

**GAGIL – TOMIL WATER AUTHORITY**  
**Financial Statements and**  
**Independent Auditor's Report**  
**Years Ended September 30, 2006 and 2005**



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**EXECUTIVE SUMMARY**

Financial Audit of the  
Gagil-Tomil Water Authority  
for the Year ended September 30, 2006

The Office of the Yap State Public Auditor has completed the audit of the Gagil-Tomil Water Authority (GTWA) for the year ended September 30, 2006 for which report is dated April 28, 2008. The Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal year 2006, we were not able to form an opinion on the fairness of the financial statement amounts. Accordingly, we express no opinion on the financial statements of the GTWA as of and for the year ended September 30, 2006.

The report on internal control and compliance and other matters required by *Government Auditing Standards* on page 13 discusses reportable conditions at GTWA. These conditions and our recommendations are presented for the information of GTWA management in the Schedule of Findings beginning on page 15. Of the 14 findings, two (2) are related to noncompliance with laws and regulations while the remaining 12 are internal control issues. Prior year unresolved Findings Nos. 6, 7, and 8 which are listed under Finding No. 05 of this fiscal year are considered to be material weaknesses.

Following is a summary of the audit findings for the year ended September 30, 2006:

Finding Nos. 1 pertains to noncompliance with the reporting requirements of the Authority's enabling legislation.

Findings Nos. 2 through 8 are issues relating to the performance of the board and the ineffectiveness of the actions taken to implement directives and other administrative policies and procedures.

Findings Nos. 9 through 14 discusses the absence of accounting policies and procedures which has resulted in inadequate maintenance and upkeep of basic accounting and financial records.

The management of GTWA has reviewed and agreed with the audit findings and related recommendations. GTWA's written response is presented as part of the audit report beginning on page 24.

We thank the Board of Directors and the staff of the GTWA for their responsiveness to our audit recommendations and for displaying the willingness to improve the management and operation of the Gagil-Tomil Water Authority.

Gertrude Gootinan

Yap State Public Auditor

June 2, 2008

# GAGIL-TOMIL WATER AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Gagil-Tomil Water Authority:

I was engaged to audit the accompanying balance sheets of Gagil-Tomil Water Authority as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GTWA's management. My responsibility is to express an opinion on these financial statements based on my audits.

The GTWA has not maintained adequate accounting records for the years ended September 30, 2006 and 2005, and I was unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2004 were fairly presented in conformity with accounting principles generally accepted in the United States of America or whether accounting principles have been consistently applied between fiscal years 2006, 2005 and 2004.

Since GTWA did not maintain adequate accounting records, and I was unable to satisfy myself about the opening balances in the financial statements as of October 1, 2005 and 2004, or about the consistent application of accounting principles between fiscal years 2005 and 2004, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on its financial position as of September 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended, or on the consistency of application of accounting principles with the preceding years.

Management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated April 28, 2008 on my consideration of the Gagil-Tomil Water Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the 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 read in conjunction with this report in considering the results of my audits.

  
Gertrude Gootinan  
Yap State Public Auditor

April 28, 2008

## Management Discussions and Analysis

(2006 GTWA Audit Report)

The Gagil-Tomil Water Authority (GTWA) was created in 1984 pursuant to YSL NO. 1-183; to establish, develop, maintain, operate and manage the Gagil-Tomil Water System. GTWA is overseen by a nine member Board of Directors, while the daily operations are performed by three employees.

The GTWA System has been in existence for over 24 years and when first put into operation it performed sufficiently well, as most of its infrastructure and equipments are relatively new; the number of initial customers or demand on the system's resources then was sufficient to the capacity of the System; and basic costs such as electricity was minimal as compared to today rate's

Over the years, water demand grew as the number of customers hooked to the System increased drastically; while the System's infrastructure began to show signs of deterioration resulting in a number of leakages and contaminations to the water line. Utilities costs (Electricity) has since became the single largest expense for GTWA. All these conditions presented financial and operational difficulties to the fledgling System.

For the System to remain viable it: Reviewed and increased its water usage rate to reflect the growing operational costs in 2003. Since inception of the System, this was the first time that the water rates were reviewed and changed. In 2005, the Asian Development Bank (ADB), promised restoration of some of the System's infrastructure under the "Omnibus Development Project", while increasing customer base to the Municipalities of Map and Rumung (this project is still pending). In 2006, GTWA adopted a 10% late charge to encourage prompt payments by its customers. In 2007 the FSM National Congress provided assistance to the GTWA in the form of funds for needed equipments and parts.

All above actions as well as other cost reductions and other revenue generating strategies, has assisted GTWA remain operational over these years. While the System is limping on with the slightly increased water rates, it is still faced with the problem of its aging infrastructure; increasing costs and limited revenues.

To resolve some of these difficulties, GTWA is, foremost, looking at strengthen its staffing by restructuring it to meet its operational needs and mandates. GTWA will be implementing the accounting software to track its finances against its objectives. GTWA will be seeking outside assistance to its operations, infrastructure needs as well as new extensions to the system.

