

Yap Sports Council

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

**Fiscal Years Ended
September 30, 2006 and 2005**



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



OFFICE OF THE PUBLIC AUDITOR

STATE OF YAP

FEDERATED STATES OF MICRONESIA

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EXECUTIVE SUMMARY

Financial Audit of the Yap Sports Council Years ended September 30, 2006 and 2005

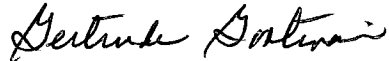
The Office of the Yap State Public Auditor has released the final financial audit report of the Yap Sports Council (the Council) for the years ended September 30, 2006 and 2005 which report is dated February 18, 2008. The fiscal year 2006 is the second year the Council has been audited. Because the Council still does not have a double-entry accounting system, the Independent Auditor's Report on page 1 is a disclaimer. Due to the lack of reliable accounting records for fiscal year 2006 and 2005, we were not able to audit the financial statements. Accordingly, we expressed no opinion on the fair presentation of the financial statements presented on pages 2 through 4.

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 twelve findings, two are considered to be material weaknesses. Ten findings are related to inadequate controls over financial reporting while two are related to noncompliance with laws and regulations.

Below is a summary of the findings and recommendations:

- (1) **Procurement Policies:** The Sports Council needed to develop procurement policies to ensure that expenditures comply with the State Financial Management Regulations and applicable policies and procedures. Findings Nos. 1, 2, 4, 5, 6, 9, and 10 were the result of the lack of effective policies and procedures requiring competitive procurement, sufficient underlying documentation of expenses, avoiding conflict of interest, and mitigating the risk of fraud and abuse. Minutes of board meetings held in fiscal year 2007 and 2008 revealed that the Board of Directors had initiated discussions on formulating an administrative manual for the Council to address the concerns expressed herein.
- (2) **Accounting and Financial Reporting Requirements:** The Sports Council was not fulfilling its annual reporting requirements as discussed in Finding No. 2. Its enabling legislation required the submission of annual financial statements, but the Council did not have an accounting system in place that would permit preparation of financial statements. Since our fieldwork for the 2006 audit, the Council has acquired an automated accounting software that would be able to generate the required financial reports when used properly. The Council still has yet to put the new accounting system to use as staff needs to undergo training on how to use the software.
- (3) **Accounting Policies and Procedures:** Once an accounting system is in place capable of producing financial statements, the Council would need to formulate accounting policies and procedures to ensure the reliability, accuracy, and completeness of the information being recorded. Findings Nos. 7, 8, 11 and 12 are some of the concerns that would need to be addressed by policies and procedures required for a reliable accounting system.

We met with the Board of the Sports Council on May 29, 2008 to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on page 22 of this report. We thank the staff and management of the Sports Council for the cooperation and assistance extended to us during the course of this audit.



Gertrude Gootinan
Public Auditor

July 4, 2008

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 sheets of Yap Sports Council (the Council) as of September 30, 2006 and 2005, 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 Council's management. My responsibility is to express an opinion on these financial statements based on my audits.

The Council has not maintained adequate accounting records for the years ended September 30, 2006 and 2005 and I was unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2005 and 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 2006, 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, 2005 and 2004 or about the consistent application of accounting principles between fiscal year 2006, 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, 2006 and 2005 and the results of its operations and cash flows for the years then ended, or on the consistency of application of accounting principles with the preceding years.

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.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 18, 2008 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

