

**INSPECTION REPORT  
ON THE  
SPORTS DEVELOPMENT ACCOUNT  
AT  
OFFICE OF THE ADMINISTRATIVE  
SERVICES**

August 23, 2019



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## 1.0 INTRODUCTION

This inspection report contains findings and recommendation following our inspection of the Sports Development Account (SDA) maintained by the Office of Administrative Services (OAS) as requested by the Yap State Legislature via Yap State Resolution No.10-12, which was adopted by the Tenth Legislature of the State of Yap, First Regular Session, 2019.

## 2.0 MANDATE

The mandates for this inspection are as follows:

- Pursuant to the authority vested in the Public Auditor as codified under Title 13, Chapter 7, and Section 703 of the Yap State Code, which states in part:

“The Public Auditor shall inspect and audit all accounts, books, and other financial records of the State Government, to include but not limited to, every branch, department, office, political subdivision, board, commission and agency, and other public legal entities or non-profit organizations receiving public funds from the State Government, and to prepare written reports of such inspections and audits for presentation to the Governor and the Legislature;”

- Pursuant to Section 706 of Title 13 of the Yap State Code, the Legislature may by a majority vote request the Public Auditor to conduct any audit of an agency of the State government.

## 3.0 OBJECTIVES AND SCOPE

### 3.1 Objectives

The primary objective of this inspection is to determine the basis of lower collections of the Sports Development Account and to analyse the findings and other activities affecting the account.

This also includes providing Legislature with the following relevant information:

- the procedures for tax collections and deposits into the account;
- procedures or guidelines for the disbursements of funds from the account;
- funds are correctly remitted to the Sports Development Account using the latest tax amendment in the Yap State legislation;
- cause or causes of fluctuations in tax collections from quarter to quarter; and
- other transactions or procedures which may have direct effects on the condition of the account.

### 3.2 Scope

This inspection comprised of examination of transactions for the Sports Development Account from October 2018 to June 2019. A trend analysis was also carried out for the SDA balance from the financial year 2014 to June 2019.

## 4.0 METHODOLOGY

Our inspection was conducted in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

Our inspection included physical inspection of the accounting and subsidiary records maintained by the Office of Administrative Services, interviewing key personnel, and data analysis on the status of the Sports Development Account.

We also obtained import data with regards to beer, wines, spirits and cigarettes and tobacco products from the Yap State Branch Statistics Office for the period 2008 to 2017 and analyse the trend.

## 5.0 APPRECIATION

Our sincere appreciation is extended to the Director and staff of the Office of Administrative Services for their assistance and cooperation during our inspection. We are looking forward to the continuation of such professional relationship.

## 6.0 CONCLUSION

Sports Development Account comprises of the total funds collected from the taxes levied on alcohol, cigarettes and tobacco products as stipulated in the Yap State Legislation YSL 9 – 46. We have inspected the formula in-built in the Fundware Accounting System at the Office of Administrative Services for the collection of the Sports Development Fund and concluded that they are accurate and in compliance with the legislated tax rates.

Total funds collected under Sports Development Account increase as import of alcohol and cigarettes products increases. However, the percentage of tax collection allocated for the Sports Development Account decreases as the tax rates on alcohol and cigarettes products increases over the years.

Furthermore, there is no clear operational guideline on how funds under the Sports Development Account should be used for the development of sports in the State of Yap and there is also no guideline available at the Office of the Administrative Services for the disbursement of funds from the Sports Development Account.

## 7.0 BACKGROUND OF SPORTS DEVELOPMENT ACCOUNT

On October 1, 1995, Section 103 of Title 13 of the Yap State Code was amended to increase taxes on alcoholic beverages and tobacco products for the purpose of funding sports development. The amendment to Title 13 of the Yap State Code also include a new Section 114 to create an enterprise fund into which additional taxes for sports development will be deposited and for other purposes.

