

YAP FISHING AUTHORITY

**Financial Statements and
Independent Auditor's Report
Fiscal Years Ended
September 30, 2007 and 2006**



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EXECUTIVE SUMMARY

Financial Audit of the Yap Fishing Authority For the Years ended September 30, 2007 and 2006

The Office of the Yap State Public Auditor was engaged to audit the Yap Fishing Authority for the years ended September 30, 2007 and 2006 and has issued its report dated June 13, 2008. Due to scope limitations presented by inadequate accounting records and other factors explained in the Independent Auditor's Report on page 1, we were unable to determine whether the financial position of YFA as of September 30, 2007 and 2006 nor the results of its operations and cash flows for the years then ended were fairly presented. Fiscal year 2007 is the fifth consecutive year that we have not been able to form an opinion on YFA's financial statements.

The schedule of Expenditures of Federal Awards on page 7 shows that for the years ended September 30, 2007 and 2006, YFA incurred \$138,470 and \$18,258, respectively, in expenses related to public assistance projects for Typhoon Sudal.

The report on internal control over financial reporting and compliance and other matters required by *Government Auditing Standards* on page 15 discusses reportable conditions at YFA. These conditions and our recommendations are presented for the information of YFA management in the Schedule of Findings beginning on page 17. Of the 14 findings, Findings no. 3 to 7 were considered to be material weaknesses. Most of the findings are related to inadequate controls over financial reporting.

Following is a summary of the audit findings for the year ended September 30, 2007:

- Findings Nos. 1,9,10,13 and 14 discusses missing or inadequate policies relating to:
 - ◆ Consistent withholding of taxes from permanent and temporary employees
 - ◆ Policies in place for the non-accumulation of receivables
 - ◆ Vehicle Policies
 - ◆ Personnel Policies
 - ◆ Accounts Payable Policies
- Findings Nos. 2 and 5 relates to the inadequacy of supporting documentation for Board Meetings and accounting transactions.
- Findings no. 3 relates to sixteen prior year findings which were not resolved and still recurring in the current fiscal year.
- Finding no. 4 discusses about the importance of posting actual accounting transactions and doing away with force balancing entries.
- Findings nos. 6 to 8 and 11 to 12 relates to internal control deficiencies.

We have met with the Authority's management to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on pages 24 to 26 of this report.

Subsequent to the date of this report, initial procedures for the audit of YFA for the year ended September 30, 2008 still found the existence of missing YFTI collections in excess of \$1,800. This matter was brought to the attention of the Board of Directors and the Attorney General in a letter dated October 7, 2008.

We thank the Board of Directors, the management and staff of YFA for their assistance and support during the course of this audit.



Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor
Nov. 28, 2008

Finding No. 12 – Unrecorded Sales

The BOD and management have agreed and are currently developing a mechanism in the current procedure to fully account all the ice sales. The ice sales will be properly categorized in the receipts, since YFA has several categories such as regular price, discounted price for YFA fishing boats and internal usage for icing fresh catch. The cold storage staff was instructed to follow this procedure to establish clear accountability and transparency in the ice sales activities. This is currently being done.

Finding No. 13 – Annual Leave Balances

The management is reviewing this finding and will do the following to address the audit recommendation: The excess leave for former employees will be translated into dollar equivalent and apply it against their outstanding Accounts Receivable, if any, or make a check payable to each former employee whom YFA owes. Management is working with the accounting section to settle this finding. Completion should be during the 1st qtr of FY2009.

Finding No. 14 – GGP Charge Account

The guidelines imposed by the BOD is for management not to obligate the Authority without obtaining formal authorization for the utilization of any funding to ensure that the funding usage is in accordance with the scope and purpose of said funding. The management is further tasked to keep an open communication with the BOD on the affairs of YFA.

YAP FISHING AUTHORITY
Years ended September 30, 2007and 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yap Fishing Authority:

We were engaged to audit the accompanying balance sheets of the Yap Fishing Authority (YFA) as of September 30, 2007 and 2006 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 YFA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We were unable to obtain sufficient audit evidence to verify the completeness of fish and ice sales which comprises 42% of operating revenues for fiscal year 2007. Neither were we able to apply alternative audit procedures to satisfy ourselves that fish and ice sales of \$155,665 was not materially misstated for the year ended September 30, 2007.

In fiscal years 2007 and 2006, documentation was not available to substantiate the carrying value of YFA's fishing dock of \$1,472,957 and \$1,538,661 representing 72.7% and 73% of property and equipment as of September 30, 2007 and 2006, respectively.

In fiscal year 2007, YFA recorded impairment of \$398,016 in the value of its investment in Yap Fresh Tuna (YFTI), a 50% owned subsidiary in which YFA is deemed to have controlling interest. The carrying value of the investment using the equity method at September 30, 2006 is \$398,016. In our opinion, the financial statements of YFA should be consolidated with the financial statements of YFTI to be in conformity with accounting principles generally accepted in the United States of America. However, audited financial information for YFTI has been unavailable since 1999, therefore, the impact of consolidation of YFTI's financial information on YFA's financial statements as of September 30, 2007 and 2006 cannot presently be determined.

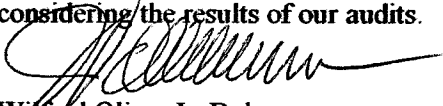
YFTI ceased operations in FY03, but has not been officially dissolved to allow a decision to be made by the joint venture partners, Yap Fishing Authority and the National Fisheries Corporation, relating to the transfer or disposals of YFTI's assets and liabilities which carrying value at September 30, 2007 is unknown due to the unavailability of YFTI's financial statements and \$4,216,222 and \$4,868,608 at September 30, 2006. Accordingly, the outcome of any potential dissolution of YFTI on the financial statements of YFA cannot be presently determined.

