

**Yap Sports Council**

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

**Fiscal Years Ended  
September 30, 2009 and 2008**



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**EXECUTIVE SUMMARY**

**Financial Audit of the Yap Sports Council  
For the Years ended September 30, 2009 and 2008**

The Office of the Yap State Public Auditor has released the final financial audit report of the Yap Sports Council (YSC) for the years ended September 30, 2009 and 2008 which report is dated February 27, 2011.

The auditor's opinion on the financial statements presented on page one, which is "unqualified", states that the balance sheets, statements of revenues, expenses and changes in net assets and cash flows as of and for the years ended September 30, 2009 and 2008 are fairly presented in conformity with accounting principles generally accepted in the United States of America. This is the best opinion that an auditor can render on the audit of an entity's financial statements.


The report on internal control and compliance and other matters required by *Government Auditing Standards* on pages thirteen (13) to fourteen (14) discusses reportable conditions at YSC. These conditions and our recommendations are presented for the information of YSC management in the Schedule of Findings beginning on page fifteen (15). Of the six findings, Five were unresolved prior year findings, and are considered to be material weaknesses. The remaining finding is related to inadequate controls.

Following is a summary of the audit findings for the year ended September 30, 2009:

- Finding no.1 relates to non-compliance to the procurement policies and regulations.
- Finding no. 2 and 3 discusses the inadequate maintenance of accounting records as well as the fixed asset register.
- Finding no. 4 and 5 relates to non-reconciliation of account balances on a timely manner.
- Finding no. 6 discusses the absence of personnel policies and procedures in regards to authorized positions and salaries.

We have met with the YSC Board of Directors and Management to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on pages seventeen to nineteen of this report.

We would like to thank the Board of Directors, the management and staff of YSC for their assistance and cooperation during the course of this audit.

  
Ronald C. Yow  
Acting Yap State Public Auditor  
February 27, 2011

# 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, 2009 and 2008, 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.

We were unable to satisfy ourselves about the opening balances in the financial statements as of October 1, 2007 or the consistent application of accounting principles in fiscal year 2008.

In our opinion, except for the effects on the fiscal year 2008 financial statements of such adjustments, if any, as might have been determined to be necessary if we had been able to satisfy ourselves about the opening 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, 2009 and 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 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board Statement no.34. 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 February 27, 2011 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 audits.



Ronald C. Yow  
Acting Yap State Public Auditor  
February 27, 2011

YAP SPORTS COUNCIL  
Management Discussion and Analysis  
Fiscal Year 2009

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, 2009. We encourage readers to read the information presented here in conjunction with additional information furnished in the financial statements, which follow this narrative.

**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 FY09 decreased from end FY08. This can be attributed to the transfer of remaining funds from the 3<sup>rd</sup> FSM Games during FY08 that assisted with the operations of YSC. Although assisting for a short time, ultimately the decrease in the sport fund has been noticed in FY09. The last quarters of each FY is reflected in the money due from Yap State Government showing an increase of nearly \$12,000.00. This could be a good sign that Sport funds are increasing through better tax collection.

**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

YAP SPORTS COUNCIL  
Management Discussion and Analysis  
Fiscal Year 2009

communities/teams to use these services except for the use of the concession stand. The difference between the operating revenues and expenses is \$111,277.00. The YSC has begun to initiate charges/suggested fees for the use of services and facilities to assist in deferring this cost once the complex opens again in FY10.

Non-operating Revenues in total decreased \$42,711.00 from FY08 to FY09. As stated, this is due to the funds transferred from the leftover monies of the 3<sup>rd</sup> FSM Games during FY08. On a positive note, the Sports Development Fund increased \$15,173.00.

Net Assets decreased from \$66,636.00 in FY08 to \$48,148.00 in FY09. The decrease continues to show serious financial problems 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 \$106,216.00 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 \$46,274.00 from FY08 to FY09 and increased \$15,503.00 for "employees".

### **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 08 to FY09. 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, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current Assets		
Cash	\$ 17,837	\$ 49,142
Due from Yap State Government	30,824	13,418
Employee receivable	<u>370</u>	<u>370</u>
Total current assets	49,031	62,930
Property and equipment, net (note 2)	<u>6,493</u>	<u>10,443</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 55,524</u></b>	<b><u>\$ 73,373</u></b>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 3,381	\$ 883
Accrued payroll and others	<u>3,995</u>	<u>5,854</u>
Total current liabilities	7,376	6,737
Net assets:		
Invested in capital assets	6,493	10,443
Unrestricted	<u>41,655</u>	<u>56,193</u>
Total net assets	<u>48,148</u>	<u>66,636</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 55,524</u></b>	<b><u>\$ 73,373</u></b>

