

Gagil-Tomil Water Authority

Financial Statements and Independent Auditor's Report

For The Years Ended
September 30, 2010 and 2009



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

GAGIL-TOMIL WATER AUTHORITY
Years Ended September 30, 2010 and 2009

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YAP STATE GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of cash receipts and disbursements of the Gagil-Tomil Water Authority (GTWA) for the fiscal years ended September 30, 2010 and 2009. These financial statements are the responsibility of the management of GTWA.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, because of inadequacies in GTWA's accounting records, we were unable to satisfy ourselves as to the completeness of water sales receipts in 2009.

In our opinion, except for the effects of such adjustment, if any, as might have been determined necessary had we been able to satisfy ourselves about the balance of water sales receipts in 2009 as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of GTWA for the years ended September 30, 2010 and 2009, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2011, on our consideration of GTWA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

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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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with accounting principles generally accepted in the United States because the minimum requirements for Management's Discussion and Analysis stipulated by Government Accounting Standards Board Statement No. 34 are not provided.



Ronald C. Yow
Acting Yap State Public Auditor

June 3, 2011

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GAGIL-TOMIL WATER AUTHORITY

Management's Discussion and Analysis
For Fiscal Years Ended September 30, 2010 and 2009

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 its four (4) wells at the Monguch Well Field. At twenty-six (26) years old, the GTWA is striving to supply the current demand of it's customers with economically clean, safe and portable water.

Unfortunately, GTWA has lost one of its four wells, namely Monguch # 1 due to natural causes but the authority was able to convince the implementing agency and their consultants to construct a new well to be incorporated into its system's operation.

The Management and Board are 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.

GTWA's operation was almost brought to an end due to power fluctuation in October and November of 2010, resulting in the loss of three units of its submersible pumps. Within a week, GTWA managed to procure one unit and have the system back in regular operation.

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. 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 Municipalty of Maap while partially rehabilitating the existing system.

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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).

GTWA's 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 its Board Members on a review of its 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.

GTWA is currently coordinating with the Department of Public Works & Transportation's, Contracts & Engineering Management Office in implementing the viable feasibility of the Maap Extension Project of the FSM Omnibus Infrastructure Development Plan's Phase II, as part of the secondary implementation which were omitted and its needs are crucial to the effective completion of the entire project to be finally turned over to the GTWA for its responsibility to operate and maintain these extended system and to be able to service its loan obligation.

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. Back-hoe repair parts have already been ordered thru competitive price comparison with a local vendor.

In February 2010, the authority managed to acquire an office vehicle for its operation and also another small field vehicle in September of 2011 to replace its existing field vehicle which has exceeded its useful life expectancy.

GAGIL-TOMIL WATER AUTHORITY
Statements of Cash Receipts and Disbursements
For the Fiscal Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u> <u>As Adjusted</u> <u>(Note 3)</u>
Receipts		
Water utility sales	\$ 48,680	\$ 50,414
CFSM grant	-	4,937
Interest	852	658
Other	1,094	651
	<hr/>	<hr/>
	50,626	56,660
Disbursements		
Utilities	18,858	5,049
Salaries and benefits	18,916	16,770
Repairs & maintenance	2,018	3,219
Fuel	5,200	1,896
General and administrative	1,942	1,041
Office supplies	6,377	161
Contractual services	450	555
Equipment	-	434
Other	320	3,493
	<hr/>	<hr/>
	54,081	32,618
 Net Change in Cash	 (3,455)	 24,042
 Cash at beginning of year	 51,678	 27,636
	<hr/>	<hr/>
Cash at end of year	\$ 48,223	\$ 51,678
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See accompanying notes to financial statements

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GAGIL-TOMIL WATER AUTHORITY
Notes to Financial Statements
Fiscal Years Ended September 30, 2010 and 2009

(1) Organization

The Gagil-Tomil Water Authority (GTWA) is a component unit of the government of the State of Yap. GTWA was created in 1984 under YSL 1-183, Yap State Code - Title 18, subchapter II. Yap State Code 622 states, in part, "The Authority shall carry on the business of establishing, developing, maintaining, operating, and managing the Gagil-Tomil Water System." GTWA is a legally separate entity of the State of Yap, and is governed by a nine member Board of Directors and operated by a three member management and staff. The Board of Directors comprises four representatives from Gagil municipality, four representatives from Tomil municipality, and one member appointed by the Governor.

