

**Public Transportation System**

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

**Fiscal Years Ended  
September 30, 2010 and 2009**



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



# OFFICE OF THE STATE PUBLIC AUDITOR

## YAP STATE GOVERNMENT

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### EXECUTIVE SUMMARY

#### Financial Audit of the Public Transportation System For the Years ended September 30, 2010 and 2009

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, 2010 and 2009 which report is dated June 23, 2011.

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, 2010 and 2009 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.

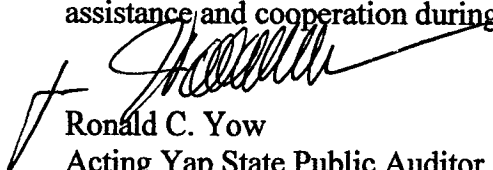
The report on internal control and compliance and other matters required by *Government Auditing Standards* on pages 15 to 16 discusses reportable conditions at PTS. These conditions and our recommendations are presented for the information of PTS management in the Schedule of Findings beginning on page 17. Of the four findings, three are considered to be material weaknesses. All of the findings were related to inadequate controls. Almost all of the findings were unresolved findings from prior years.

Following is a summary of the audit findings for the year ended September 30, 2010:

- 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 inadequate monitoring of inventory.
- Finding no. 4 relates to internal control deficiencies with regards to bus collections.

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  
June 23, 2011

# **PUBLIC TRANSPORTATION SYSTEM**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Public Transportation System:

We have audited the accompanying statement of net assets of the Public Transportation System (PTS) as of September 30, 2010 and 2009, 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's management. Our responsibility is to express an opinion on these financial statements based on our audits.

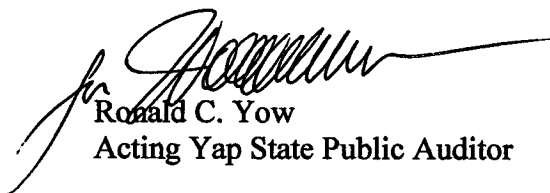
We conducted the audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Public Transportation System as of September 30, 2010 and 2009, and the respective changes in financial position and 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 June 23, 2011 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, although not a 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 the 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. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with accounting principles generally accepted in the United States because the minimum requirements for Management's Discussion and Analysis stipulated by Government Accounting Standards Board Statement No.34 are not provided. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.



Ronald C. Yow  
Acting Yap State Public Auditor

June 23, 2011



## Public Transportation System

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### Management's Discussion and Analysis September 30, 2010

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, 2010. 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. Fuel cost has again risen at the end of this fiscal year.

Half of the bus fleet has been replaced with new buses, however, the remaining fully depreciated half remains and costly to operate.

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. 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 2010.

## PUBLIC TRANSPORTATION SYSTEM

### Statements of Net Assets For the Years Ended September 30, 2010 and 2009

ASSETS :	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 26,659	\$ 59,941
Trade receivables, net (note 2)	4,955	2,581
Purchase order advance	204,538	150,272
Prepaid insurance	12,926	12,773
Employee Cash Advance	50	-
Inventory (note 3)	<u>74,362</u>	<u>50,380</u>
Total current assets	323,490	275,947
Property and equipment, net (note 4)	<u>527,023</u>	<u>346,107</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 850,513</u></b>	<b><u>\$ 622,054</u></b>
<b>LIABILITIES AND NET ASSETS :</b>		
Current liabilities:		
Accounts payable - trade	\$ 6,770	\$ 6,114
Due to the State Government (note 5)	21,209	9,059
Deferred revenue	203,696	150,272
Customer deposits	2,569	1,903
Accrued payroll and others	<u>4,576</u>	<u>7,936</u>
Total current liabilities	238,820	175,284
Contingencies		
Net Assets		
Invested in capital assets	527,023	346,107
Unrestricted	<u>84,670</u>	<u>100,663</u>
Total net assets	<u>611,693</u>	<u>446,770</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 850,513</u></b>	<b><u>\$ 622,054</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues		
Charges for transportation services	\$ 135,473	\$ 111,130
Auto shop service income	70,510	73,631
Fuel, parts & accessories sales	21,060	87,448
Other sales	<u>11,416</u>	<u>2,717</u>
	238,459	274,926
Cost of sales	<u>62,199</u>	<u>115,271</u>
Gross margin	<u>176,260</u>	<u>159,655</u>
Operating expenses		
Personnel services	124,799	112,195
Fuel, oil and lubricants	62,826	67,878
Depreciation	72,662	39,094
Parts, supplies & materials	5,213	8,143
Repair and maintenance	18,532	22,662
Insurance	15,357	14,805
Miscellaneous	6,626	3,218
Utilities	8,198	8,380
Travel	<u>1,306</u>	<u>1,502</u>
	<u>315,519</u>	<u>277,877</u>
Loss from operations	(139,259)	(118,222)
Nonoperating revenues/(expenses)		
Yap State operating subsidy (note 7)	304,081	344,098
Interest	<u>101</u>	<u>7,196</u>
	<u>304,182</u>	<u>351,294</u>
Changes in net assets	164,923	233,072
Net assets at beginning of year	<u>446,770</u>	<u>213,698</u>
Net assets - end of year	<u>\$ 611,693</u>	<u>\$ 446,770</u>

