Republic of the Philippines
Supreme Court
Manila

EN BANC

PHILIPPINE HEALTH INSURANCE CORPORATION, Petitioner,	**G.R. No. 213453**
	Present:
	SERENO, *C.J.*, CARPIO, VELASCO, JR., LEONARDO-DE CASTRO, BRION, PERALTA, BERSAMIN, DEL CASTILLO, PEREZ, MENDOZA, REYES, PERLAS-BERNABE, LEONEN, JARDELEZA, and CAGUIOA, *JJ.*
- versus -	
COMMISSION ON AUDIT, MA. GRACIA PULIDO TAN, Chairperson; and JANET D. NACION, Director IV, Respondents.	**Promulgated:** November 29, 2016

x ---------- x

DECISION

PERALTA, *J.*:

Before the Court is a special civil action for *certiorari* under Rule 64, in relation to Rule 65 of the 1997 Rules of Civil Procedure, as amended, seeking to reverse and set aside the Decision No. 2013-208[1] dated

[1] Signed by Commissioner Ma. Gracia M. Pulido Tan, Chairperson, with Commissioners Heidi L. Mendoza and Rowena V. Guanzon, concurring; *rollo*, pp. 47-56.

November 20, 2013 and Resolution dated April 4, 2014 of the Commission on Audit (*COA*), which affirmed the Notice of Disallowance (*ND*) Philippine Health Insurance Corporation (*PHIC*) 2008-003 (2004)[2] dated February 7, 2008 of the COA Legal Service.

The antecedent facts are as follows:

The instant case stems from petitioner PHIC's grant of several allowances to its officers and employees that were subsequently disallowed by respondent COA. In its PHIC Board Resolution No. 406, s. 2001[3] dated May 31, 2001, for one, petitioner granted the payment of the Collective Negotiation Agreement Signing Bonus (*CNASB*) of ₱5,000.00 each to all qualified employees due to the extension of the then existing CNA between the PHIC management and the PhilHealth Employees Association (*PHICEA*) for the period of another three (3) years beginning April of 2001. For another, in its PHIC Board Resolution No. 385, s. 2001[4] effective January 1, 2001, petitioner approved the payment of the Welfare Support Assistance (*WESA*) of ₱4,000.00 each, in lieu of the subsistence and laundry allowances paid to public health workers under Republic Act (*R.A.*) No. 7305, otherwise known as the *Magna Carta of Public Health Workers*. Petitioner then resolved to approve the grant of the Labor Management Relations Gratuity (*LMRG*) by virtue of its PHIC Board Resolution No. 717, s. 2004[5] dated July 22, 2004, in recognition of harmonious labor-management relations of its employees with the management. Finally, for the services rendered during the period beginning July 1989 until January 1995, petitioner paid the Cost of Living Allowance (*COLA*) to personnel it had absorbed from the Philippine Medical Care Commission (*PMCC*) by virtue of Section 51[6] of R.A. No. 7875, otherwise known as *The National Health Insurance Act of 1995*.[7]

On February 7, 2008, however, pursuant to the recommendations of the Supervising Auditor of the PHIC in various Audit Observation Memoranda (*AOM*),[8] respondent Janet D. Nacion, Director IV of the Legal and Adjudication Office – Corporate of the COA, issued ND PHIC 2008-003 (2004), disallowing the payment of the aforementioned allowances granted to PHIC officers and employees in the total amount of

---

2 *Id.* at 119-123.

3 *Id.* at 96.

4 *Id.* at 109-111.

5 *Id.* at 112-114.

6 Section 51 of R.A. No. 7875 provides:

SECTION 51. Merger. – Within sixty (60) days from the promulgation of the implementing rules and regulations, all functions and assets of the Philippine Medical Care Commission shall be merged with those of the Corporation (PHILHEALTH) without need of conveyance, transfer or assignment. The PMCC shall thereafter cease to exist.

The liabilities of the PMCC shall be treated in accordance with existing laws and pertinent rules and regulations.

7 *Rollo*, p. 7.

8 *Id.* at 47.

₱87,699,144.00.[9] According to respondent Nacion, the payment of the CNASB was contrary to the doctrine enunciated in *Social Security System (SSS) v. COA*[10] wherein the Court expressly invalidated the payment of the same. With respect to the WESA, Nacion maintained that its payment was made without legal basis in the absence of approval from the Office of the President.[11] As for the payment of the LMRG, Nacion found that it was merely a duplication of the Performance Incentive Bonus (*PIB*) which was granted to employees based on their good performance, increased efficiency and productivity. Lastly, Nacion disallowed the payment of back COLA to PHIC personnel ratiocinating that it should be collected not from petitioner PHIC but from the government agency where the services have been rendered prior to its creation in January 1995.[12]

Petitioner filed its motion for reconsideration which was, however, denied by the COA Legal Services Sector (*LSS*) in its Decision No. 2010-020[13] issued on May 21, 2010. On appeal, the COA Commission Proper (*CP*) sustained the disallowance in its Decision No. 2013-208 dated November 20, 2013.[14] Thereafter, in a Resolution[15] dated April 4, 2014, the COA CP *en banc* further denied petitioner's motion for reconsideration.

Aggrieved, petitioner filed the instant petition before the Court raising the following issues:

> I.
> WHETHER THE COA GRAVELY ABUSED ITS DISCRETION, AMOUNTING TO LACK OR EXCESS OF JURISDICTION, IN ISSUING THE ASSAILED DECISION AND RESOLUTION.
>
> II.
> WHETHER THE COA DISREGARDED THE FISCAL AUTONOMY GRANTED TO PHIC UNDER SECTION 16 (N), R.A. 7875, AS AMENDED, AS WELL AS EXISTING AND RELEVANT JURISPRUDENCE, IN AFFIRMING THE ND PHIC 2008-003 (2004).
>
> III.
> WHETHER PHIC'S PAYMENTS OF THE CNASB, LMRG, WESA, AND BACK COLA IN FAVOR OF ITS OFFICERS AND EMPLOYEES AMOUNTING TO PHP87,699,144.00 WAS PROPER.
>
> IV.
> GRANTING THAT THE PAYMENTS WERE NOT PROPER, WHETHER THE PHIC OFFICERS AND EMPLOYEES CAN BE REQUIRED TO REFUND THE AMOUNTS RECEIVED.

---

9 *Id.* at 119.
10 433 Phil. 946 (2002).
11 *Id.* at 120.
12 *Id.*
13 *Id.* at 124.
14 *Id.* at 47-56.
15 *Id.* at 57.

