

Gagil - Tomil Water Authority

Financial Statements and Independent Auditor's Report

**Fiscal Years Ended
September 30, 2009 and 2008**



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



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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, 2009 and 2008 for which report is dated February 27, 2011. The Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal years 2009 and 2008, 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 twelve findings, one is related to non-compliance to laws and regulations while the remaining eleven findings are related to deficiencies in internal control over financial reporting. Five of the findings are considered material weaknesses.

Below is the summary of the findings for fiscal 2009:

- Finding No.1 and 2 discusses the duties and responsibilities of the Board of Directors and GTWA's Management.
- Finding No. 3 discusses GTWA's non-compliance with grant requirements.
- Finding No. 4 pertains to unresolved prior year findings.
- Finding No. 5 discusses improper maintenance of the minutes of Board Meetings.
- Finding No. 6 pertains to delinquent accounts.
- Finding No. 7 and 11 refers to the inadequate maintenance of accounting records and supporting documents.
- Finding No. 8 discusses the non-safeguarding of assets against damage, theft and loss.
- Finding No.9 pertains to unreasonable cost.
- Finding No.10 refers to the untimely settlement of debts.

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 28 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.

Ronald C. Yow
Acting Yap State Public Auditor

February 27, 2011

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, 2009 and 2008, 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.

Detailed records were not maintained to support the amounts of receivables and payables as of September 30, 2009 and 2008. We were unable to apply alternative audit procedures to satisfy ourselves that receivables and payables at September 30, 2009 and 2008 were not materially misstated.

Because of inadequacies in GTWA's accounting records, we were unable to form an opinion regarding the completeness of amounts recorded as water sales nor verify that all disbursements were valid expenses in the accompanying statement of revenues, expenses and changes in net assets.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial statements referred to in the first paragraph.

Management's discussion and analysis on page 2 through 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 February 27, 2011 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.

Ronald C. Yow
Acting Yap State Public Auditor

February 27, 2011

Institutional background of the Gagil Tomil Water Authority

The Gagil Tomil Water Authority (GTWA) was incepted in the mid-year 1985 as a Community Water Utility serving customers in the Tomil and Gagil Municipalities. The GTWA is an entity under the Office of the Governor and is governed by a Board consisting of nine (9) members, four (4) each from the Municipalities of Tomil and Gagil respectively and one (1) member appointed by the Governor. At present the GTWA serves about 350 households and several commercial businesses including government institutions (schools and health facilities) from it's four (4) wells at the Monguch Well Field. At twenty-five (25) years old, the GTWA is striving to supply the current demand of it's customers with economically clean, safe and portable water. The Management and Board is doing its best with the aged system to minimize water losses and frequent repairs to the existing waterlines, which has expired its useful lifespan. With only two pumps in operation, the new Management rectified the problems with the pumps and got them in working order We are currently facing a tremendous increase on electricity consumption due to the very old electrical system in place and submersible pumps that has proven to be still functioning pumping the heart of the Authority.

Financial Information

The GTWA's operation depends solely on monthly water revenue of over \$52,000.00 annually it generates from its consumers and carefully spent on electricity bills, personnel and other necessary expenses to keep its system operational with its present water tariff in-place. This system in the past has tried and attempted to seek financial assistance from the State Legislature to support and maintain its fragile infrastructure but was unsuccessful. In the year 2004, the then Honorable Governor Robert Ruecho with the then Office of Planning & Budget's Director Francis Itimai initiated the present ongoing GTWA Water System Extension & Rehabilitation, Omnibus Infrastructure Development Project (OIDP) under a MOU with the FSM National Government's, Department of Transportation, Communication & Infrastructure (DTC&I) with the financial loan program of \$2.88 million from the Asian Development Bank (ADB) has begun to upgrade the GTWA system under Phase I of the OIDP to additionally serve the communities in Maakiy and the Municipality of Maap while partially rehabilitating the existing system. Due to the financial constrain, the feasibility of project upgrade in its entirety cannot be completed as should be, thus requires additional funding to rehabilitate other needs of the GTWA, namely, fore mostly old water meter replacements with accompanying fittings completely, additional standby well, upgrade of operational facility with its mandated required needs to efficiently do its operations to serve the customers (estimated cost of about \$1 million) and its obligations towards the Yap State Government in maintaining its records professionally as repeatedly reported in the audit findings of the good Office of the Public Auditor. The Authority's Management will collaborate with it's Board Members on a review of it's existing tariff in-place and propose to the Tomil Municipal Council for a consumer opinion and justification of the

need for the tariff increase for the anticipated increase in operational cost and maintenance of the system.

At present GTWA has enhanced its revenue collection by strictly implementing existing regulations as stipulated in its by-laws and the management is maintaining an existing accounting system in place in keeping its records for receipts and expenditures. The GTWA's operation and maintenance is managed by its General Manager and lacks an office staff to efficiently conduct its business due to limited revenue generation.

GTWA's present staff of two (2) Field Technicians under the cooperation and guidance of the Management effectively carry out all monitoring and repairs as much to our awareness of leaks detected during meter reading schedules, customers reporting leaks thus supporting GTWA reducing its expenses on maintaining the aged and fragile economically clean, safe water supply system to its best ability with extremely low tariff revenue collection it generates.

