

# **Southern Yap Water Authority**

Financial Statements and  
Independent Auditor's Report

**Fiscal Years Ended  
September 30, 2011 and 2010**



**Office of the Public Auditor  
State of Yap  
Federated States of Micronesia**



## **OFFICE OF THE PUBLIC AUDITOR**

**YAP STATE GOVERNMENT**

**Federated States of Micronesia**

**P.O. Box 927, Colonia, Yap FM 96943**

**Phone: (691) 350-3416 Fax: (691) 350-4987 Email: [admin@audityap.org](mailto:admin@audityap.org)**

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November 20, 2020

Honorable Henry Falan, Governor, State of Yap  
Honorable Vincent A. Figir, Speaker, Yap State Legislature  
Domingo Techur, Chairman of the Board  
John Guswel, General Manager

### **RE: Audit of Southern Yap Water Authority**

This report presents the results of our audit of the financial statements for the Southern Yap Water Authority (SYWA) for the years ended September 30, 2011 and 2010. These financial statements are the responsibility of management of SYWA.

The purpose of our audit was to express our opinion on the financial statements of SYWA for the years indicated, which in the auditors' opinion the financial statements presented on pages 5 through 7 is qualified. The financial statements, except for the scope limitations discussed in the Independent Auditor's Report, presents fairly, in all material respect the financial position of SYWA as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The audit was performed by the Office of the Yap State Public Auditor pursuant to the provisions of Title 13, Chapter 7, § 703 of the Yap State Code, and in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Our report on our consideration of SYWA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters required for audits of financial statements performed in accordance with Government Auditing Standards on pages 14 to 15 discusses reportable conditions at SYWA. These conditions and our recommendations are basically presented for the information of SYWA management in the Schedule of Findings.

A copy of the draft report was provided to the Chairman of the Board and the General Manager, the contents of which were discussed with the Board of Directors, management, and key personnel on October 12, 2020.

We would like to take this opportunity to thank the Board of Directors, the management and staff of Southern Yap Water Authority for their assistance and cooperation during the course of our audit.

Respectfully submitted,



Achilles Defngin  
Public Auditor

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Office of Administrative Services  
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# **Southern Yap Water Authority**

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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Southern Yap Water Authority

We have audited the accompanying Statements of Net Position of the Southern Yap Water Authority (the Authority) as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net positions and statement of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Ninety-nine point nine per cent (99.9%) of the total receipts of \$85,081 for the fiscal year 2011 were not produced for audit verification. In addition, the total receivables of \$11,122 could not be substantiated because of lack of supporting documents. Neither were we able to apply alternative audit procedures to satisfy ourselves that the total receipts and receivables as of September 30, 2011 were not materially misstated.

Reconciliation discrepancies totaling \$6,010 was disclosed as Operating expenses under Statement of Revenue and Expenditure. Audit could not substantiate the total amount of \$6,010 as there was no supporting documents. Neither were we able to apply alternative audit procedures to satisfy ourselves that the reconciliation discrepancies as of September 30, 2011 were not materially misstated.

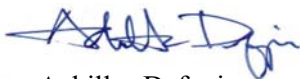
There was an unreconciled variance of \$8,098.32 between the Savings Account general ledger balance and the Bank balance as at September 30, 2011. Hence the correctness of the Savings Account cash at bank balance as at September 30, 2011 could not be determined.

There was no evidence provided by the Authority to substantiate the reduction of the current liabilities – Due to State Treasury balance of \$3,636 to zero as of September 30, 2011. Neither were we able to apply alternative audit procedures to satisfy ourselves that the Due to State Treasury balance as of September 30, 2011 was not materially misstated.

In our opinion, except for the scope limitations discussed in the previous paragraphs, the financial statements referred to above present fairly, in all material respects, the net position of Southern Yap Water Authority as at September 30, 2011 and 2010, and its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2020 on our consideration of the Southern Yap Water Authority’s internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management’s discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.



Achilles Defngin  
PUBLIC AUDITOR

November 20, 2020

## SOUTHERN YAP WATER AUTHORITY

### Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

Audit Report No. 2020-05

The Management Discussion and Analysis is a requirement by GASB Statement No. 34 issued by the U.S. Government Accounting Standards Board. It provides an overview of the financial statements of the Southern Yap Water Authority (SYWA) for the fiscal year September 30, 2011 and 2010. It should be read in conjunction with 2011 and 2010 financial statements.

Pursuant to Yap State Law, Title 18, Section 702, the Authority was created to service the southern part of the island of Yap with water.

The authority staffs and its board members in collaboration with the community members in south were able to increase the tariff of water. It was increase from \$0.001 per gallon, \$1.00 per 1,000 gallons to \$0.0025 per gallon, \$2.50 per 1,000 gallons. This increase was very helpful to the authority to continue its operation. The time frame of water bill's delinquencies was reduced to 10 days after the due date of each water bill.

