred that the benefits were received by its officers, employees and contractors in good faith and equity dictates that it may not be refunded.<sup>12</sup>

On February 21, 2011, the COA Regional Director of R.O. No. XIII, rendered its Decision No. 2011-007, and affirmed the notices of disallowance with modifications, as to:

1. The amount of audit disallowance should be recomputed net of tax; and
2. The ground for disallowance should be that the grants were considered irregular and illegal since they violated Section 6 of P.D. No. 1597, M.O. No. 20 and A.O. No. 103.<sup>13</sup>

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<sup>6</sup> FURTHER RATIONALIZING THE SYSTEM OF COMPENSATION AND POSITION CLASSIFICATION IN THE NATIONAL GOVERNMENT.

*Sec. 6. Exemptions from OCPC regulations.* Agencies, positions or , groups of officials and employees of the national government, including government-owned or controlled corporations, that are hereafter exempted by law from OCPC coverage shall observe such guidelines and policies as may be issued by the President governing position classification, salary rates, levels of allowances, projects and other honoraria, overtime rates and other forms of compensation and fringe benefits. Exemptions notwithstanding, agencies shall report to the President, through the Budget Commission, on their position classification and compensation plans, policies, rates and other related details following such specifications as may be prescribed by the President.

<sup>7</sup> DIRECTING HEADS OF GOVERNMENT-OWNED-AND-CONTROLLED CORPORATIONS (GOCCs), GOVERNMENT FINANCIAL INSTITUTIONS (GFIs) AND SUBSIDIARIES EXEMPTED FROM OR NOT FOLLOWING THE SALARY STANDARDIZATION LAW (SSL) TO IMPLEMENT PAY RATIONALIZATION IN ALL SENIOR OFFICER POSITIONS.

<sup>8</sup> DIRECTING THE CONTINUED ADOPTION OF AUSTERITY MEASURES IN THE GOVERNMENT.

<sup>9</sup> *Rollo*, p. 136.

<sup>10</sup> AN ACT PRESCRIBING A REVISED COMPENSATION AND POSITION CLASSIFICATION SYSTEM IN THE GOVERNMENT AND FOR OTHER PURPOSES. Approved on August 21, 1989.

<sup>11</sup> *Rollo*, pp. 135-136.

<sup>12</sup> *Id.* at 136.

<sup>13</sup> *Id.*

On automatic review, the COA Commission Proper in a Decision<sup>14</sup> No. 2014-250 dated September 11, 2014, upheld the Decision No. 2011-007 of the COA Regional Director R.O. No. XIII. It also ordered the recomputation of the amount of the disallowance to reflect the actual amount paid to its recipients net of tax. The dispositive portion of which, provides:

**WHEREFORE**, premises considered, COA - R.O. No. XII[I] Decision No. 2011-007 dated February 21, 2011 modifying ND Nos. 09-005-501-(09) to 09-019-501-(09) on the payment of various benefits to officials, employees and contractors of [Philippine Health CARAGA] is hereby **APPROVED**. Accordingly, the concerned [ATL] is instructed to recompute the amount of the disallowance to reflect the actual amount paid to [its] recipients net of tax[,] which shall be reflected in the COA – R.O. N[o]. XIII Decision No. 2011-007. A copy of said Decision shall be furnished the Commission Secretary, together with the recomputation by the ATL.<sup>15</sup>

Philhealth CARAGA's Motion for Reconsideration was likewise denied in the Resolution No. 2016-029<sup>16</sup> dated November 17, 2016 of the COA *En Banc*.

Hence, Philhealth CARAGA filed this instant petition for *certiorari*.

### Issues

Substantially the issues for our resolution are as follows:

- 1) Whether or not the COA committed grave abuse of discretion in upholding the disallowance;
- 2) Whether or not the COA committed grave abuse of discretion as it divested the Philhealth CARAGA Board of Directors of its prerogatives to fix compensation as granted by its charters, and its grant of fiscal autonomy; and
- 3) Whether or not Philhealth CARAGA officers, employees and contractors received the benefits in good faith and even if the disallowance is sustained, they cannot be required to refund the said amount.

