

PRISONERS FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the
Yap State Division of Public Safety)

**Statement of Cash Receipts and Disbursements
And Independent Auditor's Report
Year ended September 30, 2007**



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EXECUTIVE SUMMARY

The Office of the Yap State Public Auditor has released its audit report on the Schedule of Activities of the Prisoner Feeding and Maintenance Fund (PFMF) for the Fiscal Year ended September 30, 2007. The audit was requested by the Yap State Attorney General who has oversight over the Division of Public Safety, the fund custodian.

The Independent Auditors Report on page 1 is "unqualified" meaning that in the auditor's opinion the Statement of Cash Receipts and Disbursements on page 2 is fairly presented in accordance with the cash receipts and disbursements basis of accounting. This basis of accounting is a comprehensive basis of accounting which is not considered to be accounting principles generally accepted in the United States of America. The Statement of Cash Receipts and Disbursements shows that the PFMF ended fiscal year 2007 with an increase in its savings account because cash receipts exceeded disbursements by \$4,412.

The report on internal control over financial reporting and compliance with other matters on page 4 reported a singular material weakness for the PFMF and refers to other matters reported to the Yap State Attorney General. These matters which are all related to procurement policies and procedures are summarized below:

- Finding No. 1 refers to three transactions worth \$1,006 found for purchases that were deemed not directly related to the feeding and maintenance of prisoners.
- Finding No. 2 discusses the lack of evidence of compliance with the Division of Public Safety's Policy No. 2007-01 which requires that PFMF purchases should be made from vendors offering the lowest prices.
- Finding No. 3 cites DPS for not adhering to standards required by DPS policy for the maintenance of supporting documentation for expenditures of the PFMF funds.
- Finding No. 4 discusses the seemingly excessive purchases of fuel for the program for fiscal year 2007.
- Finding No. 5 discusses the program's lack of a checking account and the risks of handling cash to settle expenses of the program.

We have had a meeting to discuss the above findings with the Chief of Police and the Corrections Officer and their written responses to the findings are presented on page 10 of this report.

We take this opportunity to thank the Chief of Police and his staff for the cooperation and assistance extension to us during the course of this audit.

Gertrude Gootinan
Public Auditor

August 26, 2008

PRISONERS FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Yap State Division of Public Safety)
Year Ended September 30, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Yap State Attorney General:

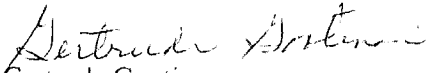
I have audited the accompanying Statement of Cash Receipts and Disbursements of the Prisoners Feeding and Maintenance Fund (a fiduciary account of the Yap State Division of Public Safety) for the fiscal year ended September 30, 2007. This financial statement is the responsibility of the Division of Public Safety. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal controls over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, this financial statement has been prepared on the cash receipts and disbursement basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statement referred to in the first paragraph, present fairly, in all material respects, the cash receipts and disbursements of the Prisoners Feeding and Maintenance Fund for the fiscal year ended September 30, 2007, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 3, 2007 on my consideration of the Prisoner Feeding and Maintenance Program's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


Gertrude Gootinan
Yap State Public Auditor

December 3, 2007

PRISONERS FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of theYap State Division of Public Safety)

Statement of Cash Receipts and Disbursements
Year ended September 30, 2007

| | <u>2007</u> |
|--|--------------------------|
| CASH RECEIPTS | |
| Department of Public Works and Transportation Contract | \$ 8,936 |
| Department of Health Services Contract | 2,393 |
| Other contracts | 1,250 |
| Interest Income | <u>1,000</u> |
| Total receipts | <u>13,579</u> |
| DISBURSEMENTS | |
| Fuel | 2,559 |
| Food supplies | 3,202 |
| Repair & maintenance | 2,213 |
| Other expenses | <u>1,193</u> |
| Total disbursements | <u>9,167</u> |
| Increase in cash | 4,412 |
| Cash in bank, beginning of year | <u>97,476</u> |
| Cash in bank, end of year | <u><u>\$ 101,888</u></u> |

PRISONERS FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Yap State Division of Public Safety)

Notes To Financial Statement
September 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Prisoners Feeding and Maintenance Fund (PFMF) – a fiduciary account of the Yap State Division of Public Safety, was established in 1987 for the primary purpose of raising funds to purchase food supplies for incarcerated individuals. Account funds are also used to settle expenses relating to the maintenance of the prisoners – prisoners’ supplies, repairs and maintenance of the jail, equipment for the prisoners’ use and prisoners’ medical needs. Under the PFMF, prisoners provide various contractual services when requested, receipts from which are deposited into the fund.

