

# **YAP FISHING AUTHORITY**

## **Financial Statements and Independent Auditor's Report Fiscal Year Ended September 30, 2008**



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## EXECUTIVE SUMMARY

### Financial Audit of the Yap Fishing Authority For the Year ended September 30, 2008

The Office of the Yap State Public Auditor has issued its audit report on the audit of the financial statements of the Yap Fishing Authority for the year ended September 30, 2008 which report is dated September 17, 2010. The Independent Auditor's Report on page 1 gives a "qualified opinion" on the financial statements, meaning that, in the auditor's opinion, except for the scope limitations discussed in the report, the financial statements presented on pages 3 through 5 are fairly presented in accordance with accounting principles generally accepted in the United States of America.

The Schedule of Expenditures of Federal Awards on page 6 shows that for the year ended September 30, 2008, YFA expended \$7,121 in FEMA grants.

The report on internal control over financial reporting and compliance and other matters required by Government Auditing Standards on pages 15 to 16 discusses reportable conditions at YFA. These conditions and our recommendations are presented for the information of YFA's management in the Schedule of Findings beginning on page 17. Of the eleven findings, findings no. 1, 3 thru 4, 6 and 11 were considered material weaknesses. All of the findings were related to inadequate controls over financial reporting.

Following is a summary of the audit findings for the year ended September 30, 2008:

- (1) Findings Nos. 1 and 6 relates to the inadequacy of supporting documentation for accounting transactions.
- (2) Finding No. 2 and 3 cites YFA for the improper usage and missing YFTI cash collections.
- (3) Finding No. 4 relates to the eleven prior year findings which were not resolved and still recurring in the current fiscal year.
- (4) Finding No. 5 refers to non-accrual of year end experience.
- (5) Finding No. 7 discusses about the importance of check and balance to avoid misposting of transactions.
- (6) Finding No. 8 relates to the untimely deposits of receipts.

(7) Finding No. 9 discusses about the accuracy and collection of long outstanding receivables.

(8) Finding No. 10 and 11 relate to YFA's lack of controls in monitoring inventories.

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.

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



Ronald C. Yow  
Public Auditor  
Yap State, FM

October 8, 2010

**YAP FISHING AUTHORITY**  
Year ended September 30, 2008

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Yap Fishing Authority:

We have audited the accompanying balance sheet of the Yap Fishing Authority (YFA) as of September 30, 2008 and the related statement of revenues, expenses and changes in net assets and cash flows for the year 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 audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the YFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

Documentation was not available to substantiate the carrying value of YFA's fishing dock of \$1,407,172 representing 69% of property and equipment as of September 30, 2008. Neither were we able to apply alternative audit procedures to satisfy ourselves that the carrying value of the fishing dock was not materially misstated.

We were unable to obtain sufficient audit evidence to verify the completeness of fish and ice sales which comprises 67% of operating revenues for fiscal year 2008. Neither were we able to apply alternative audit procedures to satisfy ourselves that fish and ice sales of \$161,605 was not materially misstated.

In our opinion, except for the scope limitations discussed in the previous paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Yap Fishing Authority as of September 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

YFA has yet to provide the Management's Discussion and Analysis that, although not a required part of the basic financial statement, is supplementary information required by the Governmental Accounting Standards Board.

The accompanying Schedule of Expenditures of Federal Awards (page 8) 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

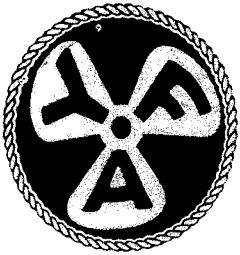
fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, We have also issued a report dated September 17, 2010 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.



Ronald C. Yow  
Yap State Public Auditor

September 17, 2010



# Yap Fishing Authority

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## **Management Discussions & Analysis**

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, 2008. 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 a component unit of Yap State Government with the primary objective of promoting, developing, and supporting the commercial utilization of living marine resources within the State of Yap.

### **Financial Highlights**

At year end of FY2008, the cash in bank balance shows a significant increase compared to FY2007. This was mainly due to the utility expense since it is one of the Authority's biggest expenses. Back in early March 2008, the Legislature passed a law for YSPSC to reimburse its customers payments made against fuel charge and to discontinue the charge of fuel.

