

Southern Yap 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**



OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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EXECUTIVE SUMMARY

Financial Audit of Southern Yap Water Authority For the Years ended September 30, 2009 and 2008

The Office of the Yap State Public Auditor has issued its audit report on the audit of the financial statements of Southern Yap Water Authority (SYWA) for the years ended September 30, 2009 and 2008 which report is dated December 24, 2010. The Independent Auditor's Report on page 1 gave an "unqualified opinion" and a "qualified opinion" on the financial statements ending September 30, 2009 and 2008 respectively.

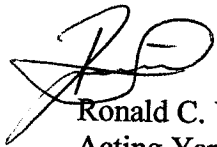
The financial statements presented beginning on page 5 show that assets increased to \$98,758 as of September 30, 2009 as compared to \$57,591 in fiscal year 2008. The primary reason for the increase was due to the acquisition of a backhoe and a mini-dump truck thru the CFSM Grant. Both fiscal year 2009 and 2008 showed operating deficits of \$4,692 and \$11,622, respectively. The decrease in operating deficits was due to the increase in the water rate which came into effect in the fourth quarter of FY2009.

The report on internal control over financial reporting and compliance and other matters required by the *Government Auditing Standards* on pages 14 thru 15 discusses reportable conditions found during the audit. These conditions and our recommendations are presented for the information of SYWA management in the Schedule of Findings beginning on page 16. All three exceptions are related to deficiencies in internal control over financial reporting, three of which are repeated from the prior years.

Following is a summary of the audit findings for the year ended September 30, 2009:

- Finding No.1 is about a \$200 contribution given by the Authority for the funeral preparation of the late Administrative Assistant.
- Finding No. 2 pertains to the unrecorded collections noted during the surprise cash count conducted by OPA last October 1, 2009.
- Finding No. 3 discusses the absence of regular reconciliation of accounts resulting to several account variances.

We have met with the Authority's management to discuss the above findings and they have provided written responses to the findings which are presented on page 18 of this report. We thank the management and the Board of Directors of the Authority for their positive reaction to our audit recommendations and we commend them for the improvements they have initiated in fiscal years 2008 and 2009.



Ronald C. Yow
Acting Yap State Public Auditor
December 24, 2010

SOUTHERN YAP WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southern Yap Water Authority:

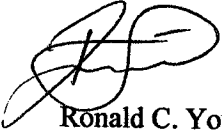
We have audited the accompanying balance sheets of the Southern Yap Water Authority (SYWA) as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the SYWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted the 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SYWA's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Southern Yap Water Authority as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on page 3 to 4 is not a required part of the basic financial statements but its supplementary information required by the Government Accounting Standards Board. 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 December 24, 2010 on our consideration of the Southern Yap Water Authority'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 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

December 24, 2010



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Management's Discussion and Analysis September 30, 2009 and 2008

The Southern Yap Water Authority was created pursuant to Yap State Law (YSL) 18, section 702 as to operate and maintain the Southern Yap Water System. The Southern Yap Water System is responsible of supplying water services to all interested residential, businesses, organization and government as well in the southern part area of the state of Yap.

During the past fiscal year, the authority managed to operate within the revenues generated. The authority has managed to utilize the \$60,000. grant appropriated by the FSM Congress since fiscal year 2004 to purchase a Caterpillar Backhoe, Isuzu Mini Dump, as well as 4x4 Truck. However, the total cost of these three equipments are \$56,108.00, there are some left over from this appropriation which the board members as well as the management decided to use by purchasing a necessary parts of the backhoe.

During the course of fiscal year 2009, the management and the board were decided to increase the water rate per gallon. Perhaps, they decided to increase from the existing rate, \$.001 to .0025 per gallon, the service charge will remain as is, \$2.50. The board members agreed to conduct a public hearing regarding this proposed rate in order to seek an opinion from the general public which it turns out that the general public is in favor of the proposed rate. As of July 2009, the proposed new rate was in effect.

The management hired a person to assist the authority in mostly field works under the work force enrichment's program for three months time period. This particular apprentice was paid at \$1.75 per hour. His contract agreement ended on December 2009.

