

Public Transportation System

Financial Statements and Independent Auditor's Report

**Fiscal Years Ended
September 30, 2019 and 2018**



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



OFFICE OF THE PUBLIC AUDITOR
YAP STATE GOVERNMENT
Federated States of Micronesia
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November 27, 2020

Honorable Henry Falan, Governor, State of Yap
Honorable Vincent A. Figir, Speaker, Yap State Legislature
Alphonsus Ruwema, Chairman of the Board
Jeffrey Adalbai, General Manager

RE: Audit of Public Transportation System

This report presents the results of our audit of the financial statements for the Public Transportation System (PTS) for the years ended September 30, 2019 and 2018. These financial statements are the responsibility of management of PTS.

The purpose of our audit was to express our opinion on the financial statements of PTS for the years indicated, which in the auditors' opinion the financial statements presented on pages 4 through 6 is unqualified (clean opinion). The financial statements present fairly, in all material respect the financial position of PTS as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The audit was performed by the Office of the Yap State Public Auditor pursuant to the provisions of Title 13, Chapter 7, § 703 of the Yap State Code, and in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Our report on our consideration of PTS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters required for audits of financial statements performed in accordance with Government Auditing Standards on pages 15 to 16 discusses reportable conditions at PTS. These conditions and our recommendations are basically presented for the information of PTS management in the Schedule of Findings on pages 17 and 18. Neither material weakness nor significant deficiency was noted during our audit.

A copy of the draft report was provided to the Chairman of the Board and the General Manager, the contents of which were discussed with the Board of Directors, management, and key personnel on October 12, 2020.

We would like to take this opportunity to thank the Board of Directors, the management and staff of Public Transportation System for their assistance and cooperation during the course of our audit.

Respectfully submitted,



Achilles Defngin
Public Auditor

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PUBLIC TRANSPORTATION SYSTEM

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Public Transportation System:

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Transportation System (PTS), component unit of the Yap State Government, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Transportation System as of September 30, 2019 and 2018, and the changes in its net position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We also examined the adjustments described in Note 9 that were applied to restate the 2018 financial statements. In our opinion such adjustments are appropriate and have been properly applied.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2020, on our consideration of the Public Transportation System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PTS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Public Transportation System's internal control over financial reporting and compliance.



Achilles Defngin
Yap State Public Auditor

November 27, 2020

PUBLIC TRANSPORTATION SYSTEM

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

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Yap State Public Transportation System is the only public bus transportation operation that provides transportation to the public and private school students as well as the general public. The system was established in 1984 under Yap State Law No. 1-170 as a component unit, an entity which the government is financially accountable and was tasked to provide reliable and affordable transportation for people living within and outside the Colonia area.

This section of the Public Transportation System annual financial statement report presents our discussion and analysis of the System's financial performance for the year ended September 30, 2019. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, our requested direct subsidy for this FY was not provided, which includes our insurance (\$15,439), POL (\$48K) and parts (\$16K). The only subsidy is an indirect for POL under DOE for \$30K. High cost of fuel still remain a challenge and the ever-increasing cost of parts, supplies and repairs.

As repeated from our previous year Management's Discussion and Analysis, more than half of the bus fleet was replaced with new buses, the first purchase units are now 13 years in service with 4 units which are fully depreciated and have been in service for more than 18 years in which has been very costly to operate.

Slightly differs from previous year, there are significant figures noticed in our financial statement. PTS shows a decrease of sales in our automotive service department at about 3.1% compare to FY2018. Our overall sales, shop and other income sales is at \$320,928 which shows bottom line at this period at about 3.3% decrease of gross profit exclusive of any subsidy compare to last FY. PTS was able to minimize cost at about 16.7+% compare to previous FY. Which means needed parts and repairs was on hold and letting go several of our expatriates. As does every year, PTS continue to show negative bottom line. As state in the past years. However, the automotive service department has greatly kept PTS afloat each year.

PTS has been and will continue to work toward becoming self-sustainable. Included in the discussion of the Board and management, developing plan that would entail diversifying of PTS operation. Opening other revenue generating service to subsidize the operation and hopefully having PTS be self-sustainable and gradually reduce subsidy requests.

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2019.

