

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS, PETITIONER, VS. RONALDO E. QUIWA, DOING BUSINESS UNDER THE NAME “R.E.Q. CONSTRUCTION,” EFREN N. RIGOR, DOING BUSINESS UNDER THE NAME “CH...

G.R. No. 183444. February 08, 2012

Ponente: SERENO, J.

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SERENO, J.:

Assailed in this Motion for Partial Reconsideration dated 8 November 2011 filed by petitioner Department of Public Works and Highways (DPWH) is the 12 October 2011 Decision of the Court, primarily affirming the trial and the appellate courts’ judgments in favor of respondents’ entitlement to compensation.

To recall, after the Mt. Pinatubo tragedy in 1991, DPWH engaged a number of contractors, including the respondents, for the urgent rehabilitation of the affected river systems. Save for Chiara Construction and Ardy Construction, respectively owned by Efren N. Rigor and Romeo R. Dimatulac, the contractors signed written agreements with Engineer Philip Meñez, Project Manager II of the DPWH.

It is undisputed that the contractors have completed their assigned rehabilitation works.[1] But DPWH refused to pay the contractors for the reason that the contracts were invalid due to non-compliance with legal requirements.[2] As such, respondents filed an action for a sum of money against DPWH.[3] The Regional Trial Court (RTC) of Manila, in Civil Case No. 96-77180, held that the contracts were valid and thus directed payment of compensation to the contractors.[4] DPWH appealed to the Court of Appeals (CA), which like the RTC, ruled that the respondents are entitled to their claim of compensation.[5]

Petitioner appealed by certiorari before this Court. In the questioned 12 October 2011 Decision, the Court primarily affirmed the trial and the appellate courts’ judgments in favor of respondents’ entitlement to compensation against petitioner DPWH.

On 10 November 2011, petitioner filed a Motion for Partial Reconsideration[6] assailing the aforementioned Decision.

Petitioner’s main contention is that respondents did not come to court with clean hands to assert their money claims against petitioner in view of their failure to comply with the legal requirements concerning government contracts and in ascertaining the extent of authority of the public official with whom they contracted.[7] These omissions made the contracts void ab initio and, as a consequence, petitioner should not be made to suffer by paying respondents huge sums of money arising from void contracts.[8]

We deny the motion.

Petitioner unsuccessfully established the applicability of the clean hands doctrine. Citing *Muller v. Muller*, petitioner points out that “a litigant may be denied relief by a court of equity on the ground that his conduct has

been inequitable, unfair and dishonest, or fraudulent, or deceitful as to the controversy in issue.”[9]

However, respondents’ purported omissions, standing alone, cannot be construed as fraudulent or deceitful. Petitioner did not present evidence of actual fraud and merely inferred that because of the omissions, the respondent contractors were in bad faith. “Fraud is never presumed but must be established by clear and convincing evidence. The strongest suspicion cannot sway judgment or overcome the presumption of regularity.”[10]

Parties who do not come to court with clean hands cannot be allowed to profit from their own wrongdoing.[11] The action (or inaction) of the party seeking equity must be “free from fault, and he must have done nothing to lull his adversary into repose, thereby obstructing and preventing vigilance on the part of the latter.”[12] Neither the trial court nor the appellate court found any design to defraud on the part of the respondent contractors.

While petitioner is correct in saying that one who seeks equity must do equity, and one who comes into equity must come with clean hands,[13] it is equally true that an allegation of fraud and dishonesty to come within the doctrine’s purview must be substantiated:

Bad faith and fraud are allegations of fact that demand clear and convincing proof. They are serious accusations that can be so conveniently and casually invoked, and that is why they are never presumed. They amount to mere slogans or mudslinging unless convincingly substantiated by whoever is alleging them.[14]

This court recognizes that certain omissions will qualify as “acting with unclean hands.” The omission, though, must be such as to give rise to a confusion that leads to an undesirable state of things.[15]

Here, even with the respondents’ supposed failure to ascertain the validity of the contract and the authority of the public official involved in the construction agreements, there is no such confusion as to the matter of the contract’s validity and the equivalent compensation. As found by the court a quo, petitioner had assured the contractors that they would be paid for the work that they would do, as even DPWH Undersecretary Teodoro T. Encarnacion had told them to “fast-track” the project.[16] Hence, respondents cannot by any stretch of logic, be deprived of compensation for their services when - despite their ostensible omissions - they only heeded the assurance of DPWH and proceeded to work on the urgent project.

Lest it be forgotten, our courts are courts of both law and equity.[17] The petitioner merely claims that the omissions of respondents amount to fraud, while the records show that the public benefitted from the services of respondents. Given these, this Court will remain true to the rule of substantial justice and direct the payment of compensation to the contractors, who have completed their services for the government’s Mt. Pinatubo Rehabilitation Project. Otherwise, urgent actions for emergency work in the future would be discouraged.

