



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

Federated States of Micronesia  
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**RECEIVED**

**MEMORANDUM**

Misc. Comm. No. 9-3 JAN 19, 2015 @ 4:00pm  
(Finance) Yap State Legislature

Date : January 19, 2015  
TO : Honorable Tony Ganngiyan, Governor  
Honorable Theodore Rutun, Speaker 9<sup>th</sup> Legislature  
FROM : Acting Public Auditor  
SUBJECT : 2014 Annual Report

Transmitted herewith is a copy of the 2014 Annual Report for your perusal. Please let us know should you require further information.

Respectfully submitted,

Achilles Defngin  
Office of the Public Auditor



# Annual Report

Covering the Period  
January 01 to December 31, 2014



Office of the Public Auditor  
State of Yap

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## INTRODUCTION

The Office of the Yap State Public Auditor submits the 2014 Annual Report as mandated by Title 13, Chapter 7, and Section 704 of the Yap State Code which states, "The Public Auditor shall file an annual report with the Governor and the Legislature within five days after the convening of each January regular session of the Legislature." The report focuses on the activities and performance of the Office of the Public Auditor (OPA) during the period January 01, 2014 to December 31, 2014. The OPA serves 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.

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." All work is conducted 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."*

The OPA is comprised of two divisions: Audit and Compliance Investigation:

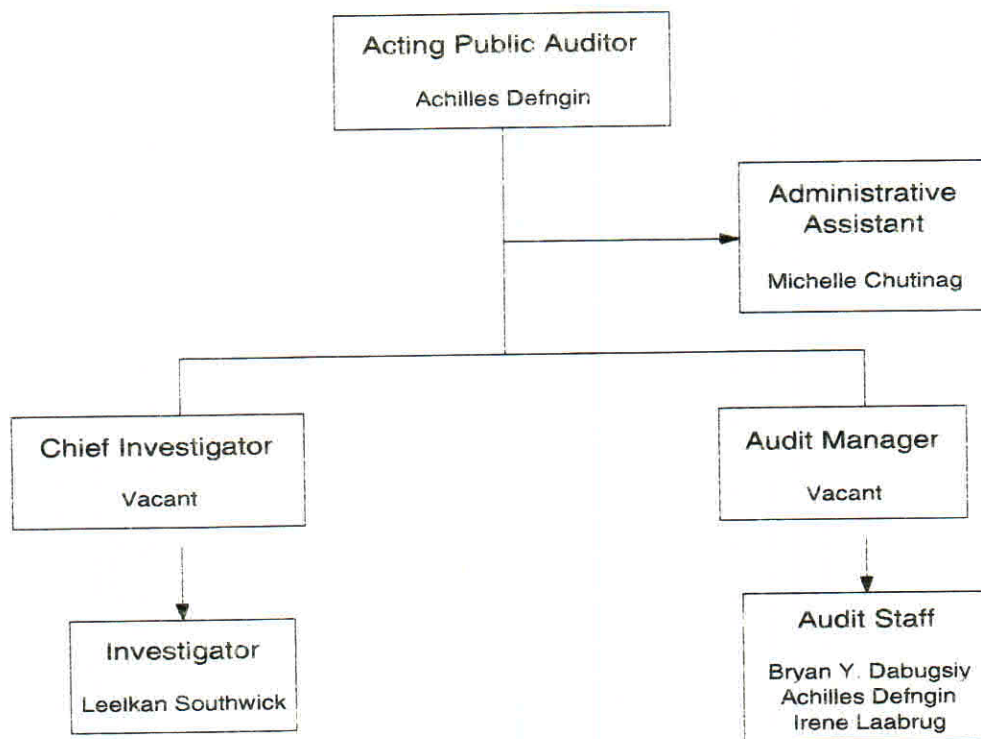
1. The Audit Division conducts financial statement audits of the State's component units and entities receiving government funds, and performance audits, in accordance with *Government Auditing Standards*, often referred to as the "Yellow Book." The auditors follow the *Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE)* for our inspections and evaluations.
2. The Compliance Investigation Division's (CID) primary functions are administrative and criminal. The division investigates allegation 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 employees
- Referrals from the Audit Division
- Referrals from the Office of the National Public Auditor
- The Legislature
- The general public
- Other parties, such as contractors

The Compliance Investigation Division 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.