Petitioner PHIC raises several infirmities attendant in respondent COA's disallowance. *First*, contrary to respondent's findings, petitioner paid the CNASB to its regular *plantilla* personnel in 2001 and not in 2004 as evinced by the Certification and payrolls it duly presented.[16] During said year, such grant was expressly sanctioned by Budget Circular No. 2000-19 issued by the Department of Budget and Management (*DBM*) on December 15, 2000 which authorizes the payment of the signing bonus to each entitled rank-and-file personnel. During said year, moreover, the ruling in *SSS v. COA*[17] had not yet been laid down by the Court, which was actually promulgated on July 11, 2002, or more than a year *after* the payment of the subject CNASB. Thus, on the basis of the established principle of prospective application of laws, the invalidation of the CNASB enunciated in the *SSS* case cannot be used as legal basis in disallowing the issuance of said bonus.[18]

Second, petitioner asserts that the WESA was duly granted in compliance with applicable law, particularly R.A. No. 7305 or the *Magna Carta of Public Health Workers (PHW)*. According to petitioners, the WESA was issued in *lieu* of the subsistence and laundry allowance due to PHWs under Section 22 of the Magna Carta, which provides that said subsistence allowance shall be "computed in accordance with prevailing circumstances as determined by the Health Secretary in consultation with the Management Health Worker's Consultative Councils." Petitioner explains that respondent COA's assertion that the WESA should be disallowed because it was granted without the participation of the Health Secretary is not entirely accurate. Under Section 18 (a) of R.A. No. 7875, the Board of Directors of the PHIC is composed of eleven (11) members (which was increased to sixteen (16) members under R.A. No. 10606 passed in June 2013) with the Health Secretary sitting as the *Ex-Officio* Chairperson.[19] As part of said PHIC board, its unanimous passage of PHIC Board Resolution No. 385, s. 2001 granting the subject WESA was compliantly the positive act of then Health Secretary Dr. Alberto G. Romualdez, Jr. required under the law.[20] Any official act of the PHIC Board, with the Health Secretary sitting as *Ex-Officio* Chairperson, cannot be considered as an exclusive act of the board, but also as an act of the Health Secretary in his primary capacity as such.

Third, petitioner contends that contrary to respondent's allegation, the LMRG is not merely a duplicate of the PIB. The LMRG was passed in the exercise of the PHIC Board of its "fiscal autonomy" to fix compensation and benefits of its personnel under Section 16 (n) of R.A. No. 7875 in

---

16 *Id.* at 11.
17 *Supra* note 10.
18 *Id.* at 14.
19 *Id.* at 16.
20 *Id.* at 17.

recognition of notable labor-management relations, while the PIB was granted as a performance-based incentive under Executive Order (*E.O.*) No. 486, entitled *Establishing a Performance-Based Incentive System for Government-Owned or Controlled Corporations and for Other Purposes*.[21] In addition, the two (2) grants not only have different requirements for entitlement but also differ in their amounts and manner of computation.

Fourth, with respect to the grant of the COLA back pay, petitioner posits that while it agrees with the position taken by respondent COA Director Nacion that the Court, in *De Jesus v. COA*,[22] has given *imprimatur* on the propriety of the said COLA during the time when the DBM Corporate Compensation Circular (*CCC*) 10 was in legal limbo, it, nevertheless, disagrees with her view that the PHIC is not legally bound to pay the same to its absorbed personnel for their services were not rendered to PHIC but to another government agency prior to PHIC's creation.[23] Petitioner recounts that the COLA back pay was for services rendered between July 1989 and January 1995 when the payment of the same had been discontinued by reason of DBM CCC 10 issued in July 1995, pursuant to R.A. No. 6758, or the *Salary Standardization Law* (*SSL*). But the failure to publish the DBM CCC 10 integrating COLA into the standardized salary rates meant that the COLA was not effectively integrated as of July 1989 but only on March 16, 1999 when the circular was published as required by law. Thus, in between those two dates, the employees were still entitled to receive the COLA. But unlike respondent Nacion, who opined that petitioner PHIC has no business to settle the obligations of other government entities having a separate and distinct legal personality therefrom, petitioner PHIC invokes Section 51 of R.A. No. 7875 which transfers all the functions and assets of the defunct PMCC to PHIC. According to petitioner, the term "functions" necessarily means to include then PMCC's obligation to pay the benefits due to its employees who have been absorbed by PHIC such as the COLA that was unduly withdrawn from their salaries after the issuance of DBM CCC 10 in 1989.[24] This is in keeping with the principle of equal protection of laws guaranteed under the Constitution. In the end, petitioner posits that since PHIC personnel received the CNASB, WESA, LMRG and back COLA in good faith, they should not be required to refund them.[25]

For its part, respondent COA initially raised certain procedural defects in petitioner's action. For one, it is alleged that petitioner PHIC is not the real party-in-interest and, therefore, has no *locus standi* to file the instant petition.[26] This is because the parties who benefitted and who will be injured by the disallowance are the officers and employees of PHIC, and not PHIC itself. For another, the special civil action for *certiorari* under Rule 65 is

---

21 *Id.* at 18-19.
22 355 Phil. 584 (1998).
23 *Rollo*, p. 21.
24 *Id.* at 23.
25 *Id.* at 25.
26 *Id.* at 169.

improper as it was not shown that respondent COA acted without jurisdiction or with grave abuse of discretion amounting to lack or excess of jurisdiction.

Substantially, moreover, respondent COA asseverates that PHIC's so-called "fiscal autonomy" does not preclude the COA's power to disallow the grant of allowances.[27] In the exercise of said power, respondent COA claims that petitioner, in granting the subject allowances, cannot rely on Section 16 (n)[28] of R.A. No. 7875. This is because as held in *Government Service Insurance System (GSIS) v. Civil Service Commission*,[29] the term "compensation" "excludes all bonuses, per *diems*, allowances and overtime pay, or salary pay or compensation given in addition to the base pay of the position or rank as fixed by law or regulations."

Respondent COA further insists that with respect to the CNASB, the payment of the same was made not in 2001, as petitioner claims, but on June 11, 2004, based on an Automatic Debit Advice "dated 6-11-2004."[30] Consequently, *SSS v. COA*[31] is applicable. In fact, in a letter dated October 18, 2004, the DBM reminded the PHIC of the said ruling. Thus, respondent COA posits that while it is true that the payment of the CNASB was allowed under DBM Budget Circular No. 2000-19, dated December 15, 2000, which was the basis of PHIC Board Resolution No. 406, s. 2001 approving said grant, actual payment thereof by petitioner PHIC, however, was made only on June 11, 2004, or after the pronouncement in *SSS v. COA*. Moreover, said Board Resolution has already been made ineffective by Resolution No. 04, s. 2002 and Resolution No. 02, s. 2003 of the Public Sector Labor-Management Council (*PSLMC*), which allows the grant of the CNA Incentive but declares the CNASB illegal as a form of additional compensation.[32] Respondent adds that the pieces of evidence submitted by petitioner consisting of the Certification and payrolls are self-serving for they were made out of court, the COA having no opportunity to impugn the same in open court.[33]

Respondent COA also rejects petitioner's assertions on the validity of the grant of the WESA claiming that the act of the PHIC Board is not the act of the individual composing the Board in view of the settled rule that a corporation is invested by law with a personality separate and distinct from

---

27 *Id.* at 175-176.

28 Section 16 (n) of R.A. No. 7875 provides:

Section 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; x x x

29 G.R. No. 98395, October 28, 1994, 237 SCRA 809, 816.

30 *Rollo*, pp. 166 and 184.

31 *Supra* note 10.

32 *Id.* at 186.

33 *Id.* at 187.

those of the persons composing it.[34] Thus, the act of the PHIC Board of which the Health Secretary is the ex-officio chair is separate and distinct from the Health Secretary. Consequently, the benefit given as WESA is invalid because the rate thereof was not determined by the Health Secretary as mandated by the Magna Carta of PHWs.

