

Public Transportation System

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

**Fiscal Years Ended
September 30, 2009 and 2008**



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



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, 2009 and 2008

The Office of the Yap State Public Auditor has released the final financial audit report of the Public Transportation System (PTS) for the years ended September 30, 2009 and 2008 which report is dated December 24, 2010.

The auditor's opinion on the financial statements presented on page 1, which is "unqualified", states that the balance sheets, statements of revenues, expenses and changes in net assets and cash flows as of and for the years ended September 30, 2009 and 2008 are fairly presented in conformity with accounting principles generally accepted in the United States of America. This is the best opinion that an auditor can render on the audit of an entity's financial statements.

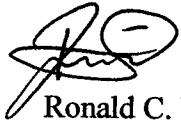
The report on internal control and compliance and other matters required by *Government Auditing Standards* on pages 12 to 13 discusses reportable conditions at PTS. These conditions and our recommendations are presented for the information of PTS management in the Schedule of Findings beginning on page 14. Of the seven findings, none is considered to be a material weakness. All of the seven findings were related to inadequate controls. Five of the seven findings were unresolved findings from prior years.

Following is a summary of the audit findings for the year ended September 30, 2009:

- Finding no.1 relates to unresolved prior year findings.
- Finding no. 2 discusses improper monitoring and booking of grants' revenue and expenditures.
- Finding no. 3 relates to the non-reconciliation of account balances.
- Finding no. 4 and 5 relates to internal control deficiencies.
- Finding no. 6 discusses the inadequacy of policies and procedures relating to accounts receivable.
- Finding no. 7 refers to advance payment to suppliers.

We have met with the PTS Board of Directors and Management to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on page 19 of this report.

We would like to thank the Board of Directors, the management and staff of PTS for their assistance and cooperation during the course of this audit.



Ronald C. Yow
Acting Yap State Public Auditor
December 24, 2010

PUBLIC TRANSPORTATION SYSTEM

Table of Contents Years Ended September 30, 2009 and 2008

Independent Auditor's Report	1
Management Discussion and Analysis	2
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5
Schedule of Expenditures of Federal Awards	6
Notes to Financial Statements	7
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>	12
Schedule of Findings	14
Management's Response to Findings	19



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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, 2009 and 2008, 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 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, we 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. We believe that our audits provide a reasonable basis for our opinion.

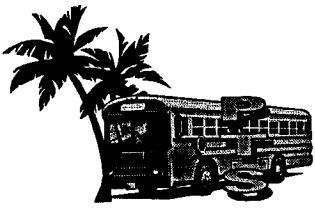
In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the Public Transportation System as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 24, 2010, 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.


Ronald C. Yow
Acting Yap State Public Auditor

December 24, 2010



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Management's Discussion and Analysis
September 30, 2009

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, 2009 and 2008. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, global increase cost in fuel has created financial difficulties for the system. Even though the local fuel cost has dropped, but has remained at a point that Public Transportation System Cost of maintenance for the current bus fleet has increased due mainly to each bus surpassing its useful life span and repeated budget cut by the state for purchase of new buses.

PTS is currently working on plans to corporatize the operation of the system. Included in the plans will be a five year development plan that would entail diversifying of PTS operation.

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2007 and 2008.

