

**Yap Sports Council**  
**Financial Statements and**  
**Independent Auditor's Report**  
**Fiscal Years Ended**  
**September 30, 2008 and 2007**



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## EXECUTIVE SUMMARY

### Financial Audit of Yap Sports Council For the Years ended September 30, 2008 and 2007

The Office of the Yap State Public Auditor has issued its audit report on the audit of the financial statements of Yap Sports Council for the years ended September 30, 2008 and 2007 which report is dated September 17, 2010. The Independent Auditor's Report on page 1 thru 2 gave a "qualified opinion" and a "disclaimer opinion" on the financial statements ending September 30, 2008 and 2007 respectively. For the past years, Yap Sports Council has always been given "disclaimers" because the Council does not have a double-entry accounting system. During FY2008, they started using the accounting software "quickbooks" to post their daily transactions, thus they were able to get a "qualified" opinion".

The report on internal control over financial reporting and compliance and other matters required by the *Government Auditing Standards* on pages 14 thru 15 discusses reportable conditions found during the audit. These conditions and our recommendations are presented for the information of YSC management in the Schedule of Findings on pages 16 thru 19. Of the six findings, two are related to non-compliance with grant agreements, laws and regulations while the remaining four are related to deficiencies in internal control over financial reporting. Four of the five findings are repeated from prior years.

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

- Finding No.1 is related to the non-existence of any justification for the rate increase of one of the Council's employee.
- Finding No.2 is about non-compliance to the Executive Order no. 1-99 requiring the Council to manage and disburse funds allotted to their account in accordance with the Yap State Financial Management Act and the Yap State Contracts Act, which requires a determination of the lowest cost supplier needed items to be documented and disallow government open account with vendors.
- Finding No.3 pertains to the possible conflict of interest since one officer of the Council is related to one of the employee of one local vendor.
- Finding No.4 pertains to non-compliance to the Council's policies and procedures with regards to off-island travel. A travel advance and one travelling expense representing additional funds were without any travel assignment forms nor liquidation reports. Further, travelling expense for additional funds was not supported by any board resolution as to the approval of such action.

- Finding No.5 refers to non-accrual of year-end expenses and erroneous postings of several expenses.
- Findings No.6 pertains to the non-maintenance of a fixed asset register.

We have met with the Council's Board of Directors and Management to discuss the above findings and they have provided written responses to the findings which are presented on pages 20 through 22 of this report. We thank the management and the Board of Directors of the Council for their positive reaction to our audit recommendations.



Ronald C. Yow  
Yap State Public Auditor  
October 7, 2010

**YAP SPORTS COUNCIL**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Yap Sports Council:

We have audited the accompanying balance sheets of Yap Sports Council (the Council) as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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.

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

Due to inadequate accounting records, we were unable to audit the balance sheet, related statement of revenues, expenses and changes in net assets and cash flows for the year ended September 30, 2007. Due to the poor state of the accounting records, we were unable to satisfy ourselves about the fair presentation of the 2007 financial statement by means of alternative auditing procedures and we were unable to satisfy ourselves about the opening balances in the financial statements as of October 1, 2007 and 2006 or the consistent application of accounting principles between fiscal year 2008 and 2007.

Because of the matter discussed in the preceding paragraph, 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 the results of its operations and cash flows for the year then ended, or on the consistency of application of accounting principles with the preceding years.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary in the fiscal year 2008 financial statements had we been able to satisfy ourselves with the beginning balances as discussed in paragraph three, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Yap Sports Council as of September 30, 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statement but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Ronald C. Yow  
Yap State Public Auditor

September 17, 2010

**YAP SPORTS COUNCIL**  
**Management Discussion and Analysis**  
**Fiscal Year 2008**

As management of the Yap Sports Council (YSC), we offer readers of the YSC's financial statements this narrative overview and analysis of the financial activities of the YSC for the fiscal year ended September 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the financial statements, which follow this narrative.