The management was tasked to prepare a policy and regulation for the board members to review and adopt. It was done in September 2009 after the members reviewed and adopted it; it was zeroxed and file a copy with the Attorney General office and the Legislature, chief clerk.

There was no grant awarded to the authority since after the appropriation from the state in fy 2006 and the appropriation from the FSM congress in fy 2005. As mentioned above, the authority managed to cover their expenses on a monthly basis of their revenues generated. There is one grant that the authority applied which is from the South Pacific Global Corporation which has not been heard any reply from the foundation.

Furthermore, the director of the department of public works donated a generator to the authority, the board members as well as the management agreed to accept the donation and the management was tasked to find a way to bring the generator to the SYWA compound, management solicited a quotations from interested contractors which came up with only 3 quotation were submitted. The project (Generator's house) was awarded to Centerlane construction for \$8,000.00. In September 2009, the entire project had completed as per scope,



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the staffs of the authority are in the process to relocate the Generator and its Fuel Tank to the completed generator's house situated at the compound of the authority.

SOUTHERN YAP WATER AUTHORITY

Balance Sheets
For the Years Ended September 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash	\$ 47,122	\$ 52,082
Trade receivables, net (note 2)	<u>5,565</u>	<u>2,056</u>
Total current assets	52,687	54,138
Property and equipment, net (note 3)	<u>46,071</u>	<u>3,453</u>
TOTAL ASSETS	<u>\$ 98,758</u>	<u>\$ 57,591</u>
LIABILITIES AND DEFICIT		
Current liabilities:		
Accounts payable	\$ 3,055	\$ 1,614
Accrued expenses (note 4)	1,738	1,253
Due to State Treasury (note 5)	<u>3,636</u>	<u>3,636</u>
Total current liabilities	8,429	6,503
Net Assets		
Reserved for capital assets	46,071	3,453
Unreserved	<u>44,259</u>	<u>47,635</u>
Total net assets	<u>90,329</u>	<u>51,088</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 98,758</u>	<u>\$ 57,591</u>

See accompanying notes to financial statements

SOUTHERN YAP WATER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended September 30, 2009 & 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Water usage and other fees	\$ 28,807	\$ 22,552
Other sales	3,289	1,488
	<hr/>	<hr/>
	32,096	24,040
Operating expenses		
Salaries and taxes	15,136	14,915
Utilities	8,915	11,337
Supplies, repair and maintenance	8,722	4,493
Depreciation	1,831	2,808
Fuel and other expenses	2,184	2,109
	<hr/>	<hr/>
	36,788	35,662
Loss from operations	(4,692)	(11,622)
Nonoperating revenues		
CFSM Grant	43,474	22,423
Interest and other	460	416
	<hr/>	<hr/>
	43,934	22,839
Changes in net assets	39,241	11,216
Net assets at beginning of year	<hr/>	<hr/>
	51,088	39,872
Net assets - end of year	<hr/> <hr/>	<hr/> <hr/>
	90,329	51,088

See accompanying notes to financial statements.

SOUTHERN YAP WATER AUTHORITY

Statements of Cash Flows
For the Years Ended September 30, 2009 & 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from customers	\$ 28,587	\$ 24,355
Cash payments for goods and services	(18,380)	(18,901)
Cash payments to employees	<u>(14,651)</u>	<u>(14,079)</u>
Net cash used for operating activities	(4,444)	(8,625)
Cash flows from noncapital financing activities		
Others	<u>43,474</u>	<u>2</u>
Net cash from non-capital financing activities	<u>43,474</u>	<u>2</u>
Cash flows used for investing activities		
Interest Income	460	413
Acquisition of fixed assets	<u>(44,449)</u>	<u>(935)</u>
Net cash used for investing activities	<u>(43,989)</u>	<u>(522)</u>
Net increase/(decrease) in cash	(4,959)	(9,145)
Cash, beginning of year	<u>52,082</u>	<u>61,227</u>
Cash, end of year	<u>\$ 47,122</u>	<u>\$ 52,082</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	\$ (4,692)	\$ (11,622)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	1,831	2,808
(Increase)/Decrease in receivables		
Trade receivables, net	(3,509)	315
Increase/(Decrease) in liabilities		
Accounts payable	1,441	(87)
Accrued expenses	<u>485</u>	<u>(39)</u>
Net cash used in operating activities	<u>\$ (4,444)</u>	<u>\$ (8,625)</u>