EQUIPMENTS

The GTWA has in its possession a used Mini-dump Truck, a used Back-hoe Loader and a Pick-up Truck and its existing/prior non-operational conditions are very well documented by the Yap State Office of the Public Auditor. The Management to the best of its ability has repaired the Mini-dump and Pick-up Trucks to carry out its necessary customer service and maintenance of the entire system. The Back-hoe Loader is in dire need of major repair to be able to meet its mandatory operating performance. We have secured the services of a heavy equipment mechanic to fully repair the Back-hoe Loader to its operational performance by collaborating with the Office of Planning & Budget utilizing the CFMS funding through Public Law No. 14-108 remaining funds and the windshield replacement for the Mini-Dump Truck.

FIXED ASSETS

The complete infrastructures as fixed assets of the Authority are assets of the Yap State Government solely.

GAGIL-TOMIL WATER AUTHORITY

Balance Sheets
September 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 51,678	\$ 27,636
Trade receivables, (Note 2)	19,079	8,085
Employee receivables	2,442	2,702
Interest receivable	421	287
	<u>73,620</u>	<u>38,710</u>
Total current assets		
	73,620	38,710
Property and equipment, net (Note 3)	<u>12,103</u>	<u>15,508</u>
TOTAL ASSETS	\$ <u>85,723</u>	\$ <u>54,218</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	9,295	5,824
Accrued payroll	1,394	522
	<u>10,690</u>	<u>6,345</u>
Total current liabilities		
	10,690	6,345
Net assets:		
Invested in capital assets	12,103	15,508
Unrestricted	62,930	32,365
	<u>75,033</u>	<u>47,873</u>
Total net assets		
	75,033	47,873
TOTAL LIABILITIES AND NET ASSETS	\$ <u>85,723</u>	\$ <u>54,218</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Water utility sales	\$ 50,870	\$ 47,615
Other sales	658	80
Interest income	<u>3,402</u>	<u>287</u>
Total operating revenues	54,930	47,982
Operating expenses		
Utility expense	18,016	16,316
Salaries and benefits	17,740	13,737
Repair & maintenance expense	2,664	4,417
Depreciation expense	4,407	3,831
Fuel	3,825	3,752
Others (Note 5)	3,493	1,781
General and administrative	994	1,297
Office supplies	177	436
Contractual services	<u>555</u>	<u>510</u>
Total operating expenses	51,872	46,077
Income from operations	3,058	1,905
Nonoperating income/(expenses)		
Other income/expense	19,165	3,835
Intergovernmental contributions	<u>4,937</u>	<u>9,031</u>
Total nonoperating income	24,102	12,866
Changes in net assets	27,160	14,771
Net assets at beginning of year	<u>47,873</u>	<u>33,102</u>
Net assets at end of year	<u>\$ 75,033</u>	<u>\$ 47,873</u>

See accompanying notes to financial statements

GAGIL-TOMIL WATER AUTHORITY
Statements of Cash Flows
For the Years ended September 30, 2009 and 2008
Increase (Decrease) in Cash

	<u>2009</u>	<u>2008</u>
Cash flows provided by/(used for) operating activities		
Receipts from customers	\$ 43,802	\$ 53,336
Cash payments for goods and services	(7,425)	(23,231)
Cash payments to employees	<u>(16,271)</u>	<u>(13,522)</u>
Net cash provided by operating activities	<u>20,106</u>	<u>16,583</u>
Cash flows from noncapital financing activities		
CFSM Grant received (note 4)	<u>4,937</u>	<u>9,031</u>
Net cash used from noncapital financing activities	<u>4,937</u>	<u>9,031</u>
Cash flows from investing activities		
Acquisition of fixed assets	<u>(1,001)</u>	<u>(8,800)</u>
Net cash used for noncapital financial activities	<u>(1,001)</u>	<u>(8,800)</u>
Net increase/(decrease) in cash	24,042	16,814
Cash, beginning of year	<u>27,636</u>	<u>10,822</u>
Cash, end of year	<u>\$ 51,678</u>	<u>\$ 27,636</u>
Reconciliation of Income from Operation to Net Cash used for Operating		
Operating income:	\$ 3,058	\$ 14,771
Adjustment to reconcile operating income to net cash used in operating		
Depreciation	4,407	3,831
Loss on disposal of assets		
Other Income/expense	19,165	-
(Increase)/decrease in assets		
Tomil customer receivables	(8,728)	(4,426)
Gagil customer receivables	(2,265)	485
Employee receivables	260	355
Grant receivable	-	9,430
Prepaid expense	-	75
Interest receivable	(134)	(134)
Increase/(decrease) in liabilities		
Accounts payable	3,134	1,368
Accrued expenses	<u>1,209</u>	<u>(140)</u>
Net cash provided by operating activities	<u>\$ 20,106</u>	<u>\$ 25,615</u>

See accompanying notes to financial statements

GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 and 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 from each of 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 for a term of four years, and shall not be from either Tomil or Gagil. The chiefs’ appointees to the Board of Directors shall hold two and three year terms; provided, that when the Board is first appointed, two members from each municipality shall hold a two year term and two for a term of three years from the date of their appointment. The daily affairs of the Authority are carried out by a General Manager and two meter readers with guidance and supervision from the members 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 of September 30, 2009 and 2008.

GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 and 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 2009, 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 and unexpectedly.

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 2009 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.

The adoption of these pronouncements will not have material impact on the accompanying 2009 financial statements.

GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 and 2008

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 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 \$11,185 of the \$51,678 of the cash balance for the year ended September 30, 2009 is fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage. The remaining cash balance of \$40,493 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.

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, 2009 and 2008 are from municipalities of Gagil and Tomil as follows:

	<u>2009</u>	<u>2008</u>
Tomil customers	\$ 15,300	\$ 6,572
Gagil customers	<u>3,779</u>	<u>1,513</u>
	19,079	8,085
Allowance for bad debts	--	--
	<u>\$ 19,079</u>	<u>\$ 8,085</u>

GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 and 2008

3. PROPERTY & EQUIPMENT

Summaries of property and equipment as of September 30, 2009 and 2008 follow:

	Beginning balance October 1, 2008	Transfers and Additions	Transfers and Deletions	Ending Balance September 30, 2009
Warehouse	15,091	--	--	15,091
Vehicle	5,082	510	--	5,592
Mini Dump	8,350	--	--	8,350
Other equipment	9,000	434	--	9,434
Office equipment	5,055	58	--	5,113
Pump relay	842	--	--	842
	<u>43,420</u>	<u>1,002</u>	<u>--</u>	<u>44,422</u>
Less accumulated depreciation	<u>(27,912)</u>	<u>(4,407)</u>	<u>--</u>	<u>(32,319)</u>
Total	\$ <u>15,508</u>	\$ <u>(3,405)</u>	\$ <u>--</u>	\$ <u>12,103</u>

	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	9,000	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>
Total	\$ <u>10,539</u>	\$ <u>4,969</u>	\$ <u>--</u>	\$ <u>15,508</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 years 2009 and 2008.

GAGIL-TOMIL WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 and 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 receivable, due from Yap State, and recognized as grant revenue as of September 30, 2007. In April 2008, GTWA received \$18,461, of which \$9,430 was for the reimbursement of the backhoe and \$9,031 for the purchase of a mini-dump truck in 2008. The \$9,031 was recognized as grant revenue as of September 30, 2008. In fiscal year 2009, GTWA received a total of \$4,937 worth of grant revenue, \$434 of which was used to purchase a weed eater and the remaining amount was used for various expenses.

5. OTHER EXPENSES

Provided below are the breakdown of other expenses for the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Consumable goods	3,382	312
Refunds and reimbursement	111	--
Miscellaneous	\$ --	\$ 1,469
	<u>\$ 3,493</u>	<u>\$ 1,781</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 EVENTS

On April 16, 2010, Tony Buchun resigned from his position as General Manager and was replaced by Razakrisnan Manikam on April 26, 2010.

On May 28, 2010, the Board of Directors held an election and elected Mr. Peter Tharngan and Mr. Francis Ruegong as the new Chairman and Vice-Chairman respectively.



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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, 2009, and for the year then ended, and have issued our report thereon dated February 27, 2011 on which the opinion was a disclaimer due to inadequate accounting records and uncertainties regarding opening balances and consistent application of accounting principles between fiscal years 2009 and 2008. 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 the Authority's internal control over financial reporting as basis for designing our audit 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. Matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses are

reported in the Schedule of Findings (pages 14 to 27) as Findings Nos. 2, 4, 7 thru 8 and 11. We also reported other matters involving the internal control over financial reporting to management as Findings Nos. 1, 5 thru 6, 9 thru 10 and 12.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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. 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 as Finding No.3.

This report is intended for the information of the management and Board of Directors of the Authority and others within the entity, pass-through entities, federal awarding agencies 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.



Ronald C. Yow
Acting Yap State Public Auditor

February 27, 2011

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 1 - RESPONSIBILITIES OF THE BOARD

Criteria: The Board of Directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. The responsibilities of the Board of Directors are as follows:

- Hire and provide oversight to management
- In cases of management vacancies, set standards in the screening process with regard to the qualifications of applicants.
- Continually develop long-term plans and goals and ensures that the plans are consistent with what the entity stands for.
- Ensure that the entity is adhering to its values and is achieving goals it has set out to accomplish.
- Review the entity's existing internal control and implement changes in order to ensure that the corporation is in compliance with the law and the generally accepted accounting principles.
- Oversee and effectively manage the resources of the entity.

Condition: Reviews and tests done during the audit for fiscal year 2009 revealed that as a result of breakdowns and deficiencies in internal controls, the following were found;

- Improper utilization of grant award and full compliance to grant's requirements (CFSM) - *refer to Finding No. 3*
- "Quickbooks" accounting software not utilized – *refer to Finding No. 7*
- Accounting records were not properly maintained and filed – *refer to Finding No. 7 & 11*
- GTWA's assets were not safeguarded against damages, theft and loss – *refer to Finding No. 8*
- Untimely collections of employees' receivable *refer to Finding No. 12*
- Accounts payables were not settled on a timely manner – *refer to Finding No. 10*
- Documentations that support financial activities were not maintained and filed – *refer to Finding No. 11*
- Unreasonable expenses and expenses incurred unrelated to the operation of GTWA – *refer to Finding No. 9*
- Inadequate payroll records – *refer to Finding No. 7*

Cause: All the above occurred because the Board failed to ensure the followings:

- Board's decisions and directives are properly documented.
- Policies and procedures are well-communicated to management and staff
- Management's responsibilities are adequately carried out
- Adequate follow-through to ensure implementation of the Board's directives
- Timely corrective actions of problems

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 1 - RESPONSIBILITIES OF THE BOARD (CONT.)