**Financial Highlights**

- YSC's Cash Assets increased \$4,296.00 from FY07 to FY08
- Operating revenues increased nearly 50% from FY07 to FY08.
- YSC non-operating revenues increased from \$86,126.00 in FY07 to \$135,500.00 in FY08. This increase can be attributed to the \$54,676.00 transferred to YSC from remaining balance of the 3<sup>rd</sup> FSM Games.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to YSC's basic financial statements. The YSC's basic financial statements consist of three components; 1) Balance Sheets, 2) Statements of Revenues, Expenses and Changes in Net Assets, and 3) Statements of Cash Flow. The basic financial statements present an overview of the use of all funds of YSC. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the YSC.

**Balance Sheet**

The first statement in the basic financial statements is the YSC Balance Sheet. It provides a basic overview of Assets and Liabilities of the YSC and their corresponding totals.

Cash Assets at the end of FY08 was higher than the end of FY07. This can be attributed to the transfer of remaining funds from the 3<sup>rd</sup> FSM Games. Although assisting with the operations of the YSC it was merely a "band aid on a mortal wound". The money due from Yap State Government decreased significantly from FY07 to FY08. This is due to the decrease in the collection of the Sports Development Fund. The last quarters of each FY is reflected in the money due from Yap State Government showing a decrease of \$6,881.00. This ultimately is the contributing factor to the Total Liabilities and Net Assets decreasing \$8,059.00.

YAP SPORTS COUNCIL  
Management Discussion and Analysis  
Fiscal Year 2008

**Statements of Revenues, Expenses and Changes in Net Assets**

The Statements of Revenues, Expenses and Changes in Net Assets give an overview of revenues, expenses, and how they have changed. Net assets are the difference between the YSC's total assets and total liabilities. Measuring net assets is one way to gauge the YSC's financial condition.

The YSC statements are divided into three categories: 1) Operating Revenues; 2) Operating Expenses; and 3) Non-operating revenues. The Operating Revenues include funds derived from league fees, concession stand rental, etc. The Operating Expenses are those costs that the YSC incurs for personnel, sports activities, and consumables. The final category is the Non-operating revenues. These funds are those not raised from direct activities of the YSC. These include the Sports Development Fund, donations, etc.

Operating Revenues for the YSC are very low. YSC provides a service to the public in hosting all related sports activities at its facilities. Currently, no charges are involved for communities/teams to use these services except for the use of the concession stand. The difference between the operating revenues and expenses is \$143,928.00. The YSC must consider placing charges/suggested fees for the use of services and facilities to assist in deferring this cost. Operating Expenses increased \$19,008.00 from FY 07 to FY08. This increase derived from the creating of a new position and increase in sport related activities in FY08.

Non-operating Revenues in total increased \$49,374.00 from FY07 to FY08. As stated, this is due to the funds transferred from the leftover monies of the 3<sup>rd</sup> FSM Games. Unfortunately, the Sports Development Fund decreased \$7,640.00. This decreasing is the root cause of the overall shortfall of the needed Operating Funds. The \$3,210.00 in FY08 is monies donated to the YSC for the youth basketball camp held by an off island group, Youth Teams Sports.

Overall the Net Assets decreased from \$75,064.00 in FY07 to \$66,636.00 in FY08. Furthermore, from beginning FY07 Net Assets decreased \$38,794.00 by the years end. This is a serious financial problem needing to be addressed by YSC.

**Statements of Cash Flows**

The Statements of Cash Flows provide a more detailed look at the YSC's most significant activities. This statement shows an average of \$133,616.00 net cash used in operating activities per fiscal year. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The two main funds of YSC are "goods and services" and "employees". Cash payments for "goods and services" decreased \$3,948.00 from FY07 to FY08 and increased \$11,028.00 for "employees".