PUBLIC TRANSPORTATION SYSTEM

Balance Sheets
For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS :		
Current Assets		
Cash	\$ 59,941	\$ 120,884
Trade receivables, net (note 2)	2,581	6,050
Purchase order advance	150,272	149,421
Prepaid insurance	12,772	12,250
Inventory (note 3)	<u>50,380</u>	<u>40,932</u>
Total current assets	275,947	329,537
Property and equipment, net (note 4)	<u>346,107</u>	<u>120,588</u>
TOTAL ASSETS	<u><u>\$ 622,054</u></u>	<u><u>\$ 450,125</u></u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 6,114	\$ 6,241
Due to the State Government (note 5)	9,059	1,017
Deferred revenue	150,272	218,915
Customer deposits	1,904	2,550
Accrued payroll and others	<u>7,936</u>	<u>7,704</u>
Total current liabilities	175,285	236,427
Contingencies		
Net Assets		
Invested in capital assets	346,107	120,588
Unrestricted	<u>100,663</u>	<u>93,110</u>
Total net assets	<u>446,770</u>	<u>213,698</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 622,054</u></u>	<u><u>\$ 450,125</u></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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues		
Charges for transportation services	\$ 111,130	\$ 93,554
Auto shop service income	73,631	52,558
Fuel, parts & accessories sales	87,448	116,251
Other sales	<u>2,717</u>	<u>8,719</u>
	274,926	271,082
Cost of sales	<u>115,271</u>	<u>118,676</u>
Gross margin	<u>159,655</u>	<u>152,406</u>
Operating expenses		
Personnel services	112,195	108,074
Fuel, oil and lubricants	67,878	107,879
Depreciation	39,094	27,273
Parts, supplies & materials	8,143	10,278
Repair and maintenance	22,662	21,965
Insurance	14,805	14,854
Miscellaneous	3,217	14,707
Utilities and communication	8,380	8,271
Travel	<u>1,502</u>	<u>5,544</u>
	<u>277,877</u>	<u>318,845</u>
Loss from operations	(118,223)	(166,439)
Nonoperating revenues/(expenses)		
Yap State operating subsidy (note 7)	344,098	134,894
Recovery of bad debts	-	1,089
Interest	<u>7,196</u>	<u>178</u>
	<u>351,294</u>	<u>136,161</u>
Changes in net assets	233,072	(30,278)
Net assets at beginning of year	<u>213,698</u>	<u>243,976</u>
Net assets - end of year	<u>\$ 446,770</u>	<u>213,698</u>

See accompanying notes to financial statements.

PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

Increase (Decrease) in Cash

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from customers	\$ 276,897	\$ 119,259
Cash payments for goods and services	(251,958)	(297,039)
Cash payments to employees	(111,963)	(106,963)
Net cash used for operating activities	<u>(87,024)</u>	<u>(284,743)</u>
 Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	344,098	134,894
Recovery from bad debts	-	1,089
Other Income	6,965	-
Increase/(decrease) in Due to State Government	8,042	(21,534)
Increase/(decrease) in Deferred Revenue	(68,643)	218,915
 Net cash from non-capital financing activities	 290,462	 333,364
 Cash flows used for investing activities		
Other Income	231	178
Acquisition of fixed assets	(264,612)	(3,535)
 Net cash used for investing activities	 (264,381)	 (3,357)
 Net increase/(decrease) in cash	 (60,943)	 45,264
 Cash, beginning of year	 <u>120,884</u>	 <u>75,620</u>
 Cash, end of year	 <u>\$ 59,941</u>	 <u>\$ 120,884</u>
 Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	\$ (118,223)	\$ (166,439)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	39,094	27,273
(Increase)/Decrease in assets		
Trade receivables, net	3,469	(4,651)
Purchase order advance	(851)	(149,421)
Employees receivables, net	-	30
Prepaid insurance	(522)	154
Inventory	(9,448)	3,230
Increase/(Decrease) in liabilities		
Accounts payable	(129)	1,750
Customer deposits	(646)	2,220
Accrued expenses	232	1,111
 Net cash used in operating activities	 <u>\$ (87,024)</u>	 <u>(284,743)</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

**Schedule of Expenditures of Federal Awards
September 30, 2009 and 2008**

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures	
		FY09	FY08
Amended Compact - Education Sector Grant	15.875	\$ 255,712	\$ 60,360
Total Federal awards expended		<u>\$ 255,712</u>	<u>\$ 60,360</u>

Note (1)

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

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2009 and 2008

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.

Accounting Standards – Government 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 Principle Board 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.

Government Accounting Standards Board (GASB) Statement No.34 (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) established 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 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.
- (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.

PTS does not have nonexpendable restricted net assets as of September 30, 2009 and 2008.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Standards – During the year ended September 30, 2009, PTS implemented the following pronouncements:

GASB Statement No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*. GASB Statement No.43 establishes uniform financial reporting for other post employment benefit plans by state and local governments.

GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. GASB Statement No.45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, notes of disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employees. The provisions of this statement are effective for PTS for periods beginning after December 15, 2007.

GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues”*. GASB Statement No.48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

GASB Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

GASB Statement No. 50, *“Pension Disclosures on Amendments of GASB Statement No. 25 and 27”*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

In June 2007, GASB issued Statement No.51, *“Accounting and Financial Reporting for Intangible Assets”*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No. 53, *“Accounting and Financial Reporting for Derivative Instruments”*. GASB Statement No.53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

The adoption of these pronouncements will not have material impact on the accompanying 2009 financial statements.

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, 2009 and 2008 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Accounts Receivables – Over half of PTS's accounts receivables are with current and former employees and board members.

Depreciation – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. PTS capitalizes assets with an original cost value of more than \$300 and an estimated useful life of more than two years.