- Management's monthly reports on the status of the Authority's operation and financial status
- Thorough review of transactions before approval
- Regular evaluations of management and staff performances

Effect: Absence or lack of decisions and follow-through from the Board hinders the continued improvement and expansion of the operations of the Authority.

Recommendation: The Board should set and officially document policies and procedures for management, administrative and accounting controls. Those set forth policies and procedures should be well-communicated to management. Furthermore, strict and regular monitoring should be done by the Board to ensure the effectiveness of policies and procedures set forth are carried out accordingly.

FINDING NO. 2 - MANAGEMENT DUTIES

Criteria: Management is responsible to adequately and properly manage the daily activities and operations of GTWA to "ensure that all rules and regulations of the Authority are enforced, and to prepare all plans for the operations and maintenance of works and facilities operated by the Authority" (18YSC 655).

Management is accountable to the Board of the Authority and "should attend all meetings held by the Board to submit to the Board a general report on all affairs of the Authority" (18YSC 655).

Further, management, for internal control purposes, should see to it that proper segregation of duties is observed.

Condition: Management was not able to fulfill its responsibilities in carrying out its mandates and has kept the Board ill informed about the real condition of the Authority by not submitting any report during board meetings. Non-submission of report by management prevented the Board to give any corrective measures with regards to any existing deficiencies in the Authorities' day to day activities.

Below is a list of deficiencies identified during the audit of fiscal year 2009.

- Unrecorded cash – refer to Finding No. 7
- Untimely banking of cash – refer to Finding No. 8
- Inadequate maintenance of monthly water billings – refer to Finding No. 7
- Absence of notices for delinquent accounts for water utility services – refer to Finding No. 6
- Untimely collections of employee's receivables - refer to Finding No. 12
- Lack of fixed asset register – refer to Finding No. 7

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 2 - MANAGEMENT DUTIES (CONT.)

- Improper maintenance of the Authority's assets – refer to Finding No. 8
- Untimely settlement of debts – refer to Finding No. 10
- Lack of accounting records – refer to Finding No. 7
- Lack of documents to support financial activities and transactions – refer to Finding No. 11
- Unrecorded expense – refer to Finding No. 7
- The former manager was the one writing the checks, recording them in the cash disbursement ledger as well as the filing.

Cause: Management disregarded best practices and failed to carry out its responsibilities by not ensuring that proper administrative and accounting controls as well as reportorial requirements are properly maintained and followed.

Furthermore, due to the absence of a full-time administrative staff and proper utilization of the available accounting software, management failed to ensure the completeness and accuracy of financial activities.

Effect: The above conditions could result in erroneous projection of the Authority's financial position which could hamper the operations of the Authority. Aside from these, breakdown in controls as well as absence of financial records could increase the risk of fraud, abuse and pilferage and these could also lead to a continuance of "Disclaimer of Opinion" that the Authority have been getting from their audit.

Recommendation: We strongly recommend that the Board of Directors established policies and procedures that require management to properly manage the daily activities of the Authority. Management should hire an administrative staff and ensure that administrative and accounting controls are adequately and properly maintained.

Furthermore, the Board should strictly monitor the process through management's monthly report to ensure that management's and staff's responsibilities are carried out.

FINDING NO. 3 - NON-COMPLIANCE WITH GRANT REQUIREMENTS

Criteria: The over-sight members of the Authority should ensure uses of any grant funds are in accordance with the respective grant requirements and all applicable laws, regulations, and policies.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 3 - NON-COMPLIANCE WITH GRANT REQUIREMENTS (CONT.)

Condition: In fiscal year 2008, GTWA received a CFSM grant of \$35,000 through Public Law No. 14-108. \$28,756 and \$6,244 were specifically allocated for purchasing equipments and constructing a shed, respectively.

After expending only \$17,784 on equipments such as the mini dump, backhoe and weed-eater, GTWA requested that \$8,000 of fixed assets be reprogrammed to increase the budget for consumable goods. The State Office of Planning and Budget noted that such request did not comply with the intent of the grant and submitted the request to the Office of Statistics, Budget and Economic Management, Overseas Development Assistance and Compact Management (FSM SBOC) for approval. However, the request was approved with the condition that such amount is to be used for fuel and spare parts of the purchased equipments.

Per review of the Grant disbursement transactions, we discovered that there were items purchased (see list below) aggregating \$2,886.58 that were not consistent with what was noted on the amended CFSM Grant.

