

OFFICE OF THE PUBLIC AUDITOR

Yap State Government

Annual Report
Year 2012



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Public Auditor's Message



The Honorable Sebastian L. Anefal, Governor
The Honorable Members of the Yap State Legislature

I am pleased to submit the 2012 Annual Report as required by law. It is my duty and responsibility to report annually to the Governor and the State Legislature the progress and performance of the Office of the Public Auditor (OPA). We serve the public interest by providing independent assessments that promote accountability, transparency, and excellence in governance within the programs, operations, and management of the Government of the State of Yap.

To accomplish this, we conduct independent and objective audits, investigations, and other reviews to evaluate the economy, efficiency, and effectiveness of government activities, ensure compliance with legal and regulatory requirements, and to prevent, detect and deter waste, fraud, abuse, and misconduct in the expenditure of public funds. OPA is at the forefront of the State's efforts to fight government waste, fraud and abuse. Our vision is to be an agent of positive change and one that:

- Strives for continuous improvement and encourages fiscal integrity in program delivery and effectiveness.
- Is a continually learning and improving organization.
- Appreciates, challenges, respects, and honors its personnel.

The Audit Division continues to produce professional, timely, and independent audits, evaluations, inspections, and reviews. We completed ten engagements this year, including five financial statement audits, two management letters, and one performance audit, inspection, and follow-up evaluation each. We strive for transparency in government by quickly posting all reports to our website upon issuance.

This past year was filled with some notable achievements. We hired a Chief Investigator to lead our start-up Compliance Investigation Division (CID), established a fraud hotline, launched our website at www.audityap.org, created and implemented a local area network (LAN) for the office, passed our peer review receiving the highest rating, and created a new Accounting Services division within OPA. The creation of CID was financed by one of two

grants we received in late 2011 that were funded by the Office of Insular Affairs (OIA) of the U.S. Department of the Interior (DOI). The second of the two grants from OIA funds my current salary, housing, and travel expenditures. A grant from Australia awarded in 2012 under the AusAid Small Grants Scheme (SGS) was used to fund the new website and LAN.

In an effort to strengthen local capacity, we implemented several new initiatives to our staff development and training plan. It is critical to have a process of continuous development and evaluation of staff to assist in maintaining a workforce that has adequate competence. In addition to training, our staff is encouraged to seek and obtain professional certification. A number of staff are presently studying and working toward achieving CFE (Certified Fraud Examiner) and CGAP (Certified Government Audit Professional) designation. The goal is for 100% of our staff to have at least one certification. We also started an Employee of the Month program to recognize achievement. Each month one employee is selected for outstanding service and a celebration is held during which time that individual receives a framed certificate.

During this year we worked on other areas to improve our overall performance. Our staff participated in training workshops and seminars hosted by PASAI (Pacific Association of Supreme Audit Institutions) and APIPA (Association of Pacific Island Public Auditors), and we supplemented that with in-house sessions using audio and video presentations. Additionally, we developed an annual performance plan designed to broaden the focus of information currently being reported. Included in that is a re-focus of our effort toward conducting more performance audits, inspections, and evaluations. We have also begun to perform follow-up reviews of audits and other engagements, and to conduct unannounced (surprise) cash counts. The follow-up reviews are designed to ensure that the corrective action promised by management has been implemented or is currently underway. These types of engagements result in the issuance of a separate follow-up report. The cash counts are conducted for offices that maintain change and petty cash funds and typically have on hand undeposited receipts from the collection of revenue.

The former Public Auditor resigned this year to pursue further educational opportunities. This year also witnessed the departure of a Senior Auditor and two other audit staff. We extend our appreciation to the former Public Auditor, Senior Auditor, and audit staff and wish them future success. In addition, we hired two audit staff and an investigator in 2012. The position of Public Auditor and Senior Auditor remain vacant. Due to budgetary constraints we are presently not able to fill the Senior Audit position.

Our budget expenditures for the fiscal year ended September 30, 2012 were \$ 187,719, compared to \$ 191,755 in the prior year. The decrease in expenditures reflects certain cost

savings we achieved in 2012. Personnel costs continue to represent our largest budget expenditure.

We extend our thanks to the U.S. DOI OIG (Office of the Inspector General), OIA, USDA Graduate School/Pacific Island Training Initiative, PASAI, APIPA, and the Australian Government, among others.

I would also like to recognize the work that is being done by our staff here at the OPA. We would not have been able to accomplish what we have done this year without their hard work and dedication.

Finally, I am indebted to the Members of the Legislature and the Governor for their cooperation, continued support, and commitment to a strong public audit office.



