

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
Years ended September 30, 2008 and 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 years ended September 30, 2008 and 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 2008 with an increase in its bank accounts because cash receipts exceeded disbursements by \$2,563.

The report on internal control over financial reporting and compliance with other matters on page 4 reported two material weaknesses for the PFMF and refers to other matters reported to the Yap State Attorney General. Four out of the five exceptions deals with procurement policies and procedures and one deals with monitoring of revenue generation programs. These matters are summarized below:

- Finding No.1 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.2 discusses about the seemingly extravagant purchase of one food item when compared to the number of regular food items that can be purchased for the same amount.
- Finding No.3 refers to a single transaction worth \$53.23, which was used to supplement the payment of DPS' utility bill, and was not directly related to the feeding and maintenance of prisoners.
- Finding No.4 discusses the inadequacy of accounts receivable records for monitoring purposes.
- Finding No.5 refers to the inconsistent and lack of documentation of fuel purchases.

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 were incorporated in the report.

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

Ronald C. Yow
Yap State Public Auditor

March 2, 2010

PRISONERS FEEDING AND MAINTENANCE FUND
(A Fiduciary Account of the Yap State Division of Public Safety)
Years Ended September 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

To the Yap State Attorney General:

We 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 years ended September 30, 2008 and 2007. This financial statement is the responsibility of the Division of Public Safety. Our responsibility is to express an opinion on this financial statement based on my audit.

We conducted our 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 we 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, we 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. We believe that our audit provides a reasonable basis for our 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 our 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 years ended September 30, 2008 and 2007, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 25, 2009 on our consideration of the Prisoner Feeding and Maintenance Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our 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 our audit.

Ronald C. Yow
Yap State Public Auditor

November 25, 2009

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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH RECEIPTS		
Department of Public Works and Transportation Contract	\$ 11,348	\$ 8,936
Department of Health Services Contract	1,523	2,393
Other contracts	-	1,250
Interest Income	790	1,000
Other Income	22	-
	<u>13,683</u>	<u>13,579</u>
Total receipts	<u>13,683</u>	<u>13,579</u>
DISBURSEMENTS		
Fuel	4,571	2,559
Food supplies	4,183	3,202
Repair & maintenance	1,458	2,213
Other expenses	909	1,193
	<u>11,120</u>	<u>9,167</u>
Total disbursements	<u>11,120</u>	<u>9,167</u>
Increase in cash	2,563	4,412
Cash in bank, beginning of year	<u>101,888</u>	<u>97,476</u>
Cash in bank, end of year	<u>\$ 104,451</u>	<u>\$ 101,888</u>

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

Notes To Financial Statement
September 30, 2008

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 and checking account maintained at the Bank of the Federated States of Micronesia of which amounts of \$100,000 or less is federally-insured. Balances at September 30, 2008 exceeding the insurable limit are uncollateralized.

2. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2008, there has been no related party transaction that program has been noted to be involved in.

3. COMMITMENTS/CONTINGENCIES

At September 30, 2008, the Fund owed \$739 in unpaid invoices to local vendors for fuel and other supplies.



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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:

We 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 years ended September 30, 2008 and 2007 and have issued our report thereon dated November 25, 2009. 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 the PFMF's 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 the PFMF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PFMF's internal control over financial reporting.

A control deficiency 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 to detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the PFMF's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the PFMF's financial statements that is more than inconsequential will not be prevented or detected by the PFMF's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the PFMF's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we considered to be material weakness are described in the Schedule of Findings (pages 6 - 9) as findings no.2, 4 and 5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PFMF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings as Findings (pages 6 - 9) as findings nos. 1 and 3.

This report is intended for the information and use of the management and Board of Directors of the PFMF and others within the entity, pass-through entities, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Ronald C. Yow
Yap State Public Auditor

November 25, 2009

PRISONERS FEEDING AND MAINTENANCE PROGRAM

Schedule of Findings
September 30, 2008

Finding No. 1 – Proof of Price Comparison

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

Condition: During the review of disbursements, it was noted that there were no evidences of any price comparison on all purchases. We were unable to determine if any of the expense transactions tested, represented purchase made from vendors offering the lowest price of the items at the time.

Cause: Policy No. 2007-01 did not expressly oblige the program to acquire and file proof of price comparison.

Effect: As per inquiry with the Captain, he stated that he normally make calls to vendors and purchased their supplies from the vendors who offer the lowest price though there was no documentation attached to the voucher with regards to price comparison. Without evidence of price comparison, there is no way to determine whether the purchasing power of funds is maximized.

Recommendation: As recommended in the prior year's audit, we will remind the Program of the importance of performing price comparison for every purchase in order to determine which vendor offers the lowest price, and the retain evidence of the procedures.

Prior Year Status: A similar finding was cited in the audit report for the fiscal year ended September 30, 2007.

AUDITEE RESPONSE: "Although we always find the vendor with the cheapest product there were no documents to verify for price comparison. We agreed to the findings and we have established documentation to show the prices from vendors for items to be purchased."

Finding No. 2 – Unreasonable Purchase

Criteria: The Prisoners Feeding and Maintenance Fund should be used prudently in buying necessary food and supplies for the prisoners.