As regards the LMRG, respondent maintains that it is exactly the same as the PIB earlier granted to PHIC employees based on their good performance, increased productivity and efficiency, for good performance is the result of a harmonious relationship between the employees and the management.[35] Even assuming that the LMRG does not partake of the nature of the PIB, the former nonetheless remains an additional benefit that requires prior approval of the Office of the President (*OP*) as mandated by Memorandum Order (*MO*) No. 20 dated June 25, 2001. Said MO requires presidential approval, for any increases in salary or compensation of Government-Owned and Controlled Corporations (*GOCCs*) that are not in accordance with the SSL.

As for the COLA back pay, respondent reiterates Nacion's view that petitioner PHIC is unauthorized to settle the obligations PMCC had because it is not one of the powers and functions enumerated in its charter, particularly Section 16 of R.A. 7875. Said functions do not include the obligation to pay the benefits due to the employees of PMCC or other employees of the government who have been absorbed by the PHIC. Respondent adds that at the time covering the period of July 1989 to January 1995, PHIC had no legal personality yet, for it was created only in 1995.[36] Thus, the obligation to pay the COLA commenced only from that time. Prior to 1995, the COLA of PMCC employees should have been collected from the PMCC where they rendered their services.

The petition is partly meritorious.

At the outset, the Court rejects the alleged procedural barriers that supposedly prevent it from entertaining the instant petition. Respondent claims that petitioner PHIC is not the proper "aggrieved party" to file the petition because the parties who actually received and who will be injured by the disallowance are the officers and employees of PHIC, and not PHIC itself. Time and again, the Court has defined *locus standi* or legal standing as a personal and substantial interest in the case such that the party has sustained or will sustain direct injury as a result of the governmental act that is being challenged. The gist of the question of standing is whether a party alleges such a personal stake in the outcome of the controversy as to assure that concrete adverseness which sharpens the presentation of issues upon

---

34 *Id.* at 180.
35 *Id.* at 188.
36 *Id.* at 183-184.

which the court depends for illumination of difficult constitutional questions.[37]

In this regard, the Court finds that petitioner PHIC certainly possesses the legal standing to file the instant action. Petitioner comes before the Court invoking its power to fix the compensation of its employees and personnel enunciated under the National Health Insurance Act. Accordingly, when respondent disallowed petitioner's grant of certain allowances in its exercise of said power, it effectively and directly challenged petitioner's authority to grant the same. Thus, petitioner must be granted the opportunity to justify its issuances by presenting the basis on which they were made. As petitioner pointed out, whatever benefit received by the personnel as a consequence of PHIC's exercise of its alleged authority is merely incidental to the main issue, which is the validity of PHIC's grant of allowances and benefits.[38] In fact, in light of numerous disallowances being made by the COA, it is rather typical for a government entity to come before the Court and challenge the COA's decision invalidating such entity's disbursement of funds.[39] The non-participation of the particular employees who actually received the disallowed benefits does not prevent the Court from determining the issue of whether the COA gravely abused its discretion in declaring the entity's issuance as illegal. In *Maritime Industry Authority v. COA,*[40] We explained:

> **The burden of proving the validity or legality of the grant of allowance or benefits is with the government agency or entity granting the allowance or benefit, or the employee claiming the same**. After the Resident Auditor issues a notice of disallowance, the aggrieved party may appeal the disallowance to the Director within six (6) months from receipt of the decision. **At this point, the government agency or employee has the chance to prove the validity of the grant of allowance or benefit**. If the appeal is denied, a petition for review may be filed before the Commission on Audit Commission Proper. **Finally, the aggrieved party may file a petition for certiorari before this court to assail the decision of the Commission on Audit Commission Proper.**
>
> **Our laws and procedure have provided the aggrieved party several chances to prove the validity of the grant of the allowance or benefit.**[41]

As Article IX-A, Section 7 of the 1987 Constitution expressly provides, "unless otherwise provided by this Constitution or by law, any decision, order, or ruling of each Commission may be brought to the Supreme Court on *certiorari* by the aggrieved party within thirty days from receipt of a copy thereof." In like manner, Rule 64, Section 2 of the Revised

---

37 *Francisco, Jr. v. The House of Representatives*, 460 Phil. 830, 893 (2003).

38 *Rollo*, p. 307.

39 *Maritime Industry Authority v. COA*, G.R. No. 185812, January 13, 2015, 745 SCRA 300; *Manila International Airport Authority v. COA*, 681 Phil. 644 (2012).

40 *Supra.*

41 *Id.* at 340. (Emphasis ours)

Rules of Civil Procedure also provides that "a judgment or final order or resolution of the Commission on Elections and the Commission on Audit may be brought by the aggrieved party to the Supreme Court on *certiorari* under Rule 65, except as hereinafter provided." Thus, while findings of administrative agencies, such as the COA herein, are generally respected, when it is shown to have been tainted with unfairness amounting to grave abuse of discretion, the aggrieved party can assail the COA decision in special civil action for *certiorari* under Rule 64 in relation to Rule 65, an extraordinary remedy, the purpose of which is to keep the public respondent within the bounds of its jurisdiction, relieving the petitioner from the public respondent's arbitrary acts.[42]

The Court shall now proceed to determine the propriety of respondent COA's disallowance. In support of its grant of the subject allowances and benefits, petitioner PHIC persistently invokes its 'fiscal autonomy' enunciated under Section 16(n) of R.A. 7875 "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." It argued that unlike in *Intia, Jr. v. COA*[43] cited by respondent COA where the charter of the Philippine Postal Corporation expressly stated that it shall ensure that its compensation system conforms closely to the provisions of the SSL, the PHIC charter does not contain a similar limitation thereby removing the PHIC from the ambit thereof.[44] Moreover, had the legislature intended to subject its power to fix its personnel's compensation to the approval of the DBM or the Office of the President (*OP*), its charter should have expressly provided as it did in Section 19(d) thereof which states that "the President shall receive a salary to be fixed by the Board, with the approval of the President of the Philippines, payable from the funds of the Corporation." In further support thereof, petitioner cites certain opinions of the Office of Government Corporate Counsel (*OGCC*) dated December 21, 1999 and March 31, 2004 upholding PHIC's unrestricted 'fiscal autonomy' to fix the compensation of its personnel.[45]

Petitioner adds that in any event, its power to fix its personnel compensation is still subject to certain limitations such as Section 26(b) of R.A. 7875 providing that it may charge various funds under its control for costs of administering the Program for as long as they shall not exceed the twelve percent (12%) of the total contributions to the Program and three percent (3%) of the investment earnings collected during the immediately preceding year.[46] Thus, petitioner posits that it is the intent of the legislature

---

42 *Id.* at 312-313.

43 366 Phil. 273 (1999).

44 *Rollo*, pp. 312-313.

45 *Id.* at 318-319.

46 SEC. 26. Financial Management - The use, disposition, investment, disbursement, administration and management of the National Health Insurance Fund, including any subsidy, grant or donation received for program operations shall be governed by resolution of the Board of Directors of the Corporation, subject to the following limitations:

to limit the determination and approval of allowances to the PHIC Board alone, subject only to the 12%-13% limitation.[47] In the end, petitioner emphasizes that it enjoys an unmistakeable authority to exclusively approve its own, internal operating budget for prior DBM approval is only required when national budgetary support is needed.[48]

Petitioner's contentions are devoid of merit.