February 18, 2008

YAP SPORTS COUNCIL

**Balance Sheet
September 30, 2006 and 2005**

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets		
Cash	\$ 63,674	\$ 40,495
Due from Yap State Government (note 4)	47,325	35,731
Employee receivable	<u>316</u>	<u>—</u>
Total current assets	111,315	76,226
Property and equipment, net (note 2)	<u>16,788</u>	<u>15,867</u>
TOTAL ASSETS	<u>\$ 128,103</u>	<u>\$ 92,093</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 12,536	\$ 2,047
Accrued payroll and others	<u>3,585</u>	<u>5,165</u>
Total current liabilities	16,121	7,212
Contingencies		
Net assets:		
Invested in capital assets	16,788	15,867
Unrestricted	<u>95,194</u>	<u>69,014</u>
Total net assets	<u>111,982</u>	<u>84,881</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 128,103</u>	<u>\$ 92,093</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statement of Revenues, Expenses and Changes in Net Assets For the Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
League and other fees	\$ 5,609	\$ 3,382
Operating expenses		
Payroll, taxes and benefits	53,550	65,849
Utility and communication	24,099	22,172
Travel	3,409	18,117
Fuel expense (note 5)	11,234	2,686
Depreciation	6,572	8,140
Employee housing	-	6,968
Sports events	9,584	9,994
Office supplies	6,111	8,366
Others (note 6)	26,291	9,658
Total operating expenses	140,850	151,950
Loss from operations	(135,241)	(148,568)
Nonoperating revenues		
Sports Development Fund Transfers In (note 4)	148,364	160,520
YSL Appropriation (note 3)	16,758	-
FEMA Grant (note 3)	-	1,000
Other income	414	700
Total nonoperating revenues	165,536	162,220
Increase in net assets	30,295	13,652
Net assets at beginning of year	84,881	71,229
Prior period adjustments	(3,194)	-
Beginning net assets, as restated	81,687	-
Net assets at end of year	\$ 111,982	\$ 84,881

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statements of Cash Flows
For the Years ended September 30, 2006 and 2005

Increase (Decrease) in Cash

	<u>2006</u>	<u>2005</u>
Cash flows provided by (used for) operating activities		
Receipts from sports fees	\$ 5,609	3,382
Cash payments for goods and services	(70,555)	(78,718)
Cash payments to employees	<u>(58,282)</u>	<u>(63,406)</u>
Net cash used for operating activities	<u>(123,228)</u>	<u>(138,742)</u>
Cash flows from noncapital financing activities		
Sports Development Fund transfer in	148,364	160,520
Increase/decrease in receivable from State Govt	(11,594)	4,096
YSL appropriation for Micro Games	16,758	-
FEMA Grant	-	1,000
Other income	<u>414</u>	<u>700</u>
Net cash provided by noncapital financial activities	<u>153,942</u>	<u>166,316</u>
Cash flows from (used for) investing activities		
Acquisition of fixed assets	<u>(7,535)</u>	<u>(2,108)</u>
Net cash used for investing activities	<u>(7,535)</u>	<u>(2,108)</u>
Net increase in cash	23,179	25,466
Cash, beginning of year	40,495	15,029
Cash, end of year	<u>\$ 63,674</u>	<u>\$ 40,495</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss:	\$ (135,241)	\$ (148,568)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation	6,572	8,140
Prior period adjustments	(3,152)	-
Increase/(decrease) in assets		
Employee receivable	(316)	
Increase/(decrease) in liabilities		
Accounts payable	10,489	(757)
Accrued payroll and others	<u>(1,580)</u>	<u>2,443</u>
Net cash used in operating activities	<u>\$ (123,228)</u>	<u>\$ (138,742)</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2006 and 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, 2006 and 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, 2006 and 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.

New Accounting Standards – During fiscal year 2006, YSC implemented the following pronouncements:

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

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

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

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

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

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

In July 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for post employment Benefits Other than Pensions*". GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after

YAP SPORTS COUNCIL

Notes To Financial Statements September 30, 2006 and 2005

December 15, 2008. Management does not believe that the implementation of Statement No. 45 will have a material effect on the financial statements of YSC.

In September 30, 2006, GASB issued Statement No. 48, "*Sales and Pledges of Receivables and Future Revenue and Intra-Entity Transfer of Assets and Future Revenues*". GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of YSC.

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, 2006 and 2005 are fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage.

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

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:

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.

