

**Southern Yap Water Authority**

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

**Fiscal Years Ended  
September 30, 2010 and 2009**



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



**OFFICE OF THE STATE PUBLIC AUDITOR**  
**YAP STATE GOVERNMENT**

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**EXECUTIVE SUMMARY**

**Financial Audit of the Southern Yap Water Authority  
For the Years ended September 30, 2010 and 2009**

The Office of the Yap State Public Auditor has released the final financial audit report of the Southern Yap Water Authority (SYWA) for the years ended September 30, 2010 and 2009 which report is dated June 23, 2011. The Independent Auditor's Report on page 1 gave an "unqualified opinion" on the financial statements ending September 30, 2010 and 2009.

The financial statements presented in pages 5 to 7 showed that there was a decrease of operating deficit from \$4,692 in FY09 to \$1,335 in FY10. The main reason for the decrease in operating deficit was due to water rate increase, which started in the 4<sup>th</sup> quarter of FY09.

The report on internal control over financial reporting and compliance and other matters required by *Government Auditing Standards* on pages 14 to 15 discusses reportable conditions noted during the audit. These conditions and our recommendations are presented for the information of SYWA's management in the Schedule of Findings on pages 16 to 18 and in the Status of Prior Years' Findings on pages 19 to 21. Of the six findings, four were considered to be material weaknesses. Five of the six findings were related to inadequate controls over financial reporting and one was related to non compliance with certain provisions of laws, regulations, contracts and grants.

Following is a summary of the audit findings for the year ended September 30, 2010:

- Finding nos. 2010-01 and 2010-02 relates to the non maintenance of fixed assets register and daily timesheet.
- Finding no. 2010- 03 discusses about the absence of competitive procurement.
- Finding nos. 2009-01 through 2009-03 discusses about the prior year findings that have been recurring in FY2010.

We have met with the SYWA Board of Directors and Management to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on pages 22 and 23 of this report.

We would like to thank the Board of Directors, the management and staff of SYWA for their assistance and cooperation during the course of this audit.

Ronald C. Yow  
Acting Yap State Public Auditor

June 23, 2011

**SOUTHERN YAP WATER AUTHORITY**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Southern Yap Water Authority:

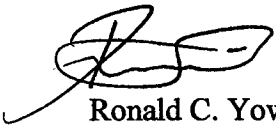
We have audited the accompanying Statements of Net Assets of the Southern Yap Water Authority (SYWA) as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the SYWA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Southern Yap Water Authority as of September 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 23, 2011 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 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 page 3 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 (GASB) No.34 are not provided. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.



Ronald C. Yow  
Acting Yap State Public Auditor

June 23, 2011



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**Management's Discussion and Analysis**  
**September 30, 2009 and 2010**

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

During the previous year, there was not much such as grants awarded to the authority. The authority managed to operated with its' own revenues. The CFSM grant which was awarded to the authority to purchased its' own Backhoe is already exhausted.

The authority had established rental fees of the Backhoe which is \$40.00 per hour to regular customers and \$20.00 per hour to the Board members and staffs of the authority. The Mini Dump owned by the authority is also decided by the board to establish reasonable fees which is \$20.00 per hour to the regular customers and \$10.00 to the board members and staffs of the authority as well.

During the previous years, the authority encountered difficulties in collecting delinquencies which really effected the operation of the authority. Board members as well as management met and discussed about a concrete solutions to the matter. During the meeting, it was agreed on two solutions; 1. Is to increase the rate of the water given to customers and, 2. Is to eliminating the "delinquent notice" from the billing process. During the discussions of the board members and it was agreed to consider item #2. The manager was tasked to coordinate the matter with the Attorney General's office prior consideration.

Thank you very much and please let us know if you need more clarification.

