

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



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EXECUTIVE SUMMARY

Financial Audit of the Yap Sports Council Years ended September 30, 2007 and 2006

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, 2007 and 2006 which report is dated May 21, 2008. The fiscal year 2007 is the third 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 2007 and 2006, 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 11 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, five 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.

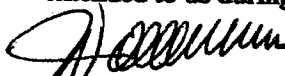
Below is a summary of the findings and recommendations:

(1) Administrative Policies: The Sports Council needed to develop policies to ensure that expenditures comply with the State Financial Management Regulations and applicable policies and procedures. Findings Nos. 3, 4, 6, 7, 8, 10, and 12 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 and in the latter part of FY 2008, the administrative manual was officially put in place.

(2) Accounting and Financial Reporting Requirements: The Sports Council was not fulfilling its annual reporting requirements as discussed in Finding No. 5. 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. In fiscal year 2008, the Council was able to hire an individual that can help them in using the accounting system. As of the end of fiscal year 2008, most of the Council's transactions have been inputted in the accounting system.

(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. 1, 2, 9 and 11 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 November 6, 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.



Wilfred Oliver L. Dolosa
Acting Public Auditor

January 19, 2009



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yap Sports Council:


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

The Council has not maintained adequate accounting records for the years ended September 30, 2007 and 2006 and we were unable to apply procedures to determine whether the opening balances in the financial statements as of October 1, 2006 and 2005 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 2007, 2006, and 2005.

Since the Council did not maintain adequate accounting records, and we were unable to satisfy ourselves about the opening balances in the financial statements as of October 1, 2006 and 2005 or about the consistent application of accounting principles between fiscal year 2007, 2006, and 2005, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on its financial position as of September 30, 2007 and 2006 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*, we have also issued a report dated May 21, 2008 on our consideration of the Yap Sports Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

May 21, 2008

YAP SPORTS COUNCIL

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YAP SPORTS COUNCIL

Balance Sheets
September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash	\$ 44,846	\$ 63,674
Due from Yap State Government	20,299	47,325
Accounts Receivable	4,000	—
Employee receivable	<u>318</u>	<u>316</u>
Total current assets	69,462	111,315
Property and equipment, net (note 2)	<u>11,969</u>	<u>16,788</u>
TOTAL ASSETS	<u>\$ 81,432</u>	<u>\$ 128,103</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 335	\$ 12,536
Accrued payroll and others	<u>6,033</u>	<u>3,585</u>
Total current liabilities	6,368	16,121
Contingencies		
Net assets:		
Invested in capital assets	11,969	16,788
Unrestricted	<u>63,095</u>	<u>95,194</u>
Total net assets	<u>75,064</u>	<u>111,982</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 81,432</u>	<u>\$ 128,103</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statements of Revenues, Expenses and Changes in Net Assets For the Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
League and other fees	\$ 225	\$ 5,609
Operating expenses		
Payroll, taxes and benefits	58,755	53,550
Other (note 4)	6,025	26,291
Utility and communication	28,331	24,099
Fuel expense	4,885	11,234
Sports activities	14,406	9,584
Office supplies	5,817	6,111
Depreciation	4,475	6,572
Travel	2,450	3,409
Total operating expenses	125,145	140,850
Loss from operations	(124,920)	(135,241)
Nonoperating revenues		
Sports Development Fund Transfers In (note 3)	85,256	148,364
Other grants	—	16,758
Other income	870	414
Total nonoperating revenues	86,126	165,536
Increase/(decrease) in net assets	(38,794)	30,295
Net assets at beginning of year	111,982	84,881
Prior period adjustments	1,876	(3,194)
Beginning net assets, as restated	113,858	81,687
Net assets at end of year	\$ 75,064	\$ 111,982

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Statements of Cash Flows
For the Years ended September 30, 2007 and 2006

