

**Inspection Report on The  
Sports Development Fund and Excise Tax  
Collections**



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July 14, 2011

Honorable Henry Falan  
Speaker, 8<sup>th</sup> Yap State Legislature  
Colonia, Yap FM, 96943

**Subject** : Sports Development Fund and Excise Tax Collections

Dear Honorable Speaker,

We hereby submit the Inspection Report on the condition of the Sports Development Fund (SDF) and the Excise Tax collections in response to the Legislature's request through Yap State Legislature Resolution no. 7-127.

Due to errors in the encoding of the percentile distribution in the "Fundware Accounting System" as well as the erroneous usage of an outdated tax table, Finance have agreed to our recommendation that whenever there are changes made in the law, they should see to it that all tax tables, documents and changes made in the mentioned accounting system are carefully reviewed and verified for accuracy. The inspection discloses where the errors, which totaled \$198,364 under remittances of the SDF and \$108,746 under collection of excise taxes, have been made.

The Office of the Administrative Services and the Yap Sports Council had entered an indenture to settle the under remittances of the SDF in four equal installments. As of March 31, 2011, the whole amount was already remitted to Yap Sports Council. As to the undercollection of excise tax, we are recommending that this not be retro-collected for economic reasons, however, ultimate and timely disposition rests with the Legislature.

We appreciate the courtesies and cooperation provided to us during this inspection by OAS and the private sector establishments.

Ronald C. Yow  
Acting Public Auditor  
Yap State

# **Inspection Report on The Sports Development Fund and Excise Tax Collections**

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## **I. SUMMARY**

This report presents our findings and recommendations based on our inspection of the Sports Development Fund (SDF) computation process as well as the accuracy of collections of excise taxes. The purpose of our inspection was to determine the accuracy of the computation of taxes allotted for SDF via “Fundware Accounting System”.

We based this report on our analysis of the details extracted from the “Fundware Accounting System” which was given to us by the Office of Administrative Services. We also reviewed pertinent Yap State Laws as well as their amendments.

We conducted our inspection pursuant to Section 706 of Title 13 of the Yap State Code, which states in part:

*“The Legislature by a majority vote or the Governor may by a written request and upon written notice of at least thirty days, request the Public Auditor to conduct any audit of an agency of the State Government or legal entity or non-profit organization receiving funds from the State Government. The Public Auditor shall conduct and make such audit.”*

Our inspection was also in conjunction with the 7<sup>th</sup> Yap State Legislature Resolution no. 7-127, which states in part:

*“The Legislature wishes to know the condition of the funds in the Sports Development Account created by YSL no.4-15, and other relevant information including, but not limited to, procedures for tax collections and deposits into the account, procedures or guidelines for the disbursement of funds from the account, 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”*

## **II. OBJECTIVES, METHODOLOGY AND SCOPE OF INSPECTION**

The objective of our inspection is to determine whether the following objectives had been met through sample testing.

### **Objectives**

1. Taxes from tobacco, softdrinks and liquor importations are properly collected and booked into the respective account.
2. The percentile allocation of the collected taxes in the “Fundware Accounting System” reflects the corresponding Yap State Laws.
3. The amounts remitted to the Sports Development Fund are accurate and fluctuations are properly justified.

## **Scope and Methodology**

We reviewed the tax collections on the importation of alcohol, softdrinks, cigarettes and tobacco and its percentile distribution to the General Fund, Sports Development Fund and the CPC from March 2006 up to January 31, 2010.

This inspection audit was conducted in accordance with *Government Auditing Standards*, promulgated by the Comptroller General of the United States.

## **III. CONCLUSION**

**The SDF fund and the excise taxes collected on beers, liquors, wine and softdrinks were understated by \$198,364 and \$108,746 respectively.**

## **IV. BACKGROUND**

During the first session of the Fourth Legislature, a bill creating the Sport Development fund was created through Yap State Law no. 4-15. The law amended title 13 Subsection (a) of Section 103 of the Yap State Code. The mentioned law increased the taxes being levied on alcoholic beverages and tobacco products. The taxes collected shall be used for the purpose of funding sports development in the State of Yap.