In FY2008, the other accounts have no major changes in their balances when compared to FY2007.

### **Plan of Action for FY2010**

In order to address the previous audit findings as well as improving the performance of the Authority as a whole, the Board of Directors along with management came up with basically the same plan of actions that were made for FY2009 to be initiated in FY 2010 since the Authority is facing the same problems.

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. Implement strict compliance on the process of actual collection of YFA receivables.
3. Decrease the numbers of findings by resolving the unresolved ones and comply with all policies in place.

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4. Generate more revenue mainly by sale of fish and other services the Workshop has the capacity of providing.



**YAP FISHING AUTHORITY**

Balance Sheet  
September 30, 2008

<b>Assets</b>	<b><u>2008</u></b>
Current Assets	
Cash	\$ 53,485
Trade receivables, net	20,288
Prepaid expense	39,629
Employee receivables, net	<u>93</u>
Total current assets	113,495
Property and equipment, net	<u>2,035,708</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,149,203</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities	
Accounts payable	\$ 35,427
Accrued payroll and others	6,768
Due to affiliates	41,945
Due to State Government	<u>35,325</u>
Total current liabilities	119,465
Contingencies	
Net Assets	
Invested in capital assets	2,035,707
Unrestricted	<u>(5,969)</u>
Total net assets	<u>2,029,738</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,149,203</u></b>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year ended September 30, 2008**

	<u><b>2008</b></u>
Operating revenues	
Fish and ice sales	\$ 161,605
Charter and rental income	54,570
Other revenue	16,615
Fishing rights and dockage fees	4,935
Other sales	<u>5,428</u>
Total operating revenues	243,153
Operating expenses	
Depreciation	173,901
Purchases - Fish and bait	75,642
Utilities	37,291
Other	37,983
Payroll, taxes and benefits	40,171
Contractual services	14,312
Bad debt expense	<u>7,584</u>
Total operating expenses	<u>386,884</u>
Loss from operations	(143,731)
Nonoperating revenues/(expenses)	
Intergovernmental contribution	232,966
Other income/(expense)	<u>(978)</u>
Total nonoperating revenues	<u>231,988</u>
Changes in net assets	88,257
Net assets at beginning of year	<u>1,941,481</u>
Net assets at end of year	<u><u>\$ 2,029,738</u></u>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**

Statement of Cash Flows  
Year ended September 30, 2008

	<u>2008</u>
Cash flows from operating activities	
Receipts from customers	\$ 241,513
Cash payments for goods and services	(148,988)
Cash payments to employees	<u>(38,515)</u>
Net cash used for operating activities	<u>54,010</u>
Cash flows from noncapital financing activities	
Other receipts/(expenses)	(121)
FEMA grants receipts	<u>7,967</u>
Net cash provided by (used for) noncapital financing activities	<u>7,846</u>
Cash flows used for investing activities	
Acquisition of fixed assets	<u>(8,371)</u>
Net cash used for investing activities	<u>(8,371)</u>
Net decrease in cash	53,485
Cash, beginning of year	<u>-</u>
(Bank overdraft)/Cash, end of year	<u>\$ 53,485</u>
Reconciliation of operating loss to net cash used for operating activities:	
Loss from operations	\$ (143,770)
Adjustments to reconcile loss from operations to net cash used for operating activities	
Depreciation	173,901
Bad Debts	7,584
Adjustments to restate cash	(619)
Other Expenses	978
(Increase)/decrease in assets	
Trade receivables	(1,585)
Employee receivables	617
Prepaid expense	300
Increase/(decrease) in liabilities	
Accounts payables	15,565
Accrued payroll and other	<u>1,039</u>
Net cash used for operating activities	<u>\$ 54,010</u>
<b>Supplemental disclosures of noncash transactions</b>	
Intergovernmental contributions which increased property, plant and equipment	<u>\$ 183,693</u>
Loss on disposal of assets which decreased property, plant & equipment	<u>\$ 282</u>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**

Schedules of Expenditures of Federal Awards  
Year ended September 30, 2008

<b>Grantor/CFDA #/Grantor's Program Title</b>	<b>CFDA #</b>	<b>FY08 Expenditures</b>	<b>FY07 Expenditures</b>
Federal Emergency Management Agency Grant FEMA-FM-DR1511 Typhoon Sudal Public Assistance Grant – Yap Fishing Authority (Note 10)	83.516	\$7,121	\$138,470
<b>TOTAL FEDERAL AWARDS EXPENDED</b>		<b>\$7,121</b>	<b>\$138,470</b>

Note (1) :

The FEMA Grant was passed through the FSM National Government to the State of Yap. The \$7,967 was issued to YFA as leftover money from YFA FEMA Project. Only \$7,121 from the total was expended in FY08.