Increase (Decrease) in Cash

	<u>2007</u>	<u>2006</u>
Cash flows provided by (used for) operating activities		
Receipts from sports fees	\$ 225	5,609
Cash payments for goods and services	(77,670)	(70,555)
Cash payments to employees	<u>(52,753)</u>	<u>(58,282)</u>
Net cash used for operating activities	<u>(130,199)</u>	<u>(123,228)</u>
Cash flows from noncapital financing activities		
Sports Development Fund transfer in	85,256	148,364
Unrecorded cash on hand	2,500	-
(Increase)/decrease in receivable from State Govt	27,027	(11,594)
(Increase)/decrease in Accounts Receivable	(4,000)	-
YSL appropriation for Micro Games	-	16,758
FEMA Grant	-	-
Other income	870	414
Net cash provided by noncapital financial activities	<u>111,653</u>	<u>153,942</u>
Cash flows from (used for) investing activities		
Acquisition of fixed assets	<u>(284)</u>	<u>(7,535)</u>
Net cash used for investing activities	<u>(284)</u>	<u>(7,535)</u>
Net increase in cash	(18,829)	23,179
Cash, beginning of year	63,674	40,495
Cash, end of year	\$ <u>44,846</u>	\$ <u>63,674</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities	\$ (124,920)	\$ (138,435)
Operating Loss:		
Adjustment to reconcile net loss to net cash used in operating activities	4,475	6,614
Depreciation		
Increase/(decrease) in assets	(2)	(316)
Employee receivable		
Increase/(decrease) in liabilities	(12,201)	10,488
Accounts payable	2,448	<u>(1,580)</u>
Accrued payroll and others		
Net cash used in operating activities	\$ <u>(130,199)</u>	\$ <u>(123,229)</u>

See accompanying notes to financial statements

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2007 and 2006

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.
- (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.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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 2007 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 YSC.

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

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Receivables – Receivable represents the balance of fiscal year 2007 and 2006 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, 2007 and 2006

2. PROPERTY & EQUIPMENT

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

	Beginning balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2007
Furniture & fixtures	\$ 5,005	\$ 283	\$	\$ 5,288
Vehicles	30,495			30,495
Office equipment	15,169			15,169
Other Equipment	5,957			5,957
	<u>56,626</u>	<u>283</u>	<u>--</u>	<u>56,909</u>
Less accumulated depreciation	<u>(39,838)</u>	<u>(5,102)</u>	<u>--</u>	<u>(44,940)</u>
Property & Equipment, Net	<u>\$ 16,788</u>	<u>\$ (4,819)</u>	<u>\$ --</u>	<u>\$ 11,969</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 Equipment	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. 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 2007 and 2006 is \$85,256 and \$148,364, respectively. In fiscal years 2007 and 2006, the Council received Sports Development Fund transfers of \$64,958 and \$101,039, respectively, and recorded \$20,298 and \$47,325 as receivables from the State Government for the years ended September 30, 2007 and 2006, respectively.

YAP SPORTS COUNCIL

Notes To Financial Statements
September 30, 2007 and 2006

4. OTHER EXPENSES

Provided below is a breakdown of other expenses for the years ended September 30, 2006 and 2007:

	<u>2007</u>	<u>2006</u>
2006 Micro Games expenses	\$ --	\$ 18,754
Other expenses	190	3,532
Entertainment	624	1,080
Repair and maintenance	5,176	2,557
Miscellaneous	35	368
	<u>\$ 6,025</u>	<u>\$ 26,291</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 Council board members hold positions of influence.

During the years ended September 30, 2007 and 2006, the Council paid approximately \$17,057 and \$503, respectively, for fuel obtained from a gas station owned by an employee. \$4,521 in outstanding payments to the same gas station were included in trade payables on or before September 30, 2007.

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.

YAP SPORTS COUNCIL

**Notes To Financial Statements
September 30, 2007 and 2006**

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.

8. SUBSEQUENT EVENTS

On May 29, 2008, the Council held its annual election which resulted in changes in the positions being occupied by the board members.



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

The Board of Directors of
Yap Sports Council:

We have audited the financial statements of the Yap Sports Council (the Council) as of and for the years ended September 30, 2007, and have issued our report thereon dated May 21, 2008, which opinion is a disclaimer due to inadequate accounting records and the inability to determine the consistent application of accounting principles between fiscal years 2007, 2006 and 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the Council's internal control.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Of the matters reported to management in the accompanying Schedule of Findings, we consider Findings Nos. 1 through 5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Yap Sports Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of

financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings as Findings Nos. 4 and 5.