The amount of tax to be levied for one carton of cigarette was increased to \$3.00 from \$2.00. Initially, the percentile that goes to the general fund was 100%. Changes were made in the "Fundware Accounting System" and the percentile distribution became 67% and 33% for the General Fund and the Sports Development Fund respectively.

During the fourth session of the Sixth Legislature, a bill amending Subsection (a) of Section 103 was created through Yap State law no.6-73 on July 10, 2006. The law increased the taxes on beverages and tobacco products for the purpose of funding the cans and plastic containers collection program in the State of Yap, and to create an enterprise fund into which the additional taxes for cans and plastic containers collection will be maintained.

The amount of tax to be levied for one carton of cigarette was increased to \$3.30 from \$3.00 with \$2.00 going to the General Fund, \$1.00 going to the Sports Development Fund and \$.30 going to the Enterprise Fund. Corresponding changes were made in the "Fundware Accounting System" with regards to the percentile distribution.

On the other hand, the total amount of tax increase for beers, liquors, wine and softdrinks is \$.09 per container. The \$.06 goes to the Recycling Program and \$.03 to the General Fund.

**V. FINDINGS**

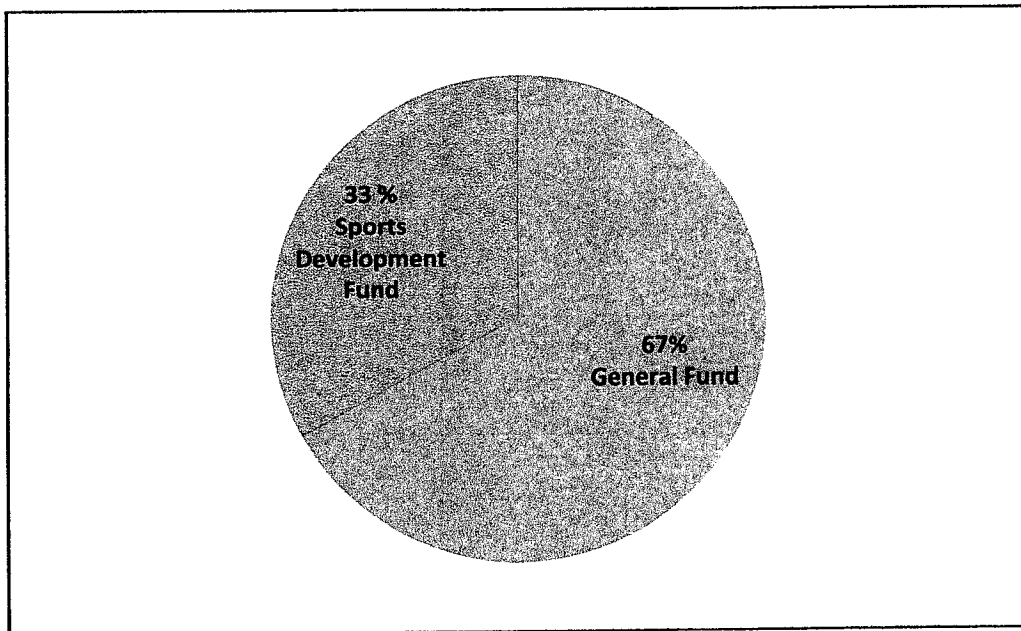
- a. The percentile distribution of the taxes collected on cigarette as per “Fundware Accounting System” was erroneously computed and encoded.**

A review of the percentile distribution on the “Fundware Accounting System” starting July 2006 was made and the following were noted:

- For the General Fund, the percentage encoded was 81.65% instead of 60.61%. After the Enterprise Fund was discontinued in January 2009, the percentage was changed to 90.91% instead of 69.70%.
- For the Sports Development Fund, the percentage encoded was 8.3% instead of the correct percentage which is 30.30%. After the Enterprise Fund was discontinued in January 2009, the percentage was changed to 9.09% instead of 30.30%.
- For the Enterprise Fund, the percentage inputted was 9.09%, which was the correct percentage.