The following is a detailed breakdown of the inconsistent expenses incurred:

<i>6 days car rental</i>	<i>\$ 270.00</i>
<i>14 corporation stop & 4 Stainless Steele Sattel 4X2</i>	<i>1,495.08</i>
<i>1 drill bit</i>	<i>11.12</i>
<i>1 Grinder, 3 Grinding Wheels, 1 Adjustable Wrench</i>	<i>150.86</i>
<i>Windshield Replacement</i>	<i>450.00</i>
<i>Nissan Pick-up Repair and Maintenance</i>	<i><u>509.50</u></i>
Total	<u>\$2,886.56</u>

Cause: The Authority did not comply with applicable grant requirements.

Effect: GTWA had a balance of \$11,536 unexpended at September 30, 2009 of which \$6,244 was allocated for planned activities like purchasing of water pump panels and building materials for a shed that did not take place in fiscal year 2009.

GTWA minimized the use of the awarded grant by purchasing a dilapidated backhoe which is currently inoperable. Consequently, the remaining \$5,292 may not be sufficient to cover costs for spare parts and repairing of the backhoe.

Furthermore, non-compliance with grant requirements raises the risk of losing the remaining unexpended fund and/or reimbursement from the Grantor due to the unallowable-cost transactions.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 3 - NON-COMPLIANCE WITH GRANT REQUIREMENTS (CONT.)

Recommendation: We recommend that the Board of Directors and Management ensure all expenditures claimed against grant funds are in accordance with grant or grantor requirements.

FINDING NO. 4 - UNRESOLVED PRIOR YEAR FINDINGS

Criteria: GTWA Board of Director and management should on a timely manner, adopt and implement audit recommendations to strengthen controls over its financial reporting.

Condition: Our follow-up on the findings and recommendations for fiscal year 2008 audit report revealed that the following are still yet to be resolved:

Finding no. 3 – Inadequate Maintenance of Accounting Records

Finding no. 4 – Lack of Payroll Record

Finding no. 5 – Employee Account Receivables

Cause: The Authority did not adopt and implement audit report recommendations or similar, appropriate, remedial methods accordingly and on a timely manner.

Effect: The Authority continued to make no improvement, especially with deficiencies of controls over accounting records. Consequently, the same disclaimer of opinion issued on the financial statements for five consecutive years including fiscal year 2009.

Recommendation: The Authority should create effective methods of improving its efficiency in addressing the audit recommendations on a timely manner.

FINDING NO. 5 - BOARD MEETING MINUTES

Criteria: The Board of Directors of an entity is accountable and must be transparent in its decision making process and therefore, appropriate and full documentation of all actions and decisions must be made and permanently kept. 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. (*Yap State Regulation No. 2005-05*)

Condition: There were no minutes available for the Board of Directors' meetings for fiscal year 2009.

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

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings

September 30, 2009

FINDING NO. 5 - BOARD MEETING MINUTES (CONT.)

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

Recommendation: We are continually reminding the Board the importance of full documentation of its actions and decisions. The Board should also ensure that documentation of reviewed and adopted actions and decision be properly filed for future reference. In addition, in fiscal year 2009, OPA provided to GTWA a copy of "Good Recordkeeping and Minute Keeping" booklet issued by the Yap State Archive and we recommend the Board to utilize such information.

FINING NO. 6 - DELINGQUENT ACCOUNTS

Criteria: GTWA's *Application and Agreement for Water Utility Service* provided that, "The Applicant agrees that the Authority shall have the right to discontinue service to Applicant on due notice and to remove its property from the premises whenever payment for service is delinquent for 30 days after presentation of service charges to Applicant, to Applicants service residence, or to the mailing address recorded on a ten (10) days disconnect notice given in the optional manner previously listed, unless all delinquent charges are paid in full or payment made in accordance with a promissory note schedule approved by the Authority."

Condition: There is an adequate policy in place addressing the length of time the clients can be delinquent before water services are cut-off. However, notices for delinquent accounts and disconnections of water services were not given to customers.

Cause: There were no effective monitoring procedures, nor enforcement of policies, regarding the aging of the customers' balances in place.

Effect: Customers' receivable balance at September 30, 2009 increased by 136% as compared to FY2008 balances.

Furthermore, GTWA is extending services to some clients that should have been disconnected, thus using up some of the Authority's resources.

Recommendation: Collection policies and procedures should be enforced and monitored to curb long overdue accounts, including monthly reviews of aged account receivables, follow-ups on delinquent accounts, and eventually, discontinuing water services 30 days after disconnection notices have been presented to the customers.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings

September 30, 2009

FINDING NO. 7 - INADEQUATE MAINTENANCE OF ACCOUNTING RECORDS

Criteria: Proper accounting standards requires that the “Board of GTWA adopt and maintain a system of accounting principles” to enable the State Public Auditor to report the financial status of the Authority to the Board and to the State Governor and Legislature. And such principles require proper and adequate preparation, maintenance, review and approval of accounting records.

Condition: GTWA did not utilize its “Quickbooks” accounting software that was purchased three or four years back and had already been installed in the computer. In FY2009, aside from not using the said software, management failed to maintain any semblance of accounting records as well as proper supporting documentations for the Authority’s daily transactions.