The extent of the power of GOCCs to fix compensation and determine the reasonable allowances of its officers and employees had already been conclusively laid down in *Philippine Charity Sweepstakes Office (PCSO) v. COA*,[49] to wit:

> The PCSO stresses that it is a self-sustaining government instrumentality which generates its own fund to support its operations and does not depend on the national government for its budgetary support. Thus, it enjoys certain latitude to establish and grant allowances and incentives to its officers and employees.
>
> We do not agree. Sections 6 and 9 of R.A. No. 1169, as amended, cannot be relied upon by the PCSO to grant the COLA. Section 6 merely states, among others, that fifteen percent (15%) of the net receipts from the sale of sweepstakes tickets (whether for sweepstakes races, lotteries, or other similar activities) shall be set aside as contributions to the operating expenses and capital expenditures of the PCSO. Also, Section 9 loosely provides that among the powers and functions of the PCSO Board of Directors is "to fix the salaries and determine the reasonable allowances, bonuses and other incentives of its officers and employees as may be recommended by the General Manager x x x subject to pertinent civil service and compensation laws." **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**

---

x x x x

b) The Corporation is authorized to charge the various funds under its control for the costs of administering the Program. Such costs may include administration, monitoring, marketing and promotion, research and development, audit and evaluation, information services, and other necessary activities for the effective management of the Program. The total annual costs for these shall not exceed twelve percent (12%) of the total contributions, including government contributions to the Program and not more than three (3%) of the investment earnings collected during the immediately preceding year.

47 *Rollo*, p. 320.

48 *Id.* at 322.

49 G.R. No. 216776, April 19, 2016. (Emphasis ours)

> **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*,[50] 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 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 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**

---

50 444 Phil. 859 (2003).

> **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.** This ought to be the interpretation if the avowed policy of compensation standardization in government is to be given full effect. **The policy of "equal pay for substantially equal work" will be an empty directive if government entities exempt from the coverage of the Office of Compensation and Position Classification may freely impose any type of salary scheme, benefit or monetary incentive to its employees in any amount, without regard to the compensation plan implemented in the other government agencies or entities**. Thus, even prior to the passage of R.A No. 6758, consistent with the salary standardization laws in effect, the compensation and benefits scheme of PRA is subject to the review of the Department of Budget and Management.[51]

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,[52] its 1978 amendment, P.D. No. 1597,[53] the SSL, and at present, R.A. 10149.[54] 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.[55] Certainly, such effect could not have been the intent of the legislature.

It must be noted, though, that the power of review granted to the DMB is simply to ensure that the proposed compensation and benefit schemes of the GOCCs comply with the requirements of applicable laws, rules and regulations. *PRA v. Buñag*[56] clarifies:

> However, in view of the express powers granted to PRA under its charter, the extent of the review authority of the Department of Budget and Management is limited. As stated in Intia, the task of the Department

---

51 *Philippine Retirement Authority (PRA) v. Buñag, supra*, at 869-870. (Emphases ours)

52 Entitled "The Budgetary Reform Decree on Compensation and Position Classification of 1976."

53 Entitled "Further Rationalizing the System of Compensation and Position Classification in the National Government."

54 Entitled "GOCC Governance Act of 2011."

55 *Intia, Jr. v. COA, supra* note 43, at 291.

56 *Supra* note 50, at 869-870.

> of Budget and Management is simply to review the compensation and benefits plan of the government agency or entity concerned and determine if the same complies with the prescribed policies and guidelines issued in this regard. **The role of the Department of Budget and Management is supervisorial in nature, its main duty being to ascertain that the proposed compensation, benefits and other incentives to be given to PRA officials and employees adhere to the policies and guidelines issued in accordance with applicable laws.**

The rule, therefore, is that for as long as the allowances and benefits granted by petitioner PHIC are in accordance with and authorized by prevailing law, the same shall be upheld by the DBM.[57] As Section 29(1), Article VI of the 1987 Constitution provides, "[n]o money shall be paid out of the Treasury except in pursuance of an appropriation made by law." Accordingly, in order to determine the validity of PHIC's issuances, the Court must give due regard to the following Section 12 of the SSL in force at the time of the subject grants:

> Section 12. *Consolidation of Allowances and Compensation.* – **All allowances, except for** representation and transportation allowances; clothing and **laundry** allowances; **subsistence** allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and **such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed**. Such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized.
>
> Existing additional compensation of any national government official or employee paid from local funds of a local government unit shall be absorbed into the basic salary of said official or employee and shall be paid by the National Government. (Emphasis supplied)

Thus, the general rule is that all allowances are deemed included in the standardized salary except for the following: (1) representation and transportation allowances; (2) clothing and laundry allowances; (3) subsistence allowance of marine officers and crew on board government vessels and hospital personnel; (4) hazard pay; (5) allowances of foreign service personnel stationed abroad; and (6) such other additional compensation not otherwise specified herein as may be determined by the DBM.

Time and again, the Court has ruled that Section 12 of the SSL is self-executing. This means that even without DBM action, the standardized salaries of government employees are already inclusive of all allowances,

---

57 *Yap v. Commission on Audit*, 633 Phil. 174, 193-194 (2010).

save for those expressly identified in said section.[58] It is only when additional non-integrated allowances will be identified that an issuance of the DBM is required. Thus, until and unless the DBM issues rules and regulations identifying those excluded benefits, the enumerated non-integrated allowances in Section 12 remain exclusive.[59] When a grant of an allowance, therefore, is not among those excluded in the Section 12 enumeration or expressly excluded by law or DBM issuance, such allowance is deemed already given to its recipient in their basic salary. As a result, the unauthorized issuance and receipt of said allowance is tantamount to double compensation justifying COA disallowance.[60]

Prescinding from the foregoing, the Court had consistently ruled that not being an enumerated exclusion, the COLA is deemed already incorporated in the standardized salary rates of government employees under the general rule of integration of the SSL.[61] Petitioner's argument that the failure to publish the DBM-CCC No. 10 integrating COLA into the standardized salary rates meant that the COLA was not effectively integrated as of July 1989 but only on March 16, 1999 when the circular was published as required by law has already been definitively addressed in *Maritime Industry Authority v. COA*,[62] *viz.*:

> We cannot subscribe to petitioner Maritime Industry Authority's contention that due to the non-publication of the Department of Budget and Management's National Compensation Circular No. 59, it is considered invalid that results in the non-integration of allowances in the standardized salary.
>
> x x x x
>
> As held in *Philippine International Trading Corporation v. Commission on Audit,* **the non-publication of the Department of Budget and Management's issuance enumerating allowances that are deemed integrated in the standardized salary will not affect the execution of Section 12 of Republic Act No. 6758**. Thus:
>
> > **There is no merit in the claim of PITC that R.A. No. 6758, particularly Section 12 thereof is void because DBM-Corporate Compensation Circular No. 10, its implementing rules, was nullified in the case of *De Jesus v. Commission on Audit*, for lack of publication. The basis of COA in disallowing the grant of SFI was Section 12 of R.A. No. 6758 and not DBM-CCC No. 10. Moreover, the nullity of DBM-CCC No. 10 will not**

---

58 *Maritime Industry Authority v. Commission on Audit, supra* note 39, at 321.