Since we were unable to obtain sufficient audit evidence to substantiate the completeness of fish and ice sales and YFA did not provide documentation to support the carrying value of its dock, we were unable to form an opinion as to the fair presentation of receivables, property and equipment and operating revenues as of September 30, 2007 and 2006. Because YFA did not provide documentation to support the carrying value of its dock, we were unable to form an opinion on the fair presentation of property and equipment as of September 30, 2006. Because of these scope limitations and the significance of the uncertainties described in the preceding paragraphs, we were unable to express, and we do not express an opinion on the Yap Fishing Authority's financial position as of September 30, 2007 and 2006 and the results of its operations and cash flows for the years then ended.

Management's discussion and analysis on page 3 is not a required part of the basic financial statements but its supplementary information required by the Government 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.

The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of YFA's management. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2008 on our consideration of the Yap Fishing Authority'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 read in conjunction with this report in considering the results of our audits.



Waifred Oliver L. Dolosa
Acting Yap State Public Auditor

June 13, 2008, except for Note 12 paragraph 4 which date is October 1, 2008.

Yap Fishing Authority

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This section of Yap Fishing Authority's annual financial statement report presents our discussion and analysis of the Authority's financial performance for the year ended September 30, 2007 and 2006. The financial statement for YFA is attached hereto.

The Yap Fishing Authority was created pursuant to Yap State Law No. 6-13, now codified in Title 18 of the Yap State Code. The Authority is an enterprise fund of the State of Yap (a division of the Department of Resource and Development) with the primary objectives of promoting, developing and supporting the commercial utilization of living marine resources within the State of Yap.

Financial Highlights

In FY 2007, the Authority's financial statement shows a significant decline in current assets when compared to FY2006 balances. It was mainly due to the Authority recognizing an impairment on its investment in YFTI by recording a loss equivalent to the FY 2006 carrying value of \$398,016.

In FY2007, the Accounts and Employee Receivable balances have almost remained the same when compared to their respective balances in FY2006. The granting of credit is discouraged, except for some credit worthy customers, and the minimal collection effort for the outstanding receivables are the 2 main reasons for the nominal activities of the accounts.

Plan of Action for FY2009

In order to address the previous audit exceptions as well as improved the performance of the Authority as a whole, the Board of Directors together with management came up with actions plans that will be initiated in FY2009, to wit :

1. Updating internal transactions such as general ledgers and bank reconciliation; staff cross trainings; and to ensure that all appropriate policies and regulations, that are necessary to improve the well being of operation, will be adopted by the Board of Directors.
2. Plan the effective utilization of the new fishing boat YFA is acquiring by January 24, 2009.
3. Implement strict compliance on the process of actual collection of YFA receivables.
4. Resolve as much audit findings as soon as practically possible.

YAP FISHING AUTHORITY

**Balance Sheets
September 30, 2007 and 2006**

Assets	<u>2007</u>	<u>2006</u>
Current Assets		
Cash	\$ —	\$ 5,513
Investments in unconsolidated subsidiary	—	398,016
Trade receivables, net	18,703	20,038
Prepaid expense	3,116	2,798
Employee receivables, net	710	629
Travel advance	—	1,216
Due from grantor	—	1,754
	<hr/>	<hr/>
Total current assets	22,529	429,964
 Property and equipment, net	 <u>2,024,666</u>	 <u>2,115,100</u>
TOTAL ASSETS	<u>\$ 2,047,195</u>	<u>\$ 2,545,064</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Bank overdraft	\$ 2,853	\$ —
Accounts payable	19,862	13,462
Accrued payroll and others	5,729	4,303
Due to affiliates	41,945	41,945
Due to State Government	35,325	35,325
	<hr/>	<hr/>
Total current liabilities	105,714	95,035
 Contingencies		
 Net Assets		
Invested in capital assets	2,024,666	2,115,100
Unrestricted	<u>(83,185)</u>	<u>334,929</u>
	<hr/>	<hr/>
Total net assets	1,941,481	2,450,029
 TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,047,195</u>	<u>\$ 2,545,064</u>

See accompanying notes to financial statements

YAP FISHING AUTHORITY
Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Fish and ice sales	\$ 155,665	\$ 63,951
Charter and rental income	38,866	50,799
Other revenue	19,595	15,863
Fishing rights and dockage fees	10,650	2,470
Other sales	4,414	3,382
	<hr/>	<hr/>
Total operating revenues	229,190	136,465
Operating expenses		
Depreciation	211,666	180,928
Purchases - Fish and bait	81,789	-
Utilities	78,163	62,685
Other	40,891	49,387
Payroll, taxes and benefits	32,022	51,979
Contractual services	24,911	3,408
Bad debt expense	11,019	32,313
	<hr/>	<hr/>
Total operating expenses	480,461	380,700
Loss from operations	(251,271)	(244,235)
Nonoperating revenues/(expenses)		
Intergovernmental contribution	138,470	458,112
Loss on investment	(398,016)	(11,641)
Other income/(expense)	2,269	1,735
	<hr/>	<hr/>
Total nonoperating revenues	(257,277)	448,206
Changes in net assets	(508,548)	203,971
Net assets at beginning of year	2,450,029	2,246,058
	<hr/>	<hr/>
Net assets at end of year	\$ 1,941,481	\$ 2,450,029
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See accompanying notes to financial statements