GTWA serves the communities of Gagil and Tomil. Rehabilitation, improvement, and expansion of the system under the Omnibus Infrastructure Development Project with extensions to populated areas of Makiy village and Maap municipality is underway. GTWA is responsible to ensure the delivery of safe, reliable, and potable water to the residents of Gagil and Tomil and soon to other communities in Makiy and the municipality of Maap at reasonable rates.

(2) Summary of Significant Account Policies

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. GTWA uses the cash basis of accounting. Under this method of accounting, transactions are recognized as receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts (revenues) are recognized when received rather than when earned and disbursements (expenses) are recognized when paid rather than when the obligation is incurred.

As described above, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

GAGIL-TOMIL WATER AUTHORITY
Notes to Financial Statements
Fiscal Years Ended September 30, 2010 and 2009

Cash

Custodial credit risk is the possibility that in the event of a bank failure GTWA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the depositor's name. GTWA does not have a deposit policy for custodial credit risk.

For the purpose of the statements of cash receipts and disbursements, cash is defined as cash in checking, savings, share, and equipment accounts. As of September 30, 2010 and 2009, \$15,674.95 and \$11,992.31 respectively of cash was maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$33,766.58 and \$40,493.44 respectively was maintained in an uninsured financial institution.

(3) Change in Basis of Accounting

In 2010, GTWA elected to change its method of reporting from the accrual to the cash basis of accounting. The new method of accounting was adopted because it more closely reflects the operating results of GTWA. The financial statements of prior years have been adjusted to apply the new method retrospectively. The following financial statement line items for fiscal year 2009 were affected by the change in accounting principle:

<u>Year Ended 2009</u>	As Originally Reported	As Adjusted	Effect of Change
Water utility sales	\$ 50,870	\$ 50,414	\$ 456
CFSM grant	4,937	4,937	0
Interest	3,402	658	2,745
Other	658	651	7
Utilities	18,016	5,049	12,967
Salaries and benefits	17,740	16,770	970
Repairs & maintenance	2,664	3,219	(555)
Depreciation	4,407	-	4,407
Fuel	3,825	1,896	1,929
General and administrative	994	1,041	(46)
Office supplies	177	161	16
Contractual services	555	555	0
Equipment	-	434	(434)
Other	3,493	3,493	0

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GAGIL-TOMIL WATER AUTHORITY
Notes to Financial Statements
Fiscal Years Ended September 30, 2010 and 2009

(4) Water Sales Receipts

Detailed records maintained for customer receipts from water sales only supported 96% of the balance reflected in the 2009 financial statement. The difference of approximately \$2,500 was estimated based on the amount of total expenditures and the ending cash balance for 2009.

(5) CFSM Appropriation

Under a public project appropriation, GTWA received \$35,000 from the National Government in 2006 to fund the cost of equipment. GTWA expenditures of appropriated funds in 2010 and 2009 were \$0 and \$4,937 respectively. Initially was scheduled to lapse in 2006, the appropriation has been extended annually. Currently, utilization of the unexpended amount of the appropriation of \$11,536 is scheduled to lapse on September 30, 2012.

(6) Significant Cash Receipts

Water sales receipts from the Fisheries Maritime Institute (FMI) accounted for 17% and 34% of total water sales receipts for the years ended September 30, 2010 and 2009 respectively.

