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A MESSAGE FROM THE PUBLIC AUDITOR

The Honorable Tony Ganngiyan, Governor

The Honorable Theodore “Ted” Rutun, Speaker of the 9th Legislature

I am pleased to submit the 2015 Annual Report as mandated by Title 13, Chapter 7, and Section 704 of the Yap State Code, which requires the Public Auditor to report annually to 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, 2015 to December 31, 2015. Our mission is to 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 mission, we conduct independent and objective audits, investigations, and other reviews to evaluate the economy, efficiency, and effectiveness of government activities, to ensure compliance with legal and regulatory requirements, and to prevent, detect and deter waste, fraud, abuse, and mismanagement in the expenditure of public funds. 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 OPA strives to make a difference in the State’s performance and accountability and endeavor to fulfill its mission by conducting its 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. Our performance this year has notably improved over last year’s.

SUMMARY OF ACTIVITIES

This year we completed eight engagements, including seven investigations and one financial statement audit and issued a draft follow-up and management letter, and assisted the Office of the National Public Auditor with an agreed-upon procedures engagement.

celebration for dedicated services at the third, sixth, and tenth anniversary dates during which time the individual receives a framed certificate of appreciation.

This year we worked on other areas to improve our overall performance. Some of our staff participated in training workshops and seminars hosted by PASAI (Pacific Association of Supreme Audit Institutions), APIPA (Association of the Pacific Islands Public Auditors), and the Office of the Inspector General (OIG) of the U.S. Department of Interior (DOI). We also provide in-house presentations of some of the training materials to staff who could not participate in the workshops due to budgetary constraints.

Financial Highlights

Our overall budget for fiscal year 2015 is \$201,508, consisting only of Public Sector Capacity Building Grant funds. A supplemental budget of \$7,880 was awarded to the OPA for travel and registration for the 2015 APIPA (Association of the Pacific Islands Public Auditors) conference in Guam. Actual expended plus encumbrances at September 30, 2015 was \$140,532, with \$60,975.99 in unexpended balance.

Our approved budget for fiscal year 2016 is \$210,917.86, all from Public Sector Capacity Building Grant funds. \$77,091 has been allotted for the first quarter and \$46,803.11 has been expended or encumbered.

Planned Activities for Calendar Year 2016

We are mandated to perform financial statement audits of seven component units every year before May 31st; of which, three (Public Transportation System, Yap Fishing Authority, and Gagil-Tomil Water Authority) are included in the Single Audit of the government-wide financial statements. As such, audits of component units have priority over other requests for audits.

We plan to complete reporting on our evaluation of the Department of Health Services (DHS) Mobile Clinic project and issue the final management letter for our surprise cash count of the State Treasury. We also plan to perform an unannounced cash count of the revenue collection of the Division of Agriculture & Forestry – Department of Resources & Development and other government entities handling cash collection, and follow-up with the implementation of previous years' cash count recommendations.

We also plan to resume 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.

The Audit Division started six financial statement audits in 2015, and managed to issue one financial audit report. Only one of the entities had complete books and records, others were in the process of compiling their records. We also performed our regular year-end audit procedures of five surprise cash counts and inventory observations at the end of the fiscal year 2015.

We have also resumed follow-up reviews of audits, investigations, and other engagements, and restarted 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 Compliance Investigation Division worked on and completed 7 of 10 activated cases; 3 of the completed cases were initiated at the end of the calendar year 2014, which rolled over into calendar year 2015. At the conclusion of each of the 7 completed cases, CID processed each one according to the results of its investigation; 3 of the completed cases were referred to the Office of the Attorney General for further action; 3 were closed and issued management advisories to the relevant department or office; and 1 was referred back to the National Office of the Public Auditor with our findings. The remaining 3 of the 10 cases that CID handled in calendar year 2015 were initiated in December 2015, and are still active with ongoing investigations.

Staffing and Other Matter

We currently have eight staff on board, three of which are new employees. The position of audit manager remains vacant, and we are unable to attract experienced specialists to fill the position due to budgetary constraints.

In an effort to strengthen staff 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 skills and competence. Our staff is encouraged to seek and obtain professional certification. All staff members are presently studying and working toward achieving International Computer Driving License (ICDL) certification hosted by PASAI (Pacific Association of Supreme Audit Institutions). CFE (Certified Fraud Examiner) and CGAP (Certified Government Audit Professional) designations remain important to our profession. The goal is for 100% of our staff to have at least one certification of CFE or CGAP. We also started an employee anniversary appreciation and evaluation program to recognize dedication and achievement. Each employee is evaluated every year for work performance and recognized with a special

Problems and Constraints

There are three major problems faced by the OPA in 2015. First, the OPA has been without the technical skills, knowledge, and expertise of an audit specialist to supervise and review all in-house audits to ensure compliance with accounting and auditing standards. Significant turnover has forced the OPA to hire new and inexperienced staff, causing the urgent need for training.