**SOUTHERN YAP WATER AUTHORITY**

**Statements of Net Assets  
For the Years Ended September 30, 2010 and 2009**

<b>ASSETS</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Current Assets		
Cash	\$ 37,392	\$ 47,122
Trade receivables, net (note 2)	<u>6,615</u>	<u>5,565</u>
Total current assets	<u>44,007</u>	<u>52,687</u>
Property and equipment, net (note 3)	<u>54,959</u>	<u>46,071</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 98,966</u></b>	<b><u>\$ 98,758</u></b>
<b>LIABILITIES AND DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 2,330	\$ 3,055
Accrued expenses (note 4)	1,601	1,738
Due to State Treasury (note 5)	<u>3,636</u>	<u>3,636</u>
Total current liabilities	<u>7,567</u>	<u>8,429</u>
Net Assets		
Reserved for capital assets	54,959	46,071
Unreserved	<u>36,440</u>	<u>44,258</u>
Total net assets	<u>91,399</u>	<u>90,329</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 98,966</u></b>	<b><u>\$ 98,758</u></b>

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, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
Operating revenues		
Water usage	\$ 43,689	\$ 28,807
Other fees	<u>1,703</u>	<u>3,289</u>
	45,392	32,096
Operating expenses		
Salaries and taxes	17,129	15,136
Utilities	7,697	8,915
Supplies, repair and maintenance	5,646	8,722
Depreciation	11,997	1,831
Fuel and other expenses	<u>4,258</u>	<u>2,184</u>
	<u>46,727</u>	<u>36,788</u>
Loss from operations	(1,335)	(4,692)
Nonoperating revenues		
CFSM Grant	-	43,474
Interest and other	<u>2,405</u>	<u>459</u>
	2,405	43,933
Changes in net assets	1,070	39,241
Net assets at beginning of year	<u>90,329</u>	<u>51,088</u>
Net assets - end of year	<u><u>91,399</u></u>	<u><u>90,329</u></u>

See accompanying notes to financial statements.



**SOUTHERN YAP WATER AUTHORITY**

Statements of Cash Flows  
For the Years Ended September 30, 2010 & 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipts from customers	\$ 44,342	\$ 28,587
Cash payments for goods and services	(18,326)	(18,380)
Cash payments to employees	<u>(17,266)</u>	<u>(14,651)</u>
Net cash used for operating activities	8,750	(4,444)
Cash flows from non-capital financing activities		
CFSM Grants	<u>-</u>	<u>43,474</u>
Net cash from non-capital financing activities	<u>-</u>	<u>43,474</u>
Cash flows used for investing activities		
Interest Income	220	459
Other Income	2,185	-
Acquisition of fixed assets	<u>(20,885)</u>	<u>(44,449)</u>
Net cash used for investing activities	<u>(18,480)</u>	<u>(43,990)</u>
Net increase/(decrease) in cash	(9,730)	(4,960)
Cash, beginning of year	<u>47,122</u>	<u>52,082</u>
Cash, end of year	<u>\$ 37,392</u>	<u>\$ 47,122</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	\$ (1,335)	\$ (4,692)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	11,997	1,831
(Increase)/Decrease in receivables		
Trade receivables, net	(1,050)	(3,509)
Increase/(Decrease) in liabilities		
Accounts payable	(725)	1,441
Accrued expenses	<u>(137)</u>	<u>485</u>
Net cash used in operating activities	<u>\$ 8,750</u>	<u>\$ (4,444)</u>

See accompanying notes to financial statements

# SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements  
September 30, 2010 & 2009

## 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 a six member Board of Directors, two of which are appointed by the Rull representative on the Council of Pilung, one is appointed by the Chief of Kanifay, one by the Chief of Gilman, one by the Chief of Dalipebinaw and one member is appointed by the Governor. Each board member, except for the Governor's appointee, will serve for three year terms while the Governor's appointee will serve for a four year term.

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.

# SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements  
September 30, 2010 & 2009

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

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.
- (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.

**New Accounting Standards** – During fiscal year 2010, 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.

# SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements  
September 30, 2010 & 2009

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

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

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

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

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

In February 2009, GASB issued Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions for Regulatory Statements*". GASB Statement No. 54 is for establishing fund balance classification that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in government funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

In December 2009, GASB issued Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". GASB Statement No. 58 establishes requirements for recognizing and measuring the effects on assets and liabilities of governments filing for Chapter 9 bankruptcy protection. The provisions of the new pronouncement will take effect for the fiscal year that ends on June 30, 2010.