See accompanying notes to financial statements



**YAP SPORTS COUNCIL**

**Statements of Revenues, Expenses and Changes in Net Assets  
For the Years ended September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating revenues		
League and other fees	\$ 480	\$ 470
Operating expenses		
Payroll, taxes and benefits	77,388	67,589
Sports activities	10,594	30,815
Utility and communication	9,296	27,475
Other (note 4)	2,552	3,109
Depreciation	4,423	6,526
Fuel	3,797	5,083
Supplies	3,706	3,801
Travel	-	-
Total operating expenses	<u>111,757</u>	<u>144,398</u>
Loss from operations	(111,277)	(143,928)
Nonoperating revenues		
Sports Development Fund Transfers In (note 3)	92,789	77,616
Direct Public Support	-	3,210
Other income	-	54,674
Total nonoperating revenues	92,789	135,500
Increase/(decrease) in net assets	(18,488)	(8,428)
Net assets at beginning of year	<u>66,636</u>	<u>75,064</u>
Net assets at end of year	<u>\$ 48,148</u>	<u>\$ 66,636</u>

See accompanying notes to financial statements

**YAP SPORTS COUNCIL**

Statements of Cash Flows  
For the Years ended September 30, 2009 and 2008

Increase (Decrease) in Cash

	<u>2009</u>	<u>2008</u>
Cash flows provided by (used for) operating activities		
Receipts from sports fees	\$ 480	\$ 470
Cash payments for goods and services	(27,448)	(73,722)
Cash payments to employees	(79,248)	(63,781)
Net cash used for operating activities	<u>(106,216)</u>	<u>(137,033)</u>
Cash flows from noncapital financing activities		
Sports Development Fund transfer in	92,789	77,616
(Increase)/decrease in receivable from State Govt	(17,406)	6,881
(Increase)/decrease in Accounts Receivable	-	(52)
Unexpended funds from 3rd FSM Games	-	57,884
Net cash provided by noncapital financial activities	<u>75,383</u>	<u>142,329</u>
Cash flows from (used for) investing activities		
Acquisition of fixed assets	(473)	(1,000)
Net cash used for investing activities	<u>(473)</u>	<u>(1,000)</u>
Net increase in cash	(31,305)	4,296
Cash, beginning of year	49,142	44,846
Cash, end of year	<u>\$ 17,837</u>	<u>\$ 49,142</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss:	\$ (111,277)	\$ (143,928)
Adjustment to reconcile operating loss to net cash used in operating activities		
Depreciation	4,423	6,526
Increase/(decrease) in assets		
Increase/(decrease) in liabilities		
Accounts payable	2,498	548
Accrued payroll and others	(1,859)	(179)
Net cash used in operating activities	<u>\$ (106,216)</u>	<u>\$ (137,033)</u>

See accompanying notes to financial statements

## YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2009 and 2008

### 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 an 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, 2009 and 2008

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

The Council does not have restricted net assets as at September 30, 2009 and 2008.

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 2009, 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, 2009 and 2008

## 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 2009 and 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, 2009 and 2008 are fully collateralized as such is subject to Federal Deposit Insurance Corporation (FDIC) coverage.

**Receivables** – Receivable represents the balance of fiscal year 2009 and 2008 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 as a component unit of the State, the Council follows applicable purchasing requirements of the Financial Management Act.

**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, 2009 and 2008

**2. PROPERTY & EQUIPMENT**

A summary of property and equipment as of September 30, 2009 and 2008 are as follows:

	Beginning balance October 1, 2008	Transfers and Additions	Transfers and Deletions	Ending balance September 30, 2009
Furniture & fixtures	\$ 5,289	\$	\$	\$ 5,289
Vehicles	30,495			30,495
Office equipment	20,169			20,169
Other Equipment	5,958	473		6,431
	<u>61,911</u>	<u>473</u>	<u>--</u>	<u>62,384</u>
Less accumulated depreciation	<u>(51,468)</u>	<u>(4,423)</u>	<u>--</u>	<u>(55,891)</u>
Property & Equipment, Net	\$ <u>10,443</u>	\$ <u>(3,950)</u>	\$ <u>--</u>	\$ <u>6,493</u>

	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>

**3. SPORTS DEVELOPMENT FUND TRANSFERS IN**

The primary source of funding for the Sports Council is derived from percentage of taxes on alcoholic beverages and tobacco products, which are allocated to the Sports Development Fund. Tax revenue allocated to the Sports Development Fund in fiscal years 2009 and 2008 were \$92,789 and \$77,616 respectively. Out of the mentioned amount, the Council received \$61,965 and \$64,198 in fiscal year 2009 and 2008 respectively, with the remaining amount of \$30,824 and \$13,418 booked as receivables from the State Government as of September 30, 2009 and 2008.

