

**Public Transportation System  
Financial Statements and  
Independent Auditor's Report**

**Fiscal Years Ended  
September 30, 2004 and 2003**



**Office of the Public Auditor  
State of Yap  
Federated States of Micronesia**



**OFFICE OF THE PUBLIC AUDITOR  
YAP STATE GOVERNMENT**

Federated States of Micronesia

P.O. Box 927

Colonia, Yap FM 96943

Tel. (691) 350-3416 Fax: (691) 350-4987 Email: [audityap@mail.fm](mailto:audityap@mail.fm)

---

**EXECUTIVE SUMMARY**

**Financial Audit of the  
Public Transportation System  
for the Years ended September 30, 2004 and 2003**

The Office of the Yap State Public Auditor has completed the audit of the Public Transportation System (PTS) for the years ended September 30, 2004 and 2003 which report is dated October 25, 2005. The issuance of the report was delayed pending receipt of management's responses to the audit findings. PTS was unable to prepare *Management's Discussion and Analysis* which is supplementary information required by Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*" to be presented with the basic financial statements.

Except for the lack of presentation of the *Management's Discussion and Analysis* required by GASB 34, the balance sheets, statements of revenues, expenses and changes in net assets and cash flows are fairly presented as of and for the years ended September 30, 2004 and 2003.

The Schedule of Expenditures of Federal Awards on page 6 shows that for the year ended September 30, 2004, PTS incurred \$7,184 in expenses related to its Typhoon Sudal recovery efforts. The expenses were reimbursed by Yap State from FEMA grants for Typhoon Sudal in FY05. PTS did not expend any federal grants in fiscal year 2003.

The report on internal control and compliance and other matters required by *Government Auditing Standards* on page 12 discusses reportable conditions at PTS. These conditions and our recommendations are presented for the information of PTS management in the Schedule of Findings beginning on page 14. Of the nine findings, none is considered to be a material weakness. Seven findings were related to inadequate controls while two were noncompliance with laws and regulations. Four findings were first issued in the audits of PTS for fiscal year 2003 or earlier.

Following is a summary of the audit findings for the year ended September 30, 2004:

- (1) Finding No. 1 discusses PTS' inadequate maintenance of spare parts inventory records.
- (2) Finding No. 2 pertains to the lack of adequate reconciliation of PTS' general ledger.
- (3) Finding No. 3 cites PTS for advancing 100% of per diem to travelers, a practice which is inconsistent with State travel policies.
- (4) Finding No. 4 relates to improper accounting for payroll related expenses.
- (5) Finding No. 5 is related to the inadequate maintenance of the chart of accounts which resulted in duplicate expense accounts.
- (6) Finding No. 6 cites PTS for noncompliance with its enabling legislation which requires a five-member Board of Directors. Two long-standing vacancies on the Board exists and PTS has not asked the Governor to appoint replacement members.

- (7) Finding No. 7 cites PTS for holding only one meeting during fiscal year 2004 when its enabling legislation calls for at least two meetings in a year.
- (8) Finding No. 8 discusses the need for PTS to strengthen controls over its bus collections.
- (9) Finding No. 9 is related to inadequate maintenance of employment records for PTS employees.

The management of PTS has reviewed and agreed with the audit findings and related recommendations. PTS' written response is presented as part of the audit report beginning on page 19.



Gertrude Gootinan  
Yap State Public Auditor  
May 16, 2006

**PUBLIC TRANSPORTATION SYSTEM**

**Table of Contents**  
**Fiscal Years ended September 30, 2004 and 2003**

<b>Independent Auditor's Report</b>	<b>1</b>
<b>Balance Sheets</b>	<b>3</b>
<b>Statements of Revenues, Expenses and Changes in Net Assets</b>	<b>4</b>
<b>Statements of Cash Flows</b>	<b>5</b>
<b>Schedule of Expenditures of Federal Awards</b>	<b>6</b>
<b>Notes to Financial Statements</b>	<b>7</b>
<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based upon the audit performed in accordance with <i>Government Auditing Standards</i></b>	<b>12</b>
<b>Schedule of Findings</b>	<b>14</b>
<b>EXHIBIT A – Responses to Findings</b>	<b>19</b>



**OFFICE OF THE PUBLIC AUDITOR  
STATE OF YAP**

**FEDERATED STATES OF MICRONESIA**

**P.O. Box 927, Colonia, Yap 96943**

Phone: (691) 350-3416 Fax: (691) 350-4987 Email: [audityap@mail.fmr](mailto:audityap@mail.fmr)

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Public Transportation System:

I have audited the accompanying balance sheets of Public Transportation System (PTS) as of September 30, 2004 and 2003, 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. My responsibility is to express an opinion on these financial statements based on my audits.