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2008

## 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 of September 30, 2008.

**New Accounting Standards** – During fiscal year 2008, YFA implemented the following pronouncements:

GASB Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". GASB Statement No.43 establishes uniform financial reporting for other post employment benefit plans by state and local governments.

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2008

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

GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. GASB Statement No.45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, notes of disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employees. The provisions of this statement are effective for YSC for periods beginning after December 15, 2007.

GASB Statement No. 48, *“Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues”*. GASB Statement No.48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

GASB Statement No. 49, *“Accounting and Financial Reporting for Pollution Remediation Obligations”*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

GASB Statement No. 50, *“Pension Disclosures on Amendments of GASB Statement No. 25 and 27”*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

In June 2007, GASB issued Statement No.51, *“Accounting and Financial Reporting for Intangible Assets”*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No.53, *“Accounting and Financial Reporting for Derivative Instruments”*. GASB Statement No. 53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

The adoption of these pronouncements will not have material impact on the accompanying 2008 financial statements.

**Cash** – For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the balances at September 30, 2008 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**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

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2008

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

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. 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, 2008 is presented below:

Regular trade customers	\$	659,596
Less: Allowance for doubtful Accounts	(	639,308)
		-----
Trade receivables, net	\$	<u>20,288</u>

## 4. EMPLOYEES RECEIVABLE

A summary of employees' receivable is presented below:

Employees receivable	\$	36,673
Less: Allowance for doubtful accounts		<u>( 36,580)</u>
	\$	<u>93</u>

**YAP FISHING AUTHORITY**

Notes to Financial Statements  
September 30, 2008

**5. PROPERTY AND EQUIPMENT**

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

	Beginning Balance <u>October 1, 2007</u>	Transfers and Additions	Transfers and Disposals	Ending Balance <u>September 30, 2008</u>
Buildings	\$ 1,734,102	\$ 19,536	\$	\$ 1,753,638
Dock	2,629,778			2,629,778
Fishing fleet	414,080	121,384		535,464
Refrigeration & cold storage equipments	251,489	22,924		274,413
Motor vehicles	135,804			135,804
Other equipment	90,888	21,099	(282)	111,704
Total cost	<u>5,256,141</u>	<u>184,943</u>	<u>(282)</u>	<u>5,440,801</u>
Less: accumulated depreciation	<u>(3,231,475)</u>	<u>(173,901)</u>	<u>282</u>	<u>(3,405,093)</u>
	<u>\$ 2,024,666</u>	<u>\$ (11,042)</u>	<u>\$</u>	<u>\$ 2,035,708</u>

Depreciation expense recognized for the year ended September 30, 2008 is \$173,901.

**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, 2008.

**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 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. Consequently the balance remains a payable for the Authority as of September 30, 2008.



# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2008

## 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, 2008 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 year ended September 30, 2008.

## 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 YFA Fish Store funded by OFCF and improvements to the Fish Store funded by FEMA in FY08, donated items including; spare parts, equipments, and a vessel from year ended September 30, 2008 comprised the following:

Overseas Fishery Cooperation Foundation	\$	224,999
FEMA Grant		<u>7,967</u>
	\$	<u>232,966</u>

Under the terms of the 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 in 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.

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. In fiscal year 2008 OFCF donated to the authority the following; FV Flying Fish valued at \$107,396, spare parts valued at \$77,160 with its remaining value recorded as pre-paid expenses, Cold Storage Equipments valued at \$17,767, and other goods and services valued at \$12,336. The value of the donated goods is recorded as non-operating revenue in the accompanying financial statements. Improvements to the Cold Storage Building that became the YFA fish store was also funded by OFCF at a cost of \$11,815 recorded as improvements to fixed assets on the accompanying financial statements.

