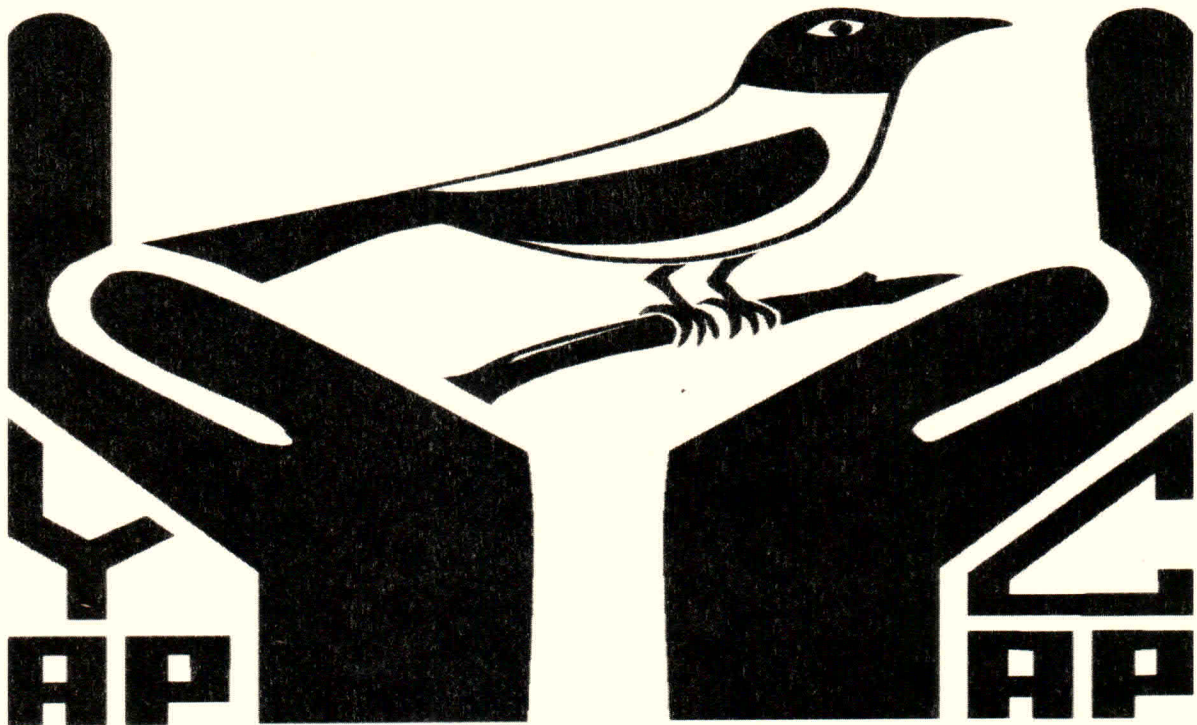


**YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)**

Evaluation Report



**Office of the Public Auditor
State of Yap**



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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

Phone : (691) 350-3416 Fax : (691) 350-4987 Email : admin@audityap.org

MEMORANDUM

DATE : May 1, 2018

TO : Mr. Theodore (Ted) Rutun, Chairman of the Board
: Mr. Sabino Sauchomal, Executive Director
: Honorable Tony Ganngiyan, Governor, State of Yap
: Honorable Theodore (Ted) Rutun, Speaker, 9th Legislature of State of Yap

FROM : Public Auditor

SUBJECT : Yap Community Housing Loan Program Evaluation
Report No. 2018-02

Transmitted herewith is our evaluation report of the YCAP Housing Loan Program. The evaluation was conducted by the Office of the Yap State Public Auditor pursuant to the provisions of Title 13, Chapter 7, §703 of the Yap State Code and in accordance with the Quality Standards for Inspections and Evaluations issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

I would like to take this opportunity to thank the management and staff of the Yap Community Action Program for their assistance and cooperation.