Second, budgetary constraints are depriving the OPA of the important training of current and new staff. Due to budget constraints, the Compliance Investigation Division only has one investigator handling all the cases. Since we could not hire an investigator, we have charged an audit staff with the responsibility of an investigator to assist with the investigations. With the new investigator in mid-2015, investigations of allegations reported to the OPA have been conducted in a timely manner. Third, incomplete books and records of component units hindered our performance of mandated audits.

Despite the shortcomings we encountered in 2015, 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.

Finally, I am very grateful for the continued support from the Governor and Members of the Legislature, and their commitment to a strong public audit office. I 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
Public Auditor

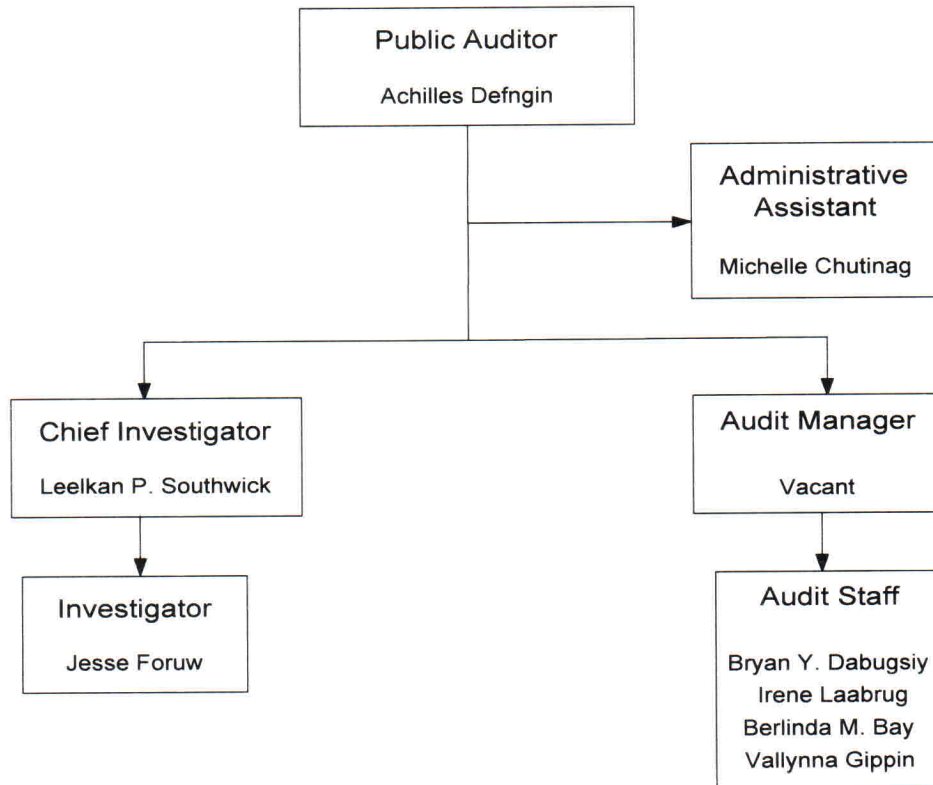
January 15, 2015

Organization and Responsibilities

The Office of the Public Auditor 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.”

OFFICE OF THE PUBLIC AUDITOR ORGANIZATIONAL CHART



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. The Office of the Public Auditor 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 criminal and civil misconduct, 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 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 OPA has been at the forefront of the State's efforts to fight government waste, fraud and abuse. The Compliance Investigation Division maintains a working arrangement between the OPA and the Office of the Attorney General (OAG) and the Division of Public Safety (DPS). The CID also works closely with other subject matter experts and other national and local law enforcement agencies when appropriate.

FINANCIAL INFORMATION

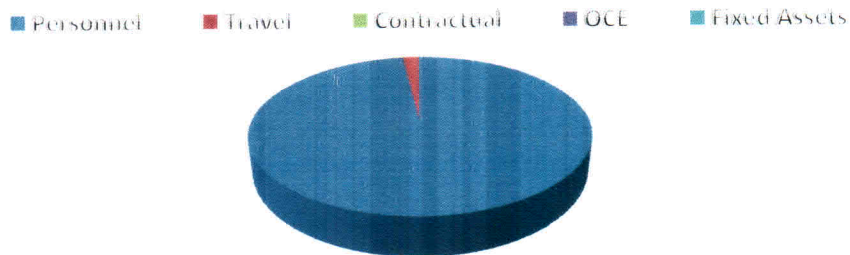
Fiscal Year ended September 30, 2015

Our budget for fiscal year 2015 consists of Public Sector Capacity Building Grants of \$201,508. 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, 2015:

