

****Title: Melchor v. Commission on Audit****

****Facts:****

1. ****Contract Agreement:**** On July 15, 1983, Mario R. Melchor, Vocational School Administrator of Alangalang Agro-Industrial School (Alangalang, Leyte) entered a contract with Cebu Diamond Construction for Phase I construction of the Home Technology Building worth P488,000.
2. ****Certificate of Funds:**** The school's chief accountant, Pablo Narido, issued a certificate of availability of funds but did not sign the contract as a witness, as required by Section 1 of LOI No. 968.
3. ****Additional Charges & Extensions:**** Due to increased costs of labor and materials, the contractor requested an additional charge of P73,000, which Melchor sought approval for. The request was approved subject to funds availability and COA imprimatur. The contractor also requested extensions to the completion deadline but ultimately abandoned the project on April 10, 1984.
4. ****Work Completed & Payments:**** The contractor completed 61% of the work valued at P344,430.88 but was paid P515,305.60, including extra work to strengthen the structure.
5. ****COA Disallowance:**** The COA Resident Auditor was informed by Regional Director Cesar A. Damole to disallow the payment, declaring the contract null as Narido's signature was missing.
6. ****Appeal for Reconsideration:**** Melchor sought reconsideration, citing substantial compliance with LOI 968 and presenting additional supporting points. The COA Regional Director denied reconsideration. Melchor appealed to the COA Head Office, which upheld the decision and denied further appeals, leading him to petition the Supreme Court.

****Issues:****

1. ****Personal Liability:**** Whether Mario R. Melchor should be personally liable for payments amounting to P515,305.60 made to the contractor due to an alleged invalid contract (missing chief accountant signature as a witness).

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

1. **Validity of the Contract:** The Court held that the contract was enforceable. The issuance of the “Certificate of Availability of Funds” by the chief accountant (required under Section 86 of PD 1445) sufficed as substantial compliance with LOI 968. This certificate was attached to the contract, leading to the conclusion that necessary funds were certified, albeit indirectly validating the contract.

2. **Payment on Quantum Meruit:** Despite the absence of a formal supplemental agreement for the extra work performed (costing P172,003.26), payment was justified based on quantum meruit principles. The COA was directed to evaluate and allow reasonable value spent on the work done beyond the standard contract terms.

Doctrine:

1. **Substantial Compliance Doctrine:** The Court reiterated that substantial compliance with requisite regulations could suffice, especially when adhering to the letter of the law would result in absurd or unjust outcomes.

2. **Quantum Meruit:** Compensation should be based on the actual worth of work or services rendered, as seen in “Royal Trust Corporation v. Commission on Audit” and applied even when public officials had already paid contracts with discrepancies.

Class Notes:

1. **LOI No. 968:** Ensures fund verification and accountability by requiring the chief accountant’s witness signature on contracts.

2. **PD 1445—Sections 85 & 86:** Contracts involving public funds need a certified appropriation, and such certificates must be part of the contract documentation.

3. **Quantum Meruit Principle:** Compensation for work/service rendered should reflect its reasonable value, relevant when regular contract compliance is problematic.

Historical Background:

During the 1980s, the Philippines faced stringent financial controls to mitigate corruption and ensure proper use of governmental funds. This case reflects the judicial balancing act between strict bureaucratic adherence and practical, equitable solutions for legitimate public benefit projects. The decision highlighted respect for procedural formalities while ensuring fairness and justice in governmental contractual obligations.