**YAP SPORTS COUNCIL**  
**Management Discussion and Analysis**  
**Fiscal Year 2008**

**Conclusion and Plan of Action**

As noted earlier, net assets may serve over time as one useful indicator of the YSC's financial condition. There is a steady decrease in net assets from FY 07 to FY08. This steady decline will result in a drastic need for decreased spending or increasing of all revenue. Attention must be directed to the decline in the Sports Development Fund to ensure that those funds be returned to YSC. Simultaneously, action must be taken to increase operating revenues to assist with overall operating expenses. Also, decreasing of operating expenses has become a necessity.

**Requests for Information**

This report is designed to provide an overview of the YSC finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the director of YSC Paul Lane, P.O. Box 1038 Colonia Yap, FM 96943,

## YAP SPORTS COUNCIL

### Balance Sheets September 30, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current Assets		
Cash	\$ 49,142	\$ 44,846
Due from Yap State Government	13,418	20,299
Accounts receivable	-	4,000
Employee receivable	370	318
	<hr/>	<hr/>
Total current assets	62,930	69,462
Property and equipment, net (note 2)	10,443	11,969
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 73,373</b>	<b>\$ 81,432</b>
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 883	\$ 335
Accrued payroll and others	5,854	6,033
	<hr/>	<hr/>
Total current liabilities	6,737	6,368
Contingencies		
Net assets:		
Invested in capital assets	10,443	11,969
Unrestricted	56,193	63,095
	<hr/>	<hr/>
Total net assets	66,636	75,064
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 73,373</b>	<b>\$ 81,432</b>
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements

**YAP SPORTS COUNCIL**

**Statements of Revenues, Expenses and Changes in Net Assets  
For the Years ended September 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating revenues</b>		
League and other fees	\$ 470	\$ 225
<b>Operating expenses</b>		
Payroll, taxes and benefits	67,589	58,755
Sports activities	30,815	14,406
Utility and communication	27,475	28,331
Other (note 4)	3,109	6,025
Depreciation	6,526	4,475
Fuel	5,083	4,885
Supplies	3,801	5,817
Travel	-	2,450
<b>Total operating expenses</b>	<u>144,398</u>	<u>125,145</u>
<b>Loss from operations</b>	(143,928)	(124,920)
<b>Nonoperating revenues</b>		
Sports Development Fund Transfers In (note 3)	77,616	85,256
Direct Public Support	3,210	-
Other income (note 5)	54,674	870
<b>Total nonoperating revenues</b>	135,500	86,126
<b>Increase/(decrease) in net assets</b>	(8,428)	(38,794)
<b>Net assets at beginning of year</b>	<u>75,064</u>	<u>111,982</u>
Prior period adjustments	-	1,876
<b>Beginning net assets</b>	<u>75,064</u>	<u>113,858</u>
<b>Net assets at end of year</b>	<u>\$ 66,636</u>	<u>\$ 75,064</u>

See accompanying notes to financial statements

**YAP SPORTS COUNCIL**

Statements of Cash Flows  
For the Years ended September 30, 2008 and 2007

Increase (Decrease) in Cash

	<u>2008</u>	<u>2007</u>
Cash flows provided by (used for) operating activities		
Receipts from sports fees	\$ 470	225
Cash payments for goods and services	(73,722)	(77,670)
Cash payments to employees	<u>(63,781)</u>	<u>(52,753)</u>
Net cash used for operating activities	<u>(137,033)</u>	<u>(130,199)</u>
Cash flows from noncapital financing activities		
Sports Development Fund transfer in	77,616	85,256
Unrecorded cash on hand	--	2,500
(Increase)/decrease in receivable from State Govt	6,881	27,027
(Increase)/decrease in Accounts Receivable	(52)	(4,000)
Other Income	--	870
Unexpended funds from 3rd FSM Games	<u>57,884</u>	<u>--</u>
Net cash provided by noncapital financial activities	<u>142,329</u>	<u>111,653</u>
Cash flows from (used for) investing activities		
Acquisition of fixed assets	<u>(1,000)</u>	<u>(284)</u>
Net cash used for investing activities	<u>(1,000)</u>	<u>(284)</u>
Net increase in cash	4,296	(18,829)
Cash, beginning of year	44,846	63,674
Cash, end of year	<u>\$ 49,142</u>	<u>\$ 44,846</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss:	\$ (143,928)	\$ (124,920)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	6,526	4,475
Increase/(decrease) in assets		
Employee receivable	--	(2)
Increase/(decrease) in liabilities		
Accounts payable	548	(12,201)
Accrued payroll and others	<u>(179)</u>	<u>2,448</u>
Net cash used in operating activities	<u>\$ (137,033)</u>	<u>\$ (130,199)</u>

