

****Title:**** Zamboanga City Water District et al. vs. Commission on Audit

****Facts:****

The Zamboanga City Water District (ZCWD), along with its employees and board members, petitioned the Supreme Court for certiorari under Rule 64 of the Revised Rules of Court to reverse the October 28, 2010, and June 6, 2014, decisions of the Commission on Audit (COA) affirming the disallowance of various payments made by ZCWD. The case originates from Notices of Disallowance (ND) issued by the COA concerning payments covering salary increases, allowances, incentives, and per diem of ZCWD's General Manager, Assistant General Managers, board members, and other employees totaling P27,293,621.40. ZCWD argued that its Board of Directors (BOD) had authority to set compensation and benefits in accordance with specific laws and regulations and insisted that its disbursements were proper.

Following the COA's disallowance and subsequent reaffirmation upon appeal, ZCWD pursued relief from the Supreme Court, raising issues concerning the validity and propriety of the disallowed payments, including salary increases, allowances, and incentives made mainly during the tenure of General Manager Juanita L. Bucoy.

****Issues:****

1. Whether the ZCWD BOD had the authority to fix the General Manager's salary and benefits in violation of established guidelines.
2. Whether certain allowances and benefits (COLA, AA, per diem, 14th-month pay, and CNA incentives) paid by ZCWD were in accordance with pertinent laws and regulations.
3. Whether ZCWD's payments were made in good faith and if the recipients of disallowed payments are required to refund the same.

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

The Supreme Court partially affirmed the COA's decisions with modifications. It established that:

- The power of the BOD to fix the salary of the GM was limited and must align with the Salary Standardization Law.
- The payment of allowances (RATA, RA) based on LOI No. 97 was improper since it did not comply with specific requirements.

- ZCWD employees weren't entitled to the back payment of COLA and AA as they were deemed integrated into standardized salaries.
- The disallowance of CNA incentives was correct due to failure to comply with PSLMC Resolution No. 2 guidelines.
- ZCWD employees not entitled to 14th-month pay as it wasn't proven to be consistently paid since July 1, 1989.
- The BOD were obligated to refund payments of per diem that exceeded the limit imposed by Administrative Order No. 103.
- Payments made in good faith, specifically salary increases, COLA/AA back payments, and mid-year incentives, need not be refunded; however, other disallowed disbursements must be refunded due to the absence of proper authorization or compliance.

****Doctrine:****

This case reiterated the principles relating to the scope of authority of boards of directors of government-owned and controlled corporations (GOCCs) under the Salary Standardization Law, allowances and incentives compliance with departmental guidelines, and conditions under which good faith can absolve parties from refund liabilities for disallowed payments.

****Class Notes:****

1. ****Authority of BOD in GOCCs:**** Limited by laws such as the Salary Standardization Law; BOD cannot arbitrarily set compensations.
2. ****Allowances and Incentives:**** Must strictly adhere to existing laws, executive orders, and circulars; unauthorized benefits are disallowed.
3. ****Good Faith in Public Disbursements:**** Constitutes a defense against refunding disallowed payments, provided the payments were made without awareness of their inappropriateness and in reliance on existing practices or approvals.
4. ****Refund of Disallowed Payments:**** Required from officers who authorized improper disbursements except when made in good faith, demonstrating the importance of caution and diligence in managing public funds.

****Historical Background:****

The case underscores the complexities and challenges in managing public funds within GOCCs, particularly concerning compensation and benefits. It reflects the rigorous standards set by Philippine law and governing bodies to ensure accountability and proper use of public resources. This decision contributes to the body of jurisprudence defining the

limits of authority of GOCC boards and the concept of good faith in the context of government transactions and disbursements.