

Public Transportation System

Financial Statements and
Independent Auditor's Report

**Fiscal Years Ended
September 30, 2018 and 2017**

Audit Report No. 2019-01



Office of the Public Auditor
State of Yap

Federated States of Micronesia



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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June 20, 2019

Alphonsus Ruwema, Chairman of the Board
Jeffrey Adalbai, General Manager
Honorable Henry S. Falan, Governor, State of Yap
Honorable Vincent A. Figir, Speaker, Yap State 10th Legislature

RE: Audit of Public Transportation System

This report presents the results of our audit of the financial statements for the Public Transportation System (PTS) for the years ended September 30, 2018 and 2017. These financial statements are the responsibility of management of PTS.

The purpose of our audit was to express an opinion on the financial statements of PTS for the years indicated, which in the auditors' opinion the financial statements presented on pages 4 through 6 is unqualified (clean opinion). The financial statements present fairly, in all material respect the financial position of PTS as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our report on our consideration of PTS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters required for audits of financial statements performed in accordance with *Government Auditing Standards* on pages 15 to 16 discusses reportable conditions at PTS. These conditions and our recommendations are basically presented for the information of PTS management in the Schedule of Findings on pages 17 to 23. Neither material weakness nor significant deficiency was noted during our audit. Other matters involving internal control over financial reporting are reported as Finding No. 1, 3, and 6 thru 8. Instances of noncompliance with certain provisions of laws, regulations, contracts, grant agreements and other matters are reported as Finding No. 2, 4, and 5.

The following is a summary of the audit findings for the year ended September 30, 2018:

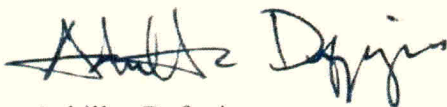
- (1) Finding No. 1 cites the PTS for improperly authorizing timesheets. Established internal controls were not followed.

- (2) Finding No. 2 cites the PTS for noncompliance with the State's competitive purchasing requirements. Proof of price comparisons of at least three vendors, when possible, is required for all government purchases.
- (3) Finding No. 3 relates to unauthorized additions to PTS' list of allowed off-island vendors.
- (4) Finding No. 4 cites the PTS for not complying with its own travel policy and the State's.
- (5) Finding No. 5 reveals noncompliance with the State Contracts Act and the State's procurement requirements.
- (6) Finding No. 6 cites the PTS for inadequate review and lack of verification of sales to ensure accuracy and proper documentation of transactions.
- (7) Finding No. 7 relates to discrepancies in spare parts inventory. Physical count of inventory performed at year end revealed the discrepancies.
- (8) Finding No. 8 pertains to mis-postings of transactions. Sales were posted to the wrong account.

A copy of the draft report was provided to the Chairman of the Board and the General Manager, the contents of which were discussed with the Board of Directors, management, and key personnel on May 28, 2019.

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

Respectfully submitted,



Achilles Defngin
Public Auditor

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PUBLIC TRANSPORTATION SYSTEM

Table of Contents

Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

Independent Auditor's Report	1
Management Discussion & Analysis	3
Balance Sheets	4
Statements of Revenues, Expenses and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7
Schedule of Expenditures of Federal Awards	14
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and other Matters Based Upon the Audit of Financial Statements Performed in Accordance <i>with Government Auditing Standards</i>	15
Schedule of Findings	17
Management Response	24
Schedule of Implementing Recommendations	26
OPA Evaluation of Management Response	27
OPA Contact and Staff Acknowledgement	29



OFFICE OF THE PUBLIC AUDITOR

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Transportation System:

We have audited the accompanying balance sheets of Public Transportation System (PTS) as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the PTS management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

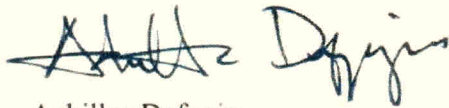
In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the Public Transportation System as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 8, 2019 on our consideration of the Public Transportation System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, 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 to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that Management's discussion and analysis on page 3 be presented to supplement the basic financial

statements. Such information, though not part of the basic financial statements, is required by the Governmental Accounting Standard's Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts whether the material modifications should be made to management's discussion and analysis for it to be presented in accordance with the guidelines established by the GASB.