See accompanying notes to financial statements



## PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows  
For the Years Ended September 30, 2010 and 2009

### Increase (Decrease) in Cash

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipts from customers	178,759	\$ 276,897
Cash payments for goods and services	(203,736)	(251,958)
Cash payments to employees	<u>(124,484)</u>	<u>(111,963)</u>
Net cash used for operating activities	(149,461)	(87,024)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	304,081	344,098
Other Income	-	6,965
Increase/(decrease) in Due to State Government	12,150	8,042
Increase/(decrease) in Deferred Revenue	53,424	(68,643)
Net cash from non-capital financing activities	369,655	290,462
Cash flows used for investing activities		
Other Income	101	231
Acquisition of fixed assets	<u>(253,577)</u>	<u>(264,612)</u>
Net cash used for investing activities	(253,476)	(264,381)
Net increase/(decrease) in cash	(33,282)	(60,943)
Cash, beginning of year	<u>59,941</u>	<u>120,884</u>
Cash, end of year	<u><u>26,659</u></u>	<u><u>\$ 59,941</u></u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(139,258)	\$ (118,223)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	72,662	39,094
(Increase)/Decrease in assets		
Trade receivables, net	(2,374)	3,469
Purchase order advance	(54,266)	(851)
Employees receivables, net	(50)	-
Prepaid insurance	(154)	(522)
Inventory	(23,982)	(9,448)
Increase/(Decrease) in liabilities		
Accounts payable	656	(129)
Customer deposits	665	(646)
Accrued expenses	<u>(3,360)</u>	<u>232</u>
Net cash used in operating activities	<u>(149,461)</u>	<u>\$ (87,024)</u>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**

Schedule of Expenditures of Federal Awards  
September 30, 2010 and 2009

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures	
		FY10	FY09
Amended Compact - Education Sector Grant	15.875	\$ 191,179	\$ 255,712
Amended Compact - General Fund/CIP	15.875	92,463	-
<b>Total Federal awards expended</b>		<u>\$ 283,642</u>	<u>\$ 255,712</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, 2010 and 2009

### 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.

## PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements  
September 30, 2010 and 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- (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 year ended September 30, 2010, 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.

## PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements  
September 30, 2010 and 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

In February 2009, GASB issued Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions for Regulatory Statements*". GASB Statement No. 54 is for establishing fund balance classification that comprise a hierachy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in government funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

In December 2009, GASB issued Staement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". GASB Statement No. 58 establishes requirements for recognizing and measuring the effects on assets and liabilities of governments filing for Chapter 9 bankruptcy protection. The provisions of the new pronouncement will take effect for the fiscal year that ends on June 30, 2010.

Management does not believe that the adoption of these pronouncements will have material impact on the accompanying 2010 and 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, 2010 and 2009 are fully insured as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**Receivables** – Represents outstanding billings to customers, employees (former and present), board members (former and present) and other government agencies.

## PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements  
September 30, 2010 and 2009

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

**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, 2010 and 2009 is presented below:

	<u>2010</u>	<u>2009</u>
Current and former employees	\$ 32	\$ 161
Current and former board members	3,179	5,707
State departments and agencies	4,925	3,812
Other trade customers	<u>16,859</u>	<u>9,526</u>
	24,995	19,206
Less: Allowance for doubtful accounts	<u>(20,040)</u>	<u>(16,625)</u>
	<u>\$ 4,955</u>	<u>\$ 2,581</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, 2010 and 2009