**Gagil-Tomil Water Authority**

**Management's Discussion and Analysis  
September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current Assets	\$ 29,167	\$ 25,121
Property and equipment, net	<u>3,392</u>	<u>6,611</u>
	<u>\$ 32,559</u>	<u>\$ 31,732</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities	\$ 2,045	\$ 2,477
Net Assets	<u>30,514</u>	<u>29,255</u>
	<u>\$ 32,559</u>	<u>\$ 31,732</u>
<b>Revenues, Expenses and Changes in Net Assets</b>		
Operating Revenues	\$ 44,802	\$ 45,608
Operating Expenses	<u>(42,685)</u>	<u>37,252</u>
Income from Operations	2,149	8,356
Nonoperating expenses	<u>(890)</u>	<u>-</u>
Increase/(decrease) in net assets	<u>\$ 1,259</u>	<u>\$ 8,356</u>

**GAGIL-TOMIL WATER AUTHORITY**

**Balance Sheets**  
**September 30, 2006 and 2005**

<b>ASSETS</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Current assets:		
Cash	\$ 20,275	\$ 18,178
Trade receivables, (Note 2)	5,620	4,313
Employee receivables	3,272	1,392
Purchase order advance	--	1,238
	<hr/>	<hr/>
Total current assets	29,167	25,121
Property and equipment, net (Note 3)	3,392	6,611
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b><u>\$ 32,559</u></b>	<b><u>\$ 31,732</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 1,111	\$ 2,104
Accrued payroll	934	373
	<hr/>	<hr/>
Total current liabilities	2,045	2,477
Contingencies		
Net assets:		
Invested in capital assets	3,392	6,611
Unrestricted	27,122	22,644
	<hr/>	<hr/>
Total net assets	30,514	29,255
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 32,559</u></b>	<b><u>\$ 31,732</u></b>

See accompanying notes to financial statements

## GAGIL-TOMIL WATER AUTHORITY

### Statements of Revenues, Expenses and Changes in Net Assets For the Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Water utility sales	\$ 43,217	\$ 43,837
Other sales	1,120	1,642
Interest income	465	129
	44,802	45,608
Total operating revenues		
Operating expenses		
Salaries and benefits	14,610	11,906
Utility expense	13,584	11,652
Others (Note 5)	1,043	3,410
Depreciation expense	3,072	2,748
Repair & maintenance expense	5,129	2,739
Fuel	2,983	2,346
Office supplies	1,116	934
General and administrative	1,066	842
Contractual services	50	675
	42,653	37,252
Total operating expenses		
Income from operations	2,149	8,356
Nonoperating expenses		
Loss on disposal of assets	147	--
Other expenses	743	--
	890	--
Total nonoperating expenses		
Changes in net assets	1,259	8,356
Restatement of beginning net assets:		
Beginning net assets	29,255	70,205
Less : Partial cost of water system, net of accum. depr.	--	(53,716)
Less: Net effect of other prior period adjustments	--	4,410
	29,255	20,899
Net assets at beginning of year		
Net assets at end of year	\$ 30,514	\$ 29,255

See accompanying notes to financial statements



**GAGIL-TOMIL WATER AUTHORITY**

Statements of Cash Flows  
For the Years ended September 30, 2006 and 2005

Increase (Decrease) in Cash

	<u>2006</u>	<u>2005</u>
Cash flows provided by (used for) operating activities		
Receipts from customers	\$ 43,108	\$ 41,295
Cash payments for goods and services	(25,083)	(14,845)
Cash payments to employees	(15,928)	(11,906)
	<hr/>	<hr/>
Net cash provided by operating activities	2,097	14,544
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
FEMA Grant (Note 4)	--	3,634
	<hr/>	<hr/>
Net cash provided by noncapital financial activities	--	3,634
	<hr/>	<hr/>
Net increase in cash	2,097	18,178
Cash, beginning of year	18,178	--
	<hr/>	<hr/>
Cash, end of year	<u>\$ 20,275</u>	<u>\$ 18,178</u>

Reconciliation of Income from Operation to Net Cash used for Operating Activities

Operating income:	2,149	\$ 8,356
Adjustment to reconcile operating income to net cash used in operating activities		
Depreciation	3,072	2,748
Loss on disposal of assets	147	1,539
Prior period adjustments	348	4,110
(Increase)/decrease in assets		
Tomil customer receivables	(873)	(2,694)
Gagil customer receivables	(435)	(1,619)
Employee receivables	(1,880)	--
Increase/(decrease) in liabilities		
Accounts payable	(992)	--
Accounts payable	561	2,104
	<hr/>	<hr/>
Net cash provided by operating activities	<u>2,097</u>	\$ <u>14,544</u>

See accompanying notes to financial statements

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – The Gagil-Tomil Water Authority (GTWA) was created in 1984 pursuant to Yap State Law (YSL) No. 1-183 which is codified as Chapter 6 of Title 18 of the Yap State Code to “carry on the business of establishing, developing, maintaining, operating, and managing the Gagil-Tomil Water System. The GTWA is a legally separate entity of the State of Yap.