Management does not believe that the adoption of these pronouncements will have material impact on the accompanying 2010 and 2009 financial statements.

# SOUTHERN YAP WATER AUTHORITY

Notes To Financial Statements  
September 30, 2010 & 2009

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

**Cash** – For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the SYWA's bank balances at September 30, 2010 and 2009 are fully insured as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**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.

## 2. TRADE RECEIVABLES

Receivables as of September 30, 2010 and 2009 represent revenue that is expected to be realized after September 30, 2010 and 2009. Trade receivables are comprised of all outstanding bills as of September 30, 2010 and 2009 which includes previous balances as of this month as well as current billings. Details of trade receivables for the years ended September 30, 2010 and 2009 are presented below:

	<u>2010</u>	<u>2009</u>
Trade receivables	\$ 8,404	\$ 7,354
Allowance for doubtful accounts	<u>(1,789)</u>	<u>(1,789)</u>
	<u>\$ 6,615</u>	<u>\$ 5,565</u>

**SOUTHERN YAP WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2010 & 2009

**2. TRADE RECEIVABLES (cont.)**

As of September 30, 2010 and 2009, 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, 2010 and 2009 are presented below:

	Beginning balance October 1, 2009	Transfers and Additions	Transfers and Disposals	Ending balance September 30, 2010
Vehicles	\$ 51,274	\$ 12,000	\$ --	\$ 63,274
Office equipment and Furniture	1,420	885	--	2,305
Generator Building	--	8,000	--	8,000
Other assets	5,557	--	--	5,557
	<u>58,251</u>	<u>20,885</u>	<u>--</u>	<u>79,136</u>
Less accumulated depreciation	<u>(12,180)</u>	<u>(11,997)</u>	<u>--</u>	<u>(24,177)</u>
Total	<u>\$ 46,071</u>	<u>\$ 8,888</u>	<u>\$ --</u>	<u>\$ 54,959</u>
	Beginning balance October 1, 2008	Transfers and Additions	Transfers, and Disposals	Ending balance September 30, 2009
Vehicles	\$ 7,800	\$ 43,474	\$ --	\$ 51,274
Office equipment and Furniture	1,420	--	--	1,420
Other assets	4,582	975	--	5,557
	<u>13,802</u>	<u>44,449</u>	<u>--</u>	<u>58,251</u>
Less accumulated depreciation	<u>(10,349)</u>	<u>(1,831)</u>	<u>--</u>	<u>(12,180)</u>
Total	<u>\$ 3,453</u>	<u>\$ 42,618</u>	<u>\$ 42,618</u>	<u>\$ 46,071</u>

**SOUTHERN YAP WATER AUTHORITY**

Notes To Financial Statements  
September 30, 2010 & 2009

**3. PROPERTY & EQUIPMENT (cont.)**

SYWA operates on a piece of land owned by the Lamer Community and the costs of the Authority's 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, 2010 and 2009 nor its' being assessed rent for the use of the property.

**4. ACCRUED EXPENSES**

	<u>2010</u>	<u>2009</u>
Accrued Wages	\$ 567	\$ 598
Accrued SS Taxes	<u>1,034</u>	<u>1,140</u>
	<u>\$ 1,601</u>	<u>\$ 1,738</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, 2010 and 2009.

**6. 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.



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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, 2010 and 2009, and have issued our report thereon dated June 23, 2011. 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.

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 status of prior year's findings, 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 misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 (pages 15 - 17) and in the Status of Prior Year' Findings (pages 18-20) to be material weaknesses. (Findings no. 2010 -1 to 2010- 2 and 2009-03, respectively)




A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiency described in the accompanying Status of Prior Year's Findings (pages 18-20) to be a significant deficiency: (Finding no. 2009-01 to 2009-02)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SYWA's financial statements are free of material mistatement, we performed tests of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings (pages 18-20) as finding no. 2010-03.

SYWA's response to the findings identified in our audit are described in the accompanying Management's Response to Findings. We did not audit SYWA's response and, accordingly, we express no opinion on it.

