

**Gagil - Tomil Water Authority**

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

**Fiscal Years Ended  
September 30, 2008 and 2007**



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



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YAP STATE GOVERNMENT**

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**EXECUTIVE SUMMARY**

The Office of the Yap State Public Auditor has completed the audit of the Gagil-Tomil Water Authority (GTWA) for the years ended September 30, 2008 and 2007 for which report is dated July 27, 2009. The Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal years 2008 and 2007, we were not able to audit the financial statements. Accordingly, we expressed no opinion on the fair presentation of the financial statements presented on pages 4 through 6.

The report on internal control and compliance and other matters required by *Government Auditing Standards* on page 12 to 13 discusses reportable conditions at GTWA. These conditions and our recommendations are presented for information of GTWA management in the Schedule of Findings beginning on page 14. Of the six findings, one is related to non-compliance to laws and regulations while the remaining five findings are related to deficiencies in internal control over financial reporting. Three of the findings are considered material weaknesses.

Below is the summary of the findings for fiscal 2008:

- Finding No.1 pertains to the unreasonable usage of public funds.
- Finding No.2 discusses GTWA's non-compliance with State Procurement Policy.
- Finding No.3 through 5 discusses the inadequacy in maintaining of accounting records and supporting documents.
- Finding No.6 pertains to unresolved prior year findings.

We have met with the Board of Directors of GTWA to discuss the above findings and they have provided written responses to the findings which are presented starting on page 18 of this report.

We thank the Board of Directors and the staff of 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.

A handwritten signature in black ink, appearing to read "Ronald C. Yow".

Ronald C. Yow  
Yap State Public Auditor

March 8, 2010



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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 (the Authority) as of September 30, 2008 and 2007, 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 Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

The Authority has not maintained adequate accounting records for the years ended September 30, 2008 and 2007 and we were unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2007 and 2006 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 2008, 2007, 2006 and 2005.

Since, the Authority 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, 2007 and 2006, or about the consistent application of accounting principles between fiscal years 2008, 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, 2008 and 2007 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 pages 2 to 3 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 July 27, 2009 on our consideration of the 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.

Ronald C. Yow  
Yap State Public Auditor

July 27, 2009

Management Discussion and Analysis  
(2008 GTWA Audit Report)

This is the fourth audit performed for the Gagil-Tomil Water Authority (GTWA) since established in 1984, a period of more than 25 years. GTWA is overseen by a nine member Board of Directors, while the daily operations are performed by three employees. These employees are contracted to work on a short term basis, and may be extended upon evaluation and approval of the board. Because neither management nor the staff had continued working with the Authority over a longer period of time, the inconsistencies of record keeping and different management strategies withhold the system to achieve some of its important goals. To achieve these goals the Board of Directors and the Management has agreed to define the present situations, determine aids and barriers to goal achievement, and develop a course of action for ultimate solutions. A periodic review of progress from time to time to ensure performance conforms with established plan, and to make changes when necessary.

The system at present has two water pumps working which service customers in Tomil and Gagil areas. The system's electrical panel units which control the automation of pumps and the sensor that monitors the level of tank is no longer working for quite sometime. For this, the pumps and the level monitoring of tank has to be done manually. Because the control unit is no longer working, electrical rewiring and modification on the control unit is greatly needed to redesign in order to reduce the consumption of electricity. Currently, the system is averaging close to two thousand dollars a month which according to the electrical engineer at Public Works can be reduced if a qualified person can redesign a new control panel unites. The GTWA is negotiating with Public Works to have their electrical engineer assist with the design at a less cost and to put up a bid for a contractor for its installation. Once installation is completed, electricity consumption is reduced which is an opportunity for the system to save some revenue for its future operations.

The Gagil-Tomil Water Authority's customer in year 2008 has slightly increased as compared to year 2007. This signifies an increase in revenue in year 2008.

Following is a comparison of GTWA FY2008 Operations Budget against the Actual audited financial information.