59 *Id.* at 322.

60 *Id.* at 342.

61 *Philippine Charity Sweepstakes of Office (PCSO) v. COA, supra* note 49; *Gutierrez, et al. v. Dept. of Budget and Mgt., et al.*, 630 Phil. 1, 14 (2010); *Maynilad Water Supervisors Association v. Maynilad Water Services, Inc.* G.R. No. 198935, November 27, 2013, 711 SCRA 110, 119; *Land Bank of the Philippines v. Naval*, G.R. No. 195687, April 14, 2014.

62 *Supra* note 39.

> **affect the validity of R.A. No. 6758. It is a cardinal rule in statutory construction that statutory provisions control the rules and regulations which may be issued pursuant thereto. Such rules and regulations must be consistent with and must not defeat the purpose of the statute. The validity of R.A. No. 6758 should not be made to depend on the validity of its implementing rules.**

In *Gutierrez v. Department of Budget and Management*, this court held that:

> x x x x
>
> In this case, the DBM promulgated NCC 59 [and CCC 10]. But, instead of identifying some of the additional exclusions that Section 12 of R.A. 6758 permits it to make, the DBM made a list of what allowances and benefits are deemed integrated into the standardized salary rates. More specifically, NCC 59 identified the following allowances/additional compensation that are deemed integrated:
>
> x x x x
>
> **The drawing up of the above list is consistent with Section 12 above. R.A. 6758 did not prohibit the DBM from identifying for the purpose of implementation what fell into the class of "all allowances." With respect to what employees' benefits fell outside the term apart from those that the law specified, the DBM, said this Court in a case, needed to promulgate rules and regulations identifying those excluded benefits.** This leads to the inevitable conclusion **that until and unless the DBM issues such rules and regulations, the enumerated exclusions in items (1) to (6) remain exclusive. Thus so, not being an enumerated exclusion, COLA is deemed already incorporated in the standardized salary rates of government employees under the general rule of integration.**[63]

In certain instances, however, the Court had opted to sustain the continued grant of allowances, whether or not integrated into the standardized salaries, but only to those incumbent government employees who were actually receiving said allowances before and as of July 1, 1989.[64] This is in consonance with the second sentence of the first paragraph of Section 12 of the SSL which states that: "such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized." But unfortunately, petitioner failed to prove such exception. To recall, petitioner merely asserted, as basis for its issuance of

---

63 *Maritime Industry Authority v. COA, supra* note 39, at 323-326. (Emphases ours)

64 *PCSO v. COA, supra* note 49.

the COLA, the ineffectivity of DBM CCC 10 as well as its obligation towards the employees it had absorbed from its predecessor, Philippine Medical Care Commission. While petitioner loosely mentioned that the COLA back pay was for services rendered between July 1989 and January 1995 when the payment of the same had been "discontinued" and "unduly withdrawn," it failed to present any sort of proof, documentary or otherwise, to sufficiently establish that those COLA recipients were, indeed, incumbent government employees who were actually receiving the same as of July 1, 1989. In fact, nowhere in its pleadings filed before the Court was it even invoked that the PHIC officers and employees actually suffered a diminution in pay as a result of the consolidation of the COLA back pay into their standardized salary rates. Petitioner cannot, therefore, rely on Our ruling in *Philippine Ports Authority (PPA) Employees Hired After July 1, 1989 v. COA.*[65] As the Court elucidated in *NAPOCOR Employees Consolidated Union (NEU) v. National Power Corporation (NPC)*:[66]

> The Court has, to be sure, taken stock of its recent ruling in Philippine Ports Authority (PPA) Employees Hired After July 1, 1989 vs. Commission on Audit. Sadly, however, our pronouncement therein is not on all fours applicable owing to the differing factual milieu. There, the Commission on Audit allowed the payment of back cost of living allowance (COLA) and amelioration allowance previously withheld from PPA employees pursuant to the heretofore ineffective DBM – CCC No. 10, but limited the back payment only to incumbents as of July 1, 1989 who were already then receiving both allowances. COA considered the COLA and amelioration allowance of PPA employees as "not integrated" within the purview of the second sentence of Section 12 of Rep. Act No. 6758, which, according to COA confines the payment of "not integrated" benefits only to July 1, 1989 incumbents already enjoying the allowances.
>
> In setting aside COA's ruling, **we held in PPA Employees that there was no basis to use the elements of incumbency and prior receipt as standards to discriminate against the petitioners therein.** For, DBM-CCC No. 10, upon which the incumbency and prior receipt requirements are contextually predicated, was in legal limbo from July 1, 1989 (effective date of the unpublished DBM-CCC No. 10) to March 16, 1999 (date of effectivity of the heretofore unpublished DBM circular). And being in legal limbo, the benefits otherwise covered by the circular, if properly published, were likewise in legal limbo as they cannot be classified either as effectively integrated or not integrated benefits.
>
> There lies the difference.
>
> Here, the employee welfare allowance was, as above demonstrated, integrated by NPC into the employees' standardized salary rates effective July 1, 1989 pursuant to Rep. Act No. 6758. **Unlike in PPA Employees, the element of discrimination between incumbents as of July 1, 1989 and those joining the force thereafter is not obtaining in this case.** And while after July 1, 1989, PPA employees can rightfully complain about the discontinuance of payment of COLA and amelioration

---

65 506 Phil. 382 (2005).

66 519 Phil. 372 (2006).

> allowance effected due to the incumbency and prior receipt requirements set forth in DBM-CCC No, 10, NPC cannot do likewise with respect to their welfare allowance since NPC has, for all intents and purposes, never really discontinued the payment thereof.
>
> **To stress, herein petitioners failed to establish that they suffered a diminution in pay as a consequence of the consolidation of the employee welfare allowance into their standardized salary. There is thus nothing in this case which can be the subject of a back pay since the amount corresponding to the employee welfare allowance was never in the first place withheld from the petitioners.**[67]

Here, petitioner's constant invocation of the equal protection clause is misleading. In its petition, petitioner PHIC insists that all its employees should be treated equally, regardless of whether they rendered their service to the PHIC or to its predecessor, PMCC.[68] Without delving into the matter of whether said employees were employed before or after July 1, 1989, it then concluded that all employees must be paid their back COLA that was unduly withdrawn from them after the issuance of the DBM CCC 10, and for the entire duration that the circular was in legal limbo.[69] It bears stressing, however, that the Court, in *PPA*, accorded equal treatment to all PPA employees whether they were incumbents as of July 1, 1989, the time of effectivity of the SSL, or employed thereafter. Hence, to successfully invoke the guarantee of equal protection clause under the *PPA* doctrine, petitioner needed to prove, to the Court's satisfaction, not a discrimination between the current PHIC employees and those absorbed from PMCC, but rather, a discrimination between incumbent PHIC employees as of July 1, 1989 and those employed thereafter, who, as addressed by the second sentence of Section 12 of the SSL, suffered a diminution in pay. But as previously observed, petitioner never even alleged the same. Resultantly, petitioner can neither invoke the guarantee of equal protection of laws nor the principle of non-diminution of benefits to sustain its grant of the COLA.