See accompanying notes to financial statements

# YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2008 and 2007

## 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 Council 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, 2008 and 2007

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

The Council does not have restricted net assets as at September 30, 2008 and 2007.

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 2008, YSC implemented the following pronouncements:

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

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

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

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

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

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

## YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2008 and 2007

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

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

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

**Cash** – For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. The cash balance for the year ended September 30, 2008 and 2007 are fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**Receivables** – Receivable represents the balance of fiscal year 2008 and 2007 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 2007 balances and amounts in order to conform to the fiscal year 2008 presentation.

## YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2008 and 2007

### 2. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2008 and 2007 are as follows:

	Beginning balance October 1, 2007	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2008
Furniture & fixtures	\$ 5,289	\$	\$	\$ 5,289
Vehicles	30,495			30,495
Office equipment	15,169	5,000		20,169
Other Equipment	5,958			5,958
	<u>56,911</u>	<u>5,000</u>	<u>--</u>	<u>61,911</u>
Less accumulated depreciation	<u>(44,942)</u>	<u>(6,526)</u>	<u>--</u>	<u>(51,468)</u>
Property & Equipment, Net	<u>\$ 11,969</u>	<u>\$ (1,526)</u>	<u>\$ --</u>	<u>\$ 10,443</u>

	Beginning balance October 1, 2006	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2007
Furniture & fixtures	\$ 5,005	\$ 284	\$	\$ 5,289
Vehicles	30,495			30,495
Office Equipment	15,169			15,169
Other Equipment	5,958			5,958
	<u>56,627</u>	<u>284</u>	<u>--</u>	<u>56,911</u>
Less accumulated depreciation	<u>(39,838)</u>	<u>(5,104)</u>	<u>--</u>	<u>(44,942)</u>
Property & Equipment, Net	<u>\$ 16,789</u>	<u>\$ (4,820)</u>	<u>\$ --</u>	<u>\$ 11,969</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 2008 and 2007 is \$77,616 and \$85,256, respectively. In fiscal years 2008 and 2007, the Council received Sports Development Fund transfers of \$64,198 and \$64,958, respectively, and recorded \$13,418 and \$20,299 as receivables from the State Government for the years ended September 30, 2008 and 2007, respectively.



## YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2008 and 2007

### 4. OTHER EXPENSES

Provided below is a breakdown of other expenses for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Other expenses	156	190
Entertainment	764	624
Repair and maintenance	1,809	5,176
Miscellaneous	380	35
	<u>\$ 3,109</u>	<u>\$ 6,025</u>

### 5. OTHER INCOME

The \$54,676 booked under other income represents the remaining balance of the funds raised during the staging of the 3<sup>rd</sup> FSM games that was held in Yap in 2001. Mentioned amount was transferred to Yap Sports Council through an allotment request coming from then Acting Governor, Lt. Governor Antony Tareg, based on the legal opinion issued by the Office of the State Attorney General.

### 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.

### 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. ACCOUNTING RECORDS

In fiscal year 2008, Yap Sports Council has started using the quick books accounting system for the proper maintenance of their accounting records.

### 9. SUBSEQUENT EVENTS

On April 2, 2009, the Council held its annual election which resulted in changes in the positions being occupied by the board members.



