

INSPECTION REPORT

***YAP STATE SCHOLARSHIP
PROGRAM ACCOUNT***

**OFFICE OF ADMINISTRATIVE
SERVICES**

September 25, 2020



Office of the Yap State Public Auditor
P. O. Box 927
Colonia, Yap FM 96943
Federated States of Micronesia
Tel: (691) 350-3416
Fax: (691) 350-4987
Email: admin@audityap.org



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

P.O. Box 927, Colonia, Yap FM 96943

Phone : (691) 350-3416 Fax : (691) 350-4987 Email : admin@audit Yap.org

September 25, 2020

Honorable Henry S. Falan, Governor, State of Yap
Honorable Vincent A. Figir, Speaker, and Members of the 10th Legislature, State of Yap
Gabriel Ramoloilug, Director of the Office of Administrative Services
Arlynn S. Chugen, Director Resource and Development

RE: Yap State Scholarship Program Account Inspection

We are please to submit the inspection report on the Scholarship Program Account.

This inspection was carried out to determine the correctness of the amount collected under the Scholarship Program Account since its establishment using the correct rates as per Yap State Law 9 – 46 and whether funds have been properly maintained, reconciled and utilised for the purpose it was established.

The inspection was conducted pursuant to the authority vested in the Public Auditor and in accordance with *Quality Standards for Inspections and Evaluations* issued by the US Council of the Inspectors General on Integrity and Efficiency.

Scholarship Program Account comprises of the total funds collected from the taxes levied on cigarettes and tobacco products as stipulated in the Yap State Legislation YSL 9 – 46. We have inspected the formula in-built in the Fundware Accounting System at the Office of Administrative Services for the collection of the Scholarship Program Account and concluded that they are accurate and in compliance with the legislated tax rates.

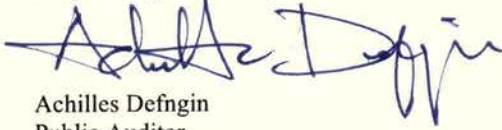
Our inspection noted a variance of \$47,506.73 and \$180,041.02 between the total amount collected for Scholarship program and Medical referral program in 2017 and 2018 despite both programmes having the same rates of tax allocation. These variances were later revealed to be incorrectly deposited in a separate account namely Tobacco Products with Account Number: A58530-44-87004-006125.

Out of the total of \$525,603.92 utilized from the Scholarship Program Account, only \$92,300 was appropriated by Legislature. Hence, a total of \$433,303.92 was unauthorized expenditure as they were not appropriated.

Furthermore, our inspection could not confirm the existence of the cash balances for the Scholarship Program Account as the program do not have a separate bank account but funds are deposited in the same bank account as the general fund.

Our findings and recommendation are detailed in the report.

Respectfully submitted,



Achilles Defngin
Public Auditor

CC: Public Library
COM Library
Office File

Table of Contents

1.0 INTRODUCTION..... 1

2.0 MANDATE..... 1

3.0 OBJECTIVES AND SCOPE..... 1

 3.1 Objectives 1

 3.2 Scope..... 1

4.0 METHODOLOGY 1

5.0 APPRECIATION 2

6.0 CONCLUSION 2

7.0 BACKGROUND OF SCHOLARSHIP PROGRAM ACCOUNT 2

8.0 PRIOR YEARS INSPECTION RESULTS 3

9.0 INSPECTION RESULTS..... 3

 9.1 Funds Collected Under Scholarship Program Account..... 3

 9.2 Expenditure Account for Scholarship Program Account 4

10.0 RECOMMENDATIONS..... 5

11.0 RESPONSE FROM THE OFFICE OF THE ADMINISTRATIVE SERVICES 6

12.0 OPA CONTACT 8

1.0 INTRODUCTION

This inspection report contains findings and recommendation following our inspection of the Scholarship Program Account maintained by the Office of Administrative Services (OAS).

2.0 MANDATE

The mandates for this inspection are as follows:

- 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;”

3.0 OBJECTIVES AND SCOPE

3.1 Objectives

The primary objective of this inspection is to determine the correctness of the amount collected under the Yap State Scholarship Account since its establishment using the correct rates as per Yap State Law 9 – 46 and whether funds have been properly maintained, reconciled and utilised for the purpose it was established.

This also included determining whether there is a State policy or regulation governing the award of scholarship to Yap citizens and whether they have been properly complied with.

3.2 Scope

This inspection comprised of examination of transactions for the Scholarship Program Account from December 2016 to December 2019. An inspection was also carried out on scholarship recipients on whether they met the regulatory requirements.

4.0 METHODOLOGY

Our inspection 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 inspection included physical inspection of the accounting and subsidiary records maintained by the Office of Administrative Services, interviewing key personnel, and data analysis on the status of the Scholarship Program.

We also verified the files of recipients of scholarship funds to ensure that all recipients met the requirements of the Scholarship Regulation/Policy.

5.0 APPRECIATION

Our sincere appreciation is extended to the Director and staff of the Office of Administrative Services and the Scholarship Section of the Department of Resource and Development for their assistance and cooperation during our inspection. We are looking forward to the continuation of such professional relationship.

