

# **Prisoners Feeding and Maintenance Program**

## **Financial Statements and Independent Auditor's Reports**

For The Years Ended  
September 30, 2011, 2010, and 2009



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

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
Years Ended September 30, 2011, 2010, and 2009

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# OFFICE OF THE STATE 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: [auditvap@mail.fm](mailto:auditvap@mail.fm)

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## **INDEPENDENT AUDITOR'S REPORT**

Honorable Jeremiah B. Luther  
Acting Attorney General, State of Yap

We have audited the accompanying statements of cash receipts and disbursements of the Prisoners Feeding and Maintenance Program (PFMP) as of and for the years ended September 30, 2011, 2010 and 2009. These financial statements are the responsibility of the management of PFMP.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

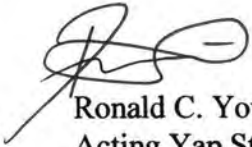
As described in note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements of PFMP for the years ended September 30, 2011, 2010, and 2009, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2012, on our consideration of PFMP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not

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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 considered in assessing the results of our audit.



Ronald C. Yow  
Acting Yap State Public Auditor

April 13, 2012

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**

Statements of Cash Receipts and Disbursements  
Years Ended September 30, 2011, 2010 and 2009

|                                 | <u>2011</u>       | <u>2010</u>       | <u>2009</u>       |
|---------------------------------|-------------------|-------------------|-------------------|
| <b>CASH RECEIPTS</b>            |                   |                   |                   |
| Contract revenue                | \$ 11,123         | \$ 13,301         | \$ 17,262         |
| Interest income                 | <u>337</u>        | <u>539</u>        | <u>513</u>        |
|                                 | <u>11,460</u>     | <u>13,841</u>     | <u>17,775</u>     |
| <br>                            |                   |                   |                   |
| <b>DISBURSEMENTS</b>            |                   |                   |                   |
| Fuel                            | 2,602             | 3,045             | 4,582             |
| Food and supplies               | 3,542             | 4,429             | 5,384             |
| Repairs and maintenance         | 542               | 2,129             | 2,376             |
| Other expenses                  | <u>233</u>        | <u>148</u>        | <u>301</u>        |
|                                 | <u>6,919</u>      | <u>9,751</u>      | <u>12,643</u>     |
| <br>                            |                   |                   |                   |
| Increase in cash                | 4,541             | 4,089             | 5,132             |
| <br>                            |                   |                   |                   |
| Cash in bank, beginning of year | <u>113,672</u>    | <u>109,583</u>    | <u>104,451</u>    |
| <br>                            |                   |                   |                   |
| Cash in bank, end of year       | <u>\$ 118,213</u> | <u>\$ 113,672</u> | <u>\$ 109,583</u> |

See accompanying notes to financial statements

Office of the Public Auditor  
State of Yap

# PRISONERS FEEDING AND MAINTENANCE PROGRAM

Notes to Financial Statements  
Years Ended September 30, 2011 and 2010

## (1) Organization

The Prisoners Feeding and Maintenance Program (PFMP) is an account administered by the Department of Public Safety (DPS), a division of the Office of the Attorney General. Created in 1987, the PFMP account is used to provide meals to individuals confined in the Yap State jail. Increases in the account are funded through cash receipts from work performed by prisoners under contractual agreements with other government agencies, principally the Department of Public Works and Transportation (PWT). The contracts provide prisoner labor under the supervision of correction officials for projects ranging from road maintenance to refuse collection, and are generally six months in duration. Expenditures are made from this account for foodstuffs, cleaning supplies, personal care items, and those costs directly associated with contract services, such as fuel and repairs & maintenance.

## (2) Summary of Significant Account Policies

### Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. PFMP uses the cash basis of accounting. Under this method of accounting, transactions are recognized as receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts (increases in cash) are recognized when received rather than when earned and disbursements (decreases in cash) are recognized when paid rather than when the obligation is incurred.

As described above, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### Cash

*Custodial credit risk* is the possibility that in the event of a bank failure PFMP's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the depositor's name. PFMP does not have a deposit policy for custodial credit risk.