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<sup>14</sup> Id. at 135-141.

<sup>15</sup> Id. at 140-141.

<sup>16</sup> Id. at 142.



## Ruling of the Court

### *The petition is partly granted.*

The COA did not commit grave abuse of discretion in upholding the disallowance.

This Court has consistently held that findings of administrative agencies are generally accorded not only respect but also finality, unless found to have been tainted with grave abuse of discretion. The same was aptly discussed in the case of *Maritime Industry Authority v. Commission on Audit*,<sup>17</sup> to wit:

It is the general policy of the Court to sustain the decisions of administrative authorities, especially one which is constitutionally-created not only on the basis of the doctrine of separation of powers but also for their presumed expertise in the laws that they are entrusted to enforce. Findings of administrative agencies are accorded not only respect but also finality when the decision and order are not tainted with unfairness or arbitrariness that would amount to grave abuse of discretion. It is only when the COA has acted without or in excess of jurisdiction, or with grave abuse of discretion amounting to lack or excess of jurisdiction, that this Court entertains a petition questioning its rulings. There is grave abuse of discretion when there is an evasion of a positive duty or a virtual refusal to perform a duty enjoined by law or to act in contemplation of law as when the judgment rendered is not based on law and evidence but on caprice, whim and despotism.<sup>18</sup> (Citation omitted)

The COA as constitutional office and guardian of public funds is endowed with the exclusive authority to determine and account government revenue and expenditures, and disallow irregular, unnecessary excessive used of government funds. The case of *Metropolitan Waterworks and Sewerage System v. Commission on Audit*,<sup>19</sup> elucidated on this matter:

The COA as a constitutional office is endowed with enough latitude to determine, prevent and disallow irregular, unnecessary, excessive, extravagant, or unconscionable expenditures of government funds. It has the power to ascertain whether public funds were utilized for the purpose for which they had been intended. The 1987 Constitution has expressly made COA the guardian of public funds, vesting it with broad powers over all accounts pertaining to government revenue and expenditures and the uses of public funds and property, including the exclusive authority to define the scope of its audit and examination, establish the techniques and methods for such review, and promulgate accounting and auditing rules and regulations.<sup>20</sup> (Citations omitted)

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<sup>17</sup> 750 Phil. 288 (2015).

<sup>18</sup> Id. at 308.

<sup>19</sup> G.R. No. 195105, November 21, 2017.

<sup>20</sup> Id.

The limitation of the Court's power of review over COA rulings merely complements its nature as an independent constitutional body to: (i) determine whether the government entities comply with the law and the rules in disbursing public funds; and (ii) disallow legal disbursements of these funds.<sup>21</sup>

On this note, we find no grave abuse of discretion amounting to lack or excess of jurisdiction on the part of COA in disallowing the various benefits granted to Philhealth CARAGA officers, employees and contractors, as a constitutional office which has the power to review or disallow disbursement of public funds.

In support of its grant of the subject allowances and benefits, Philhealth CARAGA persistently invokes its fiscal autonomy enunciated under Article IV, Section 16(n)<sup>22</sup> of R.A. No. 7875,<sup>23</sup> viz: to organize its office, fix the compensation of and appoint personnel as may be deemed necessary and upon the recommendation of the president of the Corporation.

Even if Philhealth CARAGA is exempted from Office of Compensation and Position Classification under Section 16 of R.A. No. 6758, and enjoys fiscal autonomy as enunciated under Section 16(n) of R.A. No. 7875, it does not necessarily connote that Philhealth CARAGA's discretion on the matter of fixing compensation and benefits are absolute. It must still conform to the standards laid down by the rules as covered by Section 6 of P.D. No. 1597,<sup>24</sup> viz:

**Sec. 6. Exemptions from OCPC Rules and Regulations.** Agencies positions, or groups of officials and employees of the national government, including government owned or controlled corporations, who are hereafter exempted by law from OCPC coverage, shall observe such guidelines and policies as may be issued by the President governing position classification, salary rates, levels of allowances, project and other honoraria, overtime rates, and other forms of compensation and fringe benefits. Exemptions notwithstanding, agencies shall report to the President, through the Budget Commission, on their position classification and compensation plans, policies, rates and other related details following such specifications as may be prescribed by the President.