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

June 23, 2011

# SOUTHERN YAP WATER AUTHORITY

Schedule of Findings  
September 30, 2010

## INTERNAL CONTROLS

### **Finding No. 2010-01: Fixed Assets Register**

**Criteria:** A fixed assets register and depreciation schedule should be properly maintained for proper accountability over physical assets.

**Condition:** There were two major acquisitions made in fiscal year 2010 and we added the acquisition to the listing provided for the audit of fiscal year 2009 to determine the value of fixed assets as of September 30, 2010. However, because such lists were not maintained for the proper periods, we could not verify the accuracy of the fixed assets recorded.

**Cause:** Management did not require the Authority to maintain a proper and reliable fixed asset register.

**Effect:** Fixed assets are more susceptible to abuse. Also, due to the non-depreciation of fixed assets, expenses and fixed assets accounts are misstated.

**Recommendation:** SYWA's Management should see to it that the Authority's fixed assets register be updated regularly and depreciation determined in order to correctly state fixed assets value as of year end. Management should also look into ways to make the personnel handling the accounting system more familiar with its features.

### **Finding No. 2010-02: Personnel**

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

**Condition:** SYWA allotted to its employee a full eight hours each day. Timesheets seem to be clearly fabricated since for each payday, the time sheets will show that employees sign in/out at exactly 7:30 – 11:30 and 12:30 – 16:30 each day. It is unlikely that everyone showed up at work exactly on the mentioned hours everyday for all pay-periods without fail.

**Cause:** There were no policies in place addressing personnel issues. In addition, employees were not eligible for benefits (i.e. compensation time, overtime, annual leave, sick leave).

# SOUTHERN YAP WATER AUTHORITY

Schedule of Findings  
September 30, 2010

## **Finding No. 2010-02: Personnel (cont.)**

**Effect:** Without adequate compensation given to employees, there is greater pressure for employees to record a full eight hours worked for each day instead of accurately recording actual time worked, consequently, the risk of time sheet fabrication and overstatement of hours paid increases.

**Recommendation:** We recommend that the board of Directors ensure that timesheets are accurate and representative of actual time worked. The board may want to consider the possibility of providing additional compensation to the employees as incentive to record actual time worked. Note that the risk of overstatement in hours paid is mitigated by the fact that the employees often times work more than eight hours a day – fixing pumps, cleaning wells, etc. In noting the exact time that they work, not only will they be paid based on actual time worked, employees may earn extra hours to make up short falls in hours worked in other days.

## COMPLIANCE

### **Finding No. 2010 – 3: Competitive procurement**

**Criteria:** Yap State Law No. 6-53 states that “all purchase of personal property involving \$5,000.00 or more made on behalf of any State Government agency shall be let free and open to competitive bidding, by sealed bids, to the lowest responsible bidder, and for all other purchases shall be subject to competitive purchasing. Competitive Purchasing as used herein means proof of price comparisons of at least three vendors, when possible, indicating that the lowest price possible is applied thereto before a purchase order may be processed.”

**Condition:** The following were noted during our review.

- There was no Request for Proposal made for the newly purchased Toyota Hilux with a cost of \$12,000.00.
- There was no evidence of competitive pricing on all the transactions tested.

**Cause:** The authority was cited with this exception in FY08 and they started the practice of competitive procurement in the middle of FY09; However, due to the frequent manpower turnover in the Administrative Assistant’s position, the practice of price comparison was somewhat forgotten or ignored.

**SOUTHERN YAP WATER AUTHORITY**

Schedule of Findings  
September 30, 2010

**Finding No. 2010 – 3: Competitive procurement (cont.)**

**Effect:** The Authority was not in compliance with the Yap State Law and had been limiting the possibility for purchase of cheaper or better quality items.

**Recommendation:** SYWA Board of Directors should see to it that the Authority is always in compliance with existing laws and regulations of the State of Yap. In cases of frequent manpower turnovers, management should see to it that newly hired employees will become aware of the applicable laws and regulations that they have to follow in their day to day activities/transactions.