YAP FISHING AUTHORITY

Statement of Cash Flows
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Receipts from customers	\$ 233,495	\$ 118,942
Receipts from other operating activities	-	16,275
Cash payments for goods and services	(210,501)	(123,480)
Cash payments to employees	<u>(30,677)</u>	<u>(49,577)</u>
Net cash used for operating activities	<u>(7,683)</u>	<u>(37,840)</u>
Cash flows from noncapital financing activities		
Other receipts/(expenses)	(421)	1,735
FEMA grants receipts	<u>-</u>	<u>18,258</u>
Net cash provided by (used for) noncapital financing activities	<u>(421)</u>	<u>19,993</u>
Cash flows used to investing activities		
Acquisition of fixed assets	<u>(262)</u>	<u>(21,688)</u>
Net cash used for investing activities	<u>(262)</u>	<u>(21,688)</u>
Net decrease in cash	(8,366)	(39,535)
Cash, beginning of year	<u>5,513</u>	<u>45,048</u>
(Bank overdraft)/Cash, end of year	<u>\$ (2,853)</u>	<u>\$ 5,513</u>
Reconciliation of operating loss to net cash used for operating activities:		
Loss from operations	\$ (251,271)	\$ (244,235)
Adjustments to reconcile loss from operations to net cash used for operating activities		
Depreciation	211,666	180,928
Bad Debts	11,019	-
FEMA expenses paid through finance	17,500	-
Adjustments to restate cash	(5,831)	-
Donated spare parts	-	13,334
(Increase)/decrease in assets		
Due from grantor	1,754	(1,754)
Trade receivables	1,335	1,722
Employee receivables	(81)	729
Travel advance	1,216	(1,216)
Prepaid expense	(2,816)	11,533
Increase/(decrease) in liabilities		
Accounts payables	6,400	(554)
Accrued payroll and other	<u>1,426</u>	<u>1,673</u>
Net cash used for operating activities	<u>\$ (7,683)</u>	<u>\$ (37,840)</u>
Supplemental disclosures of noncash transactions		
Intergovernmental contributions which increased property, plant and equipment	<u>\$ 120,970</u>	<u>\$ 447,725</u>
Loss on disposal of assets which decreased property, plant & equipment	-	<u>\$ 11,641</u>

See accompanying notes to financial statements

YAP FISHING AUTHORITY

Schedules of Expenditures of Federal Awards Years ended September 30, 2007 and 2006

Grantor/CFDA #/Grantor's Program Title	CFDA #	FY07 Expenditures	FY06 Expenditures
Federal Emergency Management Agency Grant FEMA-FM-DR1511 Typhoon Sudal Public Assistance Grant – Yap Fishing Authority (Note 10)	83.516	\$138,470	\$18,258
TOTAL FEDERAL AWARDS EXPENDED		\$138,470	\$18,258

Note (1) :

The FEMA Grant is passed through the FSM National Government to the State of Yap. The amount received by YFA was the result of reimbursement claims submitted to the Division of Yap State Finance fiscal year 2006.

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Yap Fishing Authority (YFA), an enterprise fund of the State of Yap, was created in 1979 pursuant to Yap State Law (YSL) No. 6-13. The primary objective of YFA is to promote, develop, and support commercial utilization of living marine resources within the State of Yap.

YFA is governed by a five-member Board of Directors appointed by the Governor with the advice and consent of the State Legislature.

Basis of Accounting - YFA 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 are recognized 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 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. YFA implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

YFA has adopted GASB Statement No. 34 (*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*) which establishes 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 the YFA to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the YFA is subject to externally imposed stipulations that can be fulfilled by actions of the Authority 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.

The YFA does not have nonexpendable restricted net assets as at September 30, 2007 and 2006.

New Accounting Standards – During fiscal year 2007, YFA implemented the following pronouncements:

GASB Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

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Notes to Financial Statements
September 30, 2007 and 2006

GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*", which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.

GASB Statement No. 47, "*Accounting for Termination Benefits*", which establishes guidance for state and local government employees on accounting and financial reporting for termination of benefits.

GASB Technical Bulletin No. 2004-2, "*Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*", which clarifies the requirements of GASB Statements Nos. 27 and 45 for recognition of pension and other post-employment benefit expenditures/expenses and liabilities by cost-sharing employers.

The adoption of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*". GASB Statement No. 43 establishes uniform financial reporting for other post-employment benefits plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of YFA.

In July 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for post employment Benefits Other than Pensions*". GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of Statement No. 45 will have a material effect on the financial statements of YFA.

In September 30, 2006, GASB issued Statement No. 48, "*Sales and Pledges of Receivables and Future Revenue 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. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of YFA.

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, 2007 and 2006 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

Depreciation – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded in the financial statements using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	3-20 years
Dock	40 years
Fishing fleet	10 years
Refrigeration & cold storage equipment	5-10 years
Motor vehicles	5-20 years
Other equipment	2-10 years
Other capital assets	2-10 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.

Reclassifications – Certain reclassifications have been made to the fiscal year 2006 balances in order to conform to the 2007 presentation.

2. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

YFA holds a 50% controlling interest in an investment in an unconsolidated joint venture with the National Fisheries Corporation (NFC). In prior years, by virtue of its management agreement with Yap State, NFC was considered to be the controlling partner, hence, YFTI was consolidated with NFC's financial statements and was carried on the equity method in YFA's financial statements.

In fiscal year 1999, NFC's management of YFTI was discontinued and the State of Yap, through YFA, became the controlling partner. In 2003, YFTI unofficially ceased operations. YFA continued to record incidental rental income and expenses for YFTI facilities, but did not record depreciation and interest expense. Accordingly, no adjustment has been made to the carrying value of the investment in YFTI since September 30, 2006.