Respectfully submitted,

Sauu Kulumani

for Achilles Defngin

Copies to: Office of the Attorney General
Yap Public Library
COM-FSM Yap Campus Library
Office file



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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

Phone: (691) 350-3416 Fax: (691) 350-4987 Email: admin@audityap.org

EXECUTIVE SUMMARY

We have completed our evaluation on the special audit of the Yap Community Action Program's (YCAP) use of Public funds for the Housing Loan Program during fiscal year 2014 and 2015. During these two years, YCAP Housing Loan Program awarded approximately the sum of \$584,611 to loan consumers. The evaluation was conducted in compliance with Yap State Resolution No. 9-34.

The purpose of our evaluation is to determine if all deposits and payments to and from the YCAP Housing Loan Program are consistent with applicable Laws, Rules, and Regulations during fiscal year 2014 and 2015.

This evaluation was conducted pursuant to the authority vested in the Public Auditor and in accordance with the *Quality Standards for Inspections and Evaluations* issued by the U.S. Council of the Inspectors General on Integrity and Efficiency.

During our evaluation, we have noted the following findings which were discussed with the management of YCAP.

Summary of Findings

1. No written policies and procedures in handling of cash.
2. No written agreement between YCAP and Yap Cooperative Association(YCA) on the investment after November 06, 2012 with the remaining balance in the amount of \$600,000. Basing on the previous agreement signed with a 7% interest per annum, the organization has lost approximately \$42,000 on interest income for the period effective 11/6/2012 till the investment was repaid.
3. Penalty charges of 5% based on Amended Housing Loan Policy No. PP-100.06 are not being implemented. In addition, the delinquent loans as of September 30, 2015 was \$760,787. Our evaluation, reveals that some of these outstanding delinquent accounts are over 365 days. YCAP has not initiated any recovery procedures including selling the mortgaged properties to recover outstanding loans since its inception.

We have circulated copies of the draft report to the YCAP Management & Staff.

We thank the management and staff of YCAP for the cooperation and assistance extended to us during our Evaluation.

Sam Kulurani

jr
Achilles Defngin
Public Auditor
April 26, 2018

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

TABLE OF CONTENTS

INTRODUCTION

Background	1
Objective	1
Scope and Methodology	1
Prior Audit Coverage	2
Conclusion	2

FINDINGS/RECOMMENDATIONS AND MANAGEMENT RESPONSE

1. Finding 1: No written policies and procedures in handling of cash	3
Recommendation	3
Management Response.....	3
2. Finding 2: No written agreement between YCAP and YCA on the investment after November 06, 2012 with the remaining balance in the amount of \$600,000.....	3
Recommendation	4
Management Response.....	4
4. Finding 3: Penalty charges of 5% based on Amended Housing Loan Policy No. PP-100.06 are not being implemented. In addition, the delinquent loans as of September 30, 2015 was \$760,787. Our evaluation reveals that some of these outstanding delinquent accounts are over 365 days. YCAP has not initiated any recovery procedures including selling the mortgaged properties to recover outstanding loans since its inception.....	4
Recommendation	5
Management Response.....	5

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

**INTRODUCTION
BACKGROUND**

The Yap Community Action Program was founded in 1979, in Yap State, FSM with the goal of helping rural communities raise their standard of living. Yap Community Action Program is a non-government, non-profit organization, originally established as a federally funded non-government organization under the UN Trust Territory of the US. The Mission of the Program is to operate, or support programs aimed at environmental and cultural preservation and other sustainable economic and social development programs in pursuit of self-reliance for all Yap citizens. One of the service provided by the Program is the administration of a housing loan program. During the year 1987, YCAP received funding per YSL No. 2-8, the sum of \$200,000 from the Capital Improvement Programs and Development Fund of the State of Yap. The purpose of the funding was to fund low cost, long term housing loans to residents of Yap State through the Revolving Housing Loan Program Fund, and for other purposes. Smaller projects are also implemented by the agencies in the outlying communities of Yap State.

BASIS OF ACCOUNTING

YCAP follows 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. YCAP also follows accounting standards for not-for-profit organizations and “Generally Accepted Accounting Principles”.