**4. PROPERTY & EQUIPMENT**

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

	<b>Beginning balance October 1, 2009</b>	<b>Transfers And Additions</b>	<b>Transfers And Disposals</b>	<b>Ending balance September 30, 2010</b>
Buildings	\$ 107,678	\$ 2,127	\$ --	\$ 109,805
Vehicles	924,885	242,516	--	1,167,401
Shop equipment	53,843	1,287	--	55,130
Office equipment	80,894	7,647	--	88,541
	<u>1,167,300</u>	<u>253,577</u>	<u>--</u>	<u>1,420,877</u>
Less accumulated depreciation	<u>(821,193)</u>	<u>(72,661)</u>	<u>--</u>	<u>(893,854)</u>
	<u>\$ 346,107</u>	<u>\$ 180,916</u>	<u>\$ --</u>	<u>\$ 527,023</u>

	<b>Beginning balance October 1, 2008</b>	<b>Transfers And Additions</b>	<b>Transfers And Disposals</b>	<b>Ending balance September 30, 2009</b>
Buildings	\$ 107,678	\$ --	\$ --	\$ 107,678
Vehicles	669,334	255,551	--	924,885
Shop equipment	47,332	6,511	--	53,843
Office equipment	78,343	2,551	--	80,894
	<u>902,687</u>	<u>264,613</u>	<u>--</u>	<u>1,167,300</u>
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>

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.

## PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements  
September 30, 2010 and 2009

### 4. DUE TO STATE GOVERNMENT

As of September 30, 2010, the due to the State Government account showed a balance of \$21,209, \$12,150 represents lapsed funds from their FY2009 supplemental budget used in FY10 and the remaining \$9,059 represents the cumulative total of lapsed funds from FY06 to FY08. The left-overs as of fiscal years' end, by Law, should be returned to the Treasury of Yap State, thus it was booked under Due to State Government.

### 5. YAP STATE OPERATING SUBSIDIES

In fiscal year ended September 30, 2010, 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 7-59	Amended Compact - Education Sector Grant	\$ 168,441
YSL 7-59	General Fund – Local Revenue	20,439
YSL 7-69	Capital Improvement Programs & Dev. Fund	173,334
		<u>\$ 362,214</u>

Grant expenditures for the year ended September 30, 2010 totaled \$304,081, comprising \$101,239 and \$202,842 in expenditures against FY10 and FY09 grants. For the expenditures against FY09 grants, these represent bus purchases which were paid in FY09 but were received in FY10.

As of September 30, 2009, out of the total grant expenditures of \$344,098, \$83,417 was expended against FY09 grants and the remaining \$260,681 was expended against FY08 grants.

### 6. 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, 2010 and 2009 were \$3,211 and \$5,869, respectively.



**PUBLIC TRANSPORTATION SYSTEM**

Notes To Financial Statements  
September 30, 2010 and 2009

**7. 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 then ended September 30, 2010 and 2009, and have issued our report thereon dated June 23, 2011. 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'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 PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 status of prior year's findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiency, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings (pages 17-19) to be material weaknesses.

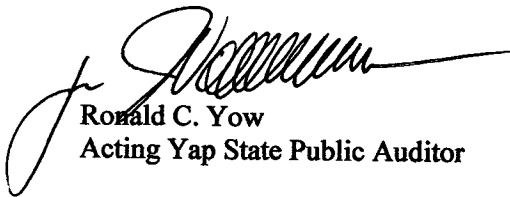
A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiency described in the accompanying Schedule of Findings (pages 17-19) to be a significant deficiency. (Finding no. 4)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PTS's financial statements are free of material mistatement, we performed tests of 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 did not disclose any instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

PTS's response to the findings identified in our audit are 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 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

June 23, 2011

# PUBLIC TRANSPORTATION SYSTEM

## Schedule of Findings September 30, 2010

### **Finding No. 1 – Unresolved Prior Year Findings**

**Criteria:** Policies and procedures for the immediate implementation and adoption of audit recommendations must be in place in order to strengthen controls over financial reporting and ensure full compliance with laws and regulations of the Yap State Government.

**Condition:** Out of six findings cited in fiscal year 2009, the Board and Management of PTS were able to resolve only one. Out of the five remaining, three are reiterated below namely;

1. Grants and Revenue Expenditures
2. Inadequate Controls of Inventory
3. Bus Collection

The other two can be referenced in fiscal year 2009 audit report which are;

1. Untimely Collection of Receivable
2. Non Reconciliation of Account Balances

**Cause:** The Public Transportation System did not have in place any adopted policies and procedures specifically designed to address and resolve audit findings.

**Effect:** Due to continuous failure to address the unresolved findings, PTS will remain susceptible of committing the same errors in succeeding years thus exposing them to possible material misstatements in the future.