Our audit was conducted for the purpose of forming opinions on the financial statements of PTS taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Achilles Defngin
Yap State Public Auditor

May 08, 2018

PUBLIC TRANSPORTATION SYSTEM

Management Discussion and Analysis Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01



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Management's Discussion and Analysis September 30, 2018

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

This section of the Public Transportation System annual financial statement report presents our discussion and analysis of the System's financial performance for the year ended September 30, 2018. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, the high cost of fuel still remain a challenge and the ever increasing cost of parts and supplies.

As repeated from our previous year Management's Discussion and Analysis, half of the bus fleet was replaced with new buses, the first purchase units are now 12 years in service with 4 units which are fully depreciated and have been in service for more than 17 years in which has been very costly to operate.

Like previous year there are significant figures noticed in our financial statement. PTS shows again an increase of sales in our automotive service department at about 17.7% compare to FY2017. Our bottom line at this period indicates 38.5% increase of gross profit exclusive of any subsidy. Our overall sales, shop and other income sales is about \$331,571.00. As does every year, PTS continue to show negative bottom line. As state in the past, the automotive service department has greatly kept PTS afloat each year.

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

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2018.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Statements of Net Assets
September 30, 2018 and 2017

Audit Report No. 2019-01

ASSETS :	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 48,177	\$ 57,679
Trade receivables, net (note 3)	16,211	14,751
Prepaid expenses	23,175	23,022
Purchase Order Advance	9,387	35,628
Inventory	<u>214,839</u>	<u>178,495</u>
Total current assets	311,789	309,574
Property and equipment, net (note 4)	<u>431,901</u>	<u>537,176</u>
TOTAL ASSETS	<u>743,690</u>	<u>\$ 846,750</u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 4,489	\$ 7,112
Customer deposits	7,468	20,050
Accrued payroll and others	<u>11,026</u>	<u>9,500</u>
Total current liabilities	22,983	36,662
Net Assets		
Invested in capital assets	431,901	537,176
Unrestricted	<u>288,806</u>	<u>272,912</u>
Total net assets	<u>720,707</u>	<u>810,088</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 743,690</u>	<u>\$ 846,750</u>

See accompanying notes to financial statements

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets

September 30, 2018 and 2017

Audit Report No. 2019-01

	<u>2018</u>	<u>2017</u>
Operating revenues		
Charges for transportation services	\$ 184,064	\$ 148,490
Auto shop service income	157,103	133,417
Fuel, parts & accessories sales	86,792	83,817
Other sales	<u>7,065</u>	<u>5,266</u>
	435,024	370,989
Cost of sales	<u>103,452</u>	<u>131,752</u>
Gross margin	<u>331,571</u>	<u>239,238</u>
Selling, general and administrative expenses		
Personnel services	198,538	166,400
Insurance	16,643	17,536
Miscellaneous	26,126	1,544
Parts, supplies & materials	7,329	49,840
Utilities	15,503	10,271
Depreciation	127,499	108,106
Travel	15,617	31,492
Fuel, oil and lubricants	70,287	56,875
Repair and maintenance	<u>35,479</u>	<u>20,608</u>
	<u>513,020</u>	<u>462,672</u>
Loss from operations	(181,449)	(223,434)
Nonoperating revenues/(expenses)		
Yap State operating subsidy	92,068	575,454
Interest	<u>0</u>	<u>0</u>
	<u>92,068</u>	<u>575,454</u>
Changes in net assets	(89,381)	352,020
Net assets at beginning of year	810,088	458,068
Net assets - end of year	\$ <u>720,707</u>	\$ <u>810,088</u>