A check was issued to YFA in the amount of \$7,967 as leftover of the Completed FEMA projects. \$7,121 from the amount was expensed by the authority for maintenance which was reclassified as improvements to the Cold Storage Building.

**YAP FISHING AUTHORITY**

Notes to Financial Statements  
September 30, 2008

**11. OTHER EXPENSES**

Provided below is the breakdown of Other Expenses for the years ended September 30, 2008:

Workshop expense	11,323
Communication	4,844
General administrative expenses	9,233
Miscellaneous	8,705
Cold storage repairs & maintenance	1,514
Office supplies	<u>2,364</u>
	<u>\$ 37,983</u>

**12. SUBSEQUENT EVENTS:**

On December 20, 2008, YFA received from FEMA the Fishing Vessel Malob with a value of \$296,670. During the first 2 quarters of FY 2009, OFCF donated various spare parts and equipments. OFCF upon departure turned over capital assets to YFA which included a pick up truck and a freezer.

One new security personnel was hired in January 2009. From October 2008 to May 2009, four other employees were hired at various sections of YFA.

In fiscal year 2009, YFA modified its' chart of accounts so as to merge accounts with similar account classification.



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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 have audited the financial statements of the Yap Fishing Authority (YFA), as of and for the year ended September 30, 2008, and have issued our report thereon dated September 17, 2010 which report was qualified due to scope limitations presented by the lack of underlying documentation to support the fish and ice sales. 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 YFA's 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.

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.

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.



Ronald C. Yow  
Yap State Public Audit

September 17, 2010

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2008

### **Finding No. 1 – LACK OF/INADEQUATE SUPPORTING DOCUMENTATION**

**Criteria:** YFA management is responsible in ensuring that adequate and accurate supporting documentation is readily available for all payment transactions.

**Condition:** During substantive test of purchases for fish and bait, we discovered that several transactions were inadequately documented. Moreover, we also noted on several instances that the amounts appearing on the supporting documents attached to the payment transactions does not match with the amounts on the actual checks issued.

**Cause:** YFA management did not ensure that all transactions are adequately and accurately documented before approval of disbursements.

**Effect:** Though immaterial to the financial statement, we were not able to determine accuracy for some of the payments for purchase of fish and bait we reviewed.

**Recommendation:** We recommend that YFA management exercise a higher level of scrutiny to ensure that all its transactions are adequately and accurately documented.

### **Finding No. 2 – IMPROPER USAGE OF FUNDS**

**Criteria:** Policies and procedures of the proper usage of YFA funds including petty cash fund should be in place and enforced.

**Condition:** During the cash count conducted on October 1, 2008, we discovered the cash register had a shortage of \$25.00. The \$25.00 shortage apparently could not be accounted for since there was no receipt that equaled the amount. Further review and verification of documents revealed that the said amount was used to pay for a training held at Yap State SBDC. The payment for the training should have come from the petty cash but during that day, there was no petty cash left so YFA paid the training fee from its daily collection and temporarily recorded the amount as shortage. When the petty cash was finally replenished, the \$25.00 was not put back into the daily collection, thus it remained booked under shortage.

**Cause:** Yap Fishing Authority management did not ensure that petty cash fund was timely replenished to ensure sufficient funding is available for use when needed. Moreover, the Yap Fishing Authority did not pre-plan for its training and workshop to ensure that funds are allocated for such activities.

**Effect:** Yap Fishing Authority Cash register had a shortfall of \$25.00 when the year end cash count for fiscal year 2009 was performed.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2008

### **FINDING NO. 2 (cont.)**

**Recommendation:** We recommend the management develop applicable, enforceable policies and procedures to discourage borrowing of funds from the daily sales and to ensure timely replenishment of petty cash to preclude such exception.

### **Finding No. 3 – MISSING YFTI COLLECTIONS**

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

**Condition:** On October 01, 2008, we conducted a cash count on YFA's cash on hand as of 09/30/08. Verification during the cash count revealed that the cash on hand was for YFTI's collection for storage and koyeng rentals and that there was shortage of \$3,925.99 when actual cash of \$12,983.05 was compared to the total amount of transactions receipted which is \$16,909.04.

