

# **YAP FISHING AUTHORITY**

## **Financial Statements and Independent Auditor's Report**

**Fiscal Year Ended  
September 30, 2009**



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## YAP STATE GOVERNMENT

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### EXECUTIVE SUMMARY

#### Financial Audit of the Yap Fishing Authority For the Year ended September 30, 2009

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, 2009 which report is dated December 24, 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 5 through 7 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 8 shows that for the year ended September 30, 2009, YFA expended \$296,670 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 thru 3, 6, 8 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, 2009:

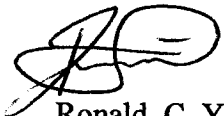
- (1) Finding No. 1 relates to payment for hours not worked.
- (2) Finding No. 2 refers to the missing YFTI cash collections.
- (3) Findings No. 3, 6, and 8 relates to the absence of proper controls and procedures in safeguarding the assets of the Authority.
- (4) Finding No. 4 refers to misposting of transactions.
- (5) Finding No. 5 discusses the absence of comprehensive price schedules for purchases of fish from private fishing boats.
- (6) Finding No. 7 relates to the accuracy and reliability of accounts payable balances.
- (7) Finding No. 9 discusses the failure of YFA to adopt a vehicle policy consistent with the State Government Vehicle Act.

(8) Finding No. 10 relates to the non-accrual of year-end expenses.

(9) Finding No.11 discusses the existence of unrecorded ice sales.

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 23 to 24 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  
Acting Yap State Public Auditor  
Yap State, FM

December 24, 2010

**YAP FISHING AUTHORITY**  
Year ended September 30, 2009

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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, 2009 and the related statements 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 provides a reasonable basis for our opinion.

Documentation was not available to substantiate the carrying value of YFA's fishing dock of \$1,341,428 representing 61% of property and equipment as of September 30, 2009. Neither were we able to apply alternative audit procedures to satisfy ourselves that the carrying value of the fishing dock was not materially misstated.

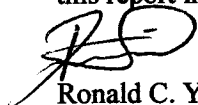
Due to inadequate accounting records, we were unable to obtain sufficient audit evidence to verify the completeness of ice sales which comprises approximately 29% of operating revenue for fiscal year 2009. Neither were we able to apply alternative audit procedures to satisfy ourselves that ice sales of \$80,511 was not materially misstated.

In our opinion, except for the scope limitations discussed in the previous paragraph, 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, 2009, 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.

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.

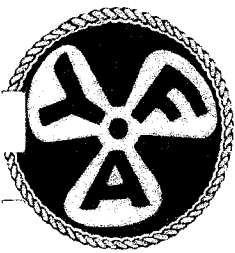
The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of YFA's management. Such information has been subjected to the auditing procedures applied 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 December 24, 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  
Acting Yap State Public Auditor

December 24, 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, 2009. 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**

As of September 30, 2009, YFA total operating revenue showed an increase of about 15% compared to FY2008. However, the operating expense showed also an increase of about 18% compared to FY2008 thus resulting in an operating loss of \$183,266.00, a 28% increase in FY2009.

The increase in operating revenue was mainly due to the fish and ice sales and the increase in operating expense was mainly due to the utilities and personnel. It was during this period of time that the electricity rate per kilo watt increased from \$0.19 to \$0.338 for commercial and for the first time after such a long time that the Authority had a General Manager and a few more additional staff.

### **Plan of Action for FY2011**

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 FY2010 to be initiated in FY 2011 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.**
4. **Generate more revenue mainly by sale of fish and other services the Workshop has the capacity of providing.**



**YAP FISHING AUTHORITY**

**Balance Sheet  
For the Year Ended September 30, 2009**

<b>Assets</b>	<b>2009</b>
<b>Current Assets</b>	
Cash	\$ 44,527
Inventory (Note 9)	98,472
Trade receivables, net (Note 2)	<u>15,184</u>
<b>Total current assets</b>	<b>158,183</b>
<b>Property and equipment, net (Note 3)</b>	<b><u>2,199,609</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,357,792</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current liabilities</b>	
Accounts payable	18,944
Accrued payroll and others	10,463
Due to affiliates (Note 4)	41,945
Due to State Government (Note 5)	<u>35,325</u>
<b>Total current liabilities</b>	<b>106,677</b>
<b>Net Assets</b>	
Invested in capital assets	2,199,609
Unrestricted	<u>51,506</u>
<b>Total net assets</b>	<b><u>2,251,115</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>2,357,792</u></b>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the year ended September 30, 2009**