Reclassifications – Certain reclassifications have been made to the fiscal year 2005 balances and amounts in order to conform to the fiscal year 2006 presentation.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2006 and 2005

2. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2006 and 2005 are 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>--</u>	<u>49,092</u>
Less accumulated depreciation	<u>(25,086)</u>	<u>(8,139)</u>	<u>--</u>	<u>(33,225)</u>
Property & Equipment, Net	<u>\$ 21,899</u>	<u>\$ (6,032)</u>	<u>\$ --</u>	<u>\$ 15,867</u>

	Beginning balance October 1, 2005	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2006
Furniture & fixtures	\$ 3,773	\$ 1,232	\$	\$ 5,005
Vehicles	30,495			30,495
Office equipment	11,995	3,174		15,169
Other assets	2,829	3,128		5,957
	<u>49,092</u>	<u>7,534</u>	<u>--</u>	<u>56,626</u>
Less accumulated depreciation	<u>(33,225)</u>	<u>(6,613)</u>	<u>--</u>	<u>(39,838)</u>
Property & Equipment, Net	<u>\$ 15,867</u>	<u>\$ 921</u>	<u>\$ --</u>	<u>\$ 16,788</u>

3. OTHER GRANTS

In May 2006, Yap State Law No. 6-65 appropriated the sum of \$170,880 from the Yap State General Fund to fund Yap's participation in the 2006 Micro Games held in Saipan. Per Division of Finance records, the funds were expended during fiscal year 2006 as follows:

	<u>Authorized</u>	<u>Expended</u>	<u>Unexpended</u>
Travel	\$ 170,880	\$	\$
Chartered flight		68,430	
Airfare for off-island athletes		5,703	
Stipend & car rental		16,758	

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2006 and 2005

Room and board	46,620		
Consumables			
Insurance	1,712		
Uniforms	6,900		
	<u> </u>	<u> </u>	<u> </u>
	\$ 170,880	\$ 146,123	\$ 24,757

The total amount expended of \$146,123 was paid by the Division of Finance directly to vendors except for \$16,758 intended for stipend and car rental which was paid to the Sports Council and thus is included in the accompanying Statement of Revenues and Expenses for the year ended September 30, 2006.

For the year ended September 30, 2005, 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.

4. SPORTS DEVELOPMENT FUND TRANSFERS IN

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. Tax revenue allocated to the Sports Development Fund in fiscal years 2006 and 2005 is \$148,364 and \$160,520, respectively. In fiscal years 2006 and 2005, the Council received Sports Development Fund transfers of \$101,039 and \$124,789, respectively, and recorded \$47,325 and \$35,732 as receivables from the State Government for the years ended September 30, 2006 and 2005, respectively.

5. OTHER EXPENSES

Provided below is a breakdown of other expenses for the year ended September 30, 2005 and 2006:

	<u>2006</u>	<u>2005</u>
2006 Micro Games expenses	\$ 18,754	\$ --
Other expenses	3,532	2,051
Entertainment	1,080	1,537
Repair and maintenance	2,557	3,827
Miscellaneous	368	2,243
	<u> </u>	<u> </u>
	\$ 26,291	\$ 9,658

YAP SPORTS COUNCIL

Notes To Financial Statements September 30, 2006 and 2005

6. 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.

During the years ended September 30, 2006 and 2005, the Council paid approximately \$503 and \$2,686, respectively, for fuel obtained from a gas station owned by an employee. \$10,731 in outstanding payments to the same gas station is included in trade payables at September 30, 2006.

7. 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.

8. 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.

9. SUBSEQUENT EVENTS

On March 13, 2007, the current appointed members of the YSC's Board held its first meeting. In its second meeting held on March 29, 2007, the Board reviewed and approved applications for the positions of Sports Development Officer and Administrative Assistant. The former Assistant Sports Development Officer who was acting SDO became the Sports Development Officer. A draft by-law was also reviewed in the 2nd meeting of the Board of Directors.



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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, 2006, and for the year then ended, and have issued my report thereon dated February 18, 2008 which opinion was a disclaimer due to inadequate accounting records and uncertainties regarding opening balances and consistent application of accounting principles between fiscal year 2006, 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. 1 and No. 2 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. 4 thru 12.

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 and 3.