<sup>21</sup> *Maritime Industry Authority v. Commission on Audit*, supra at 308.

<sup>22</sup> SEC. 16. Powers and Functions – The Corporation shall have the following powers and functions:

x x x x

n) to organize its office, fix the compensation of and appoint personnel as may be deemed necessary and upon the recommendation of the president of the Corporation[.]

<sup>23</sup> AN ACT INSTITUTING A NATIONAL HEALTH INSURANCE PROGRAM FOR ALL FILIPINOS AND ESTABLISHING THE PHILIPPINE HEALTH INSURANCE CORPORATION FOR THE PURPOSE. Approved on February 14, 1995.

<sup>24</sup> FURTHER RATIONALIZING THE SYSTEM OF COMPENSATION AND POSITION CLASSIFICATION IN THE NATIONAL GOVERNMENT.

The extent of the power of Government-Owned and Controlled Corporations (GOCC), like Philhealth, to fix compensation and the grant of allowances to its officers and employees had already been conclusively laid down in *Philippine Health Insurance Corporation v. Commission On Audit*,<sup>25</sup> to wit:

**The PCSO charter evidently does not grant its Board the unbridled authority to set salaries and allowances of officials and employees. On the contrary, as a government owned and/or -controlled corporation (GOCC), it was expressly covered by P.D. No. 985 or "The Budgetary Reform Decree on Compensation and Position Classification of 1976," and its 1978 amendment, P.D. No. 1597 (Further Rationalizing the System of Compensation and Position Classification in the National Government), and mandated to comply with the rules of then Office of Compensation and Position Classification (OCPC) under the DBM.**

Even if it is assumed that there is an explicit provision exempting the PCSO from the OCPC rules, the power of the Board to fix the salaries and determine the reasonable allowances, bonuses and other incentives was still subject to the DBM review. In *Intia, Jr. v. COA*, the Court stressed that the discretion of the Board of Philippine Postal Corporation on the matter of personnel compensation is not absolute as the same must be exercised in accordance with the standard laid down by law, *i.e.*, its compensation system, including the allowances granted by the Board, must strictly conform with that provided for other government agencies under R.A. No. 6758 in relation to the General Appropriations Act. To ensure such compliance, the resolutions of the Board affecting such matters should first be reviewed and approved by the DBM pursuant to Section 6 of P.D. No. 1597.

The Court, in the same case, further elaborated on the rule that notwithstanding any exemption granted under their charters, the power of GOCCs to fix salaries and allowances must still conform to compensation and position classification standards laid down by applicable law. Citing *Philippine Retirement Authority (PRA) v. Buñag*, We said:

In accordance with the ruling of this Court in *Intia*, we agree with petitioner PRA that these provisions should be read together with P.D. No. 985 and P.D. No. 1597, particularly Section 6 of P.D. No. 1597. **Thus, notwithstanding exemptions from the authority of the Office of Compensation and Position Classification granted to PRA under its charter, PRA is still required to 1) observe the policies and guidelines issued by the President with respect to position classification, salary rates, levels of allowances, project and other *honoraria*, overtime rates, and other forms of compensation and fringe benefits and 2) report to the President, through the Budget Commission, on their position classification**

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<sup>25</sup> G.R. No. 213453, November 29, 2016, 811 SCRA 238.

**and compensation plans, policies, rates and other related details following such specifications as may be prescribed by the President.**

Despite the power granted to the Board of Directors of PRA to establish and fix a compensation and benefits scheme for its employees, the same is subject to the review of the Department of Budget and Management. x x x