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.

2. TRADE RECEIVABLES

A summary of trade receivables at September 30, 2009 and 2008 is presented below:

	<u>2009</u>	<u>2008</u>
Current and former employees	\$ 161	\$ 1,821
Current and former board members	5,707	5,907
State departments and agencies	3,812	3,997
Other trade customers	<u>9,526</u>	<u>10,950</u>
	19,206	22,675
Less: Allowance for doubtful accounts	<u>(16,625)</u>	<u>(16,625)</u>
	<u>\$ 2,581</u>	<u>\$ 6,050</u>

3. INVENTORY

Inventory is stated at specifically identified costs and consists primarily of spare parts for the buses and mechanics auto shop.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2009 and 2008

4. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2009 and 2008 follows:

	<u>Beginning balance October 1, 2008</u>	<u>Transfers And Additions</u>	<u>Transfers And Disposals</u>	<u>Ending balance September 30, 2009</u>
Buildings	\$ 107,678	\$ --	\$ --	\$ 107,678
Vehicles	669,334	255,551	--	924,885
Shop equipment	47,332	6,511	--	53,843
Office equipment	<u>78,343</u>	<u>2,551</u>	<u>--</u>	<u>80,894</u>
	902,687	264,613	--	1,167,300
Less accumulated depreciation	<u>(782,099)</u>	<u>(39,094)</u>	<u>--</u>	<u>(821,193)</u>
	<u>\$ 120,588</u>	<u>\$ 225,519</u>	<u>\$ --</u>	<u>\$ 346,107</u>

	<u>Beginning balance October 1, 2007</u>	<u>Transfers And Additions</u>	<u>Transfers And Disposals</u>	<u>Ending balance September 30, 2008</u>
Buildings	\$ 103,039	\$ --	4,639	\$ 107,678
Vehicles	669,334	--	--	669,334
Shop equipment	49,432	2,539	(4,639)	47,332
Office equipment	<u>77,347</u>	<u>996</u>	<u>--</u>	<u>78,343</u>
	899,152	3,535	--	902,687
Less accumulated depreciation	<u>(754,826)</u>	<u>(27,273)</u>	<u>--</u>	<u>(782,099)</u>
	<u>\$ 144,326</u>	<u>\$ (23,738)</u>	<u>\$ --</u>	<u>\$ 120,588</u>

5. DUE TO STATE GOVERNMENT

At September 30, 2009, \$8,042 of the balance due to the State Government represents the unexpended balance of the FY08 supplemental budget.

The other \$1,017 represents unexpended balances of prior years' subsidies. Therefore, a total of \$9,059 and \$1,017 are due to the Yap State Government as of September 30, 2009 and 2008, respectively.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2009 and 2008

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. YAP STATE OPERATING SUBSIDIES

In fiscal year ended September 30, 2009, Yap State Legislature appropriated to PTS, under the administration of the Director of the Office of Administrative Services, the following funds:

<u>Law No.</u>	<u>Fund Source</u>	<u>Amount</u>
YSL 7-42	State General Fund	\$ 14,784
YSL 7-44	Amended Compact – Education Sector Grant	208,962
YSL 7-44	Capital Improvement Programs & Dev. Fund	70,000
YSL 7-58	General Fund – Supplemental Budget	60,694
		<u>\$ 354,440</u>

Grant expenditures for the year ended September 30, 2009 totaled \$344,098, comprising \$83,417 in expenditures against the FY09 grants, plus \$260,681 in FY08 purchase orders for which goods and services were received in FY09. As of year-end, PTS had encumbered \$214,992 of the FY09 grants, leaving \$56,031 unencumbered and unexpended as of September 30, 2009.

As of September 30, 2008, out of the total subsidies of \$382,566, \$113,277 was expended and considered as income and the rest were treated as either deferred revenues or encumbrances. PTS also have unexpended grants in FY06 and 07 totaling \$22,551, of which \$21,617 were expended and recognized as revenue in FY08.

8. RELATED PARTY TRANSACTIONS

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain board members hold positions of influence. Related party transactions for the years ended September 30, 2009 and 2008 were \$5,869 and \$7,728, respectively.

9. 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.



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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 ended September 30, 2009 and 2008 and have issued our report thereon dated December 24, 2010. We conducted our audits 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 audits, 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects PTS' ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of PTS' financial statements that is more than inconsequential will not be prevented or detected by PTS' internal control.