Furthermore, the authority was able to put up a grant proposal in place seeking for funding for the purposes of drilling additional wells for the authority, renovate its' office building, repairing main distribution tank, developing former quarry---site in Fedo'or village in Dalipebinaw Municipality for additional source of water to be used at the authority. This proposal was disseminated to all branches of the government, state and national wide for potential funding source.

The following summarizes the financial operations and net positions of SYWA for the fiscal year 2011 and 2010.

Assets	2011	2010
Current Assets	\$ 51,926	\$ 44,007
Property and equipment	<u>41,205</u>	<u>54,959</u>
Total Assets	\$ <u>93,131</u>	\$ <u>98,966</u>
Liabilities and Net Assets		
Current Liabilities	\$ 6,803	\$ 7,567
Net Assets	<u>86,328</u>	<u>91,399</u>
Total Liabilities and Net Assets	\$ <u>93,131</u>	\$ <u>98,966</u>

Office of the Public Auditor  
State of Yap

## SOUTHERN YAP WATER AUTHORITY

### Management's Discussion and Analysis Years Ended September 30, 2011 and 2010

Audit Report No. 2020-05

	<b>2011</b>	<b>2010</b>
Total Operating Revenue	\$ 61,328	\$ 45,392
Total Operating Expenses	\$ <u>66,399</u>	\$ <u>46,727</u>
Loss from operations	\$ (5,071)	\$ (1,335)
Non-Operating Revenue	\$ <u>0</u>	\$ <u>2,405</u>
Change in Net Assets	\$ (5,071)	\$ 1,070
Net Assets at beginning	<u>91,399</u>	<u>90,329</u>
Net Assets at year-end	\$ <u><u>86,328</u></u>	\$ <u><u>91,399</u></u>

#### **Results of operations**

Operating Profit/Loss: The operating loss from operation for the fiscal year 2011 was \$5,071 compared to \$1,335 in 2010. For fiscal year 2011, operating revenue increased by 35% while operating expenditures increased by 42% as compared to fiscal year 2010.

The increase in operating revenue in 2011 as compared to 2010 was mainly due to the reimbursement from CFMS funds for the advance payment of one four-wheel truck while increase in expenditure was largely due to increase in repairs and maintenance and reconciliation discrepancies.

#### **Net Position**

The SYWA's total assets decreased by 5.9% in 2011 as compared to 2010 mainly due to depreciation expense charged on property and equipment for the financial year 2011.



**SOUTHERN YAP WATER AUTHORITY**

Statement of Net Assets  
As at September 30, 2011

Audit Report No. 2020-05

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current Assets		
Cash	42,593	37,392
Trade and other receivables, net (note 3)	9,333	6,615
Total Current Assets	<u>51,926</u>	<u>44,007</u>
Property and equipment, net (note 4)	41,205	54,959
<b>TOTAL ASSETS</b>	<u><u>93,131</u></u>	<u><u>98,966</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	5,772	2,330
Accrued expenses	1,031	1,601
Due to State Treasury	-	3,636
Total Current Liabilities	<u>6,803</u>	<u>7,567</u>
Total Liabilities	6,803	7,567
Net Assets		
Reserved for capital assets	41,205	54,959
Unreserved	45,123	36,440
Total Net assets	<u>86,328</u>	<u>91,399</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>93,131</u></u>	<u><u>98,966</u></u>

See accompanying notes to financial statements

**Office of the Public Auditor  
State of Yap**

## SOUTHERN YAP WATER AUTHORITY

### Statement of Revenues, Expenses and Changes in Net Assets September 30, 2011 and 2010

Audit Report No. 2020-05

	2011	2010
	\$	\$
Operating Revenues		
Water Usage	43,785	43,689
Other Fees	17,543	1,703
Total Revenue	<u>61,328</u>	<u>45,392</u>
Operating Expenses		
Salaries and Taxes	17,990	17,129
Utilities	11,469	7,697
Supplies, repair and maintenance	10,439	5,646
Depreciation	13,754	11,997
Fuel and other expenses	6,737	4,258
Reconciliation Discrepancies	6,010	-
Total Expenses	<u>66,399</u>	<u>46,727</u>
Loss from operations	(5,071)	(1,335)
Non operating revenue		
Interest and other revenue	-	2,405
Total Non operating revenue	<u>-</u>	<u>2,405</u>
Change in net assets	(5,071)	1,070
Net assets at beginning of year	91,399	90,329
Net assets at end of year	<u><u>86,328</u></u>	<u><u>91,399</u></u>

See accompanying notes financial statements.