In fiscal year 2007, YFA recorded impairment in the value of its investment of YFTI recognizing a loss equivalent to the carrying value of the investment at September 30, 2006 of \$398,016.

3. TRADE RECEIVABLE

A summary of trade receivables at September 30, 2007 and 2006 is presented below:

	<u>2007</u>	<u>2006</u>
Regular trade customers	\$ 496,094	\$ 449,145
Affiliates of YFA	86,005	114,273
Yap State departments and agencies	37,078	30,324

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

Officers and employees	<u>32,088</u>	<u>50,462</u>
	651,265	644,204
Less: allowance for doubtful accounts	<u>(632,562)</u>	<u>(624,166)</u>
Trade receivables, net	<u>\$ 18,703</u>	<u>\$ 20,038</u>

4. EMPLOYEES RECEIVABLE

A summary of employees' receivable is presented below:

	<u>2007</u>	<u>2006</u>
Employees receivable	\$ 36,452	\$ 36,718
Less: Allowance for doubtful accounts	<u>(35,742)</u>	<u>(36,089)</u>
	<u>\$ 710</u>	<u>\$ 629</u>

5. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance October 1, 2006</u>	<u>Transfers and Additions</u>	<u>Transfers and Disposals</u>	<u>Ending Balance September 30, 2007</u>
Buildings	\$ 1,613,132	\$ 120,970	\$	\$ 1,734,102
Dock	2,629,778			2,629,778
Fishing fleet	414,080			414,080
Refrigeration & cold storage equipments	251,489			251,489
Motor vehicles	135,804			135,804
Other equipment	90,626	262		90,888
Other capital asset	1,159		(1,159)	--
Total cost	5,136,068	121,232	(1,159)	5,256,141
Less: accumulated depreciation	<u>(3,020,968)</u>	<u>(211,666)</u>	1,159	<u>(3,231,475)</u>
	<u>\$ 2,115,100</u>	<u>\$ (90,434)</u>	<u>\$ --</u>	<u>\$ 2,024,666</u>

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Notes to Financial Statements
September 30, 2007 and 2006

	Beginning Balance October 1, 2005	Prior Period Adjust- ments	Transfers and Additions	Transfers and Disposal	Ending Balance September 30, 2006
Buildings	\$ 1,600,000	\$	\$ 13,122	\$	\$ 1,613,132
Dock	2,629,778				2,629,778
Fishing fleet			414,080		414,080
Refrigeration & cold storage equipments	269,986	589		(19,086)	251,489
Motor vehicles	128,799	32,873		(25,868)	135,804
Other equipment	122,404	8,483	18,369	(58,630)	90,626
Other capital asset	1,159				1,159
Total cost	4,752,126	41,945	445,581	(103,584)	5,136,068
Less: accumulated depreciation	(2,890,167)	(41,815)	(180,928)	91,942	(3,020,968)
	<u>\$ 1,861,959</u>	<u>130</u>	<u>\$ 264,653</u>	<u>\$ (11,642)</u>	<u>\$ 2,115,100</u>

Depreciation expense recognized for the year ended September 30, 2007 and 2006 is \$211,666 and \$180,928, respectively.

6. DUE TO AFFILIATE

In fiscal year 2000, YFA added a donated used tuna long-liner, the *FV Marwel*, to its fishing fleet. YFA commissioned the Yap Fresh Tuna, Inc. (YFTI), a 50% owned subsidiary, to outfit, staff, and manage the *FV Marwel* for commercial fishing. YFTI intermittently billed YFA for expenses incurred in operating the boat which aggregated \$41,945 as of September 30, 2002. YFTI ceased operations in fiscal year 2003. However, it has not been formally dissolved to allow YFA to settle its inter-company receivables and payables. Management intends to work with its joint venture partner, the National Fisheries Corporation (NFC) to reach an agreement on the disposal of YFTI's assets and liabilities in order to formally dissolve the Yap Fresh Tuna, Inc. Accordingly, the \$41,945 due to YFTI is still shown as a liability as of September 30, 2007 and 2006.

7. DUE TO YAP STATE GOVERNMENT

This has been a long-standing payable on the Authority's books for which original records have been lost. Attempts to confirm the \$35,325 balance at September 30, 2006 and 2005 with the State

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

Finance has failed to produce information that would allow management to settle the account. Management intends to further investigate the balance with State officials and pursue forgiveness of the debt should the State Finance fail to produce reliable records to confirm the debt.

8. CONTINGENT LIABILITIES

Pending Dissolution of YFTI – In March 2006, the President of NFC made a verbal offer to Yap State officials for NFC to relinquish its interest in YFTI. In response, the YFA Board of Directors resolved on May 26, 2006 to take the necessary steps to ultimately dissolve YFTI. At September 30, 2007 and 2006, official action has not been taken to dissolve YFTI. Accordingly, due to uncertainties relating to the ultimate disposal or transfers of its assets and liabilities which carrying value is unavailable at September 30, 2007 due to lack of financial statements and \$4,216,222 and \$4,868,608 respectively at September 30, 2006, it is expected that the eventual dissolution of YFTI could potentially substantially alter the financial statements of YFA as presented for the years ended September 30, 2007 and 2006.

Disputed payables – As of September 30, 2007 and 2006, \$4,246 worth of unpaid invoices in the name of YFA exists with two local vendors. Management is of the opinion that the invoices were not for official expenses and should be billed to the employees who obtained the goods on credit. Should management be unsuccessful in clearing YFA's name from the invoices, the Authority may be required to use its funds to settle the liability.