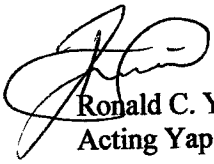
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by PTS' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, significant deficiencies identified are reported to management in the accompanying Schedule of Findings, as Findings Nos. 1 through 7.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Public Transportation System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Ronald C. Yow
Acting Yap State Public Auditor

December 24, 2010

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2009

Finding no. 1 – Unresolved Prior Year Findings

Criteria: PTS should on a timely manner, adopt and implement audit recommendations to strengthen controls over its financial reporting and ensure full compliance with laws and regulations of the Yap State Government.

Condition: Out of the eight findings cited in fiscal year 2008, the Board and Management of PTS were able to resolve four or fifty (50%). Out of the four unresolved exceptions, three or seventy five (75%) have been recurring exceptions since the FY2007 audit.

Cause: The Board of PTS failed to ensure that management perceives the importance of implementing and adopting audit recommendations accordingly and on a timely manner.

Effect: Due to continuous failure of the Board to address unresolved findings, PTS failed to correct deficiencies in improving its compliance with laws and regulations and to improve its controls over financial reporting. And therefore, we will continue to identify and address such deficiencies.

Recommendation: The Board and Management of PTS should find ways to improve its efficiency in addressing audit recommendations on a timely manner.

Finding no.2 – Grants Revenue and Expenditure

Criteria: Government entities or “Grantees” are required to maintain accurate and sufficient records and be accountable for grants received. Additionally, generally accepted accounting principles requires recognition of revenues when earned and expenses when incurred.

Condition: Our review for fiscal year 2009 found the following:

1. On July 22, 2008, a Pass-Thru-Grant/Sub-Grant Agreement was executed between the Yap State Government and PTS for a \$62,494 fund authorized by Yap State Law No. 7-29. The Agreement provided that the mentioned amount will be advanced to PTS for freight and handling of new buses purchased. The check was issued on July 24, 2008 but was only recorded in PTS books in January 2009.

Total freight and handling fee for the 2 new buses amounted to \$54,452.44 which was paid-out from February 18 to March 16, 2009. The \$8,041.56 excess was used to buy bus spare parts though as per Pass-Thru-Grant/Sub-Grant Agreement, it specifically state that the allotted amount will be used for the freight and handling of the new buses. There was no reprogramming for the excess. Audit adjustment was made to present the excess as “Due to Yap State”.

2. Yap State Legislature Law No. 7-44 appropriated a total of \$278,962 for PTS for the fiscal year 2009. Mentioned appropriation provides funds for the purchase of two new buses. In August 2009, \$150,272 or 75% of the cost of the bus was given to PTS, who in turn wired the mentioned amount to the bus supplier. As of September 30, 2009, the advance payment was not recorded in the books. Audit adjustment was made to recognize the advance payment as “deferred revenue”.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2009

Finding no.2 – Grants Revenue and Expenditure (cont.)

3. As of 09/30/09, PTS still has in its books \$14,712 worth of deferred revenue which should have not been booked as such.
4. As of September 30, 2009, PTS has unexpended \$19,636 and \$36,394 balances from their Appropriation and supplemental budgets. The mentioned amounts were intended for the freight charges for the new buses but PTS failed to encumber the amount for freight before September 30, 2009, thus making the unexpended amount unavailable since it already lapsed.

Cause: PTS failed to properly monitor the grants as to the booking of expenditures and the lapse date.

Effect: PTS accounting records do not accurately present the recognition of grants revenue and allowable expenditures as of September 30, 2009. Further, PTS failed to maximize the grants allotted to them since they allowed it to lapse with \$56,030 worth of grants unexpended.

Recommendation: We strongly recommend management to set-up procedures that will help them in monitoring the grants with regards to its lapse date and to ensure that proper recording of revenue, allowable expenditures and deferred revenue be observed in accordance with the Yap State's Financial Management Act and the State's Contract Act.

Finding no. 3 – Non Reconciliation of Account Balances

Criteria: Proper accounting controls dictates that monthly reconciliation of accounts should be observed so as to detect errors and omissions.

Condition: During the course of our review, we noted the following:

1. The cash on hand account has a negative ending balance of \$2,021 as compared to the actual cash we counted which amounted to \$458 resulting to a negative variance of \$2,479.

Verification regarding the discrepancy revealed that the negative balance was brought about by an entry made on July 31, 2009 wherein they erroneously recorded a payment for an accounts payable worth \$2,479 when in fact there was no actual payment made thus the negative cash on hand balance. Mentioned amount was for bus parts that were ordered in July 2009 and was encumbered as of September 30, 2009. The purchase order arrived on November 3, 2009, the same day that the check for \$2,479 was cut and sent to the supplier.

