

**Gagil Tomil Water Authority**

**Financial Statements and  
Independent Auditor's Report**

**Fiscal Year Ended  
September 30, 2007**



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



# OFFICE OF THE STATE PUBLIC AUDITOR

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## EXECUTIVE SUMMARY

### Financial Audit of the Gagil-Tomil Water Authority for the Year ended September 30, 2007

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, 2007 for which report is dated May 30, 2008. The Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal year 2007, 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, 2007.

The report on internal control and compliance and other matters required by *Government Auditing Standards* on page 10 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 12. All of the seven (7) findings are internal control issues. Ten prior year findings have remained unresolved and are listed under Finding No. 3 of this fiscal year and are considered to be material weaknesses.

Following is a summary of the audit findings for the year ended September 30, 2007:

Finding Nos. 1 and 2 pertains to questionable and unreasonable usage of public funds.

Findings No. 3 refers to unresolved prior year findings.

Findings Nos. 4, 5 and 7 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. 6 discusses the absence of accounting policies and procedures which has resulted in inadequate maintenance and upkeep of basic accounting and financial records.

We have met with the Board of GTWA to discuss the above findings and they have provided written responses to the findings which are presented on page 19 of this report.

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.

Wilfred Oliver L. Dolosa  
Acting Yap State Public Auditor  
February 18, 2009

# GAGIL-TOMIL WATER AUTHORITY

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**INDEPENDENT AUDITOR'S REPORT**

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

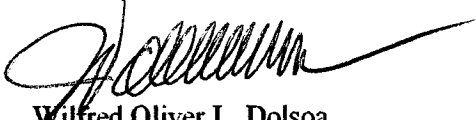
We were engaged to audit the accompanying balance sheets of Gagil-Tomil Water Authority as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GTWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The GTWA has not maintained adequate accounting records for the years ended September 30, 2007 and 2006 and we were unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2006 and 2005 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 year 2007, 2006 and 2005.

Since GTWA did not maintain adequate accounting records, and we were unable to satisfy ourselves about the opening balances in the financial statements as of October 1, 2006 and 2005, or about the consistent application of accounting principles between fiscal years 2007, 2006 and 2005, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on its financial position as of September 30, 2007 and 2006 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 year.

Management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board Statement no.34. We 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, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, We have also issued a report dated May 30, 2008 on our consideration of the Gagil-Tomil Water Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our 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 our audits.

  
Wilfred Oliver L. Dolsoa  
Acting Yap State Public Auditor

May 30, 2008

## Management Discussion Analysis

(2006-07 GTWA Audit Report)

The Gagil – Tomil Water Authority operation depends solely on monthly water revenue it collects from its consumers. The revenue this system is generating is carefully spent on electricity bills, personnel, and other necessary expenses to keep the System in operational. This System in the past has tried and attempted to seek financial support from our legislature to rehabilitate its aging infrastructure and turned out unsuccessful. In around January 2004 the Board of Directors in its regular meeting decided to impose a tariff increase on all water bills in order to keep the System fully operational, and at the same time save some money for its needed parts in the future. The System not only needs parts to upgrade it self, but also additional staff to overlook the system. In the 2006-07 Public Auditor Reports, it clearly indicates that the GTWA system definitely needs additional staff to resolve some of the findings allegedly cited for. However, because of the very minimal water revenue the system generates, the GTWA only manage to hire employees on a short term contract basis. The increasing costs and limited revenues forced GTWA to adopt a 10% late charge in 2006, encouraging 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 the above actions as well as other cost reductions and other revenue generating strategies has assisted GTWA remain operational over the years. And to resolve some of these difficulties, GTWA is, foremost, looking at strengthen its staffing by restructuring it to meet its operational needs and mandates.

The Gagil-Tomil Water Authority is maintaining its position to pursue the rehabilitation, improvement, and expansion of water to Makiy village in Gagil municipality, Map and Rumung municipalities as was agreed by the State under the Omnibus Infrastructure Development Plan in year 2004. Though this project is delayed four years now, consultant and technical staff from the (PIA) Project Implementation Agency recently visited Yap on November 2008 to reassess and provide up-dates of the project as well as the current plans and costs.