<b>2008 GTWA Operation</b> <i>(Budget &amp; Actual Comparison)</i>			
<b>Item</b>	<b>Budget</b>	<b>Actual (Audited)</b>	<b>Diff. (Act - Budget)</b>
<b>REVENUES</b>	<b>43,080</b>	<b>44,568</b>	<b>1,488</b>
<b>EXPENSES</b>			
Utilities	16,000	16,316	316
Salaries/Ben.	15,873	13,747	(2,126)
Repair/Maint.	5,000	4,417	(583)
Depreciation	-	3,831	3,831
Fuel	1,800	3,752	1,952
Others	600	1,781	1,181
G&A	1,140	1,297	157
Office Suppl.	600	426	(174)
Contr.Srvcs.	500	510	10
<b>Total Expenses:</b>	<b>41,513</b>	<b>46,077</b>	<b>4,564</b>
<b>Net after Exp:</b>	<b>1,567</b>	<b>(1,509)</b>	<b>(3,076)</b>

#### Future Activity

The water line useful life time is already beginning to decline and water loss is extremely increasing which requires an increasing in pumping and consumption of electricity.

The Gagil-Tomil Water Authority is awaiting the rehabilitation and improvement of the system, and expansion of water to Makiy and Mapp communities under the Omnibus Infrastructure Development Plan. It is the GTWA understanding that a pre-bid stage of this project is completed and a deadline for contractors to submit their proposals is already set. The latest updates GTWA inquires from the Contract Division under Public Works was all interested parties' proposals were already submitted, and the State, National government along with the engineering firm from ADB are in the process to award this project.

**GAGIL-TOMIL WATER AUTHORITY**

**Balance Sheets**  
**September 30, 2008 and 2007**

<b>ASSETS</b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Current assets:		
Cash	\$ 27,636	\$ 10,822
Grants receivable (note 4)	-	9,430
Trade receivables, (note 2)	8,085	4,144
Employee receivables	2,702	3,057
Interest receivable	287	153
Prepaid advance	-	75
	<hr/>	<hr/>
Total current assets	38,710	27,681
Property and equipment, net (note 3)	<u>15,508</u>	<u>10,539</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>54,218</u></b>	<b>\$ <u>38,220</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	5,446	4,456
Accrued payroll	<u>899</u>	<u>662</u>
	<hr/>	<hr/>
Total current liabilities	6,345	5,118
Contingencies		
Net assets:		
Invested in capital assets	15,508	10,539
Unrestricted	<u>32,365</u>	<u>22,563</u>
	<hr/>	<hr/>
Total net assets	<u>47,873</u>	<u>33,102</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>54,218</u></b>	<b>\$ <u>38,220</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues		
Water utility sales	\$ 44,201	\$ 41,681
Other sales	80	1,205
Interest income	<u>287</u>	<u>1,006</u>
Total operating revenues	44,568	43,892
Operating expenses		
Utility expense	16,316	17,716
Salaries and benefits	13,747	13,369
Repair & maintenance expense	4,417	5,774
Depreciation expense	3,831	3,981
Fuel	3,752	3,039
Others (note 5)	1,781	2,267
General and administrative	1,297	1,081
Office supplies	426	850
Contractual services	<u>510</u>	<u>475</u>
Total operating expenses	46,076	48,552
Income from operations	(1,508)	(4,660)
Nonoperating income/(expenses)		
Other income/expense	7,248	(2,182)
Intergovernmental contributions	<u>9,031</u>	<u>9,430</u>
Total nonoperating expenses	16,279	7,248
Changes in net assets	14,771	2,588
Restatement of beginning net assets:		
Beginning net assets	33,102	30,109
Less: Net effect of other prior period adjustments	<u>-</u>	<u>405</u>
Net assets at beginning of year	<u>33,102</u>	<u>30,514</u>
Net assets at end of year	<u>\$ 47,873</u>	<u>\$ 33,102</u>