See accompanying notes to financial statements

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows September 30, 2018 and 2017

Audit Report No. 2019-01

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from customers	\$ 447,223	\$ 334,005
Cash payments for goods and services	(329,557)	(309,441)
Cash payments to employees	<u>(197,011)</u>	<u>(166,070)</u>
Net cash used for operating activities	(79,346)	(141,506)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	92,068	575,454
Other Income	<u>0</u>	<u>0</u>
Net cash from non-capital financing activities	92,068	575,454
Cash flows used for investing activities		
Other Income	(56)	0
Acquisition of fixed assets	<u>(22,168)</u>	<u>(462,697)</u>
Net cash used for investing activities	(22,224)	(462,697)
Net increase/(decrease) in cash	(9,502)	(28,749)
Cash, beginning of year	<u>57,679</u>	<u>86,428</u>
Cash, end of year	\$ <u>48,177</u>	\$ <u>57,679</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(181,449)	(223,434)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	127,499	108,106
(Increase)/Decrease in assets		
Trade receivables, net	(1,460)	(702)
Purchase Order Advance, net	26,241	(33,952)
Prepaid Expenses	(153)	(10,977)
Inventory	(36,345)	30,399
Increase/(Decrease) in liabilities		
Accounts payable	(2,623)	(8,947)
Customer deposits	(12,582)	(2,330)
Accrued expenses	<u>1,526</u>	<u>330</u>
Net cash used in operating activities	\$ <u>(79,346)</u>	\$ <u>(141,506)</u>

See accompanying notes to financial statements

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

(1) Organization

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

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

- (a) *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- (b) *Nonexpendable*- Net assets subject to externally imposed stipulations that require PTS to maintain them permanently.
- (c) *Expendable*- Net assets whose use by PTS is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

- (d) *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

New Accounting Standards

During fiscal years ended September 30, 2018, PTS implemented the following pronouncements:

- In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognizes assets, liabilities, and deferred inflows of resources at the inception of the agreement. This Statement also requires that a government recognizes revenue when the resources become applicable to the reporting period. The Statement enhances the decision-usefulness of general purpose external financial reports and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB statements No. 67, No. 68 and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substances defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017.

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

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs)

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

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

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018 GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, which defines a majority equity interest and specifies that a

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Cash

For purposes of the Statement of Net Assets and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All the balances at September 30, 2018 and 2017 are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Inventory

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

Depreciation

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts

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

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Trade Receivables

A summary of trade receivables at September 30, 2018 and 2017 is presented below:

	2018	2017
Current and former employees	\$ 5,612	\$ 4,328
Current and former board members	4,027	4,027
State departments and agencies	9,424	8,641
Other trade customers	21,357	18,328
	\$ 40,420	\$ 35,324
Less: Allowance for doubtful accounts	(24,209)	(20,573)
	\$ 16,211	\$ 14,751

(4) Property, Plant and Equipment

A summary of property and equipment as of September 30, 2018 and 2017 follows:

	Beginning balance October 1, 2017	Transfers And Additions	Transfers And Disposals	Ending balance September 30, 2018
Buildings	\$ 128,899	\$ --	\$ --	\$ 128,899
Vehicles	1,536,906	15,810	--	1,552,717
Shop equipment	82,911	2,067	--	84,977
Office equipment	118,348	4,291	--	122,639
Land Improvement	1,678	93	--	1,771
	1,868,834	22,170		1,891,004
Less accumulated depreciation	(1,331,658)	(127,445)	--	(1,459,103)
	\$ 537,176	\$ --	\$ --	\$ 431,901