(7) Utility Refund

In 2009, GTWA received utility refunds of \$8,574 resulting from the rollback of the 2006 variable rate fuel charges imposed by the Yap State Public Service Corporation (YSPSC). The rollback of electric utility charges to the previous rates was mandated by the Yap State Legislature, which also ordered YSPSC to pay refunds to customers. The 2009 financial statement reflects utility expenditures of \$5,049 net of the related refund.

(8) Risk Management

GTWA is self-insured for all risks. Any loss or liability that may result upon the 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 during the past three years.

GAGIL-TOMIL WATER AUTHORITY
Notes to Financial Statements
Fiscal Years Ended September 30, 2010 and 2009

(9) Related Parties

Several members of the Board of GTWA hold positions of influence with Yap State. GTWA has also entered into significant transactions with the State.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN 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 (GTWA) for the fiscal years ended September 30, 2010 and 2009 and have issued our report thereon dated June 3, 2011. 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 GTWA'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 GTWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GTWA's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct material misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of GTWA's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as Finding No. 1 to be a material weakness.

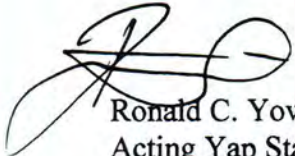
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A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as Findings No. 2 and No. 3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GTWA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters and which is described in the accompanying *Schedule of Findings and Responses* as Finding No. 4.

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



Ronald C. Yow
Acting Yap State Public Auditor

June 3, 2011

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

MATERIAL DEFICIENCY

Finding No. 01 – 2010: Segregation of Duties

Criteria: Segregation of duties is critical to effective internal control. It reduces the risk of both innocent errors and deliberate inappropriate actions. In general, authorization, accounting/recording, and asset custody are incompatible roles which should be separated among employees. Segregation of duty is a deterrent to fraud because it requires collusion with another employee to commit a fraudulent act.

Condition: The Authority lacked proper segregation of duties over cash disbursements and receipts. Management had been generally assigned or allowed access to incompatible responsibilities, including:

- Custody, preparation, issuance, authorization, recording, and reconciliation of checks, and
- Receives, records, stores, deposits, and reconciles cash and maintains passbook.

Cause: Since the Authority did not hire an administrative assistant, the manager had been performing all management and administrative functions.

Effect: Failure to maintain adequate segregation of duties could result in misappropriation of the Authority's limited fund or errors that go undetected or detected in an untimely manner.

Recommendation: To reduce the risk of error and ensure adequate custody and control over cash receipts and disbursements, should consider implementing the following:

- Separate the functions of receiving and recording of cash receipts and disbursements. Functions may be rotated among the manager and the two field technicians.
- Closer oversight and supervision of financial transactions by the Treasurer and Board of Directors. For example, in many small organizations, it is the Treasurer who maintains the accounting records and performs bank reconciliations.

Management Response and Corrective Action Plan: We fully agree to your findings but in order to function and operate as per the audit accounting standards which requires additional budget, fore mostly, GTWA at present do not have a standby list of materials, pumps, pumps controls, etc. in case of emergency to replace, which is our immediate priority. We are encountering and managing these problems as situation arises by utilizing the minimum savings the Authority has with the generous voluntary input from the community with labor in kind. In the past, part time account keeping efforts has failed to my understanding from information relayed to us, when questions are raised; the part timers are no where to response to. It would be

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

Finding No. 01 – 2010: Segregation of Duties (cont.)

very kind and informative if the Auditor could request or recommend to their governing body for additional budget as meeting all the necessary criteria of the accounting standards. In our present capacity, these are the best we can perform, until such time the community agrees to have a new tariff implemented.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

SIGNIFICANT DEFICIENCY

Finding No. 02 – 2010: Inadequate Maintenance of Inventory Records

Criteria: An inventory provides many details regarding the assets of an organization, such as quantities, sizes, color, shapes, prices, and other specific descriptions. In general, records of inventory are updated continually as purchases and usages occur in the regular course of operation, to ensure accurate account for all items available in stock. Discrepancies between recorded inventory and counted inventory are investigated and records are adjusted as necessary.