### **Section 114, YSL 4-15 – Sports Development Account refers: -**

(A) The following amounts collected pursuant to Section 103, Subsection (a) paragraphs (4) (G) and (I) of this Title shall be deposited in the Enterprise Fund of the State of Yap to the Sports Development Account:

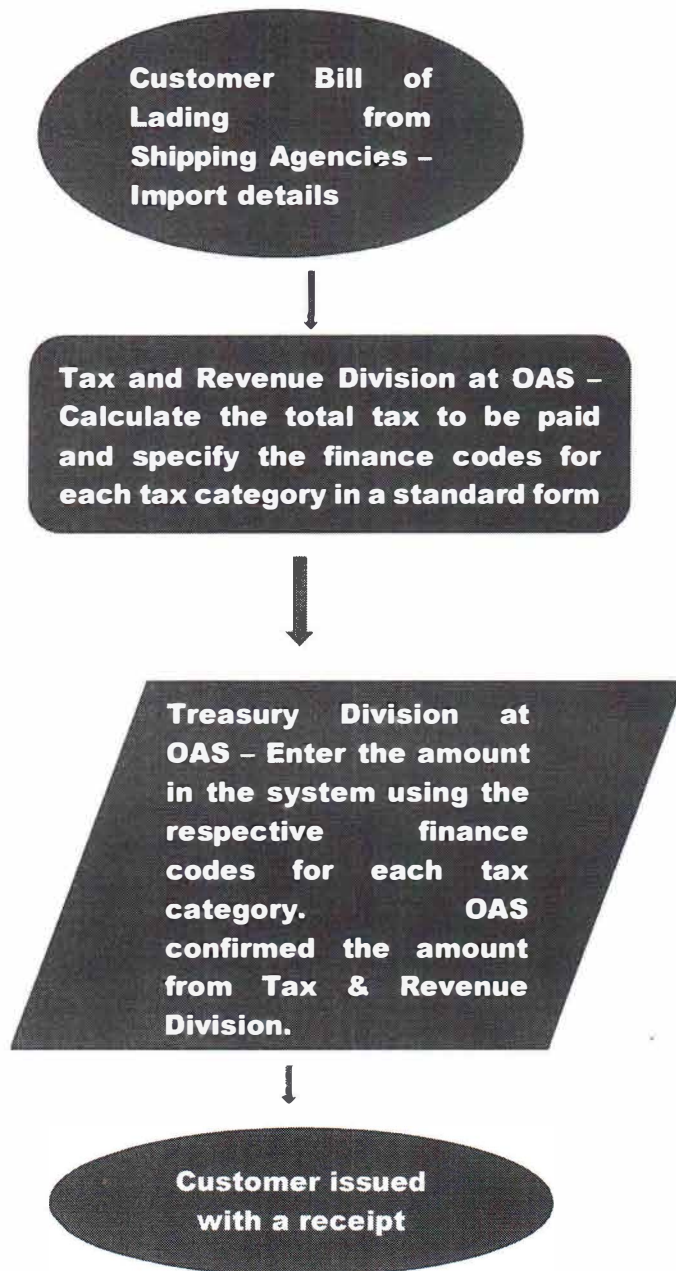
- 1) Two cents (\$0.02) per container of twelve (12) fluid ounces or less of beer, ale and malt beverages;

- 2) Three cents (\$0.03) per container of more than twelve (12) fluid ounces of beer, ale and malt beverages;
- 3) Three dollars (\$3.00) per gallon of distilled alcoholic beverages;
- 4) One dollar and fifty cents (\$1.50) per gallon of wine;
- 5) Ten cents (\$0.10) per twenty cigarettes;
- 6) One cent (\$0.01) per cigar; and
- 7) Two cents (\$0.02) per ounce of tobacco other than cigarettes and cigars.