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

	Beginning balance October 1, 2016	Transfers And Additions	Transfers And Disposals	Ending balance September 30, 2017
Buildings	\$ 122,999	\$ 5,900	\$ --	\$ 128,899
Vehicles	1,090,906	446,000	--	1,536,906
Shop equipment	76,044	6,867	--	82,911
Office equipment	114,906	3,442	--	118,348
Land Improvement	1,230	488	--	1,678
	1,406,137	462,697		1,868,834
Less accumulated depreciation	(1,223,552)	(108,106)	--	(1,331,658)
	\$ 182,585	\$ --	\$ --	\$ 537,176

(5) Cost of sales

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

Purchases	\$ 75,991
Other Expense	<u>27,461</u>
	\$ 103,452

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2018 and 2017 in the amount of \$92,439 and \$575,454 respectively, from the Yap State Government under which eligible expenditures could be reimbursed. The operating subsidies were funded by the General Fund-Local Revenue, Compact Capital Projects and Education Sector grants.

During the years ended September 30, 2018 and 2017, PTS has eligible expenditures of \$92,068 and \$575,454.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2018 and 2017

Audit Report No. 2019-01

(7) Related Parties

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain Board members and officers hold positions and other positions of influence with the State. Related party transactions for the years ended September 30, 2018 and 2017 were \$9,639 and \$8,355 respectively.

(8) Risk management

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

PUBLIC TRANSPORTATION SYSTEM

Schedule of Expenditures of Federal Awards September 30, 2018 and 2017

Audit Report No. 2019-01

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures	
		FY 2018	FY 2017
Amended Compact - Education Sector Grant	15.875	\$ 77,000	\$ 46,000
Total Federal awards expended		<u>\$ 77,000</u>	<u>\$ 46,000</u>

Note

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



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

The Board of Directors of
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) as of and for the years then ended September 30, 2018 and 2017 and have issued our report thereon dated May 8, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PTS' financial statements will not be prevented or detected and corrected on a timely basis. No material weaknesses were noted during our audit. Other matters involving the internal control over financial reporting are reported to management of the Public Transportation System in the accompanying Schedule of Findings as Finding No. 1, 3, and 6 thru 8.

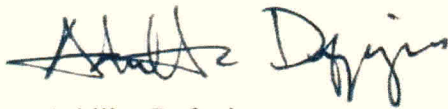
Our mission is to provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PTS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards*. These are presented in the Schedule of Findings as Finding No. 2, 4, and 5.

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



Achilles Defngin
Public Auditor

May 08, 2019

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

Finding No. 2018-01 — Lack of Review and Approval of Timesheets

Criteria: Established internal controls policies and procedures are only effective and accomplishing their intended purpose when used accordingly and properly.

Condition: Review of payroll disbursements supporting documents revealed that out of the 26 transactions examined, 16 filled-out timesheets were not properly authorized by the immediate supervisor. There was a breakdown in established internal controls for timesheets.

Cause: Management did not ensure that the existing internal controls policies and procedures in place were fully enforced to maximize effectiveness.

Effect: Proper authorization of the payroll disbursements mentioned can't be determined subsequently questioning a portion of salaries expense as to whether it was properly authorized or not.

Recommendation: We recommend that management revisit its established policies and procedures related to timesheets and enforce and/or revise if need be to ensure it is fully functional, effective, and accomplishing its intended purpose.

Finding No. 2018-02 — Lack of Comparative Price Quotation

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

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

Condition: Of the representative 25 selected samples from PTS' check register, Check No. 5099, dated May 08, 2018 payable to Yap Cooperative Association for purchasing of two (2) vehicle batteries in the sum of \$299.16, lacks the evidence of competitive price comparisons.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

Cause: PTS management did not ensure that all purchases are in accordance with the State's procurement requirements.

Effect: PTS was not complying with Yap State Law #6-53 which identified competitive purchasing requirements. Additionally, PTS may have purchased the items at a lower cost had it price compared with other vendors.

Recommendation: We recommend that management ensures that all purchases be in accordance with all applicable procurement laws, regulations, policies, and procedures.