Office of the Public Auditor  
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# SOUTHERN YAP WATER AUTHORITY

## Statement of Cash Flows September 30, 2011 and 2010

Audit Report No. 2020-05

	2011	2010
	\$	\$
Cash Flow from Operating Activities		
Receipts from customers	58,610	44,342
Payments to suppliers and employees	(35,419)	(18,326)
Payments to employees	(17,990)	(17,266)
Net cash provided by operating activities	<u>5,201</u>	<u>8,750</u>
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	-	(20,885)
Interest Income	-	220
Other Income	-	2,185
Net cash (used)/provided by investing activities	<u>-</u>	<u>(18,480)</u>
Net increase/(decrease) in cash	5,201	(9,730)
Cash at the beginning of the year	<u>37,392</u>	<u>47,122</u>
Cash at the end of the year	<u><u>42,593</u></u>	<u><u>37,392</u></u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(5,071)	(1,335)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	13,754	11,997
(Increase)/Decrease in receivables		
Trade receivables, net	(2,718)	(1,050)
Increase/(Decrease) in liabilities		
Accounts payable	3,442	(725)
Accrued expenses	(4,206)	(137)
Net cash used in operating activities	<u><u>5,201</u></u>	<u><u>8,750</u></u>

See accompanying notes to the financial statements

Office of the Public Auditor  
State of Yap

# **SOUTHERN YAP WATER AUTHORITY**

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

## **1 REPORTING ENTITY**

Southern Yap Water Authority (SYWA) was created in 1986 pursuant to Yap State Law (YSL) No. 1-221 which is codified as Chapter 7 of the Title 18 of the Yap State Code. The primary purpose of the SYWA is to carry on the business of establishing, developing, maintaining, operating and managing the Southern Yap Water System. The Authority currently serves the southern communities of Yap Proper comprising of the southern villages of the municipalities of Rull and Dalipebinawn and the municipalities of Gilman and Kanifay. The SYWA is a legally separate unit of the Yap State Government.

Currently, SYWA is governed by an six-member Board of Directors, two of which are appointed by the Rull representative on the Council of Pilung, one is appointed by the Chief of Kanifay, one by the Chief of Gilman, one by the Chief of Dalipebinaw and one member is appointed by the Governor. Each board member, except for the Governor's appointee will serve for three year terms while Governor's appointee will serve for a four year term.

The daily operation of the Authority is currently the responsibility of a general manager, an administrative assistant and a meter reader.

## **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

### **Basis of Accounting**

SYWA utilizes accounting principles generally accepted in the United States of America as is applicable to proprietary funds of governmental entities. Such funds are accounted for using the flow of economic resources measurement focus. Thus, revenues are recorded when earned and liabilities at the time expenses are incurred.

### **Accounting Standards**

Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. SYWA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**Office of the Public Auditor  
State of Yap**

# SOUTHERN YAP WATER AUTHORITY

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting Standards (continued)

GASB Statement No.34 (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net asset categories:

- (a) **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- (b) **Nonexpendable** – Net assets subject to externally imposed stipulations that require the SYWA to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the SYWA is subject to externally imposed stipulations that can be fulfilled by actions of the Bureau pursuant to those stipulations or that expire by the passage of time.
- (d) **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**New Accounting Standards** – During fiscal year 2011, SYWA implemented the following pronouncements:

GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

GASB issued Statement No.51, “*Accounting and Financial Reporting for Intangible Assets*”. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB issued Statement No.52, " Land and Other Real Estate Held as Investments by Endowments". GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

Office of the Public Auditor  
State of Yap

# SOUTHERN YAP WATER AUTHORITY

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". GASB Statement No. 53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB issued Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The implementation of this Statement did not have a material effect on the financial statements of SYWA.

GASB issued Statement No. 59, "*Financial Instrument Omnibus*". GASB Statement No. 59 is intended to updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement is effective for periods beginning after June 15, 2010.

Management does not believe that the adoption of these pronouncements had a material effect on the accompanying 2011 and 2010 financial statements.

### **Cash**

For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the SYWA's bank balances at September 30, 2011 are fully insured as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

### **Receivables**

Customer receivables are outstanding water utility bills from customers. Due to the nature of receivables for the SYWA, balances not expected to be collected within one year from the balance sheet date are fully reserved as doubtful.

### **Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. SYWA as a general rule capitalizes assets worth at least \$100 and useful lives in excess of two years. Depreciation is recorded in the financial statements using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	2 - 6 years
Office equipments	3-5 years
Automobile	5 years

**Office of the Public Auditor  
State of Yap**

# SOUTHERN YAP WATER AUTHORITY

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

### Subsequent Events

Management has evaluated subsequent events through to July 17, 2020, the date which the financial statements were available for issue. There were no material subsequent events that would require recognition or disclosure in the financial statements for the year ended September 30, 2011.