6.0 CONCLUSION

Scholarship Account comprises of the total funds collected from the taxes levied on tobacco products as stipulated in the Yap State Legislation YSL 9 – 46. We have inspected the formula in-built in the Fundware Accounting System at the Office of Administrative Services for the collection of the Scholarship Fund and concluded that they are accurate and in compliance with the legislated tax rates. We have verified selected files of scholarship recipients and concluded that Scholarship policies and requirements have been met in the award of scholarships.

However, funds were not all posted in the Scholarship Program Account as funds totalling \$227,547 was deposited in a separate *Tobacco Products Account Number A58530-44-87004-006125* in 2017 and 2018.

Furthermore, the total expenditure charged to the Scholarship Program Account exceeded the amount appropriated by Legislature. Our inspection also could not determine the existence of the cash balance of the Scholarship Program Account as they are deposited in the same bank account with the general fund.

7.0 BACKGROUND OF SCHOLARSHIP PROGRAM ACCOUNT

On December 01, 2016, Section 103 of Title 13 of the Yap State Code was amended to increase taxes on tobacco products for the purpose of the Yap State Scholarship Program Account and Yap State Medical Referral Program Account – Yap State Law No. 9 – 46.

The following amounts collected pursuant to Section 103, Subsection (a) paragraphs 4 (I) of this Title shall be deposited into the General Fund of the State of Yap for future appropriation and shall specifically allocated to the Yap State Scholarship Program Account as follows:

- (1) Yap State Scholarship Program:
 - (a) Seventy – five cents (\$0.75) per twenty (20) cigarettes;
 - (b) Fifty – cents (\$0.50) per cigar; and
 - (c) Fifty – cents (\$0.50) per one-ounce tobacco products.
- (2) Yap State Medical Referral Program:
 - (d) Seventy – five cents (\$0.75) per twenty (20) cigarettes;
 - (e) Fifty – cents (\$0.50) per cigar; and
 - (f) Fifty – cents (\$0.50) per one-ounce tobacco products.

Table 1.1: History of Excise Tax Rates on Cigarettes and Tobacco Products

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	YSL No. 6-73 Increase Tax for Collection Program - 2006	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral - 2016
Cigarettes per 20 Cigarettes sticks	\$0.20	\$0.30	\$0.33	\$1.83
Or Per Carton	\$2.00	\$3.00	\$3.30	\$18.30
Cigar Per Cigar	\$0.02	\$0.03	\$0.06	\$1.06
Tobacco Per Oz	\$0.04	\$0.06	\$0.09	\$1.09

The distribution of current tax rate for cigarettes, Cigar and tobacco products is shown in Table 1.2 below.

Table 1.2 Allocation of Current Tax Rate for Cigarettes, Cigar and Tobacco

Description	Medical Referral	Scholarship	General Fund	Sports Development Fund	Total
Cigarettes - 20 sticks (1packet)	\$0.75	\$0.75	\$0.23	\$0.10	\$1.83
Cigar Per Cigar	\$0.50	\$0.50	\$0.05	\$0.01	\$1.06
Tobacco Per Oz	\$0.50	\$0.50	\$0.07	\$0.02	\$1.09

8.0 PRIOR YEARS INSPECTION RESULTS

There was no inspection carried out for the Scholarship Program Accounts since its establishment in December 2016.

9.0 INSPECTION RESULTS

9.1 Funds Collected Under Scholarship Program Account

Section 3 of the Bill stated that the Act shall take effect upon its approval by the Governor or upon its becoming law without such approval.

The Act was signed by the Honourable Speaker and Governor on 02/12/16 and 12/12/16 respectively.

The total funds collected for the Scholarship Program Account for the calendar years 2017 to 2019 was \$472,853.72 compared to \$700,401.40 collected under Medical Referral Program Account. Details are shown in Table 1.3 below.

Table 1.3: Scholarship and Medical Referral Program Revenue Account

Account Description	2017	2018	2019	Total (\$)
Scholarship	210,438.57	36,434.75	225,980.40	472,853.72
Medical Referral	257,945.30	216,475.77	225,980.33	700,401.40
Variance	47,506.73	180,041.02	0.07	227,547.68

We have inspected the percentage allocation of taxes formulated in the Fundware Accounting System at the Office of Administrative Services and noted that the percentage allocations are accurate and in accordance with the amended tax rates as per Yap State Law 9 – 46.

However, our inspection noted the following anomalies:

- The collection commenced in February 2017 despite the Act being signed on December 2016.
- There was variance of \$47,506.73 and \$180,041.02 between the total amount collected for Scholarship program and Medical referral program in 2017 and 2018 despite both programmes having the same rates of tax allocation.
- We could not confirm the existence of the cash balances for the Scholarship Program Account as the program do not have a separate bank account but funds are deposited in the same bank account as the general fund.