Patrick J. Zacchini, CPA
Acting Public Auditor

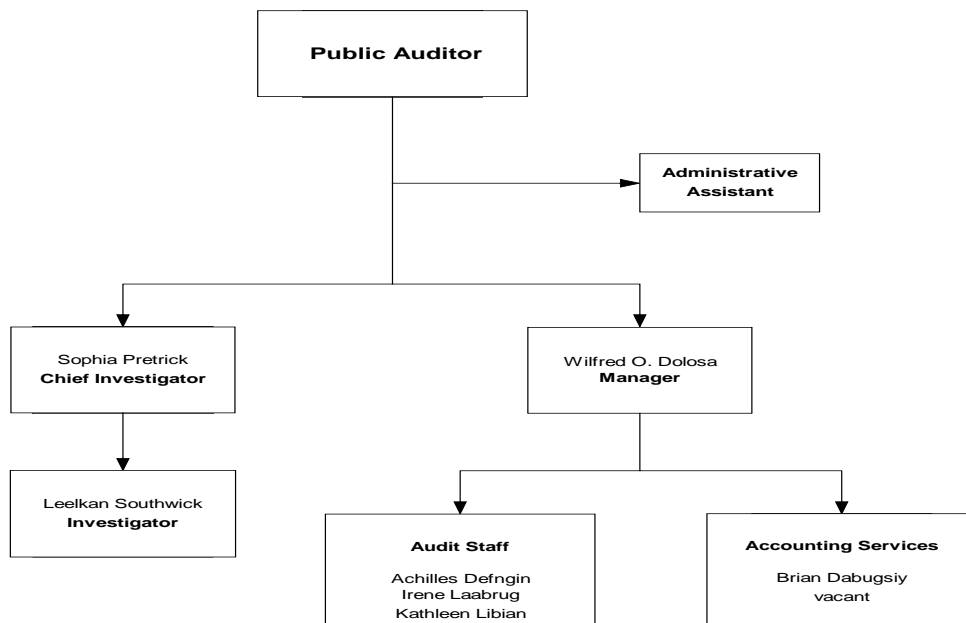
Organization and Responsibilities

The Office of Public Auditor (OPA) is comprised of three divisions: Audit, Accounting Services, and Compliance and Investigation (CID). The Audit Division conducts audits and reviews of Yap State Government departments and agencies, and State funds. Accounting Services supports the work done by the Audit Division. CID investigates criminal and civil misconduct, allegations regarding financial mismanagement and abuse involving State funds and maintains a working arrangement between OPA and the Office of the Attorney General (OAG) and Department of Public Safety (DPS).

The OPA is established under provision of Article IX, Section 8, of the Constitution of the State of Yap, which states “There shall be regular and independent audits of State agencies and revenues,” and pursuant to the authority vested in the Public Auditor as codified under Title 13, Chapter 7, and Section 703 of the Yap State Code, which states in part:

“The Public Auditor shall inspect and audit all accounts, books, and other financial records of the State Government, to include but not limited to, every branch, department, office, political subdivision, board, commission and agency, and other public legal entities or non-profit organizations receiving public funds from the State Government, and to prepare written reports of such inspections and audits for presentation to the Governor and the Legislature;”

**PUBLIC AUDITOR'S OFFICE
ORGANIZATIONAL CHART**



Audit Division

The Audit Division conducts financial statement audits of the State's component units and other entities which receive government funding. Our audits are performed in accordance with Government Auditing Standards (GAS), often referred to as the "Yellow Book." We also conduct performance audits in accordance with the Yellow Book, and inspections and evaluations, for which we follow the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE). A sizable portion of our resources are dedicated to supporting the audit of the government-wide financial statements performed by the outside CPA (Certified Public Accounting) firm.

We carry out our work using a multi-disciplinary and collaborative approach. The goal is to forge a strong alliance with management in identifying ways to enhance governmental processes and in prosecuting program abuses. We strive to make a difference in the State's performance and accountability and to fulfill our mission by providing management with tools to improve operations. This is accomplished by conducting our work in an impartial, objective, and unbiased manner and in providing recommendations designed to bring to the attention of management opportunities for strengthening internal control and improving operating efficiency. During 2012 the Audit Division completed the following:

<i>Reporting Entity</i>	<i>Title or Function</i>
Gagil-Tomil Water Authority (GTWA)	FY 2010 audit of financial statements
Access to Safe Drinking Water	Performance audit on the effectiveness of access to safe drinking water in Yap.
Prisoners Feeding & Maintenance Program	FY 2011, 2010, and 2009 Audit of financial statements
Public Transportation System (PTS)	FY 2011 Audit of financial statements
Office of Administrative Services (OAS)	Surprise cash count of Treasury function
Yap State Court	Surprise cash count of change fund and undeposited collections
Government Vehicle Regulations	Follow-up of Government Vehicle Regulations evaluation report
Yap Community Action Program ¹	FY 2010 audit of financial statements
Yap Sports Council (YSC) ¹	FY 2010 audit of financial statements
Public Transportation System (PTS)	Surprise cash count of undeposited bus fare receipts

¹Field work completed but report dated in 2012 not yet issued.

A number of projects at various levels of completion are underway. These include financial statement audits for FY 2012 and 2011 of GTWA and the Southern Yap Water Authority (SYWA), performance audit of Public Works & Transportation (PWT), PFMP follow-up review, and Fixed Assets inspection. Summaries of the audits, inspections, and evaluations completed by the Audit Division in 2012 are presented under Appendix A.

Accounting Services Division

Newly created as a division under the Public Auditor, the purpose of Accounting Services is to provide support to the Audit Division in conducting audits of the financial statements of the component units. Separation of accounting services from audit will help this office maintain its audit independence. The new divisional structure not only improves independence but enhances our compliance with both AICPA (American Institute of Certified Public Accountants) and Government Auditing Standards. Unlike the accounting and advisory services provided by many accounting firms, the new division does not perform any work or provide any services to the component units themselves, but supports the Audit Division and the audit engagements by, for example, preparing the financial statements, which is considered a non-audit service.