**PUBLIC AUDITOR'S OFFICE  
ORGANIZATIONAL CHART**



The Office of the Public Auditor 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 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 goal is to enhance public trust in our government, and our vision is to be an agent of positive change and one that:

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

## **SUMMARY OF ACTIVITIES**

The highlights of activities for the Office of the Yap State Public Auditor for calendar year 2014 are presented below:

### Financial Highlights

Our overall budget for fiscal year 2014 is \$203,923, consisting only of Public Sector Capacity Building Grant funds. Actual expended plus encumbrances at September 30, 2014 was \$153,426, with \$50,496.68 in unexpended balance.

Our approved budget for fiscal year 2015 is \$201,508, all from Public Sector Capacity Building Grant funds. \$82,869 has been allotted for the first quarter and \$16,800 has been expended or encumbered.

### Audits, Other Engagements, and Investigations

Three financial statement audits were started in 2014, and we managed to issue two financial audit reports. Other entities were not audited due to their incomplete books and records.

We also started two performance audits and one inspection but are still work in process. In addition, we performed our regular year-end audit procedures of five surprise cash counts and inventory observations at the end of the fiscal year 2014.

Compliance Investigation Division handled six (6) cases. Of the six (6) cases, two (2) were found to be internal control issues and Management Advisories were sent to the departments involved. One (1) was an investigation assist provided to the Office of the National Public Auditor (ONPA), and the file was referred to them for further action. The remaining three (3) cases are still open and rolled over into calendar year 2015.

### Planned Activities for Calendar Year 2015

We are mandated to perform financial statement audits of seven component units every year before May 31<sup>st</sup>; of which, three are included in the Single Audit's government-wide financial statements. As such, audits of component units have priority over other requests for audits. To date, we have received two requests, both from the Embassy of Japan in the FSM, to audit two projects funded by the Embassy. Another is an overdue request from the Legislature to audit the Department of Public Works & Transportation (DPW&T). We have been planning two performance audits of the DPW&T.

### Staffing and Other Matter

In August 2014, Mr. Wilfred Oliver L Dolosa abandoned his post as Public Auditor, leaving the office with limited personnel of one administrative assistant, three auditors, and one investigator and four (4) vacant audit positions.

We are in the process of hiring two staff auditors to fill two of the vacant positions. The Audit Manager position still remains vacant. The Public Auditor should have the discretion to hire for the position.

### Problems and Constraints

There are three major problems faced by the OPA in 2014. First, the office operated with limited number and qualified auditors and investigators. The OPA has been without the technical skills, knowledge, and expertise of a CPA audit manager to supervise and review all in-house audits to ensure compliance with accounting and auditing standards. Significant turnover has left only three auditors employed at the OPA. One of the auditors is appointed Temporary Public Auditor to take on additional responsibilities, leaving the other two auditors to conduct most of the audits.

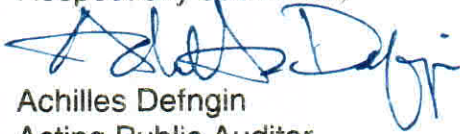
Second, budget constraints prevented training of current investigator and hiring of anew. Due to budget constraints, the Compliance Investigation Division only has one investigator handling all the cases. In 2014, all allegations were reported at about the same time, posing a threat to reporting timeliness and the quality of the investigations conducted. Third, incomplete books and records of component units hindered our performance of mandated audits. It has been three consecutive years for one of the entities.

Despite the shortcomings we encountered in 2014, we recognize the work that is being done by the 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.

Lastly, we are very grateful for the continued support from the Governor and Members of the Legislature. We look forward to working together with the agencies, departments,

and offices of the State Government during the New Year, to remind managers of the importance of ethics in government, and to enhance public trust in our government.