**SOUTHERN YAP WATER AUTHORITY**  
**Status of Prior Year Findings**

**Finding No.2009-01: 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.

**Management Response and Corrective Action Plan:** The Authority will try to formulate policies that will be consistent with the general practices of the Yap State Government and its agencies.

**Prior Year Status:** As discussed above, SYWA was cited for the funeral contribution in FY09 during the extended search for payables. During the audit of FY10, another funeral contribution of \$150 dated 06/22/10 for another employee was noted.

**Finding No. 2009-02: Unrecorded Cash**

**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.

**SOUTHERN YAP WATER AUTHORITY**  
**Status of Prior Year Findings**

**Finding No. 2009-02: Unrecorded Cash (cont.)**

**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.

**Management Response and Corrective Action Plan:** Management will ensure that daily cash collections are properly recorded and deposited without delay.

**Prior Year Status:** SYWA has been cited with this exception in FY08 and 09. They were again cited in FY10, wherein the payments for the use of outside faucet and the change funds, amounting to \$8.48 and \$30 respectively, were not recorded in their books.

**Finding No.2009-03: 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.

**SOUTHERN YAP WATER AUTHORITY**  
**Status of Prior Year Findings**

**Finding No.2009-03: Reconciliation (cont.)**

- 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.

**Management Response and Corrective Action Plan:** Management will ensure that timely reconciliation will be done on all accounts so as to detect and correct erroneous entries.

**Prior Year Status:** SYWA has been cited with this exception for the past three fiscal years. In 2010, mispostings, unreconciled account balances and the non-accruals/non-reversal of year end entries are still in existence.



**SOUTHERN YAP WATER AUTHORITY  
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Oct. 7, 2011

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

Dear Mr. Yow

This is a response to your Draft Audit Report Fiscal Year Ended September 30, 2009 and 2010 basically on your findings;

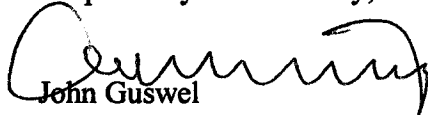
1. **Findings #2010-01, Fixed Assets Register-** The Board Members as well as the management team admitted to the findings as cited. Board members and Manager agreed to contract a certified accountant to assist with the matter. As admitted during the exit conference, the revenues generated at the authority are insufficient to pay a salary of a certified accountant to work with the authority. However, the system recently asking people around those have a little skill on accounting system to assist the current administrator by showing her how to do it. Hopefully, this finding will be resolved on the next coming audit. Board members also agreed to revisit its' policy and regulation for this matter.
2. **Findings #2010-02, Personnel-** The Manager admitted and agreed to the findings as cited regarding time-sheet which not accurate as to actual time present/leave from work-site. But as mentioned in your findings, there were no such things in the existing policy of the authority right now but, the board members were considering it to be included in their policy. Since we don't have it in our policy, I had instructed all my staffs to present at work in the morning at 8:30 and out at 4:30 in the afternoon with no lunch hour break but the total hours per day is still 8 hours. By doing this is because, we need to provide services to our customers during lunch hours...
3. **Findings #2010-03, Competitive Procurement-** we admitted of the findings as cited. The board members and Manager had met and agreed to create a policy for this matter. The common practice now as you may aware, the authority created several charges account with YCA and Waab Hardware to charge whatever



necessary to use at the authority. The staffs usually called these 2 hardware for price comparative and they obtained from whom offered a lower price.

4. **Findings #2009-01, Contribution and Donation-** During our meeting with the board members and it was decided and agreed that the authority will not be provided such contribution or donation.
5. **Findings #2009-02, Unrecorded Cash-** This issue now is resolved. All the revenue collected from the outside faucet been receipted on a daily basis which included on the daily count sale.
6. **Findings #2009-03, Reconciliation-** On this particular finding is similar to the previous one which something that is a challenge to us at the authority. But, with the board members assistance, we will try and utilize someone with the "Know How" just to train our staff for it.

Respectfully submitted by;

  
John Guswel  
Gen. Manager,

Xc:           All Board of Directors  
              SYWA's File