Compliance Investigation Division (CID)

The Compliance Investigation Division (CID) is the second of three divisions reporting to the Public Auditor. The primary investigative functions of CID are administrative and criminal. The division investigates allegations of serious violations of the law and government rules and regulations. CID also works to identify systems and accountability weaknesses in the State's financial administration and gathers evidence of noncompliance activity. Administrative investigations focus on violations of policies and such issues as misuse of government resources and official time, preferential treatment, abuse of authority, nepotism, and travel irregularities. CID uses the Quality Standards for Investigations (QSI) issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), which provide a framework for conducting high quality investigations. Investigations conducted by CID usually are the result of allegations received from:

- Government agency management and other agency employees
- Referrals from the Audit Division
- The Legislature
- The general public
- Other parties, such as contractors

CID works closely with the Audit Division, Attorney General, and other subject matter experts. When appropriate, CID works with the Department of Public Safety (DPS) and other national and local law enforcement agencies. CID also maintains a hotline. This is a telephone line dedicated to receive tips and complaints about government programs and operations which concern, for example:

- Violations of law or regulations
- Gross waste of funds
- Abuse of authority
- Substantial and specific dangers to public health and safety

The Hotline number is 691-350-8310, and is available twenty-four hours a day, seven days a week, via answering machine. All calls to the Hotline remain absolutely confidential. In addition, we also offer an on-line complaint form. This can be found on our website at www.audityap.org.



In July, CID entered into a Memorandum of Understanding (MOU) with the Office of the Attorney General (OAG) to work collaboratively and mutually with regard to criminal investigations that relate to government finances and resources. When CID receives allegations of fraud, waste, and mismanagement, it conducts a preliminary inquiry to determine whether or not there is justifiable suspicion to refer the matter to the OAG. During 2012 CID handled 12 cases:

Case Number	Allegation	Summary of Finding	Status/ Disposition
YCID 12-001	Possible misappropriation of donated funds	Findings showed funds were deposited into treasury	Closed for file
YCID 12-002	Use of government resources for private business & using non-public information for private gain	Investigators could not locate a physical location of subject's private business. Further findings proved that subject has no authority to approve purchases related to his/her office	The matter is closed under watch and monitoring
YCID 12-003	Use of government resources for private business & using non-public information for private gain	Subject is no longer a government employee and has an existing business location	Closed for file

Case Number	Allegation	Summary of Finding	Status/ Disposition
YCID 12-004	Possible violation of law prohibiting MOA (Memorandum of Agreement) between the government & Component unit	Findings showed MOA no longer exists or not in effect. MOA was not renewed after the law was amended.	Case closed/ Management Advisory to component unit to avoid issuance of outdated and obsolete information
YCID 12-005	Obligating outside grants without an appropriation	Findings showed the law does not allow outside grants to be allotted without going through local appropriations, however, investigators found that it is a common practice for external grants to be allotted without appropriation	As a result of our findings AG's reissued a legal opinion to have all outside/external grants to go through legislative appropriation, unless dept./agencies petition to amend law
YCID 12-006	Contract Fraud	Findings showed submission of false information and contract fraud	Working with AG & Department concerned
YCID 12-007	Theft of government property and/or False purchase	Findings showed missing property and procurement fraud	Working with AG & Department concerned
YCID 12-008	Contract Reviews	All contracts are in line with applicable laws	Case closed
YCID 12-009	FSM ONPA/CID and Litigation Assist	Tax violations	Case closed/ refer information to FSM ONPA/CID & FSM DOJ
YCID 12-010	Violation of off season harvest	Confirmed vendors violating state laws	Referred to AG/ lack jurisdiction
YCDI 12-011	Bidding violation of vehicle procurement	Insufficient evidence to prove the allegation	Case closed
YCID 12-012	Possible violation of bribery and Foreign Investment Agreement	Findings confirmed cash handouts	Case referred to AG for review and coordination with CID



CID completed its first fraud awareness briefings in 2012. The sessions, which were open to the general public and held from October 8 through 12, included presentations to schools and Yap State Government officials and employees of the executive, legislative, and judicial branches. Designed to heighten fraud awareness, the sessions provided information about what constitutes

fraud, how it impacts government operations, and how and where to report suspicious activity that relates to financial crime. The briefings provided an opportunity to meet the CID investigators and learn about the investigative process and how they handle fraud tips and complaints received from concerned citizens. The OPA hopes to encourage the public and those in government service to be more vigilant in recognizing and reporting fraud. OPA's role in promoting transparency and accountability in government programs and activities are crucial to the public in understanding how government resources are used. More than 200 individuals took part in the briefings.



Website Launched

In September, we launched our first ever internet website at www.audityap.org. The website offers the public convenient access to audits and other information on the programs and operations of the Yap State Government and its agencies. Information on this site is also designed to assist the people of Yap and other interested parties in enhancing their understanding and knowledge of the Public Auditor's office. The OPA serves as the audit and investigative arm of the Government and the people of the State of Yap. Acting as an extension of the eyes, ears, voice, and conscience of the people of Yap, our mission is achieved through conducting professional, timely, and independent audits, investigations, and reviews. Our goal is to enhance public trust in our government.