GTWA is governed by a nine-member Board of Directors with four members each from the two municipalities of Gagil and Tomil appointed by the municipalities’ representatives on the Council of Pilung, after consultation with village chiefs. The ninth member is appointed by the Governor and should not be from either Tomil or Gagil. The chiefs’ appointees to the Board of Directors hold 3-year terms, while the Governor’s appointee has a four-year term. The daily affairs of the Authority are carried out by two meter readers and an administrative assistant with full-time supervision by a member of the Board of Directors.

**Basis of Accounting** – GTWA 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. GTWA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 GTWA to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the GTWA 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.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2006

The GTWA does not have restricted net assets as at September 30, 2006 and 2005.

GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements.

**New Accounting Standards** – During fiscal year 2006, GTWA implemented the following pronouncements:

GASB Statement No. 42, *“Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries”*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

GASB Statement No. 46, *“Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)”*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

GASB Statement No. 47, *“Accounting for Termination Benefits”*, which establishes guidance for state and local government employees on accounting and financial reporting for termination of benefits.

GASB Technical Bulletin No. 2004-2, *“Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers”*, which clarifies the requirements of GASB Statements Nos. 27 and 45 for recognition of pension and other post-employment benefit expenditures/expenses and liabilities by cost-sharing employers.

The adoption of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

In April 2004, GASB issued Statement No. 43, *“Financial Reporting for Post-employment Benefit Plans Other than Pension Plans”*. GASB Statement No. 43 establishes uniform financial reporting for other post-employment benefits plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GTWA.

In July 2004, GASB issued Statement No. 45, *“Accounting and Financial Reporting by Employers for post employment Benefits Other than Pensions”*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of Statement No. 45 will have a material effect on the financial statements of GTWA.

In September 30, 2006, GASB issued Statement No. 48, *“Sales and Pledges of Receivables and Future Revenue and Intra-Entity Transfer of Assets and Future Revenues”*. GASB

# GAGIL-TOMIL WATER AUTHORITY

## Notes To Financial Statements September 30, 2006

Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GTWA.

**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. Only \$2,016 and \$4,311 of the \$20,275 and \$18,178, respectively, of the cash balance at September 30, 2006 and 2005 is fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage. The remaining cash balances represent deposits with a nonfederally-insured locally-owned credit union.

**Accounts Receivables** – Customer receivables represent water utility bills outstanding from customers from Gagil and Tomil. Accounts receivable as of September 30, 2006 and 2005 are current due to GTWA's strict policy on collections.

**Depreciation** – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. 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 equipment	3-5 years
Automobile	3 years

The Authority has not formally adopted a policy on capitalization of assets, but follows a general rule of capitalizing assets with costs in excess of \$50 and estimated useful lives of at least two years.

**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.

## 2. RECEIVABLES:

All of the trade receivables of GTWA as of September 30, 2006 and 2005 are from Gagil and Tomil municipalities' water customers as follows:

	<u>2006</u>		<u>2005</u>
Tomil customers	\$ 3,566	\$	2,694
Gagil customers	\$ 2,054	\$	1,619

**GAGIL-TOMIL WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2006

Allowance for bad debts	--	--
	<u>\$ 5,620</u>	<u>\$ 4,313</u>

**3. PROPERTY & EQUIPMENT**

A summary of property and equipment as of September 30, 2006 and 2005 follows:

	Beginning balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2006
Warehouse	15,091	--	--	15,091
Vehicle	4,632	--	--	4,632
Office equipment	3,191	--	(264)	2,927
Pump relay	842	--	--	842
	<u>23,756</u>		<u>(264)</u>	<u>23,492</u>
Less accumulated depreciation	<u>(17,145)</u>	<u>(3,072)</u>	<u>117</u>	<u>( 20,100)</u>
Total	<u>\$ 6,611</u>	<u>\$ (3,072)</u>	<u>\$ (147)</u>	<u>\$ 3,392</u>

	Beginning balance October 1, 2004	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2005
Warehouse	15,091	--	--	15,091
Vehicle	4,632	--	--	4,632
Office equipment	3,113	78	--	3,191
Pump relay	842	--	--	842
	<u>23,678</u>	<u>78</u>		<u>23,756</u>
Less accumulated depreciation	<u>(14,397)</u>	<u>(2,748)</u>	<u>--</u>	<u>( 17,145)</u>
Total	<u>\$ 9,281</u>	<u>\$ (2,670)</u>	<u>\$ --</u>	<u>\$ 6,611</u>

Not included in property, plant and equipment is the cost of the GTWA water distributions system which the State of Yap has included in its financial statements for fiscal year 2005.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2006

## 4. FEMA GRANT

GTWA in FY06 received no grant from other source of funding. However, in FY05, it received through the State Government a FEMA Grant, check no. 16729 in the amount of \$3,634.63 for reimbursement of expenses incurred from Typhoon Sudal in April 2004. The transaction only impacts the cash account for fiscal year 2005.