Account funds are maintained by the Yap State Division of Public Safety (DPS) in trust for incarcerated individuals as a group; accordingly, such funds are not owned by the Yap State Government. The prisoners generate income to and benefit from the funds only for the duration of their jail terms. The Yap State Attorney General has general and, if necessary, immediate supervisory powers over the DPS as set forth in Yap State Law No. 2-38. The Chief of Police (COP) has immediate supervision over all the operation and personnel of the DPS. The PFMF is administered by the Correction Section of the DPS; thus the daily operation of the PFMF is currently the responsibility of the Corrections Captain.

Basis of Accounting – The PFMF uses the cash receipts and disbursements basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Thus revenues are recorded upon receipt of cash and expenses upon disbursement of funds.

Cash in Bank – Cash represents cash on deposit in the Funds savings account maintained at the Bank of the Federated States of Micronesia of which \$100,000 is federally-insured. Balances at September 30, 2007 exceeding the insurable limit are uncollateralized.

2. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2007, the Fund received cash of \$1,250 as proceeds from a contract performed for the Office of the Attorney General which has oversight over the Division of Public Safety.

3. COMMITMENTS/CONTINGENCIES

At September 30, 2007, the Fund owed \$633 in unpaid invoices to local vendors for fuel and other supplies. \$572 of the amount had been unpaid since fiscal year 2006.



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

To the Yap State Attorney General:

I have audited the Statement of Cash Receipts and Disbursements of the Prisoners Feeding and Maintenance Fund (PFMF) – A Fiduciary Account of the Yap State Division of Public Safety – for the fiscal year ended September 30, 2007 and have issued my report thereon dated December 3, 2007. I conducted my 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 Controls over Financial Reporting

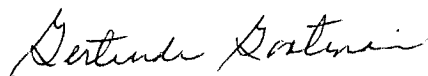
In planning and performing my audit, I considered the PFMF's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the schedule and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the PFMF's ability to record, process, summarize and report financial data consistent with the assertions of management in the schedules.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that might be material in relation to the schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted certain reportable conditions involving the internal control over financial reporting that I have reported to management in the accompanying Schedule of Findings as Findings No. 3 thru 5, all of which I consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the PFMF's schedule of activities is free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, policies, 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 my audit, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings as Findings Nos. 1 thru 2.

This report is intended for the information of the management of the Prisoners Feeding and Maintenance Program and the Yap State Attorney General and is not intended to be and should not be used by anyone other than these specified parties. This report, however, is a matter of public record and its distribution is not limited.



Gertrude Gootinan
Yap State Public Auditor

December 3, 2007

PRISONER FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Division of Public Safety)

Schedule of Findings
September 30, 2007

Finding No. 1 – IMPROPER USAGE OF FUNDS

Criteria: The role of the Division of Public Safety in handling the funds is purely custodial. Prisoners Feeding and Maintenance Funds are to be used only for expenses that directly benefit the prisoners such as food consumption; maintenance of the jail facilities; purchases of equipments, materials and other expenses necessary in their contractual services; and medical expenses.

Condition: In three instances in 60 transactions tested, program funds were used to settle expenses that do not directly benefit the prisoners. The first instance was the purchase of food amounting to \$212 for a Division of Public Safety office party (booked as other expenses) while the other two instances were for purchases of an air conditioning unit and a computer desk amounting to \$794 for the Correction's office (both were booked as maintenance/supplies expense). All of the mentioned expenses were approved by the Chief of Police.

Cause: There was either a lack of understanding as to the nature of expenses that were covered by Division Policy # 2007-01 or a complete disregard of the mentioned policy.

Effect: Noncompliance with the policy guidelines of the Program, as to the proper usage of funds resulted in the prisoners' lost opportunity to enjoy the fruits of their labor.

Recommendation: We recommend that program funds should not be expended unless expenses will directly benefit the prisoners. Unless parties are to be held for the prisoners and solely for the prisoners, Program funds should not be used. In addition, although the Corrections Section administers to the prisoners, it is a Section under the Division and all purchases of office supplies, equipment, furniture and related expenses for the Section should be purchased with Division funds.

Finding No. 2 – PROOF OF PRICE COMPARISON

Criteria: The Division of Public Safety's Policy No. 2007-01 states that "Corrections (Section) shall obtain items from a vendor that offers the lowest prices."

Condition: We were unable to determine if any of the sixty (60) expense transactions tested with a total value of \$4,361, represented purchases made from vendors offering the lowest prices for the items at the time. In addition, sometimes prisoners' preferences made an impact on the decision of which food items will be purchased from a specific vendor regardless of the price.

Cause: Division policy No. 2007-01 did not expressly require the Program to acquire and file proof of price comparison.

Effect: Without evidence of price comparison, there is no way to determine if the purchase of items and/or services with a dollar value of \$4,361 were made from vendors offering the lowest prices. Thus there is no way to determine whether the purchasing power of the funds is maximized.