	<u><b>2009</b></u>
Operating revenues	
Fish Sales	\$ 109,538
Ice Sales	80,511
Other Sales	56,648
Other revenue	<u>33,290</u>
Total operating revenues	279,987
Cost of Sales	<u>69,207</u>
Gross Margin	<u>210,780</u>
Operating expenses	
Depreciation	178,610
Payroll, taxes and benefits	81,877
Utilities	74,324
Other (Note 10)	<u>59,255</u>
Total operating expenses	<u>394,066</u>
Loss from operations	(183,286)
Non-operating revenues/(expenses)	
Intergovernmental contribution (Note 8)	405,039
Other income/(expense)	<u>(337)</u>
Total nonoperating revenues	<u>404,702</u>
Changes in net assets	221,416
Net assets at beginning of year	<u>2,029,699</u>
Net assets at end of year	<u><u>\$ 2,251,115</u></u>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**

Statement of Cash Flows  
For the year ended September 30, 2009

	<u>2009</u>
Cash flows from operating activities	
Receipts from customers	285,091
Cash payments for goods and services	(213,448)
Cash payments to employees	<u>(78,089)</u>
Net cash used for operating activities	<u>(6,446)</u>
Cash flows used to investing activities	
Acquisition of fixed assets	<u>(2,512)</u>
Net cash used for investing activities	<u>(2,512)</u>
Net decrease in cash	(8,958)
Cash, beginning of year	<u>53,485</u>
Cash, end of year	<u><u>44,527</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Loss from operations	(183,286)
Adjustments to reconcile loss from operations to net cash used for operating activities	
Depreciation	178,610
OFCF contributions expensed in FY09	16,734
Other expenses	337
(Increase)/decrease in assets	
Due from grantor	
Trade receivables	5,104
Employee receivables	93
Inventory	<u>(11,250)</u>
Increase/(decrease) in liabilities	
Accounts payables	(16,483)
Accrued payroll and other	3,695
Net cash used for operating activities	<u><u>(6,446)</u></u>
<b>Supplemental disclosures of noncash transactions</b>	
Intergovernmental contributions which increased property, plant and equipment	<u><u>340,000</u></u>

See accompanying notes to financial statements

**YAP FISHING AUTHORITY**

Schedule of Expenditures of Federal Awards  
Year ended September 30, 2009

<b>Grantor/CFDA #/Grantor's Program Title</b>	<b>CFDA #</b>	<b>FY09 Expenditures</b>
Federal Emergency Management Agency Grant FEMA-FM-DR1511 Typhoon Sudal Public Assistance Grant – Yap Fishing Authority (Note 10)	83.516	\$296,670
<b>TOTAL FEDERAL AWARDS EXPENDED</b>		<b>\$296,670</b>

Note (1):

The FEMA Grant was passed through the FSM National Government to the State of Yap.

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2009

## 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, 2009.

**New Accounting Standards** – During fiscal year 2009, 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, 2009

## 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 YFA 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, 2009 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, 2009

## 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. TRADE RECEIVABLE

A summary of trade receivables at September 30, 2009 is presented below:

Accounts Receivable – trade	\$	22,768
Less: allowance for doubtful accounts		<u>(7,584)</u>
Trade receivables, net	\$	<u>15,184</u>

## 3. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2009 is as follows:

	Beginning Balance <u>October 1, 2008</u>	Transfers and Additions	Transfers and Disposals	Ending Balance <u>September 30, 2009</u>
Buildings	\$ 1,753,638	\$	\$	\$ 1,753,638
Dock	2,629,778			2,629,778
Fishing fleet	535,464	296,670		832,134
Refrigeration & cold storage equipments	274,413	10,656		285,069
Motor vehicles	135,804	10,500		146,304
Other equipment	<u>111,704</u>	<u>24,686</u>		<u>136,390</u>
Total cost	5,440,801	342,512		5,783,313
Less: accumulated depreciation	<u>(3,405,094)</u>	<u>(178,610)</u>		<u>(3,583,704)</u>
	<u>\$ 2,035,708</u>	<u>\$ 163,902</u>	<u>\$</u>	<u>\$ 2,199,609</u>

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2009

## 4. 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, 2009.

## 5. 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, 2009.

## 6. 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 whose carrying value is unavailable as of 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, 2009.