## 5. OTHER EXPENSES

Provided below is a breakdown of other expenses for the year ended September 30, 2005:

	<u>2006</u>	<u>2005</u>
Miscellaneous	994	1,623
Quickbooks program	--	408
Pitamil reimbursement	--	837
Consummable goods	49	542
	<u>\$ 1,043</u>	<u>\$ 3,410</u>

## 6. RELATED PARTY TRANSACTIONS

In the ordinary course of business, GTWA enters into transactions with the State Government and private businesses in which certain of the GTWA board members hold positions of influence.

## 7. RISK MANAGEMENT

GTWA 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 GTWA. Management is of the opinion that no material losses have been sustained as a result of this practice.

## 8. SUBSEQUENT EVENTS

The State of Yap signed on March 8, 2006 an agreement with the Asian Development Bank for an ADB Omnibus loan of approximately \$3.6 million for the upgrading of the GTWA existing water distribution system and expansion to Makiy village in Gagil and Maap Municipality. A portion of the loan proceeds is earmarked for capacity building for GTWA employees.

The ADB Omnibus loan during fiscal year 2006 had no activity. Therefore, it remained as was in fiscal year 2005.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2006

## 8. SUBSEQUENT EVENTS (Cont.)

CFSM P.L. 14-108 dated April 27, 2007 authorized \$35,000 to the Authority for equipment purchases. A backhoe worth \$9,000 was acquired in fiscal year 2007 and a mini dump truck and other equipment in fiscal year 2008. The unexpended grant balance at April 28, 2008 was \$16,539. Unexpended funds will lapse September 30, 2009.



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

To the Board of Directors of  
Gagil-Tomil Water Authority:

I was engaged to audit the financial statements of Gagil-Tomil Water Authority (GTWA) as of September 30, 2006, and for the year then ended, and have issued my report thereon dated April 28, 2008 which opinion was a disclaimer due to inadequate accounting records and uncertainties regarding opening balances and consistent application of accounting principles between fiscal years 2006, 2005 and 2004. I conducted my 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 Controls over Financial Reporting

In planning and performing my audit, I considered GTWA's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that might be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses are reported in the Schedule of Findings as Finding No. 5. I have also reported other matters involving the internal control over financial reporting to management in the accompanying Schedule of Findings as Findings Nos. 2 thru 8 and 10 thru 14.

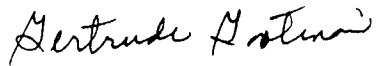
Compliance

As part of obtaining reasonable assurance about whether GTWA's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required



to be reported under Government Auditing Standards, which are presented in the Schedule of Findings as Findings Nos.1 and 9.

This report is intended for the information of the management and Board of Directors of the Gagil-Tomil Water System and is not intended to be and should not be used by anyone other than these specified parties. This report, however, is a matter of public record and its distribution is not limited.



Gertrude Gootinan  
Yap State Public Auditor

April 28, 2008

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 01 – REPORTING REQUIREMENT**

#### **Criteria:**

According to the enabling legislation as codified in 8 YSC 658(b), the Board of the Authority is required to “report to the Governor and the Legislature of the affairs of the Authority.” Further, “it shall present an annual report within 60 days after the end of each fiscal year”.

#### **Condition:**

Review of the Authority’s documentations showed no indication of any report made by the Board of Directors to both the Governor and the Legislature on the affairs of the Authority, neither within nor after the specified time period shown above.

#### **Cause:**

The BOD, most especially the Chairman, failed to ensure that mandates of the laws are abided by accordingly.

#### **Effect:**

Because GTWA is an instrumentality of the State Government and that the government is required by law to subsidize the Authority when necessary, it is imperative that the Authority regularly report to the Governor and the Legislature on the affairs of the Authority.

#### **Recommendation:**

It is recommended that the BOD review and familiarize itself with the Authority’s enabling legislation requirements and other applicable laws and regulations to which the Authority was created pursuant to avoid further noncompliance with statutory requirements.

### **FINDING NO. 02 – INEFFECTIVE BOARD DECISIONS**

#### **Criteria:**

Timely payment is what is of the essence to the Authority; therefore, to ensure such from customers, the Board should adopt policies and procedures that are encouraging and convenient.

Equally essential is the accountability over collections. Hence, clear and stringent policies and procedures that could provide for accountability shall be adopted and enforced by both the Board and management. As well, staffs should be made to clearly understand each of the policies and procedures to avoid confusion.

#### **Condition:**

A BOD decision made in a meeting dated February 03, 2006, prohibited employees from collecting payments, yet tests showed that such was still the practice. In questioning the employees about noncompliance with the Board directive, the response was that customers had expressed that they were inconvenienced with the requirement to make payments at the Bank of the FSM, the designated payment point. Hence, GTWA continued to receive payments from customers.

#### **Cause:**

It was learned that several Board members, after being informed of the concerns voiced by customers, verbally approved receipting of payments by employees at GTWA.