One objective of the website is to improve transparency. All reports, both Single Audit and those issued by our office (OPA) are timely posted on the website. It is important for information about government operations to be open and readily accessible to the public. Easy access to government operations and finances contributes to transparency.

The website also provides links to other websites and resources related to the mission of this office, contact information, and a hotline tip submission form. Those who suspect anyone of fraudulent activity, or know of waste, abuse, or mismanagement of government resources, employee misconduct, or corruption by those doing business with the Government of the State of Yap can report wrongdoing online at our website or by calling the OPA fraud hotline. Since many of our investigations begin after we receive tips from the public, our goal is to make it as easy as possible for people to report suspected

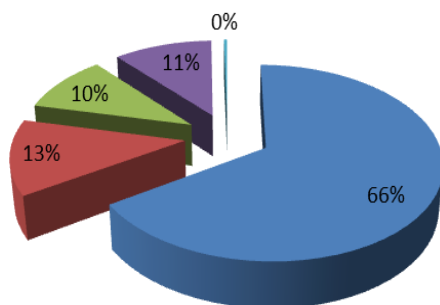


improper activity. The Compliance Investigation Division (CID) processes and reviews all of the tips we receive. If we find violations of state laws, we refer and work with law enforcement and the Attorney General’s office to take the appropriate action. The public’s appetite for transparency and accountability continues to grow and we welcome and encourage their participation and feedback.

Financial Information

2012 Budget

■ Personnel ■ Travel ■ Contractual ■ OCE ■ Fixed Assets



Notwithstanding that our budget was reduced in 2012, we again came in under budget. This was accomplished by cutting expenditures and by the departure of some audit staff and our delaying the hiring of staff to replace them. However, while this did assist in controlling expenditures, it also created a backlog of work and put us behind our schedule of audits.

Our budgets are coming under increasing pressure even as our workload grows. For example, our proposed budget submitted to the Office of Planning and Budgeting (OPB) for FY 2013 was cut by some 25%. Additionally, grant funding for CID will end during 2013 and the costs associated with office space and utilities for CID will no longer be defrayed by the grant money. The following table provides a detailed comparison of budget amounts to the amount of actual expenditures for the two preceding fiscal years:

Category	FY 2012			FY 2011		
	Budget	Actual	Variance	Budget	Actual	Variance
Personnel	127,730	120,595	7,135	126,880	126,840	40
Travel	24,700	24,424	276	32,455	29,620	2,835
Contractual Services	19,533	18,876	657	17,345	15,522	1,823
Other Consumables (OCE)	21,267	23,124	(1,857)	15,800	15,778	22
Fixed Assets	700	700	0	4,200	3,995	205
Total:	193,930	187,719	6,211	196,680	191,755	4,925

Grant Funding

We were the recipient of both United States (U.S.) federal and Australian Aid technical assistance grants in 2011 and 2012. This funding is separate and distinct from the appropriation we receive under the Compact's Public Sector Capacity Building, which is used to fund our budget. This is the first time the OPA has received technical assistance in the form of direct grants.

Two grants were awarded by the Office of Insular Affairs (OIA) of the U.S. Department of the Interior (DOI). These grants are discretionary and are solicited by DOI OIA under its Technical Assistance Program (TAP). TAP grants must be applied for individually by submitting a grant proposal. TAP funding priorities include projects that foster the development of the insular areas in the categories of accountability, financial management, economic development, training/education, energy, management control initiatives, safety, emergency, historical and cultural preservation, capacity building and health initiatives.

One TAP grant we received provided assistance to establish the Compliance Investigation Division (CID). This included the salary and related costs of hiring a Chief Investigator, additional office space to accommodate the new CID, and furniture and fixtures. The other grant received was designed to build and develop capacity through the hiring of a consultant to lead the audit division. It also includes funds for the purchase of certain audit software. Both these grants were awarded for a period of 18 months. However, because of delays in budgeting and allotting the grants, and also the extended timelines for procurement and recruiting, OIA acceded to our request to extend the grant period to August 31, 2013.

We were also awarded a grant from Australian Aid (AusAid) via the Small Grants Scheme (SGS). AusAid SGS is available to governments, nongovernment organizations and community groups. Projects should address the goal of reducing poverty and achieving sustainable development. Preference in funding is given to projects addressing governance, education, and health. The funding limit is \$20,000 USD. The Ausaid SGS grant was used to develop our website and create a local area network (LAN) for our office. The funding provided for hiring a consultant to build the website, and purchases of equipment and software for the LAN. This also enabled us to upgrade all of our audit software, especially MS Office, Flowcharting, and Adobe Acrobat. Summarized information and amounts expended as of December 31, 2012 for the three grants are as follows:

Description	Agency	Award Date	End Date	Award Amount	Amount Expended	Unused
Compliance Investigation Division (CID)	OIA	August 2011	August 2013	138,450	82,180	56,270
Capacity Building	OIA	August 2011	August 2013	115,250	75,625	39,625
Website/LAN	AusAID	February 2012	March 2013	18,920	12,372	6,548
Totals:				272,620	170,177	102,443

Another nearly \$500,000 in grant proposals is presently pending, which we hope to receive at least some of. The proposals submitted include those with OIA and INTOSAI (International Organization of Supreme Audit Institutions).