**Office of the Public Auditor
State of Yap**

PUBLIC TRANSPORTATION SYSTEM

Statements of Net Position
Years Ended September 30, 2019 and 2018

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ASSETS :	<u>2019</u>	Restated <u>2018</u>
Current Assets		
Cash	\$ 98,303	\$ 48,177
Trade receivables, net (note 3)	21,966	15,016
Prepaid expenses	4,469	23,175
Purchase Order Advance	2,980	9,387
Inventory	<u>189,433</u>	<u>214,796</u>
Total current assets	317,151	310,551
Property and equipment, net (note 4)	<u>336,591</u>	<u>431,901</u>
TOTAL ASSETS	<u><u>653,742</u></u>	<u><u>742,452</u></u>
LIABILITIES AND NET POSITION:		
Current liabilities:		
Accounts payable - trade	\$ 3,148	\$ 4,489
Customer deposits	10,871	7,468
Accrued payroll and others	<u>8,642</u>	<u>11,026</u>
Total current liabilities	22,661	22,983
Net Position		
Invested in capital assets	336,591	431,901
Unrestricted	<u>294,490</u>	<u>287,568</u>
Total net position	<u>631,081</u>	<u>719,469</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u><u>653,742</u></u>	\$ <u><u>742,452</u></u>

See accompanying notes to financial statements

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

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	<u>2019</u>	Restated <u>2018</u>
Operating revenues		
Charges for transportation services	\$ 178,531	\$ 184,064
Auto shop service income	133,775	157,104
Fuel, parts & accessories sales	92,467	86,792
Other sales	7,852	7,065
	<u>412,625</u>	<u>435,025</u>
Cost of sales (note 5)	<u>91,697</u>	<u>103,496</u>
Gross margin	<u>320,928</u>	<u>331,529</u>
Selling, general and administrative expenses		
Personnel services	167,119	198,538
Insurance	15,845	16,643
Miscellaneous	33,075	26,126
Parts, supplies & materials	4,067	7,329
Utilities	14,083	15,503
Depreciation	101,161	127,499
Travel	8,697	15,617
Fuel, oil and lubricants	76,391	70,287
Repair and maintenance	18,878	35,479
	<u>439,316</u>	<u>513,021</u>
Loss from operations	(118,388)	(181,492)
Nonoperating revenues/(expenses)		
Yap State operating subsidy	30,000	92,068
Interest	-	-
	<u>30,000</u>	<u>92,068</u>
Changes in net position	(88,388)	(89,424)
Net position at beginning of year	719,469	810,088
Prior period adjustment	-	(1,195)
Net position - end of year	\$ <u><u>631,081</u></u>	\$ <u><u>719,469</u></u>

See accompanying notes to financial statements

Office of the Public Auditor
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Statements of Cash Flows
Years Ended September 30, 2019 and 2018

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	<u>2019</u>	Restated <u>2018</u>
Cash flows from operating activities		
Receipts from customers	\$ 415,485	\$ 448,418
Cash payments for goods and services	(220,005)	(329,557)
Cash payments to employees	<u>(169,503)</u>	<u>(197,012)</u>
Net cash used for operating activities	25,977	(78,151)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	30,000	92,068
Other Income	<u>0</u>	<u>(1,195)</u>
Net cash from non-capital financing activities	30,000	90,873
Cash flows used for investing activities		
Other Income	0	(56)
Acquisition of fixed assets	<u>(5,851)</u>	<u>(22,168)</u>
Net cash used for investing activities	(5,851)	(22,224)
Net increase/(decrease) in cash	50,126	(9,502)
Cash, beginning of year	<u>48,177</u>	<u>57,679</u>
Cash, end of year	\$ <u><u>98,303</u></u>	\$ <u><u>48,177</u></u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(118,388)	(181,492)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	101,161	127,499
(Increase)/Decrease in assets		
Trade receivables, net	(6,950)	(265)
Purchase Order Advance, net	6,407	26,241
Prepaid Expenses	18,706	(153)
Inventory	25,363	(36,302)
Increase/(Decrease) in liabilities		
Accounts payable	(1,341)	(2,623)
Customer deposits	3,403	(12,582)
Accrued expenses	<u>(2,384)</u>	<u>1,526</u>
Net cash used in operating activities	\$ <u><u>25,977</u></u>	\$ <u><u>(78,151)</u></u>

See accompanying notes to financial statements

**Office of the Public Auditor
State of Yap**

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements
September 30, 2019 and 2018

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(1) Organization

Public Transportation System (PTS), a component unit of the State of Yap, was created by Yap State Law (YSL) No. 1-170 and is responsible for providing reliable and inexpensive transportation to the general public based on established routes and fares. Other services provided by PTS include charter transportation by way of commercial leasing of PTS equipment and auto repair sales and services to individuals and organizations. PTS is governed by a five-member Board of Directors appointed by the Governor, subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PTS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. PTS has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

PTS adopted the provisions of GASB Statement No. 34 (*Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments*). GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting into four net asset categories:

- (a) *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- (b) *Nonexpendable*- Net assets subject to externally imposed stipulations that require PTS to maintain them permanently.
- (c) *Expendable*- Net assets whose use by PTS is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.
- (d) *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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New Accounting Standards

During fiscal years ended September 30, 2019, PTS implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statement 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB statements No. 67, No. 68 and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans*, as amended, and Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (postemployment benefits or OPEB). The provisions of Statement No. 75 are effective for fiscal years

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Notes to Financial Statements
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beginning after June 15, 2016. The management does not believe the implementation of this Statement has a material effect on the financial statements of PTS.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognizes assets, liabilities, and deferred inflows of resources at the inception of the agreement. This Statement also requires that a government recognizes revenue when the resources become applicable to the reporting period. The Statement enhances the decision-usefulness of general purpose external financial reports and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The management does not believe that the implementation of this statement will have a material effect on the financial statement of PTS.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal year beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substances defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
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Cash

For purposes of the Statement of Net Assets and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All the balances at September 30, 2019 are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Inventory

Inventory is stated based on average costs and consists primarily of spare parts for the buses and mechanics auto shop.

