

****Title:**** Balayan Water District vs. Commission on Audit: A Landmark Decision on the Entitlement and Integration of Cost of Living Allowance in Government Salaries

****Facts:****

The Balayan Water District (BWD), along with its General Manager (GM) Conrado S. Lopez and representative of BWD employee-recipients of the Cost of Living Allowance (COLA) Romeo D. Pantoja, petitioned the Supreme Court to reverse a decision by the Commission on Audit (COA). The COA decision affirmed the Notices of Disallowance (NDs) on payments of accrued COLA for 2010 and 2011. These payments stemmed from a resolution passed by BWD's Board of Directors (BOD) in 2006, which granted COLA payments for the period from 1992 to 1999.

After the issuance of the NDs in 2012, the petitioners appealed to the COA Regional Office No. IV-A, which denied their appeal, maintaining that water districts were not covered by Letter of Instruction (LOI) No. 97 and that, for entitlement to COLA, employees must have been receiving it prior to the effectivity of Republic Act (R.A.) No. 6758 on July 1, 1989. The petitioners then escalated the matter to the COA itself, which upheld the Regional Office's Decision in 2016, prompting the petition to the Supreme Court for review.

****Issues:****

1. Whether the COA gravely abused its discretion in denying BWD employees' entitlement to accrued COLA for the period 1992-1999 based on LOI 97.
2. Whether COA gravely abused its discretion in failing to appreciate "good faith" in favor of the recipients of COLA.

****Court's Decision:****

The Supreme Court held that the petition was partly meritorious. It emphasized that local water districts were covered under LOI No. 97, and the principle of incumbency and prior receipts are irrelevant in COLA back payments. However, the Court upheld the disallowance of COLA back payments because the allowance was deemed integrated into the salaries of government employees from the effectivity of R.A. No. 6758. The Court, nevertheless, recognized good faith on the part of BWD employees who passively received the disallowed disbursements and absolved them from refunding the amount received.

****Doctrine:****

The decision reinforced the doctrine that allowances, except for specific exclusions, are integrated into the standardized salary rates of government employees as per Section 12 of

R.A. No. 6758. It also elucidated the principles governing the appreciation of good faith in relation to the refund of disallowed disbursements, particularly for passive recipients.

****Class Notes:****

1. ****R.A. No. 6758 Section 12****: Defines the integration of allowances into the standardized salary rate, with specific exceptions (e.g., RATA, clothing and laundry allowances).
2. ****LOI No. 97****: Initially excluded water districts from its coverage for COLA entitlements, which was later clarified and included.
3. ****Principle of Good Faith****: Passive recipients of disallowed payments who acted in good faith and unwarily are absolved from refund.
4. ****Integration of Allowances****: The doctrine that allowances not specifically excluded, or subsequently identified by DBM, are deemed integrated into the standardized salary.

****Historical Background:****

The case sheds light on the evolving interpretation and application of laws and directives concerning the payment of allowances, like COLA, to government employees, and the balance between administrative discretion and judicial oversight. It highlights the principle of legal precedence in the interpretation of laws and the recognition of good faith as a defense in cases of disallowed disbursements.