AUDIT OBJECTIVE: To determine if all deposits and payments to and from the YCAP Housing Loan Program are consistent with applicable Laws, Rules, and Regulations during fiscal year 2014 and 2015.

SCOPE AND METHODOLOGY

Our evaluation for the YCAP Housing Loan Program covering the period of October 01, 2013 thru September 30, 2015.

During our evaluation, we obtained, reviewed, and analyzed relevant laws, rules, and regulations pertaining to the YCAP housing loan program. In addition, we also reviewed and analyzed the housing loan agreement, reviewed the investment agreement between YCAP and YCA, and interviewed YCAP pertinent employees.

We conducted our Evaluation in accordance with the *Quality Standards for Inspections and Evaluations* issued by the Council of the Inspectors General on Integrity and Efficiency of the United States and pursuant to the authority vested in the Public Auditor as codified under Title 13, Chapter 7, Section 703 of the Yap State Code, which states in part:

Office of the Public Auditor
State of Yap

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

“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;”

PRIOR AUDIT COVERAGE

There was no prior evaluation conducted by the Yap State Office of the Public Auditor the latest was for YCAP Financial Audit for fiscal year ended 2009 and 2010.

Prior Audits Repeated Finding: No written Policies and Procedures in handling of Cash

CONCLUSION

The results of our evaluation reveal the following findings:

- Finding 1: No written policies and procedures in handling of cash
- Finding 2: No written agreement between YCAP and YCA on the investment after November 06, 2012 with the remaining balance in the amount of \$600,000. Basing on the previous agreement signed with a 7% interest per annum, the organization has lost approximately \$42,000 on interest income during the years 2014 and 2015.
- Finding 3: Penalty charges of 5% based on Amended Housing Loan Policy No. PP-100.06 are not being implemented. In addition, the delinquent loans as of September 30, 2015 was \$760,787. Our evaluation, reveals that some of these outstanding delinquent accounts are over 365 days. YCAP has not initiated any recovery procedures including selling the mortgaged properties to recover outstanding loans since its inception.

These findings were discussed with the management during this special evaluation. The management concurs with all findings and hopes to implement the auditor’s recommendations the soonest possible time.

If the Legislature desires, The Public Auditor’s Office would initiate an in-depth audit to assess the process of advancing loans and recovery methods to recover outstanding loans and collection of overdue interest in a separate special suit in future.

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

FINDINGS AND RECOMMENDATIONS

Finding No. 1: No written policies and procedures in handling of cash

Criteria: Accounting standard mandates that, written policies and procedures in handling cash should be in place as a guide for the management and staff for internal control purposes.

Condition: YCAP management does not use the best practices in handling cash and cash transactions.

Cause: Management has not initiated any written policies and procedures for handling cash. Absence of written policies and procedures for handling cash may cause fraud, errors in recording that will eventually result to miscalculation, confusion in the approving body and authenticity of the documents supporting the transactions

Effect: Absence of written policies and procedures for handling cash may cause fraud, errors in recording that will eventually result to miscalculation, confusion in the approving body and authenticity of the documents supporting the transactions.

Recommendation: The Board of Directors should formulate policies and procedures on handling of cash. Existence of Policies & procedures and its implementation will ensure that proper internal control in the organization is maintained to safeguard the assets of the organization.

Management Response: We agree with the finding that there is no written policy on handling cash and transaction. However, in response to previous audits' recommendations, in personnel job descriptions we did segregate duties and responsibilities of people handling cash collections, and when to deposit cash collections. This time we are seriously working with the Board of Directors to adopt written policies and procedures on handling cash and cash transaction in one of its coming Board of Directors meeting on or before September 30, 2018.

Finding No.2: No written agreement between YCAP and YCA on the investment after November 06, 2012 with the remaining balance in the amount of \$600,000.

Criteria: All investment agreements should be in writing to protect all assets of YCAP.

Condition: YCAP entered into agreement with YCA for \$1,000,000.00 investment for two years at the rate of 7% per annum for two years from Nov. 6, 2010 to Nov. 5, 2012. After the term lapsed no written agreement between the two parties was put in place.