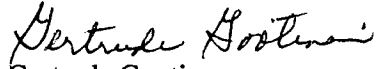
Except as discussed below, I conducted my audits in accordance with auditing standards generally accepted in the United States and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PTS' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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. I believe that my audits provide a reasonable basis for my opinion.

PTS did not present *Management's Discussion and Analysis* which although is not a required part of the basic financial statements, is supplementary information required by Governmental Accounting Standards Board.

In my opinion, except for the lack of presentation of *Management's Discussion and Analysis*, 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, 2004 and 2003, 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 accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of PTS's management. Such information has been subjected to the auditing procedures applied in my audit of the financial statements referred to in the first paragraph and, in my opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 25, 2005 on my consideration of the Public Transportation System's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audits.

  
Gertrude Gootinan  
Yap State Public Auditor

October 25, 2005

**PUBLIC TRANSPORTATION SYSTEM**

Balance Sheets  
September 30, 2004 and 2003

<b>ASSETS</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Current Assets		
Cash	\$ 45,541	\$ 47,669
Due from grantor	7,184	--
Travel advance, net	4,988	761
Trade receivables, net (note 2)	5,272	12,236
Prepaid expense	10,116	2,100
Spare parts inventory	<u>29,217</u>	<u>38,751</u>
Total current assets	102,318	101,517
Property and equipment, net (note 3)	<u>175,792</u>	<u>241,786</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 278,110</u></b>	<b><u>\$ 343,303</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 5,490	\$ 20,738
Accrued payroll and others	1,060	6,585
Unearned income	<u>242</u>	<u>57,156</u>
Total current liabilities	6,792	84,479
Contingencies		
Net assets:		
Invested in capital assets	175,792	241,786
Unrestricted	<u>95,526</u>	<u>17,038</u>
Total net assets	<u>271,318</u>	<u>258,824</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 278,110</u></b>	<b><u>\$ 343,303</u></b>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**

Statements of Revenues, Expenses and Changes in Net Assets  
For the Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Charges for transportation services	\$ 66,557	\$ 89,879
Auto shop service income	66,599	66,117
Fuel, parts & accessories sales	1,902	58,037
Other sales	75,540	--
Other revenue	7,431	--
Total operating revenues	<u>218,029</u>	<u>214,033</u>
Cost of sales	<u>33,917</u>	<u>99,128</u>
Gross margin	184,112	114,905
Operating expenses		
Personnel services	141,844	135,208
Depreciation	67,407	67,963
Fuel, oil and lubricants	20,778	24,332
Repair and maintenance	14,848	21,938
Insurance expenses	12,816	13,332
Miscellaneous expenses	10,201	7,935
Utilities and communications	9,019	9,024
Parts, supplies & materials	6,247	6,047
Bad debt expenses	1,797	6,883
Other operating expenses	3,707	--
Travel expense	--	5,278
Total operating expenses	288,664	297,940
Loss from operations	(104,552)	(183,035)
Nonoperating revenues/(expenses)		
Yap State operating subsidy	133,038	109,220
Other contribution	7,184	--
Loss on inventory	(17,978)	--
Typhoon Sudal loss	(4,848)	--
Loss from asset disposal	(350)	(471)
Total nonoperating revenues/(expenses)	117,046	108,749
Changes in net assets	12,494	(74,286)
Net assets - beginning of year	<u>258,824</u>	<u>333,110</u>
Net assets- end of year	\$ <u>271,318</u>	\$ <u>258,824</u>