After the unfounded clean hands doctrine resorted to by petitioner DPWH is cleared up, all that remains is its repeated arguments. Petitioner reiterates that the contracts are void, without legal effect, and cannot be cured by ratification.[18] In the same Motion, it claims that the contracts were unenforceable, as they were entered into beyond the authority of Engineer Meñez.[19] Petitioner also stresses that since the construction contracts with Rigor and Dimatulac are unwritten, DPWH cannot be held liable.[20] It raises the point that the writing of government contracts is a requirement for existence, validity and enforceability. Citing the treatise of Bartolome C. Fernandez,[21] petitioner DPWH further asserts that the government, being an artificial person, cannot verbally consent to the contract.[22]

These arguments have already been ruled upon, and we find no reason to disturb the rulings. To reiterate, it has been settled in several cases that payment for services done on account of the government, but based on a void contract, cannot be avoided.[23] The government is unjustified in denying what it owes to contractors and in

leaving them uncompensated after it has benefitted from the already completed work.[24] Jurisprudence recognizes the principle of quantum meruit. Accordingly, in the interest of substantial justice, the contractor's entitlement to compensation has been and is hereby directed.[25]

IN VIEW THEREOF, the 8 November 2011 Motion for Partial Reconsideration of the 12 October 2011 Decision of this Court's Second Division is DENIED for lack of merit.

SO ORDERED.

Carpio, (Chairperson), Brion, Reyes, and Perlas-Bernabe,[*] JJ., concur.

[*] Designated as Member of the Special Second Division vice Associate Justice Jose Portugal Perez per Special Order No. 1114 dated 3 October 2011.

[1] Department of Public Works and Highways vs. Ronald E. Quiwa, doing business under the name "R.E.Q. Construction," G.R. No. 183444, 12 October 2011.

[2] CA Decision penned by Associate Justice Agustin S. Dizon, with Associate Justices Regalado E. Maambong and Cecilia C. Librea-Leagogo concurring, dated 26 June 2008, p. 5; rollo, p. 51.

[3] Id. at 50.

[4] RTC Decision penned by Judge Rustico V. Panganiban, dated 28 January 2002, p. 10; rollo, p. 67.

[5] CA Decision, supra note 2, at 10; rollo, p. 56.

[6] Rollo, p. 2.

[7] Petitioner's Motion for Partial Reconsideration, dated 8 November 2011, p. 3; rollo, p. 271.

[8] Id. at 270.

[9] Id at 271.

[10] Manotok Realty v. CLT Realty, G.R. No. 123346, 31 March 2009, 582 SCRA 583.

[11] People v. Punto, 68 Phil. 481, 482 (1939).

[12] Kentland Coal & Coke Co. v. Elswick, 167 Ky., 593; 181 S. W., 181, 182, 183.

[13] Petitioner's Motion for Partial Reconsideration, supra note 7, p. 3; rollo, p. 271. Petitioner stated that "[h]e who seeks equity must do equity, and he who comes into equity must come with clean hands."

[14] Cathay Pacific Airways, Ltd. v. Spouses Vazquez, 447 Phil. 306 (2003).

[15] United Housing Corporation v. Dayrit, G.R. No. 76422, 260 Phil. 301 (1990); Concurring Opinion of Barredo, J., Estrada v. Sto. Domingo, G.R. No. L-30570, 139 Phil. 158 (1969).

[16] RTC Decision, supra note 4, p.7; rollo, p. 64.

[17] Hodges v. Yulo, 81 Phil. 622 (1954).

[18] Rollo, p. 276.

[19] Id.

[20] Id. at 278.

[21] Bartolome C. Fernandez, A Treatise on Government Contracts Under Philippine Law 10 (2001). Petitioner's Motion for Partial Reconsideration, *supra* note 7, p. 10; rollo, p. 278.

[22] Id.

[23] EPG Construction Co. v. Hon. Gregorio R. Vigilar, G.R. No. 131544, 16 March 2001, 354 SCRA 566; Melchor vs. COA, G.R. No. 95398, 16 August 1991, 200 SCRA 704; Eslao vs. COA, G.R. No. 89745, 8 April 1991, 195 SCRA 730; Royal Trust Construction vs. Commission on Audit, GR. No. 84202, rollo, pp. 65-66.

[24] Melchor v. COA, G.R. No. 95398, 16 August 1991, 200 SCRA 704.

[25] EPG Construction Co. v. Hon. Gregorio R. Vigilar, G.R. No. 131544, 16 March 2001, 354 SCRA 566.

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