Finding No. 2018-03 — Unauthorized Additions to Off-Island Vendor List

Criteria: The Board of Directors approved a List of Off-Island Vendors dated April 22, 2016 for which the PTS management & staff should follow when purchasing from off-island.

Condition: Our review of the approved vendor list revealed that more vendors were added to the list without prior approval from the BOD. Moreover, there was no justification provided as to the reasons why the vendors were added without the BOD's consent.

Cause: Although PTS tried to follow the State's procurement requirement, the PTS Management & Staff did not ensure that any amendment to the List of Off-Island Vendors should be properly authorized and documented.

Effect: PTS Management & staff procured from off-island vendors without prior approval from the BOD.

Recommendation: We recommend that as to ensure the internal control or assurance in place intended to be maintained by this listing, that all off-island vendors should be first approved by the BOD before purchases from such vendors are initiated.

Finding No. 2018-04 — Inconsistencies of Travel

Criteria: PTS Travel Policy Requirement stipulates the following:

1. **Travel Authorization:** Any off-island travel by an employee on behalf of the System shall be approved in advance by the Board.
2. **Per Diem:** If authorized for an off-island travel, per diem rate shall be the same as that of Yap State Government.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

3. Travel Receipts, Refund and Money Owed the System: Any employee or Board Member authorized to travel off-island for the Authority shall keep all receipts of his travel expenses, e.g., receipts or airline ticket, car rental, fuel etc., during his or her trip and shall, within five working day upon his or her return to Yap, provided the same to the General Manager or the Board whichever is appropriate, as proof of expenses incurred on behalf of the System and as the evidence for any refund to the employee. If the employee owes any money for the trip to the System, the amount owed shall be deducted from any refund to the employee for the trip. If there is no refund or if the refund is inadequate, the System shall deduct the amount owed from the employee's salaries unless the employee pays the amount in full within 10 working days after his or her return to Yap. The same policy applies to the Board Member.
4. Travel Report: Within five working days upon his or her return to Yap, an employee shall file with the Board a travel report detailing his or her trip and the benefit of the trip to the System.

Condition: Review of PTS travel expenses incurred during fiscal year 2018 in the sum of \$15,617.14 reveals the following:

Trip 1. General Manager trip to Hongkong dated December 10 to December 19, 2017 reveals the following 4 conditions:

- Travel Authorization was not approved by the Board.
- Travel Voucher was not approved by the Board.
- Lack of Trip Report
- Travel Voucher filed 5 days overdue after completion of trip

Trip 2. General Manager trip to Guam dated 1/28/18 thru 1/31/18 revealed the following 3 conditions:

- Travel Voucher was not approved by BOD
- Lack of Trip Report and boarding passes
- Travel Voucher filed 16 days overdue after completion of trip.

Trip 3. General Manager trip to Manila dated 6/10/18 thru 6/20/18 revealed the following condition:

- Lack of Trip Report

Trip 4. PTS Accountant and PTS Technician trip to Palau dated 8/3/18 thru 8/11/18 revealed the following 2 conditions:

- Both Travel Vouchers lack evidence of Trip Reports.

Cause: The Board and management did not ensure that PTS travel policy and the State's travel policies and procedures requirements were followed.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

Effect: PTS is not in compliance with its own travel policies and that of the State's travel policies and procedures. In addition, inquiries were made from PTS Accountant pertaining to the trip report for which we were inform that the reason for the trip is explained on the Travel Authorization which is not consistent with that of the State's travel policies and procedures.

Moreover, proper documentation and accurate review of supporting documentation should always be observed and followed to avoid any payment on unauthorized travel expenses. Moreover, PTS has been processing unauthorized travel transactions.

Recommendation: We recommend that PTS BOD and management ensure compliance with its own travel policies and that of the Yap State Government when processing its travel transactions.