For the purpose of the statements of cash receipts and disbursements, cash is defined as cash in checking and savings accounts. As of September 30, 2011, 2010, and 2009, \$1,094, \$4,014, and \$1,766 respectively of cash in checking and \$117,119, \$109,658, and 107,817

## **PRISONERS FEEDING AND MAINTENANCE PROGRAM**

Notes to Financial Statements  
Years Ended September 30, 2011 and 2010

respectively of cash in savings accounts were maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance.

### **(3) Contract Revenue**

Most contracts are six months in duration. Contract terms provide for an initial payment, usually one month's fees, with the balance paid monthly over the remaining term of the contract. Payments are due on the last day of the month, but are sometimes not remitted until or received after that date. Accordingly, fees may not be deposited until the following day or several days after. Unremitted fees due and receivable as of September 30, 2011, 2010, and 2009 were \$0, \$1,487, and \$723 respectively.

### **(4) Risk Management**

PFMP is self-insured for all risks. Any loss or liability that may result upon the occurrence of a natural disaster, accident or litigation will be borne entirely by PFMP. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

### **(5) Related Parties**

Substantially all receipts are derived from contracts entered into with other agencies or departments of the state government.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Jeremiah B. Luther  
Acting Attorney General, State of Yap

We have audited the financial statements of the Prisoners Feeding and Maintenance Fund (PFMP) for the years ended September 30, 2011, 2010 and 2009 and have issued our report thereon dated April 13, 2012. 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 PFMP'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 PFMP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PFMP's 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. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 material misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PFMP's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the

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accompanying *Schedule of Findings and Responses* as items no. 2011-1 through 2011-3 to be material weaknesses.

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. We consider the deficiency described in the accompanying *Schedule of Findings and Responses* as items no. 2011-4 through 2011-6 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether PFMP's 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 or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying *Schedule of Findings and Responses* as items no. 2011-7 through 2011-9.

This report is intended for the information of the Attorney General, the Chief of Police, the Captain of Corrections and others within the Office of the Attorney General and the Department of Public Safety, and is not intended to be and should not be used by anyone other than these specified parties.



Ronald C. Yow  
Acting Yap State Public Auditor

April 13, 2012

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

**MATERIAL DEFICIENCY**

Finding No. 2011-1 – Segregation of Duties

Criteria: Proper separation of responsibilities ensures the work of one individual acts as a check on the work of another in the performance of incompatible functions. Persons who handle cash or other forms of payment, such as signed checks, should have no incompatible duties with respect to the recording of receipts and payments and/or reconciliation of cash.

Condition: The Corrections Captain prepares and records all disbursements, makes all deposits, and maintains cash on hand. Notwithstanding checks require the dual signature of the Chief of Police, bank signatory authority rests with the Corrections Captain.

Cause: PMFP has only one individual, the Corrections Captain, to manage and perform all office functions.

Effect: Failure to maintain adequate segregation of duties over payments could result in misappropriation of assets or errors that go undetected or are not timely detected. Moreover, lacking the self-checking nature of the separation of responsibilities, the likelihood of errors and misstatements are increased.

Recommendation: To reduce the risk of error and ensure adequate custody and control over cash receipts and disbursements, implement the following:

- Separate the functions of receiving and recording of cash receipts and disbursements. We understand staff size is limited. However functions may be rotated between the Chief of Police, Corrections Captain, and/or other police and corrections personnel.
- Consider hiring a bookkeeper to perform the routine accounting and administrative tasks and work under the supervision of the Corrections Captain Chief of Police. Alternatively, personnel in DPS Budget could be utilized to perform some of the payment, recording, or reconciliation functions.
- Greater oversight and supervision of financial transactions by the Attorney General's office.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-2 – Bank Reconciliations

Criteria: Periodic reconciliations of amounts recorded in an organization's cash accounts to amounts shown on bank statements are key control activities.

Condition: Monthly bank reconciliations of PFMP accounts are not performed. During our audit we noted no evidence bank reconciliations had ever been prepared.

Cause: The primary responsibility of DPS personnel is that of law enforcement. Accordingly, DPS personnel have little, if any, accounting experience and are not best suited to performing the recordkeeping functions required by the program.