## 3 TRADE RECEIVABLES

Receivables as of September 30, 2011 represent revenue that is expected to be realized after September 30, 2011. Trade receivables are comprised of all outstanding bills as of September 30, 2007 which includes previous balances as of this month as well as current billings. Details of trade receivables for the years ended September 30, 2011 are presented below:

	<b>2011</b>	<b>2010</b>
	(\$)	(\$)
Trade receivables	11,122	8,404
Allowance for doubtful accounts	(1,789)	(1,789)
	<u>9,333</u>	<u>6,615</u>

As of September 30, 2011, there was no bad debts expense, instead the Authority has been making efforts in collecting those delinquent accounts.

Office of the Public Auditor  
State of Yap

**SOUTHERN YAP WATER AUTHORITY**

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

**4 PROPERTY AND EQUIPMENT**

A summary of property and equipment as of September 30, 2011 and 2010 are presented below:

	Beginning balance October 1 2010	Transfers and Additions	Transfers and Disposals	Ending balance September 30, 2011
Vehicles	63,274	-	-	63,274
Office equipments and Furniture	2,305	-	-	2,305
Generator Building	8,000	-	-	8,000
Other Assets	5,557	-	-	5,557
	<u>79,136</u>		<u>-</u>	<u>79,136</u>
Less accumulated depreciation	<u>(24,177)</u>	<u>-</u>	<u>-</u>	<u>(37,931)</u>
Total	<u><u>54,959</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>41,205</u></u>
	Beginning balance October 1, 2009	Transfers and Additions	Transfers and Disposals	Ending balance September 30, 2010
Vehicles	51,274	12,000	-	63,274
Office equipments and Furniture	1,420	885	-	2,305
Generator Building	-	8,000	-	8,000
Other Assets	5,557	-	-	5,557
	<u>58,251</u>	<u>20,885</u>	<u>-</u>	<u>79,136</u>
Less accumulated depreciation	<u>(10,349)</u>	<u>(11,997)</u>	<u>-</u>	<u>(24,177)</u>
Total	<u><u>47,902</u></u>	<u><u>8,888</u></u>	<u><u>-</u></u>	<u><u>54,959</u></u>

SYWA operates on a piece of land owned by the Lamer Community and the costs of the Authority's water distribution system of \$2.0 million inclusive of the office building and warehouse is recorded by the Yap State. Such costs are excluded from SYWA' assets as at September 30, 2011 or its being assessed rent for the use of the property.

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State of Yap**



# **SOUTHERN YAP WATER AUTHORITY**

Notes to the Financial Statements  
September 30, 2011 and 2010

Audit Report No. 2020-05

## **5 RISK MANAGEMENT**

SYWA is self-insured for all risks. Any loss or liability that may result upon occurrence of a natural disaster, accident or litigation will be borne entirely by SYWA. Management is of the opinion that no material losses have been sustained as a result of this practice.

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### **YAP STATE GOVERNMENT**

**Federated States of Micronesia**

**P.O. Box 927, Colonia, Yap FM 96943**

**Phone: (691) 350-3416 Fax: (691) 350-4987 Email: [admin@audityap.org](mailto:admin@audityap.org)**

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### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors of  
Southern Yap Water Authority:

We have audited the financial statements of the Southern Yap Water Authority (SYWA) as of and for the years ended September 30, 2011 and 2010 and have issued my report thereon dated November 20, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit, we considered SYWA's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SYWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SYWA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and in the status of Prior Year Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings (pages 16-22) and in the status of Prior Year Findings (pages 20-22) as Findings No. 02 through No. 06, 09R, and 10R to be material weaknesses.

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*Our mission is to provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.*

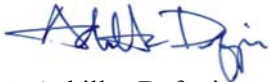
A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiencies described in the accompanying Schedule of Findings and in the status of Prior Year Findings as Findings Nos. 07, 08, and 11R to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southern Yap Water Authority’s financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings (pages 16-22) as Findings No. 01.

SYWA’s response to the findings identified in our audit are described in the accompanying Management’s Response to Findings. We did not audit SYWA’s response and accordingly we express no opinion on it.

This report is intended for the information and use of the management and Board of Directors of SYWA and others within the entity, pass-thru entities, and federal awarding agencies and is not intended to be and should not be use by anyone other than these specified parties.



Achilles Defngin  
Yap State Public Auditor

November 20, 2020

# SOUTHERN YAP WATER AUTHORITY

Schedule of Findings

September 30, 2011

Audit Report No. 2020-05

## Current Findings:

### Finding No. 2011-01 - Annual Report

**Criteria:** The Board shall present an annual report to the Governor and the Legislature of the affairs of the Authority within 60 days after the end of each fiscal year. If requested by the Governor or the Legislature, it shall also present special reports within 30 days after any such request. – Section 749 (b) YSC Title 18 Chapter 7.