Finding No. 2018-05 — State Procurement Requirements

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

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

Condition: Our review of selected transactions revealed that some of the off-island purchases made by PTS appeared that no free and open competitive bidding were made in accordance with applicable laws, rules and regulations. Even though prior approval from the BOD were made by using the approved vendor list, approval made by the BOD doesn't supersede the law which is a requirement in accordance with the criteria cited above.

Cause: PTS Board and management did not ensure that all procurements are consistent with the State's procurement requirements.

Effect: PTS was not compliant with Yap State Law #6-53 which identified competitive purchasing requirements.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

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

Finding No. 2018-06 — Lack of Verification of Sales

Criteria: Proper accounting practices necessitate that sales reports are adequately reviewed and verified to ensure they are accurate and adequately documented.

Condition: Assessment of cash receipt test of controls appeared that there were numerous unverified sales accounts and a deposit slip file without any supporting documentation of how they came to be and why is it included in the sales summary of November 30, 2017. It does not add up to the total sales of that specific day from deposit slip to physical count. It was an amount of \$112.50 deposited into the PTS account with no supporting documents along with the deposited sales of that day. The clarification was given after it was brought to the Accountant's attention. A scanned receipt copy for that amount was shared via emailed to the Auditors during their test of controls. These were the only supporting information to the transaction. The verification part indicated that the sales were not verified prior to posting and depositing. It was repeatedly shown on six (6) selected items of the cash receipts test of controls, rendering some of the sales reviewed as unauthenticated.

Cause: Management's insufficient practices of existing internal control procedures of handling daily sales were not fully enforced to its optimal effectiveness.

Effect: Some sales reports were neither adequately supported with the proper information nor certified as required.

Recommendation: We recommend that management revisits PTS' policies and procedures related to the handling of sales and enforces or revises if need be to ensure it is fully functional, effective, and accomplishing its intended purpose.

Finding No. 2018-07 — Inadequate Monitoring of Controls of Inventory

Criteria: Sufficient controls over inventory should be in place in order to safeguard the System's assets from misappropriation and misplacement. In addition, PTS is required by its regulations, section 13.4, which states "At the close of fiscal year, PTS shall submit to the Board, an inventory report of all PTS personal property, accounting in the same for all property which ownership, possession, controls or use in conveyed to another person, agency, or organization".

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017
Audit Report No. 2019-01

Condition: The spare parts inventory balance at September 30, 2018 per Public Transportation System trial balance did not tally with the valuation based on the year-end inventory count performed by the Office of the Public Auditor Staff and Public Transportation System staff.

Cause: Mandatory inventory reporting to the PTS Board of Directors as required by PTS regulations in Section 13.4 was not adhered to. There were two Board meeting minutes provided by PTS and none of the inventory reporting reflected in the two meeting minutes. In Addition to, the physical inventory sheets provided by PTS, which supposedly contains all inventory items as of September 30, 2018 did not tally during the physical count conducted by PTS Staff and Office of the Public Auditor Staff. There were variances, some items counted against the inventory sheet were over and some were short.

Effect: Non-reconciliation of the inventory accounts as well as lack of controls over assets increases the risk of non-detection of theft and error as well as the risk of misstatement of the account.

Recommendation: We recommend that management should observe the proper matching of costs and revenues with regards to the booking of inventory. Proper accounting controls should also be observed so that all assets are properly booked and safeguarded against loss or theft. We also recommend for PTS Board of Directors to ensure effective monitoring and evaluation to confirm that management and PTS staff are complying with applicable laws, accounting principles, and PTS regulations.

Finding No. 2018-08 — Mis-posting of Transactions

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

Condition: Review of bus sales from tickets revealed that two charter sales transactions were erroneously posted to the ticket sales account.

Cause: Personnel responsible did not ensure that the System regularly checks its books to ensure its ledgers are accurately reconciled.

Effect: Ticket sales at 9/30/18 was overstated and Charter sales was understated. Additionally, when material financial transactions are not properly classified in the accounting records, there is no assurance that account balances and financial condition or position of the entity are accurate.