Cause: Due to the lack of a written amendment or renewal of the investment agreement, the management was not guided on what to be done to safeguard the moneys of the organization.

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

Effect: Absence of written agreement on the remaining balance of YCA on the investment of \$600,000.00 resulted YCAP not to earn interest. Basing on the previous agreement signed with a 7% interest per annum, the organization has lost approximately \$42,000 on interest income. However, the inability of YCA to repay the investment of \$1M to YCAP should not be an excuse for not renewing the investment agreement with the same terms and conditions for the expected time of repayment by YCA.

Recommendation: The Board of Directors should formulate policies and procedures relating to investments to protect the interest of the organization. In addition, investment in any private sector organizations such as YCA that is NOT insured by FDIC like the US Banks is very risky. We also recommend that YCAP should refer the matter to the Attorney General's Office with any legal remedy to recover the interest of \$42,000 from YCA for using the funds for the extended period resulting in delayed repayment of the principal balance only.

Management Response: Indeed, there was an agreement on the original investment. And we agree with the finding that the remaining \$600,000 had no agreement at the time of the special audit due to certain factors pointed out in the response to previous audit inquiry. Now there is no more investment but for future investments, the management will ensure that there is always an agreement on every investment the agency may have. The management will be working with the board to adopt during one of its meeting this year the recommendation of the special audit on or before September 30, 2018.

Findings No.3: Penalty charges of 5% based on Amended Housing Loan Policy No. PP-100.06 are not being implemented. In addition, the delinquent loans as of September 30, 2015 was \$760,787. Our evaluation reveals that some of these outstanding delinquent accounts are over 365 days. YCAP has not initiated any recovery procedures including selling the mortgaged properties to recover outstanding loans since its inception.

Criteria: The amended Housing Loan Program Policy.No. PP-100.06, Section XX, LATE PAYMENT PENALTY clearly states the following:

“A loan shall become delinquent if payment is not received within 15 days of its due date. As much as possible, the Applicant and Guarantor, if applicable, will be contacted either by phone or by word of mouth about the payment due.”

“A late Penalty Fee of \$5.00 or 5% of any payment, whichever is less, shall be assessed against the Borrower if the payment is 15 days overdue.”

Condition: YCAP staff did not charge any late penalty fee on delinquent loans during fiscal year 2015 and 2014. Some of these delinquent loans goes as far back as 20 to 28 years ago which appears that YCAP staff made no effort to collect these past due delinquent loans. As of September 30, 2015 and 2014 the outstanding delinquent loans amounted to \$760,787.45 and \$1,004,831 respectively.

Cause: The YCAP management failed to ensure that the late payment penalty fee was charge to delinquent loans.

**YAP COMMUNITY ACTION PROGRAM
HOUSING LOAN EVALUATION
Fiscal Year 2014-2015**

Effect: Not executing the provision of penalty charges to Borrowers who pay 15 days after their due date would result to the delinquent Borrowers to continue paying any time which is detrimental to the organization. It does not help the cash flow of the organization. Imposing the penalty charges would be a good reminder also to the Borrowers to pay on time and thus, help the organization to maintain a better cash fund status. Penalty charges will add up as other income if implemented.

Recommendation: The Board of Directors should monitor the management of YCAP to ensure proper implementation are being done on the Housing Loan Program.

Management Response: The core mission of the Yap Community Action Program is to serve the poor of the state. Some of these poors of the state are the ones begging for leniency on their overdue payments. If they can't pay the original payment, then there is no way they can pay any added financial burden. A review of these loans had shown that majority of them had been unpaid for extended periods and we had to do something to at least bring in a little payment, even if only payment on the principal. So, we agree with the finding that the management was not strict in implementing certain provision of the Housing Loan Program. We are working with the Board, however, if there's merit in the option of foregoing this policy altogether without jeopardizing the solvency of the program. We hope the board could adopt a policy this year regarding this on or before September 30, 2018.