**The rationale for the review authority of the Department of Budget and Management is obvious. Even prior to R.A. No. 6758, the declared policy of the national government is to provide "equal pay for substantially equal work and to base differences in pay upon substantive differences in duties and responsibilities, and qualification requirements of the positions." To implement this policy, P.D. No. 985 provided for the standardized compensation of government employees and officials, including those in government-owned and -controlled corporations. Subsequently, P.D. No. 1597 was enacted prescribing the duties to be followed by agencies and offices exempt from coverage of the rules and regulations of the Office of Compensation and Position Classification. The intention, therefore, was to provide a compensation standardization scheme such that notwithstanding any exemptions from the coverage of the Office of Compensation and Position Classification, the exempt government entity or office is still required to observe the policies and guidelines issued by the President and to submit a report to the Budget Commission on matters concerning position classification and compensation plans, policies, rates and other related details. x x x**

**Accordingly, that Section 16(n) of R.A. 7875 granting PHIC's power to fix the compensation of its personnel does not explicitly provide that the same shall be subject to the approval of the DBM or the OP as in Section 19(d) thereof does not necessarily mean that the PHIC has unbridled discretion to issue any and all kinds of allowances, limited only by the provisions of its charter. As clearly expressed in *PCSO v. COA*, even if it is assumed that there is an explicit provision exempting a GOCC from the rules of the then Office of Compensation and Position Classification (*OCPC*) under the DBM, the power of its Board to fix the salaries and determine the reasonable allowances, bonuses and other incentives was still subject to the standards laid down by applicable laws: P.D. No. 985, its 1978 amendment, P.D. No. 1597, the SSL, and at present, R.A. [No.] 10149. To sustain petitioners' claim that it is the PHIC, and PHIC alone, that will ensure that its compensation system conforms with applicable law will result in an invalid delegation of legislative power, granting the PHIC unlimited authority to unilaterally fix its compensation structure. Certainly, such effect could not have been the intent of the**

**legislature.**<sup>26</sup> (Citations and emphasis omitted, emphasis in the original and emphasis ours)

Simply put, Philhealth CARAGA is still required to 1) observe the policies and guidelines issued by the President with respect to position classification, salary rates, levels of allowances, project and other *honoraria*, overtime rates, and other forms of compensation and fringe benefits, and 2) report to the President, through the Budget Commission, on their position classification and compensation plans, policies, rates and other related details following such specifications as may be prescribed by the President.<sup>27</sup>

Thus, Philhealth CARAGA's power to fix the compensation of its personnel as granted by its charter, does not necessarily mean that it has unbridled discretion to issue any and all kinds of allowances and other forms of benefits or compensation package, limited only by the provisions of its charter. The power of GOCCs or its board to fix the salaries, allowances and bonuses must still conform to compensation and position classification standards laid down by applicable laws, as discussed above. To sustain Philhealth CARAGA's claim that it has unbridled authority to unilaterally fix its compensation package will result in an invalid delegation of legislative power. Further, Philhealth CARAGA's fiscal autonomy does not automatically preclude the COA's power to disallow the grant of allowances in cases of irregular, excessive, unnecessary, or unconscionable expenditures of government funds.

As discussed and quoted above, Philhealth CARAGA's compensation standardization scheme notwithstanding its exemption from the coverage of the Office of Compensation and Position Classification requires it to observe the guidelines issued by the President and to submit a report to DBM. The rationale for the review of the DBM is to provide for the standardized compensation of all government employees and officials, including those in GOCCs under Salary Standardization Laws, which are P.D. No. 985, its amendment, P.D. No. 1597, R.A. No. 6758 and R.A. No. 10149,<sup>28</sup> based on government's national policy of equal pay for work of equal value and to base differences in pay upon substantive differences in duties and responsibilities, and qualification requirements of the positions.

Furthermore, the subject disallowance of Philhealth CARAGA pertain to additional benefits such as contractor's gift, special events gifts, project completion incentive, nominal gift, and birthday gifts, which are considered additional benefits and incentives that require the recommendation of DBM

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<sup>26</sup> Id. at 258-261.

<sup>27</sup> Id. at 259.

<sup>28</sup> AN ACT TO PROMOTE FINANCIAL VIABILITY AND FISCAL DISCIPLINE IN GOVERNMENT-OWNED OR -CONTROLLED CORPORATIONS AND TO STRENGTHEN THE ROLE OF THE STATE IN ITS GOVERNANCE AND MANAGEMENT TO MAKE THEM MORE RESPONSIVE TO THE NEEDS OF PUBLIC INTEREST AND FOR OTHER PURPOSES. Approved on June 6, 2011.