See accompanying notes to financial statements

**GAGIL-TOMIL WATER AUTHORITY**

Statements of Cash Flows  
For the Years ended September 30, 2008 and 2007

	<u>Increase (Decrease) in Cash</u>	
		<u>2008</u> <u>2007</u>
Cash flows provided by/(used for) operating activities		
Receipts from customers	\$ 49,923	\$ 45,216
Cash payments for goods and services	(20,186)	(30,114)
Cash payments to employees	<u>(13,154)</u>	<u>(13,426)</u>
Net cash provided by operating activities	<u>16,583</u>	<u>1,676</u>
Cash flows from noncapital financing activities		
CFSM Grant received (note 4)	<u>9,031</u>	<u>-</u>
Net cash used from noncapital financing activities	<u>9,031</u>	<u>-</u>
Cash flows from investing activities		
Acquisition of fixed assets	<u>(8,800)</u>	<u>(11,129)</u>
Net cash used from investing activities	<u>(8,800)</u>	<u>(11,129)</u>
Net increase/(decrease) in cash	16,814	(9,453)
Cash, beginning of year	<u>10,822</u>	<u>20,275</u>
Cash, end of year	<u>\$ 27,636</u>	<u>\$ 10,822</u>
Reconciliation of Income from Operation to Net Cash used for Operating Activities		
Operating income:	\$ 14,771	\$ 2,588
Adjustment to reconcile operating income to net cash used in operating activities		
Depreciation	3,831	3,981
(Increase)/decrease in assets		
Tomil customer receivables	(4,426)	1,421
Gagil customer receivables	485	56
Employee receivables	355	215
Intergovernmental receivables	(9,031)	-
Grant receivable	9,430	(9,430)
Prepaid expense	74	(75)
Interest receivable	(134)	(153)
Increase/(decrease) in liabilities		
Accounts payable	990	3,345
Accrued expenses	<u>238</u>	<u>(272)</u>
Net cash provided by operating activities	<u>\$ 16,583</u>	<u>\$ 1,676</u>

See accompanying notes to financial statements



# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2008

## 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, 2008 and 2007.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2008

## 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 2008, GTWA implemented the following pronouncements:

GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*. GASB Statement No.43 establishes uniform financial reporting for other post employment benefit plans by state and local governments.

GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. GASB Statement No.45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, notes of disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employees. The provisions of this statement are effective for GTWA for periods beginning after December 15, 2007.

GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues 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 stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

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

GASB Statement No. 50, *“Pension Disclosures on Amendments of GASB Statement No. 25 and 27”*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

In June 2007, GASB issued Statement No.51, *“Accounting and Financial Reporting for Intangible Assets”*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No. 53, *“Accounting and Financial Reporting for Derivative Instruments”*. GASB Statement No.53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

The adoption of these pronouncements will not have material impact on the accompanying 2008 financial statements.

# GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements  
September 30, 2008

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

**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 \$7,154 of the \$27,636 of the cash balance for the year ended September 30, 2008 is fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage. The remaining cash balance of \$20,482 represents 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, 2008 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:

Trade receivables of GTWA are comprised of all outstanding water bills from the municipalities of Gagil and Tomil. Details of trade receivables for the years ended September 30, 2008 and 2007 are presented below:

	<u>2008</u>	<u>2007</u>
Tomil customers	\$ 6,572	\$ 2,146
Gagil customers	1,513	1,998
	<u>8,085</u>	<u>4,144</u>
Allowance for bad debts	--	--
	<u>\$ 8,085</u>	<u>\$ 4,144</u>

**GAGIL-TOMIL WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2008

**3. PROPERTY & EQUIPMENT**

Summaries of property and equipment as of September 30, 2008 and 2007 follow:

	Beginning balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2008
Warehouse	15,091	--	--	15,091
Vehicle	4,632	450	--	5,082
Mini Dump		8,350		8,350
Other equipment	9,000	--	--	9,000
Office equipment	5,055	--	--	5,055
Pump relay	842	--	--	842
	<u>34,620</u>	<u>8,800</u>	<u>--</u>	<u>43,420</u>
Less accumulated depreciation	<u>(24,081)</u>	<u>(3,831)</u>	<u>--</u>	<u>(27,912)</u>
<b>Total</b>	<b><u>\$ 10,539</u></b>	<b><u>\$ 4,969</u></b>	<b><u>\$ --</u></b>	<b><u>\$ 15,508</u></b>

	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>

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 2008 and 2007.

**GAGIL-TOMIL WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2008

**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 purchased a backhoe for \$9,000 and incurred \$430 worth of repairs for a total of \$9,430. Mentioned total was presented as a receivable, due from Yap State, and therefore recognized as grant revenue on 9/30/07. In April 2008, GTWA received \$18,461, as a reimbursement for the mentioned backhoe and a mini-dump truck purchased in 2008, of which \$9,430 was booked as a credit to receivables (due from Yap State) and the remaining \$9,031 as grant revenue for fiscal year 2008.

**5. OTHER EXPENSES**

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

	<u>2008</u>	<u>2007</u>
Rental	\$ --	\$ 1,226
Consumable goods	312	571
Refunds and reimbursement	--	295
Miscellaneous	<u>\$ 1,469</u>	<u>\$ 175</u>
	<u>\$ 1,781</u>	<u>\$ 2,267</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.