This report is intended for the information and use of the management and Board of Directors of the Council and others within the entity, pass-thru entities, and federal awarding agencies and is not intended to be and should not be use by anyone other than these specified parties.


Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

May 21, 2008

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 1 – Bank Reconciliation

Criteria: Proper accounting principles require that bank accounts be reconciled monthly.

Condition: Our review of cash for year ending September 30, 2007 found that reconciliation of bank account was not done for the whole fiscal year.

During the reconciliation of the cash balance per books and per bank , we noted that YSC did not effect the required adjustment on the cash balance in the check register at the end of FY2005 and FY2006 amounting to \$2,051, thus YSC's check register was misstated for two years.

Going thru the check register, noted were five checks totaling \$1,517 that were not recorded in the register and also noted that the Bank of FSM was still able to levy the monthly \$10 maintenance fee from October 2006 up to April 2007 for a total of \$70.

Cause: YSC Management did not require its staff to reconcile regularly, though it was already mentioned to them during the FY2005 and 2006 audits about the importance of the reconciliation.

Effect: Due to the lack of timely bank reconciliation, the balance of cash is overstated and any errors/fraudulent transactions will not be discovered on time, thus putting the Council at risk.

Recommendation: In our audit for fiscal year ending September 30, 2006 and 2005, we recommended that YSC trained the responsible employee to properly reconcile bank accounts on a monthly basis. In fiscal year 2007, YSC hired an employee who was capable to reconcile bank accounts, and we still recommend that management require that bank accounts be reconciled on a monthly basis.

Prior Year Status: Finding issued in audit report for years ending September 30, 2006 and 2005.

Finding No. 2 – Untimely Banking of Collections

Criteria: Collections should be banked on a timely manner.

Condition: Review of cash receipts for year ending September 30, 2007 revealed that 6 of the 10 cash receipts or 60% aggregating \$212 were deposited four days or more from the date of receipt. Mentioned receipts were from concession and rental fees as well as change from various purchases.

A \$5 change from a purchase of supplies dated May 31, 2006 was only deposited on April 25, 2007.

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

Effect: The practice of not depositing cash on time exposes the Council to the risk of pilferage or theft.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 2 – Untimely Banking of Collections (cont.)

Recommendation: We strongly recommend that the Board of Director require management to ensure that collections be banked on a timely manner to avoid missing cash. Furthermore, management should also ensure that the checks being prepared for purchases tallies with that of receipts so as to avoid change and excess cash handling.

Finding No. 3 – Lack of Personnel Policies

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

Condition: Our audit for year ending September 30, 2007 found the following:

- 1) Our review of salaries found that: from October 2006 to April 14, 2007 timesheets maintained indicated hours worked for only the two maintenance officers and the administrative assistant. Time and attendance reports were not available for the other three employees (the two assistant sports development officer, and one wrestling trainer and facility supervisor). It's worthy to note that since April 15, 2007, timesheets are now maintained for all employees.
- 2) For the period October 1, 2006 to March 4, 2007, a wrestling trainer who was also working as the facility supervisor was being paid \$2.50/hour for a 40-hour bi-weekly pay period without a valid employment contract. In March 2007, the Board and management prepared and approved the contract of the mentioned employee with the hourly rate increased from \$2.50 to \$3.00 for an eighty hour bi-weekly pay period. Although there had been no previous contract, his job description in the new contract was still the same tasks to which he had been assigned; hence, there was no basis/justification for the \$.50 hourly rate increase.
- 3) It was noted that in the first half of fiscal year 2007 (October 1, 2006 to April 14, 2007), there was no attendance log maintained and a review of the time sheets of the three employees mentioned in 1) above, revealed that the hours indicated therein were the regular working hours of the day, and not necessarily the actual times the employees reported to work. The attendance log was only adopted effective April 15, 2007.

The above problems were raised in similar findings in our fiscal years 2006 and 2005 audits.