9. RISK MANAGEMENT

YFA is self-insured for all risks. Any loss or liability that may result upon occurrence of a natural disaster, accident or litigation will be borne entirely by YFA.

10. INTERGOVERNMENTAL CONTRIBUTIONS

Completion of the new office building funded by FEMA in FY07, major renovations to the main & cold storage building and workshop building, and other monetary and donated goods and services for the year ended September 30, 2007 and 2006 comprised the following:

	<u>2007</u>	<u>2006</u>
Overseas Fishery Cooperation Foundation	\$ —	\$ 439,854
FEMA Grant	<u>138,470</u>	<u>18,258</u>
	<u>\$ 138,470</u>	<u>\$ 458,112</u>

Under the terms of a Memorandum of Agreement between the Government of the Federated States of Micronesia and the Overseas Fishery Cooperation Foundation (OFCF), OFCF would provide technical assistance to Yap Fishing Authority to contribute to the development of the local fishery. OFCF is a foundation operating under the Fishery Division of the Government of Japan to administer and implement fishery assistance grants from the Government of Japan to coastal countries throughout the world.

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2007 and 2006

Goods and equipment received under the project during fiscal year 2006 include equipment and spare parts worth \$25,774 and a tuna long-liner, the *FV Mathawalyap*, valued at \$414,080. The value of the donated goods is recorded as nonoperating revenue in the accompanying financial statements.

During the years ended September 30, 2007 and 2006, YFA completed the rebuilding and repairs of certain buildings damaged in April 2004 by Typhoon Sudal. Total FEMA Public Assistance Grant funding expended for the projects in fiscal year 2007 and 2006 totaled \$138,470 \$18,258 respectively.

11. OTHER EXPENSES

Provided below is the breakdown of Other Expenses for the years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Gagil-Maap Grassroots project	\$ --	3,530
Workshop expense	9,903	7,579
Communication	7,592	3,570
General administrative expenses	10,985	8,967
Miscellaneous	350	4,085
Cold storage repairs & maintenance	8,638	14,496
Office supplies	2,591	1,305
Representation and entertainment	832	4,547
Fleet expenses	--	1,308
	<u>\$ 40,891</u>	<u>\$ 49,387</u>

12. SUBSEQUENT EVENT:

April 2, 2008 – In response to certain matters brought to the attention of the Board relating to the audit of the financial statements of YFA for the year ended September 30, 2007, the Board terminated the then acting general manager and assigned one of its members to oversee the daily affairs of the Yap Fishing Authority until the recruitment of a general manager.

In May 2008, the Yap State Legislature declined to fund an operating grant for the Authority requested in the amount of \$136,445. The attendant Standing Committee Report No. 7-77 for the appropriation bill cited the unfavorable audit reports for YFA for the prior years as the reason for disapproval of the Authority's funding request.

The board member designated to oversee the affairs of the authority resigned from the board on June 8, 2008. The cold storage supervisor is currently acting general manager until the recruitment of a permanent general manager.

On October 1, 2008, initial procedures for FY2008 still found the existence of missing YFTI collections in excess of \$1,800.00. This matter was brought to the attention of the Board of Directors and the Attorney General in a letter dated October 7, 2008.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED UPON THE AUDIT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Yap Fishing Authority:

We were engaged to audit the financial statements of the Yap Fishing Authority (YFA), as of and for the year ended September 30, 2007, and have issued our report thereon dated June 13, 2008, which report was a disclaimer due to scope limitations presented by the lack of underlying documentation to support the cost of property and equipment and audited financial information for its unconsolidated subsidiary Yap Fresh Tuna, Inc. and uncertainties relating to the potential transfer and disposal of assets and liabilities associated with the potential dissolution of the fifty percent owned unconsolidated subsidiary, Yap Fresh Tuna, Inc. We conducted the audit 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 audit, We considered the YFA'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 the YFA's 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 YFA's 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 YFA's financial statements that is more than inconsequential will not be prevented or detected by YFA's 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 amount will not be prevented or detected by YFA's 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. Of the control deficiencies reported to management in the accompanying Schedule of Findings, we consider Findings Nos. 3, 4, 5, 6, and 7 to be material weaknesses as defined above.

Compliance

As part of obtaining reasonable assurance about whether the YFA'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 audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are presented as Finding Nos. 1 in the accompanying Schedule of Findings.

This report is intended for the information of the management and Board of Directors of the Yap Fishing Authority and is not intended to be and should not be used by anyone other than these specified parties.



Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

June 13, 2008

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 1 – NON COMPLIANCE WITH TAX LAWS

Criteria: FSM tax laws require employers to withhold and remit on a quarterly basis the applicable Social Security and Income taxes from the salaries and wages of all its employees.

Condition: On December 16, 2006, YFA processed a check payable to cash as payment for employees selling baits from the F/V Shin Sheng Ching. Taxes were not withheld from the amount paid to these employees. Discussion with the accountant also revealed that there were no documentations as in the form of contracts that would justify why taxes were not withheld.

Cause: The Authority does not have any policies or controls in place ensuring all payments to employees are subjected to applicable tax laws. The lack of or ineffective controls in place gave the accounting section the opportunity to cut corners and disregard mandatory tax laws.

Effect: From the total \$1,548 paid to the employees, an estimated \$186 worth of taxes were not withheld for remittance to the proper government agencies. YFA is subjecting itself to unnecessary interest and penalties for the underpayment of taxes.

Recommendation: We recommend that the Board of Directors should ensure that the general manager instruct the accounting staff to follow the same procedures for calculating payroll and applicable withholding taxes regardless of whether employees are permanent or temporary.