Upon verification and enquiry with Finance Division at the Office of the Administrative Services revealed that the collection for Scholarship was also posted in a separate account in 2017 and 2018 resulting in the variances in Table 1.3 above. Details of the account are as follows:

Account Name: Tobacco Products
Account Number: A58530-44-87004-006125

There was no proper monitoring on the correctness of the excise tax collection under the Scholarship program account which resulted in the understatement of the account balance in 2017 and 2018.

9.2 Expenditure Account for Scholarship Program Account

A total of \$525,604 was utilised from the Scholarship Program Account from 2017 to 2019. Refer to Table 1.4 below for details.

Table 1.4: Scholarship Program Expenditure Account

Program Account	2017	2018	2019	Total
Scholarship	176,650	173,975	174,979	525,604

A total of 252 scholarships was awarded from the Scholarship program account for the three years from 2017 to 2019, an average of 84 awards per year. Refer to Table 1.5 below for details.

Table 1.5: Number of Scholarship Award

	2017	2018	2019	Total
New Award	81	68	53	202
Continuing		17	33	50
Total awarded	81	85	86	252
Total Cost (\$)	176,650.00	173,975.00	174,978.92	525,603.92

Our inspection noted that out of the total of \$525,603.92 utilized from the Scholarship Program Account, only \$92,300 was appropriated by legislature. Hence, a total of \$433,303.92 was not appropriated, hence unauthorised expenditure. Details of the approved appropriation are shown below:

- 2017 – Bill No. 9-109 DI, Yap State Law No. 9-71 – \$42,300
- 2019 – Bill No. 10-22 D1, Yap State Law No. 10-9 – \$50,000

Without funds being appropriated by Legislature, the use of funds from the Scholarship Program Account is unauthorised.

There is lack of proper reconciliation of the Scholarship Program Account which resulted in the charging of unauthorized expenditure in excess of the approved Appropriation by Legislature.

10.0 RECOMMENDATIONS

We recommend that:

- **Proper reconciliations are carried out regularly on the revenue and expenditure account of the Scholarship Program.**
- **Only funds approved through Legislature appropriations are utilised from the Scholarship Program Account.**
- **The Scholarship Division should reconcile their records regularly with the Office of Administrative Services with regards to the use of funds from the Scholarship Program Account.**
- **A separate bank account should be considered for the Scholarship Program Account.**

11.0 RESPONSE FROM THE OFFICE OF THE ADMINISTRATIVE SERVICES



OFFICE OF THE DIRECTOR
Telephone: (768) 530-2307

OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (768) 530-2167
Office Telephones:
FINANCE/TELETYPE: (768) 2142
SUPPLY: (768) 2142
PERSONNEL: (768) 2142
REVENUE: (768) 2142
ARCHIVES: (768) 2142

September 17, 2020

Mr. Achilles Defngin
Public Auditor
Yap State Government
Colonia, Yap FSM 96943

Dear Mr. Defngin,

I am pleased to submit this letter as my management response to your OPA audit of the Scholarship Program Account and your inspection report. My response are in italics.

On page 4, Section 6.0 (Conclusion) of this Inspection Report for the Scholarship Account, it is stated that not all funds were posted in the Scholarship Program Account. A total of \$227,547 was deposited in a separate Tobacco Products Account Number A5.85.30.44.87004.00/006125 in 2017 and 2018.

Same section of the report stated that the total expenditures charged to the Scholarship Program Account exceeded the amount appropriated by the Legislature. Audit also could not determine the existence of the cash balance of the account as all funds were deposited in the same bank account with the general fund.

The deposits made in 2017 and 2018 (\$227,547) went into the account referenced above when it was first created. It was discovered later that setup and structure of the account was incorrect as it was established as an enterprise fund. In 2018, the same account was setup under general fund the initial one under Enterprise Fund became inactive.

12.0 RECOMMENDATIONS

- Proper reconciliations are carried out regularly on the revenue and expenditures account of the Scholarship Program.

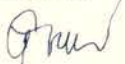
OAS agrees to the recommendation.

- Only funds approved through Legislature appropriations are utilized from the Scholarship Program Account.
Disbursement of this scholarship funds is made based on request from Scholarship Coordinator and per Legislature appropriations.
- The Scholarship Program should reconcile their records regularly with the Office of the Administrative Services with regards to the use of funds from the Scholarship Program Account.
Strongly agree.

- A separate bank account should be considered for the Scholarship Program Account. *Although the taxes intended for the Scholarship Program Account were segregated and accounted for separately from other General Fund revenues, they share the same bank account. It is important that they be separately accounted for and banked separately.*

Please let me know if you need any clarification.

Sincerely,



Gabriel M. Ramoloilug
Director

12.0 OPA CONTACT

OPA CONTACT

Achilles Defngin, Public Auditor
Email: adefngin@audityap.org

OPA MISSION

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

COPIES AVAILABLE AT

www.audityap.org

COPIES BY MAIL OR PHONE

Office of the Public Auditor
Yap State Government
P.O. Box 927
Colonia, Yap FM 96943
Phone: (691) 350-3415/16

CONTACT

Website: www.audityap.org
Hotline: (691) 350-8310