**GAGIL-TOMIL WATER AUTHORITY**

Balance Sheets  
September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 10,822	\$ 20,275
Grants receivable (Note 4)	9,430	--
Trade receivables, (Note 2)	4,144	5,620
Employee receivables	3,057	3,272
Interest receivable	153	--
Prepaid advance	<u>75</u>	<u>--</u>
 Total current assets	 27,681	 29,167
 Property and equipment, net (Note 3)	 <u>10,539</u>	 <u>3,392</u>
 TOTAL ASSETS	 x <u>\$ 38,220</u>	 <u>\$ 32,559</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 4,456	\$ 1,111
Accrued payroll	<u>662</u>	<u>934</u>
 Total current liabilities	 5,118	 2,045
 Contingencies		
 Net assets:		
Invested in capital assets	10,539	3,392
Unrestricted	<u>22,563</u>	<u>27,122</u>
 Total net assets	 <u>33,102</u>	 <u>30,514</u>
 TOTAL LIABILITIES AND NET ASSETS	 x <u>\$ 38,220</u>	 <u>\$ 32,559</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Operating revenues</b>		
Water utility sales	\$ 41,681	\$ 43,217
Other sales	10,635	1,120
Interest income	<u>1,006</u>	<u>465</u>
Total operating revenues	53,322	44,802
<b>Operating expenses</b>		
Utility expense	17,716	13,584
Salaries and benefits	13,369	14,610
Repair & maintenance expense	5,774	5,129
Depreciation expense	3,981	3,072
Fuel	3,039	2,983
Others (Note 5)	2,267	1,043
General and administrative	1,081	1,066
Office supplies	850	1,116
Contractual services	<u>475</u>	<u>50</u>
Total operating expenses	48,552	42,653
Income from operations	4,770	2,149
<b>Nonoperating expenses</b>		
Loss on disposal of assets	0	(147)
Other income/expense	<u>(2,182)</u>	<u>(743)</u>
Total nonoperating expenses	(2,182)	(890)
Changes in net assets	2,588	1,259
<b>Restatement of beginning net assets:</b>		
Beginning net assets	30,109	29,255
Less : Unreconciled variance		0
Less: Net effect of other prior period adjustments	<u>405</u>	<u>0</u>
Net assets at beginning of year	<u>30,514</u>	<u>29,255</u>
Net assets at end of year	<u>\$ 33,102</u>	<u>\$ 30,514</u>

See accompanying notes to financial statements

**GAGIL-TOMIL WATER AUTHORITY**

Statements of Cash Flows  
For the Years ended September 30, 2007 and 2006

Increase (Decrease) in Cash

	<u>2007</u>	<u>2006</u>
<b>Cash flows provided by/(used for) operating activities</b>		
Receipts from customers	\$ 45,216	\$ 43,108
Cash payments for goods and services	(30,114)	(25,083)
Cash payments to employees	<u>(13,426)</u>	<u>(15,928)</u>
 <b>Net cash provided by operating activities</b>	 <u>1,676</u>	 <u>2,097</u>
 <b>Cash flows from investing activities</b>		
Acquisition of fixed assets	<u>(11,129)</u>	<u>—</u>
 <b>Net cash used for noncapital financial activities</b>	 <u>(11,129)</u>	 <u>—</u>
 <b>Net increase/(decrease) in cash</b>	 (9,453)	 2,097
 Cash, beginning of year	 <u>20,275</u>	 <u>18,178</u>
 Cash, end of year	 <u>\$ 10,822</u>	 <u>\$ 20,275</u>
 <b>Reconciliation of Income from Operation to Net Cash used for Operating Activities</b>		
Operating income:	\$ 2,588	\$ 2,149
Adjustment to reconcile operating income to net cash used in operating activities		
Depreciation	3,981	3,072
Loss on disposal of assets	0	147
Prior period adjustments	0	348
(Increase)/decrease in assets		
Tomil customer receivables	1,421	(873)
Gagil customer receivables	56	(435)
Employee receivables	215	(1,880)
Grant receivable	(9,430)	—
Prepaid expense	(75)	—
Interest receivable	(153)	—
Increase/(decrease) in liabilities		
Accounts payable	3,345	(992)
Accrued expenses	<u>(272)</u>	<u>561</u>
 <b>Net cash provided by operating activities</b>	 <u>\$ 1,676</u>	 <u>\$ 2,097</u>

See accompanying notes to financial statements



# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2007

## 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.

The GTWA does not have restricted net assets as at September 30, 2007 and 2006.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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** – For fiscal year 2007, 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 services utility has declined significantly an unexpectedly.