**Condition:** Our audit noted that there was no annual report prepared by the Authority and submitted to the Governor and the Legislature. It could not be determined whether the Authority has ever prepared an annual report since its inception.

**Cause:** There was lack of awareness on the requirements of the Authority's legislation and lack of follow up by the office of the Governor and the Legislature for the submission of the annual report. There is also lack of qualified accounting officer to prepare financial report to include in the annual report.

**Effect:** The governor and the legislature, including SYWA management and Board would not be in a position to determine the viability of the Authority's operation without any report submitted to them.

**Recommendation:** The Management and the Board of the Authority should familiarize themselves with the requirements of the Authority's enabling legislation and ensure that they are complied with.

Annual report should be prepared by the Authority annually and submitted to the Governor and the Legislature.

The Authority should recruit a qualified accounting personnel to assist in their financials and reporting.

### Finding No. 2011-02 – Absence of Financial and Operational Policy

**Criteria:** The Authority shall have the power to adopt and enforce rules and regulations concerning its operations. The Authority shall carry on the business of establishing, developing, maintaining, operating and managing the Southern Yap Water System within all powers incident thereto. – Section 712 (a) (b)

**Condition:** Our audit noted that there is no financial and operational policy for the Southern Yap Water Authority.

**Cause:** Lack of awareness by the Management and Board of the powers and responsibilities provided in the Authority's legislation. There is also lack of qualified personnel to assist in developing financial and operational policies.

**Effect:** There is lack of guidance and direction on how to perform the daily functions and operations of the Authority, and there is a risk of abuse of office and misappropriation of funds.

Office of the Public Auditor  
State of Yap

# SOUTHERN YAP WATER AUTHORITY

Schedule of Findings  
September 30, 2011

Audit Report No. 2020-05

**Recommendation:** The Management of the Authority should consult other Component Units of the State to develop a financial and operational manual together that is applicable to all Component Units. Managements of all Component Units can consult the State to assist them with this regard.

## **Finding No. 2011-03 – Missing Revenue Receipts**

**Criteria:** SYWA is responsible for the maintenance and availability of its accounting and financial records.

**Condition:** Total receipts recorded in 2011 was \$85,081.96; out of which only 7 receipts totaling \$98.98 were provided for audit verification. Details are provided in the table below:

Receipt Number	Receipt Date	Amount (\$)
9214	10/01/10	\$5.95
9215	10/01/10	\$13.20
9216	10/01/10	\$12.25
9597	02/11/11	\$40.85
9598	02/11/11	\$3.63
9599	02/11/11	\$8.25
9600	02/16/11	\$14.85
Total receipts provided to Audit		98.98

Furthermore, there was no documentation available to substantiate the total receivable balance of \$11,122 as at September 30, 2011.

**Cause:** Poor maintenance of accounting records.

**Effect:** Accuracy of the revenues reported for FY11 for SYWA cannot be substantiated.

**Recommendation:** We recommend that accounting and financial records are organized and maintained properly at SYWA.

## **Finding No. 2011-04 – Reconciliation Discrepancies**

**Criteria:** All transactions should be properly justified with proper supporting documentation and authorization.

**Condition:** Our audit noted that reconciliation discrepancies totaling \$6,030 was credited to the Savings account without any proper supporting documents and authorization. This amount was subsequently debited and disclosed under Operating Expenses as Operating Expenses.

**Cause:** There is lack of proper reconciliation on the Savings account.

Office of the Public Auditor  
State of Yap

## SOUTHERN YAP WATER AUTHORITY

Schedule of Findings  
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Audit Report No. 2020-05

**Effect:** There is a possibility of misappropriation of funds without being detected.

**Recommendation:** There should be proper reconciliation carried out on a monthly basis and any variance noted should be rectified accordingly.

### **Finding No. 2011-05 – Variances between the Cash Book Balance and Savings Bank Balance**

**Criteria:** Bank Reconciliation should be carried out on a monthly basis and any variance should be adjusted accordingly.

**Condition:** Our audit noted a variance of \$8,098.32 between the Savings bank account and the Savings general ledger account (Passbook Account). There was also no monthly bank reconciliation carried out in the 2011 fiscal year.

Furthermore, there was no details or reconciliation of the undeposited funds of \$3,985.72 included as part of cash balances of the Authority for the financial year ended September 30, 2011.

**Cause:** There was lack of qualified staff to carry out bank reconciliation at SYWA.

**Effect:** Monthly bank reconciliation could not be carried out regularly and funds could be easily misappropriated without being detected.