Cause: Personnel policies were not in place 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: As a result of all the above, there is no assurance that employees' hours worked were precise and paychecks were accurately calculated. Continuing to pay employees without preparing the necessary paperwork increases the risk of unauthorized pay.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 3 – Lack of Personnel Policies (cont.)

Recommendation: We recommend that the Council adopt a policy regarding the above. Attendance logs should be continually maintained to ensure proper time and attendance records for payroll processing. Payroll documentation should be maintained to document 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 Status: Findings of payroll records, and salary increase were raised in the fiscal years 2006 and 2005 audit reports.

Finding No. 4 – 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. Such Acts require a determination of the lowest cost supplier of needed items be documented and disallow government open accounts with vendors.

Condition: Review of disbursements for year ending September 30, 2007 found that out of the thirty-nine (39) transactions tested, twelve (12) or 31% with a total value of \$6,892 had no price comparisons from different vendors nor documentation of its justification for sole source. According to the Acting SDO, price comparison was never done but was informed by the Office of the Administrative Services to follow the requirements of the State's procurement procedures. It should be noted that in the latter half of the fiscal year, most of the purchases now have comparative pricing from two or more vendors.

YSC has two open charge accounts with local vendors and review of subsequent months after fiscal year 2007 revealed that they already closed one of the charge account and this was supported by a letter dated September 27, 2007. No more invoices/payments against the vendor were noted in fiscal year 2008.

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

Effect: The practices as described above can lead to extensive abuse and misuse of funds intended for the use of sports activities.

Recommendation: Because the Council is required to manage and disburse funds allotted into the Council's account in full compliance with procedures and any other applicable Yap State laws, 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 employees of the Sports Council to refrain from using the charge account.
- 2) Notify all local vendors in writing that the Sports Council will no longer honor any invoices charged without a valid purchase order.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 4 – Procurement Policies (cont.)

- 3) Require management 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.

Prior Year Status: Issued same finding in our audit of fiscal year 2006

Finding No. 5 – 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 fiscal year 2007 found that as of May 30, 2008, fiscal year 2007 and 2006 annual report were 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.

Status: Issued same finding in our audits of fiscal years 2006 and 2005.

Finding No. 6 – Conflict of Interest

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 fiscal year 2007, it was noted that YSC's charge accounts with two local vendors, whose business' owners and employees were related to members of the staff of the Sports Council, were still open.

One of the YSC's staff members that was related to one of the local vendor resigned last February 2007 and in September 30, 2007, YSC already informed the vendor that they will be closing the charged account effective October 1, 2007.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 6 – Conflict of Interest (cont.)

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

Effect: Due to the above circumstances and lack of independent review of transactions, there is increase 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.

Prior Year Status: Issued same finding in our audits of fiscal year 2006 and 2005.

Finding no.7 – Travel Expense

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 2007 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.

It was also noted that 5 out of the seven travel advances totaling \$1,700 were not supported by any Board Minutes as proof that the travel advances were taken-up and approved by the Board.

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 audit review of expenses for fiscal year, we identified seven transactions, totaling \$2,450 that appeared to be travel related.

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

- Funds spent were consistent to the stated purpose of the trips
- Advances were approved by the Board
- Travels were actually completed as stated.

Therefore, the Sports Council could be paying for trips that never took place and unofficial expenses that are recorded as the Sports Council expenses.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding no.7 – Travel Expense (cont.)

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 2006 and 2005.

Finding No. 8 – 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: Our review of expenses for the year ended September 30, 2007 selected twenty-six (26) transactions worth \$16,209 for testing. Nine transactions aggregating \$3,705 or 35% had no underlying invoices to support the payments made.

Other review of disbursements found that a check payment to one of the local vendor was \$45 more than the amount billed.

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 and increases the risk of errors in the accounting records.

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 2006.

Finding No. 9 – Fixed Assets Register

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

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding No. 9 – Fixed Assets Register (cont.)