For fiscal year 2006, GTWA will be implementing GASB Statement No. 46, *Net Assets Restricted by 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 benefits expenditures/expenses and liabilities by cost-sharing employers.

The adoption of these pronouncements did not have a material impact on the accompanying 2007 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 expenditures/expenses 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, 2007. 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 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

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 \$921 of the \$10,822 of the cash balance for the year ended September 30, 2007 is fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage. The remaining cash balance of \$9,901 represent deposits with a non-federally insured locally-owned credit union.

**Accounts Receivables** – Customers receivables represent water utility bills outstanding from customers from Gagil and Tomil. Accounts Receivables as of September 30, 2007 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. TRADE RECEIVABLES:

All of the trade receivables of GTWA as of September 30, 2007 and 2006 are from municipalities of Gagil and Tomil as follows:

	<u>2007</u>	<u>2006</u>
Tomil customers	\$ 2,146	\$ 3,567
Gagil customers	1,998	2,054
	<u>4,144</u>	<u>5,621</u>
Allowance for bad debts	—	—
	<u>\$ 4,144</u>	<u>\$ 5,621</u>

**GAGIL-TOMIL WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2007

**3. PROPERTY & EQUIPMENT**

Summaries of property and equipment as of September 30, 2007 and 2006 follow:

	Beginning balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2007
Warehouse	15,091	--	--	15,091
Vehicle	4,632	--	--	4,632
Other equipment	--	9,000	--	9,000
Office equipment	2,927	2,128	--	5,055
Pump relay	842	--	--	842
	<u>23,492</u>	<u>11,128</u>	<u>--</u>	<u>34,620</u>
Less accumulated depreciation	<u>(20,100)</u>	<u>(3,981)</u>	<u>--</u>	<u>( 24,081)</u>
<b>Total</b>	<b><u>\$ 3,392</u></b>	<b><u>\$ 7,147</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 10,539</u></b>

	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>--</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>
<b>Total</b>	<b><u>\$ 6,611</u></b>	<b><u>\$ (3,072)</u></b>	<b><u>\$ (147)</u></b>	<b><u>\$ 3,392</u></b>

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 years 2007 and 2006.

**4. GRANTS AND CONTRACTS**

On April 2007, CFSM through Public Law No. 14-108 appropriated a sum of \$35,000 to GTWA through Yap State Government for purchases of equipments for the authority. In FY2007, GTWA increased its equipment by \$9,000 and incurred related expenses of \$430 totaling \$9,430. Mentioned total was presented as a receivable, due from Yap State, and therefore recognized as grant revenue on 9/30/07.

# GAGIL-TOMIL WATER AUTHORITY

## Notes To Financial Statements September 30, 2007

### 5. OTHER EXPENSES

Provided below are breakdowns of other expenses for the years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Rental	\$ 1,226	\$ --
Consumable goods	571	49
Refunds and reimbursement	295	--
Miscellaneous	\$ 175	\$ 994
	<u>\$ 2,267</u>	<u>\$ 1,043</u>

### 6. RELATED PARTY TRANSACTIONS

In the ordinary course of business, GTWA enters into transactions with the State Government and private businesses in which some 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 EVENT

In April 2007, Public Law No. 14-108 of the 14<sup>th</sup> Congress of FSM re-appropriated a sum of \$35,000 to GTWA to purchase equipments with a lapsed date of September 30, 2009. Such Law amended Public Law No. 14-84 by changing the uses of certain funds previously appropriated to fund public projects and social programs in the States of Yap and Kosrae. In April 2008, GTWA received \$18,461 as a reimbursement for a backhoe and a mini-dump truck purchased by GTWA in FY2008 and 2007. \$16,539 remained unexpended as of June 30, 2008.

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 years 2007 and 2006 had no activity, therefore, it remained as is in fiscal year 2005.