# OFFICE OF THE STATE PUBLIC AUDITOR

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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 year ended September 30, 2008, and have issued our report thereon dated September 17, 2010. 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. Deficiencies in internal control over financial reporting that we considered to be material weakness are described in the Schedule of Findings (pages 16 - 19) as findings no.1, 4 through 6.

### 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 (pages 16 - 19) as findings nos. 2 to 3.

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-through entities, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Ronald C. Yow  
Yap State Public Auditor

September 17, 2010

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2008

### **Finding No. 1 – Authorized Positions and Salaries**

**Criteria:** The Board of Directors has the responsibility to set job titles, position descriptions and minimum and maximum authorized salaries for each position within the Council.

**Condition:** The renewal contract for one employee revealed that there was an increase in his hourly rate from \$3.00 to \$3.50 though his job description in the new contract was still the same tasks to which he had been assigned only his title was change from maintenance officer to facilities supervisor; hence, there was no basis/justification for the \$.50 hourly rate increase.

**Cause:** Personnel policies in place do not specify the list of job titles and pay scale that can be used to cap any promotions and pay increases.

**Effect:** Possible distortion as to pay increases will be prevalent and could result to a higher operating cost that could affect the already strained cash position of the Council.

**Recommendation:** We recommend that the Board review the Personnel policies and to make changes with regards to the authorized positions and pay scales that will be beneficial not only to the employees but to the Council as a whole.

### **Finding No. 2 – Competitive Procurement**

**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, 2008 found that out of the nine (9) transactions tested, five (5) or 56%, with a total value of \$2,028.21, had no price comparisons from different vendors or documentation of its justification for sole source. It was noted that in FY2008, there was already a semblance of price comparison but was not being practiced on a regular basis.

YSC still maintain one open charge account with a local vendor and this has been a recurring exception since FY 2006.

**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 constantly regulate purchases.

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

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2008

### **Finding no. 2 – Competitive Procurement (cont.)**

**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 Council strengthen its procurement process by immediately taking the following actions:

- 1) Instruct the employees of the Sports Council to refrain from using the charge account.
- 2) Notify all local vendors in writing that the Sports Council will no longer honor any invoices charged without a valid purchase order.
- 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 years 2007 and 2006

### **Finding no.3 – 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 2008, it was noted that YSC's charge account with one local vendor, whose employee was related to a member of the staff of the Sports Council, was still open.

**Cause:** The YSC policy with regards to conflict of interest is not being followed and the secondary review of the members of the 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 charge and subsequently paid by the Sports Development Fund without knowledge of the Board.

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

**Prior Year Status:** Issued same finding in our audits of fiscal year 2007, 2006 and 2005.

This exception was corrected when the employee resigned on July 30, 2009.

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2008

### **Finding no.4 – Travel Expense**

**Criteria:** The Council should strictly follow their policies and procedures related to off-island travel.

**Condition:** Our review of travel advances for fiscal year 2008 found the following:

1. The Council disbursed one travel advance, amounting to \$510.00, without preparing travel authorization form to document pertinent information relating to the trip (e.g., purpose, destination, per diem rates, car rental/transportation, airfare).
2. The Council disbursed \$2,090.00 as additional funds for “Pinow Program” participants training in Samoa which got stuck in Cairns, Australia. There was no formal request letter or board resolution as to the approval of funding on file.

Both disbursements were not supported by any travel assignment order nor liquidation report, with its attachments, to vouch the authenticity of the expenses.

**Cause:** The Council failed to follow its policy with regards to the proper documentation of its travel related expenses.

**Effect:** During our audit review of expenses for fiscal year, we identified two transactions, totaling \$2,600 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 Sports Council expenses.

**Recommendation:** Chairman of the Board should require management to strictly follow the YSC’s existing travel policy.

**Prior Year Status:** Same finding was issued in the audits of fiscal year 2007, 2006 and 2005.

### **Finding No. 5 – Non-Accrual/Erroneous Postings**

**Criteria:** Controls should be in place to ensure accounting is consistent with the Generally Accepted Accounting Principles.