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and approval of the President, Joint Resolution No. 4 dated June 17, 2009,<sup>29</sup> is instructive on the matter, to wit:

(9) Exempt Entities – Government agencies which by specific provision/s of laws are authorized to have their own compensation and position classification system shall not be entitled to the salary adjustments provided herein. Exempt entities shall be governed by their respective Compensation and Position Classification Systems: *Provided*, That such entities shall observe the policies, parameters and guidelines governing position classification, salary rates, categories and rates of allowances, benefits and incentives, prescribed by the President: *Provided, further*, **That any increase in the existing salary rates as well as the grant of new allowances, benefits and incentives, or an increase in the rates thereof shall be subject to the approval by the President, upon recommendation of the DBM: *Provided, finally***, That exempt entities which still follow the salary rates for positions covered by Republic Act No. 6758, as amended, are entitled to the salary adjustments due to the implementation of this Joint Resolution, until such time that they have implemented their own compensation and position classification system. (Emphasis ours)

Thus, COA's disallowance of the various benefits granted to Philhealth CARAGA officers, employees and contractors in the total amount of ₱49,874,228.02 is in order.

As to the issue of whether Philhealth CARAGA officers, employees and contractors received the benefits in good faith, we rule in the affirmative.

Philhealth CARAGA acted in good faith in releasing contractor's gift, special events gifts, project completion incentive, nominal gift, and birthday gifts to its officers, employees and contractors and need not refund the said amount.

The case of *Maritime*<sup>30</sup> ruled that benefits and other allowances received by payees or recipients in good faith need not refund the disallowed amount, we quote the pertinent discussion on this matter for reference:

[W]ith regard to the disallowance of salaries, emoluments, benefits, and allowances of government employees, prevailing jurisprudence provides that recipients or payees need not refund these disallowed amounts when they received these in good faith. Government officials and employees who received benefits or allowances, which were disallowed, may keep the amounts received if there is no finding of bad faith and the disbursement was made in good faith.<sup>31</sup> (Citations omitted)

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<sup>29</sup> JOINT RESOLUTION AUTHORIZING THE PRESIDENT OF THE PHILIPPINES TO MODIFY THE COMPENSATION AND POSITION CLASSIFICATION SYSTEM OF CIVILIAN PERSONNEL AND THE BASE PAY SCHEDULE OF MILITARY AND UNIFORMED PERSONNEL IN THE GOVERNMENT, AND FOR OTHER PURPOSES. Approved on June 17, 2009.

<sup>30</sup> *Supra* note 17.

<sup>31</sup> *Id.* at 336.

“On the other hand, officers who participated in the approval of the disallowed allowances or benefits are required to refund only the amounts received when they are found to be in bad faith or grossly negligent amounting to bad faith.”<sup>32</sup>

Philhealth CARAGA claims that it acted in good faith in releasing such benefits, in the honest impression that they could do so under the imprimatur of the so-called fiscal autonomy – to fix compensation of its personnel as authorized by its charter.<sup>33</sup>

In *Philippine Economic Zone Authority (PEZA) v. Commission on Audit, et al.*,<sup>34</sup> this court defined good faith relative to the requirement of refund of disallowed benefits or allowances.

In common usage, the term "good faith" is ordinarily used to describe that state of mind denoting "honesty of intention, and freedom from knowledge of circumstances which ought to put the holder upon inquiry; an honest intention to abstain from taking any unconscientious advantage of another, even through technicalities of law, together with absence of all information, notice, or benefit or belief of facts which render transaction unconscientious."<sup>35</sup> (Citation and emphasis omitted)

Records show that as a matter of diligence prior to the grant of such benefits, Philhealth CARAGA requested for the opinion of the Office of Government Corporate Counsel (OGCC), the statutory counsel and principal law office of all GOCC's regarding such grant. The OGCC opined in its Opinion No. 258, Series of 1999 dated December 21, 1999,<sup>36</sup> that Philhealth CARAGA is legally authorized to increase the compensation of its official and employees. Also, Philhealth CARAGA's fiscal autonomy was re-affirmed by OGCC Opinion No. 056, Series of 2004, dated March 31, 2004.<sup>37</sup> For another, the birthday gifts and educational assistance allowance were granted pursuant to Philhealth CARAGA's Board Resolutions with numbers 1014 Series of 2007<sup>38</sup> and 322 Series of 2000,<sup>39</sup> respectively. Thus, Philhealth CARAGA manifested its due diligence and good faith in granting said various benefits and allowances.