See accompanying notes to financial statements



**PUBLIC TRANSPORTATION SYSTEM**

Statements of Cash Flows  
For the Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Receipts from customers	\$ 163,852	\$ 273,785
Cash payments for goods and services	(131,694)	(192,754)
Cash payments to employees	(147,369)	(138,556)
Net cash used for operating activities	<u>(115,211)</u>	<u>(57,525)</u>
Cashflows from noncapital financing activities		
Operating subsidy from Yap State Government	133,038	109,220
Due from grantor	(7,184)	--
Net cash provided by noncapital financing activities	<u>125,854</u>	<u>109,220</u>
Cashflows used for investing activities		
Acquisition of fixed assets	(12,771)	(20,281)
Net cash used for investing activities	<u>(12,771)</u>	<u>(20,281)</u>
Cash, beginning of year	47,669	16,255
Cash, end of year	\$ <u>45,541</u>	\$ <u>47,669</u>
Reconciliation of operating loss to net cash used for operating activities:		
Loss from operations	\$ (104,552)	\$ (183,035)
Cash used in operating activities		
Depreciation	67,407	67,963
Bad debt expense	1,797	--
Prior period adjustments	(6,431)	--
(Increase)/Decrease in assets		
Travel advance	(4,227)	--
Trade receivables	6,964	2,838
Prepaid expense	(8,016)	12,416
Inventory	9,534	(9,328)
Increase/(Decrease) in liabilities		
Accounts payable	(15,248)	(1,944)
Accrued expenses	(5,525)	(3,348)
Deferred revenue	(56,914)	56,913
Net cash used in operating activities	\$ <u>(115,211)</u>	\$ <u>(57,525)</u>
Supplemental disclosures of noncash transactions:		
1 Inventory loss	\$ <u>17,978</u>	\$ <u>--</u>
2 Typhoon loss	\$ <u>4,848</u>	\$ <u>--</u>
3 Loss on disposal of assets	4 <u>350</u>	\$ <u>--</u>
3 Bad debt expense	\$ <u>1,797</u>	\$ <u>6,883</u>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**

Schedule of Expenditures of Federal Awards  
Year ended September 30, 2004

<u>Grantor/CDFR Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
Federal Emergency Management Agency Grant (Note)		
FEMA-FM DR1511 Typhoon Sudal Public Assistance Grants Public Transportation System	83.516	\$ <u>7,184</u>
<b>TOTAL FEDERAL AWARDS EXPENDED</b>		\$ <u><u>7,184</u></u>

Note:

The amount above represents total reimburseable expenses incurred by PTS as of September 30, 2004 to set up and restore power to temporary office space in the aftermath of Typhoon Sudal. Work is covered under the scope of PW #46. FEMA Grants are received by PTS through the State of Yap.

# PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements  
September 30, 2004 and 2003

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity** – Prior to 1981, the Transportation and Construction Authority operated a transportation system with the assistance of the Yap Community Action Program. On October 29, 1981, a contract was executed by and between the Contractor, the Yap State Governor and the Chairman of the Bus System Board of Directors whereby the Yap State Government (State), through transfers from the General Fund, subsidized the operations. In fiscal year 1984, Yap State Law no. 1-170 established the Public Transportation System (PTS) as a component unit, an entity for which the government is financially accountable, to provide reliable and inexpensive transportation for those people living outside the Colonia area. PTS is not a legally separate entity from the State.

**Basis of Accounting** - PTS utilizes accounting principles generally accepted in the United States of America as is applicable to proprietary funds of governmental entities. Such funds are accounted for using the flow of economic resources measurement focus. Thus, revenues are recorded when earned and liabilities at the time expenses are incurred.

**Adoption of New Accounting Pronouncements** – During the year ended September 30, 2004, PTS adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (*Basic Financial Statements – and Management’s Discussion and analysis – for State and Local Governments*) and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes 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 the PTS to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the 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.
- (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.

The PTS does not have restricted net assets as of September 30, 2004 and 2003.

GASB No. 34 establishes a new financial reporting model that includes management’s discussion and analysis, which is required supplementary information to the basis financial statements, and the presentation of net assets and changes in net assets in comparative financial statements. The provisions of GASB No. 34 were applied to all periods presented.

Concurrent with the implementation of GASB No. 34, PTS also adopted GASB Statement No. 33 (*Accounting and Financial Reporting for Non-exchange Transactions*) and Statement No. 36 (*Recipient Reporting for Certain shared*

## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements  
September 30, 2004 and 2003

Non-exchange Revenues). Statement No. 33 defines and classifies non-exchange transactions into four categories and establishes the timing of recording of each category of transactions in the financial statements. Statement No. 36 further defines revenue recognition of non-exchange transactions that were first presented in Statement No. 33. Hence, operating grants received from the State of Yap are classified as voluntary non-exchange transactions as defined by GASB Statement No. 33. Thus, the grants are reported on the accompanying Statements of Revenues, Expenses and Changes in Net Assets as non-operating revenue, regardless whether such grants are used to acquire capital assets. Before the adoption of these accounting pronouncements, PTS recorded as additions to contributed capital, the portion of operating grants used to acquire capital assets.

GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statement concurrent with the implementation of Statement No. 34. While this statement did not affect amounts reported in the financial statement of the PTS, certain note disclosures have been added or amended.

**Cash** – For purposes of the balance sheet 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, 2004 and 2003 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**Accounts Receivable** – Substantially all of the System's accounts receivable are with customers and government agencies based in the State.

**Inventory** – Inventory is stated at specific identification cost and is charged to expense as used.

**Depreciation** – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded in the financial statements using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	10 to 25 years
Vehicles	3 to 7 years
Shop equipment	2 to 7 years
Office furniture and equipment	2 to 10 years

PTS' threshold for capitalizing fixed assets is \$100.00.

**Operating Grants** - The State provided under YSL 6-9, 6-19, 6-21, and 6-25 funds for operations of \$133,038 from General Fund money to PTS for fiscal year 2004. In fiscal year 2003, PTS received funds \$109,220 was provided by the State. Operating grants are recorded as nonoperating revenues in the accompanying Schedule of Revenues, Expenses, and Changes in Net Assets.

**Reclassifications** – Certain reclassifications have been made to the fiscal year 2003 amounts and balances to conform to the fiscal year 2004 presentation.

## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements  
September 30, 2004 and 2003

**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.

### 2. TRADE RECEIVABLE

A summary of trade receivables at September 30, 2004 and 2003 is presented below:

		<u>2004</u>		<u>2003</u>
Current & former employees	\$	16,371	\$	21,053
Board members		6,641		6,641
State departments & agencies		29,969		21,572
Other trade customers		23,005		22,990
Other receivables		- 0 -		5,234
		<hr/>		<hr/>
		75,985		77,490
Less allowance for doubtful accounts		<u>(70,713)</u>		<u>(65,254)</u>
	\$	<u>5,272</u>	\$	<u>12,236</u>

### 3. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2004 and 2003 is as follows:

		<u>Beginning Balance October 1, 2003</u>		<u>Transfers and Additions</u>		<u>Transfers and Disposals</u>		<u>Ending Balance September 30, 2004</u>
Buildings	\$	92,659	\$	-	\$	(58,003)	\$	34,656
Vehicles		718,707		3,900		(6,396)		716,211
Shop Equipment		32,687		5,298		-		37,985
Office Equipment		57,488		3,573		(10,512)		50,549
		<hr/>		<hr/>		<hr/>		<hr/>
		901,541		12,771		(74,911)		839,401
Less accumulated depreciation		<u>(659,755)</u>		<u>(67,407)</u>		<u>63,553</u>		<u>(663,609)</u>
	\$	<u>241,786</u>	\$	<u>(54,636)</u>	\$	<u>(11,358)</u>	\$	<u>175,792</u>

**PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements  
September 30, 2004 and 2003

**3. PROPERTY & EQUIPMENT (cont.)**

	Beginning Balance <u>October 1, 2002</u>	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, <u>2003</u>
Buildings	\$ 92,659	\$ -	\$	\$ 92,659
Vehicles	712,311	6,396		718,707
Shop Equipment	29,889	2,798		32,687
Office Equipment	<u>46,871</u>	<u>10,617</u>		<u>57,488</u>
	881,730	19,811		901,541
Less accumulated depreciation	<u>(591,792)</u>	<u>(67,963)</u>		<u>(659,755)</u>
	<u>\$ 289,938</u>	<u>\$ (48,152)</u>	<u>\$</u>	<u>\$ 241,786</u>

**4. OTHER CONTRIBUTION**

On April 9, 2004, Typhoon Sudal struck Yap with destructive winds in excess of 125 miles per hour. PTS suffered major damages to its office building, shop, storage building, koyeng and its communication antennae. Damage estimates of \$93,487 were prepared and submitted for FEMA funding. FEMA approved funding for four project worksheets (#36, 37, 38 and 46) aggregating \$93,317 for PTS assets under FEMA FM-DMR1511 Public Assistance Grant for Typhoon Sudal during fiscal year 2004. The contracts to repair the office and storage buildings will be procured by the Department of Public Works and Transportation.