Respectfully submitted,



Achilles Defngin  
Acting Public Auditor  
January 16, 2015



**FINANCIAL INFORMATION**

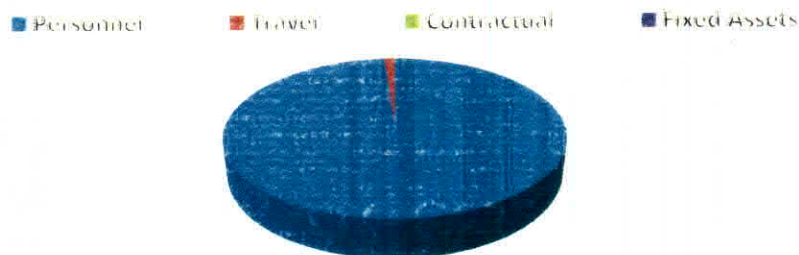
Fiscal Year ended September 30, 2014

Our budget for fiscal year 2014 consists of Public Sector Capacity Building Grants of \$203,923. The detailed financial information presented below is compiled from the advices of allotment obtained from the Office of Planning and Budget and Fundware reports provided by the State Finance for the fiscal year ended September 30, 2014:

| Description  | Budget            | Actual Expenditure   | Prior Year Encumbrance | Current Year Encumbrance | Balance (Over)/Under |
|--------------|-------------------|----------------------|------------------------|--------------------------|----------------------|
| Personnel    | \$ 128,763        | \$ 78,920.15         | \$ -                   | \$ -                     | \$ 49,842.85         |
| Travel       | 24,700            | 24,143.27            | -                      | -                        | 556.73               |
| OCE          | 24,184            | 20,622.22            | -                      | 3,464.79                 | 96.99                |
| Contractual  | 24,776            | 24,775.89            | -                      | -                        | 0.11                 |
| Fixed Assets | 1,500             | -                    | -                      | 1,500.00                 | -                    |
| <b>Total</b> | <b>\$ 203,923</b> | <b>\$ 148,461.53</b> | <b>\$ -</b>            | <b>\$ 4,964.79</b>       | <b>\$ 50,496.68</b>  |

The unexpended balance of \$50,496.68 of our fiscal year 2014 budget consists mostly of the personnel budget:

**2014 Unexpended Balance**



The Public Auditor attempted to delay hiring of audit staff in an effort to reduce expenditures to fit our budget, but only added to the increasing backlog of work and put us further behind in our schedule of audits.

Quarter Ended December 31, 2014

Our approved budget for fiscal year 2015 of \$201,508 is funded entirely from the Compact Public Sector Capacity Building Grants. The financial information presented

below was accumulated from the advice of allotment provided by the Office of Planning and Budget and from the Funware reports provided by the State Finance as of December 31, 2014, representing allotments and expenditures to date:

| Description  | Budget           | Actual Expenditure  | Prior Year Encumbrance | Current Year Encumbrance | Balance (Over)/Under |
|--------------|------------------|---------------------|------------------------|--------------------------|----------------------|
| Personnel    | \$ 32,728        | \$ 14,699.85        | \$ -                   | \$ -                     | \$ 18,028.15         |
| Travel       | 2,000            | -                   | -                      | -                        | 2,000.00             |
| OCE          | 7,481            | 699.22              | -                      | 1,400.78                 | 5,381.00             |
| Contractual  | 40,660           | -                   | -                      | -                        | 40,660.00            |
| Fixed Assets | -                | -                   | -                      | -                        | -                    |
| <b>Total</b> | <b>\$ 82,869</b> | <b>\$ 15,399.07</b> | <b>\$ -</b>            | <b>\$ 1,400.78</b>       | <b>\$ 66,069.15</b>  |

## AUDITS AND OTHER ENGAGEMENT ACTIVITIES

In 2014, the Office of the Public Auditor started three financial audits of component units and managed to release two of the audit reports. Other entities were not audited due to their incomplete books and records. Yap Fishing Authority (YFA) and Gagil-Tomil Water Authority (GTWA) were the two controversial entities in 2014 among them, since their audited financial statements were required for the Single Audit of the State Government. The Yap State Government received a qualified opinion for fiscal year 2013 Single Audit due to YFA and GTWA's non-auditable financial statements.