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<sup>32</sup> Id.

<sup>33</sup> *Rollo*, p. 223.

<sup>34</sup> 690 Phil. 104 (2012).

<sup>35</sup> Id. at 115.

<sup>36</sup> *Rollo*, pp. 226-268.

<sup>37</sup> Id. at 269-273.

<sup>38</sup> Id. at 274-276.

<sup>39</sup> Id. at 277-279.

The Court however finds that the COA failed to show bad faith on the part of the Philhealth CARAGA's approving officers in disbursing the disallowed benefits and allowances. Further, Philhealth CARAGA officers and other employees are presumed to have acted in good faith when they allowed and/or received the said benefits, in the honest belief that there was legal basis for such grant as cited above. The Philhealth CARAGA employees and contractors in turn who accepted the allowances and bonuses acted in good faith in believing that they were entitled to such grant and that Philhealth CARAGA Board validly exercise its power. Thus, Philhealth CARAGA officers, employees and contractors are absolved from refunding the amounts they received.

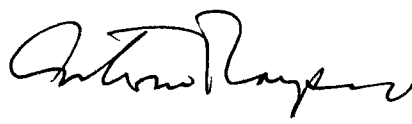
**WHEREFORE**, the petition is **PARTLY GRANTED**. The Decision No. 2014-250 dated September 11, 2014 and Resolution No. 2016-029 dated November 17, 2016 of the Commission on Audit Proper, which affirmed the Decision No. 2011-007 of the COA Regional Director R.O. No. XIII dated February 21, 2011, are hereby **AFFIRMED with MODIFICATION**. Philippine Health Insurance Corporation Regional Office - CARAGA's officers, employees and contractors need not refund the amounts they received.

**SO ORDERED.**



**NOEL GIMENEZ TIJAM**  
Associate Justice

**WE CONCUR:**



**ANTONIO T. CARPIO**  
Senior Associate Justice



*Teresita Leonardo de Castro*  
**TERESITA J. LEONARDO-DE CASTRO**  
 Associate Justice

*Diosdado M. Peralta*  
**DIOSDADO M. PERALTA**  
 Associate Justice

*Lucas P. Bersamin*  
**LUCAS P. BERSAMIN**  
 Associate Justice

*Mariano C. Del Castillo*  
**MARIANO C. DEL CASTILLO**  
 Associate Justice

*Estela M. Perlas-Bernabe*  
**ESTELA M. PERLAS-BERNABE**  
 Associate Justice

*Marvic M.V.F. Leonen*  
**MARVIC M.V.F. LEONEN**  
 Associate Justice

*Francis H. Jardeleza*  
**FRANCIS H. JARDELEZA**  
 Associate Justice

*Alfredo Benjamin S. Caguioa*  
**ALFREDO BENJAMIN S. CAGUIOA**  
 Associate Justice

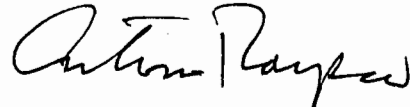
*Andres B. Reyes, Jr.*  
**ANDRES B. REYES, JR.**  
 Associate Justice

*Alexander G. Gesmundo*  
**ALEXANDER G. GESMUNDO**  
 Associate Justice

*Jose C. Reyes, Jr.*  
**JOSE C. REYES, JR.**  
 Associate Justice

## CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court.



**ANTONIO T. CARPIO**

Senior Associate Justice

(Per Section 12, Republic Act No. 296,  
The Judiciary Act of 1948, As Amended)

**CERTIFIED TRUE COPY**



**EDGAR O. ARICHETA**

Clerk of Court En Banc  
Supreme Court