## 7. 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.



# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2009

## 8. INTERGOVERNMENTAL CONTRIBUTIONS

Total intergovernmental contributions for fiscal year 2009 are presented below;

Overseas Fishery Cooperation Foundation	\$	108,369
FEMA Grant		<u>296,670</u>
	\$	<u>405,039</u>

Overseas Fisheries is a foundation operating under the fisheries division of the Government of Japan to administer and implement fishery assistance grants for the Government of Japan to coastal countries throughout the world. Under the terms of the MOA between the Government of the FSM and the OFCF, OFCF would provide technical assistance to YFA to contribute in the development of local fishery.

Over the years, OFCF have contributed a total of \$654,513 which included two fishing boats, spare parts and cold storage equipments. In FY09, upon departure of the OFCF representatives, they turned-over a pick up truck, spare parts and equipments totaling \$108,369

In FY09, YFA received the fishing vessel, Malob, valued at \$269,670 from FEMA.

## 9. INVENTORY

FY09 YFA inventory breakdown is as follows;

Fish Inventory	\$	11,250
Spare Parts Inventory (Prepaid Expenses)		<u>87,222</u>
	\$	<u>98,472</u>

## 10. OTHER EXPENSES

Provided below is the breakdown of Other Expenses for the year ended September 30, 2009:

Workshop expense	15,400
Communication	5,276
General administrative expenses	7,628
Miscellaneous	18,234
Cold storage repairs & maintenance	4,265
Office supplies	3,892
Fuel	3,040
Fleet expenses	<u>1,895</u>
	\$ <u>59,630</u>

# YAP FISHING AUTHORITY

Notes to Financial Statements  
September 30, 2009

## 11. SUBSEQUENT EVENTS:

On August 5, 2009, YFA signed a contract between YFA-Yap State Government and the Embassy of Japan in the FSM for a project named "The Project for Assistance to Development of Small Scale Fisheries in Yap State". The contract enabled YFA to receive a grant of \$97,000 in October 2009 which it used to create another account with the Bank of the FSM for the purpose of the project. YFA used the funds to purchase several boats and outboard motors to be capitalized in FY10.

On October 7, 2009, YFA received from the Overseas Fisheries Cooperation Foundation of Japan various spare parts and equipment worth \$10,707. In February 2010, YFA received additional spare parts and equipment from OFCF worth \$ 15,713.17.



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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, 2009, and have issued our report thereon dated December 24, 2010 which report was qualified due to scope limitations presented by the lack of underlying documentation to support the ice sales and the carrying value of the fishing dock. 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  
Acting Yap State Public Auditor

December 24, 2010

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2009

### **FINDING NO. 1 PAYMENT FOR HOURS NOT WORKED**

**CRITERIA:** Time and attendance is maintained to ensure that employees are paid for actual hours worked.

**CONDITION:** Review of selected timesheets revealed that an employee was paid thirty eight (38) hours in excess of what was recorded as hours worked, which is ninety one (91). Further inquiry revealed that the extra 38 hours represent advance payment of the employee's salary, which is contradictory to the Financial Management Act of 1983 and Yap State Contracts Act.

**CAUSE:** The timesheet for the employee was not thoroughly reviewed by the proper personnel to ensure the employee was paid only for the hours worked and no salary advances were made.

**EFFECT:** Though the difference is trivial, left uncorrected, the cumulative effect should other employees get paid in the same manner, would increase to a point that it would have material financial impact on the Authority.

**RECOMMENDATION:** We recommend that management ensure timesheets are thoroughly reviewed and cross checked with actual check processed to ensure employees are paid for actual hours worked.

