

YAP STATE GOVERNMENT

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL ACCOUNTING CONTROL**

SEPTEMBER 30, 1989

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
ACCOUNTING CONTROL**

Honorable Petrus Tun
Governor
State of Yap

We have audited the general purpose financial statements of the State of Yap as of September 30, 1989, and for the year then ended, and have issued our report thereon dated May 11, 1990. These general purpose financial statements are the responsibility of Yap State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with these standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and compliance with laws and regulations. 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 audit provides a reasonable basis for our opinions.

For the purpose of this report, we have classified the significant internal accounting controls of the State of Yap in the categories of: budgetary cycle, revenue and receipt cycle, purchases and disbursement cycle, payroll and personnel cycle, treasury cycle, and external financial reporting. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements administered by the State of Yap. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the State of Yap, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with statutory authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first three paragraphs would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the State of Yap, taken as a whole or on any of the categories of controls identified in the third paragraph. However, our study and evaluation disclosed no condition that we believe to be a material weakness but did disclose the matters contained in the following pages.

This report is intended solely for the use of the State of Yap, the National Government of the Federated States of Micronesia, and the cognizant audit agency and other federal agencies and should not be used for any other purpose.

May 11, 1990



Certified Public Accountants

(1) Prior Year Findings

Criteria - All prior year audit findings should be adequately addressed and resolved with corrective action being taken in a timely manner.

Condition - The following matters addressed in the prior year internal control report are not yet resolved.

- License and fees - vehicles
- Business licenses
- Utility billing and processing
- All comments concerning the Yap Fishing Authority
- General Fixed Assets Account Group
- Advance payments directly expended

(2) Cash Collection Weaknesses

Criteria - Cash receipts collected at sub-collection centers should be remitted intact and in a timely manner to the central treasury department.

Condition - During our year end cut-off procedures, we discovered that receipts submitted by the revenue and taxation department evidenced a one week delay between the time of collection and the time of submission to treasury. Additionally, as of September 30, 1989, the hospital had not submitted cash receipts for deposit for a fifteen day period. We also discovered at the revenue and taxation department that checks had been held, undeposited for up to one month.

Cause - Unknown.

Effect - The State loses potential investment earnings on these undeposited balances. Additionally, undeposited cash increases the risk of misuse of the cash.

Recommendation - A schedule should be provided to sub-collection centers which would require at least weekly deposits. Additionally, we strongly recommend that collection of receipts for revenue and taxation collections be discontinued at the current site. Rather, all collections for tax payments should be made at treasury.

(3) Collection of assessed taxes

Criteria - The State has established a criteria for renewal of business licenses that requires the taxpayer to be current on the payment of all past taxes.

Condition - The State has commenced assessing delinquent taxpayers. Notices have been forwarded and the State appears to be actively pursuing the collection of these amounts. However, it appears that these delinquent taxpayers have had business licenses renewed which appears to be contrary to the State licensing requirements.

Cause - Unknown

Effect - Unknown

Recommendation - The above matter should be referred to the Office of the Attorney General for disposition as such involves a legal interpretation and clarification.

(4) Documentation of travel expenditures in accordance with travel requirements

Criteria - State rules related to travel appear to require use of economy class when travelling on State business.

Condition - For TA90492, business class was used for a flight between Guam and Honolulu. The travel voucher did not explain why economy class was not used.

Cause - Unknown

Effect - No effect has occurred since subsequent adjustment was made to remove this excess charge from the applicable federal program.

Recommendation - Travel documents should be scrutinized to ensure that adequate justification for travel exists and that compliance has occurred with respect to applicable rules and regulations.