See accompanying notes to financial statements

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 & 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Southern Yap Water Authority (SYWA) was created in 1986 pursuant to Yap State Law (YSL) No. 1-221 which is codified as Chapter 7 of Title 18 of the Yap State Code. The primary purpose of the SYWA is to carry on the business of establishing, developing, maintaining, operating, and managing the Southern Yap Water System. The Authority currently serves the southern communities of Yap Proper comprising of the southern villages of the municipalities of Rull and Dalipebinaw and the municipalities of Gilman and Kanifay. The SYWA is a legally separate unit of the Yap State Government.

Currently, SYWA is governed by an eight-member Board of Directors, three of which are appointed by the Rull representative on the Council of Pilung. Two are appointed by the Chief of Kanifay, two by the Chief of Gilman and one member is appointed by the Governor for a four year term. With the exception of the Governor's appointee, board members serve three year terms.

The daily operation of the Authority is currently the responsibility of a general manager, an administrative assistant and a meter reader.

Basis of Accounting - SYWA 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. SYWA 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 SYWA to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the SYWA 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.

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 & 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- (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 SYWA does not have restricted net assets as of September 30, 2009 and 2008.

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

New Accounting Standards – During fiscal year 2009, SYWA implemented the following pronouncements:

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

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

GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues”*. GASB Statement No.48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

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

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

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 & 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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. \$47,122 and \$52,082 of the cash balance for the years ended September 30, 2009 and 2008 are fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage. The balances exceeding FDIC insurable limitations are characterized as uncollateralized.

Receivables – Customer receivables are outstanding water utility bills from customers. Due to the nature of receivables for the SYWA, balances not expected to be collected within one year from the balance sheet date are fully reserved as doubtful.

Depreciation – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. SYWA as a general rule capitalizes assets worth at least \$100 and useful lives in excess of one year. 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	5 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.

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements September 30, 2009 & 2008

2. TRADE RECEIVABLES

Receivables as of September 30, 2009 and 2008 represent revenue that is expected to be realized after September 30, 2009 and 2008. Trade receivables are comprised of all outstanding bills as of September 30, 2009 and 2008 which includes previous balances as of this month as well as current billings. Details of trade receivables for the years ended September 30, 2009 and 2008 are presented below:

	<u>2009</u>	<u>2008</u>
Trade receivables	\$ 7,354	\$ 3,845
Allowance for doubtful accounts	<u>(1,789)</u>	<u>(1,789)</u>
	<u>\$ 5,565</u>	<u>\$ 2,056</u>

As of September 30, 2009 and 2008, there was no bad debt expense, instead the authority has been making efforts in collecting those delinquent accounts.

3. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2009 and 2008 are presented below:

	<u>Beginning balance October 1, 2008</u>	<u>Prior Period Adjustments</u>	<u>Transfers, Additions & (Deletions)</u>	<u>Ending balance September 30, 2009</u>
Vehicles	\$ 7,800	\$ --	\$ 43,474	\$ 51,274
Office equipment and Furniture	1,420	--		1,420
Other assets	<u>4,582</u>	<u>--</u>	<u>975</u>	<u>5,558</u>
	13,802	--	44,449	58,252
Less accumulated depreciation	<u>(10,349)</u>	<u>--</u>	<u>(1,831)</u>	<u>(12,181)</u>
Total	<u>\$ 3,453</u>	<u>\$ --</u>	<u>\$ 42,618</u>	<u>\$ 46,071</u>