### **FINDING NO. 2 MISSING YFTI FUNDS**

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

**CONDITION:** On October 2, 2009, we conducted a cash count on YFA's cash on hand as of 9/30/09. We determined through review of the available documents that the missing YFTI cash collection amount of \$1,833 that was identified in FY08 still remains.

**CAUSE:** YFA management has not been able to provide any valid documentation that could help substantiate the accounting of the missing YFTI collections.

**EFFECT:** As of September 30, 2009, YFA hasn't resolved the \$1,833 unaccounted YFTI collections.

**RECOMMENDATION:** We recommend that YFA management ensure that appropriate policies and procedures are in place to deter the reoccurrence of such incident. YFA should also find appropriate steps to resolve the issue.

**PRIOR YEAR STATUS:** A similar finding was issued for the audit for the fiscal years ended September 30, 2008 and 2007.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2009

### **FINDING NO. 3 MISSING ASSETS**

**CRITERIA:** Controls and procedures should be in place to safeguard the assets of the Authority.

**CONDITION:** During the asset verification conducted on March 11, 2010, we were not able to locate one printer, with a net book of \$1,013, which the Authority purchased in FY2009.

**CAUSE:** Management did not ensure that proper controls are in place to protect the assets of the Authority.

**EFFECT:** Due to the lack of control mechanisms in place, possible losses from theft/pilferage will be present and will have a material effect on the financial position of the Authority.

**RECOMMENDATION:** We recommend that management design and implement controls and procedures in safeguarding the Authority's assets.

### **FINDING NO. 4 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 the review of fish purchases, it was noted that on several instances the purchases were erroneously posted directly to the cost of sales account instead of posting them to the inventory account.

**CAUSE:** Management did not ensure that the Authority regularly practiced the check and balance procedures thus, they weren't able to detect such mispostings.

**EFFECT:** At 9/30/09, the inventory account was understated subsequently overstating the cost of sale.

**RECOMMENDATION:** We recommend that YFA management ensures that proper check and balance is regularly practiced by the accounting section so that all records are regularly reconciled with the general ledger to ensure accuracy of postings and make applicable adjustment in cases of mispostings.

**PRIOR YEAR STATUS:** A similar finding was issued for the audit for the fiscal year ended September 30, 2008.

# YAP FISHING AUTHORITY

Schedule of Findings  
September 30, 2009

## **FINDING NO. 5 LACK OF CONSISTENT PRICE SCHEDULE FOR FISH PURCHASES FROM PRIVATE BOATS**

**CRITERIA:** Comprehensive price schedules that are equitable to all users, limits exemptions, and easy to enforce, should be in place for all products and services provided by the Authority.

**CONDITION:** During our review of fish purchase reports from private boats, in three instances, we noted that different prices were used to assess the purchases from three different vendors.

**CAUSE:** YFA did not have in place a comprehensive price schedule for purchases of fish from various private fishing boats.

**EFFECT:** Vendors were not equitably paid for their products which in effect poses the risk of claims from vendors.

**RECOMMENDATION:** We recommend that YFA management develop a comprehensive pricing scheme that will be equally beneficial to all suppliers and make certain it is enforced accordingly.

## **FINDING NO. 6 INADEQUATE CONTROLS OVER SPARE PARTS INVENTORY**

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

**CONDITION:** During the inventory observation on spare parts, we noted that there were no mechanisms or controls in place to ensure that inventory movements are recorded on a timely and accurate manner.

**CAUSE:** YFA management did not ensure that controls are in place to ensure inventories are monitored and recorded accurately and on a timely basis.

**EFFECT:** Due to the absence of control mechanisms, the risk of theft/pilferage is very high. The spare parts inventory might be misstated since they will still be carrying the cost of inventories that is no longer in their possession due to theft/pilferage.

**RECOMMENDATION:** We recommend that YFA management set-up control mechanisms that would ensure the accurate and timely recording of the movement of its spare parts inventory.

**PRIOR YEAR STATUS:** A similar finding was issued for the audit for the fiscal year ended September 30, 2008.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2009

### **FINDING NO. 7 ACCOUNTS PAYABLE BALANCES**

**CRITERIA:** Transactions should be supported by reliable and accurate documentations so as to establish its authenticity and legitimacy.