FINDING NO. 2 – UNAVAILABLE BOARD MEETING MINUTES

Criteria: The Board of Directors has a responsibility to ensure that written documentation of the proceedings of each of their meetings is maintained on file for future reference.

Condition: During the engagement, only two board meeting minutes were provided for the whole fiscal year. One took place on July 3, 2007 and the other was held on January 25, 2008.

Cause: The board itself did not ensure their meetings were documented. The Board of Directors did not designate anybody to take down the minutes of their meeting.

Effect: Written documentation of board meetings were not available to ensure Board and management decisions are based on official documentations.

Recommendation: We recommend that YFA board members designate a minute keeper to take notes of their meetings to ensure that all decisions and agreements are documented, revised as applicable, and duly signed by the appropriate board member to make it official and file it for reference.

FINDING NO. 3 – UNRESOLVED PRIOR YEAR FINDINGS

Criteria: Internal controls over compliance over laws, regulations, contracts and grants must consist of policies and procedures implementation of which would ensure consistent adherence to the compliance requirements. Therefore, both must be developed and adopted together for referencing and consistency of the management in its reinforcement.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 3 – UNRESOLVED PRIOR YEAR FINDINGS (CONT.)

Condition: Our follow-up on findings and recommendations contained in the Authority's FY'06 audit report showed that the following findings are still yet to be resolved.

1. Rights to Lease Property and Assess Fess	Finding No. 1
2. Noncompliance with Tax Laws	Finding No. 2
3. Ineligible Contractors	Finding No. 3
4. Lack of Vehicle Policy	Finding No. 4
5. Reconciliation of the General Ledger	Finding No. 5
6. Missing YFTI Collection	Finding No. 6
7. Untimely Banking of Collections	Finding No. 7
8. Outstanding Receivables	Finding No. 8
9. Receivable from Board Member	Finding No. 9
10. Forgiven Debt	Finding No. 10
11. Missing Assets	Finding No. 12
12. Charge Accounts	Finding No. 13
13. Payable due to State Government	Finding No. 14
14. Lack of Customer Billing Records	Finding No. 15
15. Annual Leave Balances	Finding No. 16
16. Expired Employment Contract	Finding No. 17

Cause: The board and management failed to adopt and implement audit recommendations and applicable policies that will help ensure that the mentioned conditions would not be repeated.

Effect: Most of the conditions cited in fiscal year 2006 have already been cited in prior years audit and are still uncorrected as of September 30, 2007.

Recommendation: We recommend that the Board of Directors gives management a deadline in resolving past audit conditions. The Board of Directors and management should also develop and implement policies and procedures that would preclude such conditions from repeating.

FINDING NO. 4 – FORCED BALANCING ENTRY

Criteria: Accounting principles generally accepted in the United States of America require that transactions recorded in the general ledger must be based on actual business transactions.

Condition: During review of YFA year end reconciliation we found a transaction that was not recorded properly to reflect its true nature. The amount of \$734 was recorded at the beginning of the fiscal year to increase cash balance per general ledger to match cash balance per bank statement.

Cause: The comptroller at the time did not review the monthly reconciliation to ensure that adjustments and balances were correct and reflective of the actual cash flow of the Authority.

Effect: Since there is no check and balance procedure installed, the accountant had the liberty to adjust the general ledger in total disregard to the proper accounting principles which resulted in the misstatement of the checking account balance as of September 30, 2007.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 4 – FORCED BALANCING ENTRY (CONT.)

Recommendation: We recommend that YFA management ensures monthly review and the applicable adjustments to the accounts are posted at the end of each month to prevent recurrence of such exception.

FINDING NO. 5 – SUPPORTING SCHEDULES

Criteria: Proper accounting controls require that assets and liabilities must be supported by subsidiary ledgers and schedules that agree to the general ledger balances at year-end.

Condition: Subsidiary ledgers, supporting schedules and the bank reconciliation reports were not readily available during the initial request for supporting schedules.

Cause: YFA did not have procedures in place requiring periodic maintenance and upkeep of subsidiary ledgers and schedules to support the balances reported in the general ledger.

Effect: Accurate and timely information was not readily available to aid management and the board in making sound decisions.

Recommendation: The board and management should require the accounting staff to update and prepare accurate subsidiary ledgers and schedules of the general ledger balances on a periodic basis. The board can enforce the practice by requiring supporting schedules to the general ledger balances in their board meetings. In addition to more reliable financial information, this will help ensure general ledger balances are timely maintained and reconciled.

FINDING NO. 6 – UNTIMELY RECONCILIATION OF BANK ACCOUNT

Criteria: Proper accounting controls require the timely reconciliation of bank accounts.

Condition: The bank reconciliation initially provided was not reconciled to the general ledger. The YFA accountant had to do several revisions before we could utilize the year end reconciliation for the FY07 audit.

Cause: Management did not ensure the timely and accurate reconciliation of bank accounts.

Effect: Untimely reconciliation of bank accounts results in an increased risk of errors in the recording of receipts and disbursements. Moreover, an increased risk in bank overdraft, fraud, and abuse arises when bank accounts are not reconciled on time.

Recommendation: We recommend that YFA management to ensure that the accountant accurately reconciles bank accounts on a regular and timely basis.

FINDING NO. 7 – MISSING CASH COLLECTIONS

Criteria: Policies and procedures must be in place to ensure all sales and monies received are receipted and accounted properly.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 7 – MISSING CASH COLLECTIONS (CONT.)