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2018 and 2017

Audit Report No. 2019-01

Recommendation: We recommend that PTS management along with the accounting section, ensures that all records are regularly reconciled with the general ledgers to ensure accuracy of postings and make necessary adjustments in cases of mis-postings.

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

PUBLIC TRANSPORTATION SYSTEM

Management Response Years Ended September 30, 2018 and 2017 Audit Report No. 2019-01



Public Transportation System
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received
6/21/19 by OFAR

RESPONSES TO AUDITORS REPORT (Findings)

Finding No. 1- Lack of Review and Approval of Timesheet

Responses:

All Timesheets are reviewed by manager on every payroll. However, the Reviewed & Approved portion of the form was not signed. Discussed with Management and will be carried out accordingly.

Finding No. 2 – Lack of Comparative Price Quotation

Responses:

Public Transportation System does provide services not only to its own vehicle fleet but also to government agencies and private individual/agencies at cost. If you review each purchase transaction with local or off island vendors and a Job order attached/linked to it, it means the item purchased is for a particular customer. Which also means customer has agreed to our cost for the service and so therefore we do not take the time to compare prices. However, if the items/parts is for our own use, comparative procedures are applied and purchased.

Finding No. 3 – Un-Authorized Additions to Off-Island Vendor List

Responses:

PTS does not have a policy stating Authorized Off-Island Vendors and the previous list came about due to recommendation from the Auditors office. We are trying to recall the reasons we had this implemented in the first place. We perhaps linked to the price comparative requirement issues. The Board and Management will look further into this for a suitable implementation that works for PTS.

Finding No. 4 – Inconsistencies of Travel

Responses:

All travels during the period of this audit was approved by the board but our accounting department has failed to ensure that when checks, vouchers and all supporting documents including travel authorization are brought for signature are all signed. Therefore, several Travel Authorization Forms under all supporting documents were not signed. This has been discussed with management and the accounting department and will be carried out as recommended.

Finding No. 5 – State Procurement Requirements

Responses:

The Board realized that the State Procurement Requirement serves its purpose well with the State when purchasing equipment, supplies or acquiring service for its own use. However, this process may not be beneficial to Public Transportation System when purchasing its inventory for the purpose of resale. PTS has identified its suppliers and needs prompt order for its inventory for resale. The Board and Management will seek advice from its legal Counsel on how to properly address this.

Public Transportation System is an equal opportunity provider and employer
Any complaint of discrimination, please write to,
Board of Directors, Public Transportation System
P.O. Box 118, Colonia Yap, FM 96943

Office of the Public Auditor
State of Yap

PUBLIC TRANSPORTATION SYSTEM

Management Response Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

Finding No. 6 – Lack of Verification of Sale

Responses:

The System has established daily Sales count procedures which requires two office personnel to count, book and store for next day deposit. However, our office staff has failed to sign some of the forms after the cash count. This has been discussed with Management and will be carried out accordingly.

Finding No. 7 – Inadequate Monitoring of Control of Inventory

Responses:

We understand that this is in related to Year End count not matching to books. Discussed with Management and will be carried out immediately.

Finding No. 8 – Miss-posting of Transactions

Responses:

This has been discussed with the management and his staff and will be carried out as recommended.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Implementing Recommendations Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