**CONDITION:** The supporting documentation of the account Rec/Payable - Marwel as well as a liability account known as "Due to State Government" with amounts of \$41,945.43 and \$35,324.85 respectively are not readily available. The balances of these accounts are prior year balances carried over from several fiscal years in a row. Without valid supporting documentations, validity and accuracy for these liabilities cannot be substantiated.

**CAUSE:** YFA did not ensure that control mechanisms are in place so as to properly document all transactions being entered into by the Authority.

**EFFECT:** Unsubstantiated account balances appearing on the financial statement of the Authority for several fiscal years in a row will raise skepticism over the Authority's integrity. Moreover, actual liability balance of the Authority is questionable.

**RECOMMENDATION:** In order to shed light on the long outstanding liability balances, YFA should exert efforts to locate and compile documents that will help them verify the accuracy of the mentioned liability accounts. Additionally, YFA management should also conduct accounts payable confirmations with its various vendors to ensure the accuracy and legitimacy of the account balances.

### **FINDING NO. 8 – MISSING FISH INVENTORY**

**CRITERIA:** Yap Fishing Authority must have control mechanisms in place to ensure the proper safeguarding of the company's assets.

**CONDITION:** On June 16 and 17, 2009, YFA conducted a physical count on its fish inventory for fish purchased from March to June 2009 and compared it with the balance per books. The physical count was short by 165 pieces of fish with a total weight of 432 pounds.

**CAUSE:** The Authority failed to provide adequate controls necessary to safeguard the company's fish inventory.



# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2009

### **FINDING NO. 8 – MISSING FISH INVENTORY (cont.)**

**EFFECT:** Due to the absence of control mechanisms, the risk of theft/pilferage is very high and YFA will be continually absorbing losses.

**RECOMMENDATION:** We recommend that YFA management set-up control mechanisms that would ensure the accurate and timely recording of the movement of it's fish inventory.

### **FINDING NO. 9 – LACK OF A VEHICLE POLICY**

**CRITERIA:** Government officials entrusted with public equipment and assets are responsible for carrying out public functions legally, effectively, efficiently, economically, ethically, and equitably. Likewise, the Yap Fishing Authority must have a vehicle policy consistent with Yap State Government Vehicle Regulations No. 1993-01 and Title 25 Section 4 of the Yap State Code, to govern acquisition, use, maintenance, disposition of the Authority's vehicles.

**CONDITION:** YFA own four vehicles: a 4x4 Toyota pick-up, a Toyota mini-pick-up, a Mazda mini-pick-up, and a Mitsubishi SUV. All of which lack the distinguishing government official seals, the name of the Authority, and State Government vehicle license plate.

**CAUSE:** The prior years' audits contained findings with recommendations for management to adopt a vehicle policy consistent with the State Government Vehicle Act to ensure that the Authority's vehicles are used solely for official purposes. The Board and Management has not implemented our audit recommendation, therefore, similar vehicle policy issue resurfaces year after year.

**EFFECT:** In addition to the normal depreciation costs of daily wear and tear on the vehicles, the general disregard for preventing abuse and misuse of the Authority's vehicles contributes greatly to the lack of the Authority's accountability to the public.

**RECOMMENDATION:** As a government entity, we recommend that the Board of Directors design and implement vehicle policies and procedures for Yap Fishing Authority consistent with those of the Yap State Government Vehicle Regulations.

**PRIOR YEAR STATUS:** A similar finding was issued for the audit for the fiscal year ended September 30, 2006.

# YAP FISHING AUTHORITY

## Schedule of Findings September 30, 2009

### **FINDING NO. 10 – 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:** During search for payables for FY09, we discovered that an expense was not accrued in its rightful period and was paid in the subsequent fiscal year.

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

**EFFECT:** Expenses for the year ended September 30, 2009 was understated as a portion of it was paid and 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.