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 2 (CONT.)**

#### **Effect:**

To require customers not to make payment at GTWA office where it may be the most convenient for them may increase the risk of high delinquency rate.

#### **Recommendation:**

It is recommended that the BOD reconsider the different types of sales the Authority involves in, and decide once again on its point of receipting payments. It is further recommended that if the Board so decides to allow staffs to collect payment, it ensures that proper controls that can provide for audit trails, receipting – bank depositing, are in place to enable tracking of payments.

### **FINDING NO. 03 – UNREASONABLE FUEL EXPENSE & UNAUTHORIZED USE OF GTWA'S VEHICLE**

#### **Criteria:**

Proper control over fuel expenses requires policies and procedures to be adopted and enforced by the Board. In addition, the Board shall also enforce policies and procedures concerning the use of the vehicle.

#### **Condition:**

GTWA fuel expenses for the fiscal year totals \$2,832.85, with a monthly average of \$236. Comparing such to other similar entities revealed the GTWA's fuel expense to be unreasonable – approximately four times higher. Additionally, review showed that one would not need an approved "Fuel Authorization Slip" to actually charge fuel against the Authority's account at the gas station, whereas, normally, only employees who show up at the gas station with an approved fuel slip authorization are allowed to charge fuel against their employer's charge account. Moreover, the Board, inarguably, is aware of the Authority's vehicle being used unlawfully. Yet, no documentations were found to suggest the Board's displeasure at such misuse of vehicles.

#### **Cause:**

We believe that the unrestricted use of the vehicle and perhaps the lack of policies and procedures in place to control how one may obtain fuel at the gas station on behalf of the Authority accounts for the unreasonable fuel expense. Furthermore, the unregulated use of the authority's vehicle is deemed the result of the Board's weakness and its hesitation over confronting employees.

#### **Effect:**

The lack of proper controls over fuel purchase and the use of the vehicle unnecessarily increase the Authority's fuel and vehicle repair and maintenance expenses.

#### **Recommendation:**

It is recommended that the BOD take the necessary measures to limit the use of the Authority's vehicle to official use only and write to gas stations detailing how and when the Authority would honor fuel purchases on account.

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 04 – ENFORCEMENT OF BOARD DECISIONS**

#### **Criteria:**

The BOD, at all times, shall ensure that its decisions are honored and respected in the highest manner possible and that appropriate disciplinary actions are taken against those who treat such decisions otherwise.

#### **Condition:**

Review of the Board meeting minutes showed the following Board decisions were made, yet nothing was found during our tests to suggest the staff complied with the directives.

- 1) The Board in a meeting dated January 13, 2006 instructed the staffs to perform inventory on the Authority's stock.
- 2) The BOD in its meeting of February 3, 2006 agreed to stop the practice of pay advances to employees. The only exception is when there is a death in the family.
- 3) The Board decided in its meeting dated August 25, 2006 that the GTWA charge account with Waab Do It Best hardware be closed until all charges are paid in full.

#### **Cause:**

The Board failed to follow-up on its decisions/instructions to ensure that they have been carried out accordingly.

#### **Effect:**

Because the employees were not held accountable for noncompliance with Board directives, the employees continued to proceed with practices that suited their preferences.

On issue of pay advances, continuity of such practice increase the risk of uncollectible receivables should any of the employee decides to terminate his /her employment with the Authority.

#### **Recommendation:**

It is recommended that the Board remind the management of the need to honor its decisions/instructions at all times and begin holding employees accountable for noncompliance.

**Prior Year Status:** A similar finding was raised during the audit of fiscal year 2005.

### **FINDING NO. 05 – UNRESOLVED PRIOR YEAR FINDINGS**

#### **Criteria:**

To strengthen controls over financial reporting and compliance with laws and regulations, the Authority should adopt audit recommendations.

#### **Condition:**

Out of the sixteen (16) findings cited in fiscal year 2005, the Board only managed to resolve five (31%) leaving eleven (69%) unresolved. The unresolved findings are as follows:

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 5 (CONT.)**

- |                 |                   |
|-----------------|-------------------|
| 1) Finding no.3 | 7) Finding no.10  |
| 2) Finding no.5 | 8) Finding no.12  |
| 3) Finding no.6 | 9) Finding no.13  |
| 4) Finding no.7 | 10) Finding no.14 |
| 5) Finding no.8 |                   |
| 6) Finding no.9 |                   |

#### **Cause:**

The Board, most especially the Chairman, failed to ensure that prior year findings were resolved accordingly and timely.

#### **Effect:**

By not taking action to resolve audit recommendations, the Authority failed to make improvements to correct deficiencies in its accounting records and its compliance with laws and regulations. Consequently, the same disclaimer of opinion is issued on the financial statements for fiscal year 2006 as was issued for 2005.

#### **Recommendation:**

It is recommended that the Board and management review the GTWA audit report for fiscal year 2005 and undertake means that can best resolved the unresolved finding listed above.