Effect: The failure to perform reconciliations of bank accounts, and to perform these timely, could result in losses due to theft or misappropriation of funds that go undetected or might not be timely detected. Notwithstanding theft or misappropriation, even simple bank errors might not be recoverable as banks may not be held liable for errors that are not communicated to them in a timely manner.

Recommendation: To reduce the likelihood of errors in the recording of transactions and losses from theft or misappropriation of funds, ensure bank reconciliations are timely prepared and reviewed. Consider the hire of a part-time bookkeeper or engaging an outside volunteer to reconcile bank accounts. Alternatively, DPS may request the assistance of personnel in the Office of Administrative Services (OAS) in performing bank reconciliations.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-3 – Accounting System

Criteria: A formal set of self-balancing books and accounting records helps ensure the complete and accurate recording and reporting of financial data and reduces the risk that errors go undetected, or may not be timely detected.

Condition: A double-entry bookkeeping system is not in use. Transactions are presently reported based principally on checkbook entries and manually assembled.

Cause: Management appears to have concluded that, while a formal set of books and records has not been maintained, current practices have been effective in ensuring the complete and accurate accounting, monitoring, and reporting of transactions.

Effect: Failure to maintain a proper accounting system with a self-balancing set of accounts could result in the misstatement of financial information and lack of accountability of such assets as cash, which may be subject to an increased risk of misappropriation.

Recommendation: To facilitate preparation of financial reports and ensure all transactions are properly recorded, summarized, and classified establish a double-entry accounting system which includes a general ledger, books of original entry, and suitable subsidiary records.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

**SIGNIFICANT DEFICIENCY**

Finding No. 2011-4 – Competitive Bidding

Criteria: DPS Policy No. 2007-01 compels PFMP to purchase items “from a vendor that offers the lowest prices.” Section 502 of the Financial Management Act (FMA) regulations requires, for other than construction contracts and the sale or lease of personal property, “a determination of the lowest cost supplier of needed items” and documentation of this determination.

Condition: During our test of cash disbursements for the years 2009-2011, with one exception, we noted evidence of the performance of competitive bid procedures was not documented, as required by policy and law.

Cause: Management failed to establish a systematic procedure and consistent method for documenting the performance of competitive bid procedures.

Effect: Competitive bidding of purchases helps ensure cost effective procurement of goods and services by, among other things, providing an incentive for suppliers to offer the best possible price, quality, terms, and service. The failure to adequately document competitive bidding procedures has been noted in audits the past few years without being addressed by management.

Recommendation: To ensure adherence to public law, department policies and procedures, and conformity with sound business practices reemphasize to personnel the significance of competitive bid procedures and the importance of documenting the competitive bidding procedures performed. Additionally, require:

- Maintenance on file of written proposals received from vendors and suppliers.
- Recording of information for oral bids, including amounts and dates obtained.
- Notes concerning information obtained from catalog quotes or reviews, such as price lists, catalog names and page reference, etc.
- Periodic reviews to confirm the uniform and consistent application of bidding procedures.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-4 – Competitive Bidding (Cont'd)

Prior Year Status: Substantially the same finding was noted in the two previous audit reports. It does not appear serious effort has been made to properly address this issue. The prior audit report, with an issue date of March 10, 2010, reflects the following management response:

*Although we always find the vendor with the cheapest product there were not documents to verify for price comparison. We agreed to the findings and have established documentation to show the prices from vendors for items to be purchased.*

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-5 – Supporting Documentation

Criteria: The maintenance of adequate documentation is necessary to support financial transactions and management activities. DPS Policy 2007-01 provides for the purchase of items from a vendor that offers the lowest prices “along with the vendor’s verification and charged invoice showing the items obtained and charged to the account”. The policy further requires Correction to furnish invoices and payment receipts to “DPS Budget Office and the Attorney General and file and maintain in Correction original copies of same.” Additionally, the Yap State Archives and Records Management Act of 1998, ¶306(c) requires agencies “comply with any requirements relating to preservation, security, transfer, and management of public records.”

