

Title: Hagonoy Water District vs. Commission on Audit

Facts:

1. **Background Context**: Hagonoy Water District (HWD) is a government-owned and controlled corporation (GOCC), established per Presidential Decree (PD) No. 198. Celestino S. Vengco, Jr. served as its General Manager, while Remedios R. Osorio was its Division Manager – Finance.
2. **Payment Authorization**: In 2012, HWD paid out anniversary bonuses and rice allowances to its employees, citing Board Resolutions from the 1990s as the basis for such disbursements.
3. **Notice of Disallowance (ND) Issuance**:
 - On November 14, 2013, COA issued ND No. 2013-001-HWD(2012) (First ND) disallowing P582,000 payments, which included an excess anniversary bonus of P174,000 and P408,000 as rice allowances for employees hired after July 1, 1989. The excess bonus violated AO No. 263 limiting bonus amounts to P3,000, while the rice allowance violated RA No. 6758 ensuring only incumbents as of July 1, 1989, receive non-integrated benefits.
 - ND No. 2013-002-HWD(2012) (Second ND) disallowed P150,000 in additional allowances to HWD's Board of Directors without approval from the Local Water Utilities Administration (LWUA), in violation of Section 13 of PD No. 198.
4. **Appeals**:
 - Petitioners filed separate appeal memoranda to the COA Regional Office No. III, which denied the appeals upholding the NDs in Decision No. 2014-84.
 - The COA Proper also denied the subsequent petition for review, maintaining that the recipients who acted in good faith would not be required to refund but held the board of directors liable for refunds.
5. **Petition for Certiorari**:
 - Petitioners advanced their case to the Supreme Court, arguing that the rice allowance had been a long-standing practice since 1993 and that disallowing it violated the principle of non-diminution of pay. They also argued that good faith should apply to the officers just as it did for passive recipients.

Issues:

1. **Disallowance**: Did COA err in sustaining the disallowance of rice subsidies under Section 12 of RA No. 6758?

2. **Refund Liability**: Should good faith absolve the HWD Board members and officers from refunding the disallowed rice subsidies, just as it did for passive recipients?

Court's Decision:

1. **Propriety of Disallowance**:

- The Supreme Court affirmed the disallowance of rice allowances for employees hired after July 1, 1989. Section 12 of RA No. 6758 and associated DBM guidelines only exempted certain allowances that incumbents as of July 1, 1989 were receiving. The established practice since 1993 and board resolutions could not override statutory mandates.

2. **Liability to Refund**:

- The Supreme Court diverged from the COA by holding that all recipients, including passive ones, must refund the received rice allowances, emphasizing that good faith does not nullify undue enrichment at the government's expense.

- The Board of Directors and other officers involved were held solidarily liable, as their actions were in gross negligence of the statutory provisions of RA No. 6758 and DBM guidelines.

Doctrine:

1. **Non-Diminution of Pay**: While RA No. 6758 encompasses a non-diminution of pay policy, it applies only to incumbents who were actually receiving certain non-integrated remunerations before the specified cut-off date.

2. **Good Faith Defense**: Merely receiving due to good faith does not absolve individuals from their obligation to return undue benefits. However, bad faith, gross negligence, or illegal acts by officers result in solidary liability.

Class Notes:

1. **Section 12 of RA No. 6758**: Understanding of consolidation of allowances into standardized salary rates.

2. **ND Issuance and Appeals**: Procedure and grounds on which COA issues disallowances and the appeal processes per relevant laws and regulations.

3. **Refund Liability**: Distinction between officers' liability based on negligence and bad faith versus recipients' liability rooted in unjust enrichment.

4. **Non-Diminution of Pay**: Limited to incumbents as of the cut-off date who were actually receiving benefits.

Historical Background:

G.R. No. 247228 (Formerly UDK 16410). March 02, 2021 (Case Brief / Digest)
RA No. 6758, effective from July 1, 1989, aimed at standardizing salaries across government personnel by consolidating various allowances into basic pay, thus addressing disparities and ensuring equity. The case highlights ongoing challenges in adherence to the statutory mandates over time and the implications of established practices against legislative provisions.