

# **Public Transportation System**

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

September 30, 2013 and 2012



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



# OFFICE OF THE STATE PUBLIC AUDITOR

## YAP STATE GOVERNMENT

Federated States of Micronesia

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### EXECUTIVE SUMMARY

#### Financial Audit of the Public Transportation System For the Years ended September 30, 2013 and 2012

The Office of the Yap State Public Auditor has issued its audit report on the audit of the financial statements of the Public Transportation System (PTS) for the years ended September 30, 2013 and 2012 which report is dated May 24, 2014. The Independent Auditor's Report on page 1 gives an "unqualified opinion" on the financial statements, meaning that, in the auditor's opinion, the financial statements presented on pages 4 through 6 are fairly presented in accordance with accounting principles generally accepted in the United States of America.

The Schedule of Expenditures of Federal Awards on page 14 shows that for the year ended September 30, 2013, PTS did not receive Compact and other federal financial assistance while in 2012, PTS expended \$241,048 of such.

The report on internal control over financial reporting and compliance and other matters required by Government Auditing Standards on pages 15 to 16 discusses reportable conditions at PTS. These conditions and our recommendations are presented for the information of PTS' management in the Schedule of Findings on page 17. The lone finding pertains to noncompliance with laws and regulations.

The Finding cites PTS for not making sure of the completeness of supporting documents for the liquidation travel voucher.

A copy of the draft report was provided to the Chairman of the Board and the Executive Director, the contents of which were discussed with the Board of Directors, Chairman of the Board and key personnel on July 9, 2014. PTS' written response to the finding is presented on page 17.

We thank the staff and management of PTS for the cooperation and assistance extended to us during the course of this audit.

Wilfred Oliver L. Dolosa  
Public Auditor  
Yap State, FM

July 10, 2014



Pacific Association of Supreme Audit Institutions (PASAI)



Association of Pacific Island Public Auditors (APIPA)



**Public Transportation System**  
September 30, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Public Transportation System:

We have audited the accompanying statements of net assets of the Public Transportation System (PTS) as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of PTS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audit provides 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 PTS as of September 30, 2013 and 2012, and the results of its operations, changes in financial position 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 24, 2014 on our consideration of PTS'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 an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

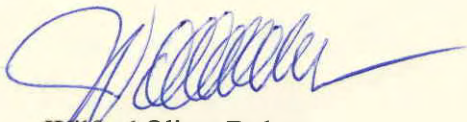
Accounting principles generally accepted in the United States of America require that Management's discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers 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 responses 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 material

Office of the Public Auditor  
State of Yap



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.



Wilfred Oliver Dolosa  
Yap State Public Auditor

July 10, 2014



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Yap State Government**

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**Management's Discussion and Analysis  
September 30, 2013**

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, 2013. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, global fuel cost increase has greatly impacted and created financial difficulties for the system.

As repeated from our previous year Management's Discussion and Analysis, even though half of the bus fleet was replaced with new buses, the first purchase units are now 6 years in service with 4 units which are fully depreciated and have been in service for more than 13 years in which has been very costly to operate. There are significant figures noticed in our financial statement. FY2013 is showing about 20% increase in revenue compare to FY2012, however our bottom line show a negative of about \$90K but consideration should be taken toward the non-monetary depreciation figure as well as adjustment made of shifting of subsidy.

PTS has been and will continue to work toward becoming corporatize and in vision to be self-sustainable. Included in the plans will be a five year development 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 2013.



# PUBLIC TRANSPORTATION SYSTEM

Balance Sheets  
For the Years Ended September 30, 2013 and 2012

ASSETS :	<u>2013</u>	<u>2012</u>
Current Assets		
Cash	\$ 24,560	\$ 11,814
Trade receivables, net (note 3)	8,029	2,616
Prepaid expenses	10,516	12,802
Employee Cash Advance	93	-
Inventory	<u>122,355</u>	<u>115,660</u>
Total current assets	165,553	142,892
Property and equipment, net (note 4)	<u>521,707</u>	<u>641,332</u>
TOTAL ASSETS	\$ <u>687,260</u>	\$ <u>784,224</u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 5,202	\$ 11,909
Customer deposits	1,144	1,548
Accrued payroll and others	<u>7,381</u>	<u>7,025</u>
Total current liabilities	13,727	20,482
Contingencies		
Net Assets		
Invested in capital assets	521,707	641,332
Unrestricted	<u>151,826</u>	<u>122,410</u>
Total net assets	<u>673,533</u>	<u>763,742</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>687,260</u>	\$ <u>784,224</u>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**

Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Charges for transportation services	\$ 132,646	\$ 122,892
Auto shop service income	121,289	111,345
Fuel, parts & accessories sales	129,286	81,272
Other sales	3,980	6,427
	<u>387,201</u>	<u>321,936</u>
 Cost of sales (note 5)	 <u>346,708</u>	 <u>342,488</u>
 Gross margin	 <u>40,493</u>	 <u>(20,552)</u>
 Selling, general and administrative expenses		
Personnel services	146,891	151,253
Insurance	16,663	15,486
Miscellaneous	11,752	11,997
Parts, supplies & materials	11,225	-
Utilities	9,903	10,124
Depreciation	12,959	16,402
Travel	8,962	6,955
Fuel, oil and lubricants	4,217	-
Repair and maintenance	4,569	7,753
	<u>227,141</u>	<u>219,970</u>
 Loss from operations	 (186,648)	 (240,522)
 Nonoperating revenues/(expenses)		
Yap State operating subsidy (note 6)	96,439	241,048
Interest	-	50
	<u>96,439</u>	<u>241,098</u>
 Changes in net assets	 (90,209)	 576
 Net assets at beginning of year	 <u>763,742</u>	 <u>763,166</u>
 Net assets - end of year	 <u>\$ 673,533</u>	 <u>\$ 763,742</u>

See accompanying notes to financial statements



## PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows  
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Receipts from customers	\$ 381,292	\$ 433,612
Cash payments for goods and services	(304,784)	(286,803)
Cash payments to employees	<u>(146,535)</u>	<u>(150,706)</u>
Net cash used for operating activities	(70,027)	(3,897)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	96,439	241,048
Recovery from bad debts		
Other Income	-	109
Increase/(decrease) in Due to State Government		
Increase/(decrease) in Deferred Revenue	-	(109,429)
Net cash from non-capital financing activities	96,439	131,728
Cash flows used for investing activities		
Other Income	-	50
Acquisition of fixed assets	<u>(13,666)</u>	<u>(141,261)</u>
Net cash used for investing activities	(13,666)	(141,211)
Net increase/(decrease) in cash	12,746	(13,380)
Cash, beginning of year	<u>11,814</u>	<u>25,194</u>
Cash, end of year	\$ <u>24,560</u>	\$ <u>11,814</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(186,648)	(240,522)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	133,289	130,670
(Increase)/Decrease in assets		
Trade receivables, net	(5,413)	5,583
Purchase order advance	-	109,429
Employees receivables, net	(93)	-
Prepaid insurance	2,286	2,759
Inventory	(6,693)	(14,856)
Increase/(Decrease) in liabilities		
Accounts payable	(6,707)	5,829
Customer deposits	(404)	(3,336)
Accrued expenses	<u>356</u>	<u>547</u>
Net cash used in operating activities	\$ <u>(70,027)</u>	\$ <u>(3,897)</u>

See accompanying notes to financial statements  
State of Yap

## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2013 and 2012

### (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, 2013 and 2012

(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 the years ended September 30, 2013, PTS implemented the following pronouncements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multi-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Other Than Pension Plans*, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments increasingly enter into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.



## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements  
September 30, 2013 and 2012

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In April 2012, GASB issued Statement No. 66, *Technical Corrections – 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions of Statement 67 are effective for periods beginning after June 15, 2013. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PTS.



## **PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2013 and 2012

### 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 of the balances at September 30, 2013 and 2012 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

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

**PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2013 and 2012

(3) Trade Receivables

A summary of trade receivables at September 30, 2013 and 2012 is presented below:

	2013	2012
Current and former employees	\$ 219	\$ 145
Current and former board members	5,507	5,507
State departments and agencies	7,324	5,209
Other trade customers	13,337	10,444
	<u>\$ 26,387</u>	<u>\$ 21,305</u>
Less: Allowance for doubtful accounts	<u>( 18,358)</u>	<u>( 18,689)</u>
	<u>\$ 8,029</u>	<u>\$ 2,616</u>
	=====	=====

(4) Property, Plant and Equipment

A summary of property and equipment as of September 30, 2013 and 2012 follows:

	Beginning balance Oct. 1, 2012	Transfers and Additions	Transfers and Disposals	Ending balance Sep. 30, 2013
Buildings	\$ 111,892	\$ 4,300	\$	\$ 116,192
Vehicles	1,521,867	2,885	(434,253)	1,090,499
Shop equipment	58,402	2,227		60,629
Office Equipment	<u>91,383</u>	<u>4,252</u>		<u>95,635</u>
	1,783,544	13,664	(434,253)	1,362,955
Less: accumulated depreciation	<u>(1,142,212)</u>	<u>(133,289)</u>	<u>434,253</u>	<u>(841,248)</u>
	<u>\$ 641,332</u>	<u>\$ (119,625)</u>	<u>\$</u>	<u>\$ 521,707</u>
	=====	=====	=====	=====



**PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2013 and 2012

	Beginning balance Oct. 1, 2011	Transfers and Additions	Transfers and Disposals	Ending balance Sep. 30, 2012
Buildings	\$ 111,292	\$ 600	\$	\$ 111,892
Vehicles	1,382,402	139,465		1,521,867
Shop equipment	58,402			58,402
Office Equipment	<u>90,296</u>	<u>1,196</u>	<u>(109)</u>	<u>91,383</u>
	1,642,392	141,261	(109)	1,783,544
Less: accumulated depreciation	<u>(1,011,542)</u>	<u>(130,670)</u>	<u></u>	<u>(1,142,212)</u>
	\$ <u>630,850</u>	\$ <u>10,591</u>	\$ <u>(109)</u>	\$ <u>641,332</u>

(5) Cost of sales

	<u>2013</u>	<u>2012</u>
Purchases	\$ 133,149	\$ 123,124
Depreciation	120,330	114,268
Fuel	72,221	84,962
Repairs	21,008	12,343
Inventory adjustments	<u>0</u>	<u>7,791</u>
	\$ <u>346,708</u>	\$ <u>342,488</u>

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2013 and 2012 in the amount of \$96,439 and \$103,347, 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, 2013 and 2012, PTS has eligible expenditures of \$96,439 and \$241,048.

## **PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2013 and 2012

### **(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, 2013 and 2012 were \$5,726 and \$6,052, 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, 2013 and 2012

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures	
		FY13	FY12
Amended Compact - Education Sector Grant	15.875	\$ -	\$ 241,048
<b>Total Federal awards expended</b>		\$ -	\$ 241,048

*Note (1)*

The Education Sector Grant is passed through the FSM National Government to the State of Yap.



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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

To the Board of Directors of the  
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) for the years ended September 30, 2013 and 2012 and have issued our report thereon dated July 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the PTS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PTS'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 PTS' financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses were noted during our audit.



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'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 a single instance of noncompliance or other matters and which is described in the accompanying *Schedule of Findings and Responses* as Findings No. 1.

PTS's response to the finding identified in our audit is described in the accompanying Management Response to Findings. We do not audit PTS's response and, accordingly, we express no opinion on it.

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.



Wilfred Oliver L. Dolosa  
Yap State Public Auditor

July 10, 2014

## PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2013 and 2012

### **Finding No. 1 – Travel Expenses**

**Criteria:** PTS should adopt travel policies that are consistent with State's travel policies and procedure.

**Condition:** In one instance, we noted that the liquidation travel voucher, an advance for a trip dated February 10 to 26, 2013, was without any supporting trip report and two boarding passes were not filed.

**Cause:** It was an oversight by management, but even if no trip report was prepared, the traveler by practice reports to the board about the outcome of his official travel and such was included in the minutes. For the boarding pass, it was misplaced.

**Effect:** Proper documentation and accurate review of supporting documentation should always be observed so as to avoid any payment on unauthorized travel expenses.

**Recommendation:** Although PTS have travel policies and procedures in place, we recommend that PTS adopts the State's travel policies and procedures.

In lieu of the missing boarding pass, the traveler already submitted a copy of his passport to show his departure and arrival to and from his official destination/s.





**Public Transportation System**  
**P.O. Box 118 • Colonia, Yap • FSM 96943**

**Phone (691) 350-2118 • Fax 350-3895 • Email [Contact@YapTransport.com](mailto:Contact@YapTransport.com)**

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**RESPONSES TO AUDITORS REPORT (Findings)**

**Finding No. 1- Travel Expenses**

**Responses:**

Even though this is not the normal practice of the management, however the Board has reviewed the issues, discussed with management and will be carried out as recommended.

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