Condition: There was no major acquisitions made in fiscal year 2007 and we just added one acquisition to the listing provided for the audit of fiscal year 2006 to determine the value of fixed assets at September 30, 2007. 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: Issued same finding in our audit for fiscal year 2006

Finding no. 10 – League Assistance

Criteria: As per YSL 4-65, Yap Sports Council's purpose is to consolidate, facilitate, develop and promote sports activities and programs in the State of Yap.

Condition: Review of the league assistance expenses revealed that assistance for sports activities was not proportionately distributed to the various sports activities. Of the \$14,406 total expenses, \$11,745 or 82% of the total expenses were used for basketball tournaments and only 18% percent or \$2,593 were used for the other sports activities.

Cause: A big chunk of the league assistance expense occurred during the 2006 Island Wide Basketball Tournament that was held from October to December 2006. During this period, the Yap Basketball Association ran out of funds and, in order not to disrupt the on-going league, YSC decided to shoulder the expenses which amounted to \$9,550 (82% of the total assistance given to basketball tournaments). The decision for the Sports Council to assume the league's expenses was made by then Assistant SDO without the approval of the board, which at that time, was inactive.

Effect: Thru the action of YSC and given the limited funding, the other sporting activities where assisted minimally which runs in contradiction with the purpose why YSC was created.

Recommendation: The Board of Directors should remind the SDO to see to it that league assistance should not be dominated by a single sport. The Board should also require the SDO to submit an annual plan for sports activities that will be proportionately assisted by the Council.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

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: Review of disbursements revealed that there were several purchases of sports and equipments for FY2007 and it's a normal practice of YSC almost every sports season. Basketballs, track and field sports equipments were replaced almost in all events. Purchases this fiscal year, which is \$700.44, is very much lower as compared to last year's purchases of \$9,584. For most part of the year, there was no records maintained to monitor the movement of the sports equipments as to its usage and distribution to different sports activities.

YSC only started the sign-out sheet to monitor the movement of the sports equipments in July 2007 and conducted the first inventory on Oct. 2, 2007.

Cause: Policies and procedures were not in place requiring management to ensure that sports equipments and supplies be remained on the Sports Complex's facilities. Moreover, staff, coaches and athletes do not assume the responsibility of ensuring that sports equipment be safeguard against loss and theft.

Effect: As a result of not maintaining proper controlling records, equipments can be damaged or lost without them knowing who's responsible and these would also give rise to the need for replacements of sports equipments and supplies.

Recommendation: We recommend that the Board of Directors establishes policies and procedures requiring 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 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.

Status: Issued same finding in our audit for fiscal year 2006.

Finding no. 12 - Improper Recording of Expenses

Criteria: Generally Accepted Accounting Principle require expenses to be recorded only when the cost is incurred (the goods or services have been received).

Condition: Review of check disbursements revealed that YSC paid \$4,000 as partial payment for 3 computers that were received in November 4, 2006. The total cost for the three computers was \$5,000 and the remaining balance of \$1,000 was paid on the same date the computers were delivered to YSC.

YAP SPORTS COUNCIL

Schedule of Findings
September 30, 2007

Finding no. 12 - Improper Recording of Expenses (cont.)

Cause: The reason for the advance payment was the agreement between YSC and the vendor to pay 80% of the total cost upon placing of order and since YSC was on a cash basis accounting, the transaction was posted as an addition to office equipment even if the goods have not been received.

Effect: By allowing purchase order advances, YSC is essentially agreeing to finance the operations of its suppliers.

Recommendation: We recommend that the Board require Management to record only GAAP expenses and any advance payment be recorded as an advance to suppliers. We also recommend that the Board refrain from fronting payments to vendors but to instead use a schedule of installment payments coordinated with the actual receipt of goods and services.

COMMENTS FOR 2007 AUDIT FINDINGS
FISCAL YEAR ENDING SEPTEMBER 30, 2007

Provided are our comments for findings for the 2007 Audit for Fiscal Year ending September 30, 2007. Currently, we have corrected approximately 98% of the cited areas. Furthermore, effective immediately this fiscal year, we are using the Quick Book accounting software which would strengthen and better maintain our accounting records, financial reports and accountability.