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 & 2008

3. PROPERTY & EQUIPMENT (cont.)

	Beginning balance October 1, 2007	Prior Period Adjustments	Transfers, Additions & (Deletions)	Ending balance September 30, 2008
Vehicles	\$ 7,800	\$ --	\$ --	\$ 7,800
Office equipment and Furniture	1,075	--	345	1,420
Other assets	3,992	--	590	4,582
	<u>12,867</u>	<u> </u>	<u>935</u>	<u>13,802</u>
Less accumulated depreciation	<u>(7,541)</u>	<u> </u>	<u>(2,808)</u>	<u>(10,349)</u>
Total	<u>\$ 5,326</u>	<u>\$ --</u>	<u>\$ (1,873)</u>	<u>\$ 3,453</u>

Costs of the SYWA water distribution system of \$2.0 million inclusive of the office building and warehouse is recorded by the State of Yap. Such costs are excluded from SYWA's assets at September 30, 2009 and 2008.

4. ACCRUED EXPENSES

	<u>2009</u>	<u>2008</u>
Accrued Wages	\$ 598	\$ 475
Accrued SS Taxes	<u>1,140</u>	<u>778</u>
	<u>\$ 1,738</u>	<u>\$ 1,253</u>

5. DUE TO STATE TREASURY

On September 8, 2005, the State assisted SYWA settle outstanding FY04 and FY05 electric bills in the amount of \$3,636. In a memo to the State Finance requesting payment of the SYWA electric bills, the Lt. Governor stated, "It is the general understanding of all concerned that the Southern Yap Water Authority will reimburse (the State) when funds are available...." Reimbursement has not been made and accordingly, the amount of the electric bills paid by the Yap State Finance has been recorded as a payable to the State Treasury as of September 30, 2009 and 2008.

SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements
September 30, 2009 & 2008

6. CONTINGENCIES

SYWA operates on land owned by the Lamer Community. Moreover, title for its water distribution system, office building and warehouse rests with the State of Yap. SYWA is not being assessed rent for the use of the property.

7. RISK MANAGEMENT

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

8. SUBSEQUENT EVENTS

In January 2010, the Authority's administrative assistant passed-away and in order not to disrupt the operation, a new administrative assistant was hired on a short-term contract.

On February 11, 2010, the Authority wrote a letter to the Governor of Yap, with regards to the long outstanding debt, asking for forgiveness of the debt. On February 24, 2010, the Governor informed the Authority that he gave copies of their letter to the Office of the Attorney General and Office of Administrative Services for their review and comments. As of August 31, 2010, no decision has been made by the Office of the Governor as to whether SYWA pays back the Government or not.



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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

The Board of Directors of
Southern Yap Water Authority:

We have audited the financial statements of the Southern Yap Water Authority (SYWA) as of and for the years then ended September 30, 2009 and 2008, and have issued our report thereon dated December 24, 2010. 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 Control Over Financial Reporting

In planning and performing our audits, we considered SYWA'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 SYWA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SYWA'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 SYWA'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 SYWA's financial statements that is more than inconsequential will not be prevented or detected by SYWA'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 SYWA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we considered to be material weaknesses are described in the Schedule of Findings (pages 16 - 17) as findings no. 1 to 3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southern Yap Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Ronald C. Yow
Acting Yap State Public Auditor

December 24, 2010

SOUTHERN YAP WATER AUTHORITY

Schedule of Findings
September 30, 2009

Finding No. 1 – Contributions and Donations

Criteria: SYWA funds should only be disbursed for official purposes consistent with existing Yap State policy.

Condition: Review of subsequent events revealed that in January 2010, the Authority made a withdrawal of \$200 from the System's account as a contribution to the funeral preparation of the late Administrative Assistant.

Cause: The Authority doesn't have any policies in place that pertains to contributions and donations.

Effect: SYWA incurred an expense that is unrelated to the mandates of the Authority. Moreover, what the Authority and Board did was inconsistent with the prevailing practice where government agencies and private businesses ask fellow employees themselves to give voluntary monetary contributions as commiseration to fellow workers.

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

Finding No. 2 – Unrecorded Collection

Criteria: Proper accounting procedures require that all collections received must be recorded on a timely manner.