Condition: The following were noted during our tests of cash receipts and disbursements:

- Contracts supporting several deposits reflecting the collection of fees from work performed by prisoners were not on file and could not be located.
- A number of disbursements were not supported by properly approved invoices. The payments were for fish purchased, largely from individuals and some of which were employees of DPS, and for which there was no invoice or bill rendered and/or required.

While we do not consider these conditions to be pervasive, they are more than isolated cases. The failure of management to properly address these in the past, as described below, compels us to draw attention to the issues.

Cause: Non-compliance with policy recordkeeping requirements and prudent business practices.

Effect: Lack of adequate documentation and recordkeeping could result in errors which may go undetected, or not be timely detected, leading to the misstatement of financial information.

Recommendation:

To provide adequate controls over the receipt and disbursement of cash and ensure compliance with record retention requirements, ensure that contracts supporting the collection of fees are maintained on file and all payments are evidenced by properly approved invoices.

Prior Year Status: A similar finding for supporting documentation for expenditures was cited in a prior audit. Issues regarding recordkeeping appear to have again arisen as a problem. The prior

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-5 – Supporting Documentation (Cont'd)

audit report, with an issue date of August 26, 2008, reflects the following management response:

*We think that we would fulfill this issue by maintaining and accurate record of expenditure transactions. Correction Commander will make sure this is done immediately.*



**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-6 – Work Release Fees

Criteria: DPS Policies and Procedures No. 1997-01, Section 2.2, stipulates prisoners on authorized work release are obliged to contribute toward the feeding program at the jail. Accordingly, employers of work release prisoners are required to “deduct \$10.00 every [biweekly] payday from the salaries of the prisoners” and remit those funds to PFMP. Additionally, in accordance with Section 2.2 (a), work release privileges may be revoked “if the \$10.00 is not deducted and paid.”

Condition: Our test of cash receipts covering a 36 month period from 2009-2011 revealed only two instances in which the work release fee appears to have been remitted, although in both cases the notation in the records indicate \$10 each was received from the prisoners themselves for the purpose of reimbursing medical costs. In addition, we noted no evidence of any follow up action by DPS to collect the fees and/or any cases in which the prisoner work release privilege was revoked.

Cause: Non-compliance with DPS policies and procedures.

Effect: The failure to properly collect employer fees in connection with work release prisoners fails to help defray the cost of feeding prisoners. Presently, there are 5 prisoners on work release. Notwithstanding work release rolls are subject to change, based on the current number of such prisoners, a projection of fees should average \$1,300 a year, or roughly \$3,900 for the three year period under audit. Moreover, using the ratio of the present number of work release prisoners to the total prison population of 10 inmates, it cost more than \$6,700 to care and feed for the work release prisoners over that same and most recent three year period.

Recommendation:

Increase efforts to collect work release fees. DPS should ensure all such fees are properly accounted for and the work release privileges of prisoners revoked for employers who fail to comply with the policies and procedures established under the program. In addition, consider raising the biweekly fee from the current \$10 rate which has been established since at least 1997.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

COMPLIANCE

Finding No. 2011-7 – Deposits to the Treasury

Criteria: Under Yap State Code (YSC) Title 13 §1231 “public money raised or received by the State of Yap,” from whatever source, must be deposited in the Treasury. Additionally, FMA Section 104 provides that “all funds received by any Yap State Government Agency” be turned over to the State Treasurer on a daily basis.

Condition: The Department of Public Safety (DPS) maintains two bank accounts under the custodial control of the Chief of Police and the Corrections Captain. These accounts, one checking and one passbook savings are designated as the Prisoners Feeding and Maintenance Program (PFMP). The program generates fees from cleanup and maintenance services performed by prisoners under contracts, principally with other state agencies. The cash collected is not turned over to the State Treasury, as required by law, but deposited directly into the passbook savings account maintained by DPS.

Cause: PFMP was established in 1987 for the primary purpose of raising funds to purchase food supplies for individuals imprisoned in Yap. When first created, those managing PFMP appear to have treated the program independent and outside the scope of government operations. A 2000 memo issued by the then Attorney General affirmed Yap does “not have any statute specifically addressing the [prisoners feeding] program.”