As a result, audit reviews and tests found the following:

1. GTWA did not perform reconciliations of the bank’s checking account and check register was not properly maintained to ensure accuracy of cash balance so that management can be fully aware of cash balance at a given time. Management relies greatly on FSM Bank to provide cash account balance on its monthly bank statements.
2. GTWA failed to update saving’s accounts passbooks of the three bank accounts, one maintained in FSM Bank and two in Community Ayuw Service. For the BFSM passbook the last entry was dated January 20, 2009, and for the Community Ayuw Service passbooks the last entries are dated April 1, 2009 and August 18, 2009, respectively.
3. Fixed assets register and depreciation schedule was not maintained for property and equipment to ensure accountability and value of the Authority’s property and equipments.
4. The check register was not maintained so that expenses are properly classified under specific accounts.
5. GTWA inadequately maintained the master list of customers’ monthly billings and therefore, miscalculations and discrepancies restricted the determination of actual water revenue. Audit adjustments were necessary to determine the receivables (trade and interest receivables) as of September 30, 2009.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 7 - INADEQUATE MAINTENANCE OF ACCOUNTING RECORDS (CONT.)

6. OPA had to obtain a copy of the quarterly income tax report from Customs and Tax Administration to determine tax payable as of September 30, 2009.
7. Our review of payroll checks found that all employees were getting paid the full 80 hours biweekly even though, timesheets for only few pay periods were available. Apparently, time and attendance were not maintained accordingly.

Cause: Due to untimely resolution of pending matters before the Board and management of GTWA, the accounting software was never put to use. Furthermore, in the absence of an accounting system software, management failed to carry out its responsibilities prudently by manually maintaining viable financial records.

Effect: Disclaimer of opinion has been issued on the financial statements of GTWA from fiscal years 2004 up to 2008 due to the inadequate accounting records. GTWA will still be getting the same opinion in the future if the Authority does not make any effort to improve their financial records.

Furthermore, the lack of reliable financial information will not allow the Board to make sound decisions to improve and expand the operations of the Authority.

Recommendation: We strongly recommend that the Board takes immediate action to require management to:

- Document all transactions and properly maintain accounting records.
- Prepare and submit to the Board, on a regular basis, a detailed monthly report about the financial status of the Authority and other operational matters.
- Utilize the accounting software to generated cost efficient and reliable financial data for the Authority's annual report and audits.

FINDING NO. 8 - ASSETS NOT SAFEGUARDED AGAINST, DAMAGE, THEFT & LOSS

Criteria: Proper internal controls require that collections should be deposited on a timely manner. Equipments, property and other assets should be properly maintained and adequately safeguarded against misuse and abuse.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 8 - ASSETS NOT SAFEGUARDED AGAINST, DAMAGE, THEFT & LOSS (CONT.)

Condition: Physical observation and review of the Authority's assets found that assets were not properly maintained and adequately safeguarded against damage, theft and abuse. The following problems were noted during our observation and interview with GTWA's employees:

- 1) As a result of YSPSC's adjustments of the variable fuel charge, YSPSC owed to GTWA a total of \$19,138 of which \$10,564 was credited to the Authority's utility account and \$8,574 was refunded to GTWA on December 1, 2008. The refund check remained undeposited until December 18, 2008 or 17 days later.
- 2) Because GTWA did not maintain a fixed asset register, we sited assets on and off the premises of GTWA to determine the condition and to verify existence of the assets. Physical observation of some of the assets found the following:

Type of Equipment	Location	Condition
Gateway desktop Computer	GTWA Office	<ul style="list-style-type: none"> ➤ Not working ➤ Hard-drive been removed from the computer
Tool (use for opening & closing of waterline flush valves)	Wanyan, Gagil (Inside the pick-up truck bed)	<ul style="list-style-type: none"> ➤ Good condition ➤ Rusty
Nissan pick-up	Wanyan, Gagil	<ul style="list-style-type: none"> ➤ Really bad condition ➤ Vehicle won't start ➤ Broken tail and parking lights ➤ Battery and starter not functional ➤ Truck bed – very bad condition
Mini dump <i>Note: Mini dump was purchased in fiscal year 2008 with estimated useful life span of 5 years and net book value of \$5,845 as of September 30, 2009.</i>	GTWA Premises	<ul style="list-style-type: none"> ➤ Operable (fair condition) ➤ Broken windshield
Backhoe <i>Note: Backhoe was purchased in fiscal year 2007, with estimated useful life span of 5 years. and netbook value of \$5,100 as of September 30, 2009.</i>	Teb, Tomil	<ul style="list-style-type: none"> ➤ Bad condition – not operable ➤ Hydraulic Cylinder Rams – need to be replaced ➤ Hydraulic tank gauge – needs to be replaced ➤ Ignition switch system – needs to be replaced

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 8 - ASSETS NOT SAFEGUARDED AGAINST, DAMAGE, THEFT & LOSS (CONT.)

In addition, there was no evidence of any type of reporting on the damages and conditions of the above vehicles and equipments. Consequently, GTWA had paid for repairing some of the damages without legitimate justifications that such damages actually happened on the jobsites during work hours.

Cause: GTWA did not have policies and procedures in place requiring proper accountability and maintenance of the Authority's assets. Furthermore, management did not take the necessary actions in ensuring that the Authority's assets were properly handled and maintained to prevent misuse and abusive measures.