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2008

### **Finding No. 5 – Non-Accrual/Erroneous Postings (cont.)**

#### **Conditions:**

1. Erroneous posting of payroll liabilities. Deductions from employees' payroll such as SS-Employer Share and Employee Income Taxes were not included as part of the wages expense and as additions to payroll liabilities making the wages expense and payroll liabilities understated. In paying the mentioned payroll liabilities, instead of debiting the mentioned account, YSC posted the whole payments as its expense thus making its taxes expense overstated.
2. Non-Accrual of payroll liabilities such as the SS-Employer, SS-Employee and Employee Income Tax payable as of year-end making YSC's expenses and liabilities understated.
3. Misposting of various expenses.

**Cause:** Unfamiliarity with the accounting system and relevant tax laws.

**Effect:** The generated financial statements are misstated.

**Recommendation:** Management should familiarize itself with the accounting system and the relevant tax laws so as to preclude such exceptions.

### **Finding No. 6 – Fixed Assets Register**

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

**Condition:** There was only 1 major acquisition made in fiscal year 2008 and we just added the acquisition to the listing provided for the audit of fiscal year 2007 to determine the value of fixed assets at September 30, 2008. 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 audits for fiscal year 2007 and 2006

**Management's Comment and Discussion on  
Fiscal Year 2008 Audit Findings**

**Finding No. 1 – Authorized Positions and Salaries**

**YSC Position:**

Disagree

**Reason:**

The Yap Sports Council remains independent of the Public Service System set up by the Yap State Government. Therefore it does not maintain the same pay rate and requirements as such. In addition, the personnel hired by the Council changes as needed by the Director for the projects and programs to be run for Sports Development. These positions are relative to the needs of the Director for his tenure with the Council.

**Finding No. 2 – Competitive Procurement**

**YSC Position:**

Agree

**Planned Corrective Action:**

YSC will close all open charge accounts and utilize the State Government Procurement procedures. All local vendors will be notified of the new procedures to comply with a valid purchase order. YSC will draft price comparison sheet.

**Responsible Person:**

YSC Director and Administrative Assistant

**Planned Completion Date:**

Completed

**Finding No. 3 – Conflict of Interest**

**YSC Position:**

Agree

**Planned Corrective Action:**

YSC will close all open charge accounts and utilize standardized procurement practices.

**Responsible Person:**

YSC Director



**Planned Completion Date:**

Completed

**Finding No. 4 – Travel Expense**

**YSC Position:**

Agree

**Planned Corrective Action:**

YSC Management will adhere to travel policies and procedures

**Responsible Person:**

Director will inform all employees of the requirements of them submitting all receipts showing consistency of funds spent with their stated purpose and boarding pass of their travels.

**Planned Completion Date:**

Ongoing

**Finding No. 1 – Non-Accrual/Erroneous Postings**

**YSC Position:**

Agree

**Planned Corrective Action:**

Director and Administrative Support Staff will become familiar with using the new accounting system. Familiarity with system will simultaneously involve learning the current tax laws.

**Responsible Person:**

Administrative Staff and Director

**Planned Completion Date:**

Administrative Staff has already received training from the Public Auditors office and continues open communication and questioning when new issues arise. Director will begin familiarization May 2010 to alleviate any issues that may arise with Admin Staff absence.

**Finding No. 6 – Fixed Assets Register**

**YSC Position:**

Agree

**Planned Corrective Action:**

Management and staff will compose a detailed fixed asset. All staff will become trained in maintaining the register. Upon Board approval, a policy will be adopted to be included in the Sports Council regulations.

**Responsible Person:**

Management, staff, Board of Directors

**Planned Completion Date:**

Staff has requested a Fixed Assets register from finance. We are awaiting delivery. Register will be complete by June 2010. Board approval and policy will occur at the third quarter meeting in July 2010.