**Recommendation:** Qualified accounting personnel should be recruited at SYWA and should be given proper training during the years to upgrade his/her skills.

Monthly bank reconciliation should be carried out regularly and any variance be rectified and adjusted accordingly.

### **Finding No. 2011-06 – Misclassification of Transactions**

**Criteria:** Proper accounting practice dictates that proper checks and balances should be in place to make certain all transactions are posted properly and reconciled periodically to ensure accuracy.

**Condition:** Review of a non-payroll transaction revealed that a payroll transaction was erroneously posted with the non-payroll transaction, utilizing one check. Check number 1891 dated 9/20/11 totaling \$3,121.80 was paid out in cash as follows;

- \$3,000.00 – Fiji Trip (Pacific Water and Waste Association Conference)
- \$121.80 – Payroll for Valentina Ruwol

**Cause:** The transactions were not properly reviewed to ensure that they were properly classified in their appropriate accounts.

Office of the Public Auditor  
State of Yap

# SOUTHERN YAP WATER AUTHORITY

Schedule of Findings

September 30, 2011

Audit Report No. 2020-05

**Effect:** SYWA payroll and non-payroll accounts were misstated.

## **Recommendation**

We recommend that SYWA management, along with the accounting section, ensure that all records are regularly checked and monitored to ensure accuracy of postings and necessary adjustments are made in cases of mis-postings.

## **Finding No. 2011-07 – Supporting Documentation**

**Criteria:** Proper accounting controls require that supporting documentation is available for decision makers' review before cash is disbursed.

**Condition:** On 09/20/11, a cash cheque number 1891 was disbursed totaling \$3,121,80. Our audit noted that it did not have any corresponding invoice, travel advance, or other documentation indicating the amount approved by the Board of Directors through endorsement of cash check.

Furthermore, review of Repair and Maintenance disbursements revealed that a cash check number 1745, made on December 10, 2010 totaling \$5,000.00, had no proper supporting document to substantiate the purpose and justification of the payment.

**Cause:** There was lack of proper verification to ensure that all disbursements were adequately supported before approval. There was also the absence of a Financial and Operational Policy.

**Effect:** Validity of the transaction is questionable and it could not be determined whether the transaction was related to SYWA operations.

**Recommendation:** We recommend that SYWA board of directors, management, and the accounting section ensure that all SYWA disbursements are adequately supported before approval. A financial and operational policy should be developed and adopted that also includes the issuing of cash checks.

## **Finding No. 2011-08 – Due to State Treasury**

On September 8, 2005, the State assisted the SYWA to settle outstanding FY 04 and FY05 electric bills in the amount of \$3,636. In a memo to the State Finance requesting payment of the SYWA electric bills, the Lt. Governor stated that it is the general understanding of all concerned that the Southern Yap Water Authority will reimburse the State when funds are available. Reimbursement has not been made, and accordingly the amount paid by the Yap State Finance has been recorded as a payable to the State Treasury as of September 30, 2005 until September 30, 2010.

## SOUTHERN YAP WATER AUTHORITY

Schedule of Findings

September 30, 2011

Audit Report No. 2020-05

**Condition:** As of September 30, 2011, the amount recorded as Due to State Treasury was reduced to zero balance. There was no evidence obtained during audit to substantiate that the amount of \$3,636 payable to State was settled by SYWA to the Yap State Finance as of September 30, 2011.

**Cause:** There was lack of proper reconciliation of payables balances.

**Effect:** The reduction of Due to State Treasury balance from \$3,636 to zero could not be justified. The payables balance in the financial statement may be misstated.

### **Recommendation**

- Payables reconciliation should be carried out properly and any variances should be adjusted accordingly.
- Proper justification should be provided should SYWA settled the outstanding account with Yap State Finance, otherwise the Due to State Treasury balance should be adjusted to \$3,636.

### **Recurring Findings:**

#### **Finding No. 2011-09R – Fixed Asset Register**

**Criteria:** A comprehensive, accurate, and up to date fixed asset register is required for SYWA to maintain proper control over its property and equipment assets.

**Condition:** There was no updated fixed asset register maintained at SYWA for its property and plant assets.

**Cause:** There was lack of awareness on the requirement to maintain an up to date Fixed Asset Register. There was also the lack of a financial and operational policy.

**Effect:** An outdated and inaccurate fixed asset register was in place constituting to misstated fixed asset financial position and the financial position of SYWA altogether.

**Recommendation:** A policy should be drawn to include the updating of fixed asset register. Fixed asset register should be updated regularly.