For parallel reasons, the Court finds that the PHIC's issuance of the LMRG must suffer the same fate. In defending the validity thereof, petitioner PHIC merely asserted, in its petition, its 'fiscal autonomy' to fix compensation and benefits of its personnel under Section 16 (n) of R.A. No. 7875 and the argument that the LMRG is not merely a duplicate of the PIB. Seemingly realizing the insufficiency thereof, petitioner, in its Reply, attempted to provide the Court with additional legal basis by citing certain OGCC opinions and jurisprudence reiterating its "fiscal autonomy" and averring that Section 19, Chapter 3, Book VI of E.O. 292, otherwise known as the 1987 Administrative Code of the Philippines, clearly provides that internal operating budgets of GOCCs are generally subject only of their respective governing boards, and the only exception thereto requiring DBM

---

67 *NAPOCOR Employees Consolidated Union v. National Power Corporation, supra,* at 388-389. (Emphases ours)

68 *Rollo*, p. 25.

69 *Id.* at 23.

approval is when national government budgetary support is used. Thus, it was alleged that since the funds used in the disbursement of the LMRG were sourced from PHIC's internal operating budget, DBM approval is unnecessary.[70]

Petitioner fails to persuade.

PCSO v. COA has already established, in no uncertain terms, that the fact that a GOCC is a self-sustaining government instrumentality which does not depend on the national government for its budgetary support does not automatically mean that its discretion on the matter of compensation is absolute. As elucidated above, regardless of 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, which, in this case, is the SSL. In view of petitioner's failure to present any statutory authority or DBM issuance expressly authorizing the grant of the LMRG, the same must be deemed incorporated in the standardized salaries of the PHIC employees. Accordingly, the Court must necessarily strike its unauthorized issuance as invalid for the receipt by the PHIC employees thereof was tantamount to double compensation.

With respect to the CNASB, however, it is undisputed that the same momentarily had DBM approval. Let it be remembered that on December 15, 2000, the DBM issued Budget Circular No. 2000-19 explicitly authorizing the payment of the signing bonus to each entitled rank-and-file personnel. But on July 11, 2002, the Court, in *SSS v. COA*, declared as invalid said signing bonus for being inconsistent with the rule of salary integration under the SSL and for not being "a truly reasonable compensation" due to the fact that peaceful collective negotiations "should not come with a price tag." Thus, while respondent COA admits that the payment of the CNASB was allowed under the DBM Circular, it contends that actual payment thereof was made only on June 11, 2004, or after the pronouncement in *SSS v. COA*, and as a consequence, petitioner PHIC's payment thereof is invalid.

Nevertheless, based on the records of the case, the Court is inclined to give more credence to petitioner PHIC's allegations on the allowance's validity than to the apparently unsubstantiated contentions of respondent COA. In disallowing the grant of the CNASB, respondent COA primarily anchored its decision on a certain "Automatic Debit Advice dated 6-11-2004."[71] Relying solely on the basis thereof, respondent summarily concluded that the actual payment of the CNASB was made only on June 11, 2004 or after the pronouncement in *SSS v. COA*.[72] The Court, however,

---

70 *Id.* at 323.
71 *Id.* at 166 and 184.
72 *Id.* at 186.

is unconvinced. Nowhere in the records was the source of said "Automatic Debit Advice" shown. The initial Audit Observation Memorandum, which was the basis of respondent COA's disallowance, simply indicated "ADA No. 01-06-028 dtd. 6/11/2004"[73] and "ADA No. 01-05-029 dtd. 6/11/2004"[74] without even explaining what such code represents. Moreover, as aptly pointed out by petitioner, respondent COA automatically insisted that the CNASB was granted after the promulgation of *SSS v. COA*, merely mentioning, for the first time in its Comment before the Court, its basis as the "Automatic Debit Advice." Said advice, however, was never shown to petitioner for validation. Worse, it was not even presented before the Court to support the COA disallowance.

Thus, as between petitioner PHIC's allegations together with its corresponding documentary evidence consisting of certifications and employee payrolls on the one hand, and respondent COA's plain assertions, unsubstantiated by any sort of proof on the other, the Court finds that the former deserves to be given more weight and credence. Remember that the power granted to the DBM is simply to ensure that the proposed compensation, benefits and other incentives given to GOCC officials and employees adhere to the policies and guidelines issued in accordance with applicable laws.[75] It is only just that the extent of its reviewing authority be sufficiently supported by reasonable proof. Considering, therefore, that the records of the case, taken in conjunction with the circumstances surrounding their issuance, supports a reasonable conclusion that the CNASB was, indeed, paid in 2001 and not in 2004, at the time when the payment thereof was expressly sanctioned by DBM Budget Circular No. 2000-19, the Court holds that respondent COA carelessly and whimsically issued its disallowance in absence of any sufficient basis in support of the same.

In a similar manner, the Court finds that the PHIC's grant of the WESA was aptly sanctioned not only by Section 12[76] of the SSL but also by statutory authority. PHIC Board Resolution No. 385, s. 2001[77] states that the WESA of ₱4,000.00 each shall be paid to public health workers under the Magna Carta of PHWs in lieu of the subsistence and laundry allowances. Respondent COA contested the same not so much on the propriety of the subsistence and laundry allowances in the form of the WESA, but that the Secretary of Health prescribed the rates thereof not in accordance with the

---

73 *Id.* at 116.

74 *Id.* at 117.

75 *PRA v. Buñag, supra* note 50, at 870.

76 Section 12 of R.A. No. 6758 provides:

Section 12. Consolidation of Allowances and Compensation. – All allowances, except for representation and transportation allowances; clothing and **laundry** allowances; **subsistence** allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed. Such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized. x x x x (Emphases ours)

77 *Rollo*, pp. 109-111.

Magna Carta of PHWs. According to respondent COA, the WESA is invalid because the act of the PHIC Board, of which the Health Secretary is the *Ex-Officio* Chairperson, in approving the allowance is not the same as the act of the Secretary himself. In this regard, Section 22 and 24 of the Magna Carta pertinently provides:

> Section 22. ***Subsistence*** *Allowance*. - Public health workers who are required to render service within the premises of hospitals, sanitaria, health infirmaries, main health centers, rural health units and barangay health stations, or clinics, and other health-related establishments in order to make their services available at any and all times, **shall be entitled to full subsistence allowance** of three (3) meals which may be **computed in accordance with prevailing circumstances as determined by the Secretary of Health** in consultation with the Management-Health Worker's Consultative Councils, as established under Section 33 of this Act: Provided, That representation and travel allowance shall be given to rural health physicians as enjoyed by municipal agriculturists, municipal planning and development officers and budget officers.
>
> x x x x
>
> SEC. 24. ***Laundry*** *Allowance*. - All public health workers who are required to wear uniforms regularly shall be entitled to laundry allowance equivalent to one hundred twenty-five pesos (₱125.00) per month: Provided, That **this rate shall be reviewed periodically and increased accordingly by the Secretary of Health in consultation with the appropriate government agencies concerned taking into account existing laws and prevailing practices.** (Emphases ours)

Moreover, the Magna Carta's Revised Implementing Rules and Regulations (*IRR*) issued by the Secretary of Health in November 1999 similarly provide:

> 7.2. **Subsistence** Allowance
>
> 7.2.1. Eligibility for Subsistence Allowance
>
> a. All public health workers covered under RA 7305 are eligible to receive full subsistence allowance as long as they render actual duty.
>
> b. Public Health Workers shall be entitled to full Subsistence Allowance of three (3) meals which may be **computed in accordance with prevailing circumstances as determined by the Secretary of Health** in consultation with the Management Health Workers Consultative Council, as established under Section 33 of the Act.
>
> c. Those public health workers who are out of station shall be entitled to per diems in place of Subsistence Allowance. Subsistence Allowance may also be commuted.