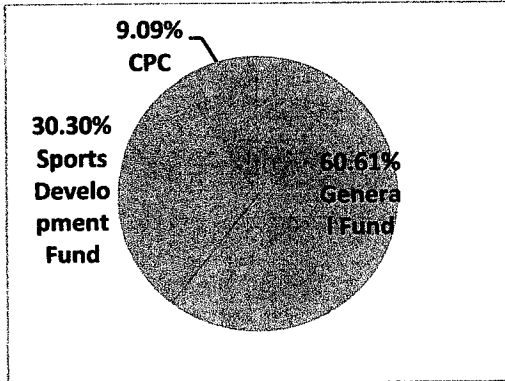
**For a better understanding, graphical illustrations are presented below showing the effects of the errors.**

- a.) Pre-July 2006 percentage distribution

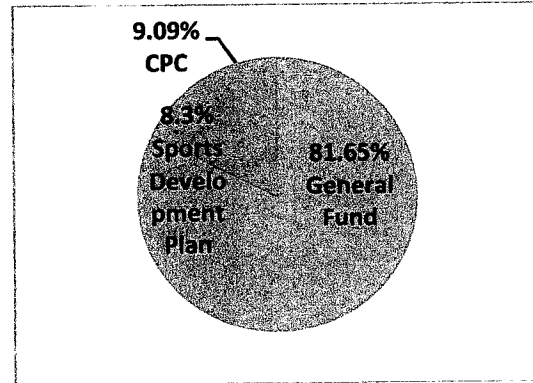


b.) July 2006 percentage distribution

**The correct percentile distribution**

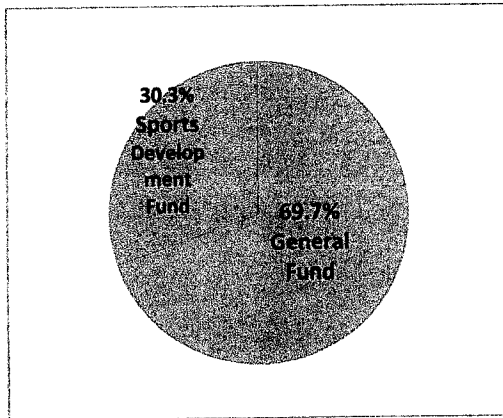


**The computed and encoded percentile distribution**

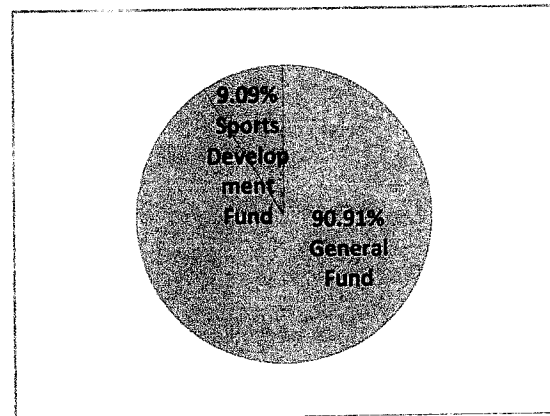


c.) After December 31, 2008 (CPC was removed from the sharing)

**The correct percentile distribution**



**What was computed and encoded percentile distribution**



In effect, the taxes that went to the general fund were overstated while the taxes that went to the Sports Development Fund were understated. Total for the over/understatement are as follows (Please see Exhibit 1 for breakdown):