FINDING NO. 1 – UNTIMELY BANKING OF COLLECTIONS

Management failed to deposit collections on a timely basis, but that does not mean it is not important. It is important and required and needs correction as soon as possible.

Toward the closing of fiscal year 2007, YSC management had already started banking collections on a timely basis. Management is required to formulate deposit schedule, and the responsible staff to follow the schedule.

Finding No. 1 has been corrected sometimes during the last parts of fiscal year 2007.

FINDING NO. 2 – BANK RECONCILIATION

Management certainly failed to correct the problem immediately, however, with the trained staff, the problem is corrected.

FINDING NO. 3 – LACK OF PERSONNEL POLICIES

The Yap Sports Council lacks Personnel Policy because there has not been one created and in place. However, the new YSC Board appointees in mid 2007 finally formulated and adopted a personnel policy in January, 2008. Currently, YSC has a personnel policy in place and a copy of such policy has been provided for the Auditor's Office.

FINDING NO. 4 – PROCUREMENT POLICIES

Similar to Finding No. 3, there has not been one until January, 2008, and a copy of the policy was provided for the Auditor's Office.

FINDING NO. 5 – REPORTING REQUIREMENTS

Management admits to failing to submit annual reports of YSC activities and finances for the previous fiscal years. Management will ensure compliance with its reporting obligations commencing immediately.

FINDING NO. 6 – CONFLICT OF INTEREST

Management had stopped all business transactions with STOP-N-GO Gas Station in 2007, and on November 6, 2008, the YSC Board and Management decided and agreed to close its charge account at YCA as soon as possible. The Board insists and recommends that management adopts and implement the use of the purchase order form for all purchases of supplies and fuel (POL) as soon as possible.

Finding No. 6 has been corrected and management is in compliance with the purchase order process.

FINDING NO. 7 – TRAVEL EXPENSES

Similar to Finding no. 3 and 4, the YSC travel expenses procedures has been formulated and adopted and located in the financial and procurement policy as section 27.

FINDING NO. 8 – SUPPORTING DOCUMENTS

Management at the late part of fiscal year 2007 ensured compliance by properly preparing and documenting disbursement of funds.

FINDING NO. 9 – FIXED ASSETS REGISTER

Management has yet to completely correct the problem. With the use of the Quick Book accounting program, the fixed assets register would be completed for fiscal year 2008 and onward.

FINDING NO. 10 – LEAGUE ASSISTANCE

League assistance is provided to the different registered and affiliated sport associations based on the 80/20 percent split, whereas, YSC is responsible to furnish 80% of the total association approved annual budget for its sport leagues/competitions and development activities. The other 20% is the responsibility of the associations.

Sport Associations are required and mandated to submit to the YSC an annual budget for approval each year. YSC disburses to associations the needed amount of money to run leagues/competitions and development activities upon request per activity.

Basketball is the most expensive sport in terms of league expenses, especially, when there are more teams register for a basketball league. Management is not favoring any sport association in particular and therefore, YBA is not dominating league assistance in any way, but receives its needed share of the league assistance fairly and accordingly.

FINDING NO. 11 – INVENTORY OF SPORTING EQUIPMENTS AND SUPPLIES

Management has established log sheets to monitor and maintain records of all sporting equipments and supplies, and has required responsible staff to submit inventory reports quarterly.

FINDING NO. 12 – IMPROPER RECORDING OF EXPENSES

Management admits to what it has done and how it was done. The recording of the expenses maybe done improperly, but the intent of the purchase was done very honestly and in accordance with urgent needs of YSC at that particular time.

Management obtained quotations for the needed equipments from different vendors on the island. The approved amount for the equipments is less than most of the quotations received except one. Management decided for the vendor with the lowest quotation, however, the vendor required 80% of the total cost of the requested equipments before placing the order. Through desperation management paid for the 80% and the order was placed then paid for the remaining balance as soon as the equipments were received and installed.

It is a common practice by most business establishments here in Yap. Moreover, we have learned from that mistake. YSC will take the account into consideration.

YSC BOARD AND MANAGEMENT


Charles Falmeyog Chairman

Date 12.04.08

Off-Island
Liyon Sulog

V-Chairman
24

Date