7.2.2. Basis for Granting Subsistence Allowance

Public health workers shall be granted subsistence allowance based on the number of meals/days included in the duration when they rendered actual work including their regular duties, overtime work or on-call duty as defined in this revised IRR.

Public health workers who are on the following official situations are not entitled to collect/receive this benefit:

a. Those on vacation/sick leave and special privilege leave with or without pay;
b. Those on terminal leave and commutation;
c. Those on official travel and are receiving per diem regardless of the amount; and
d. Those on maternity/paternity leave.

7.2.3. **Rates** of Subsistence Allowance

a. Subsistence allowance shall be implemented at not less than PhP50.00 per day or PhP1,500.00 per month as certified by head of agency.

b. Non-health agency workers detailed in health and health-related institutions/establishments are entitled to subsistence allowance and shall be funded by the agency where service is rendered.

c. Subsistence allowance of public health workers on full-time and part-time detail in other agency shall be paid by the agency where service is rendered.

d. Part-time public health workers/consultants are entitled to one-half (1/2) of the prescribed rates received by full-time public health workers.

7.3. **Laundry** Allowance

7.3.1. Eligibility for Laundry Allowance

All public health workers covered under RA 7305 are eligible to receive laundry allowance if they are required to wear uniforms regularly.

7.3.2. **Rate** of Laundry Allowance

The laundry allowance shall be ₱150.00 per month. This shall be paid on a monthly basis regardless of the actual work rendered by a public health worker.

It may be observed, however, that the foregoing excerpts do not prescribe a specific form or process by which the Secretary of Health must compute the rates of the subsistence and laundry allowances. The law simply

states that the Health Secretary shall compute said rates "in accordance with prevailing circumstances" and "in consultation with the Management Health Workers Consultative Council." But nowhere in the law was it required that the Secretary of Health, in determining the allowances due to PHWs, must be acting alone. Neither has respondent COA presented any provision of law, rule, or other similar authority to that effect.

Instead, respondent COA insists that since the Health Secretary actually approved the issuance of the WESA by virtue of a resolution of the PHIC Board, such approval is invalid for the act of the PHIC Board is not the act of the individual composing the Board in view of the rule that a corporation is invested by law with a personality separate and distinct from those of the persons composing it. The Court, however, cannot subscribe to such argument. It is true that a corporation is a juridical entity with legal personality separate and distinct from those acting for and in its behalf and, in general, from the people comprising it. Resultantly, obligations incurred by the corporation, acting through its directors, officers and employees, are its sole liabilities.[78] Moreover, when said corporation's corporate legal entity is used as a cloak for fraud or illegality, the law will regard it as an association of persons or, in case of two corporations, merge them into one.[79] It must be clarified, however, that these principles of separate juridical personalities as well as the piercing of its veil of corporate fiction essentially apply only in determining established liabilities.[80] It is but a legal fiction introduced for purposes of convenience and to subserve the ends of justice.[81] But the issue in the instant case is far from holding a director liable for the obligations of the corporation insofar as claims of third persons are concerned. The issue here, instead, is merely whether the Secretary of Health duly complied with prevalent law in determining the rates of allowances to be granted to qualified PHWs. In this regard, the Court rules in the affirmative.

To repeat, the law does not prescribe a particular form nor restrict to a specific mode of action by which the Secretary of Health must determine the subject rates of subsistence and laundry allowance. That the Health Secretary approved the grant of the WESA together with ten (10) other members of the Board does not make the act any short of the approval required under the law. As far as the Magna Carta and its Revised IRR are concerned, the then Health Secretary Dr. Alberto G. Romualdez, Jr. voted in favor of the WESA's issuance, and for as long as there exists no deception or coercion that may vitiate his consent, the concurring votes of his fellow Board members does not change the fact of his approval. To rule otherwise would create additional constraints that were not expressly provided for by law.

---

78 *Francisco v. Mallen, Jr.*, 645 Phil. 369, 374 (2010).

79 *Id.* at 376.

80 *Kukan International Corporation v. Honorable Reyes*, 646 Phil. 221, 234 (2010).

81 *Garcia v. Social Security Commission Legal and Collection, Social Security System*, 565 Phil. 193, 214 (2007).

Nevertheless, even assuming the invalidity of the WESA due to the irregular manner by which the Health Secretary determined its rates, the Court does not find that the PHIC Board of Directors, other responsible officers, and recipients thereof should be ordered to refund the same. On this matter, *PCSO v. COA*[82] summarized the rules as follows:

> Recipients or payees need not refund disallowed benefits or allowances when it was received in good faith and there is no finding of bad faith or malice. On the other hand, officers who participated in the approval of such disallowed amount are required to refund only those received if they are found to be in bad faith or grossly negligent amounting to bad faith. Public officials who are directly responsible for, or participated in making the illegal expenditures, as well as those who actually received the amounts therefrom shall be solidarily liable for their reimbursement. The receipt or non-receipt of illegally disbursed funds is immaterial to the solidary liability of government officials directly responsible.

As previously discussed, PHIC's grant of the WESA was aptly sanctioned not only by Section 12 of the SSL which explicitly identifies laundry and subsistence allowance as excluded from the integrated salary, but also by statutory authority, particularly, Section 22 and 24 of the Magna Carta. In view of such fact, the PHIC officers cannot be found to have approved the issuance of the same in bad faith or in gross negligence amounting to bad faith for it was well within the parameters set by law. Thus, the WESA need not be refunded.

Neither must the concerned PHIC officers and employees be ordered to refund the CNAB because, as previously mentioned, the same was expressly authorized by DBM Budget Circular No. 2000-19. Contrary to respondent COA's unsubstantiated assertion, the Court is convinced that the CNAB was paid in 2001, before the payment of the same was invalidated by Our ruling in *SSS v. COA*. The PHIC approving officers, therefore, had no knowledge of the fact that the payment of the CNAB was contrary to the SSL for the same was actually authorized by the DBM itself.