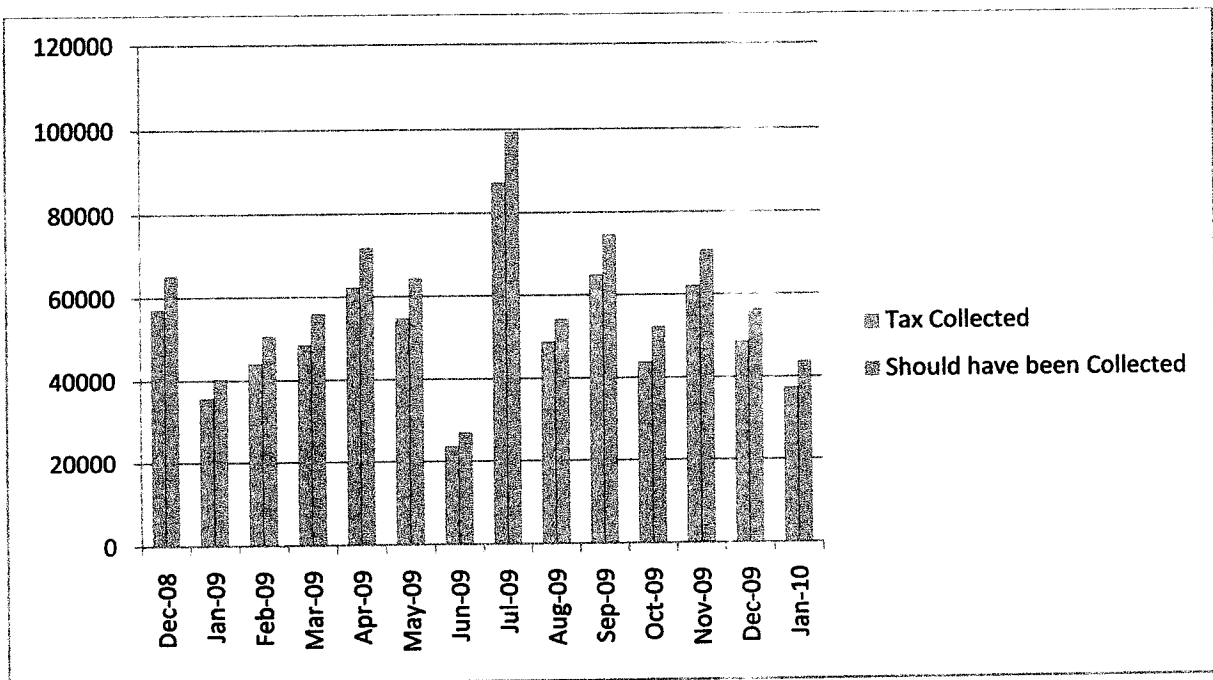
|                         | <u>Per System</u> | <u>Correct Computation</u> | <u>Over/(Under)</u> |
|-------------------------|-------------------|----------------------------|---------------------|
| General Fund            | \$ 835,866.36     | \$ 637,502.00              | \$ 198,364.36       |
| Sports Development Fund | 108,491.64        | 306,856.00                 | ( 198,364.36 )      |

Due to the above errors, the variances were used to fund other Government expenses contrary to the Enabling Legislation that created the Sports Development Fund.

**b. The excise tax being levied for the beer, liquor, wine and softdrinks was short by \$.03.**

During the review, we noted that for the period December 2008 to January 2010, the mentioned tax increase was not collected. Verification revealed that the main reason for the under collection was the erroneous usage of tax tables. Instead of using the Tax table with the new tax rate ( as per YSL 6-73), the old tax table (as per YSL 4-15),with incorrect interpretation of the new rates, was used thus the under collection. The total amount collected by finance was \$719,627 instead of \$ 828,373 resulting to an under collection of \$ 108,746.

Below is a graphical illustration of the month to month tax collection shortage due to the omission of the \$.03:



**VI. RECOMMENDATION**

Chief of Finance, should always see to it that whenever there are changes made to the “Fundware Accounting System” as well as amendments on taxation, there should always be cross checking of data to check its validity and accuracy.

With regards to the under collection of excise taxes on beer, liquor, wine and softdrinks, we recommend that when there are amendments in the Law, Finance should see to it that documents and tax tables are properly updated. Further, we recommend that the undercollection should not be collected. Since the amount is significant but retro collecting it might cause further



economic hardship to the end users, which are the consumers. It is further recommended that timely and ultimate disposition rests with the State's Legislators.

**VII. RESOLUTION**

**A. For the percentile distribution error on the SDF share:**

**Variance**

The Office of Administrative Services (OAS) and the Yap Sports Council (YSC) have entered into an agreement to remit to YSC four installments of \$49,591.09 for an aggregate of \$198,364.36. As of March 31, 2011, OAS has already remitted the mentioned amount to YSC on June 24, 2010, August 4, 2010, November 11, 2010 and February 3, 2011, respectively.