2. The prepaid insurance account was over by \$1,277. The September 2009 amortization was already taken-up contra YSL appropriation revenue and when the payment for the whole year was taken-up on September 24, 2009, they erroneously posted the whole amount as prepayment.
3. Erroneous entry of \$2,479 in the deferred revenue account. During the review of the negative cash on hand account balance, it was noted that aside from the entry made against the cash on hand, there was an entry made for the same amount in the deferred revenue contra prepaid expense account. Since, the appropriation budget is on a reimbursement basis and at the same time no payment has been made, there should be no such entry.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2009

Finding no. 3 – Non Reconciliation of Account Balances (cont.)

4. The remittance of SS employee and employer share for the third quarter of 2009 was all debited against the SS-employee payable account instead of equally debiting the SS-Employee and SS-Employer share payable accounts.

Cause: There was no counter checking done on the transactions being posted by the accountant.

Effect: Since there is no check and balance procedure installed with regards to the accountants' posted transactions, any errors or omission will not be immediately detected which led to the misstatement of the cash on hand and accounts payable balances as of September 30, 2009.

Recommendation: We recommend that the Board requires management to establish proper check and balance procedures within the entity and implement monthly reconciliation procedures on their accounting records so as to detect and make corrective actions on any errors or omissions committed.

Finding no.4 – Inadequate Controls Over Spare Parts Inventory

Criteria: Sufficient controls over inventory should be in place in order to safeguard the System's assets from theft and pilferage. In addition, PTS is required by its regulations, section 13.4, to submit to the Board at the closing of each fiscal year, an inventory report of all PTS personal property, accounting for all property with ownership, possession, controls or use in conveyed to another person, agency, or organization.

Condition: Inventory physical count on spare parts for fiscal year ended September 30, 2009 was performed on October 2, 2009. Ending balance per valuation report did not agree with the ending inventory per general ledger by \$ 3,458.

Further verifications revealed that the discrepancy was brought about by a proposed adjusting entry during the FY2008 audit, which was not taken-up in the books.

Also, based on the minutes of the board meeting, it was noted that there was no mention of any inventory report being submitted to the Board of Directors.

Cause: Based on their accounting system, PTS has been using the LIFO (last in first out) and FIFO (first in first out) valuation methods in costing their inventory and the non-uniform valuation could have contributed to the variance. Aside from the valuation issue, PTS does not reconcile its inventory records with the balances reflected in the general ledger as well as the physical quantity of inventory items on a timely manner, thus any adjustments, which were anti-dated, could also result in the system cost adjustment.

Effect: Non-reconciliation of accounts and lack of controls over assets increases the risk of non-detection of errors and pilferage.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2009

Finding no.4 – Inadequate Controls Over Spare Parts Inventory (cont.)

Recommendation: Though there was a significant improvement in the monitoring of inventory based on the result of our count, Proper monitoring and timely reconciliation of inventory should be observed on a regular basis so as to safeguard PTS' assets against theft or pilferage.

In addition, we also recommend that management to ensure inventory reports be submitted to the Board for its review. Such review from the Board together with the year-end physical count of inventory items will lessen errors and discrepancies in inventory records.

Finding no.5 – Bus Collection

Criteria: Proper internal controls should be in place to ensure accuracy of bus collections.

Condition: Based on the figures from last year's audit and the initial figures for FY09, it was noted that the cash overage have exceeded the cash shortages by almost five hundred percent. Since the amount of shortages is not material, we decided to focus our review on the overages.

Review of the overages revealed that on 30 instances, the overages booked were 30% to 803% more than what was tallied as bus collections. It was also noted that out of the fifty three overages tested, there was no instance that the tally sheet matched the amount being declared in the cash report.

Cause: The bus drivers failed to ensure that collectors were accurately and properly maintaining the tally sheets.

Effect: There is a possibility that what were being recorded are just paper profits and there is a possibility of undetected shortages.

Recommendation: We will reiterate our prior year recommendation that PTS management require bus drivers be stricter in choosing responsible collectors, whose riding the buses for free as an incentive, to properly maintain the tally sheets and to think of ways that could improve the reporting of daily collections.

Finding no.6 – Untimely Collections of Receivables

Criteria: PTS Board of Directors and Management should establish stricter policies and procedures to ensure adequate and timely collections of receivables.