Description	Budget	Actual Expenditure	Prior Year Encumbrance	Current Year Encumbrance	Balance (Over)/Under
Personnel	\$ 130,912	\$ 68,777.34	\$ -	\$ -	\$ 62,134.66
Travel	17,586	17,542.21	-	1,215.00	(1,171.21)
OCE	26,404	21,929.70	-	4,462.60	11.70
Contractual	20,262	20,192.00	-	70.00	-
Fixed Assets	6,344	4,978.76	-	1,364.40	0.84
Total	\$ 201,508	\$ 133,420.01	\$ -	\$ 7,112.00	\$ 60,975.99

The unexpended balance of \$60,975.99 of our fiscal year 2015 budget consists mostly of the personnel budget:

2015 Unexpended Balance



Quarter Ended December 31, 2015

Our approved budget for fiscal year 2016 of \$210,917.87 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 Fundware reports provided by the State Finance as of December 31, 2015, representing allotments and expenditures to date:

Description	Budget	Actual Expenditure	Prior Year Encumbrance	Current Year Encumbrance	Balance (Over)/Under
Personnel	\$ 133,217.22	\$ 22,643.06	\$ -	\$ -	\$ 110,574.16
Travel	27,526.86	-	-	-	27,526.86
OCE	24,853.79	2,986.13	-	1,853.92	20,013.74
Contractual	25,320.00	4,830.00	-	14,490.00	6,000.00
Fixed Assets	-	-	-	-	-
Total	\$ 210,917.87	\$ 30,459.19	\$ -	\$ 16,343.92	\$ 164,114.76

AUDITS AND OTHER ENGAGEMENT ACTIVITIES

In 2015, the Audit Division started six financial statement audits, and managed to issue one financial audit report. Only one of the entities had complete books and records, others were in the process of compiling their records. We also performed our regular year-end audit procedures of five surprise cash counts and inventory observations at the end of the fiscal year 2015.

We have also resumed follow-up reviews of audits, investigations, and other engagements, and restarted 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.

INVESTIGATIONS AND FINDINGS

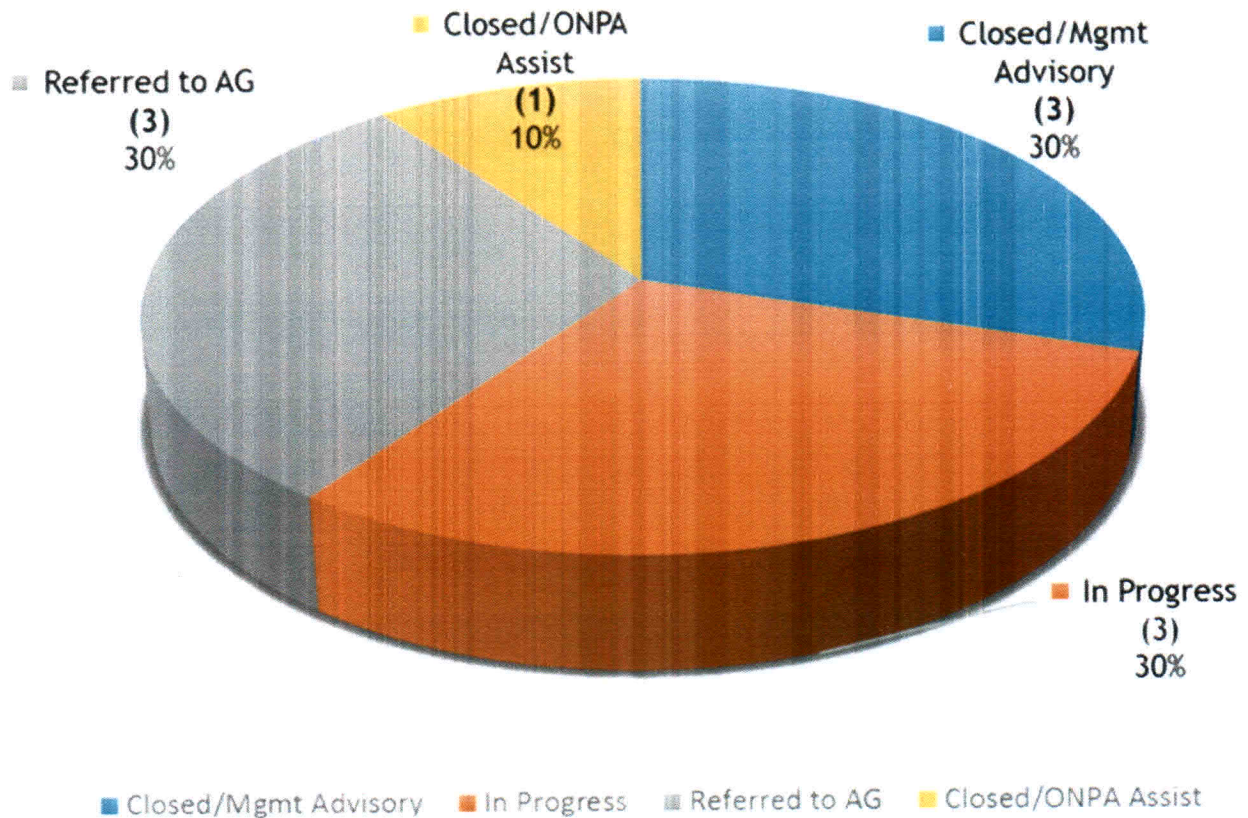
When the Compliance Investigation Division receives allegations of fraud, waste, and mismanagement, the investigator conducts a preliminary inquiry to determine whether or not there is justifiable suspicion to refer the matter to the Office of the Attorney General.