Condition: Notwithstanding a physical count of assets was performed at the beginning of fiscal year 2011, the Authority did not maintain inventory records in fiscal year 2010 to compare with.

Cause: It appears that neither previous nor current management had maintained proper inventory records. However, current management had arranged the warehouse, compiled a list of inventory, and performed a physical count on the assets.

Effect: The absence of proper inventory records may result in misstatement of financial records. In addition, disposals and unused inventory may not be properly accounted for, resulting in increased risk of theft, loss, or pilferage and unnecessary costs.

Recommendation: To increase accountability and reduce the risk of misstatements of inventory, the Board should require management to maintain proper inventory records and implement appropriate controls including the following:

- A list of inventory with detailed description, quantity, location, price of all the items, and a running balance,
- Supporting documentation, i.e. authorized purchase order, purchase invoice, receipts, and other required documents,
- Scheduled physical count and reconciling records, and
- Duties of inventory record keeping, inventory custody, and physical inventory taking shall be segregated whenever practical.

Management Response and Corrective Action Plan: We apologize for these findings, since no proper records were available to comply with and due to present project implementation going-on, the existing staff will make an effort to refresh a proper inventory after the completion of the rehabilitation and extension of the water system with a complete inventory of new and old stocks.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

Finding No. 03 – 2010: Competitive Procurement

Criteria: Yap State Law No. 6-53 requires price comparisons of at least three vendors when possible, indicating that the lowest price possible is applied thereto.

Condition: We found during our audit review of disbursements that price comparison was not consistently maintained during the fiscal year 2010.

Cause: New management prioritized implementation of policies and procedures according to their importance to the Authority's operations.

Effect: The Authority was not maximizing its limited funds' purchasing power. Furthermore, the Authority might have been expending more funds than necessary.

Recommendation: We recommend that management be mindful of competitive purchasing procedures, to ensure price comparisons of at least three vendors when applicable, or justification for selection of vendors.

Management Response and Corrective Action Plan: We will do our best in meeting these findings.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

COMPLIANCE

Finding No. 04 – 2010: Annual Report

Criteria: Pursuant to 18 YSC 658(b), “The Board shall report to the Governor and the Legislature the affairs of the Authority. It shall present an annual report within sixty days after the end of each fiscal year. If requested by the Governor or the Legislature, it shall also present special reports within thirty days after any such request.”

Condition: The Annual report was received late; 48 calendar days after the due date.

Cause: Management represented the new officials of the Board of Directors were not aware of the requirement.

Effect: Decisions of those, including the Governor and the Legislature, relying on the report could be affected. Decisions, including whether or not to grant financial assistance to the Authority, will be solely reliant on the financial audit reports issued by the Office of the Yap State Public Auditor at the earliest, a year later.

Recommendation: To ensure compliance with public law, the Board should consider implementing concrete policies and procedures to address timely filing of all reports due to external parties.

Management Response and Corrective Action Plan: Our sincere apology on this again as Management is unaware of such requirements and also financial constraint for the need to seek the services of a certified public accountant to professionally document the required annual report.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

STATUS OF PRIOR YEAR FINDINGS

Finding No. 01 – 2009: 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 (CFMS)
- "QuickBooks" accounting software not utilized
- Accounting records were not properly maintained and filed
- GTWA's assets were not safeguarded against damages, theft and loss
- Untimely collections of employees' receivable
- Accounts payables were not settled on a timely manner
- Documentations that support financial activities were not maintained and filed
- Unreasonable expenses and expenses incurred unrelated to the operation of GTWA
- Inadequate payroll records

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

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

Finding No. 01 – 2009: Responsibilities of the Board (cont.)

- Timely corrective actions of problems
- 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.

Management Response and Corrective Action Plan: Being new members of the Board, we will do the best of our ability; work together with the new management in ensuring that all policies and procedures are carried out accordingly.