Peer Review

Government Auditing Standards require an audit organization undergo a quality control review every three years. This is known as a peer review, which is performed by reviewers independent of the audit organization. The goal of this external review is to promote quality in the auditing services provided by public auditors. Peer reviews are conducted under the sponsorship of APIPA. The one conducted in 2012 was the fourth such peer review for OPA. The review found OPA to be in full compliance. Full compliance is the highest possible rating. Passing the Peer Review is not only an achievement in the audit division, but also reflects on the reputation, staff dedication, and competency of the entire office.

Government Auditing Standards also provide that auditors “should maintain their professional competence through continuing professional education (CPE).” Meeting CPE requirements is primarily the responsibility of individual auditors. However, the audit organization “should have quality control procedures to help ensure that auditors meet” the CPE requirements, including documenting completed CPE. Meeting CPE requirements and conformity with Government Auditing Standards in that regard is a part of the peer review evaluation, and failing to maintain either is a factor in determining whether or not a passing grade is received on the peer review.

CPE may be earned in various ways, including live courses, workshops, or training sessions. As discussed below, substantially all of the CPE for individuals at OPA is earned through attendance at events sponsored by APIPA. The annual APIPA conference is held in a different location each year and that accounts for the bulk of our travel budget.

Staff Development

In auditing, a lot of attention is given to staff production, usually measured in terms of accountable time. Although this is critical, it also is important to allocate time and resources to the professional development of staff. We implemented several initiatives to increase staff engagement and productivity. Among these is to discover staff goals and personality traits, and support training and professional development in areas for which they have a passion. Also important is developing professional confidence by challenging our staff to take on increasing responsibility and, as opportunities allow, give them more ownership of their tasks.

Some other initiatives we recently implemented are Employee of the Month (EOM) and celebrating staff birthdays. The EOM is designed to recognize achievement, but is also a channel

for positive feedback. One individual is selected each month based on the recommendation of their supervisor(s) and nomination by other staff. A ceremony is held and the person given a certificate and awarded time off for their efforts. Celebrating staff birthdays is oriented more toward improving morale and fostering a pleasant and respectable work environment. We believe the regular practice of acknowledging and celebrating employee successes goes a long way toward boosting morale and creating a loyal workforce.

We also encourage, as part of a staff development plan, membership and involvement in professional organizations, and in community organizations. In addition to covering membership fees, staff may be given time off to pursue these interests. Finally, we invite staff to work toward attaining professional certification.

Professional Certification

Part of our professional development plan is to encourage staff to seek professional designation. This is an initiative I pushed for and have now made official for our office. The goal is for every one of our staff to achieve at least one professional certification. Accordingly, we now have study materials for both the CFE (Certified Fraud Examiner) and CGAP (Certified Government Auditing Professional). Why do we need this? It isn't just personal or something for the individual. Attaining professional certification, or rather the process one goes through to get it, helps makes us better auditors. Among other things, it increases our knowledge base, broadens our experiences, and teaches us new methods and techniques. Subject to budgetary limitations, this office will fund the cost of examination and other fees related to attaining professional designation in either or both of the two certifications mentioned.

Other benefits include a sense of pride and, as some studies suggest, certification of the audit staff influence the perceptions of audit report quality. In short, auditors are taken more seriously by management and personnel of entities and agencies they audit. Certification will further develop professional competence and also help meet the CPE requirements of Government Auditing Standards.

Training

Our professional development plan includes both continued education and training. The best form of training is on-the-job (OJT) training, but staff development also involves coaching and mentoring.

Government Auditing Standards require auditors to complete 80 hours of Continuing Professional Education (CPE) every two years, of which 24 hours must be related to government auditing or the government environment. Government Auditing Standards, (Yellow Book) are issued by the Comptroller General of the United States, who is the director of the Government Accountability Office (GAO). CPE hours are mandatory for maintaining professional competence. To ensure compliance with the highest auditing standards and provide for continuing professional development, the OPA makes every effort to secure training opportunities for its entire staff.

In an effort to reduce travel and per diem expenditures, we have begun offering a series of in-house training sessions. Substantially all of the CPE credits earned by staff in the past have been from classroom training and attendance at conferences sponsored by outside organizations. The in-house training sessions are held at our office and utilize resources from web events and other materials obtained from the American Institute of Certified Public Accountants (AICPA) and the Institute of Internal Auditors (IIA). These resources are available to us free of charge by virtue of my membership in these professional organizations as a licensed and practicing CPA.

During 2012, the OPA staff attended several workshops, seminars, and training sessions sponsored by such organizations as PASAI (Pacific Association of Supreme Audit Institutions), APIPA, USDA Graduate School, and DOI. Conferences and workshops attended included:

DOI Office Of Inspector General Conference With APIPA Auditors

Public Auditor Ronald Yow and CID Investigator Leelkan Southwick attended the DOI, Office of Inspector General's (OIG) conference with the principals of the APIPA. Held from May 29-31, 2012 at the Hyatt Regency Waikiki Beach Resort in Honolulu, the conference was attended by Acting Inspector General Ms. Mary Kendall and other key staff from OIG. Also attending were representatives from the public audit offices of American Samoa, Commonwealth of the Northern Marianas (CNMI), Guam, Republic of the Marshall Islands (RMI), Republic of Palau (ROP), U.S. Virgin Islands, and the Pohnpei and Kosrae State offices and national audit office of the Federated States of Micronesia (FSM). Offices shared information within their jurisdictions about such matters as key accomplishments, trends and challenges, and future plans. Among the other issues discussed at the conference were Single Audits, an overview of U.S. grants, and updates regarding the military buildup in Guam. Workshops covering effective communication, process improvement, and leadership were also conducted. This event was extremely beneficial because it covered a range of issues that were of critical relevance to the important work of public auditors. Eight hours

of CPE (Continuing Professional Education) were earned by participants, and the costs of transportation, lodging, and meals for attending the conference were paid for by DOI OIG, who hosted this event.