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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**

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

We were engaged to audit the financial statements of Gagil-Tomil Water Authority (GTWA) as of September 30, 2007, and for the year then ended, and have issued our report thereon dated May 30, 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 2007 and 2006. We conducted our audits 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 our audit, we considered GTWA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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 we consider to be material weaknesses are reported in the Schedule of Findings as Finding No. 3.

**Compliance**

As part of obtaining reasonable assurance about whether GTWA's financial statements are free of material misstatements, we 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 our audit, accordingly, we do not express such an opinion.

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.



Wilfred Oliver L. Dolosa  
Acting Yap State Public Auditor

May 30, 2008

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

## **Finding no. 1 – Questionable and Unreasonable Costs**

**Criteria:** Since GTWA's funding comes from the government and are considered as public funds, consumption of funds should only be used for operational matters and not for any other uses.

**Condition:** Our review of FY2007 disbursements found three payments, totaling \$571, made to local vendors for purchases of alcoholic beverages, cigarettes, and food items. We were informed that the items were purchased for villagers as non-monetary compensation for services rendered during two GTWA projects in two villages.

**Cause:** The GTWA did not have in place policies that regulate and strengthen its procurement procedures. Further, thru the approval of checks that accompany the purchases of the mentioned items, the Board condones the unreasonable usage of public funds.

**Effect:** Continuous existence of unsound practices by GTWA diminishes future justifications of being subsidized by the State or any other government instrumentalities.

**Recommendation:** We strongly recommend that the Board develop and implement policies relating to allowable costs that are consistent with the State's regulations on procurement.

## **Finding no. 2 – Contributions and Donations**

**Criteria:** GTWA is in no financial position to give out contributions and donations.

**Condition:** Our review of FY2007 disbursements found that check nos. 1409 and 1522 totaling \$100 were paid to an employee as a contribution for funeral without any approval from the Board.

During our review for search for payables, we noted two checks in FY08 which were used as contributions to funerals. Only one out of the 2 checks was approved by the Board.

**Cause:** Normally, we feel obligated to contribute to a fellow worker during funeral or hospitalization of a family member. Being obligated at such times and with its involvement in Authority's operation, the Board felt that such expense would be reasonable for GTWA to shoulder.



# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

## **Finding no. 2 – Contributions and Donations (cont.)**

**Effect:** GTWA incurred unrelated expense since such situation is not part of the approved budget for operations for FY2007 and 2008. Moreover, what the Authority and the Board did was inconsistent with the prevailing practice where government agencies and private businesses ask employees themselves to give voluntary monetary contributions as *commiseration to fellow workers*.

**Recommendation:** We recommend that the Board of Directors formulate policies relating to allowable contributions and donations ensuring that such policies are consistent with the general practices of the Yap State Government and its agencies.

## **Finding no. 3 - Unresolved Prior Year Findings**

**Criteria:** GTWA should on a timely manner, adopt and implement audit recommendations to strengthen controls over financial reporting and ensure full compliance with laws and regulations.

**Condition:** Out of the fourteen (14) findings cited in fiscal year 2006, the Board only managed to resolve four (29%) and ten (71%) findings remained unresolved and have been repeated in FY07.

In FY06 audit, GTWA was also cited for not resolving previous years' findings on a timely manner. Out of sixteen (16) findings cited in FY05, the Board only managed to resolve five or 31% of the total number of findings.

**Cause:** GTWA failed to see the importance of implementing and adopt audit recommendations accordingly and on a timely manner.

Evidently, the lack of follow-up and documentation with regards to the implementation and enforcement of the Board's decisions, coupled with various pending tasks, contributed greatly in not resolving the audit findings.

**Effect:** Due to the continuous failure of the Board to address the audit exceptions, 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 2007 as were issued in FY 06 and 05.

**Recommendation:** The Board should find ways to improve their efficiency in addressing the audit exceptions specially those unresolved prior audit findings.

**Prior Year Status:** Same Finding issued in the FY2006 audit report.

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

## **Finding no. 4 - Pending Tasks Before the Board**

**Criteria:** The Board of Directors, specially the Chairman of the Board, should always see to it that progress and status reports are made in all board meetings so as to properly monitor the status of assigned tasks.