Further verification revealed that out of the \$3,925.99 shortage, \$884 can be attributed to the borrowing of YFA for its operational needs and \$1,209.04 was erroneously recorded as part of YFA revenue instead of YFTI thus the net shortage during the cash count was reduced to \$1,832.91.

**Cause:** Yap Fishing Authority did not have adequate controls in place to help ensure monies received by the authority are properly secured and accounted for.

**Effect:** As of September 30, 2008, YFA has a total of \$1,832.91 unaccounted YFTI collections.

**Recommendation:** We recommend for YFA management to develop and implement policies and procedures that would ensure that assets including monies are properly secured and accounted for.

### **Finding No. 4 – UNRESOLVED PRIOR YEAR FINDINGS**

**Criteria:** Yap Fishing Authority should, on a timely manner, adopt and implement applicable audit recommendations to strengthen controls over financial reporting and ensure full compliance with laws and regulations.

**Condition:** Out of the (14) findings cited in fiscal year 2007, Yap Fishing Authority board and management only managed to resolve 3 (21%) and eleven (79%) remained unresolved and has been repeated in FY08. Additionally there still exist several findings cited in FY06 that is still unresolved as of September 30, 2008.

# YAP FISHING AUTHORITY

## Schedule of Findings

September 30, 2008

### **Finding No. 4 – UNRESOLVED PRIOR YEAR FINDINGS (cont.)**

**Cause:** YFA was unsuccessful in implementing audit recommendations and/or developing and implementing remedial policies or procedures on a timely manner.

**Effect:** Most of the conditions cited in fiscal years 2006 and 2007 audits still exist as of September 30, 2008.

**Recommendations:** We strongly recommend that YFA start adopting audit recommendation or other remedial policies and procedure that would help clear the unresolved audit findings.

### **Finding No. 5 – NON ACCRUAL OF YEAR-END EXPENSES**

**Criteria:** YFA management is responsible to ensure that the Authority maintains and makes available reliable and accurate accounting and financial records in accordance with generally accepted accounting principles (GAAP).

**Condition:** Review of payroll records revealed that all of the last pay period of fiscal year 2008 was not accrued as it should be. The last pay period of fiscal year 2008 was expensed and paid out in the next fiscal year.

**Cause:** YFA Management did not ensure that the accounting section properly accrued all applicable payables in its rightful period.

**Effect:** Payroll expense for the year ended September 30, 2008 was understated as a portion of it was expensed in the following fiscal year.

**Recommendation:** We recommend that YFA instruct the accounting section to accrue all payable as applicable, especially at year end to ensure that expenses are accurately expensed in its rightful fiscal year.

### **Finding No. 6 – LACK OF SUPPORTING SCHEDULE DETAILS**

**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:** Schedule provided by the Authority has details only for the current fiscal year 2008 and not the prior years. Determining individual vendor balances rolling from one year to another, and tallying them with the payable confirmations from vendors, revealed inconsistencies between confirmation from vendors and schedule per Yap Fishing Authority.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2008

### **Finding No. 6 – LACK OF SUPPORTING SCHEDULE DETAILS (cont.)**

**Cause:** YFA management did not ensure adequate controls are in place to make certain that the supporting schedules and ledgers are constantly being updated and reconciled with the general ledger balances.

**Effect:** There were inconsistencies between the schedules for payables provided by the Authority as compared to the payables confirmation obtained from the Authority's vendors.

**Recommendation:** We recommend that YFA management instruct the accounting section to prepare and update accurate schedules of the general ledger account balances on a regular basis. This practice can be enforced by requiring the accountant to provide details of account balances during the Authority's regular Board Meetings.

### **Finding No. 7 – MISPOSTING OF TRANSACTIONS**

**Criteria:** Proper check and balance should be in place to ensure that all transactions are posted accurately and on a timely manner.

**Condition:** During review of various accounts, we noted several transactions were misposted to other accounts.

**Cause:** The Authority's management did not ensure that proper check and balance is maintained by the accounting section in order to minimize erroneous postings.

**Effect:** Though the misposting did not materially affect the overall revenue and the financial statement of the authority, the individual revenue accounts were misstated as of September 30, 2008.

**Recommendation:** We recommend for YFA management to ensure that proper check and balance is observed by the accounting section so that all records are regularly reconciled with the general ledger.



# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2008

### **Finding No. 8 – UNTIMELY DEPOSITS OF RECEIPTS**

**Criteria:** Proper internal controls require that all receipts be deposited on a timely manner.

**Condition:** Review of collections from services and rentals fees revealed that on several occasions YFA failed to deposit its receipts on a timely basis. Out of the 21 transactions reviewed, 11 receipts totaling \$17,025 were deposited 5 to 158 days upon receipt of collection.

**Cause:** YFA Management did not ensure that the accounting section is adhering to the proper internal controls.

**Effect:** Undeposited funds at any given time becomes susceptible to misuse and pilferage. It also denies the Authority the chance to earn interest on those funds.

**Recommendation:** We recommend that the YFA management ensures that proper internal controls are being observed to preclude such exceptions.

### **Finding No. 9 – ACCOUNT RECEIVABLE COLLECTIONS**

**Criteria:** YFA management is responsible for maintaining accurate customer receivable balances and collection of such balances.

**Condition:** An analysis performed on the collection of YFA's trade receivable balances revealed that collections are more aggressive on current receivable balances than on prior year receivable balances.

The bulk of Yap Fishing Authority trade receivables are in the prior years and the remaining minimal portion makes up the current year. Apparently, collection efforts are geared towards the latter and not very much towards past due accounts. Furthermore, YFA still allow credits to clients with past due accounts.

**Cause:** Most of YFA's prior year receivables were not adequately and accurately maintained and lack proper supporting documentation to substantiate some of the customer outstanding balances. Furthermore, YFA's collection efforts are geared towards the outstanding account receivable balances.

**Effect:** YFA's trade receivable balances tend to continually increase from one fiscal year to another and it also follows that the authority's percentage of uncollectible receivables will increase as well.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2008

### **Finding No. 9 – ACCOUNT RECEIVABLE COLLECTIONS (cont.)**

**Recommendation:** YFA Management should work with the Board of Directors to pursue a more aggressive and appropriate remedies to collect the past due receivables.

### **Finding No. 10 – LACK OF CONTROLS FOR MONITORING INVENTORY**

**Criteria:** Proper controls should be in place to ensure that inventories are properly maintained, monitored, and updated on a timely basis.

**Condition:** During inventory count performed for fiscal year 2008, we discovered that there was no mechanism in place to ensure that inventories used are expensed out accurately and on a timely basis. We have noted this same problem during inventory count for fiscal year 2007.

**Cause:** YFA management did not ensure that a mechanism was in place to ensure that inventories are properly monitored and recorded accordingly.

**Effect:** As a result, there is an increased risk of pilferage, and if it were not for the invoices of the inventory, we may have not been able to determine the accuracy of the items received.

**Recommendation:** We recommend that YFA management develop applicable policies and procedures that would ensure accurate recording, maintenance, and proper monitoring of the authority's inventories on a timely basis.

### **Finding No. 11 – INADEQUATE CONTROL OVER FISH INVENTORY**

**Criteria:** Controls should be in placed to ensure that all products produced or purchased for resale and use by the Authority is properly recorded and accounted for.

**Condition:** Review and analysis of YFA's fish purchases and sales revealed that the authority does not maintain adequate documentation of each fish purchase, thus limiting us in determining how much fish inventory is present at the end of any given business day.

**Cause:** Yap Fishing Authority management did not ensure adequate inventory control is maintained for fish purchased.

**Effect:** Revenue from fish sales could not be verified, thus it could not be determined if fish sales at September 30, 2008 was fairly stated.

**YAP FISHING AUTHORITY**

**Schedule of Findings  
September 30, 2008**

**Finding No. 11 – INADEQUATE CONTROL OVER FISH INVENTORY (cont.)**

**Recommendation:** We recommend that YFA management develop policies and procedures that will ensure the proper recording and accounting of its' inventory.

# Yap Fishing Authority

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## **MLC No. 1 Lack of/Inadequate supporting documentations**

The supporting documents may not be attached to the checks but that doesn't mean that we don't have them on hand. I have gone through all of the purchases made on fish and bait and I was able to locate all the supporting documentation. There is only one time that the amount appearing on the supporting documents attached to the payment transaction does not correspond with the actual check. This was an oversight and it was a one time thing. We have a mechanism in place to prevent this but somehow it was never spotted. The person that approves payments is the one that verifies that each payment transaction corresponds with its supporting documents accordingly. Hopefully this won't ever happen again.