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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 have audited the financial statements of the Gagil-Tomil Water Authority (the Authority) as of and for the year ended September 30, 2008, and have issued our report thereon dated July 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

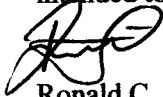
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we considered to be material weakness are described in the Schedule of Findings (pages 14 - 17) as findings nos. 3 to 5.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings (pages 14 - 17) as findings no. 2.

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



Ronald C. Yow  
Yap State Public Auditor

July 27, 2009

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2008

## **Finding No. 1 Contributions and Donations**

**Criteria:** GTWA is in no financial position to give out contributions and donations. Additionally, GTWA funds should only be disbursed for official purposes.

**Condition:** Review of GTWA fiscal year 2008 check register revealed 3 checks totaling \$150.00 were issued to two employees and a board member for funeral contributions.

**Cause:** The Authority did not have any policies and/or controls in place to regulate disbursements and ensure that GTWA funds are only disbursed for official purposes.

**Effect:** GTWA incurred unrelated expenses since such situations are not part of the approved budget for operations for FY2008. Moreover, what the Authority and the Board did was inconsistent with the prevailing practice where government agencies and private businesses ask fellow 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. 2 Noncompliance with State Procurement Policy**

**Criteria:** The Financial Management Act requires that purchases below the threshold for competitive bidding should be conducted through determination of the lowest cost supplier and that documentation of such be maintained on file.

**Condition:** During review of selected disbursement checks, we discovered there were no evidences of price comparison or justification for selection of vendors.

**Cause:** In addition to the lack of policies and/or procedures in place to properly control and regulate disbursements to ensure that goods and services were competitively procured, the Authority did not follow the requirements of the existing Yap State Financial Management Act.

**Effect:** Without price comparison, there is no way to determine if the purchase of items and/or services were made to vendors offering the lowest price and there is no way to determine whether the purchasing power of the Authority's meager fund is maximized.

**Recommendation:** We recommend that the Board of Directors ensures that management follows applicable procurement procedures when purchasing and develop policies and procedures consistent with that of the Yap State Government to make certain purchasing laws and regulations are adhered to accordingly.



# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2008

## **Finding No. 3 Inadequate Maintenance of Accounting Records**

**Criteria:** The Authority should maintain accurate and reliable accounting records in accordance with the Generally Accepted Accounting Principles (GAAP).

**Condition:** During our review of transactions, we noted the following:

- a. Only a small percentage of transactions have supporting documentations and the rest were only supported by check stubs.
- b. There was no general ledger and the check register previously maintained electronically in fiscal year 2007 is now hand written. Moreover the expenses are no longer classified under specific accounts to segregate the different types of expenses.

As a result of the mentioned situations, we were not able to reconcile various variances which most likely could be a result of unrecorded transactions.

**Cause:** There was a breakdown in internal control. Management did not ensure controls over transactions are in place to maintain the proper documentation of the Authority's day to day transactions.\

**Effect:** Due to the breakdown of controls, we were not able to determine if the expenses were reasonable and legitimate. Additionally, the basis of determining the fair statement of account balances was minimized and because of the inadequacy of financial information available, we had to compile the financial statement ourselves which has been the case for several years now.

**Recommendation:** We recommend that the Board of Directors instruct management to ensure that controls over the completeness of documentations are being strictly followed. We also recommend that GTWA develops applicable policies and guidelines that will help ensure the proper maintenance of accounting records.

## **Finding No. 4 Lack of Payroll Record**

**Criteria:** There should be adequate policies in place addressing personnel issues and in particular, maintaining complete personnel files and a representative timesheet.

**Condition:** Review of payroll records revealed that the authority's employees do not maintain any form of daily timesheets and yet they get full 80 hours compensation every bi-weekly. We also noted that there were gaps with the contracts of employees with missing portions as follows;

Assistant Manager/ Field Technician	October 02, 2007 – May 17, 2008
Field Technician	October 01, 2007 – May 17, 2008
Administrative Assistant	October 02, 2007 – May 17, 2008

# GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings  
September 30, 2008

## **Finding No. 4 Lack of Payroll Record (cont.)**

**Cause:** Management did not ensure that proper and adequate employment documentation are current for its' employees. There were no personnel policies in place that requires employees to maintain time and attendance records.