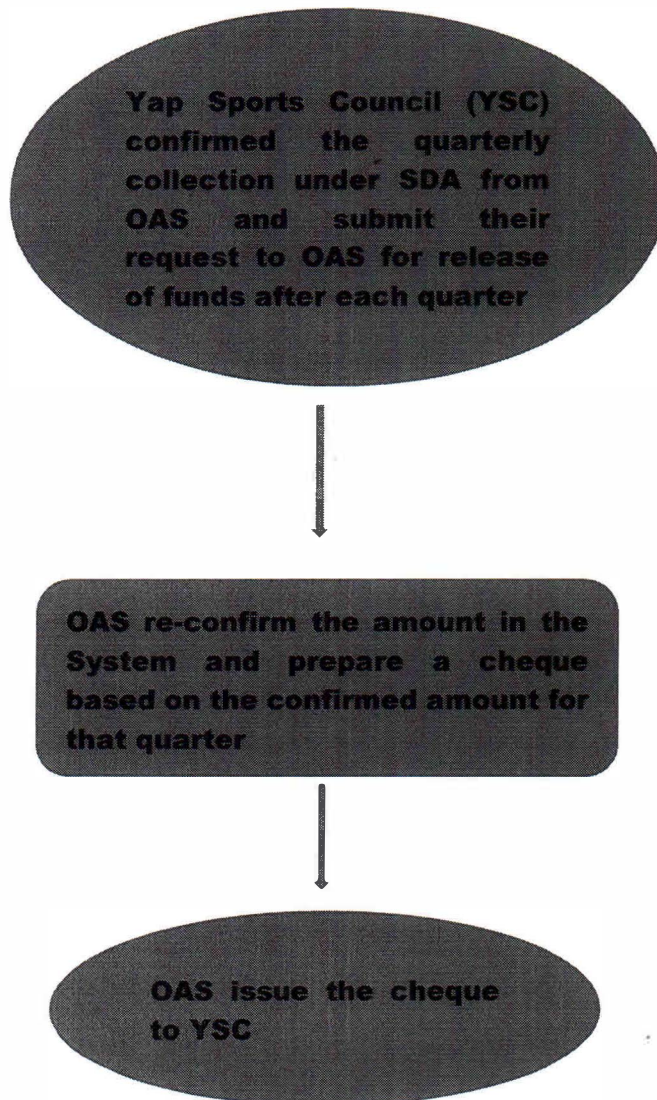
(B) The amounts collected and deposited as provided in Subsection (a) of this Section shall be used specifically for the purpose of funding sports development in the State of Yap.

**Table 1.1: History of Excise Tax Rates**

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	YSL No. 6-73 Increase Tax for Collection Program - 2006	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral - 2016
<b>Beer</b> per 12 oz or less	\$0.25	\$0.27	\$0.30	
Or per case of 24	\$6.00	\$6.48	\$7.20	
More than 12 oz	\$0.30	\$0.33	\$0.36	
Or Per case of 24	\$7.20	\$7.92	\$8.64	
<b>Alcohol</b> Per Gallon	\$6.00	\$9.00	\$9.03	
<b>Wine</b> per Gallon	\$3.00	\$4.50	\$4.53	
<b>Cigarettes</b> per 20 Cigarettes sticks	\$0.20	\$0.30	\$0.33	\$1.83
Or Per Carton	\$2.00	\$3.00	\$3.30	\$18.30
<b>Cigar</b> Per Cigar	\$0.02	\$0.03	\$0.06	\$1.06
<b>Tobacco</b> Per Oz	\$0.04	\$0.06	\$0.09	\$1.09

**8.0 PROCESS FOR TAX COLLECTION AND SYSTEM INPUT**

## 9.0 PROCESS FOR DISBURSEMENT OF FUNDS



## 10.0 PRIOR YEARS INSPECTION RESULTS AND ACTION TAKEN

An inspection of the Sports Development Account was carried out by the Office of the Public Auditor in 2010/2011 and the result and action taken are as follow:

### Result

The percentile distribution of taxes collected on cigarettes was incorrectly computed and encoded on the Fundware accounting system at the OAS resulting in the understatement of revenue for the Sports Development Account by \$198,364.

### Action Taken

- The Office of Administrative Services entered into an agreement with Yap Sports Council (YSC) to remit to YSC four instalments of \$49,591 for an aggregate of \$198,364. As of 31 March 2011, OAS had already remitted the mentioned amount to YSC on June 24, 2010, August 04, 2010, November 11, 2010 and February 03 2011.
- Adjustment was done in the Fundware Accounting system at OAS to reflect the correct percentile distribution as stated in the State Law. Significant increase in revenue under SDA was noted after the adjustments from the second quarter of 2010 compared to 2009.