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**

February 18, 2008

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO. 1 – PROCUREMENT POLICIES

Criteria: Executive Order No. 1-99 requires that Yap Sports Council shall manage and disburse funds allotted to the Council's account in accordance with the Yap State Financial Management Act and the Yap State Contracts Act. These laws require a determination of the lowest cost supplier of needed items to be documented and also prohibit the establishment of open accounts with vendors.

Condition: Tests of disbursements for fiscal year 2006 found that YSC did not compare prices from different vendors nor document its justification for sole source purchases. According to the Acting SDO, competitive procurement was not standard practice even though the Office of the Administrative Services had instructed YSC to follow State procurement procedures.

We also found that YSC established charge accounts with two local vendors – an importer/retailer and a gas station. Account details from the importer/retailer from October 2005 to September 2006 showed YSC charges aggregated \$8,598. Due to a lack of supporting invoices, we were not able to verify that all the charges were valid expenses of YSC. Vehicle fuel and other POL requirements charged to the gas station for the same period totaled \$11,234, an amount that appears excessive for the requirements of YSC.

Thirteen checks aggregating \$2,720 were found in FY06 for entertainment such as lunches and dinners for off-island coaches and catering for a celebration in honor of athletes.

Cause: The above condition occurred because the Council did not ensure that procedures were in place to regulate purchases and prohibit the use of open charge accounts.

Effect: The practices as described above leads to extensive abuse and misuse of funds that should only be expended for reasonable sports-related activities.

Recommendation: Since the Council is required to manage and disburse State Government allotted funds in full compliance with applicable Yap State Laws and procedures, including but not limited to the Yap State Financial Management Act and the Yap Contracts Act, we recommend that the Chairman of the Board strengthen its procurement process by immediately taking the following actions:

- 1) Instruct the SDO to adopt the use of purchase orders and instruct vendors and suppliers in writing that invoices would not be honored unless referenced to a valid purchase order.
- 2) Notify all employees in writing that any invoices charged without a valid purchase order would be the personal liability of the employee who received the goods or services.
- 3) Require the SDO to immediately start soliciting prices from vendors and properly document comparisons prior to purchases.
- 4) Adopt the purchase order form of the State Government and related policies and procedures for purchases of supplies.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO. 1 – PROCUREMENT POLICIES (cont.)

- 5) 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.

Prior Year Status: Issued as Finding No. 9 – Charge Account in the audit for fiscal year 2005.

FINDING NO. 2 – INADEQUATE DOCUMENTATION OF EXPENDITURES

Criteria: Grant expenditures should be adequately supported by authoritative underlying documentation.

Condition: In May 2006, the Yap State Legislature through YSL 6-65, appropriated from the State's General Fund a sum of \$170,880 in travel budget for Yap athletes' participation in the 2006 Micro Games held in Saipan. Disbursements of such fund were made at the State's Finance of which \$16,758 for stipend and car rental was disbursed to Yap Sports Council, \$68,430 was paid for the chartered flight for athletes, \$46,620 paid to the 2006 Micro Games Organizing Committee for accommodations and meals, \$1,712 and \$6,900 for insurance and uniforms, respectively, and \$5,703 paid to individual athletes that were off-island for round trip fares.

Our review found that Yap Sports Council sold to non-athletes available seats on the chartered flight for \$100 each. Prior to the departure, Sports Council collected \$1,600 which was brought to Saipan as extra cash for contingencies. According to the Acting SDO, there were medical expenses incurred during the Games. No receipts were found to verify that medical services were actually rendered to the athletes.

According to the Acting SDO, car rental money of \$1,218 was not used since adequate transportation was provided by the games' organizers. Upon return, \$1,182 was deposited to the Council's account as leftover of the car rental money.

Cause: The Sports Council did not have adequate policies and procedures in place to ensure accountability and transparency.

Effect: Documentation to support \$16,758 in stipend and car rental expenses and \$1,600 emergency fund was lacking.

Recommendation: We recommend that the Board of Directors immediately require the SDO to put in place a sound accounting and financial management system to provide for proper accountability over funds transferred to the Sports Council for its use.

Prior Year Status: Same Finding issued in the audit of fiscal year 2005.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDINGS NO.3 – REPORTING REQUIREMENTS

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

Condition: Our audit for FY2006 found that as of March 2007, FY2006 annual report was not yet prepared nor submitted to the mentioned offices.

Cause: The Board of Directors did not ensure that the Sports Council complied with its reporting obligations. Moreover, Sports Council had not adopted a GAAP accounting system that would enable the current SDO to prepare and submit the required annual financial report.

Effect: By not ensuring the Council's compliance with its reporting obligations, 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 submit the required annual reports within the allowable period of time based on the YSL 4-65.

Prior Year Status: Issued same finding in our audit of fiscal year 2005.

FINDING NO.4 – CONFLICT OF INTERESTS

Criteria: Board members and employees of the Sports Council shall not benefit directly or indirectly by reason of any sale, purchase, contract or transaction entered into by the Council.

Condition: During FY2006, it was noted that YSC opened charge accounts with 2 local vendors whose owners and employees are related to the staff of the Sports Council.

Cause: There was no policy in place to prevent the above condition. In addition, secondary review of the members of the Board was not adequate prior to the approval of payments.

Effect: Due to the above circumstances and the lack of independent review of transactions there is increased risk that expenses not related to the activities of the Sports Council could be charged and subsequently paid by the Sports Development Fund without the knowledge of the Board members.

Recommendation: We strongly recommend that the Chairman of the Sports Council immediately require management to refrain from using charge accounts with the current vendors and any other vendors and ensure that policies be place to prevent future repetition of such practices.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO.5 – CONTRIBUTIONS AND DONATIONS

Criteria: The Sports Council is not in a good financial position to give out contributions and donations.

Condition: Review of disbursements for fiscal year 2006 reveals a \$500 donation to a family related to an employee of the Sports Council.

Cause: The Board felt that since the fatal accident occurred at the Sports Complex and it involves a staff of the Sports Council, a contribution to the family to show the Council's commiseration was necessary.

Effect: The Council incurred unnecessary expense since situation mentioned is not part of the approved budget for operations. Moreover, what the Board did was inconsistent with the prevailing practice where government agencies and private businesses ask employees themselves to give voluntary monetary contributions as commiseration to fellow workers.

Recommendation: We recommend that the Board of Directors formulate policies relating to allowable contributions and donations ensuring that such policies are consistent with the general practices of the Yap State Government and its agencies.

FINDING NO.6 - LACK OF PERSONNEL POLICIES

Criteria: Personnel policies should be in place as guidelines for the Board to require management to implement proper procedures.

Condition: Our audit for FY2006 noted the following:

- 1) We found that timesheets maintained in FY2006 were for only two maintenance officers and an administrative assistant. Time and attendance reports were not available for the other staff members (the two assistant sports development officer, wrestling trainer and facility supervisor). According to an office employee, the other employees were on fixed salaries, therefore, they were not required to maintain time sheets.
- 2) Prior to January 2006, the two maintenance officers were working under an annual contract from July 2002 to July 2003 at a rate of \$2/hour. The former SDO authorized pay rates increase for mentioned employees to \$2.50/hour without contracts or personnel actions prepared. In January 2006, Board and management of YSC prepared two employment contracts for the two with another increase in their pay rates to \$3/hour. Our review of the contracts found no changes in the job descriptions to justify such increases.
- 3) A wrestling trainer was also working for YSC getting \$88 biweekly without a valid employment contract.
- 4) Although employment contracts for YSC employees stated the required annual and sick leave per contract year, YSC did not have records in place to keep track of leave used.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO.6 - LACK OF PERSONNEL POLICIES (cont.)

The above problems were raised in similar findings in our FY2005 audit and at the time of the FY05 audit, new contracts were made for some employees.

Cause: Personnel Policies which regulate and explain the terms of employment, time and attendance policies, and annual leave records were not in place.

Effect: As a result of all the above, there is no assurance that employee's hours worked were precise and paychecks were accurately calculated. Continuing to pay employees without preparing the necessary paperwork increases the risk of unauthorized pay. Furthermore, non documentation of leave hours used will result in the non-determination of the usage of leave hours in accordance with the employment contracts.

Recommendation: We recommend that the Council adopt a policy regarding the above. Mechanisms such as time clock should be considered to ensure that proper time and attendance records are being maintained for payroll processing. Payroll documentation should be maintained to monitor authorized pay rates, evidence of actual hours, calculations of net pay and accruals of leave hours. Moreover, the Council should adopt personnel policy that is consistent with the Yap State.

Prior Year Status: Findings of payroll records, salary increase and leave accruals were raised in the FY2005 audit report.

FINDING NO. 7 - UNTIMELY BANKING OF COLLECTIONS

Criteria: Collections should be deposited to the bank on a timely manner.

Condition: Review of cash receipts revealed that cash and check totaling \$5,225 for the period December 2005 up to September 30, 2006 remained undeposited and were only kept in a locked desk in the Sports Council's office. These were proceeds from fees for league registrations, concessions, facility usage, and a check donation of \$1,000 dated April 4, 2006 from Palau and Matson Shipping for Yap athletes who participated in the 2006 Micro Games.

Cause: Management and administrative staff did not feel that it was necessary to deposit cash on a timely basis.

Effect: Of the \$5,225 undeposited receipts, only \$2,500 was deposited in October 5, 2006. The remaining undeposited receipts comprised the \$1,000 donated check, which is already stale-dated, and \$1,725 in missing cash.

Recommendation: We strongly recommend that the Board of Directors require Management to ensure that collections are deposited to the bank immediately as to avoid pilferage/misuse of cash collections. Furthermore, Management should ensure that receipts are recorded and must tally with the copy of the deposit slip.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO. 8 – RECONCILIATION OF BANK ACCOUNT

Criteria: Proper internal control dictates that bank reconciliation be done on a timely basis.

Condition: Review of YSC's bank account as of September 30, 2006 revealed that there were no monthly bank reconciliations for the whole fiscal year. An adjustment, material to the financial statements for \$1,284 was effected to properly reflect the correct bank balance as of September 30, 2006.

During reconciliation of the bank account, check no. 3056 for \$502.90 dated December 28, 2005 was still outstanding. Subsequent bank statements showed that the check still had not been presented to the bank as of March 31, 2007. As per inquiry with the Bank of FSM, checks without an explicit expiration date are normally considered stale after six months from the date of issuance.

It was also noted that the bank had been constantly charging YSC's checking account a monthly maintenance fee of \$10 or \$120 for the whole fiscal year even though the account has been constantly above the minimum required daily balance of \$1,500. According to the Bank of FSM, the maintenance fee is a system-generated charge which levied to Basic Business Checking Accounts once the daily balance falls below the minimum required balance. The BOFSM Manager also explained that if there were erroneous transactions/charges in a bank account, it is the responsibility of the account holder to notify the bank on a timely manner to enable the bank to process timely corrections in the account.

Cause: YSC management did not require its staff to reconcile regularly but relied solely on the Bank of FSM to provide accurate balances of its checking account.

Effect: Due to the absence of bank reconciliation, erroneous deductions from the account was not immediately identified thus making the account balance understated. It also exposed YSC to possible losses due to fraud and bank errors because of non-detection arising from YSC's failure to perform monthly bank reconciliation.

Recommendation: We recommend that the SDO assign a staff member to perform regular reconciliation of the Council's bank accounts.

FINDING NO.9 – TRAVEL EXPENSES

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.

Condition: Our review of travel advances for fiscal year 2006 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 expenses report and trip reports. Receipts and boarding passes were not filed as evidence of trips taken.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO.9 – TRAVEL EXPENSES (cont.)

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: During our review of expenses, we identified 7 transactions totaling \$3,409 in FY 2006 and 12 transactions totaling \$17,841 in FY 2005 or an aggregate of \$21,250 which all appeared to be travel-related expenses incurred for the two-year period.

However, due to poor documentation we could not determine that:

- Funds spent were for official trips
- Travels were actually completed as stated.

Therefore, the Sports Council could be paying for trips that never took place and unofficial expenses that may have been 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 State's travel procedures and policies. For the time being, Chairman of the Board should immediately require management to ensure that travelers submit to the Board receipts and boarding passes along with a trip report.

Prior Year Status: Same finding was issued in the audit for fiscal year 2005.

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".

Condition: Of the thirteen transactions reviewed, five transactions or 38% of the reviewed transactions totaling \$4,436 had no underlying invoices to support payments made.

Also, from the reviewed documents, five transactions aggregating \$6,218 represented payments made towards an open account with one of the local vendors. These payments were made upon receipt of statements of account from the vendor since YSC did not have file copies of purchase invoices. We requested the vendor to provide us copies of some of the invoices, but unfortunately we only received re-prints of those invoices instead.

Cause: Management did not formulate policies and guidelines to ensure that employees understood the importance of supporting documentation for disbursements.

Effect: There is greater risk that without authoritative documentation to justify the purpose of disbursements, funds could be expended for unauthorized purposes which in turn increases the risk of errors in the accounting records. Moreover, copies of invoices reprinted from computers are unreliable as items could be altered.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO. 10 – SUPPORTING DOCUMENTATION (cont.)

Recommendation: Management to formulate policies and procedures that will serve as a guide in training employees to be responsible in the proper way of preparing and documenting each disbursement of funds, including maintenance of a filing system for disbursements and other accounting records.

Prior Year Status: Same finding issued in the audit of fiscal year 2005

FINDING NO.11 – INVENTORY OF SPORTING EQUIPMENTS AND SUPPLIES

Criteria: Proper policies and procedures should be place requiring controls over the use of sports equipments and supplies.

Condition: As per our inquiry with Sports Council staff and coaches, sports equipments and supplies are purchased almost every sports season. Basketballs, track and field sports equipments were replaced almost in all events. According to the Acting SDO, basketballs were purchased more often than any other sports equipments because of school visits done every year for sports awareness and promotions. Moreover, basketballs disappeared during practices and games held each basketball season.

During our audit for fiscal year 2006, \$9,584 of YSC expenses were identified as sports-related. However, due to poor documentation, we were not able to verify how much the Sports Council spent on sporting equipments and supplies, and how much were spent on other sports activities for the year. No records were maintained to enable the Sports Council's staff to keep track of the number or amount of sports equipments that were purchased, distributed to different sports activities and given away for promotional purposes.

Cause: There were no policies and guidelines set in place to establish accountability and safeguard the Council's sports supplies and equipments.

Effect: Absence of policies and guidelines over the equipments resulted into losses which in the end costs the council unnecessary additional expenses to replace them.

Recommendation: We recommend that the Board of Directors establishes policies and guidelines that will require management to ensure the followings:

- 1) Sports equipments and supplies are physically secured with controlled access.
- 2) Physical count be done periodically and compared to records.
- 3) Require each sports federation to submit a list of coaches responsible for signing out sports equipments.
- 4) Prepare sign-out logs for all sports equipments.
- 5) Post rules and regulations for the use and care of sports equipments.
- 6) Establish penalties and charges for losses or damages of sports equipments.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2006

FINDING NO.12 – FIXED ASSETS REGISTER

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

Condition: At our request, Sports Council provided a listing of fixed assets with dates of purchase, costs, description and useful lives for assets purchased in fiscal year 2006. We added the current listing to the listing provided for the audit of fiscal year 2005 to determine the value of fixed assets at September 30, 2006. However, because such lists were not maintained for the proper periods, we could not verify the accuracy of fixed assets recorded.

Cause: The Board did not require management to maintain a proper and reliable fixed asset register. Moreover, employees were not properly trained to maintain a register that would show reliable and accurate values of fixed assets at the end of each period.

Effect: Any assets acquired in the prior periods and stored at locations other than the Sports Complex could not be identified as missing from the listings provided.

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.

Prior Year Status: Same finding was issued in the audit for fiscal year ending 09/30/05.

RESPONSE TO AUDIT REPORT

FISCAL YEAR ENDING SEPTEMBER 30, 2006

BY John W. Waathan

May 19, 2008

Yap Sports Council management responses to the 12 findings in the audit report for fiscal year ending September 30, 2006.

FINDING NO. 1 - PROCUREMENT POLICIES

The YSC Board was recommended to strengthen procurement process in the last audit and therefore started working on a financial and procurement manual in May, 2007. The manual was approved in January, 2008.

FINDING NO. 2 - INADEQUATE DOCUMENT OF EXPENDITURES

I admit that we failed to provide adequate documents for some expenditures and that we did not have a sound accounting and financial management system to provide for proper accountability over funds transferred to the Yap Sports Council for its use, and that we did not have trained human resource to handle the accounting responsibilities.

As recommended by the auditor's office in the last audit, I have taken the step to improve our accounting and financial system by ordering the Quick Book Pro software. We do have the software in the system, but have yet to find a trainer.

FINDING NO. 3 - REPORTING REQUIREMENTS

As required by the Yap Sports Council Financial and Procurement Manual, the YSC Office is now preparing and submitting required financial reports.

FINDING NO. 4 - CONFLICT OF INTERESTS

Effective October, 2007 YSC management has a charge account with YCA established for POL and any other urgently needed materials. The account has been closely monitored and all items to be charged to the account must to be approved by the director in advance.

FINDING NO. 5 - CONTRIBUTIONS AND DONATIONS

The donation was authorized by the last board of directors for the reasons mentioned in your findings. Currently, the new board has not arrived at any similar situation, but it is essential for YSC to consider the issue for discussion and possible additional policies to the personnel manual.

FINDING NO. 6 - LACK OF PERSONNEL POLICIES

The lack of personnel policies was cited in the first audit and the new board had drafted and approved one in January, 2008. Currently, there is a personnel policy in place for management to implement proper procedures.

FINDING NO. 7 - UNTIMELY BANKING OF COLLECTIONS

I am aware of the untimely banking of the collections and I know it is necessary to deposit cash on a timely basis, however, it was not done as required. As for the check of \$1,000.00 which is already stale-dated, it was in my desk and I forgot to give it to the responsible staff to deposit it. As for the other missing cash, I can not explain how they were expended or used.

Currently, we are depositing collections as soon as we receive them. All financial transactions are recorded.

FINDING NO. 8 - RECONCILIATION OF BANK ACCOUNT

Reconciliation of the YSC bank account was not done regularly by the assigned staff or myself. The monthly maintenance fee charged to the account, was not known to me at that time that it was not a normal process for YSC current checking account. The YSC checking account changed status when we could not maintain the minimum requirement of \$10,000.00. If we make the request to change the checking account to basic, should the monthly maintenance fee automatically stop? I have communicated with the bank manager about the issue last year and his response was to give him time to go back to his files to calculate the over-charge of the maintenance fee to the YSC checking account.

Currently, the reconciliation of the bank account is done by the responsible staff.

FINDING NO. 9 - TRAVEL EXPENSES

As drafted and approved by the YSC Board in January, 2008, section 27 is the Travel Policy which is included in the Financial and procurement Manual. Implementation of the travel policies commences after the approved date.

FINDING NO. 10 - SUPPORTING DOCUMENTS

Currently, we are following the financial and procurement manual to see to it that we maintain good and accurate records and all required and necessary supporting documents for all our financial transactions.

FINDING NO. 11 - INVENTORY OF SPORTING EQUIPMENTS AND SUPPLIES

In the past we purchased sports equipments such as balls for all sports and for every year tournaments or leagues and enough for our development programs. Currently, we are still assisting several sport associations with sport equipments such as balls and we still have enough for the development programs.

We have an inventory list of our sport equipment in stock. We have a sign-out sheet. Sports equipments such as balls do not last very long. Used ones are mostly kept for development purposes.

FINDING NO. 12 - FIXED ASSETS REGISTER

We have an inventory list of all physical assets owned by the Yap Sports Council and have yet to prepare and maintain reliable fixed assets registers and depreciation schedule. With the assistance of your office during the last audit, the assigned staff had started to prepare a fixed assets registers and a depreciation schedule.