## **MLC No. 2 – Improper use of Funds**

This has not ever been practiced after that day, October 1, 2008. I cannot elaborate more on this except that Petty Cash is made sure that it's replenished when the fund is low. The \$25.00 was originally booked as a shortage but has been adjusted and transferred to its appropriate expense account.

## **MLC No. 3 – Missing YFTI Collections**

I understand that the unaccounted balance of \$1,832.91 is an amount carried over from prior years. During FY08, all collections for YFTI were deposited into YFA bank account with exceptions to the checks made payable to YFTI. The check payments for the YFTI storage will be returned to WTC for reissuance as per Lease Agreement between Coconut Development Authority and YFA since May 2003. It clearly stated in the Agreement that payment should be made payable to YFA. Unfortunately, YFA was not able to locate its copy of the contract until last week. The same will be applied to the other few check payments. Once this is done, all payments will be deposited into YFA bank account.

## **MLC No. 4 – Unresolved Prior Year Findings**

I believe that we have resolved most of the findings in FY09, especially those within YFA. For those that would involve other offices, we are still working on them.

## **MLC No. 5 – Non Accrual of Year-End Expenses**

Again, the Accountant was on Maternity Leave during the last month of the fiscal year, therefore the person processing the payroll was only shown how to process payroll. It so happens that the last pay period of the fiscal year's due date falls in the next fiscal year of 2009.

**MLC No. 6 – Lack of supporting schedule details**

This is not done intentional out of spitefulness or negligence. Prior to FY07 the payables for YFA was being disputed but during FY07 when the audit for FY06 was ongoing, the Auditor (Charles Yilaarow) was able to work with the vendors and YFA to validate YFA's true payables ending Sept. 30, 2006. Since then, YFA has only been providing the PA office is payable schedules based on current years. Since this was never a finding, the Accountant was under the impression that the PA office was satisfied with the schedule provided until the MLC for FY08 was received and review on the Oct. 22, 2009. However, the Accountant has asked the PA office to provide her with the true payable ending Sept. 30, 2006 since Yilaarow was not able to provide her that before he resigned from PA office, so that she may tally that with YFA's current payables.

**MLC No. 7 – Misposting of Transactions**

This is clearly an oversight on our part. I can't guarantee that there won't be any mispostings in the future but have advised my staff to be more attentive to the postings they make from now on. I am only grateful that you spotted it have the adjustments made.

**MLC No. 8 – Untimely deposits of receipts**

This has been resolved. Deposits are being made on a daily basis except in cases when the bank or the Authority is closed for business.

**MLC No. 9 – Account Receivable Collections**

This was attempted during FY08 but didn't materialize. Then early April this year, the former GM hired somebody to start the collection yet again. We have just begun to put it into full swing again. We have written off all those that were allocated under the Allowance for Doubtful Accounts but we are still attempting collection on them starting with the ones with completed files.

**MLC No. 10 – Prior Year Accounts Receivables**

We are still approving charges but to a selected few customers. I will be oblige to provide you a list of those customers should you require it. It's not feasible for the Authority financially to completely disallow charges. I am still new on board

**MLC No. 11 – Inaccurate Account Balances**

We have been able to resolve this in FY09. It was an oversight on our part.

**MLC No. 12 – Lack of Controls for monitoring Inventory**

There has been no mechanism in place but Accountant has been advised to come with one. This should be reflected in FY2010.

**MLC No. 13 – Inadequate Control Over Fish Inventory**

The Authority has added an inventory account to its chart of accounts, thus enabling the Authority to reveal the remaining fish inventory the next business day after all the invoices for the previous day has been posted. This was started in FY09. This current fiscal year (FY2010), we have also started to keep a more detailed record on fish inventory on a daily basis by the number of species and by fishing vessels. Physical Inventory will be done at the end of each month. Should there be any discrepancies, we would be able to determine the type of species, the number of species along with the weight, and from which vessel(s). Any adjustments to be made will be made to be reflected in that same month.