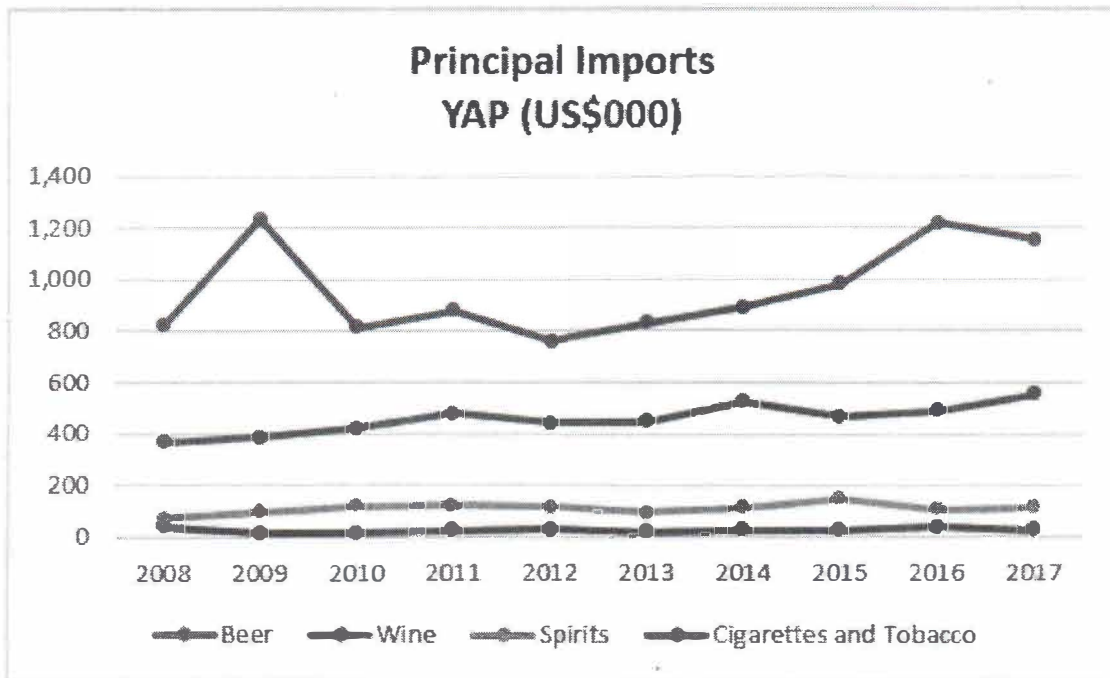
## 11.0 INSPECTION RESULTS

### 11.1 Import Trend Analysis from 2008 – 2017

We obtained the import details for Beer, Wines, Spirits and Cigarettes and Tobacco products for Yap State from the Yap Branch Statistics Office from 2008 to 2017. The Yap Branch Statistics Office was still working on 2018 data when this report was finalized.

Details of import data and trend analysis for Beer, Wines, Spirits and Cigarettes and Tobacco products from 2008 -2017 are provided in Figure 1.1 and Table 1.2 below.

**Figure 1.1: Import Data on Alcohol and Cigarettes Products**



**Table 1.2: Import Data on Alcohol and Cigarettes Products (US\$000)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Beer</b>	822	1,232	816	880	762	831	892	983	1,218	1,153
<b>Wines</b>	39	14	14	24	27	18	26	26	34	26
<b>Spirits</b>	74	98	119	122	116	93	112	147	106	112
<b>Cigarettes &amp; Tobacco</b>	367	383	421	478	444	447	527	463	489	554

Source: Yap Branch Statistics Office

## 11.2 Funds Collected Under Sports Development Account

We have inspected the percentage allocation of taxes formulated in the Fundware Accounting System at the Office of Administrative Services and noted that the percentage allocations are accurate and in accordance with the amended tax rates as Yap State Law 9 – 46.

The total funds collected for the Sports Development Account for the fiscal years 2014 to June 2019 (only 9 months) are shown in the Table 1.3 below.

**Table 1.3: Sports Development Account 2014 – 2019 (9 months)**

Account Description	2014	2015	2016	2017	2018	2019 (9 months)
Alcohol Beer	21,893.76	25,755.74	25,687.91	31,353.90	29,865.97	21,756.46
Alcohol Wine	18,439.61	22,527.42	29,666.93	29,184.41	22,723.76	11,155.09
Tobacco products	58,479.48	47,751.98	56,171.19	54,446.69	26,187.29	12,018.81
<b>Total</b>	<b>98,812.85</b>	<b>96,035.14</b>	<b>111,526.03</b>	<b>114,985.00</b>	<b>78,777.02</b>	<b>44,930.36</b>

Total Sports Development Funds were higher in 2016 and 2017 as imports were higher in these two years as provided in Table 1.2 and illustrated in Figure 1.1 in Section 11.1 of this report.

There was a significant decline in funds collected in 2018 by \$36,207.98 or 31.5%. This could be greatly attributed by the decline in imports in 2018. However, we could not obtain the import data on alcohol and cigarettes and tobacco products in 2018 to conclude that the decline in the Sports Development Account in 2018 was due to decline in the quantity of Imports.