Also approved for reimbursement under PW #46 were \$7,184 incurred by PTS for the set up of and power restoration to the temporary PTS office. These costs shown as due from grantor on the accompanying balance sheet and other contributions on the statement of revenues and expenses for the year ended September 30, 2004 were reimbursed to PTS per Yap State check no. 15327 dated June 15, 2005.

**5. TYPHOON LOSS**

Typhoon loss of \$4,848 for the year ended September 30, 2004 represents the net book value of office equipment damaged by Typhoon Sudal. Adjustments made to record estimated damages to other assets such as buildings were absorbed by the accumulated depreciation for the assets requiring no additional losses to be recorded for fiscal year 2004.

# **PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements  
September 30, 2004 and 2003

## **6. CONTINGENCIES**

PTS does not hold title to the land or building in which it conducts current operations. Title to such property is held by the Yap State Government. No charges are assessed for the use of these facilities.

## **7. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, PTS enters into transactions with private businesses and State departments and agencies in which certain of PTS board members hold positions of influence. PTS rents housing from one board member for one expatriate employee. Sales to related parties for the year ended September 30, 2004 was \$6,104.

## **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.

## **9. SUBSEQUENT EVENTS**

The 10% State matching share for Typhoon Sudal FEMA funds lapsed as of September 30, 2005. Accordingly, the FEMA projects are on hold pending extension of reappropriation of the required 10% matching funds.



OFFICE OF THE PUBLIC AUDITOR  
STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
P.O. BOX 927, Colonia, Yap 96943  
Phone: (691) 350-3416 Fax: (691) 350-4987 Email: [audit Yap@mail.fm](mailto:audit Yap@mail.fm)

---

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

To the Board of Directors  
Public Transportation System:

I have audited the financial statements of the Public Transportation System, as of and for the year ended September 30, 2004, and have issued my report thereon dated October 25, 2005 which opinion was qualified because of the lack of presentation of Management's Discussion and Analysis which is supplementary information required by GASB Statement No. 34. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

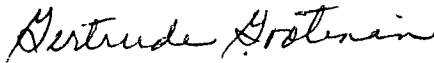
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses. 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, 2, 3, 4, 5, 8, and 9.



Compliance

As part of obtaining reasonable assurance about whether the Public Transportation System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are reported to management as Findings Nos. 6 and 7.

This report is intended for the information of the Board of Directors and management of the Public Transportation System, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record, therefore its distribution is not limited.



Gertrude Gootinan  
Yap State Public Auditor

October 25, 2005

## PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2004 and 2003

### **Finding No. 1 – Spare Parts Inventory**

**Criteria:** Controls should be in place to ensure accurate and proper recording and posting of transactions consistent with generally accepted accounting principles.

**Condition:** Obsolete items in spare parts inventory were not removed from the inventory listing nor adjusted in the general ledger. A physical count of inventory at September 30, 2004 showed \$17,978 worth items which were obsolete, missing, or which costs could not be verified against supplier invoices.

**Cause:** Management did not require that the perpetual inventory listing agree with items in stock. Moreover, an accurate record of stock issuance was not maintained. Moreover, controls were not in place to ensure that inventory costs could be traced to supplier invoices.

**Effect:** An inventory loss of \$17,978 was recorded for the year ended September 30, 2004.

**Recommendation:** We recommend the general manager to direct the accounting staff to establish better accounting controls over the recording of inventory spare parts to ensure that an accurate record of beginning inventory, purchases, stock issuance, and ending inventory is maintained.

### **Finding No. 2 – Reconciliation of Accounts**

**Criteria:** The accounting staff should be required to review adjusting entries to ensure that the general ledger is consistent with generally accepted accounting principles.

**Condition:** At September 30, 2004, an account titled A/R-Not documented had an ending balance of \$4,067. The amount was created by recording a prior year invoice even though payment for the invoice was collected in FY03. This and other attempts by the accounting staff to reconcile and consolidate the various receivable accounts resulted in distortion of some account balances because adjusting entries were not consistent with generally accepted accounting principles.

**Cause:** Adjusting entries were not adequately reviewed nor edited for accuracy. Moreover, the accounting staff did not ensure that subsidiary schedules were available for all receivable balances, therefore, duplicate entries were not identified and corrected.

**Effect:** The net effect of all adjustments made in PTS' receivable reconciliation efforts was a credit balance of \$6,647 which could not be proven to have an economic basis. The amount is not material to PTS financial statements.