**PRIOR YEAR STATUS:** A similar finding was issued for the audit for the fiscal year ended September 30, 2008.

### **FINDING NO. 11 – UNRECORDED ICE SALES**

**CRITERIA:** All sales, cash or credit, must be promptly recorded at the point of sale without any exception.

**CONDITION:** A YFA customer reported to the Auditor's Office about an incident regarding his un-receipted ice purchase. Verification of YFA's ice sales for that day, revealed that the sale to the customer was not recorded nor there was any overages reported during the day to imply that it was only an error in recording.

Using the incident together with the inadequate controls in place, we came up with an analysis that can clearly show that such incident will lead to material misstatement of ice sales.

**CAUSE:** Inadequate controls were in place to deter the occurrence of such incident.

**EFFECT:** Revenue from ice sales is materially misstated and due to the absence of complete documentation, we are qualifying the account.

**RECOMMENDATION:** We recommend that YFA set-up controls and procedures that would ensure that all sales are recorded on a timely manner. Additionally, inventory should be set-up and maintained properly to strengthen controls over ice as well as mitigate the risk of theft/pilferage.

# Yap Fishing Authority

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## Responses to FY2009 Findings

### **FINDING NO. 1 - PAYMENT FOR HOURS NOT WORKED**

- This was something that occurred only once with only one of our former employees during the employment of our former GM. He was the one who instructed the person preparing payroll to go ahead and pay those hours that had not been earned with the understanding that those hours will be earned before the concerned employee leaves the island.
- Management has been instructed that this is not to ever happen again since it clearly states in the personnel manual that no cash advances shall be given to any employee.

### **FINDING NO. 2 - MISSING YFTI FUNDS**

- This will be brought up to the AG Office's attention. Since this finding has not been resolved mainly due to the fact that the people who were in charge of the YFTI Funds are no longer employed by the Authority, we can't really determine why and how the Fund was missing that amount. If the AG agrees that the missing fund can be written off somehow, that will be how we will resolve this finding.

### **FINDING NO. 3 - MISSING ASSETS**

- To this day, we have not been able to locate the missing asset which the net book value is actually only \$150.00. This was a brand new printer which was kept in the office storage room with the door unlocked. The storage room now is being kept locked at all time when not in use. There are only 2 keys to the room and each key is assigned to the GM & AGM. Therefore, should there be any missing assets kept in this room, they would be the one accountable. There will be an inventory of assets done on a quarterly basis. As to the missing printer, this will be brought up to the appropriate legal authorities.

### **FINDING NO. 4 - MISPOSTING OF TRANSACTIONS**

- The accounting section has been instructed to do a proper check and balance on a monthly basis.

**FINDING NO. 5 - LACK OF CONSISTENT PRICE SCHEDULE FOR FISH PURCHASES FROM PRIVATE BOATS**

- The Authority never had a price schedule for fish purchases from private boats mainly due to the fact that we have our own boats fishing for us and rarely do we purchase fish from private boats. But with this audit finding, we have a fix price schedule now.

**FINDING NO. 6 - INADEQUATE CONTROLS OVER SPARE PARTS INVENTORY**

- Controls have been put in place. Forms have been prepared and given to the sections of the Authority with inventory items that when an item is taken from the inventory, it should be logged down and turned in to the accounting section at the end of each month. Therefore, whatever inventory items used for during that month will be recorded in that month.

**FINDING NO. 7 - ACCOUNTS PAYABLE BALANCES**

- The director of OAS and the Chief Account of Finance Division have already been informed of the \$35,000.00+. According to them, there is nothing in their record that shows that the Authority owes the Government that amount. A letter stating that effect will be prepared and signed by both the OAS director and Chief of Finance to resolve that amount. As to the \$40,000.00+ owed Marwel, as of now, we still cannot determine what we can do with it since Marwel no longer exist and we don't have any supporting documents.

**FINDING NO. 8 - MISSING FISH INVENTORY**

- Inventory on fish is being done on regular (weekly) basis. Should there be any shortages of the fish inventory, appropriate actions will be taken.

**FINDING NO. 9 - LACK OF A VEHICLE POLICY**

- YFA now has a its own vehicle policy, a mirror copy of the Yap State Government's vehicle policy with off course some sections modified to be in line with the Authority's structures and operations.