Depreciation

Property and equipment are stated at cost less accumulated depreciation and depreciation is recorded in the financial statements under the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	10	-	25	Years
Vehicles	4	-	7	Years
Shop Equipment	2	-	10	Years
Office Furniture and Equipment	3	-	10	Years
Land Improvement	2	-	10	Years

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

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Notes to Financial Statements
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(3) Trade Receivables

A summary of trade receivables on September 30, 2019 and 2018 are presented below:

	2019	2018
Current and former employees	\$ 2,817	\$ 5,612
Current and former board members	113	4,027
State departments and agencies	14,117	9,424
Other trade customers	28,453	21,357
	\$ 45,500	\$ 40,420
Less: Allowance for doubtful account		
	(23,534)	(24,209)
	\$ 21,966	\$ 16,211

(4) Property and Equipment

A summary of property and equipment as of September 30, 2019 and 2018 are as follows:

	Beginning balance October 1, 2018	Transfers and Additions	Transfers and Disposals	Ending balance September 30, 2019
Buildings	\$ 128,899	\$ 5,850	\$ --	\$ 134,749
Vehicles	1,552,717	--	--	1,552,717
Shop equipment	84,977	--	--	84,977
Office equipment	122,639	--	--	122,639
Land Improvement	1,771	--	--	1,771
	1,891,003	5,850		1,896,853
Less accumulated depreciation	(1,459,103)	(127,445)	--	(1,459,103)
	\$ 431,901	\$ --	\$ --	\$ 437,750

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	Beginning balance October 1, 2017	Transfers and Additions	Transfers and Disposals	Ending balance September 30, 2018
Buildings	\$ 128,899	\$ --	\$ --	\$ 128,899
Vehicles	1,536,906	15,810	--	1,552,717
Shop equipment	82,911	2,067	--	84,977
Office equipment	118,348	4,291	--	122,639
Land Improvement	1,678	93	--	1,771
	1,868,742	22,170		1,891,003
Less accumulated depreciation	(1,331,658)	(127,445)	--	(1,459,103)
	\$ 537,176	\$ --	\$ --	\$ 431,901

(5) Cost of sales

The detail of cost of sales for the year ended September 30, 2019 and 2018 are as follows:

	2019	2018
Purchases	\$ 84,905	\$ 82,531
Other Expense	6,792	20,965
Total Cost of Sales	\$ 91,697	\$ 103,496

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2019 and 2018 in the amount of \$30,000 and \$92,439 respectively, from the Yap State Government under which eligible expenditures could be reimbursed. The operating subsidies were funded by the General Fund-Local Revenue, Compact Capital Projects and Education Sector grants.

During the years ended September 30, 2019 and 2018, PTS has eligible expenditures of \$30,000 and \$92,068.

**Office of the Public Auditor
State of Yap**

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(7) Related Parties

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain Board members and officers hold positions and other positions of influence with the State. Related party transactions for the years ended September 30, 2019 and 2018 were \$2,930 and \$9,639, respectively.

(8) Risk management

PTS carries general liability insurance on its bus fleet and its passengers but is self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(9) Prior Year Adjustments and Restated Financial Statements

A prior period adjustment of \$1,195 was recorded in the year ended September 30, 2018 as reflected in the Statement of Changes in Net Assets.

Additionally, the 2018 financial statements were restated to correct errors in the following accounts:

	Original Balance	Restated Balance	Difference
Cost of Sales	\$ 103,452	\$ 103,496	\$ (44)
Trade Receivables	16,211	15,016	1,195
Inventory	207,815	207,771	(44)

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Schedule of Expenditures of Federal Awards
September 30, 2019 and 2018

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Grantor/CFDA Grantor's Program Title	Federal	Expenditures	
	<u>CFDA #</u>	<u>FY 2019</u>	<u>FY 2018</u>
Amended Compact - Education Sector Grant	15.875	<u>\$ 30,000</u>	<u>\$ 77,000</u>
Total Federal awards expended		<u><u>\$ 30,000</u></u>	<u><u>\$ 77,000</u></u>

Note

- (1) The Education Sector Grant is passed through the FSM National Government to the State of Yap.
- (2) The schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors of
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) as of and for the years then ended September 30, 2019 and 2018 and have issued our report thereon dated November 27, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PTS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PTS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PTS' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PTS' financial statements will not be prevented or detected and corrected on a timely basis. No material weaknesses were noted during our audit. Other matters involving the internal control over financial reporting are reported to management of the Public Transportation System in the accompanying Schedule of Findings as Finding No. 2019-01 and 2019-02.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiency was noted during our audit.