### **FINDING NO. 06 – PENDING TASKS BEFORE THE BOARD**

#### **Criteria:**

The Chairman of the Board has the ultimate responsibility of ensuring that progress and status reports are made in all Board meetings by Board members, management and staff to whom tasks were assigned in prior Board meetings.

#### **Condition:**

Review of different Board meeting minutes showed tasks assigned to different Board members, management and staff. Yet, subsequent meeting minutes showed no progress/status reports being presented, nor inquiries by the Chairman of the Board despite a fair amount of time that had lapsed. One of such tasks was the transfer of manual accounting records to Quickbooks, an automated general ledger that the Authority purchased for its use a year or two ago.

#### **Cause:**

Either the Chairman of the Board failed to bring the tasks up for discussions whereby the minute taker may take note, or the minute taker himself failed to have the minutes reflect such reports.

#### **Effect:**

The lack of follow up on tasks assigned to Authority staff accounts for the lack of any real progress made by the Authority to improve its accounting and financial records.

#### **Recommendation:**

It is recommended that the chairman follow-up on tasks assigned to the different Board members, management and staffs in all meetings. Additionally, he should ensure that responses are documented in the Board meeting.

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 07 – BOARD MEETING**

**Criteria:**

An effective and efficient Board is one that it in itself honors and complies with it own policies and procedures.

**Condition:**

The BOD in a meeting dated February 03, 2006 agreed to conducting its regular meeting on the second week of every month. Review of the Board meeting minutes revealed that the Board did not hold its regular meeting during the months of May, September, October, November, and December 2006, nor have its reasons for not conducting the meeting reflect in subsequent meetings held.

**Cause:**

The Board, for some undocumented reasons, failed to hold its regular meetings during the abovementioned months.

**Effect:**

The Board, by not complying with its own decisions increases the risks of noncompliance at the lower levels of employees within the entity.

**Recommendation:**

It is recommended that the Board hold its regular meeting as scheduled. And if for some good reasons one can not be held as scheduled, the Board shall ensure that such cause(s) is/are documented in the minute of the next subsequent meeting.

### **FINDING NO. 08 – INVOLVEMENT OF “THIRD PARTY” IN THE BILLING DISTRIBUTION PROCESS**

**Criteria:**

Legally, when a dispute arises regarding an account which disconnection has become necessary due to late payment or nonpayment and the account holder claims that such had resulted from not receiving bills or late receipting of bills, the issue of how bills were delivered become a determining factor as to who is liable. Therefore, the Authority should at all times be sensitive with the method it uses in sending bills and notices out to its customers.

**Condition:**

Review revealed that GTWA, after preparing monthly bills, places them at selected stores in both Tomil and Gagil municipalities for customers pick up. In short, GTWA involved an unauthorized third party in the distribution process of utility bills.

**Cause:**

The Authority failed to seek legal advice from its legal counsel and/or the Attorney General's office prior to actually involving the third party into the billing distribution process.

**Effect:**

To unilaterally involve a third party into the billing distribution process gives customers whose accounts are due for disconnection the opportunity to contest such decision/action under the guise of not receipting bills either timely or at all.

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 8 (CONT.)**

#### **Recommendation:**

It is recommended that the Board either require the management to use the postal services as a mean for sending bills out to customers or have the staffs personally deliver the bills to the customers in person or to their residences.

### **FINDING NO. 09 – UNDEDUCTED TAXES FROM EMPLOYEES SALARIES**

#### **Criteria:**

Each employer is required by FSM law to withhold certain percentages from its employees' gross salaries and pay towards social security and income taxes (FWT) required of every employee.

#### **Condition:**

GTWA during fiscal year 2006 did not pay employees taxes, both social security and income taxes, through salary deductions. Instead, it paid such on its employees' behalf using its own limited resources.

#### **Cause:**

The Administrative Assistant failed to deduct due taxes from employees' biweekly salaries and the management failed to detect such before payments were prepared and disbursed to individual employees.

#### **Effect:**

The effect of this particular finding is that the very limited resource of the Authority is depleted unnecessarily, i.e. invalid expenses.

#### **Recommendation:**

It is recommended that the BOD and management ensure that tax withholdings are made to every employees' salaries at the rates established by social security and income tax laws.

### **FINDING NO. 10 – OVERPAYMENT OF WAAB CHARGE ACCOUNT**

#### **Criteria:**

Payments on accounts shall either be partial payments, meaning less than the outstanding balance, or equal to, the outstanding balance of the account. At no point in time may a payment on account be greater than the account outstanding balance.

#### **Condition:**

A payment on account, check no. 1355, in the amount of \$1,060.78 was made to Waab Do It best Hardware. Yet, the actual account outstanding balance, then, was \$456.35. That leaves the vendor with an advance payment of \$604.43.

#### **Cause:**

The management as well as the signatories failed to ensure that payments on account are within or equal to the actual outstanding balance of the account.

**GAGIL-TOMIL WATER AUTHORITY**

**Schedule Of Findings**  
September 30, 2006

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**FINDING NO. 10 (CONT.)**

**Effect:**

Overpayment of charge accounts misrepresents the actual operating expense of the Authority for that particular fiscal year.