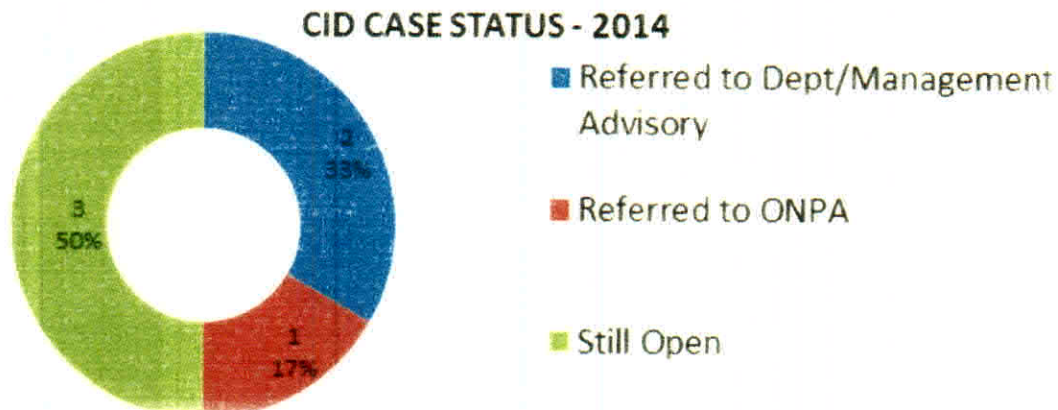
Two performance audits and one inspection were also started in 2014. We will temporarily put them on hold to commence the fiscal year 2014 financial audits as required for the Single Audit report. We will resume the performance audits and the inspection once we complete the requirement for the Single Audit.

At the beginning of fiscal year 2015, we visited five component units and performed surprise cash counts and inventory observations as part of our regular year-end audit procedures.

## INVESTIGATIONS AND FINDINGS

When the Compliance Investigation Division receives allegations of fraud, waste, and mismanagement, the investigator conducts a preliminary inquiry to determine whether or not there is justifiable suspicion to refer the matter to the Office of the Attorney General.

In 2014, CID received a total of six (6) reported allegations. All six allegations were considered and a case was opened for each one. Of the six cases, two (2) were found to be internal control issues and Management Advisories were sent to the departments involved. One (1) was an investigation assist provided to the Office of the National Public Auditor (ONPA), and the file was referred to them for further action. The remaining three (3) cases are still open and rolled over into calendar year 2015.



## PLANNED AUDITS AND OTHER ENGAGEMENTS FOR 2015

### Annual Financial Audit Calendar

Of the nine component units of the State Government, three are audited annually under the Single Audit contract, and seven are audited annually by the Office of the Public Auditor. The drafts for these audits need to be completed by May 31<sup>st</sup> for the inclusion in the Yap State audit report.

### Requested Audits

In addition to the long list of audits requested by the Legislature several years back, we also have requests for audits from departments. Currently, we have ongoing audits on hold pending the completion of the component units that will be included in the Single Audit Report.

## STAFF RECRUITMENT, DEVELOPMENT AND TRAINING

### Staff Movement

In August 2014, Mr. Wilfred Oliver L Dolosa abandoned his post as Public Auditor leaving the office with four vacant positions. Significant turnover has left only three auditors, one administrative assistant, and one investigator employed at the OPA. One of the auditors was appointed Temporary Public Auditor to take-on additional responsibilities, leaving the other two auditors to conduct most of the audits and assist the CID. Currently, we are in the process of hiring two staff auditors to fill two of the vacant positions.

The OPA is without the technical skills, knowledge, and expertise of a CPA audit manager crucial to supervise and review all in-house audits to ensure compliance with accounting and auditing standards. Hiring for the audit manager position should be at the discretion of the Public Auditor since they will be working closely together. The Public Auditor is not appointed yet.

### Local Training Workshop

This year the Office of the Inspector General conducted one week training for our staff.

### Off-Island Training Workshop

In 2014, in order for us to comply with *Government Auditing Standards* continuing professional education requirements and to keep-up with the constant changes in the accounting and auditing standards, we participated in several off-island seminars.

Pacific Islands Training Initiative (PITI) – All three (3) auditors and one (1) investigator attended the conference in Pohnpei, FSM on August 4-8 , 2014.

Investigation Training – One (1) Investigator and all three (3) auditors attended the conference in Pohnpei, FSM on September 10-11, 2014. The auditors participated in the training because they assist with the investigations.

We were not able to attend the 2014 APIPA Annual Conference held in American Samoa due to budget constraints in connection with travel expenditures.