

## EN BANC

[ G.R. No. 221773, October 18, 2016 ]

**RG CABRERA CORPORATION, INC., PETITIONER, VS.  
DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS, AND  
COMMISSION ON AUDIT, RESPONDENTS.**

### DECISION

**MENDOZA, J.:**

This Petition for *Certiorari* under Rule 64 of the Revised Rules of Court seeks to reverse and set aside the March 17, 2015 Decision<sup>[1]</sup> and the August 18, 2015 Resolution<sup>[2]</sup> of the Commission on Audit (COA) in COA CP Case Nos. 2011-200 and 2011-228, denying the consolidated claims of petitioner RG Cabrera Corporation, Inc. (*RG Cabrera*) against the Department of Public Works and Highways (*DPWH*), Pampanga 2nd Engineering District, Guagua, Pampanga (*DPWH Pampanga*).

In June 1991, Mt. Pinatubo erupted producing thick volcanic ash and sand deposits affecting the surrounding mountains and hills of Pampanga, Tarlac and Zambales. These volcanic deposits were washed down by monsoon rains causing lahar, which destroyed existing dike systems and spilled into neighboring villages. To address the problems arising from the aftermath of the Mt. Pinatubo eruption, Task Force Mount Pinatubo Rehabilitation Projects was created. It was headed by DPWH Regional Director Vicente B. Lopez (*Chairman Lopez*).<sup>[3]</sup>

From February to July 1992, the DPWH Pampanga entered into several contracts for lease of equipment with RG Cabrera for the maintenance and restoration of portions of the Porac-Gumain Diversion Channel System. Later, on September 1, 1992, the DPWH Pampanga leased another four (4) bulldozers from RG Cabrera covered by another contract of lease of equipment. At the end of the lease period, RG Cabrera tried to collect the agreed rentals from the DPWH Pampanga but failed to receive any payment.<sup>[4]</sup>

This prompted RG Cabrera to file five (5) separate complaints for collection of sum of money against the DPWH before the Regional Trial Court, Branch 52, Guagua, Pampanga (*RTC*). In all the cases, the Office of the Solicitor General (*OSG*) objected on the ground that the said contracts were defective because of their failure to follow the requirements of the law. In 2002 and 2003, the RTC granted the separate complaints of RG Cabrera involving the contracts of lease of equipment entered into from February to September 1992. The trial court held that the contracts of lease were binding upon the parties and, therefore, the DPWH was bound to comply with the said contracts and to pay the agreed fees. It noted that RG Cabrera was able to prove that it had performed its obligation under the said contracts warranting it to receive payment therefor.

When the cases were appealed by the OSG before the Court of Appeals (*CA*), the

RTC decisions were *reversed*. The appellate court explained that the state was immune from suit and that the money claims should have been filed before the COA.<sup>[5]</sup>

RG Cabrera elevated the cases to this Court, which denied the petitions for failure to show that the CA committed any reversible error. Thus, the Court sustained the CA ruling that RG Cabrera should have filed its claims with the COA.<sup>[6]</sup>

Thereafter, in 2011, RG Cabrera filed the said money claims before the COA which were docketed as COA CP Case No. 2011-200 and COA CP Case No. 2011-228.<sup>[7]</sup>

*COA CP Case Nos. 2011-200 and 2011-228*

The COA, in its March 17, 2015 Decision, identified the claims as follows:

- a. Lease contract for one payloader covering the period February 3, 1992 to March 3, 1992, for which the rental fees amounted to P174,515.00;
- b. Lease contract for four (4) bulldozers for the period June 1, 1992 to July 15, 1992 which was extended for the period July 16, 1992 until August 28, 1992, with the rental fees totaling P2,392,077.50; and
- c. Lease contract for the use of one payloader and two (2) dump trucks for the period July 1, 1992 up to September 28, 1992, for which rental fees amounted to P1,790,676.00.

The total claim for the contracts amounted to P4,357,268.50, an amount allegedly left unpaid by the respondent.

In COA CP Case No. 2011-228, the claim involves the contract entered into on September 1, 1992 for the lease of four (4) bulldozers, the rental fees of which amounted to P587,211.50, which amount is sought to be recovered by the claimant.<sup>[8]</sup>

Respondent DPWH argued that the contracts were null and void, as these were unauthorized and not compliant with the requirements under the law and, thus, not legally binding upon the government. The DPWH also invoked its immunity from suit as the contract called for governmental functions.

### *The COA Ruling*

On March 17, 2015, in its consolidated decision, the COA upheld the decision of the COA Regional Office denying RG Cabrera's money claims in COA CP No. 2011-200 and COA CP No. 2011-228. It found that the lease contracts between RG Cabrera and the DPWH were void for non-compliance with the provisions of Presidential Decree (*P.D.*) No. 1445. The COA noted that the contracts of lease were unsupported by prior certification as to the availability of the necessary funds. On *quantum meruit*, it stated that RG Cabrera's claims could not be granted because

the DPWH had consistently denied any liability or acceptance of benefits from the subject lease contracts.

Aggrieved, RG Cabrera moved for reconsideration of the decision, but its motion was denied by the COA in its August 18, 2015 Resolution.

Hence, this present petition raising this

### **SOLE ISSUE**

#### **WHETHER RG CABRERA IS ENTITLED TO RECOVER RENTALS FROM THE EQUIPMENT LEASED PURSUANT TO THE SUBJECT LEASE CONTRACTS.**

RG Cabrera argues that the failure to comply with the technical requirements, such as the certification of availability of funds, does not bar it from recovering the rentals for the use of heavy equipment. It insists that it entered the subject lease contracts in good faith and was unaware of their infirmities and defects. It surmises that payment was being withheld by DPWH probably because there were allegations during a senate investigation that ghost projects had been paid by it.

Nevertheless, RG Cabrera prays that it be paid on the basis of *quantum meruit* considering that the government derived benefits at its expense in leasing the equipment used in the maintenance of the Porac-Gumain Diversion Channel. It notes that the DPWH never denied acceptance of the benefits of the subject lease contracts, but merely refused liability claiming nullity of the subject lease contracts.

In its Comment,<sup>[9]</sup> dated March 21, 2016, the OSG counters that contracts which do not comply with the requirements of the law are void and, for said reason, no payment should be made. In addition, it asserts that payment cannot be made on the basis of *quantum meruit* because the COA did not make any determination on the extent of the services actually rendered.

In its Reply,<sup>[10]</sup> dated July 5, 2016, RG Cabrera argues that the lack of certificate of availability of funds did not nullify the subject lease contracts. It insists that it can still recover payment notwithstanding its non-compliance with the technical requirements because the contracts are not illegal *per se*. It reiterates that it is entitled to receive payment on the basis of *quantum meruit*.

### **The Court's Ruling**

The Court finds merit in the petition.

Primarily, the COA denied the money claims filed by petitioner RG Cabrera for the lack of a prior certification as to the availability of the necessary funds. The denial was based on Sections 86 and 87 of P.D. No. 1445, which read: