

Yap Sports Council

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

**Fiscal Year Ended
September 30, 2005**



**Office of the Public Auditor
State of Yap
Federated States of Micronesia**



OFFICE OF THE PUBLIC AUDITOR

STATE OF YAP

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EXECUTIVE SUMMARY

Financial Audit of the Yap Sports Council As of and for the Year ended September 30, 2005

The Office of the Yap State Public Auditor has released the final financial audit report of the Yap Sports Council (the Council) for the year ended September 30, 2005 which report is dated August 29, 2006. This is the first audit ever conducted for the Council. The Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal year 2005, we were not able to form an opinion on the fairness of the financial statement amounts. Accordingly, we expressed no opinion on the fair presentation of the financial statements presented on pages 2 through 4.

The Schedule of Expenditures of Federal Awards on page 5 reports that \$1,000 was received by the Council from FEMA Public Assistance Grants for Typhoon Sudal.

The report on internal control over financial reporting and compliance and other matters required by *Government Auditing Standards* on page 10 discusses reportable conditions at the Council. These conditions and our recommendations are presented for the information of the Council's management in the Schedule of Findings beginning on page 13. Of the nineteen findings, two are considered to be material weaknesses. Fourteen findings are related to inadequate controls over financial reporting while five are related to noncompliance with laws and regulations.

The ultimate causes of the nineteen findings contained in the report are summarized as presented below for the consideration of our state government leaders:

(1) **The State needs a mechanism for monitoring the activities of the various component units and holding accountable the Board of Directors for nonperformance.** Of the significant tasks assigned to it by the Sports Council Act of 1997, the Board of Directors has neither adopted a set of bylaws (Finding No. 1) nor formulated and adopted an administrative manual (Finding No. 3) to govern its operations. The Board did not fulfill its annual reporting requirements (Finding No. 4) and did not even prepare and file minutes of Board meetings (Finding No. 5). Because no one ensured that terms of memberships on the board were reviewed regularly, the Board members found as a result of our Finding No. 2 that their memberships on the Board had expired and therefore Board members had no authority to review and respond to the audit findings.

YSL 6-67 which was signed into law on June 30, 2006 reduced the number of Board members from eleven to seven. As of this writing, the appointing authorities have selected their representatives to the Sports Council, with the Governor's appointees awaiting legislative approval before the new board selected in response to YSL 6-67 could convene.

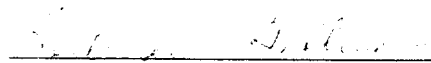
(2) **The mandate to ensure fiscal responsibility and financial accountability within the organization to which they are assigned should be stressed to each board member as this is a responsibility that is generally neglected by various Boards within Yap State.** But, unlike certain other enabling legislations, YSL 4-65 specifically tasked the Board of Directors to "determine the character of and necessity for the council's obligations and expenditures and the manner in which they shall be incurred, allowed, and paid." (Section 6, para. (m). Apparently, inclusion of the language alone was not enough to

ensure financial accountability. Findings Nos. 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, and 18 were a direct result of the lack of clear direction from the Board relating to the adoption of accounting policies and procedures for the Sports Council.

(3) To help the new Board of Directors for the Sports Council better fulfill its mandate, the State needs to better clarify the rights and obligations of the Sports Council with regards to sports-related financial and other resources. Specifically, Finding No. 7 discusses additional funding received in FY06 for the Micronesian Games held in Saipan which were allotted to the Governor and not to the Sports Council. Who is ultimately accountable for the expenditures against the grant? Finding No. 19 pertains to the Sports Complex which title remains with the State Government. What are the rights and obligations of the Sports Council with regards to the Sports Complex? Providing clear direction to the Sports Council in these matters will provide for better accountability over such resources.

As indicated earlier, the former Board of Directors reviewed a copy of our draft report but could not officially provide a response due to members' expired terms. Therefore, the response to the audit findings was prepared by the Assistant Sports Development Officer and is presented beginning on page 26 of this report.

We take this opportunity to thank the staff of the Sports Council for their cooperation and assistance.



Gertrude Gootinan
Yap State Public Auditor
March 6, 2007

YAP SPORTS COUNCIL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yap Sports Council:

I was engaged to audit the accompanying balance sheet of Yap Sports Council (the Council) as of September 30, 2005, 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 Council's management. My responsibility is to express an opinion on these financial statements based on my audit.


The Council has not maintained adequate accounting records for the year ended September 30, 2005, and I was unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2004 were fairly presented in conforming with accounting principles generally accepted in the United States of America or whether accounting principles have been consistently applied between fiscal year 2005 and 2004.

Since the Council did not maintain adequate accounting records, and I was unable to satisfy myself about the opening balances in the financial statements as of October 1, 2004, or about the consistent application of accounting principles between fiscal year 2005 and 2004, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on its financial position as of September 30, 2005 and the results of its operations and cash flows for the year then ended, or on the consistency of application of accounting principles with the preceding year.

The Council did not present Management's Discussion and Analysis that, although is not a required part of the basic financial statements, is supplementary information required by the Governmental Accounting Standards Board Statement No. 34.

The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Council's management.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 29, 2006 on my consideration of the Yap Sports Council's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my 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 my audit.


Gertrude Gootinan
Yap State Public Auditor

August 29, 2006

YAP SPORTS COUNCIL

Balance Sheet
September 30, 2005

ASSETS	<u>2005</u>
Current Assets	
Cash	\$ 40,495
Due from Yap State	<u>35,731</u>
Total current assets	76,226
Property and equipment, net (note 3)	<u>15,867</u>
TOTAL ASSETS	<u>\$ 92,093</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable	\$ 2,047
Accrued payroll and others	<u>5,165</u>
Total current liabilities	7,212
Contingencies	
Net assets:	
Invested in capital assets	15,867
Unrestricted	<u>69,014</u>
Total net assets	<u>84,881</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 92,093</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statement of Revenues, Expenses and Changes in Net Assets For the Year ended September 30, 2005

	<u>2005</u>
Operating revenues	
League and other fees	\$ 3,382
Operating expenses	
Payroll, taxes and benefits	65,849
Utility and communication	22,172
Travel	18,117
Depreciation	8,140
Employee housing	6,968
Sports events	9,994
Office supplies	11,052
Other	<u>9,658</u>
Total operating expenses	<u>151,950</u>
Loss from operations	(148,568)
Nonoperating revenues	
Sports Development Fund Transfers In	160,520
FEMA Grant	1,000
FSMNOC Fund contribution	<u>700</u>
Total nonoperating revenues	162,220
Increase in net assets	13,652
Net assets at beginning of year	<u>71,229</u>
Net assets at end of year	<u>\$ 84,881</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statement of Cash Flows For the Year ended September 30, 2005

Increase (Decrease) in Cash

	<u>2005</u>
Cash flows provided by (used for) operating activities	
Receipts from sports fees	\$ 3,382
Payments for other operating activities	
Cash payments for goods and services	(78,718)
Cash payments to employees	(63,406)
Net cash used for operating activities	<u>(138,742)</u>
Cash flows from noncapital financing activities	
Sports Development Fund transfer in	160,520
Increase/decrease in receivable from State Govt	4,096
Other income	1,700
Net cash provided by noncapital financial activities	<u>166,316</u>
Cash flows from (used for) investing activities	
Acquisition of fixed assets	(2,108)
Net cash used for investing activities	<u>(2,108)</u>
Net increase in cash	25,466
Cash, beginning of year	15,029
Cash, end of year	<u>\$ 40,495</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating Loss:	\$ (148,568)
Adjustment to reconcile net loss to net cash used in operating activities	
Depreciation	8,140
Increase/(decrease) in liabilities	
Accounts payable	(757)
Accrued payroll and others	2,443
Net cash used in operating activities	<u>\$ (138,742)</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Schedule of Expenditures of Federal Awards
September 30, 2005

Grantor/CFDA Grantor's Program Title	<u>Federal CFDA #</u>	<u>Expenditures 2005</u>
Federal Emergency Management Agency Grant <i>(Note 1)</i> DMR-FM-1511 Typhoon Sudal Public Assistance Grants Yap Sports Council	CFDA 83.516	<u>1,000</u>
TOTAL FEDERAL AWARDS EXPENDED:		<u>\$ 1,000</u>

Note (1)

The FEMA Grant is passed through the FSM National Government to the State of Yap. The amount received in FY05 was based on reimbursement claims submitted to the Division of Yap State Finance.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Yap Sports Council (the Council) was created in 1997 pursuant to Yap State Law No. 4-65, as amended by YSL 6-67, to promote and encourage sport participation, good sportsmanship, awareness of sports rules and regulations and develop Yap's athletes for regional sports competition by consolidating, facilitating, developing and promoting sports activities and programs in Yap State. The Sports Council is a legally separate entity of the State Government.

The Council is governed by a eleven member Board of Directors with three members appointed by the Governor; two appointed by the Speaker of the Yap State Legislature; two each appointed by the Councils of Pilung and Tamol, and two appointed by the Congress of the Federated State of Micronesia, Yap Delegation Office. All members of the Board hold four-year terms. The daily affairs of the Council are carried out by the Sports Development Officer (SDO) an Assistant SDO and an administrative assistant.

Basis of Accounting – The Council 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 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 applicable GASB pronouncements as well as Statements and Interpretations issued by the 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. The Council has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB Statement No.34 (*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*) 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 Council to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the Council is subject to externally imposed stipulations that can be fulfilled by actions of the Bureau pursuant to those stipulations or that expire by the passage of time.

YAP SPORTS COUNCIL

Notes To Financial Statements September 30, 2005

- (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 Council does not have restricted net assets as at September 30, 2005.

GASB No. 34 establishes a new financial reporting model that includes management's discussion and analysis, which is required supplementary information to the basic financial statements, and the presentation of net assets and changes in net assets in comparative financial statements.

Concurrent with the implementation of GASB 34, the Council also adopted GASB Statement No. 33 (*Accounting and Financial Reporting for Non-exchange Transactions*). Statement No. 33 defines and classifies non-exchange transactions into four categories and establishes the timing of recording of each category of transactions in the financial statements. Hence, operating grants received by the Council from the State of Yap are classified as voluntary non-exchange transactions as defined by GASB Statement No. 33. Thus, the grants are reported on the accompanying Statements of Revenues, Expenses and Changes in Net Assets as non-operating revenue, regardless whether such grants are used to acquire capital assets. Before the adoption of this accounting pronouncement, the Council recorded as additions to contributed capital, the portion of operating grants used to acquire capital assets.

New Accounting Standards – For fiscal year 2005, the Council implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment to GASB Statement No. 3)*. The impact of GASB Statements No. 40 was not significant to the financial statements.

For fiscal year 2006, the Council will be implementing GASB Statement No. 46, *Net Assets Restricted by Legislation*. Management does not anticipate that implementation of GASB Statement No. 46 will have a material financial statement impact.

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. The cash balance for the year ended September 30, 2005 are fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Receivables – Receivable represents the balance of fiscal year 2005 taxes collected by the State Government and credited to the Sports Development Fund but was not transferred to the Sports Council until fiscal year 2006.

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

YAP SPORTS COUNCIL

Notes To Financial Statements September 30, 2005

Furniture and fixtures	2-6 years
Office equipment	3-5 years
Automobile	3 years

The Council has not formally adopted a policy on capitalization of assets, but follows a general rule of capitalizing assets with costs in excess of \$50 and estimated useful lives of at least two years.

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

2. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2005 is as follows:

	Beginning balance October 1, 2004	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2005
Furniture & fixtures	\$ 3,675	\$ 98	\$	\$ 3,773
Vehicles	30,495			30,495
Office equipment	11,995			11,995
Other assets	820	2,009		2,829
	<u>46,985</u>	<u>2,107</u>		<u>49,092</u>
Less accumulated depreciation	<u>(25,086)</u>	<u>(8,139)</u>		<u>(33,225)</u>
Total	\$ <u>21,899</u>	\$ <u>(6,302)</u>	\$	\$ <u>15,867</u>

3. FEMA GRANT

The Council was the beneficiary of a FEMA Grant, through the Yap State Government, of \$1,000 for the repair of assets damaged during Typhoon Sudal. Accordingly, the Council was reimbursed for the repair of the damaged assets through Yap State check no. 14809 dated May 10, 2005 for \$1,000. The amount is presented as non-operating revenue in the accompanying financial statements.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2005

4. OTHER EXPENSES

Provided below is a breakdown of other expenses for the year ended September 30, 2005:

	<u>2005</u>
Other expenses	2,051
Entertainment	1,537
Repair and maintenance	3,827
Miscellaneous	<u>2,243</u>
	\$ <u>9,658</u>

5. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Council enters into transactions with the State Government and private businesses in which certain of the Council board members hold positions of influence.

6. CONTINGENCIES

The Sports Council maintains an office at the Sports Complex. It uses the Sports Complex for its sports events and has undertaken the maintenance and upkeep of the facility, although title to the facility remains with the State Government. No rent is assessed to the Sports Council for the use of the facilities.

On or about June 28, 2004, the Council entered into a two-year contract with an expatriate Sports Development Officer (SDO). Before the first year was completed, the SDO took ill and was forced to return to his homeland. When it became clear to the Council and the SDO that the employment agreement had to be terminated, the Council began working with the SDO to arrange for the shipment of his household effects from his residence in Yap to his homeland, in return for the SDO's assistance in recruiting for his own successor. The value of the shipment of the SDO's household effects to his homeland, should he pursue the claim, is estimated at \$3,000. However, to date, no claim described herein has been asserted against the Council.

7. RISK MANAGEMENT

The Council 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 Yap Sports Council. Management is of the opinion that no material losses have been sustained as a result of this practice.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2005

8. SUBSEQUENT EVENTS

The Governor signed into law on May 30, 2006 YSL 6-65 appropriating among other things, a grant of \$170,880 to fund Yap's participation in the Micronesian Games held in Saipan, CNMI in July 2006. The funds have a lapse date of September 30, 2006 and were allotted to the Governor and disbursed through the State Finance. As of August 29, 2006, \$146,123 had been expended against the grant.

On June 20, 2006 Governor Robert Ruecho' signed into law YSL 6-67, which amends Section 7 of YSL 4-65, the Sports Council Act. The new law decreases the number of Board members from eleven to seven by eliminating the two Legislature appointees as well as reducing the number of appointees from the FSM Congressional Delegation Office, the Councils of Pilung and Tamol from two each to one each. Meanwhile, the number of representatives to the Board to be appointed by the Governor with advice and consent of the Legislature was increased from three to four members.



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

To the Board of Directors of
Yap Sports Council:

I was engaged to audit the financial statements of Yap Sports Council (the Council) as of September 30, 2005, and for the year then ended, and have issued my report thereon dated August 29, 2006 which opinion was a disclaimer due to inadequate accounting records and uncertainties regarding opening balances and consistent application of accounting principles between fiscal year 2005 and 2004. I conducted my 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.

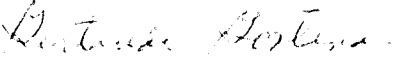
Internal Controls over Financial Reporting

In planning and performing my audit, I considered the Council's internal control over financial reporting in order to determine my auditing procedure for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that might be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Of the matters noted involving the internal control over financial reporting and its operation, I consider Findings No. 3 and No. 7 to be material weaknesses. I also noted other matters involving the internal control over financial reporting that I have reported to management in the accompanying Schedule of Findings as Findings Nos. 3 and Nos. 6 through 19.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatements, I 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 my audit, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings as Findings Nos. 1 through 5.

This report is intended for the information of the management and Board of Directors of the Yap Sports Council and is not intended to be and should not be used by anyone other than these specified parties. This report, however, is a matter of public record and its distribution is not limited.


Gertrude Gootinan
Yap State Public Auditor

August 29, 2006

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 1 – Lack of Bylaws

Criteria: YSL 4-65 empowers the Council to adopt by-laws which shall govern the election of officers of the Board, the term of office, powers, duties and responsibilities of the officers, the compensation of the members and officers of the Board and disqualification for conflicts of interest and the removal of the officers of the Board.

Condition: We were unable to find copies of by-laws for the Yap Sports Council. We were told that a copy of draft bylaws was available, but the draft bylaws were never officially adopted by the Board.

Cause: The Board of Directors did not officially adopt its by-laws and no one has required the Board to do so.

Effect: Policies and procedures relating to the matters required to be addressed in the bylaws are currently lacking with the effect that the Board of Directors is not very active in carrying out its duties and responsibilities.

Recommendation: We recommend that the Chairman of the Board immediately take action to prepare and adopt by-laws for the Board of Directors addressing the matters stipulated in the enabling legislation for the Yap Sports Council and other matters necessary to the efficient and effective operation of the Sports Council.

Finding No. 2 - Terms of Board Membership

Criteria: The enabling legislation for the Sports Council specified a term of membership on the board of four years. It also requires that board officers with three unexcused absences on Board meetings shall be terminated as officers.

Condition: We have no records of when the first Board of Directors convened and who were the initial members. Assuming that the first board convened soon after the creation of the Sports Council in 1997, memberships of that original board should have been renewed in 2002 and again in 2006. Official minutes of meetings and other board records were not available during fiscal year 2005 and earlier to allow us to determine whether the above provisions were being followed.

Cause: The Chairman of the Board did not ensure compliance with the provisions of the Sports Council Act of 1997.

Effect: The members of the Board may be conducting the affairs of the Council without legal authority.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 2 (cont.)

Recommendation: We recommend that the Chairman of the Board immediately review memberships on the Board and notify the appointing authorities to renew the terms or replace their representatives on the Board. Moreover, the Chairman should ensure that typed minutes of each and every board meetings are kept and made available at the next meeting of the Board for review and adoption. Such minutes should follow the requirements of the Minute Keeping Handbook issued by the Yap State Archives in April 2006. A copy of the handbook can be obtained from the Division of Archives, Office of Administrative Services.

Finding No. 3 – Administrative Manual

Criteria: YSL 4-65, the law that created the Sports Council stipulated that the employees of the Council would be exempt from the State Public Service System regulations however, the law required the Council to formulate its own Administrative Policies and Procedures.

Condition: We found no documentation specifying the authorized permanent full-time positions of the Council, employees' job descriptions and authorized hourly wages, except for existing employment contracts. Payroll records were inadequate to ensure that employees were paid only for hours worked, at authorized pay rates, and to document that paychecks were accurately calculated.

Its enabling legislation empowered the Council to establish charges for its services and other means of raising revenue and to determine the character of and necessity for the Council's financial obligations and expenditures and the manner in which they shall be incurred and paid. We found no such policies and procedures in place identifying fees and charges to safeguard expenditures against waste and abuse or to ensure that accounting records were adequately maintained.

Cause: The Board of Directors had not formulated administrative policies and procedures for the Sports Council. Board members may not be aware of their responsibilities as Board members to formulate policies and procedures to ensure that the Sports Council fulfills its mandate while maintaining accountability over funds entrusted to its care.

Effect: In addition to the expatriate Sports Development Officer, we found two local employees who were also salaried. This is inconsistent with the practice of the State Government and other quasi-autonomous agencies where only the Director or GM is salaried and all other employees are required to be paid hourly wages.

Because chargeable fees and services had not been formalized, we could not determine that all applicable fees were assessed and collected for fiscal year 2005. Moreover, accounting records were inadequately maintained to ensure that all expenditures were authorized. In addition, travel expenses were inadequately documented to safeguard against abuse of funds and to allow for proper accounting.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 3 (cont.)

Recommendation: We recommend that the Board of Directors formulate administrative policies and procedures to address personnel and related benefits and accounting and financial activities as soon as possible for the Sports Council.

Finding No. 4 - Reporting Requirements

Criteria: YSL 4-65 requires the Council to submit an annual report on its activities and finances, including financial statements, 90 days after the close of each fiscal year, to the Governor, the Speaker, the Public Auditor, the Chairmen of the Council of Pilung, and the Council of Tamol.

Condition: The Sports Council did not prepare and submit the required annual report.

Cause: The Board of Directors did not ensure that the Sports Council complied with its reporting requirements.

Effect: By not ensuring the Council complied with the above reporting requirement, the Board of Directors indirectly condoned the Council's poor accountability over public funds.

Recommendation: We recommend that the Board of Directors require the SDO and the Assistant SDO to adopt a GAAP accounting system and begin submitting the required annual report.

Finding No. 5 – Board Meeting Minutes

Criteria: The Chairman of the Board has the responsibility to ensure that details of the proceedings of Board meetings are properly documented in meeting minutes and made readily available.

Condition: Our audit of the Sports Council commenced during the last week of March 2006. During the audit process, we asked the Board meeting minutes during FY05 be made available to us. According to the Assistant Sports Development Officer (ASDO), meeting minutes were taken, but had not been transcribed by the Secretary of the Board. At the conclusion of our field work, the Council had not provided to us any minutes of Board meetings.

Cause: Management did not prompt its employees to ensure that meeting minutes were prepared and made available as soon as possible.

Effect: Without written minutes of the Board of Directors available, there is a greater risk the YSC will not conduct its affairs in line with the authority of the Board.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 5 (cont.)

Recommendation: We recommend that the Board of Directors ensure that written minutes for all meetings held by the Board are kept with details sufficient to provide the reader information of the Board decisions and actions. After the Board as a whole has reviewed and approved the minutes as the final documentation of its proceedings, a certified copy of the minutes should be provided to the Sports Office to be filed for future reference.

Finding No. 6 – Consolidation of Sports Financial Activities

Criteria: YSL 4-65 designated the Sports Council to be the official body for sports in the State requiring that all matters related to official sport activities shall be presented to and through the Council.

Condition: The primary source of funding for the Sports Council is derived from a percentage of taxes on alcoholic beverages and tobacco products allocated to the Sports Development Fund pursuant to YSL 4-15 promulgated in June 2005. Proceeds of the Sports Development Fund are transferred by the State Finance into the Council's bank account under the control of the Board of Directors. During years that the State of Yap elected to send a contingent off-island to participate in regional competitions, the Legislature usually appropriated additional monies to supplement the Sports Development Fund. Such appropriations are not disbursed to the Council, but are expended through the State Financial Management System.

Cause: The lack of a reliable accounting and financial management system at the Sports Council made it prudent to let the State Finance disburse and handle special appropriations for sporting events.

Effect: A complete financial picture of the annual financing of sports activities in and for the State is not available.

Recommendation: We recommend that the Board of Directors immediately require the SDO to put in place a sound accounting and financial management system to allow all funding for sports activities to be channeled through the Sports Council for ease of reporting and accounting.

Finding No. 7 – Double-Entry Accounting

Criteria: The Board of Directors is responsible to ensure that the Sports Council maintains and makes available reliable and accurate accounting and financial records maintained in accordance with generally accepted accounting principles (GAAP):

- (1) *GAAP requires the use of double-entry accounting where each transaction is recorded both as a debit and credit to at least two related accounts in the general ledger.* This ensures that financial statements prepared from the accounting data would always be in balance, increasing the chances to detect errors in a timely fashion.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 7 (cont.)

- (2) ***GAAP requires the use of a general ledger, a set of accounts utilized to keep track of five essential categories of accounting data:***
- (a) Assets – cash, receivables, inventory, property and equipment;
 - (b) Liabilities – accounts payable to suppliers and vendors, salaries payable, taxes payable;
 - (c) Net assets – Fund balance comprising the cumulative differences between revenue and expenses since inception of the Sports Council;
 - (d) Revenues – concession stand fees, league fees, grants received, and other income and;
 - (e) Expenses – salaries and wages, utility expense, fuel, supplies and material, etc.
- (3) ***GAAP requires revenues to be recorded when earned and measurable and liabilities at the time that expenses were incurred (goods and services were received).*** This is called the accrual method of accounting as opposed to the cash basis which records revenues and expenses only at the time that cash is received or paid out.
- (4) ***GAAP requires the proper matching of revenues and expenses for each accounting period.*** This requires assets or expenses benefiting more than one period to be capitalized and amortized over the number of periods that the asset or expense is expected to contribute towards the generation of income. Because it was on a cash-basis accounting method, the Sports Council was not able to comply with this basic accounting principle.
- (5) ***GAAP requires the consistent recording of accounting transactions from one period to the next.*** To ensure that financial data from one period are comparable with those of past or future periods, the same types of transactions should be recorded to the same account from period to period. A standard chart of accounts comprising the general ledger ensures that similar transactions are recorded consistently between different accounting periods. Sports Council did not have a chart of accounts in place during fiscal year 2005.

Condition: The Sports Council did not have in place an accounting system that would allow for the preparation of internal or external accounting and financial reports.

Cause: There was no trained accountant at the Sports Council to set-up and maintain a reliable accounting system from which financial statements could be prepared.

Effect: The Sports Council had no records of its financial activities during fiscal year 2005. Consequently, we had to compile the Council's financial statements ourselves using information obtained from banks, vendors, and Sports Council's cash receipts and other such documents we were able to find in the office. Because we had prepared the financial statements ourselves, auditing standards prevented us from issuing an opinion on the audit for the Sports Council as we could not audit our own work.

Recommendation: We recommend the Board of Directors immediately require the SDO to take appropriate action to purchase a simple accounting program such as *Quickbooks Pro* and hire someone to set up the program by creating a chart of accounts, establish beginning balances, and train the accounting clerk to post transactions.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 8 – Bank Reconciliation

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

Condition: The Council did not reconcile its bank account until recently in middle of 2005, but were reconciling it to the check register balance as the Council did not maintain a general ledger. We attempted to reconcile the bank account ourselves and came up to an unreconciled variance between the bank balance and the check register balance at September 30, 2005 of \$2,051. This variance is recorded in the accompanying financial statements for fiscal year 2005 as other expense.

Cause: The Council was not reconciling its bank account for the prior years. No one was assigned to perform bank reconciliation.

Effect: Unreconciled bank accounts increase the risk of errors in the recording of receipts and disbursements. There is also an increased opportunity for bank fraud and abuse when bank accounts are not timely and properly reconciled. Our attempt to reconcile the bank account as of September 30, 2005 found an unexplained variance of \$2,051.

Recommendation: We recommend that YSC train the responsible employee to properly reconcile bank accounts on a monthly basis.

Finding No. 9 – Charge Account

Criteria: The Sports Council Board of Directors has a responsibility to ensure that expenses charged to Sports Development Fund comply with the authorized uses of the funds as specified by YSL 4-65.

Condition: From October 2004 to October 2005, the Sports Office made a total of five payments aggregating \$11,501 to its charge account with a local vendor. We were able to determine that \$1,200 of the total paid was housing rental for the expatriate Sports Development Officer. Due to the large number of invoices involved, we did not have time to review the details of the rest of the invoices comprising four payments worth \$10,301. \$2,804 of the amount was related to FY04 charges, while the balance of \$8,944 were FY05 charges.

Our review of the invoices listed on the account details obtained from the vendor made us doubt that all of the expenses represented official expenses. We found that amounts of individual invoices listed on the statement ranged as low as \$2.00 to \$958.50. Account activities from October 2004 to October 2005 found charges occurring almost on a daily basis for some months. Two or three charge invoices a day was prevalent.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 9 (cont.)

We inquired of the Assistant Sports Development Officer (ASDO) about the nature of the charges since the payments made during fiscal year 2005 were based on statements of accounts instead of the original invoices. He explained that the charges consisted primarily of office supplies. However, we doubt the accuracy of this representation. Our office requires a lot more office supplies than the Sports Office since we deal with a lot more paperwork, but we do not spend anywhere near \$9,000 a year on office supplies. And we certainly do not buy supplies every other day or several times a day.

Cause: The above condition occurred because the Sports Council has not prohibited the use of charge accounts. In addition, there is no policy to use only original detailed invoices as underlying supporting documentation for disbursement of funds. Consequently, even though the check payments on the charge account made by the Sports Office may have been reviewed and signed by a signatory independent of the SDO, without the original invoices, the reviewer could not determine the validity of the expenses being paid.

Effect: The situation as described above increases the risk that personal expenses could be charged to the Sports Development charge account and subsequently paid by the Sports Development Funds without the knowledge of the members of the Sports Council.

Recommendation: We recommend that the Chairman of the Sports Council strengthen its procurement process by immediately taking the following actions:

- (1) Instruct the employees of the Sports Council to refrain from using the charge account at with the current vendor and all other vendors.
- (2) Notify all local vendors in writing that the Sports Council will no longer honor any invoices charged without a valid purchase order.
- (3) Adopt the purchase order form of the State Government and related policies and procedures for purchases of supplies.
- (4) Require that request for payment of goods and services must be accompanied by a valid, original invoice detailed enough to show the quantities, description and costs of individual items.

Unless the above corrective actions are taken by the Board members to strengthen controls over Sports Development Fund, the Sports Council's bank account might as well be closed and transactions processed at the State Finance.

Finding No. 10 - Supporting Documentation

Criteria: Pursuant to Section 6, paragraph (m), of YSL 4-65, the Board of Directors was mandated to "...determine the character of and necessity for the Council's obligations and expenditures and the manner in which they shall be incurred, allowed and paid."

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 10 (cont.)

Condition: Of twenty-five disbursement transactions reviewed, four transactions aggregating \$5,542 were found with no documentation on file to support the payments made. We knew about the entries only from the details on the check register. Of the remaining twenty-one transactions, nine or 42% had no underlying invoices to support the disbursements. The only document on file was the accounts payable voucher. Two of the transactions aggregating \$6,321 were payments on an open charge account with a local vendor. (See also Finding No. 12)

Cause: The management did not ensure that employees understood the importance of supporting documentation for disbursements, having not formulated policies and procedures for expenditures as mandated by YSL 4-65.

Effect: There is a greater risk that without authoritative documentation to justify the purpose of disbursements, funds could be expended for unauthorized purposes. Moreover, lack of proper documentation increases the risk of errors in the accounting records.

Recommendation: We recommend that the management ensure that the responsible employee is trained in the proper way of preparing and documenting each disbursement of funds, including maintenance of the filing system for disbursements and other accounting records. Ideally, management should require that each check payment must be accompanied by a receipt or authentic invoice agreeing to check amount. The check copy and invoice should be stapled to an accounts payable voucher explaining the purpose of the transaction and specifying the accounts to be charged. The accounts payable voucher should indicate the signature of the independent reviewer of the transaction.

Finding No. 11 – Checks made Payable to Cash

Criteria: Policies and procedures should be in place to ensure that funds are disbursed only for allowable and reasonable costs.

Condition: In November 2004, the Sports Council issued check # 2729 for \$363.95, payable to an employee that he cashed on island and hand carried the cash to Guam to purchase office equipment for the Council. During our review, we verified the existence of the items supposedly purchased, but there was no invoice on file to document that the amount disbursed was the exact cost of the items or whether the items were related to this particular check.

Of the 25 transactions selected, four checks aggregating \$5,338 (including the one discussed above) were made payable to cash. Of the three other checks payable to cash, two of them were for cash awards for tournaments. We could not find any details on file for the third check (#2930 dated July 20, 2005 for \$2,190.50).

Cause: The Council did not have a policy to prevent checks made payable to cash. Moreover, the management did not require that expenditure of funds were properly documented to show that it was for allowable and reasonable expenses.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 11 (cont.)

Effect: When checks are made payable to cash, no one is held accountable to ensure that documentation is obtained and filed to show that the cash was spent for authorized purposes. Anyone could cash the check, therefore, anyone could fabricate information to justify "expenses" accumulated to equal the amount of the cash disbursed.

Recommendation: We recommend that the Board and Management adopt a policy to discourage the issuance of cashed checks. The management should find ways to purchase items from off-island using regular company checks. Moreover, if league activities require that certain cash awards are made to athletes, the check should be made payable to a staff member, or trustworthy coach or referee. This person then becomes accountable to management that he had disbursed the cash as authorized. He can accomplish this by preparing a cash receipt ledger listing the beneficiaries, and amounts and date received. The signatures of the receivers could be obtained as acknowledgment and proof of their receipt of cash.

Finding No. 12 – Payroll Records

Criteria: Payroll records should be sufficient to document that employees are paid for actual hours worked, that pay checks are properly authorized and accurately calculated.

Condition: We judgmentally selected twenty-five payroll transactions through out fiscal year 2005 and attempted to trace hours paid to time and attendance reports:

- (1) Only seven of the payroll checks could be traced to timesheets. Time and attendance reports were not available for the other 18 transactions. Payroll information for four of the eighteen transactions was not even available. The only records available of the checks prepared on April 5, 2005, were the check details recorded on the check register.
- (2) We could not find employment contracts to verify the hourly pay rate for six of the 25 checks that we reviewed.
- (3) The SDO, Assistant SDOs, and Facility Supervisor were all on fixed salaries per the terms of their contracts. We believe that only the SDO, who is an expatriate contract worker, should be salaried. The rest of the staff members who are permanent full-time employees should be on hourly wages.

Cause: The Sports Council did not have personnel policies to explain the terms of employment for contract and permanent employees, time and attendance requirements for all employees and the maintenance of payroll records.

Effect: There is no assurance that employees' paychecks were accurately calculated and were properly authorized by management.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 12 (cont.)

Recommendation: We recommend that the Sports Council adopt a policy regarding the above. The State of Yap's personnel policy should be considered, as the Council should not adopt a policy that is inconsistent with the State's. The State requires all permanent government employees to be paid hourly wages and we recommend that the Council adopt a similar policy. Moreover, mechanisms such as a time clock should be considered to ensure that proper time and attendance records are maintained for payroll processing. Proper payroll documentation should be maintained to document authorized pay rates, evidence of actual hours worked, and calculation of net pay.

Finding No. 13 – Personnel Benefits

Criteria: The employment contract for the expatriate SDO stipulated that the employee may rent an apartment or home of his choice in his own name and the Council shall pay the rent not to exceed \$600 a month. The contract stated that employee shall be responsible for the utility expenses for his housing.

Condition: During fiscal year 2005, the Council paid \$587 in utility and communications expenses for the SDO for the months of June, August and September 2005. In addition, the Council also paid \$3,000 in five months rent for the same apartment even though the SDO was no longer on island.

Cause: According to the Assistant SDO, the SDO suddenly took ill in the middle of fiscal year 2005 and returned to his home country for medical care. He failed to contact the Sports Council after that to settle his employment status. Because of the lack of a written understanding between the employee and the Council, the Council became responsible for the latter's expenses.

Effect: The Council lost \$3,587 in fiscal year 2005 that could have been prevented had the Board of Directors anticipated and adopted policies relating to such circumstances.

Recommendation: Since the Council has been recruiting off-island for its top post – that of the Sports Development Officer, we recommend that the Board of Directors promulgate policies relating to payment and recovery of personal expenses before and after departures of employees.

Finding No. 14 – Salary Increases

Criteria: Proper documentation should be in place to justify salary increases.

Condition: Our review on payroll, found that the Council increased salaries for three employees without execution of contracts or preparation of personnel actions to support the increases. The only contracts found for these employees were for a one-year terms from July 2, 2002 to July 2, 2003. There were no contract renewals thereafter. According to the ASDO, the current increases were properly authorized by the former SDO, but no contract or personnel actions were prepared.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 14 (cont.)

Cause: The Council did not have a policy in place to ensure that any change in salaries and wages should be documented in writing.

Effect: Continuing to pay employees without preparing the necessary paperwork increases the risk of unauthorized pay.

Recommendation: We recommend that the Chairman of the Board require the Sports Development Officer ensure that employment contract for employees are maintained current to reflect the employees hourly rate and other terms of employment.

Finding No. 15 – Annual Leave

Criteria: Annual leave should be accumulated and used consistently with the State's leave policy.

Condition: Annual and sick leaves should be earned on a biweekly basis. During our review we found that YSC were not accumulating leaves on a biweekly basis. YSC did not have a payroll calculation worksheet in place to show accumulation of leave hours and usage each pay period.

Moreover, there was no standard leave policy for employees. Instead, total leave policy were defined on employees employment contract, which were different from employee to employee.

Cause: YSC did not maintain any worksheet to show leaves earned and used. In addition, YSC did not have in place policy and procedure that leaves earned and used are consistent with the State's.

Effect: With no calculation worksheet to show leave earned, used and the running balance, there is a greater risk that employees might get paid twice for the same vacation hours due to inaccurate records of leave accrual balances.

Recommendation: We recommend that the Board develop policies and procedures to ensure that leave hours earned and used is consistent with State's vacation and sick leave policies. Moreover, management should device a worksheet to record leave hours earned and used each pay period.

Finding No. 16 – Travel Advances/Voucher

Criteria: The Council should adopt and carry out policies and procedures related to off-island travel that are consistent with the State's travel policies and procedures.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 16 (cont.)

Condition: Our review of travel advances found that the Council disbursed travel advances without preparing travel authorization forms to document pertinent information relating to the trips (*e.g., purpose, destination, per diem rates, car rental/transportation, air fare*). Neither did the Council adopt the use of travel expense reports.

Cause: Because the Board had not adopted a policy relating to official travel, the Council did not make an attempt to properly document its travel related expenses.

Effect: We identified 12 transactions aggregating \$17,841 that appeared to be travel-related. However due to poor documentation we could not determine that:

- Funds spent were consistent to the stated purposes of the trips.
- Travels were actually completed as stated.

Therefore, there was great risk that unofficial expenses could be claimed and recorded as Sports Council expenses.

Recommendation: We recommend that the Board and management formulate and adopt policies and procedures that will require YSC to abide by the States travel procedures and policies.

Finding No. 17 – Unrecorded Revenue

Criteria: Policies and procedures should be in place to ensure that all revenues are properly receipted, recorded and deposited on a timely basis.

Condition: Revenue was understated due to unrecorded transactions. Our review on revenue found that YSC was not accurately receipting and recording all its sale transactions. Three transactions for a total of \$1,550 were not receipted and recorded. Furthermore, we found \$11 short in deposits of the total fees collected during FY05 of \$2,543.

Cause: Management did not ensure that responsible employees understood the proper method for receipting and recording transactions. Moreover, management did not require the issuance of cash receipts to document receipt of cash.

Effect: There is a greater risk that cash sales may be mishandled and may not be recorded.

Recommendation: We recommend that the management ensure that the responsible employee is trained in the proper use of cash receipt and invoices. All cash sales should be properly receipted, recorded and deposited to the bank on a timely basis.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 18 – Fixed Assets

Criteria: A fixed assets register and depreciation schedule should be maintained for proper accountability over physical assets.

Condition: At our request, the Council provided a register of fixed assets with dates of purchase, costs, description and useful lives for the assets on hand as of 9/30/05. However, because such a list was not maintained for the prior periods, we could not verify the accuracy of the register.

Cause: The Board did not require management to maintain a proper and reliable fixed asset register.

Effect: We could not determine that all physical assets of the Council were included in the fixed asset register prepared for FY05. Any assets acquired in the prior periods and stored at locations other than the Sports Complex could not be identified as missing from the list.

Recommendation: We recommend that the Board of Directors adopt a fixed asset capitalization policy and require management and staff to prepare and maintain reliable fixed asset registers, and depreciation schedule for all physical assets owned by the Sports Council.

Finding No. 19 – Title to Assets

Criteria: To ensure accurate presentation of financial position and results of operations, title to assets used by the Sports Council should be specified in writing.

Condition: The Sports Council is currently housed in an office building at the Sports Complex and conducts a majority of its activities using the facilities at the Sports Complex. Based on the job titles of some of its employees, it appears that the Sports Council is responsible for the ongoing maintenance of the Sports complex facility, yet title to the facility remains with the State Government. The Sports Council is not assessed rent for the use of the Sports Facilities and it records as its revenue, income from the concession stands at the Sports Complex.

During fiscal year 2005, FEMA awarded \$13,000 to the Sports Council through the State Government for the repair and replacement of outrigger canoes damaged by Typhoon Sudal. Two six-person outrigger canoes were purchased during fiscal year 2005 through a Yap State purchase order at a cost of \$13,565.28. The canoes are not recorded on the Sports Council fixed asset register as it is not clear who has title to the canoes.

Cause: The Chairman of the Board and the State of Yap has not clarified in writing their understanding relating to the Sports Council's ownership and conditions of use, if any, for the above assets.

Effect: The financial position and results of operations for the Sports Council will be dramatically different if it possessed title to the above assets. Moreover, its liabilities will also grow considerably if it is financially responsible for the maintenance of the Sports Complex. In addition, the Board cannot make any decisions relating to assessment of fees for the use of the Sports Complex when it has no clear title to the assets.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2005

Finding No. 19 (cont.)

Recommendation: We recommend that the Chairman of the Board begin the process to obtain from the State Government a written understanding of the terms of the Sports Council's use of the Sports Complex and other assets purchased with State funds other than the proceeds of the Sports Development Fund.



YAP SPORTS COUNCIL

MEMORANDUM

DATE : March 08, 2007
TO : Gertrude Gootinan, State Public Auditor
FROM : Acting SDO, Yap Sport Council
SUBJECT : Response to Draft Audit Report for Fiscal Year 2005

Council

Lyron Sulog
Chairman

James Palmeyog
Member

James Rogmad
Member

James Tairuwepiy
Member

James T. Lifang
Member

James Mireg
Member

James Ledgerwood
Counselor

In response to your draft audit report, I must agree that it has obviously illustrated a picture similar to a house built without a foundation and all the engineering requirements of it have been violated. It certainly requires full repair and close attention.

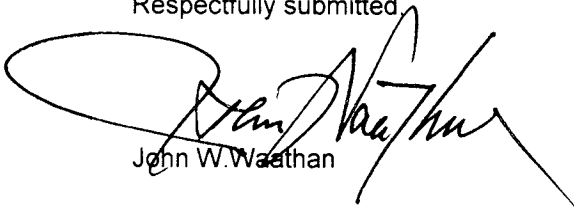
As you are aware, the Yap Sports Council Office has been in operation for the past six months without a Board. Currently, new board members have been appointed that meets sufficient quorum requirement. The Governor has recently appointed an acting chairman for the new Board. However, the new Board will need more time to study and review the audit findings before setting a course of action to correct the deficiencies cited.

On the other hand, I do not see it fit and appropriate for me to respond to the audit report without my board's participation. Moreover, I strongly feel that the audit report has opened the door to positive changes and improvement, which the new Board need to immediately correct and set up.

As Acting Sport Development Officer for the Yap Sports Council Office, I strongly agree with your recommendations, and I hope this new Board will choose to implement them as recommended.

Thank you very much for your understanding.

Respectfully submitted,



John W. Waathan