OPA Attends Annual APIPA Conference and Workshops

In August, the Public Auditor and OPA staff attended the 23rd annual conference of the APIPA held in Palau. The conference and workshops were hosted by the Republic of Palau (ROP) Public Auditor's office. More than 300 individuals attended, including those from American Samoa, the Commonwealth of the Northern Marianas (CNMI), Guam, the Republic of the Marshall Islands, the Federated States of Micronesia (FSM), and the U.S. Department of the Interior's Office of Inspector General. The conference provided a crucial opportunity for auditors and finance professionals to exchange ideas, share common experiences, and discuss the challenges faced in promoting accountability and transparency in government.

This year's conference continued the APIPA tradition of conducting workshops to provide continuing professional education. Instructors and subject-matter experts were selected by the Pacific Island Training Institute (PITI), formerly known as U.S. Graduate School. These included APIPA consultant Charles Hester, CPA, Hawaii State Auditor Marion M. Higa, Deborah Milks, CPA and former partner with Deloitte in Guam and Micronesia, Pamela Tumler, formerly with the Government Accountability Office (GAO), Dr. Jeanne Yamamura, licensed CPA and professor at the University of Nevada, and Stephen Morgan, the former city auditor of Austin, Texas. Workshop sessions covered such topics as auditing, finance, government accounting, grants management, and fraud.

Audit Manager Attends Communicating Effectively Workshop in Fiji

Government auditors from 14 countries participated in a communications workshop held in Nadi, Fiji from 24-28 September. Communicating Effectively, a workshop delivered by the PASAI, is designed to improve the auditors' skills in writing and orally presenting their reports. During the training, 19 auditors participated in a variety of activities to reinforce and enhance their communication skills. They examined tools and techniques to improve the readability of their written products and practiced writing and reviewing report segments. Participants also practiced oral communication skills as their report presentations were videotaped and critiqued.

PASAI provides government auditors with skill-based training. Audit Manager Wilfred “Ollie” Dolosa, from the Office of the Yap State Public Auditor (OPA) attended the workshop, for which all associated costs were paid by Pasai. Ollie will in turn conduct in-



house training sessions with the rest of the staff of the OPA to review the tools and lessons learned from the Nadi workshop with the objective of identifying best practices that can be adopted by his office. Based on this, we expect to see further enhancements regarding how we

communicate the results of our work to stakeholders through our reports, website, press releases, and briefings.

OPA Senior Auditor Attends Training in Fiji

The supervisory skills of participating government auditors in the Pacific region have been enhanced through a just completed PASAI training course run in Nadi, Fiji. The two week training course on supervisory roles in government auditing drew 21 participants from 15 Pacific island states.

The course is one of a series of training programs intended to help provide a career path for government auditors in the Pacific region. The series is aimed at providing auditors at all levels with skill-based training in line with their responsibilities at work. The course focused on the role of the supervisor in conducting of financial and performance audits of various government operations. Designed to develop government audit supervisors of the future, the training is expected to fill an essential role in the government auditing process. To reinforce their instructional sessions, course participants worked through a range of exercises and case studies. The two-week course was hosted by PASAI, which covered all costs of attending.

The course was a great success, due to each person's commitment and participation. The class sessions, exercises and discussions throughout the nine days gave each participant the chance to enhance their knowledge and skills. In addition to the course materials, presentations, and activities, the course also enabled those in



attendance to take advantage of the learning experiences shared by each of the other participants. The course also provided an opportunity for this office to utilize and implement many of the best practices exchanged during the course.

APPENDIX A

Audit Division Reports

Gagil-Tomil Water Authority

We audited the Statements of Cash Receipts and Disbursements of the Gagil-Tomil Water Authority (GTWA) for the years ended September 30, 2010 and 2009. The Gagil-Tomil Water Authority (GTWA) is a legally separate component unit of the Yap State Government. Created in 1984, GTWA provides water services to the communities of Gagil and Tomil in the State of Yap. GTWA is governed by a nine member Board of Directors, four of which are appointed each by the Gagil and Tomil member of the Council of Pilung and one appointed by the Governor.

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. Our report on the cash basis financial statements of GTWA was qualified. Because of inadequacies in GTWA's accounting records, we were unable to satisfy ourselves as to the completeness of water sales receipts in 2009.

We identified an internal control deficiency that we considered to be a material weakness in connection with the lack of adequate segregation of duties over cash receipts and disbursements. We noted certain other internal control deficiencies that we considered to be significant. These included no evidence of the performance of competitive bid procedures, inadequate maintenance of records and supporting documentation, late filing of the annual report required pursuant to 18 YSC 658(b), and various prior year deficiencies that were not fully addressed.