PUBLIC TRANSPORTATION SYSTEM
IMPLEMENTATION SCHEDULE OF RECOMENDATION FROM AUDITORS OFFICE
FY2018 AUDIT

	FINDINGS	REQUIRED ACTION	UNIT TAKING ACTION	STARTING DATE	ENDING DATE	COMMENTS
1	Lack of Review and Approval of Timesheet	Adhererence to internal control	GM/ACCOUNTANT	Immediately	No ending	
2	Lack of Comparative Price Quotation	Adhererence to internal control	GM/ACCOUNTANT	Immediately	No ending	
3	Un-Authorized Additions to Off-Island Vendor List	Develop Policy & Procedures	BOD/GM	Immediately	30-Sep-19	Consultation with LC
4	Inconsistencies of Travel	Adhererence to internal control	GM/ACCOUNTANT	Immediately	No ending	
5	State Procurement Requirements	Develop Policy & Procedures	BOD/GM	Immediately	30-Sep-19	Consultation with LC
6	Lack of Verification of Sale	Adhererence to internal control	ACCOUNTANT	Immediately	No ending	
7	Inadequate Monitoring of Control of Inventory	Adhererence to internal control	ACCOUNTANT	Immediately	No ending	
8	Miss-posting of Transactions	Adhererence to internal control	ACCOUNTANT	Immediately	No ending	
Legends: BOD=Board of Directors; GM=General Manager; LC=Legal Counsel						

PUBLIC TRANSPORTATION SYSTEM

Yap, OPA Evaluation of Management Response
Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

Finding No. 2018-01 — Lack of Review and Approval of Timesheets

OPA Evaluation of Response: Auditee agreed with the recommendation. The PTS manager and accountant are responsible for implementing the recommendation.

Finding No. 2018-02 — Lack of Comparative Price Quotation

OPA Evaluation of Response: Auditee did not specify agreement with our recommendation; however, all government departments, offices, agencies, and entities are required to follow the State Contract Act and the State's procurement policies and procedures. Furthermore, all transactions whether or not internal to PTS be properly justified, adequately documented, and properly filed by the authorized personnel to ensure compliance with the State laws. The PTS manager and accountant are responsible for implementing the recommendations to ensure compliance with the laws.

Finding No. 2018-03 — Unauthorized Additions to Off-Island Vendor List

OPA Evaluation of Response: Auditee generally agreed with our recommendation and will seek legal counsel from the Office of the Attorney General to develop a policy that is aligned with the State's procurement policies and procedures. All revisions and amendments to the policies, procedures, and other relevant documents should be duly authorized by the proper individuals. It is the responsibility of the PTS Board and General Manager to implement the policy on or before September 30, 2019, indicated in the Schedule of Implementing Recommendations.

Finding No. 2018-04 — Inconsistencies of Travel

OPA Evaluation of Response: Auditee generally agreed with our recommendation and will implement accordingly.

Finding No. 2018-05 — State Procurement Requirements

OPA Evaluation of Response: Auditee generally agreed with the requirements of the State Contract Act; however, the requirements may not be suitable for PTS' need to promptly respond to customer demands for readily available inventory. The PTS Board and management will seek legal advice from the Office of the Attorney General to properly address the matter on or before September 30, 2019. However, it should be noted that all State procurement laws are applicable to all government agencies and entities.

PUBLIC TRANSPORTATION SYSTEM

Yap, OPA Evaluation of Management Response
Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

Finding No. 2018-06 — Lack of Verification of Sale

OPA Evaluation of Response: Auditee agreed with our recommendations. The PTS accountant will implement accordingly.

Finding No. 2018-07 — Inadequate Monitoring of Control of Inventory

OPA Evaluation of Response: Auditee agreed with our recommendations. The PTS accountant will implement accordingly.

Finding No. 2018-08 — Mis-Posting of Transactions

OPA Evaluation of Response: Auditee agreed with our recommendations. The PTS accountant will implement accordingly.

PUBLIC TRANSPORTATION SYSTEM
Yap, OPA Contact and Staff Acknowledgement
Years Ended September 30, 2018 and 2017

Audit Report No. 2019-01

Yap, OPA CONTACT

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ACKNOWLEDGEMENT

In addition to the contact named above, the following staff made key contributions to this report:

Bryan Y. Dabugsiy, Auditor-In-Charge
Irene Laabrug, Staff Auditor III
Mercedes Tiningmow, Staff Auditor II
Vallynna Gippin, Junior Staff Auditor

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