**Condition:** Follow ups to previously assigned tasks were not taking place on a timely manner. Some of the tasks are as follows:

- 1) The board tasked management and staff to create inventory listing of GTWA tools, equipments, and fixed assets on several occasions for over a period of three fiscal years; once in January 13, 2006, one in June 14, 2007, and once in March 26, 2008. Apparently, before the start of FY07 audit, there was no updated inventory listing of such.
- 2) In FY2006, GTWA was cited for involving unauthorized third party in the distribution of utility bills. Though the Board felt that such practice was very cost/time effective, they didn't consider the legal effect of involving third parties into the billing distributions. A Board member was tasked to seek legal opinion on such practice from the AG's office. Our observations, reviews and interviews performed for FY07 audit did not find evidence of any legal opinion coming from the AG's office and utility bills continued to be delivered to designated stores for distributions to customers.
- 3) We found no evidence of monthly reports submitted to the Board of Directors.
- 4) Staff evaluation did not take place despite the Board's instructions that such evaluations were to be presented to the Board in its next scheduled meeting.
- 5) On April 18, 2008, we discussed with the Board and GTWA staff the inadequate documentation of authorized pay rate for employees. Our review of meeting notes found that in June 2007, the Board has discussed the salaries of existing employees and had agreed to change the salaries of existing employees to accommodate the plan of hiring new employees.

**Cause:** Our review of meeting notes and minutes found that meetings were held regularly. However, both documents revealed no evidence as to the Board's decision or approval on any of the items or issues on the agenda.

## GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

### **Finding no. 4 - Pending Tasks Before the Board (cont.)**

Moreover, our review of the meeting notes and minutes revealed that discussions were not in an orderly manner. Previous meeting notes and minutes were not reviewed and adopted accordingly. There was no evidence of status updates for pending issues. Evidently, issues were introduced for discussions but the Board's decisions and follow-throughs were not documented.

**Effect:** Absence or lack of decisions and follow-through from the Board of Directors and management hinders the continued growth and improvement of the operations of the Authority. Additionally, employees will have a tendency not to feel obligated to follow policies and procedure set forth by the Board of Directors.

**Recommendation:** The Chairman of the Board of Directors is strongly recommended to require the Secretary of the Board to maintain proper meeting minutes and that all minutes be reviewed and adopted in the following meetings to ensure proper documentation of actions and decisions made by the Board.

**Status:** The same Finding was issued in the FY2006 audit report.

### **Finding no. 5 - Board Meeting Minutes**

**Criteria:** Board meetings must be appropriately documented to reflect the actions and decisions made by members of the Board. Furthermore, minutes taken from previous meeting must be reviewed and adopted in subsequent meetings to ensure that matters raised in the previous meeting were considered and adopted.

**Condition:** Our review of Board meeting logbook found that six (6) meetings were held in FY2007. Minutes were not properly prepared to show evidence of reviews and adoptions of the Board's decisions. Attendance of the Board members was not reflected in one of the meeting notes.

**Cause:** The Board failed to ensure that its decisions were adequately and properly documented.

**Effect:** The Board's failure to ensure that its adopted decisions were adequately documented resulted in the lack of follow-ups on pending and assigned tasks and untimely resolution of problems.

**Recommendation:** We are reminding the Board of GTWA of the importance of the completeness of the Board Minutes. All the decisions and follow-throughs will be documented for future references.

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

## **Finding no.6 - Cost-Efficient and Reliable Financial Records**

**Criteria:** GTWA purchased a “Quickbooks” accounting software for its use two years ago hoping to transfer its manual accounting records. This process was implemented to enable the system to provide financial statements generated by the software for its annual reports and audits.

**Condition:** Our review of the Board’s meeting minutes found that in the June 2007 meeting, the Board agreed to have the GTWA staff attend a training seminar on “Quickbooks” accounting program.

In May 2007, GTWA entered into a Special Services Contract with an independent contractor to train staff in setting up accounting records and setting up filing system for a contract fee of \$500. The contract was to commence on June 2007 and ended December 30, 2007. Our review of GTWA disbursements found that a total of \$200 was paid to the contractor in August and September 2007.

Our review and observation of services performed found that nothing was satisfactorily completed other than arranging documents and files which could have been done by the office staff. Some of the transactions entered in the accounting program were erroneously posted.