**Effect:** GTWA employees worked and were paid for periods where no employment contracts were available. There is no assurance that employees' hours worked were precise and paychecks were accurately calculated. Continuing to pay employees without preparing the necessary paper works increases the risk of unauthorized pay and potential deception.

**Recommendation:** We recommend that GTWA management ensures that employment contracts for all employees are maintained current.

## **Finding No. 5 Employee Account Receivables**

**Criteria:** Policies and procedures should be in place to ensure the timely collection of receivables due from employees.

**Condition:** Our review of payroll transactions revealed that as of September 30, 2008, employee accounts receivable still has an outstanding balance of \$2,701.62. Payroll deductions for the receivables are very minimal and would take a lot of pay periods before the receivables will be paid off. Apparently, one of the employees who still have outstanding receivables discontinued work at GTWA on June 30, 2008. The employee received full compensation for the last days of work in addition to annual leave encashment yet there was no deduction for the outstanding receivables. Unfortunately, there were insufficient documentations maintained to enable determination of the remaining outstanding receivable for the mentioned employee.

**Cause:** GTWA management did not require a more reasonable collection of the employee receivables to ensure they are collected on time.

**Effect:** A portion of the balance owed to GTWA by the employee who is no longer with the Authority is likely to remain uncollectible.

**Recommendation:** We recommend that management require a more reasonable amount to be withheld from the salaries of the employees that are still with the Authority. We further recommend that management and the Board of Directors create policies and procedures that would ensure timely collections of employee receivables as well as make certain that all outstanding balances for employees are paid-off upon resignation from the Authority.

# GAGIL-TOMIL WATER AUTHORITY

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## **Finding No. 6 Unresolved Prior Year Findings**

**Criteria:** Internal controls on compliance with laws, regulation, contracts and grants must consist of policies and procedures of which would ensure consistent adherence to the compliance requirements. Therefore, both must be developed and adopted together for referencing and consistency of management in its enforcement.

**Condition:** Our follow-up on findings and recommendations contained in GTWA's FY07 audit report revealed that the following are still yet to be resolved.

Finding no. 1 - Questionable and Unreasonable Costs

Finding no. 4 - Pending Tasks Before the Board

Finding no. 5 - Board Meeting Minutes

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

**Cause:** GTWA failed to implement and adopt audit recommendations accordingly and on a timely manner.

**Effect:** Due to the continuous failure 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 2008 as were issued in FY 07, 06 and 05.

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

GAGIL – TOMIL WATER AUTHORITY  
(Responses to 2008 Audit Findings)

Finding No. 1 – Contributions and Donations:

The Board discussed this Finding and agreed on the following to resolve this finding.

- a. to establish a policy regulating allowable contributions and donations;
- b. prepare a letter to the Governor to pardon the System for such an unallowable and un-document expenses;
- c. ensure contributions and donations from fellow workers has to be voluntary monetary and not from the GTWA accounts, effective immediately.

Finding No. 2 – Noncompliance with State Procurement Policy:

The Board and Management have reviewed this finding and concurred to resolve this finding by obtaining, at least, three quotations from different vendors for comparison and to ensure documentation of such be maintained on file, effective immediately.

Finding No 3- Inadequate Maintenance of Accounting Records:

The Board and management discussed this finding and concluded to have the manager ensure control over all financial transactions to make sure that all have supporting documents maintained on file. Furthermore, management will ensure all transactions are entered and recorded in the “Quikbooks” financial software.

Finding No. 4 – Lack of Payroll Record:

The Board and management concur with this finding, in reviewing the Board meeting minutes it shows that these employment contracts were actually extended in October 2007 in a meeting held at Yap CAP conference room, however written copies of them could not be located. The Board instructed the management to ensure important document be properly filed and maintained, and for employees to fill out daily timesheets accordingly, effective immediately.

Finding No. 5 – Employee Account Receivables:

The Board has discussed this finding and agreed to the following.

- a. established policies and procedures to recover receivable accounts from the two current employees within a six months period;
- b. ensure outstanding employees receivable accounts is paid in full before terminating employment contracts;
- c. the other former employee’s outstanding receivable account will be calculated and forwarded to GTWA legal counsel for further action.

Finding No. 6 – Unresolved Prior Year Findings:

The Board reviewed this finding and agreed that the Chairman and the Board would find an effective way to resolve these prior year findings, effective immediately.