Access to Safe Drinking Water

We conducted a performance audit of the effectiveness of access to safe drinking water in the State of Yap, in particular the area serviced by the Yap State Public Service Corporation (YSPSC). The purpose of our audit was to assess the existence of a legal and policy framework for access to safe drinking water, the process by which the legal and policy framework is implemented, including whether risks to implementation have been considered and compliance with the legal policy and framework, including monitoring

arrangements. This audit was conducted in accordance with the standards for performance audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Our audit disclosed the need for improvement in the existing legal and policy framework and the lack of an operational plan by YSPSC for implementing that framework. However, we were not able to confirm compliance with the legal and policy framework, including monitoring arrangements. The audit recommended the following:

- YSPSC develop a specific plan for the management and upgrade of its water services to support its legislated mandate to provide water services to the residents of the State of Yap.
- Relevant and practical water standards should be developed and established in law to better support the delivery of safe drinking water to communities.
- YSPSC should develop an operational plan for water distribution network.
- As the responsible agencies, both YSPSC and EPA should develop targeted public awareness programs concerning safe drinking water for the communities it services, including timely notification on water quality.
- YSPSC should ensure there are regular external evaluations of water sources and the quality of water it supplies to the residents of Yap, and timely corrective action taken to address results that indicate poor water quality.

Prisoners Feeding and Maintenance Program

We audited the Statements of Cash Receipts and Disbursements of the Prisoners Feeding and Maintenance Program (PFMP) for the years ended September 30, 2011, 2010, and 2009. PFMP is an account administered by the Department of Public Safety (DPS), a division of the Office of the Attorney General. Created in 1987, the PFMP account is used to provide meals to individuals confined in the Yap State jail. Increases in the account are funded through cash receipts from work performed by prisoners under contractual agreements with other government agencies, principally the Department of Public Works and Transportation (PWT). The contracts provide prisoner labor under the supervision of correction officials for projects ranging from road maintenance to refuse collection, and are generally six months in duration. Expenditures are made from this account for foodstuffs, cleaning supplies, personal care items, and those costs directly associated with contract services, such as fuel and repairs & maintenance.

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. We issued a “clean” report on the audit of the PFMP cash basis financial statements as our opinion was unqualified.

We identified internal control deficiencies that we considered to be material weaknesses in connection with a lack of adequate segregation of duties, failure to perform bank reconciliations, and a double-entry accounting system is not in use. We noted certain other internal control deficiencies that we considered to be significant and instances of noncompliance with the provisions of laws and regulations. The significant deficiencies included no evidence of the performance of competitive bid procedures and a lack of adequate supporting documentation for cash receipts and disbursements.

We also noted approximately \$100,000 of funds that appear to belong to the State, but which are currently held on deposit by PFMP. The noncompliance exceptions consisted of the failure to deposit collections of cash with the State Treasury, unauthorized appropriation and obligation of funds, and unexpended funds which were not reverted to state control.

Public Transportation System

We audited the financial statements of the Public Transportation System (PTS) for the years ended September 30, 2011 and 2010. PTS was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. We issued a “clean” report on the audit of the PTS financial statements as our opinion was unqualified.

We identified a deficiency in internal control relating the failure to adopt policies and procedures to address the collection of receivables. This deficiency has been noted in prior years’ audits.

Office of Administrative Services (Treasury)

We performed an unannounced cash count and inspection of the controls and procedures for cashiering activities of the Treasury function in the Office of Administrative Services (OAS). The purpose of our inspection was to verify the accuracy of Treasury’s change and petty cash funds and the amount of undeposited receipts, evaluate the controls over the

safekeeping of these funds, and review the monitoring of cashiering activities and the cash fund policies and procedures. Our cash count was conducted in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

Our cash count disclosed immaterial variances in the amount of coin and currency on hand compared to the recorded amounts, and these were discussed with management. However, our inspection disclosed a deficiency in connection with the review and monitoring of cashiering activity which we considered to be a material weakness in internal control. There is no monitoring of the activity of payments made to Treasury from departments and agencies that collect revenue and, therefore, no assurance this is being done in accordance with public law. We noted unexplained lapses in turning in funds to Treasury by at least one department, with no evidence of follow up by Treasury or OAS.

We identified certain other deficiencies in internal control that we consider significant. These included:

- Combinations to the safe, which is used to secure the change and petty cash funds, are not periodically changed.
- The custody and control over change and petty cash funds could be improved. At the end of each day, Treasury counts the cash on hand and proves out the cash receipts for the day to the system. Treasury also counts the cash at the beginning of each day. However, this is not documented.
- Checks received by Treasury are not immediately restrictively endorsed.
- The verification procedure for the deposit of funds into the bank is performed based on a manually prepared of the hard copy cash receipt vouchers, but no comparison is made to the recorded transactions and amounts in the system by Treasury or OAS.
- There is a general lack of adequate supervision of Treasury operations. Stale dated checks from 2005 were secured that is used to secure the change and petty funds.
- Formal written policies and procedures have not been established for Treasury.

Yap State Court (Cash Count)

We conducted an unannounced count of cash of the Yap State Court. Our objective in performing the cash count was to verify the accuracy of the Court's change fund and the amount of undeposited collections, and to identify any internal control weaknesses surrounding the safekeeping of these funds.