**Recommendation:**

It is recommended that the BOD require the management not to issue payment on accounts greater than the actual outstanding balance of the account.

**FINDING NO. 11 – INADEQUATE SUPPORTING OF PAYMENT TRANSACTIONS**

**Criteria:**

To provide for audit trails, proper documentations of goods and or services purchased or received requires filing of invoices from vendors together with a copy of each payment.

**Condition:**

Tests performed showed that not all payment transactions filed (one transaction of 25 tested) were adequately supported with invoices from vendors stating goods and/or services actually sold/performed.

**Cause:**

The administrative assistant failed to ensure that all payment transactions are adequately supported with invoices.

**Effect:**

Inadequate supporting of payment transactions impedes audit tracking of payment transactions. As such, relevancy of the goods and services as well as whether or not such was/were indeed received is/are indeterminable.

**Recommendation:**

It is recommended that the Board adopt policies and procedures that can adequately enable good tracking of payment transactions as well as verifications as to the relevancies of the goods and services paid.

**Status:** A similar finding was raised during the audit of fiscal year 2005.

**FINDING NO. 12 – IMPROPER USE OF INVOICE BOOK**

**Criteria:**

Invoices are issued only after certain services and/or goods have been provided to a customer. Pro-forma invoices and job orders are used for quoting potential customers with prices/costs of services and/or goods sought. Assigned number of each individual pro-forma invoice and job order however must be recorded and maintained in sequence for providing audit trails.



# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 12 (CONT.)**

#### **Condition:**

Review showed GTWA invoices which were still pending payments from customers. Inquiries revealed that the invoice book was being issued as pro-forma invoices. Therefore, it should not be used to determine income derived from other goods and services provided by the Authority. Moreover, it was also noted that the invoice book had some pages missing including copies that should be retained in the book for tracking purposes.

#### **Cause:**

The inability of employees to differentiate between the types of invoices and their use as well as the lack of clear procedures clarifying when to use each type of invoice is the cause of this finding.

#### **Effect:**

The above condition increases the risk of unrecorded revenue or misstatements in the recording of other income.

#### **Recommendation:**

It is recommended that the BOD ensure that staffs do understand the use for each different type of invoice, understand what point in time each may be issued and the need to maintain the invoices in numerical manner. It is further recommended that Board adopt in writing such procedures for easy reference.

### **FINDING NO. 13 – DAILY TIME SHEET**

#### **Criteria:**

Paid salaries should be based on the number of hours worked extracted from the time sheets maintained by the employees on a daily basis.

#### **Condition:**

Tests performed on salaries and wages showed that employees did not maintain daily time sheets. Nonetheless, they were being paid full hours.

#### **Cause:**

The BOD failed to ensure that employees were maintaining daily time sheets and that salaries paid to each of them was based on the actual number of hours worked.

#### **Effect:**

GTWA is an entity which relies heavily, if not entirely, on its monthly collections. Therefore, it should not allow baseless full-hour pay as it contributes to the slow progress of the Authority towards financial self sustainability.

#### **Recommendation:**

It is recommended that Board ensure that daily time sheets are maintained by the employees and that each employee is paid based on the actual hours worked.

# GAGIL-TOMIL WATER AUTHORITY

## Schedule Of Findings September 30, 2006

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### **FINDING NO. 14 – LEAVE ACCRUALS**

#### **Criteria:**

Per employment contract of the employees, GTWA is required to maintain leave accruals for each of the employees.

#### **Condition:**

Tests performed showed that GTWA was not maintaining accrued leave balance for the different employees of the Authority.

#### **Cause:**

Because leave accruals were normally maintained together with prepared timesheets, and that timesheets were not maintained throughout the fiscal year, the leave accruals were not maintained as well.

#### **Effect:**

Should any of these employees decides to terminate his or her employment with the Authority and ask for leave encashment to which they are entitled as per the terms of their employment contract, determining the actual number of leave accrued would be nearly impossible and costly to the Authority.

#### **Recommendation:**

It is recommended that the BOD ensures that the Administrative Assistant understands how leave accruals are maintained and require her to begin maintaining leave accruals for the different employees.

**Gagil-Tomil Water Authority**  
**(Responses to 2006 Audit findings)**

**Finding No. 01 – Reporting Requirements:**

The Board and Management have reviewed this finding and concur that statutory requirements per YSL No. 1-183, are not being fulfilled. As such, all Board members have agreed to review the enabling legislation to ensure GTWA's compliance with all reporting requirements, within the prescribed time-frames. The Board shall work with Management to ensure reporting compliance immediately.

**Finding No. 02 – Ineffective Board Decision:**

The Board has discussed this finding and the different type of sales that GTWA involves in. The Board weighed and considered special circumstances that may require GTWA to receipt customers to ensure or hasten service payments. The Board has decided to reaffirm its prior decision that all payment shall be received by the Bank. Management shall ensure all customers payments are made directly to the Bank, allowing special consideration to those due payments falling outside the Bank's business days.