Effect: State funds were not deposited with the Treasury contrary to public law and in violation of both the Yap State Code and financial management regulations. In addition, state officials have been given unauthorized and unlawful custody and control of funds with a wide degree of latitude concerning its use. Such discretionary authority increases the likelihood of theft and/or misappropriation of assets.

Recommendation: To ensure compliance with public law and decrease the risk of fraud, arrange to have the funds placed under Yap State Government control as soon as possible and advise government agencies and others with which PFMP contracts to remit fees directly to the State Treasury.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-8 – Unauthorized Appropriation and Obligation of Funds

Criteria: Article IX, Section 6, of the State Constitution prohibits the withdrawal of money from the state treasury or the obligation of funds except in accordance with law. YSC, Title 13, §1261 further stipulates “disbursements can be made only through the obligation of appropriated sums,” and §1262 makes it illegal to disburse “money from the General Fund or from a Special Fund in advance of the appropriation and availability of funds.” Additionally, FMA Section 106 prohibits authorizing an expenditure or obligation “in excess of the sum made available by law; in advance of the availability of funds; or for purposes other than those for which an allotment has been made.”

Condition: A checking account under the control of the Chief of Police and Corrections Captain, both of whom are signatories on the account, is maintained by DPS. Disbursements are routinely made from this account to fund the purchase of food, supplies, and medical treatment costs of prisoners. Other costs for which payment is made include those associated with the services performed under contract by prisoners, such as fuel, small tools, and repairs & maintenance. The checking account is replenished through deposits of funds withdrawn from the savings account. No appropriations and/or allotment of funds have been made by the Legislature for the PFMP.

Cause: PFMP was established in 1987 for the primary purpose of raising funds to purchase food supplies for individuals imprisoned in Yap. When first created, those managing PFMP appear to have treated the program independent and outside the scope of government operations. Accordingly, the practice has been to disburse funds without an appropriation. A 2000 memo issued by the then Attorney General affirmed Yap does “not have any statute specifically addressing the [prisoners feeding] program.”

Effect: State funds were obligated and disbursed contrary to public law and in violation of both the Yap State constitution and financial regulations. In the absence and full knowledge of grant funding and appropriations, the project incurred obligations and expended funds, effectively creating an appropriation and allotting funds without the authority to do so.

Recommendation: Reemphasize to personnel the importance of complying with state laws and financial regulations and the significance of unauthorized use of state funds.

**PRISONERS FEEDING AND MAINTENANCE PROGRAM**  
**Schedule of Findings**  
**Year Ended September 30, 2011**

Finding No. 2011-9 – Unexpended Funds

Criteria: YSC, Title 13, §505 requires the reversion of unexpended appropriations to the Yap State General Fund and §1236 provides that “all sums of money which are appropriated for any fiscal period, and which are not obligated during the period, shall lapse and shall not be issued or applied in any future fiscal period.” Additionally, FMA Section 105 specifies “no appropriation shall remain available for expenditure for any period beyond that authorized by Yap law.

Under Disbursement Procedures, §1235 governs the administration and management of all state funds appropriated from the General Fund or special funds “or made available to the State from other sources.” This further stipulates that “funds shall remain in the custody and control of the Director of Administrative Services” until obligated, and disbursed by the Director of Administrative Services “in accordance with law.”

Condition: PFMP has on deposit unexpended funds of nearly \$114,000 which it has not reverted to state control. This surplus was accumulated over the course of several years in which cash receipts exceeded disbursements. The funds are held in checking and savings accounts under the custody and control of the Chief of Police and Corrections Captain.

Cause: PFMP was established in 1987 for the primary purpose of raising funds to purchase food supplies for individuals imprisoned in Yap. When first created, those managing PFMP appear to have treated the program independent and outside the scope of government operations. Notwithstanding these funds were never appropriated, though as described in finding No. 2011-5 we believe should have been, they may have concluded accumulated and unexpended funds should not lapse and revert to state control.