Condition: During the cash count of March 27, 2008, we counted a total of \$10,434 comprising of \$389 in cash and \$10,045 in checks for YFTI. Review of receipts revealed that from the period February 22, 2006 to March 6, 2008, total rental income amounted to \$12,780, which is broken down into \$12,280 for receipted rentals and \$500 for un-receipted rentals. Comparison between the cash on hand and receipts revealed a cash shortage of \$2,346. Out of the mentioned shortage, \$884 was justified by the accountant as funds used to fund some operational needs of YFA thus leaving \$1,462 as unaccounted or missing cash.

For YFA we counted a total of \$11,318 comprising of \$4,431 in cash and 6,887 in checks. Review of receipts revealed for the same period mentioned above, total rental income amounted to \$13,371. Comparison between the two figures will result to a cash shortage of \$2,053.

Cause: Management did not have controls in place to help ensure that the company's assets are properly safeguarded.

Effect: YFA's assets are overstated due to the missing cash.

Recommendation: We recommend that YFA board and management ensure that proper controls are in place to safe keep the Authority's assets.

FINDING NO. 8 – CHECK MADE PAYABLE TO CASH

Criteria: To maintain proper accountability over cash and to ensure complete and accurate recording of expenses, disbursements of company funds should be documented through issuance of check payments.

Condition: On December 16, 2006, YFA processed a check amounting to \$1,548 payable to cash as payment for employees selling baits from the F/V Shin Sheng Ching.

Cause: The Authority does not have any policies or controls in place ensuring all check payments should be made payable to specific payees and not payable to cash.

Effect: YFA has put itself at risk by possibly disbursing cash to unintended recipient as management did not also require signed receipts of the cash.

Recommendation: We recommend to the Board of Directors and management to prohibit the issuance of checks made payable to cash.

FINDING NO. 9 – ACCOUNTS RECEIVABLE BALANCES

Criteria: Written, adopted, policies should be in place to arrest the accumulation of receivables and ensure prompt collection of receivable from employees, members, and customers.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 9 – ACCOUNTS RECEIVABLE BALANCES (CONT.)

Condition: YFA outstanding receivable balances have been a constant concern in terms of reportable condition and have been cited as a finding for eight consecutive years since fiscal year 2000.

From October 1, 2006 to September 30, 2007, accounts receivable-trade increased by \$7,061 while accounts receivable-employees decreased by \$266 for a net increase of 6,795. The other receivable accounts were stagnant throughout the duration of FY07.

Additionally, as of September 30, 2007, \$651,265 and \$36,452 represents receivable balances of trade and employee receivables respectively. Tests of accounts receivable revealed that more than 97% of the trade and employee receivables are inactive and deemed to be uncollectible while the other receivable accounts have been fully reserved as there is no evidence of collection.

Cause: YFA do not have in place policies, procedures, and controls to enforce a more aggressive approach in ensuring timely collection of its outstanding receivables and yet continued on extending credits to its customers.

YFA's counter measures in resolving the problem has been on "as needed" basis instead of on "preventive" basis, which have been ineffective thus resulting to a higher accumulation of accounts receivable.

Effect: In FY07 there were more accumulations of receivables than there were collections on the outstanding balances. More apparently, as a result of prolonged outstanding receivables that have been questioned for several audits, YFA's request for a supplementary budget in May 2008 was not approved.

Moreover, due to their existing counter measures, the cost in trying to collect will be bigger as compared to the collections to be generated.

Recommendation: We strongly recommend to the board to implement measures that will limit or eliminate granting of credit extensions to delinquent customers and to take immediate, applicable actions to take care of the matter. Furthermore, effective, stringent policies must be put in place to stop accumulation of receivables.

FINDING NO. 10 – FUEL EXPENSES

Criteria: Official adopted policies and controls should be in placed to be enforced as applicable in the interest of YFA.

Condition: Review of fuel expenses in fiscal year 2007 revealed that YFA prepays their fuel and lodged it to expense upon depletion. In only one of the replenishment payment did we note adequate documentation in the form of authorized fuel slips, and a separate monitoring sheet maintained at the fuel station. Apparently, all the replenishment payments with the exception mentioned above do not have supporting documentation.

Cause: Whether ignored or perceived needless, YFA management did not ensure controls were in placed to ensure expenses incurred in the name of YFA actually are YFA related expenses.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 10 – FUEL EXPENSES (CONT.)

Effect: We were not able to state an opinion on the Yap Fishing Authority fuel expense as the prepayments were not supported by valid documentation that would ensure all fuel expenses during fiscal year 2007 were related to YFA operations.

Recommendation: We recommend YFA management to strictly enforce the necessary controls in fuel consumption so as to ascertain that fuel expenses are YFA related.

FINDING NO. 11 – FISH PURCHASES VS. FISH SALE

Criteria: Policies and controls should be in place to safeguard the Authority's assets against losses and abuses.

Condition: During our review of fish sales and purchases in FY07, we noted variances in the total fish purchased in co-relation with the total fish sold.

Cause: Policies and controls were not in place to safeguard the Authority's assets.

Effect: Due to the absence of policies and controls, the existence of possible abuse and pilferage is very high. For FY07, we will not be able to state an opinion on the balance of the total fish sales since an obvious understatement of sales existed in co-relation with the total fish purchases during the fiscal year.

Recommendation: We recommend that YFA board and management develop policies and procedures that will help safeguard the Authority's assets against abuse and pilferage.

FINDING NO. 12 – UNRECORDED ICE SALES

Criteria: Proper control should be in place to ensure that all products produced for selling and use by the Authority is properly recorded and accounted for.

Condition: Review of ice sales account reveals a discrepancy of \$2,744 between sales to F/V Mathawalyap recorded in the general ledger as against ice sales purchases per fishing trip reports as per F/V Mathawalyap.