PRISONER FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Division of Public Safety)

Schedule of Findings
September 30, 2007

Finding No. 2 (cont.)

Recommendation: In order to maximize the usage of the funds, we recommend that the Program perform price comparison for every purchase in order to determine which vendor offers the lowest price. The Program should then retain evidence of the procedures used to compare prices between vendors to provide verification that the items with the lowest price had in fact been obtained.

Finding No. 3 – SUPPORTING DOCUMENTATION FOR EXPENDITURES

Criteria: The Division of Public Safety's Policy no. 2007-01 section 2.1 states that all purchases should be supported with supply request forms duly approved by the Chief of Police. Also, mentioned Policy thru section 2.4 states that all original invoices, withdrawal slips and payment receipts should be properly filed so as to show proof of payment.

Condition: Random testing of 60 expense transactions revealed that 36 expense transactions totaling \$2,303 was not supported by supply request forms, while 11 expense transactions totaling \$448 were not supported by any final receipts as proof of final payment.

Cause: Non-compliance with recordkeeping standards stipulate in section 2.1 and 2.4 of the Division of Public Safety's Policy no. 2007-01.

Effect: Inadequate documentation as to expenses might lead to improper/misuse of the Program funds.

Recommendation: We strongly recommend that the Program make every effort to obey Division of Public Safety Policy No. 2007-01 Section 2.1 and 2.4 and obtain final receipts after every payment of invoices and to file all supporting documents.

Finding No. 4 – EXCESSIVE FUEL PURCHASES

Criteria: Controls should be in place to ensure that only fuel needed by the program on behalf of the prisoners is purchased (i.e. to fuel the vehicles that transport the prisoners to and from the locations where they carry-out their contract duties & prisoners' equipment such as the weed eaters which they use in the performance of their service contracts)

Below is the list of vehicles/equipments that is assigned/owned by the program:

| Vehicle/Equipment | Description | Max. Fuel Tank Capacity | Frequency of Refill |
|-------------------|-------------------------------------|-------------------------|---------------------|
| Truck | 4-cylinder diesel engine flat bed | 15 gals. | Once per bi-weekly |
| Truck | 4-cylinder gasoline engine flat bed | 15 gals. | Once per bi-weekly |
| Weed Eater (3) | TL-33 model | 0.50 gals each | Once per week |

Condition: It was noted that the total fuel consumption of the Program for FY2007 was \$2,485 which represents 26% of the total expenses incurred. We reviewed the Program's fuel purchases for FY 2007 and also made approximations as to the bi-weekly and monthly average fuel purchases. Several conditions were noted, to wit:

PRISONER FEEDING AND MAINTENANCE FUND
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Schedule of Findings
September 30, 2007

Finding No. 4 (cont.)

- A. For gasoline, the bi-weekly average purchases is 20-25 gallons and the monthly average is 40 to 50 gallons while for diesel, the bi-weekly average is 10 to 15 gallons and the monthly average is 20 to 30 gallons. Based on these figures there were several months in the FY2007 that have excessive fuel purchases:

aa. Diesel

| Month | No. of Gallons Purchased | Excess |
|---------|--------------------------|--------|
| January | 41.30 | 11.30 |

bb. Gasoline

| Month | No. of Gallons Purchased | Excess |
|-------|--------------------------|--------|
| May | 55.00 | 5.00 |
| July* | 74.70 | 24.70 |

* Purchased thru Department of Public Safety funds

- B. Noted on several instances of fuel purchases, the irregular refueling schedules as well as the quantity of fuel being purchased:

| Vehicle/Fuel Use | No. of Gallons | Date of Refueling | No. of days Interval |
|------------------|----------------|-------------------|----------------------|
| Diesel Truck | 10 | 01/03/07 | |
| | 5 | 01/09/07 | 6 |
| | 10 | 01/15/07 | 6 |
| | 16.30 | 01/23/07 | 8 |
| Diesel Truck | 10 | 03/06/07 | |
| | 5 | 03/12/07 | 6 |
| | 10 | 03/19/07 | 7 |
| | 5 | 03/28/07 | 9 |
| | 5 | 03/28/07 | 0 |
| Gasoline Truck | 15 | 04/06/07 | |
| | 10 | 04/18/07 | 12 |
| | 15 | 04/27/07 | 9 |
| | 10 | 05/04/07 | 7 |
| | 10 | 05/10/07 | 6 |
| | 5 | 05/17/07 | 7 |
| Gasoline Truck | 10 | 05/28/07 | 11 |
| | 5 | 08/03/07 | |
| | 5 | 08/08/07 | 5 |
| | 5 | 08/14/07 | 6 |
| | 10 | 08/20/07 | 6 |
| | 10 | 08/27/07 | 7 |
| Gasoline Truck | 5 | 09/03/07 | 7 |
| | 5 | | |

PRISONER FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Division of Public Safety)

Schedule of Findings
September 30, 2007

Finding No. 4 (cont.)