Condition: During review of disbursements, the program purchased a turtle in the amount of \$380.00. Supporting or authorized documents were not available.

Cause: There was no policy or regulation to control the choice or price of food to be purchased.

PRISONERS FEEDING AND MAINTENANCE PROGRAM

Schedule of Findings
September 30, 2008

Finding No. 2 – Unreasonable Purchase (cont.)

Effect: The purchasing power of the \$380.00 was not fully utilized. The program could have purchased more food items that could have benefited the prisoners for a longer period of time as compared to the purchase of the turtle.

Recommendation: We recommend the program should create policies or a procedure to regulate purchases to ensure it gets the most from its purchases and properly issue authorizing documents.

AUDITEE RESPONSE: “We agreed to the fact that the particular issue of a turtle was considered extravagant. We have discussed and agreed that there would not be any purchases of turtles for prisoners in the future but something worthwhile to benefit prisoners for a longer period of time. We would take that into consideration as we are strengthening policies and procedures to control the choices or prices of food to be purchased.”

Finding No. 3 – Improper Usage of Funds

Criteria: The role of the Division of Public Safety in handling the funds is purely custodial. Prisoner’s 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 for their medical needs.

Condition: The Chief of Police authorized a withdrawal of \$53.23 from the PFMP account to supplement payment of the Utility Bill of the Department of Public Safety which was contradictory to Policy No. 2007-01.

Cause: DPS Policy No. 2007-01 currently in place to safeguard the PFMP account was not adhered to accordingly.

Effect: Though the amount may seem insignificant, the PFMP has footed an expense that is not in favor of existing policy as there was no benefit from the expense to the prisoner’s funding program. Additionally, the PFMP is paying for expenses that should have already been budgeted for by DPS.

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.

PRISONERS FEEDING AND MAINTENANCE PROGRAM

Schedule of Findings
September 30, 2008

Finding No. 3 (cont.)

Prior Year Status: A similar finding was cited in the audit report for the fiscal year ended September 30, 2007.

AUDITEE RESPONSE: *"We agreed to the finding of improper usage of funds in which a withdrawal of \$53.23 from the PFMP account was used to supplement the payment of the utility bill for DPS. We have discussed and agreed that the technical office at DPS will be in-charge to ensure that all expenses for the section and the DPS should be paid with Division funds. We are also in the process of creating policies and procedures to regulate and specify what can and cannot be purchased under the PFMP account program."*

Finding No. 4 – Lack of Accounts Receivable Records

Criteria: Proper accounting procedure requires that adequate and accurate receivables information are maintained and updated on a timely basis.

Condition: Review of PFMP records revealed that the program does not maintain any records of its receivables. It was noted during review that for several times, revenue from the program's contract was delayed for months at a time.

Cause: The program failed to acknowledge the importance of maintaining adequate and accurate receivable information.

Effect: Though there were only a few revenue sources for PFMP, receivables for the year ended September 30, 2008 could not be immediately determined with the available records on hand.

Recommendation: We recommend that the PFMP promptly start implementing proper accounting procedure and commence maintaining adequate and accurate information for its receivables. Implementing proper accounting procedures will ensure timely collection of receivables as well as make certain that no receivables goes uncollected.

AUDITEE RESPONSE: *"We agreed that there was no specific record with regards to Accounts Receivable. However, we do have records for all payments from each project when completed and we recorded them within the savings account records. In addition, we have implemented a record for each project to document payments that have been received for each project."*

PRISONERS FEEDING AND MAINTENANCE PROGRAM

Schedule of Findings
September 30, 2008

Finding No. 5 – Inconsistent and Inadequate Fuel Purchase Documentations

Criteria: Controls should be in place to ensure that only fuels needed by the program are purchased and such purchases are consistently and accurately documented.

Condition: During substantive tests of fuel slips issued in fiscal year 2008, we discovered several instances of inconsistencies wherein the individuals receiving the fuel on the fuel slip log were different from the individuals receiving the fuel on the actual fuel slips. Further review also revealed that several transactions lacked documentation as to the purpose of the fuel purchased. The individuals responsible for completing the fuel slip forms failed to do so.

Cause: Insufficient controls were in place to ensure consistent and complete records are maintained for fuel purchases.

Effect: Actual recipients for a portion of the fuel purchased in fiscal year 2008 could not be determined as there were opposing documentations for the purchases. Moreover, from the documentations readily available we reviewed, we could not determine whether the fuel purchases lacking information as to its purpose were PFMP related or not.

Recommendation: PFMP should develop written applicable policies and controls to ensure purchase documents maintained are accurate and consistent with each other. Additionally, the current fuel slip form may be revised appropriate to ensure consistency with the fuel log sheet.

We highly recommend that the program follow appropriate procedure and apply applicable controls to ensure complete and accurate documentation for all its transactions.

RESPONSE: “We have discussed and understand the lack of control that causes the inconsistencies of names of individual in the process of issuing fuel slips and receiving fuels and a decision has been made wherein the fuel slips shall be filled out properly and all information including the names of individuals should be consistent and accurate on the fuel slip record for all transactions. The fuel slip form can be modified so as to help address the problem.”