Condition: Results of cash count conducted on October 1, 2008 revealed that as of September 30, 2009, the Authority has a total of \$13.93 worth of unrecorded sales from the outside faucet. Mentioned sales were properly receipted but were not posted in their books.

Cause: SYWA only prepares manual daily cash collection report and post the collections, except for cash received for payment of water bills which they post upon receipt, once they deposited it to their bank account.

Effect: The sales and cash on hand are understated. Even though the amount is immaterial, the practice of not immediately recording the sales could expose SYWA to possible pilferage or theft.

Recommendation: We recommend that SYWA should post all collections on a timely manner so as to preclude the possibility of fraud.

SOUTHERN YAP WATER AUTHORITY

Schedule of Findings
September 30, 2009

Finding No. 3 – Account Reconciliation

Criteria: Proper accounting practice dictates that accounting records should be reconciled on a regular basis so as to detect any errors or omissions at the earliest possible time.

Condition:

- The reconciliation account, which was created to temporarily record the unidentified bank payments until they are properly identified and should have been zeroed out by the end of the fiscal year, still have a balance as of September 30, 2009. Further review revealed that from the time the account was created in FY2009, there was not even an attempt to identify those payments lodged to the mentioned account.
- Total billings as per masterlist does not tally with the total billings per *Quickbooks* which should not be the case since the source document for posting to *Quickbooks* is the masterlist, leading to the notion that SYWA did not regularly reconcile its accounts receivable balances.
- A scooter amounting to \$975 was posted twice and the double posting was not detected.
- There was no reversal of prior year accrual nor was there any accruals done for the current year. Proper accruals as well as reversal should be made on a timely basis as to avoid redundancy of work and to properly restate the financials due to proper matching of revenues and expenses.

Cause: Though it has been a recurring exception and has been discussed during prior years' exit conference, SYWA's management failed to monitor whether they are in compliance with the audit recommendation.

Effect: Due to the lack of account reconciliation, errors and omissions were left unidentified and uncorrected thus making the financials of SYWA misstated.

Recommendation: We recommend that the management sees to it that account reconciliations be done on a regular basis so as to immediately identify any errors or omissions that could lead to the misstatement of their financial statements.

Prior Year Status: A similar finding was cited in the audit for the Authority for the fiscal years 2008 and 2007.



SOUTHERN YAP WATER AUTHORITY

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Oct. 12, 2010

Mr. Ronald C. Yow
Public Auditor, Yap State
Office of the State Public Auditor
Yap State Government, FSM 96943

Dear Mr. Yow

Provided are the response and answers to Draft Audit Report fiscal year 2008 and 2009. As we understand during the exit-conference, one of the finding cited will be strikes off from the record since the matter has been discussed and the authority wholeheartedly believe in that it will do whatever necessary to correct the problem immediately and it can be cited later on during the next audit as it arises again.

1. Finding #1, CONTRIBUTION AND DONATION- As fully disclosed during our exit-conference and clearly understands from that day on, the board members as well as management team formally apologized for what has happened but also must admit that there is another donations done which will appeared in the next audit due to timely interval when such donations were done before this audit. Two deaths occurred during those time and it will reflect in different audit report. The authority now fully understands the effect and cause this has invited but we cannot help it anymore since it was done and over with. The authority at this point on, can assure you, that it will not be experiencing any of this problems later on in the future unless it is incorporated into the rules, bi-laws and so forth as you recommended it.
2. Findings #2, UNRECORDED COLLECTION- This particular finding is already in compliance. The staffs were instructed to record all daily collection into the system on a daily basis and deposit all collections to the bank with unnecessary delay.
3. Findings #3, ACCOUNT RECONCILIATION- This particular finding is similar to finding #2, the staffs were instructed to do its reconciliation every other day when necessary. The person responsible for such actions has been attending computer trainings at SBC in the believe that it will progressively help bolster her ability and knowledge in the performance of her daily tasks..

Please let us know if your office need more clarification/justification regarding the above responses and findings.

Respectfully submitted by;

John Guswel
Gen. Manager, SYWA

Xc: Chairman, BOD
Board Members, SYWA
SYWA's file