Our mission is to provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the PTS’ financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards*. These are presented in the Schedule of Findings Nos. 2019-01 and 2019-02.

The Company’s Responses to Findings

PTS’ responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. PTS’ responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Achilles Defngin
Public Auditor

November 27, 2020

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2019 and 2018

Audit Report No. 2020-06

Finding No. 2019-01 – State Procurement Requirements

Criteria: Title 9 of the Yap State Code Section 521 concerning competitive bidding, subsection (a) requires that all government purchases be subject to competitive biddings, except as otherwise provided by law:

- Subsection (a): Contracts for construction projects involving \$10,000 or more or for the purchase of personal property or services for independent contractors involving \$5,000 or more made on behalf of any State Government agency shall be let by free and open competitive bidding, by sealed bids, to the lowest responsible bidder in accordance with the provisions of this chapter.
- Subsection (b): All other purchases including those for services for independent contractors not otherwise included in Subsection (a) of this Section shall be subject to competitive purchasing. “Competitive purchasing” used herein means proof of price comparisons of at least three vendors, when possible, indicating that the lowest price

Condition: Our review of selected transactions during test of controls revealed that no free and open competitive biddings were made for an off- island purchase and PTS was using a vendor list approved by the PTS Board to make the purchase. Details of the purchase are as follows:

Date	Cheque Number	Details	Amount (\$)
04/09/19	5339	50% Payment for the purchase of Tires and other car parts	7,529.50

The total invoice for the purchase was \$14,909.

PTS in response to the same finding in FY18 claimed that the current process for bidding requirements may not be beneficial for them in purchasing inventory items for resale and will seek advice from its legal Counsel on how to properly address the issue to be started immediately and concluded on September 2019. Evidence to substantiate that anything to this regard was initiated was not readily available during the FY19 audit, specifically during discussion of this finding.

Furthermore, no price comparison was made for Check No. 5420, dated August 01, 2019 payable to the General Manager in the amount of \$155.76 for purchasing an Annual Web Hosting Plan from Yahoo Network.

Cause: PTS management were under the impression that the approved vendor list is sufficient to justify forgoing the proper bidding requirements necessitated by State laws and regulations.

Effect: In addition to non-compliance with applicable laws and regulations, PTS may not have maximized its purchasing power and may have spent more than if they had adhered to applicable, proper bidding requirements wherein several vendors provide the least possible amount for the purchase to get the business.

Recommendation: We recommend that management should ensure that all purchases equaling to or greater than the threshold of \$5,000.00 or more be processed through a formal bidding as required by

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PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2019 and 2018

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applicable Yap State Laws. We further recommend that PTS follow up with its legal Counsel to develop the most applicable and appropriate regulations, policies, and procedures that will best fit the interest of PTS.

Finding No. 2019-02– Prior Period Adjustment After Audit Report was Issued

Criteria: Proper accounting practice dictates that proper checks and balances should be in place to make certain that all transactions are posted properly and reconciled periodically to ensure accuracy.

Condition: We noted during audit that a prior period adjustment amounting to \$1,195 was posted by PTS in the 2018 fiscal year after the audit report for the 2018 fiscal year was signed and issued. The accounts affected included the Accounts receivable and Net position at the beginning of the year.

Cause: There was lack of control in the QuickBooks accounting system at PTS whereby the company books at the end of the fiscal year are closed off after the audit report is issued and no more posting could be possible.

Effect: The opening balance of the figure for the 2019 fiscal year did not reconcile with PTS figure and the 2018 financial statement figure was restated. There is also a risk of unauthorized and unnecessary posting.

Recommendation: We recommend that PTS management enquire with the supplier of the QuickBooks and consult them on the closing of books at the end of the fiscal year and implement accordingly at PTS.

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Management Response
Years Ended September 30, 2019 and 2018

Audit Report No. 2020-06

Finding No. 1- State Procurement

Board and Management will work with its legal counsel to address this.

Finding No. 2 – Prior Period Adjustment after Audit

We realized that this is a staff error for one particular posting which was reversed. We are trying to find a solution for closing an audited period in QuickBooks to eliminated similar postings. This is discussed with management and will be carried out as recommended.

PUBLIC TRANSPORTATION SYSTEM

YAP, OPA CONTACT

Audit Report No. 2020-06

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