C. Fuel slips tested revealed the following deficiencies :

- aa. Fourteen fuel slips (50% of the sample) did not indicate what vehicles/equipments were being refueled.
- bb. On 3 instances, the person who signed off as receiving the fuel at the gas station differs with the person listed in the fuel slip log.

Cause: There were no policies set-up in the purchase of fuel and because of this, there is a significant lack of control over it.

Effect: There is a possibility of abuse and misuse of fuel purchased by the Program. Based on the total distance between DPS and their work sites, which is 4 miles (1 mile from DPS to DHS; 3 miles from DPS to the Airport), the amount of fuel purchases and the irregular fueling intervals, the fuel purchases of the Program seem to be excessive – unless the vehicles are also being used for other Program related activities and by the other Sections of the DPS.

Recommendation: We strongly recommend that the Program set-up policies as well as setting up of controls over the purchases of fuel. It will also be helpful to maintain a trip log so as to monitor the usage of the vehicles and this can serve as a tool in evaluating future fuel purchases.

Finding No. 5 – CONTROL OVER FUNDS

Criteria: To avoid possible loss or fraud, all expenses and liabilities should be settled through checks.

Condition: All outstanding liabilities and expenses are totaled at the end of the month and a withdrawal slip is prepared for signatures. Once the withdrawal slip is signed by the signatories, funds are withdrawn from the bank and expenses are settled. In one instance, a withdrawal in the amount of \$681.49 was withdrawn four days prior to the settling of expenses - date of withdrawal was March 30, 2007; expenses were settled on April 30, 2007. In addition, there several instances where funds were overdrawn by \$2.00 on two separate occasions: November 20, 2006 and March 30, 2007. The excess funds were re-deposited into the bank on December 15, 2006 and April 27, 2007, respectively.

Cause: We understand that due to the small number of transactions for the program, DPS is reluctant to forego the interest currently being earned with program funds maintained in the savings account by transferring to a checking account.

Effect: Handling cash to settle expenses increases the risk of misappropriation of program funds.

Recommendation: To avoid excessive cash handling, we recommend that the Program open a checking account and only settle expenses thru check issuances. Thru this, it will be more evident to whom the disbursements were made to, provide proof of payment and provide additional control over funds by means of monthly bank reconciliations.



DIVISION OF PUBLIC SAFETY

OFFICE OF THE ATTORNEY GENERAL

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Date : 6/11/08

To : State Public Auditor

From : Division of Public Safety

Subject: Response to FY-07 Audit Report on the Prisoners Program Fund.

Following are our responses to the findings stated in the Audit Report:

For finding # 1, improper usage of funds: we do not deny this finding because stuffs being purchased were not directly for the benefit of the prisoners only. The solution to this problem is for us to strictly follow the policy as it is written down and not to disregard it. This could be achieved by Correction Commander monitoring all transactions related to the program's fund to ensure compliance with the policy on hand.

Finding # 2, proof of price comparison: As a routine procedure for purchasing items from vendors, Correction personnel usually inquire vendors invoices for price comparison purpose, then select the lowest to purchase. We lacked proof of price comparison because we didn't know invoices from vendors for such purpose would be significant document to the Auditor's examination of the program's fund. This issue can be resolved by Correction Commander to come up with a master list of vendors and frequently purchased items from them and their prices to refer to in relation with price comparison.

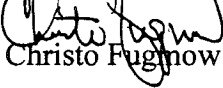
Finding # 3, Supporting Documentation for expenditures: We think that we would fulfill this issue by maintaining an accurate record of expenditure transactions. Correction Commander will make sure this is done immediately.

Finding # 4, Excessive Fuel Purchases: We disagree with this finding because we only purchase the quantity of fuel we need to use for the jail vehicles, and weed eaters to run the Prisoners Program and other assignments and work related to Correctional functions. However, since we lacked supporting documents for our statement, we are now using logs for all vehicles at the Correction Section to note down all trips taken with date, time, destination, purpose and by whom. Correction Commander is also maintaining accurate records of all fuel transactions including fuel slips issuance.

Finding # 5, Control Over Funds: We admit the minor errors that occurred. As for the recommendation to use checking account, we would open one to use for all payment transactions for the prisoner program. We also would maintain the saving account as main fund source to transfer fund from to the checking account for disbursement purposes. As a policy, no cash would be allowed to be withdrawn from the saving account once the checking account is established and ready to be implemented. These tasks should be completed by Correction Commander before the end of FY-08 third quarter.

Thank you for your patience and I hope this brief report is along the line of our meeting discussion, any questions, please let me know.

Respectfully,


Christo Fugimow

Xc: AG
Correction Commander
File