Effect: Absence or lack of such policies increases the risk of mishandling, abuse and loss of Authority's assets which could lead to unnecessary expenses such as major repairs and replacement costs. .

Recommendation: Policies and procedures should be in place for proper maintenance and handling of the Authority's assets. We recommend that the Board be mindful of the Yap State Government Ethics Act (8YSC 308) that states "An employee shall not use State property of any kind for other than officially approved activities. Each employee must protect and conserve all State property, including equipment and supplies, entrusted or issued to him."

FINDING NO. 9 - UNREASONABLE COSTS

Criteria: Management is responsible for implementing policies and procedures to ensure, among other objectives, that all financial transactions of the entity are legitimate, reasonable, and directly related to the entity's operation.

Condition: In fiscal year 2009, GTWA communication expense was \$994. Based on amount presented, the Authority incurred an average of \$83 per month inclusive of FSMTC prepaid cards purchased for all employees almost every month. In comparison, GTWA incurred 159% more than a similar entity paying \$32 a month for communication expense.

In addition, GTWA also spent \$543 to host a dinner for representatives of the Asian Development Bank and a Christmas party for Board members and staff of the Authority. Both events involved purchases of beers and alcohol and sashimi.

Cause: The Authority did not ensure policies and procedures are in place to limit purchases only to items and services that would help meet and carry out the mandates of the Authority.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 9 - UNREASONABLE COSTS (CONT.)

Effect: Incurring unreasonable costs could further deplete the Authority's limited resources.

Recommendation: In order to maximize the limited resources of the Authority, the Board should see to it that all expenses are in consonance with the Authority's operations.

FINDING NO. 10 - UNTIMELY SETTLEMENT OF DEBTS

Criteria: Management is responsible for ensuring timely payments of the entity's operating expenses to avail of discounts in order to maximize the purchasing power of the Authority's funds.

Condition: Our review of disbursements during the fiscal year 2009 found the following:

- For FY 2009, the Authority only paid once for their phone bills. The payment of \$516 covers the months of September 2008 up to March 2009 and in so doing, they forfeited the discounts for early payments that FSMTC is offering to its clients. As of September 30, 2009, GTWA owed FSMTC \$337 for telephone charges from April to August 2009.
- At September 30, 2009, GTWA owed to YSPSC a total of \$3,350 for electrical utility services. In October 2008, \$10,565 was credited to GTWA's utility account due to YSPSC's adjustments of the variable fuel charge imposed on customers' utility billings. GTWA did not utilize such adjustments to offset whatever they owed YSPSC at that time or in some future time, instead, they requested for a refund of \$8,574 in December 2008. In August 2009, GTWA was forced to pay \$7,623 to avoid disconnection of power services.
- As of September 30, 2009, the Authority had unpaid account balances of \$3,010 and \$2,312 at Waab Hardware and Yap Cooperative Association (YCA), respectively. Said payables are comprised of long outstanding invoices.

Cause: There was no policy, procedure, or control mechanism in place to ensure all incurred expenses were paid on time.

Effect: Untimely settlement of debts could result in accumulated expenses beyond the Authority's cash availability, discontinued services from vendors, delinquency and reconnection, and misstatement of the Authority's financial records.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 10 - UNTIMELY SETTLEMENT OF DEBTS (CONT.)

Recommendation: We recommend the Board of Directors develop applicable policies and procedures and instruct management to implement and ensure payment on all incurred expenses in a timely manner.

FINDING NO. 11 - DOCUMENTS SUPPORTING FINANCIAL ACTIVITIES

Criteria: All financial activities and transactions should be supported by adequate underlying documents. This process would enable the board to determine the legitimacy, completeness, and validity of GTWA transactions.

Condition: Our audit for fiscal year 2009 found very insufficient record keeping. A very small percentage of financial transactions for the whole fiscal year were properly supported by documents.

1. **Missing Savings Passbook:**

Our review of cash found that a FSM Bank saving's passbook with account details from January 21, 2009 to September 30, 2009 was missing and employees does not know the whereabouts of the passbook. Since there is no way to determine the nature of transactions that occurred in the mentioned period the Authority's financials could very well be misstated as of September 30, 2009.

2. **FSM Bank Weekly Reports:**

GTWA uses weekly reports from FSM Bank to record customers' payments on water utility and other services provided by the Authority. Consequently, reports for the months of October, November and December 2008 were not on file and therefore, in addition to the missing details for the Saving's Account, it was impossible to determine whether customers' payments were properly recorded.

3. **Payroll Records:**

Employment contracts and timesheets are documents necessary for payroll processing. In addition, employment contracts for GTWA stated "that salaries will be paid to employees based on actual hours worked. However, our audit found that employees were paid full 80 hours every pay period regardless of the availability of timesheets. Furthermore, of the three employees, we were only able to locate and review one employment contract and it has already expired as of April 30, 2009.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 11 - DOCUMENTS SUPPORTING FINANCIAL ACTIVITIES (CONT.)

4. Supporting Documentation for Disbursements:

Vendors' invoices and receipts to support most of GTWA's disbursements during the fiscal year were not found. Therefore, OPA staff obtained statements of accounts or accounts' history from vendors to determine the account classifications of some of the expenses incurred in fiscal year 2009. This hindered the determination of whether or not expenses were legitimate.