**Percentile distribution**

As per communication with the Chief of Finance, they already adjusted the percentile distribution in the "Fundware Accounting System". Our Office wasn't able to vouch it since Finance Department failed to give us copies of the ledgers for the General Fund and the SDF after they allegedly corrected it.

Alternative procedure was done to vouch whether adjustments were made on the accounting software. Since the alleged adjustment was made in January 2010, a comparative analysis of the second, third and fourth quarters of FY 2009 and 2010 were done to determine whether such adjustment took place.

|   | <u>FY2009</u>    | <u>FY2010</u>     | <u>Difference</u> |
|---|------------------|-------------------|-------------------|
| 2 <sup>nd</sup> Quarter (Jan. to March) | \$ 18,320        | \$ 32,295         | \$ 13,975         |
| 3 <sup>rd</sup> Quarter (April to June) | 20,013           | 36,434            | 16,421            |
| 4 <sup>th</sup> Quarter (July to Sept.) | 30,824           | 58,453            | 27,629            |
| <b>Total</b>                            | <b>\$ 69,157</b> | <b>\$ 127,182</b> | <b>\$ 58,025</b>  |

As the comparative table indicated that for the same period in FY2010 as compared to FY2009, the SDF have increased at an average of 83%. We also did a comparative of FY08 and FY09 and found out that the rate difference is not that much. In summary, aside from the increase in the importation of tobacco and beer, the increase could have been brought about by the correction of the percentile distribution of taxes between the General Fund and the SDF.

**B. For the undercollection of excise tax:**

We tested the excise tax collection after January 2010 and found that the \$.03 is already being collected. As to the under collection, we are recommending that this not be retro-collected and it be referred to the Legislature for final disposition.



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ATTACHMENT 1

January 14, 2011

To : Ron C. Yow, Public Auditor  
From : Robert Fathaltamanbay, Finance & Treasury Chief   
Subj. : Sports Development Fund Appraisal Report

I must first apologize for the very late response to your request. Any excuses I come forth with will not alleviate the ill-fated sentiment that may have transpired nor will my dwelling on it yield a different outcome. So rather than linger in this dejected juncture, I present my response to your appraisal of the Sports Development Fund.

I have read your summary of the appraisal as presented and I do not contest any information reported. I have no objection either to both the findings and recommendation and will implement the recommendation as proposed.

I would also take this opportunity to thank your office for preparing and completing the appraisal for the benefit of our stakeholders and will look forward to providing your office future assistance. I have not personally provided my full assistance during the course of your appraisal during the past several months, however, I aim to provide better future assistance. Thank you and let me know if you have any comments or questions.

cc: Director, File



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Attachment 2

7/5/11

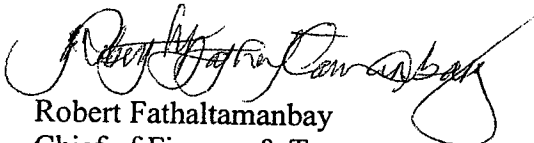
Ronald C. Yow  
 Public Auditor  
 Office of The Public Auditor  
 Yap, FM 96943

Subject: Sports Development Fund and Excise Tax Collections

Dear Sir,

The Chief of Tax & Revenue and I have reviewed the report submitted to us dated the 20<sup>th</sup> of June 2011 and decided to further reconcile the figures that was provided your office during your inspection of the collections. The decision to reconcile the figure within the time extended us was primarily to determine the actual amount under-collected during the period inspected since the figure of \$98,536.00 provided your office was an estimated figure. Secondly, the reconciliation will determine if the new figure is much closer to the figure presented in your report than the estimate. The Division of Tax & Revenue has completed their reconciliation and provided a figure of \$102,328.87, a much closer figure to what is stated on your report than what was estimated. We do not contest the figure stated on the report due to the limited time we had in reconciling and producing the new figure. As such, the details of the new figure and the approach used can be provided your office if they are required.

We would have requested more time to further test the other figures of the report but it will delay issuing the final report. We are both grateful for giving us the extension we had requested and welcome any questions or comments you or your office may have.

  
 Robert Fathaltamanbay  
 Chief of Finance & Treasury