**Recommendation:** We recommend the General Manager to require the accounting staff to reconcile the general ledger on a monthly basis and to ensure that subsidiary ledgers are available for all general ledger control accounts.

**Prior Year Status** – A similar finding was issued to PTS for the year ended September 30, 2003.

## PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2004 and 2003

### **Finding No. 3 – Travel Policy**

**Criteria:** PTS did not abide by state regulations on advancing 80% of per diem prior to a trip and 20% upon completion of trip. PTS Personnel Manual section XII states that any traveler authorized by the Board and General Manager shall within five (5) days upon his/her return to Yap provide all receipts of travel expenses incurred on behalf of PTS and as evidence for any refund to the employee.

**Condition:** Travel advances were paid 100% to the general manager who had two trips, December 2003 and March 2004. Travel vouchers were prepared by the accounting clerk and approved by the Chairman of the Board in September 2005.

**Cause:** Existing PTS policies on travel were not followed.

**Effect:** Noncompliance with travel policies and untimely recording of expenses increases the risk of misstatements in the accounting records.

**Recommendation:** We recommend the Board to enforce the policies and provisions of its Personnel Manual by making sure that PTS management and staff abide by its procedures.

**Prior Year Status:** A similar finding was issued in PTS audit report for the year ended September 30, 2003.

### **Finding No. 4 – Recording of Accrued Expense**

**Criteria:** Controls should be in place to ensure accurate posting of transactions in the general ledger.

**Condition:** The Allotment Payable, National Tax W/Payable, National Inc. Taxes W/H-Bus, FSM SS tax w/h-Bus had carryover balances from prior year even though PTS was up to date with its payment of taxes and deductions payable.

**Cause:** Inconsistent recording of payroll accruals and subsequent disbursements resulted in balances that carried forward from one year to the next and were never cleared out. The accounting staff was not required to review the general ledger on a regular basis to ensure that all accounts were properly reconciled.

**Effect:** The Allotment Payable, National Tax W/Payable, National Inc. Taxes W/H-Bus, and FSM tax w/h-Bus accounts were immaterially misstated at September 30, 2004.

**Recommendation:** We recommend that the general manager require the accounting staff to make certain that all accounts are stated accurately at year-end.

## PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2004 and 2003

### **Finding No. 5 – Chart of Accounts**

**Criteria:** A proper chart of account is required to provide accurate financial reports.

**Condition:** The current chart of accounts for PTS contained some duplicate expense accounts. As an example, the Communication Expense and Telephone Expense were two separate accounts into which telephone expenses were recorded. From October 2003 to May 2004, monthly phone bills were recorded in the Communication Expense Account, then beginning June 2004 to September 2004, monthly phone bills were recorded in the Telephone Expense Account. Moreover, discounts on the monthly telephone bill was recorded as a sales discount with a credit balance and classified under other income.

**Cause:** Several years ago, PTS maintained separate general ledgers for its Bus and Shop operations. The two general ledgers were merged in fiscal year 2002. Even though the accountant attempted to eliminate duplicate accounts some still remain.

**Effect:** Review and reconciliation of expenses is made harder with the duplicate accounts because year-to-date totals for some expenses are not readily available. Moreover, inappropriate naming and classification of accounts increases the risk of errors and omissions.

**Recommendation:** I recommend the general manager require the accounting staff to review the existing chart of account to remove duplicate and unnecessary accounts and to ensure that accounts are properly named and classified.

### **Finding No. 6 – Board Nomination**

**Criteria:** Title 25 Subsection 1002: Board of Directors states “there is hereby established a Board of Directors of the Public Transportation System which shall consist of five members”.

**Condition:** We noted in our review of Board meeting minutes that only three or four members were present during meetings. Inquiries found that the fifth member resigned several years ago and a replacement was never named by the Governor. The fourth member resigned in May 2005 leaving only three members on the Board of PTS.

**Cause:** Management has not followed up with the Governor to ensure that submits his nomination to the PTS board as soon as a vacancy is created.

**Effect:** PTS Board is not abiding by its regulations.

**Recommendation:** The Board of Directors should direct the general manager to communicate with the Governor to have two more appointees to the PTS Board or modify the PTS policy to reflect current number of Board of Directors.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2004 and 2003

**Finding No. 7 – Board Meetings Requirement**

**Criteria:** Title 25 Subsection 1003: Organization and meetings states, “...*the Board shall meet at such times and places as it may designate but not less than twice a year*”.