The scope of our cash count included determining through physical inspection the amount of all currency and coin on hand and reconciling these amounts to supporting documentation. Our cash count was conducted in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE). The results of our cash count were communicated in a management letter to the Chief Justice of the Yap State Court.

Our cash count disclosed no variances in the amount of coin and currency on hand compared to the recorded amounts and we did not identify any deficiencies in internal control. However, we identified an instance of noncompliance with laws and regulations which could have a material effect on the programs and operations of the State Court and the financial statements of the Yap State Government. State Court collections are not turned in to Treasury, a division of the Office of Administrative Services (OAS), daily as required by law. Presently, cash received is accumulated for the week and deposited with Treasury the following Monday.

Government Vehicle Regulations (Follow-up)

In August 2011, we completed an evaluation of the use of government vehicles and conformity with the Yap State Government Vehicle Regulations. Our evaluation revealed a lack of compliance with the vehicle regulations and failure to consistently prepare and maintain proper records. This report presents the results of a follow-up we performed of that evaluation.

What we found was a flagrant disregard for the Government Vehicle Regulations. More than a year after our evaluation report, remedying the violations and compliance deficiencies has been given little or no attention. Continued lack of adherence to government regulations and rampant disregard for its accountability has resulted in contributing to a growing abuse in the use of government vehicles. Adequate enforcement by public safety and other State officials is sorely lacking. The system of policing and oversight is flawed, and because there is little enforcement, agencies continue to flout the vehicle regulations. This is further worsened by a lack of communication among the agencies mandated to enforce the vehicle regulations. Vital information is not being shared between these agencies, as required by the Government Vehicle Regulations.

Little or no corrective action has been taken to address the findings and recommendations contained in our original evaluation, and there continue to be lapses in compliance and recordkeeping. Without strong enforcement and stiff penalties for violations, disregard for government vehicle regulations is growing. In order to resolve these conditions, State officials must vastly improve the oversight of agencies and hold top management

accountable for adherence to government vehicle regulations. In turn, top management should hold staff accountable to ensure policies and procedures are followed, monitored, and enforced. Agency chiefs and senior management must adhere to the same standards they hold their employees to and themselves avoid actions that are abusive in fact or appearance. Meaningful reform can only occur when leadership is not complicit in the misuse of government vehicles.

Until these conditions are remediated it is likely that the State will continue to experience problems of compliance with the Government Vehicle Regulations.

Yap Community Action Program

We audited the financial statements of the Yap Community Action Program (Yap Cap) for the years ended September 30, 2010 and 2009. Yap Cap is a nonprofit organization created in 1968 by the administration of the Trust Territory of the Pacific Islands (TTPI). An eight member Board of Directors governs Yap Cap, two appointed by the Governor and one each by the Councils of Tamol and Pilung. These four members then determine the process of selecting the remaining four members of the Board of Directors. The mission of Yap Cap is to operate and support programs aimed at environmental and cultural preservation and other sustainable economic and social development programs in pursuit of self-reliance for Yap citizens. We issued a “clean” report on the audit of the Yap Cap financial statements as our opinion was unqualified.

We noted internal control deficiencies and instances of noncompliance with the provisions of laws and regulations. The deficiencies included:

- The Board of Directors authorized the use of funds that were restricted for housing loans to fund operating expenses.
- There were material unrecorded transactions noted during the audit.
- Travel advances are not timely liquidated.

Yap Sports Council

We audited the financial statements of the Yap Sports Council (YSC) for the years ended September 30, 2010 and 2009. YSC was created in 1997 pursuant to YSL 4-65, as amended, to promote and encourage sport participation, good sportsmanship, awareness of sport rules and regulations and develop Yap’s athletes for regional sports competition by consolidating, facilitating, developing and promoting sports activities and programs in Yap

State. YSC is governed by an eleven member Board of Directors with three members appointed by the Governor, two appointed by the Speaker of the Yap State Legislature, two each appointed by the Councils of Tamol and Pilung, and two appointed by the yap delegation of the Congress of the Federated States of Micronesia (FSM). All members of the Board hold four year terms, and the daily affairs of YSC are managed out by the Sports Development Officer (SDO).

Because we were not able to satisfy ourselves as to the beginning balances of the financial statements for the year ended September 30, 2007, and the inconsistent application of accounting principles, our report on the financial statements of YSC was qualified. We noted internal control deficiencies and instances of noncompliance with the provisions of laws and regulations. The deficiencies included:

- Competitive bidding procedures are not adequately documented.
- Inadequate maintenance of accounting records cause mis-postings and errors.

Public Transportation System (Cash Count)

We conducted an unannounced count of cash of Public Transportation System (PTS). Our objective in performing the cash count was to verify the accuracy of the PTS' undeposited bus fare receipts and to identify any internal control weaknesses concerning the safekeeping of these funds.

The scope of our cash count included determining through physical inspection the amount of all currency and coin on hand and reconciling these amounts to supporting documentation. Our cash count was conducted in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE). The results of our cash count were communicated in a management letter to the Chief Justice of the Yap State Court.

Our cash count disclosed no variances in the amount of coin and currency on hand compared to the recorded amounts and we did not identify any deficiencies in internal control.