Cause: Controls over proper documentation of transactions were neglected. Furthermore, based on our review, there is a strong indication that the board condoned the practice since almost all of the transactions go through them and nothing has been done to ensure the completeness of the supporting documentation of transactions.

Effect: The lack of strict controls allowed all the above to occur. Consequently, inadequate or lack of controls in place greatly contributes to GTWA's poor financial statements for all fiscal years audited.

Recommendation: The Board of Directors should strictly require management to see to it that all transactions have the proper supporting documentation in order to ensure the legitimacy of the operational expenses.

FINDING NO. 12 - EMPLOYEE ACCOUNTS RECEIVABLE

Criteria: The Board of Directors should ensure that policies and procedures are in place and management is implementing them to guarantee the timely collection of all receivables including receivables due from employees.

Condition: During our review of payroll transactions, we noted that only minimal payments are being collected against employee receivable. Further verification revealed that employees' accounts receivable includes balances of resigned employees, thus, leading to the notion that the Authority never monitors said account.

Cause: GTWA board and management did not require through stringent policies and procedures a more reasonable collection of the employee receivables to ensure they are timely collected.

Effect: The portions of receivables owed to GTWA from the former employees that are no longer with the Authority are likely to remain uncollectible. As a result of the uncollectible receivables, GTWA will be footing salaries and taxes expenses that should have been paid by the employees. Maintaining the \$260 total payment in a year will take the Authority more than 9 years to fully collect the \$2,442 worth of receivables.

GAGIL-TOMIL WATER AUTHORITY

Schedule of Findings
September 30, 2009

FINDING NO. 12 - EMPLOYEE ACCOUNTS RECEIVABLE (CONT.)

Recommendation: We recommend that the Board of Directors of the Authority develop policies and procedures that would ensure a more reasonable deduction to employee payroll for the receivables. Additionally, the Board can utilize some kind of pledge notes to be endorsed by the employee guaranteeing payment for their receivables especially when they are no longer employees of the Authority.

GAGIL - TOMIL WATER AUTHORITY

Monguch, Tomil Municipalty,

P.O.Box 669,

Colonia, Yap, FSM 96943

Telephone / Fax 691-350-5544

E-mail: gtw@mail.fm

November 24, 2010.

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

Attn: Mr. Ronald Yow,
Public Auditor.

Ref.: Responses to Auditor's Report (Findings)

Dear Sir,

We thank you and your staff for the draft audit report for Fiscal Year ended September 2009 and explanations during the exit conference on the 10th of November, 2010. This is our response to your findings.

Finding No. 1 - Responsibilities of the Board.

Being new members of the Board, we will to the best of our ability, work together with the new management in ensuring that all policies and procedures are carried out accordingly.

Finding No. 2 - Management Duties.

We will act accordingly to correct your findings and the issue of "should hire "an administrative staff has to be looked into as it concerns operational budget in respect to limited revenue generation.

Finding No. 3 - Non-compliance with Grant requirements.

We thank you for your valuable time input in this finding and we ensure your good office that all grant funds are utilized in accordance with grant and grantor requirements.

Finding No. 4 - Unresolved prior year findings.

We will to the best create an effective method of improving its efficiency to understand and address your prior year's findings with the new management.

Finding No. 5 - Board Meeting Minutes.

Again thank you and we have resolved this finding with the new management.

Finding No. 6 - Delinquent Accounts.

This policy has been implemented by new management by advising GTWA water consumers that the contents of the Application and Agreement for Water Utility Service will be effective accordingly.

Finding No. 7 - Inadequate Maintenance of Accounting Records.

We will work together with your good office towards the goal of proper accounting records in the near future as we have to first look into the need of an administrative assistant with our limited resources.

Under your finding no. 7, item no. 7, the issue of “ getting paid the full 80 hours “ on a biweekly pay period is not correct as employees are not paid hourly but with an understanding of a fixed biweekly amount with obligatory working terms to ensure efficient and continuous water supply to it’s consumers.

Finding No. 8 - Assets Not Safeguarded Against Damage, Theft and Loss.

We have adhered to policies and procedures for proper maintenance and handling of the Authority’s assets. The Yap State Government Ethics Act (8YSC 308) is in effect with an approved Vehicle Regulations officially adopted. (Please see attachment)

Finding No. 9 - Unreasonable Costs.

We will ensure that all expenses are in consonance with the Authority’s operations.

Finding No. 10 - Untimely Settlement of Debts.

We ensure that all debts are settled on a monthly basis unless circumstantial reasons do not allow us to do so.

Finding No. 11 - Documents Supporting Financial Activities.


Again, we will ensure that all transactions shall have proper supporting documentation.

Finding No. 12 - Employee Account Receivable.

We will, if we have to resort to legal procedures to guarantee employee receivable payments.

We respectfully submit our response to your findings.

Sincerely,

A handwritten signature in black ink, appearing to read 'Razakrisnan Manikam', written in a cursive style. The signature is underlined.

Razakrisnan Manikam,
On Behalf of Management & Board of GTWA.

Cc: To All Board Members.
✓ File.