Furthermore, our inspection also noted that the decline in the Sports Development Account in 2018 could be attributed by the increase in the tax rates implemented from 2017 as per Yap State Law 9-46. The percentage of excise tax allocated to Sports Development Fund decreases as tax rate increases as shown in Table 1.4 below. For example, the percentage of tax allocated from the tax on Cigarettes had declined significantly from 33.33% to 5.46% due to the increase in tax from \$0.30 to \$1.83.

**Table 1.4: Tax Rate and Percentage allocated to Sports Development Account**

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	% to SDF	YSL No. 6-73 Increase Tax for Collection Program	% to SDF	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral	% to SDF
<b>Beer</b> per 12 oz or less	\$0.25	\$0.27	7.41	\$0.30	6.67		
Or per case of 24	\$6.00	\$6.48	7.41	\$7.20	6.67		
More than 12 oz	\$0.30	\$0.33	9.09	\$0.36	8.33		
Or Per case of 24	\$7.20	\$7.92	9.09	\$8.64	8.33		
<b>Alcohol</b> Per Gallon	\$6.00	\$9.00	33.33	\$9.03	33.22		

	Original Rate	YSL No.4-15 Increase Tax for Sports - 1995	% to SDF	YSL No. 6-73 Increase Tax for Collection Program	% to SDF	YSL No. 9-46 Increase Tax on Tobacco for Scholarship and Referral	% to SDF
<b>Wine</b> per Gallon	\$3.00	\$4.50	33.33	\$4.53	33.11		
<b>Cigarettes</b> per 20 Cigarettes sticks	\$0.20	\$0.30	33.33	\$0.33	30.30	\$1.83	5.46
Or Per Carton	\$2.00	\$3.00	33.33	\$3.30	30.30	\$18.30	5.46
<b>Cigar</b> Per Cigar	\$0.02	\$0.03	33.33	\$0.06	16.67	\$1.06	0.94
<b>Tobacco</b> Per Oz	\$0.04	\$0.06	33.33	\$0.09	22.22	\$1.09	1.83

The distribution of current tax rate for cigarettes is shown in Table 1.5 below for ease of understanding of the effect of the increase in tax rates on Sports Development Fund.

**Table 1.5 Current Allocation of Current Tax Rate for Cigarettes of \$1.83 per packet**

Description	Medical Referral	Scholarship	General Fund	Sports Development Fund	Total
<b>Cigarettes</b> – 20 sticks (1packet)	\$0.75	\$0.75	\$0.23	\$0.10	<b>\$1.83</b>

### 11.3 Administration of Sports Development Account

The Director of Administrative Services, with the approval of the Governor, shall develop procedures for the disbursement of funds in the Sports Development Account.<sup>1</sup>

During our inspection, we noted that there was no such procedure available at the Office of Administrative Services and the OAS disbursed the total funds collected for each quarter to Yap Sports Council as and when they requested.

However, no report had been submitted by the Yap Sports Council for the utilisation of those funds. The last financial statement of the Yap Sports Council that was submitted and audited by the Office of the Public Auditor was for the fiscal year 2009.

### 11.4 Purpose of the Sports Development Fund

The amounts collected and deposited as provided in Subsection (a) of this Section shall be used specifically for the purpose of funding sports development in the State of Yap.<sup>2</sup>

Our inspection noted that there is no clear operational guideline provided in terms of developing sports in the State of Yap through the Sports Development Fund as stated in the Yap State Code Section 114 (b). Currently, all the funds collected under Sports Development Account are disbursed to the Yap Sports Council on a quarterly basis as and when they requested.

<sup>1</sup> Title 13 Yap State Code Section 114 (b)

<sup>2</sup> Title 13 Yap State Code Section 114 (b)

## 12.0 RECOMMENDATION

We recommend that the:

- **Office of Administrative Services to develop procedures for the disbursement of funds under the Sports Development Account in consultation with the Governor as per Section 114 (b) of the Yap State Code – Title 13.**
- **Office of the Administrative Services to consider including the following in the procedures for the disbursement of funds to Yap Sports Council.**
  - **Yap Sports Council should be required to provide their annual budget to the Office of Administrative Services for verification and approval in consultation with the Governor. This should be the basis of releasing funds from Sports Development Account to Yap Sports Council.**
  - **Yap Sports Council to submit to OAS a copy of their Expenditure Report at the end of each quarter prior to release of funds for the next quarter.**
- **An operational guideline should be clearly drawn up on how to use the Sports Development Account in terms of funding the development of sports in the State of Yap.**

## 13.0 MANAGEMENT RESPONSE