Prior Year Status: Reorganizing the Board had permitted better cooperation amongst members. Decisions and follow-throughs had been gradually implemented. Six of the nine items described above and reported in 2009 have been substantially or satisfactorily addressed. However, failure to utilize the “QuickBooks” accounting software, maintain accounting records, and collect employees’ receivables are yet to be resolved.

Finding No. 02 – 2009: 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.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

Finding No. 02 – 2009: Management Duties (cont.)

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
- Untimely banking of cash
- Inadequate maintenance of monthly water billings
- Absence of notices for delinquent accounts for water utility services
- Untimely collections of employee's receivables
- Lack of fixed asset register
- Improper maintenance of the Authority's assets
- Untimely settlement of debts
- Lack of accounting records
- Lack of documents to support financial activities and transactions
- Unrecorded expense
- 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.

GAGIL-TOMIL WATER AUTHORITY
Schedule of Findings
Year Ended September 30, 2010

Finding No. 02 – 2009: Management Duties (cont.)

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 and staff’s responsibilities are carried out.

Management Response and Corrective Action Plan: 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.

Prior Year Status: Seven of the twelve issues addressed to management in 2009 have been satisfactorily or substantially resolved. Those unresolved include:

- Inadequate maintenance of monthly water billings,
- Untimely collections of employee’s receivables,
- Lack of fixed asset register,
- Lack of accounting records,
- The new manager is the only person who writes, records, and files the checks.

Finding No. 03 – 2009: <Resolved>

Finding No. 03 – 2008: 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.

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Finding No. 03 – 2008: Inadequate Maintenance of Accounting Records (cont.)

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.

Management Response and Corrective Action Plan: 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 "QuickBooks" financial software.

Prior Year Status: As discussed above, GTWA was cited for two inadequately maintained accounting records in 2008: check register and supporting documentation. In 2009, a separate finding for supporting documentation was issued and six more records were found insufficiently maintained. In 2010, three records were substantially resolved. Check register, reconciliation of bank accounts, fixed asset register and depreciation schedule, and master list of customer monthly billings remained problematic.

Finding No. 04 – 2008: <Resolved>

Finding No. 05 – 2008: 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

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Finding No. 05 – 2008: Employee Account Receivables (cont.)

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.

Management Response and Corrective Action Plan: 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.

Prior Year Status: There was no evidence of any action taken to resolve this finding.

Finding No. 05 – 2009: <Resolved>

Finding No. 06 – 2009: <Resolved>

Finding No. 07 – 2009: 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.

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Finding No. 07 – 2009: Inadequate Maintenance of Accounting Records (cont.)

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 savings 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.
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 accounting system software, management failed to carry out its responsibilities prudently by manually maintaining viable financial records.

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Finding No. 07 – 2009: Inadequate Maintenance of Accounting Records (cont.)

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 generate cost efficient and reliable financial data for the Authority’s annual report and audits.

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

Under your finding no. 07, 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 our customers.

Prior Year Status: Three of the seven accounting records were substantially or satisfactorily addressed in 2010. Reconciliation of bank accounts, fixed asset register and depreciation schedule, check register, and master list of customer monthly billings remained inadequately maintained.

Finding No. 08 – 2009: <Resolved>

Finding No. 09 – 2009: <Resolved>

Finding No. 10 – 2009: <Resolved>

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Finding No. 11 – 2009: 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 do 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 Savings 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, "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.

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

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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.

Management Response and Corrective Action Plan: Again, we will ensure that all transactions shall have proper supporting documentation.

Prior Year Status: New management had substantially resolved this finding, except for the failure to maintain approved voucher (local job order forms) and price comparison forms for disbursements in fiscal year 2010.

Finding No. 12 – 2009: 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.

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Finding No. 12 – 2009: Employee Accounts Receivable (cont.)

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.

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.

Management Response and Corrective Action Plan: We will, if we have to resort to legal procedures to guarantee employee receivable payments.

Prior Year Status: There was no evidence of any action taken to resolve this finding.