Similarly, there is no showing that the PHIC officers approved the issuance and payment of the back COLA in bad faith. From the very beginning, petitioner had been invoking, albeit erroneously, Our ruling in *PPA Employees Hired After July 1, 1989 v. COA*, wherein We granted the payment of the COLA back pay to PPA employees for the period beginning July 1, 1989 until March 16, 1999, during the time the DBM-CCC No. 10 was in legal limbo, seemingly believing, in good faith, that on the basis thereof, the PHIC employees could likewise be granted the same. In fact, even respondent COA Director Janet Nacion was under the same impression when she conceded that "no less than the SC has made an imprimatur

---

82 *Supra* note 49.

regarding the employee's entitlement to COLA" during the time the circular was in legal limbo.[83] It is therefore apparent that during such time, there were differing opinions regarding the true interpretation of a technicality of law. Thus, before the Court was able to clarify that the ruling in *PPA Employees* was limited to distinguishing the benefits that may be received by government employees who were hired before and after the effectivity of the SSL,[84] there was yet no absolute and clear-cut rule regarding the entitlement to the COLA during the period when the DBM circular was in legal limbo. Hence, it might seem rather severe to hold the concerned PHIC officers personally liable to refund the COLA back pay in view of the fact that they may have honestly believed in the propriety of the same. In fact, just recently, We held that since certain officers who authorized the back payment of the COLA were oblivious that said payments were improper, the same need not be refunded.[85] This is because absent any showing of bad faith or malice, public officers are not personally liable for damages resulting from the performance of official duties.[86] As the Court explained in *Philippine Economic Zone Authority (PEZA) v. COA*:[87]

> x x x x It is unfair to penalize public officials based on overly stretched and strained interpretations of rules which were not that readily capable of being understood at the time such functionaries acted in good faith. If there is any ambiguity, which is actually clarified years later, then it should only be applied prospectively. A contrary rule would be counterproductive. It could result in paralysis, or lack of innovative ideas getting tried. In addition, it could dissuade others from joining the government. When the government service becomes unattractive, it could only have adverse consequences for society.[88]

Thus, the fact that the PHIC officers had an unclear knowledge of a ruling by this Court categorically prohibiting the particular disbursement herein is a badge of good faith,[89] especially in light of the COA's failure to overturn the presumption of regularity in the performance of their official duties.

The same does not hold true, however, with respect to the LMRG. Unlike the issuances of the WESA, CNAB, and COLA, which need not be refunded either for being expressly sanctioned by law or for being issued in an honest belief that the same was authorized by recent jurisprudence, petitioner's issuance of the LMRG cannot be said to have been done in good faith. Time and again, the Court has defined good faith as "a state of mind denoting honesty of intention, and freedom from knowledge of circumstances which ought to put the holder upon inquiry; an honest

---

83 *Rollo*, p. 132.
84 *Maritime Industry Authority v. COA, supra* note 39, at 326.
85 *Zamboanga City Water District (ZCWD) v. COA*, G.R. No. 213472, January 26, 2016.
86 *Id.*
87 G.R. No. 210903, October 11, 2016.
88 *Id.*
89 *Id.*

intention to abstain from taking any unconscientious advantage of another, even though technicalities of law, together with absence of all information, notice, or benefit or belief of facts which render transactions unconscientious."[90]

As previously mentioned, the PHIC Board members and officers approved the issuance of the LMRG in sheer and utter absence of the requisite law or DBM authority, the basis thereof being merely PHIC's alleged "fiscal autonomy" under Section 16(n) of RA 7875.[91] But again, its authority thereunder to fix its personnel's compensation is not, and has never been, absolute. As previously discussed, in order to uphold the validity of a grant of an allowance, it must not merely rest on an agency's "fiscal autonomy" alone, but must expressly be part of the enumeration under Section 12 of the SSL, or expressly authorized by law or DBM issuance. This directive was definitively established by the Court as early as 1999 in *National Tobacco Administration v. Commission on Audit,*[92] which was even subsequently affirmed in *Philippine International Trading Corporation v. Commission on Audit*[93] in 2003. Thus, at the time of the passage of PHIC Board Resolution No. 717, s. 2004 on July 22, 2004 by virtue of which the PHIC Board resolved to approve the LMRG's issuance, the PHIC Board members and officers had an entire five (5)-year period to be acquainted with the proper rules insofar as the issuance of certain allowances is concerned. They cannot, therefore, be allowed to feign ignorance to such rulings for they are, in fact, duty-bound to know and understand the relevant rules they are tasked to implement.[94] Thus, even if We assume the absence of bad faith, the fact that said officials recklessly granted the LMRG not only without authority of law, but even contrary thereto, is tantamount to gross negligence amounting to bad faith. Good faith dictates that before they approved and released said allowance, they should have initially determined the existence of the particular rule of law authorizing them to issue the same.

In view of the foregoing, the Court holds that the PHIC Board members who approved PHIC Board Resolution No. 717, series of 2004 and the PHIC officials who authorized its release are bound to refund the LMRG. It is unclear, however, from a review of the records of the case, which of the PHIC Board members and officials named in the COA's Notice of Disallowance were the ones responsible for the issuance of the LMRG, considering that what was listed therein were the "Persons Liable" for the grant and release of all four (4) allowances lumped together as subject of the

---

90 *Id.*
91 *Rollo*, p. 112.
92 370 Phil. 793 (1999).
93 461 Phil. 737 (2003).
94 *PCSO v. COA*, *supra* note 49.

instant case, without any distinction as to the particular set of officers responsible for the approval of a respective type of allowance as well as its corresponding amount.[95] Hence, for the proper implementation of this judgment, the COA is hereby ordered to identify, in a clear and certain manner, the specific PHIC Board members and officials who approved the grant of the LMRG and authorized its release as well as to compute the exact amount they received.

With respect to the PHIC officials and employees, however, who merely received the subject LMRG but had no participation in the approval and release thereof, the Court deems them to have acted in good faith, honestly believing that the PHIC Board Resolution was issued in the Board's valid exercise of its power. Thus, they are absolved from refunding the LMRG they received.

WHEREFORE, premises considered, the instant petition is **PARTLY GRANTED.** The November 20, 2013 Decision and April 4, 2014 Resolution of the COA Commission Proper, which affirmed the Notice of Disallowance PHIC 2008-003 (2004) dated February 7, 2008, are **AFFIRMED WITH MODIFICATION.** The recipients and officers who authorized the following disbursements need not refund the amounts paid in connection therewith: (1) the Collective Negotiation Agreement Signing Bonus; (2) the Welfare Support Assistance; and (3) the back payment of Cost of Living Allowance. As for the Labor Management Relations Gratuity, only the PHIC Board members who approved PHIC Board Resolution No. 717, series of 2004 and the PHIC officials who authorized its release are bound to refund the same. For this purpose, the COA is hereby **ordered** to: (1) particularly identify the PHIC Board members and officials responsible for the approval and release of the LMRG; and (2) compute the exact amount of the LMRG that said officers and employees respectively received.

SO ORDERED.

DIOSDADO M. PERALTA
Associate Justice

---

95 *Rollo*, pp. 119-123.

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice

ANTONIO T. CARPIO
Associate Justice

PRESBITERO J. VELASCO, JR.
Associate Justice

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

ARTURO D. BRION
Associate Justice

LUCAS P. BERSAMIN
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

JOSE CATRAL MENDOZA
Associate Justice

BIENVENIDO L. REYES
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

MARVIC M.V.F. LEONEN
Associate Justice

FRANCIS H. JARDELEZA
Associate Justice

ALFREDO BENJAMIN S. CAGUIOA
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.

MARIA LOURDES P. A. SERENO
Chief Justice

CERTIFIED XEROX COPY:
FELIPA B. ANAMA
CLERK OF COURT, EN BANC
SUPREME COURT