**Condition:** During FY 04, only one board meeting took place dated December 4, 2003.

**Cause:** Due to Super typhoon Sudal aftermath, it was difficult to have more meetings. However, there was a requirement of at least two meetings per fiscal year.

**Effect:** PTS Board was not up to date on PTS Operations to ensure that management is efficient and effective.

**Recommendation:** I recommend that PTS Board make the effort to have more than one meeting in a fiscal year.

**Finding No. 8 – Bus Collections**

**Criteria:** Controls should be established to ensure that revenues are properly recorded.

**Condition:** PTS recorded in its general ledger bus collections of \$90,879 for the year ended September 30, 2003 and \$64,398 for the year ended September 30, 2004. Because of Typhoon Sudal, sales decreased by \$25,481. PTS also had a revenue account called “cash short/over-bus”. Differences between the daily passenger tally and the cash collections from the drivers were recorded in the account. The credit balance of \$4,399 in FY03 and \$2,159 in FY04 in the “cash short/over” account suggested that during these two fiscal years, cash collected exceeded the tally of passengers. Collections are determined from collector’s information on the cash collection versus passenger tallies.

**Cause:** There were no controls in place to ensure that daily collections could be reconciled to the tally of passengers.

**Effect:** There is greater risk of errors in the collection and recording of bus fares.

**Recommendation:** PTS should implement procedures to ensure that the passenger tallies are accurate and to further ensure that all passenger fares are properly recorded and banked.

**Prior Year Status:** A similar finding was issued in the audit reports for PTS for the years ended September 30, 2002, 2001, 2000, and 1999.

## PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings  
September 30, 2004 and 2003

### **Finding No. 9 – Employment Records**

**Criteria:** The PTS Personnel Manual adopted in August 2003 called for the use of personnel action forms for all individuals considered to be permanent employees of PTS.

**Condition:** A prior year finding relating to employment records was not completely resolved. During FY 04, the new employees and workers who have recently left PTS, had employee personnel action forms on file. Other permanent employees did not have the new personnel action form.

**Cause:** Management did not required staff to transfer all permanent employee information onto new personnel action form.

**Effect:** The Personnel Manual entitles permanent employees to earn a certain number of vacation leave hours each pay period. The leave benefit also increases depending on length of service. Pertinent employee information required to properly track leave accruals is not readily available, given PTS current method of maintaining employee records.

**Recommendation:** We recommend that the General Manager require personnel action forms for all present employees to be completed and filed in each permanent employee record.

**Prior Year Status:** A similar finding was cited in the audit reports for PTS for the years ended September 30, 2002, 2001, 2000, and 1999.



**Public Transportation System  
Yap State Government**

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

**Phone (691) 350-2118 • Fax 350-3895 • Email [pts@mail.fm](mailto:pts@mail.fm)**

---

**RESPONSES TO AUDITORS REPORT (Findings)**

**Finding No. 1- Spare Parts Inventory**

**Responses:**

After typhoon Sudal and moving our office and inventory to a temporary facility, we were not able to maintain our record as accurate as we want until a new facility is in place. Our new office and stock area are in the process of re-building. However, the board has discuss this with the management and will be carried out as recommended.

**Finding No. 2 – Reconciliation of Accounts**

**Responses:**

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

**Finding No. 3 – Travel Policy**

**Responses:**

This has been discussed with the manager and will be carried out as recommended.

**Finding No. 4 – Recording of Accrued Expense.**

**Responses:**

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

**Finding No. 5 – Chart of Accounts**

**Responses:**

Presently PTS has a new accountant in place to analyze and work with the manager closely on this and will be carried out as recommended.

**Finding No. 6 – Board Nomination**

**Responses:**

The manager has met with the governor on February 2006 and has brought the matter to his attention. On recent verbal communication from the governor to the manager, he has made his nomination the legislature.

**Finding No. 7 – Board Meetings Requirement.**

**Responses:**

This particular year did put a lot of pressure not only to PTS. During this period we had difficulty scheduling the meetings with all members due to their responsibilities. However, the board kept a close communication on important issues.

**Finding No. 8 – Bus Collection**

**Responses:**

The board and the management are reviewing a proposed setup and a system should be implemented.

**Finding No. 9 – Employment Records**

**Responses:**

The board has discussed this with the manager and his staff. Currently, all employee file has been updated with personnel action forms.