## YAP SPORTS COUNCIL

Notes To Financial Statements  
September 30, 2009 and 2008

### 4. OTHER EXPENSES

Provided below is a breakdown of other expenses for the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Other expenses	747	156
Entertainment	0	764
Repair and maintenance	1,353	1,809
Miscellaneous	452	380
	<u>\$ 2,552</u>	<u>\$ 3,109</u>

### 5. 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.

### 6. 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.

### 7. SUBSEQUENT EVENTS

A new Yap Sport Council Director was hired in early October 2009.

YSC, based on the agreement with the Office of the Administrative Services, will be receiving a total of \$198,364.36 in four equal installments of \$49,591.09 for the understatement of the computation of the Sports Development Fund from the middle of FY2006 to early FY2010. As of December 24, 2010, YSC have already received a total of \$148,773.27 on 3 installments dated June 24, August 4 and November 11.

The Seventh Legislature thru YSL No. 7-74 appropriated \$24,457 to Yap Sports Council for the 2010 Micronesian Games that was held in June 2010. The disbursement of the said fund was administered by Finance Department.



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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, 2009 and 2008, and have issued our report thereon dated February 27, 2011. 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.

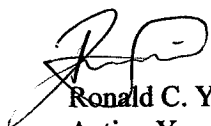
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Of the control deficiencies reported to management in the Schedule of Findings, we consider Findings Nos. 1, 3 through 6 to be material weaknesses as defined above.



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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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  
Acting Yap State Public Auditor  
February 27, 2011

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2009

### **Finding No. 1 – 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:** We have discovered through review of the disbursements for fiscal year 2009 that Yap Sports Council were performing price comparisons for most of the its disbursements. However, there still exist some transactions that were not supported by any documents that will show that competitive procurement was done.

**Cause:** Management did not ensure that all disbursements are in compliance with all applicable procurement laws, regulations, and procedures.

**Effect:** Yap Sports Council did not comply with applicable procurement regulations and policies. Consequently, Yap Sports Council may be expending more funds than necessary had prices been compared.

**Recommendation:** Management must ensure all Yap Sports Council disbursements are in compliance with applicable laws, regulations, and policies.

**Prior Year Status:** Issued same finding in our audit of fiscal years 2008, 2007 and 2006.

### **Finding No. 2 – Inadequate Maintenance of Accounting Records**

**Criteria:** Yap Sports Council Management is responsible in ensuring that the accounting section maintains and makes available, reliable, and accurate financial records in accordance with Generally Accepted Accounting Principles (GAAP).

**Condition:** During review of transactions we noted the following:

- Several expenses were posted twice. The expense accounts were initially posted upon receipt of the invoices and the duplication happens when the Council prepares checks for payment of the invoices. Instead of debiting the liability account they erroneously debited the expense accounts thus the double posting.
- Except for the first three pay periods payroll disbursements recorded in fiscal year 2009, social security taxes and Employee incomes taxes, though withheld, were not booked as liabilities. During the remittance of the quarterly SS and Employee income taxes, they booked the payments against expense accounts pertaining to SS and Income taxes.

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2009

### **Finding No. 2 – Inadequate Maintenance of Accounting Records (cont.)**

- Per review, it was discovered that the payable account consisted of an accumulation of expenses recorded since the beginning of fiscal year 2009 and not a single payment was charged against it. Further review revealed most of the payable has already been paid.

**Cause:** No independent review was being performed thus any errors/omissions committed will remain undetected.

**Effect:** The Council's financial records are misstated.

**Recommendation:** We recommend that Management devise a procedure that will incorporate independent as well as periodic review of transactions so as to ensure that errors/omissions will be detected on a timely basis.

### **Finding No. 3 – Fixed Assets Register**

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

**Condition:** During review of Yap Sports Council fixed assets, we noted that their fixed asset register was not updated and as proof, no annual depreciation was posted in the books nor in the register.

**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:** Fixed asset net book value was misstated as depreciation expense for the year was not calculated and posted.

**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 2008, 2007, 2006

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2009

### **Finding No. 4 – Non-Accruals of Income and Expense**

**Criteria:** Accrual basis of accounting in accordance with Generally Accepted Accounting Principle states that revenue should be recorded when earned and expenses should be recorded when incurred.

**Condition:**

- Sports Development Funds received by Yap Sports Council on October 9, 2009 for the period July 2009 to September 2009 was only recorded as revenue upon its receipt instead of the actual period that the income was earned.
- Further review revealed that the FY08 4<sup>th</sup> quarter Sports Development Funds revenues were recorded as such in FY2009.
- Some expenses that were incurred as of the end of FY 09 and subsequently paid in FY10 were not booked as liabilities and expenses in FY09 but as expenses of FY10.
- Noted were the non-accrual of payroll liabilities such as the SS-Employer, SS-Employee and Employee Income Tax payable as of year-end.