**Recommendation:** We recommend that the Public Transportation System management should develop applicable policies and procedures for the Board of Director's review and adoption and make certain that such approved policies and procedures are implemented and enforced to ensure realization of its purpose.

### **Finding No. 2 – Grants Revenue and Expenditures**

**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:** After the third revision to the trial balance by PTS, the revenue account YSL Appropriation and Grants accounts, had an incorrect account balance.

# PUBLIC TRANSPORTATION SYSTEM

## Schedule of Findings September 30, 2010

### **Finding No. 2 – Grants Revenue and Expenditures (Cont.)**

**Cause:** Periodic review and reconciliation of the mentioned account was not done on a timely basis.

**Effect:** The revenue account, YSL Appropriation and Grants, was significantly misstated at September 30, 2010.

**Recommendation:** We recommend that management and the accounting section should ensure that all accounts are periodically reviewed and corrected, if need, be to ensure minimal and eventual elimination of incorrect account balances.

### **Finding No. 3 – Inadequate Monitoring of Controls of Inventory**

**Criteria:** Sufficient controls over inventory should be in place in order to safeguard the System's assets from misappropriation and misplacement. In addition, PTS is required by its regulations, section 13.4, 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 when conveyed to another person, agency, or organization.

**Condition:** The spare parts inventory balance at September 30, 2010 per Public Transportation System trial balance did not tally with the valuation based on the year end inventory count performed by the Office of the Public Auditor staff and Public Transportation System staff.

The fuel inventory at September 30, 2010 per Public Transportation System trial balance showed a negative balance.

**Cause:** The physical inventory sheets provided by Public Transportation System, which supposedly contains all inventory items as of September 30, 2010, were later noted to be incomplete and substantial amount of inventory were erroneously excluded. Further inquiry revealed that the employee responsible for the spare parts inventory did not turn in the Public Transportation System physical count sheet to the Accountant for proper valuation and timely identification of any inconsistencies.

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

**Recommendation:** We recommend that management should observe the proper matching of costs and revenues with regards to the booking of inventory. Proper accounting controls should also be observed so that all assets are properly booked and safeguarded against loss or theft.

# PUBLIC TRANSPORTATION SYSTEM

## Schedule of Findings September 30, 2010

### **Finding No. 4 – Bus Collection**

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

**Condition:** Based on similar procedures performed for cash overages in fiscal year 2009, we noted from 14 transactions tested, which have \$20 or more overages, that the overages booked were 32% to 147% more than the actual collections based on the tally sheets. Public Transportation System was able to decrease the percentage range of the overages when compared to fiscal year 2009.

**Cause:** Responsible personnel did not ensure that collectors were accurately and properly maintaining the collection tally sheet.

**Effect:** As a result of the issue, Public Transportation System is not recording the actual revenue it should. In addition, the possibility that some of these overages may actually be shortages in disguised do exist since fabrication as to the number of passengers in the tally sheet can easily be done.

**Recommendation:** We recommend that Public Transportation System should devise a more stringent procedure in its collection and tallying system so that PTS could further decrease and eventually eliminate the excessive overages.



## **RESPONSES TO AUDITORS REPORT (Findings)**

### **Finding No. 1- Unresolved Prior Year Findings**

#### **Responses:**

Discussed with management and will be carried out as recommended.

### **Finding No. 2 – Grant Revenue and Expenditures**

#### **Responses:**

During our exit meeting, we realized that this issued is related to late posting. Discussed with management and will be carried out as recommended.

### **Finding No. 3 – Inadequate Monitoring of Inventory**

#### **Responses:**

During the exit meeting, it was agreed that this finding as was originally state as "Inadequate Control of Inventory" to be reworded to "Inadequate Monitoring of Inventory. PTS do have a safe inventory stock room that is well secured and access is limited to authorized personnel. Recording has been improved compared to previous year missing record sheets.

### **Finding No. 4 – Bus Collection.**

#### **Responses:**

This finding has been a prior years finding due to how our riders deposit their fare into our bus deposit fare boxes. As discussed in the exit meeting as well as the prior year exit meeting that our bus drivers are not able to provide change should a riders deposit more than the actual fare. For example, student required fares to pay upon boarding a bus is \$.75 per ride. However, at most times, students drop in a dollar bill for the ride instead. Our drivers and collectors are making sure that each rider does pay exact or sufficient fare for the ride. Any over payment made is the choice of the rider. As it was requested by the Auditor office, which was provided, that copy of our daily tally forms, and other documents for review and consideration for a normal range of overage for next year.