Condition: It was noted that even though the receivable balances at September 30, 2009 was lower by 15% as compared to the FY 2008 balance, the collection is more geared towards the receivables below 365 days. The 365 days and over receivables as of September 30, 2009 was \$14,231.01 or 74% of the total receivables. Review of subsequent collections for the long outstanding receivables revealed that as of March 3, 2010, only \$626.54 was collected.

It is also noteworthy to note that from the total of the receivables under the "over 365 days" bracket, \$3,811.85 or 27% represent receivables from Government Agencies and as of March 3, 2010, only a small portion was settled.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings
September 30, 2009

Finding no.6 – Untimely Collections of Receivables (cont)

Cause: Though PTS managed to decrease its receivables in FY2009, inadequate controls over receivable and untimely collections still existed and we found no evidence of repayment plans for the current Board members.

Effect: It would be difficult and very challenging to adopt policies and procedures of timely collections of receivables when outstanding receivable balances of Board Members are involved. As a result, much more write-offs will subsequently occur and this will be one of the factors that will contribute to the increase in dependence on government for subsidies. With the current policy of estimating uncollectible receivable, PTS only managed to collect approximately \$2,178 of outstanding balances over 1 year.

Recommendation: We recommend that The Board and Management of PTS devise a strict payment and collection scheme, especially for the Board Members that have outstanding balances, so that they could maximize the collection of outstanding balances. Also, we further recommend a policy be in place that will minimize if not prohibit the Board Members and PTS employees from getting services/parts on credit. Lastly, we recommend that all outstanding balances due to PTS be cleared on a timely manner.

Finding no. 7 – Advance Payment to Suppliers

Criteria: For the year ended September 30, 2009, the State Legislature required that Compact and Local grants allotted to the component units of the State be disbursed on a reimbursement basis. Such reimbursement requests should be limited to expenses incurred during the fiscal year for which the funds were appropriated.

Condition: Review of PTS' encumbrances as of 09/30/09 revealed that there were three POs from a local petroleum vendor worth \$12,150 though they haven't received the fuel as of 09/30/2009.

Further verification revealed that the checks were given to the local vendor between October 1 to 6, 2009 though the fuels were delivered in batches starting October 19 and ending on December 11, 2009.

Cause: PTS tried to consume the allotted amount for fuel in the supplemental budget by submitting the 3 POs before September 30, 2009 even though their fuel stock is way more than half of fuel storage tank.

Effect: In their effort to consume the funds allotted for fuel, they inadvertently violated section 111 of the Financial Management Act of 1983 which states that "*No Government funds shall be advanced to suppliers*".

Recommendation: We recommend that the Board require management to properly monitor their fuel sales and consumption so that in the future preparation of budgets, they will be able to accurately project their annual budget for the fuel and they will not resort to last minute purchases just to use up their allotted budget and unintentionally violating the Financial Management Act of 1983.



RESPONSES TO AUDITORS REPORT (Findings)

Finding No. 1- Unresolved Prior Year Findings.

Responses: Per our Exit Meeting discussion, several of the finding like the Bus Collection has been carried over the years due to over payment by riders and perhaps the only way to resolve that is to eliminate using cash. Additionally, on the Inventory issues is one that we have hopefully resolved with our current setup. Nonetheless, these issues are in discussion with the management and will be carried are recommended.

Finding No. 2 – Grant Revenue and Expenditures

Responses: Discussed with management and will be carried are recommended.

Finding No. 3 – Non-Reconciliation of Account Balances

Responses: Discussed with management and will be carried are recommended.

Finding No. 4 – Inadequate Controls Over Spare Parts Inventory.

Responses: Discussed with management and will be carried are recommended.

Finding No. 5 – Bus Collection

Responses:

During the exit meeting, this issue was further discussed and additional cause for overage identified was due to fare paid by each rider at an access amount and return change could not be given back. For example, student fares are at \$0.75 per ride but most student drop in a dollar instead. However, this has been further discussed with management and seeking ways to resolve the matter along with recommendations.

Finding No. 6 – Untimely Collection of Receivables

Responses:

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

Finding No. 7 – Advance Payment to Suppliers

Responses: Public Transportation System encountered this issue due to the Fuel Subsidy that was received 3 months later after its intended time of use. Since we PTS was not able to replenished its funds used toward the fuel, we had to pay YCA for the bulk amount and the fuel to be delivered to our when its empty. PTS fuel tank capacity is 1,000 gallon. This has been discussed with management and will be carried as recommended.