**Cause:** The Board of Directors did not perform any follow-ups on the contractor’s progress to ensure that GTWA receives the services that’s commensurate to the amount they paid for.

**Effect:** Continuation of the above practice lessens the Board’s ability to ensure cost efficiency and reliable financial records for the Authority.

**Recommendation:** The Board of Directors should take immediate action to put to use the accounting software purchased two or three years ago to preclude the Auditor’s disclaimer opinion on GTWA’s financial statements.

## **Finding no.7 – Lack of Payroll Records**

**Criteria:** Proper internal controls and accounting procedures require that payroll records such as employment contracts and personnel action forms, records of daily time and attendance, payroll worksheets showing employees gross pay, deductions and net amounts and records of annual and sick leave if any, be adequately documented and filed.

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2007

## **Finding no.7 – Lack of Payroll Records (cont.)**

**Condition:** Our review of payroll records for fiscal year 2007 found the followings:

- (1) Employment contracts for the three employees currently on file have terms that commenced on April 1, 2007 and ended October 1, 2007. We inquired copies of the prior contracts but none were provided and therefore, we concluded that in fiscal year 2007, employment of these employees were only valid for six months of the whole fiscal year. An estimation of \$12,518 in salaries was paid to GTWA staff of which \$6,259 was considered unauthorized pay.
- (2) The biweekly salaries on the three employment contracts seemed unofficial as amounts were changed and members of the Board could not validate the amounts.
- (3) Daily timesheets were not maintained because employees felt that they have fixed pay regardless of hours worked.
- (4) Salaries reported on the Social Security and Income Tax Withholding Returns could not be validated.
- (5) The 20 working days of paid vacation per year for each employee were not used as employees were getting fixed pay regardless of days worked. This allows the three employees to cash in the maximum paid vacation at the end of each contract.

**Cause:** The Board's directive reflected on several meeting minutes requiring staff to prepare timesheets was never implemented. Moreover, the Board failed to require management to put in place and implement policies and procedures to ensure enforcement of proper and sound business practices.

**Effect:** The Board's failure to ensure its directives are adequately and properly administered resulted in the staff having greater opportunity to conduct the Authority's operation in accordance to their personal preferences.

**Recommendation:** Over the past 3 years, GTWA had not been successful in resolving its audit findings and therefore, the Board should take immediate actions in requiring management and staff to begin implementing the basic and simplest administrative procedures and controls to avoid continuous reminder as results of unresolved findings.

## GAGIL – TOMIL WATER AUTHORITY

### Responses to the Schedule of Findings

As of September 30<sup>th</sup>, 2008

#### Finding No. 1 – Questionable and Unreasonable Costs:

The Board and Management reviewed this finding and concurred that Management will ensure allowable expenses are consistent with the State regulations on procurement.

#### Finding No. 2 – Contributions and Donations:

The Board discussed this Finding and agreed to follow allowable contributions and donations consistent with the general practices of the State and its agencies. All signatories will ensure contributions and donations are in compliance with the general practices of the State.

#### Finding No. 3 – Unresolved Prior Year Findings:

The Board reviewed this Finding and was assigned to Management to ensure Prior Year Audit Findings will be resolved or at least reduce its numbers.

#### Finding No. 4 – Pending Tasks Before the Board:

The Board reviewed this Finding and agreed that the documentations of actions and decisions made by the Board needs to be improved so assigned tasks can be dealt with on a timely manner. The Chairman assigned the Secretary to ensure all Minutes and Agendas are adopted and signed by him accordingly.

#### Finding No. 5 – Board Meeting Minutes:

Same Responses with *Finding No. 4*

#### Finding No. 6 – Lack of Efficient and Reliable Accounting and Financial Records:

The Board discussed this Finding and was assigned to the Management to work closely with the Public Auditor office to ensure the Quickbooks accounting program will be set up immediately to easily track down efficient and reliable accounting and financial information.

Finding No. 7 – Lack of Payroll Records:

The Board assigned the Management to ensure that all employment contracts are executed and documented accordingly. Also to make sure that employment payroll be included in the Quickbook accounting program to ensure accuracy on all employee payroll deductions.