In 2015, the Compliance Investigation Division worked on and completed 7 of 10 activated cases; 3 of the completed cases were initiated at the end of CY2014, which rolled over into CY2015.

At the conclusion of each of the 7 completed cases, CID processed each one according to the results of its investigation; 3 of the completed cases were referred to the Attorney General's

Office for further action; 3 were closed and issued management advisories to the relevant department or office; and 1 was referred back to the National Office of the Public Auditor with our findings. The remaining 3 of the 10 cases that CID handled in CY2015 were initiated in December 2015, and are still active with ongoing investigations.

2015 CID Case Status Report



PLANNED AUDITS AND OTHER ENGAGEMENTS FOR 2016

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 31st for the inclusion in the Yap State audit report.

Requested Audits

In addition to the long list of audits requested by the Legislature since many years back, we also have requests for audits from departments. We plan to resume an overdue request from the Legislature to audit the Department of Public Works & Transportation (DPW&T). We have planned two performance audits of the DPW&T.

Other Audits & Investigations

We plan to complete reporting on our evaluation of the Department of Health Services (DHS) Mobile Clinic project this month and issue the final management letter for our surprise cash count of the State Treasury next week. We also plan to perform an unannounced cash count of the revenue collection of the Division of Agriculture & Forestry – Department of Resources & Development and other government entities handling cash collection, and follow-up with the recommendations of previous years' cash counts.

STAFF RECRUITMENT, DEVELOPMENT AND TRAINING

Staff Movement

We currently have eight staff on board, three of which are new employees. The position of audit manager remains vacant, and we are unable to attract experienced specialists to fill the position due to budgetary constraints.

In an effort to strengthen staff 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 skills and competence. Our staff is encouraged to seek and obtain professional certification. All staff members are presently studying and working toward achieving International Computer Driving License (ICDL) certification hosted by PASAI (Pacific Association of Supreme Audit Institutions). CFE (Certified Fraud Examiner) and CGAP (Certified Government Audit Professional) designations remain important to our profession. The goal is for 100% of our staff to have at least one certification of CFE or CGAP. We also started an employee anniversary appreciation and evaluation program to recognize dedication and achievement. Each employee is evaluated every year for work performance and recognized with a special celebration for dedicated services at the third, sixth, and tenth anniversary dates during which time the individual receives a framed certificate of appreciation.

This year we worked on other areas to improve our overall performance. Some of our staff participated in training workshops and seminars hosted by PASAI (Pacific Association of Supreme Audit Institutions), APIPA (Association of the Pacific Islands Public Auditors), and

the Office of the Inspector General (OIG) of the U.S. Department of Interior (DOI). We also provide in-house presentations of some of the training materials to staff who could not participate in the workshops due to budgetary constraints.

Local Training Workshop

This year the USDA Graduate School/Pacific Island Training Initiative (PITI) sponsored a three-day training in Yap for our staff and other public audit offices in the FSM.

We also provide in-house presentations of some of the training materials to staff who could not participate in the workshops due to budgetary constraints.

Off-Island Training Workshop

In 2015, 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.

Office of the Inspector General (OIG) of the U.S. Department of Interior (DOI) training – Two investigators and two staff auditors attended the conference in Pohnpei, FSM on September 1-2, 2015. The auditors participated in the training because they needed to fulfill their continuing professional education requirements.

Association of the Pacific Islands Public Auditors (APIPA) – Two senior auditors, one senior investigator, and the Public Auditor attended the 2015 APIPA conference in Guam.