**Cause:** The accounting section failed to properly observe the accrual basis of accounting.

**Effect:** As a result of the above conditions, the financial statements of the Council, particularly the receivable, liability, revenue and expense accounts were all understated.

**Recommendation:** We recommend that management ensures that the accounting staff properly observes the accrual basis of accounting.

**Prior Year Status:** Same finding was issued in the audits of fiscal year 2008.

### **Finding No. 5 – Misposting of transactions**

**Criteria:** Proper check and balance should be in place to ensure that all transactions are posted accurately and on a timely manner.

**Condition:** We discovered through review of several transactions that expenses were not posted in the appropriate expense accounts.

**Cause:** There was no counterchecking done on the posting of the accounting section thus the errors were not detected.

**Effect:** Expense accounts were misstated.

## YAP SPORTS COUNCIL

Schedule of Findings  
September 30, 2009

### **Finding No. 5 – Misposting of transactions (cont.)**

**Recommendation:** We recommend that management ensures the proper counter checking be done on a regular basis so as to preclude such exception.

**Prior Year Status:** Same finding was issued in the audit of fiscal year 2008.

### **Finding No. 6 – Prior Year Unresolved Finding**

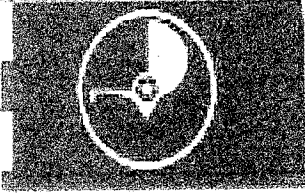
**Criteria:** Internal controls over compliance over laws, regulations, contracts and grants must consist of policies and procedures implementation of which would ensure consistent adherence to the compliance requirement. Therefore, both must be developed and adopted together for referencing and consistency of management in its enforcement.

**Condition:** Follow-up on prior year findings revealed that the exception pertaining to “Authorized Positions and Salaries” is not yet resolved.

**Cause:** Management did not ensure pertinent administrative and/or accounting procedures were properly set-up to implement the audit recommendations.

**Effect:** The conditions which prompted the issuance of the findings and recommendations in fiscal year 2008 still existed during the year ended September 30, 2009.

**Recommendation:** We recommend that management revisit previous audit reports to develop and adopt policies and procedures that would resolve the prior year conditions cited.



# YAP SPORTS COUNCIL

## Management's Comment and Discussion on Fiscal Year 2009 Audit Findings

### Council

Jonathan M. Tun  
Chairman

James Rogmad  
Vice-Chairman

Genevieve M. Mirey  
Secretary

Liyon Sulog  
Treasurer

Charles Falmeyog  
Member

Frank T. Lifang  
Member

Peter Tairuwepiy  
Member

Jonathan M. Tun  
Legal Counselor

### Finding No. 1 – 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. 2 – Inadequate Maintenance of Accounting Records

#### YSC Position:

Agree

#### Planned Corrective Action:

Accountant will correct incorrect postings and bookings.

#### Responsible Person:

YSC Accountant

#### Planned Completion Date:

Completed

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Email: Yapsport@mail.fm

**Finding No. 3 – Fixed Assets Register**

**YSC Position:**

Agree

**Planned Corrective Action:**

YSC Management and staff will prepare and maintain a reliable fixed assets register.

**Responsible Person:**

YSC Director and Accountant

**Planned Completion Date:**

Completed

**Finding No. 4 – Non-Accrual of Income and Expense**

**YSC Position:**

Agree

**Planned Corrective Action:**

Observance of accrual basis of accounting will be observed.

**Responsible Person:**

Administrative Staff and Director

**Planned Completion Date:**

Completed

**Finding No. 5 – Misposting of Transactions**

**YSC Position:**

Agree

**Planned Corrective Action:**

Proper counter checking will be observed and done on a monthly basis.

**Responsible Person:**

YSC Director and Accountant

**Planned Completion Date:**

Completed.

**Finding No. 6 – Prior Year Finding: Authorized Positions and Salaries**

**YSC Position:**

Agree

**Planned Corrective Action:**

Personnel Policies will be corrected and modified to reflect general job categories, position descriptions and pay scales within the Council. This will be reviewed as necessary to reflect changes in positions relevant to the needs of the current director and board.

**Responsible Person:**

Director will summarize all current Council positions to include job titles, position descriptions and recommended minimum and maximum authorized salaries. Council Board will review and make necessary corrections as needed. Upon approval, the Authorized Positions and Salary Schedule will be added to the Personnel Policies Manual.

**Planned Completion Date:**

Director's draft – June 2011

Board Approval – July 2011

Addition to Personnel Policies – August 2011