## SOUTHERN YAP WATER AUTHORITY

Schedule of Findings  
September 30, 2011

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### **Finding No. 2011-10R – Lack of Comparative Price Quotation**

**Criteria:** Title 9 of the Yap State Code Section 521, concerning competitive bidding, subsection (b) requires that all government purchases be subject to competitive biddings, except as otherwise provided by law. As an agency of the Yap State Government, SYWA must adhere to all applicable laws, regulations, policies, and procedures of the Yap State Government.

**Condition:** Out of a representative 27 selected sample of non-payroll disbursement transactions from SYWA’s check register, 14 transactions, or 52%, lacks evidence of competitive price comparisons. Refer to Table below for details.

	Date	CHK #	Amount	Description	INV #	INV DATE	INV AMNT
1	3/7/2011	1791	184.58	6335A	683416	3/7/11	\$ 184.58
2	9/7/2011	1886	173.15	6335	various	8/2/11	\$ 193.05
3	9/7/2011	1886	19.90	6335	various	8/2/11	
4	4/29/2011	1818	74.97	6335	various	4/21/11	\$ 74.97
5	3/15/2011	1799	125.95	E40 Generic,15A generic & postage & Handling	0028	2/19/11	\$ 125.95
6	7/13/2011	1858	245.47	6335A	various	7/12/11	\$ 245.47
7	5/4/2011	1827	242.00	6335A	2265078	5/5/11	\$ 242.00
8	6/6/2011	1842	365.00	Water Dispenser & Water Pressu	Not indicated	6/24/11	\$ 365.00
9	1/26/2011	1773	49.50		92438	1/27/11	\$ 49.50
10	1/5/2011	1762	116.35	6335A	685871	1/4/11	\$ 116.35
11	2/23/2011	1787	99.00	Copy paper 8.5x11	095	2/25/11	\$ 99.00
12	4/6/2011	1810	874.12	bill of 1/11/11-2/10/11	Bill - no #	3/31/11	\$ 874.12
13	1/26/2011	1772	150.00	6335A	various	1/26/11	\$ 150.00
14	11/17/2010	1739	227.59	Materials	various	10/14/10	\$ 227.59
					<b>Total:</b>		<b>2,947.58</b>

**Cause:** SYWA management and its accounting section did not ensure that all purchases were done in accordance with the State’s procurement requirements.

**Effect:** SYWA was not complying with Yap State Law #6-53 which requires competitive price comparison. Additionally, SYWA may have spent more than necessary for purchases without performing price comparison as other vendors may have the same items or services at a lower cost.

**Recommendation:** We recommend that management should ensure that all purchases be in accordance with all applicable procurement laws, regulations, policies, and procedures to maximize the purchasing power of SYWA’s limited funds.

Office of the Public Auditor  
State of Yap

## SOUTHERN YAP WATER AUTHORITY

Schedule of Findings

September 30, 2011

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### **Finding No. 2011-11R – Personnel**

**Criteria:** There should be adequate policies and procedures in place addressing personnel issues including representative timesheets reflective of actual hours worked.

**Condition:** Review of a sampled selection of payroll transactions during tests of controls revealed that timesheets supporting the payroll transactions mostly showed that employees signed in/out at exactly the same time; 7:30 to 8:30 and 12:30 to 16:30 each day they reported to work. All employees reporting to and timing out from work at exactly the same time for 12 consecutive months is questionable.

**Cause:** There is no personnel manual or policies in place setting the guidelines and establishing controls for personnel related matters including proper maintenance of timesheets.

**Effect:** Total hours employees are paid for are not reflective of actual hours they worked.

**Recommendation:** We recommend that SYWA develop and adopt a personnel manual and related policies and procedures that will ensure proper maintenance of timesheets and controls for other personnel related matters.

# SOUTHERN YAP WATER AUTHORITY

Management Response

September 30, 2011

Audit Report No. 2020-05



## SOUTHERN YAP WATER AUTHORITY

September 24, 2020

**Mr. Achilles Defngin**  
Public Auditor, Yap State  
Office of the State Public Auditor  
Yap State Government, FSM 96943

Dear Mr. Defngin

This is a response to your Audit Report FY 2011 Findings, which submitted to our office on September 15, 2020. As aware that currently the authority are trying its best to comply with all the recommendations recommended by your office but due to limited revenues generated, the authority hardly able to find qualified candidates for the position to assure that all recommendation are incompliance but we are trying our very best.

Let me take this opportunity to respond to the findings indicated on your report, please see below responds;

**1. Finding#1- Annual Report:**

The authority admitted of its failure to prepare and submit report to such agencies of the state government on a timely manner as mandated by law.

The authority will take this matter into consideration to assure that such reports would be prepared and submit to governor and legislature on a timely manner. Your recommendation will be taken into consideration.

**2. Finding #2-Absence of Financial and Operational Policy:**

The authority has its own policy and regulation as required by law, Chapter 7 of title 18 of the Yap State Code. Not really sure if that's the documents you're referring to.