Cause: Management did not ensure proper controls are in place to enable proper documentation and recording of its ice usage whether for YFA operations or sale to customers.

Effect: The total ice sales in FY07 per books were understated by \$2,744 which resulted from ice sales that were documented but not recorded in the general ledger.

Recommendation: We recommend that YFA management develop policies that would ensure YFA products are properly recorded and accounted.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2007

FINDING NO. 13 – ANNUAL LEAVE BALANCES

Criteria: Controls and Policies should be in place to ensure proper accumulation and usage of vacation leave hours.

Condition: The leave schedule worksheet submitted to us during the FY07 audit showed annual leave balances for several former YFA employees.

Cause: The annual leave balances were not immediately processed whether to affect receivable balances or paid to employee upon discontinuance of employment whichever is applicable.

Effect: Annual leave balances of resigned employees are still included in the annual leave worksheet and have been carried over from one fiscal year to the other.

Recommendation: We recommend the YFA Board of Directors develop and adopt applicable policies and procedures in relation to the accumulation and usage of annual leaves and to ensure that controls are in place.

Prior Year Status:

Related finding was also cited in the audit report for the years ended September 30, 2006, 2005, and 2004.

FINDING NO. 14 – GGP CHARGE ACCOUNT

Criteria: Policies and controls should be in place to ensure all charges made in the name of YFA are certified as to fund and is related to YFA operations.

Condition: The information provided by the auditee and gathered from auditee's vendors during the FY06 audit shows that the GGP project charge accounts set up with the local vendors were either refunded or has been fully expensed. However, per documents provided by the designated board member to oversee the YFA operations, there were still charges made against one of the project's open charge accounts in FY07 and even FY08.

Cause: The board members were not aware of the GGP project during its initial stages. Management did not immediately inform nor brief the Board of Directors about the YFA projects that are still ongoing.

Effect: Though it did not have any impact on the financial statement of the Authority, charges were made in the name of the Authority for items of which many appear to be personal in nature.

Recommendation: We recommend to the board to instruct management to keep them informed of all YFA related activities in a timely manner and ensure that all charges made in the name of YFA are for official purposes only.

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RESPONSES TO AUDITOR'S REPORT (Findings)

Finding No. 1 – Non Compliance with Applicable Tax Laws

The BOD and management reviewed this finding and concurred with the audit and its recommendation. The management had an exit audit review conference (09/11/08) with the FSM Social Security Administration-Yap Branch in reviewing all taxes not deducted by YFA from employee wages from the year 2000 thru July 4, 2008. As a result, YFA was asked to pay all the un-deducted/un-remitted taxes for the mentioned period not later than 09/30/08. YFA accountant and manager will review all tax deductions for each pay period as well as every quarter end to ensure that all applicable taxes are properly deducted and remitted on time.

Finding No. 2 – Unavailable Board Meeting Minutes

Henceforth, the BOD is reviewing minutes as part of its agenda. Copies of all adopted minutes are kept by the management in the BOD minutes file at YFA office.

Finding No. 3 – Unresolved Prior Year Findings

The management and BOD do not contest this finding. The BOD has directed management to work in all areas including prior year findings. The plan is for management to review prior year findings and assign each one to each staff whose responsibility covers the finding. The assignment is to take place during the 1st quarter of FY 09.

Finding No. 4 – Forced Balancing Entry

Management and BOD agree with the finding. BOD tasks management to work with the accounting section in updating all entries in the G/L and coordinate with the Public Auditor's Office with regards to any necessary adjustment and report to BOD. The work is to be done during the 1st qtr of 2009.

Finding No. 5 – Supporting Schedules

The BOD direct the management to work with accounting in updating all financial entries, various schedules, bank balance and all other entries which may have an impact on YFA's financial condition. The timeline given is up to the 2nd qtr of FY09.

Finding No. 6 – Untimely Reconciliation of Bank Statement

We are not contesting this audit finding. The management is now working with the accounting section and an outside accountant in order to update the bank reconciliation. The plan is to update the bank reconciliation, back-up all files, and upgrade the peachtree accounting software from version 2002 to 2006. This should be completed in the first part of FY 2009.

Finding No. 7 – Missing Cash Collection

The BOD directed the management to ensure all sales of ice and fish and other items made by the cold storage section are properly receipted, verified and turned-over to accounting/cahier. An assigned employee, who will not be involved with the selling and posting of entries will verify the collections and prepares bank deposit slips for the daily deposit.

Finding No. 8 – Check Payable to Cash

The BOD and management concurred with the audit finding and recommendation thus this practice is now discouraged and considered prohibited in order to curtail misappropriation of funds.

Finding No. 9 – Accounts Receivable Balances

The BOD has ask the management to prioritize the immediate collection of all A/R customers, whose addresses are known. The start date is ASAP and will be ongoing through out the fiscal year. Collection of receivables is a priority area for YFA and management will be working hard to achieve this.

Finding No. 10 – Fuel Expenses

The Authority is now purchasing its fuel on “as needed” basis using approved YFA checks issued to one of the 3 local vendors selected thru competitive procurement process and verification of fuel prices.

Finding No. 11 – Fish Purchase vs. Fish Sale

The BOD and management agreed and immediately implement a procedure to account for all fish sales and correlate it with actual fish purchasing activities.

To accurately account for all fish sales, the cold storage supervisor and his staff were instructed to categorize fish sales in accordance with the dollar value per pound per category since they have several price categories such as regular price, discounted price, internal usage and spoilage. This procedure is already in place and YFA is still thinking of ways to improve it in the accounting system. Timeline is ASAP.