**Finding No. 03 – Unreasonable Fuel Expense & Unauthorized Use of GTWA's Vehicle:**

The Board concurs with this finding and is adopting the following measures to resolve these issues.

- a) Vehicle use: In the absence of a vehicle policy, the Board have agreed to adopt and follow the State Government Vehicle Policy, until such time that it has develop and implemented its own vehicle use policy. Management shall develop and prepare "trip-ticket" forms for vehicle use after business hours. In addition, the Board has selected Board members Ivor Yorgil and Sebastian Taman to be the only Board members whom can authorize and endorse the trip-tickets.
- b) Fuel expense: The Board had implemented some policies in the past to control fuel expenses but with limited effect. To control this costs further, the Board has adopted a drastically reduced fuel budget of only \$1,800.00 for the year (2008), and similar to above (a), the Board have task Management to develop and prepare a "gas-slip" form to be used to charge fuel against GTWA fuel account. The "gas-slips" will be prepared and submitted by the Manager to the identified Board Members for approval. Such requests for approval shall also include the amounts (\$\$ /gallons used) for the months and the balances remaining per the authorized budget for the year.
- c) The two identified board members reviewing and authorizing all vehicle and gas uses can better monitor these costs and make further appropriate recommendations or control measures to the Board, if necessary.

**Finding No. 04 – Enforcement of Board Decisions:**

The Board had reviewed this finding and concurs that some Board directives are not fulfilled. To ensure compliance with the Board / Management directives, the Board agreed to persistently follow-up on all approved and pending directives in every Board meetings. In the event of noncompliance, the Board / Management shall take appropriate action in disciplining staffs. Such disciplinary action shall begin with an initial notice, followed by a second warning if still warranted. The third and final warning will be taken up to the Board for possible adverse action and or further investigations.

**Finding No. 05 – Unresolved Prior Year Findings:**

The Board concurs with this finding and has agreed to revisit each prior year findings for resolutions thereto, along with these current year findings. These prior year findings will be reviewed and assign to Board members and or management as appropriate to ensure compliance/resolution.

**Finding No. 06 – Pending Tasks before the Board:**

The Board concurs with this finding and has agreed that the Chairman shall follow-up in every board meetings on tasks assigned to each Board member to ensure they are performed and completed on time. Furthermore, the Chairman shall ensure that the Agenda preparation and the meeting minutes be improved to ensure assigned tasks to members are not lost in subsequent meetings.

**Finding No. 07 – Board Meeting:**

The Board has reviewed and concurs with this finding. The Board has agreed to hold its regular meeting on the date established in its original meeting. However, if for any unexpected reasons that the Board cannot conduct its regular meeting as scheduled, then the Board will ensure that the cause or reasons be reflected in the subsequent Board meeting minutes.

**Finding No. 08 – Involvement of “Third Party” in the Billing Distribution Process:**

The Board have reviewed this findings but considers the involvement of selected businesses in the bill distribution process to be very cost/time effective, as compared to the postal service and or staffs personally delivering bills. The Board however admits it did not consider legal ramifications of involving third parties into the billing process. To resolve this finding the Board has assigned one of its members to follow-up with the Attorney General Office for further legal advice on the matter.

**Finding No. 09– Un-Deducted Taxes from Employees’ Salaries:**

The Board have discussed this finding and partially agreed due to the poor book keeping within the System limiting in-depth analysis of past salary records to prove/disprove whether or not taxes were deducted from its employees. Management and staff have informed that all salary checks have taxes deducted bi-weekly and paid on a quarterly basis. A Board member has been assigned to look further into this finding and advise the Board. Furthermore, the setting up of the account software will ensure proper deductions are made to the employees and GTWA (employer) accounts.

**Finding No. 10 – Overpayment of WAAB Charge Account:**

The Board has reviewed this finding and has assigned one of its members to look into this finding. Meanwhile the Board advised all members whom are also GTWA Bank account signatories to carefully review invoices against payments before signing any checks. The Board is looking forward to the set-up of the accounting software (QuickBooks) to monitor all accounts payable.

**Finding No. 11 – Inadequate Supporting of Payment Transactions:**

The Board concurs with the finding and has instructed management to advise appropriate staff on the proper filing of invoices and documents. Effective immediately.

Finding No. 12 – Improper Use of Invoice Book:

The Board concurs with the finding and has agreed to the immediate set up of the accounting software (QuickBooks) with assistance from other government agencies, so management and staff can separate sales and pro-forma invoices.

Finding No. 13 – Daily Time Sheet:

The Board has reviewed this finding and is considering the implications of a "Wage" or "Salaries" type contract for its employees, based on the type of work that they perform for GTWA. The final contract type selected for each GTWA employee will determine whether we maintain time-sheets for the employee(s).

Finding No. 14 – Leave Accruals:

Similar to Finding No. 13, the contract type selected for each employee will determine how GTWA accrues leave benefits to its employee. The implementation of the account software will assist GTWA maintain and monitor leave accruals for each employee.