Due to limited awareness of such requirements to execute and implement, the authority would assure that such responsibilities would be started implementing at the authority now and years to come.

P.O Box 721, Colonia Yap  
Federated States of Micronesia 96943

Tel# 691 350-2711/ Fax# 691 350-6112  
Email: [jguswet@gmail.com](mailto:jguswet@gmail.com)

**Office of the Public Auditor  
State of Yap**

# SOUTHERN YAP WATER AUTHORITY

Management Response

September 30, 2011

Audit Report No. 2020-05

Recommendation would be taken into consideration and hopefully changes would be shown on FY 2021.

### **3. Finding #3- Missing Revenue Receipts;**

All these missing receipts should be somewhere in our temporary office in one of the boxes. I believed that most of our documents been packed in a box before transported to our temporary office prior to the commencement of the renovation works to our new office. However, I've tasked my staffs to go through all these boxes but they've couldn't find them. I will assure that all relevant documents such as receipts, Invoices, etc.. must be filed in a secure place for future audit.

### **4. Findings #4- Reconciliation Discrepancies;**

We agreed on this allegation because during FY11 and prior years, those who work on our books had no knowledge on doing reconciliation. Now, we were able to have our staff trained to reconcile our books and she's doing much better compared to previous years.

### **5. Finding # 5- Variances between the Cash Book Balance and Savings Bank Balance;**

Our responds to this finding is similar to responds on finding #4. It was of lacked of knowledge from our staff but, currently we're doing much better now compared to FY11.

### **6. Finding # 6- Misclassification of Transaction;**

We're admitted of this allegation. This happened when our check book-let delays of its arrival and we went ahead and use one check for two different transaction and it's a failures of our staff to properly posted in the accurate account.

Your recommendations are well taken into consideration.

### **7. Finding #7- Supporting Documentation;**

It is our failure to assure that all supporting documents were in file as the supporting documents of these checks. This check #1745, dated 12/10/10 of the amount of \$5,000 was processed to purchase some submersible pumps with motors and its accessories for our wells as well as pipe materials in Guam for the authority. Some of the receipts were misplaced.

# SOUTHERN YAP WATER AUTHORITY

Management Response

September 30, 2011

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Your recommendation is well taken and we will assure all necessary requirements must be followed from now on.

**8. Findings #8- Due to the State Treasury;**

This finding was taken care during Anefal's administration. There was a meeting taken place at the governor's office, which we've shared, to the governor of our financial situation that we can't pay this debt. During this meeting, we all agreed that the authority wouldn't pay this debt since there was insufficient fund to pay it.

**9. Finding # 9- Fixed Asset Register;**

This finding now is already in compliance. We did create our excel sheet to register all our assets into as well as in our quickbook.

**10. Finding # 10- Lack of Comparative Price Quotation;**

It is a misunderstanding from our parts...we thought any price item range from \$300.00 dollars up to \$4,999.99 must be considered under Fixed Assets and should go through the competitive price and anything from \$5,000.00 up should go through the bidding process.

The Fixed Assets Registration sheet for the authority is completed and its all updated.

Effective today, the authority will take your recommendation into consideration and we will assure to be in compliance of the law.

**11. Finding #11- Personnel;**

The authority being advised of the matter by your former Public Auditor before and now the authority is in compliance, we created Timesheet for all SYWA's employees to sign in and out whenever they report to work and leave work.

Above is our response to your findings. Please let me know if you need further clarification. Our office is looking forward to work closely with your office to help improve our work progress here at the authority.

**SOUTHERN YAP WATER AUTHORITY**

Management Response

September 30, 2011

Audit Report No. 2020-05

Thank you very much!



John Guswel

Manager, SYWA

Xc: SYWA's Board Members  
FY 2011 Audit report's file

P.O Box 721, Colonia Yap  
Federated States of Micronesia 96943

Tel# 691 350-2711/ Fax# 691 350-6112  
Email: [jguswel@gmail.com](mailto:jguswel@gmail.com)

**Office of the Public Auditor  
State of Yap**

# SOUTHERN YAP WATER AUTHORITY

Yap OPA Contact  
September 30, 2011

Audit Report No. 2020-05

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**YAP OPA CONTACT**

Achilles Defngin, Public Auditor  
Email: [adefngin@audityap.org](mailto:adefngin@audityap.org)

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To provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.

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Office of the Public Auditor  
Yap State Government  
P.O. Box 927  
Colonia, Yap FM 96943

**PHONE**

Phone: (691) 350-3415/16

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**CONTACT**

Website: [www.audityap.org](http://www.audityap.org)  
Hotline: (691) 350-8310

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Office of the Public Auditor  
State of Yap