Effect: Contrary to public law and in violation of both the Yap State Code and financial management regulations, unexpended funds have not been reverted to state control. In addition, unexpended funds under which authority to obligate such funds in conformity with Yap State law has lapsed, have been disbursed. DPS officials have been given unauthorized and unlawful custody and control of funds with a wide degree of latitude concerning their use. Such discretionary authority increases the likelihood of theft and/or misappropriation of assets.

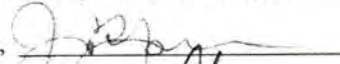

Recommendation: Require the reversion of all unexpended PFMP funds to the authority of the Director of Administrative Services to ensure compliance with public law and to reduce the likelihood of theft or misappropriation.

# MANAGEMENT RESPONSES

## OFFICE OF THE ATTORNEY GENERAL The State of Yap



### Memorandum

**Date** : 04.25.2012  
**To** : State Auditor Ronald Yow; Chief of Public Safety Fanian Bamngin  
**Through** : Acting Attorney General Jeremiah Luther,   
**From** : Assistant Attorney General Doug Jennings,   
**Subject** : Responses to Auditor's report on PFMP – Part 1/2

Following are the Office of the Attorney General's responses to the State Auditor's report on the Department of Public Safety's (DPS) Prisoners Feeding and Maintenance Program (PFMP) dated April 13, 2012. This memorandum addresses the findings flagged as material and significant deficiencies. The remaining findings will be discussed in a separate memorandum.

OAG agrees with each of the findings outlined below, and will aim to be in compliance by the estimated date of September 30, 2012.

#### Material Deficiencies:

##### *Finding No. 2011-1 – Segregation of Duties*

Response: We agree with this finding. DPS will separate the functions of receiving and recording of cash receipts and disbursements. DPS will transfer responsibilities to an existing employee (or new hire, if necessary) as needed in order to segregate incompatible duties.

##### *Finding No. 2011-2 – Bank Reconciliations*

Response: We agree with this finding. DPS will task an existing employee (or new hire, if necessary) with the duty of performing monthly reconciliations of PFMP accounts, and will seek assistance from the Office of Administrative Services as needed.

##### *Finding No. 2011-3 – Accounting Systems*

Response: We agree with this finding. DPS will establish and maintain a double-entry bookkeeping system, and will begin recording all financial transactions, as soon as possible.

Significant Deficiencies:

*Findings No. 2011-5 (Competitive Bidding) and 2011-6 (Supporting Documentation)*

Response: We agree with this finding. DPS will implement a policy requiring retention of all contracts, written proposals from vendors, price lists and quotes, and will make and retain notes regarding any oral bids or proposals received. Similarly, all invoices and all receipts for payments made or received shall be retained.

*Finding No. 2011-7 – Work Release Fees*

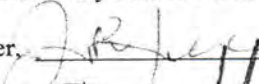
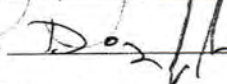
Response: We agree with this finding. DPS has begun informing employers of the work release fee and has resolved to collect these fees from this point forward.

**OFFICE OF THE ATTORNEY GENERAL  
The State of Yap**



**Memorandum**

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**Date** : 04.25.2012  
**To** : State Auditor Ronald Yow; Chief of Public Safety Fanian Bamngin  
**Through** : Acting Attorney General Jeremiah Luther,   
**From** : Assistant Attorney General Doug Jennings,   
**Subject** : Responses to Auditor's report on PFMP – Part 2/2

Following is the Office of the Attorney General's (OAG) response to the State Auditor's report on the Department of Public Safety's (DPS) Prisoners Feeding and Maintenance Program (PFMP) dated April 13, 2012. This second memorandum addresses the findings flagged as compliance issues.

*Finding No. 2011-7 – Deposits to the Treasury*

*Finding No. 2011-8 – Unauthorized Appropriation and Obligation of Funds*

*Finding No. 2011-9 – Unexpended Funds*

Response: We agree with all of the above findings. The Office of the Attorney General recognizes that the continuing existence of funded PFMP accounts, combined with DPS' noncompliance with appropriations and disbursement laws, constitutes a significant compliance issue. OAG will seek a solution to these issues and will aim to be in compliance by the estimated date of September 30, 2012.