

POHNPEI PORT AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Port Authority:

We have audited the accompanying balance sheets of the Pohnpei Port Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2001 and 2000, and the related statements of revenues, expenses and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Authority'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 the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 not able to apply sufficient alternative procedures to assure ourselves as to the fairness of other expenses and the attendant payable amounting to \$534,084 in 2001 relating to the acquisition of an airport/seaport master plan due to lack of documentary evidence to substantiate their propriety.

In our opinion, except for our inability to examine evidence substantiating the aforementioned other expenses and the attendant payable, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Port Authority as of September 30, 2001 and 2000, 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.

As discussed in note 9 to the financial statements, the Authority changed its method of accounting for nonexchange transactions to conform with Government Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

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August 5, 2002

POHNPEI PORT AUTHORITY

Balance Sheets
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash and equivalents	\$ 170,890	\$ 40,427
Restricted cash (notes 2 and 9)	308,841	300,000
Accounts receivable, net (notes 4 and 8)	94,834	47,749
Advances, net (note 3)	10,934	13,924
Interest receivable	6,628	6,628
Prepaid expenses	<u>3,273</u>	<u>10,163</u>
Total current assets	595,400	418,891
Property and equipment, net (notes 5 and 8)	<u>6,297,643</u>	<u>6,898,511</u>
	<u>\$ 6,893,043</u>	<u>\$ 7,317,402</u>
 <u>LIABILITIES AND FUND EQUITY</u> 		
Current liabilities:		
Current portion of notes payable (note 8)	\$ 95,705	\$ 97,828
Accounts payable (note 6)	559,218	6,225
Accrued liabilities and others	124,801	50,863
Accrued annual leave	44,105	75,368
Deferred revenues	<u>306,250</u>	<u>306,250</u>
Total current liabilities	1,130,079	536,534
Long-term notes payable, net of current portion (note 8)	<u>12,283</u>	<u>105,327</u>
Total liabilities	<u>1,142,362</u>	<u>641,861</u>
Fund equity:		
Retained earnings	<u>5,750,681</u>	<u>6,675,541</u>
Total fund equity	<u>5,750,681</u>	<u>6,675,541</u>
Contingencies and commitment (notes 6 and 7)	<u>\$ 6,893,043</u>	<u>\$ 7,317,402</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Revenues, Expenses and Retained Earnings
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Seaport charges	\$ 572,259	\$ 316,675
Departure fees	193,052	201,280
Land leases and space rentals (note 6)	248,113	252,924
Landing fees	109,819	130,960
Other	<u>17,046</u>	<u>8,809</u>
Total operating revenues	<u>1,140,289</u>	<u>910,648</u>
Operating expenses:		
Depreciation	664,113	663,105
Salaries	581,660	605,006
Supplies and materials	37,912	31,023
Utilities	35,336	51,061
Doubtful debts	31,428	-
Repairs	22,645	17,518
Travel	20,182	67,196
Communications	17,097	10,542
Contractual services	11,179	15,448
Fuel	8,899	10,040
Training	-	4,340
Miscellaneous and others	<u>18,210</u>	<u>18,563</u>
Total operating expenses	<u>1,448,661</u>	<u>1,493,842</u>
Loss from operations	<u>(308,372)</u>	<u>(583,194)</u>
Nonoperating revenues (expenses):		
Interest income	12,710	19,415
Other nonoperating revenues	11,211	23,023
Other nonoperating expenses (note 6)	<u>(640,409)</u>	<u>(11,055)</u>
Nonoperating revenues (expenses), net	<u>(616,488)</u>	<u>31,383</u>
Net loss	(924,860)	(551,811)
Retained earnings at beginning of year (note 9)	<u>6,675,541</u>	<u>7,227,352</u>
Retained earnings at end of year	<u>\$ 5,750,681</u>	<u>\$ 6,675,541</u>

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Statements of Cash Flows Years Ended September 30, 2001 and 2000

	2001	2000
Cash flows provided by operating activities:		
Cash received from customers	\$ 1,093,204	\$ 974,022
Cash paid to suppliers and employees	(819,409)	(822,249)
Net cash provided by operating activities	273,795	151,773
Cash flows used for capital and related financing activities:		
Acquisition of property and equipment	(63,245)	(336,656)
Repayment of debt	(95,167)	(64,000)
Net cash used for capital and related financing activities	(158,412)	(400,656)
Cash flows provided by noncapital financing activities:		
Acquisition of debt	-	181,682
Net cash provided by noncapital financing activities	-	181,682
Cash flows provided by investing activities:		
Interest income	12,710	19,415
Other nonoperating revenues	2,370	11,968
Net cash provided by (used for) investing activities	15,080	31,383
Net increase (decrease) in cash and equivalents	130,463	(35,818)
Cash and equivalents at beginning of year	40,427	76,245
Cash and equivalents at end of year	\$ 170,890	\$ 40,427
<u>Reconciliation of loss from operations to net cash provided by operating activities</u>		
Loss from operations	\$ (308,372)	\$ (583,194)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Doubtful debt expense	31,428	-
Depreciation	664,113	663,105
Other expense	(640,409)	-
Changes in working capital:		
(Increase) decrease in accounts receivable	(78,513)	63,374
(Increase) decrease in advances	2,990	(1,819)
Decrease (increase) in other receivables	-	(5,427)
(Increase) in prepaid expenses	6,890	(6,790)
Increase (decrease) in accounts payable	552,993	(19,593)
(Decrease) increase in accrued liabilities	42,675	42,117
Net cash provided by operating activities	\$ 273,795	\$ 151,773

See accompanying notes to financial statements.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Pohnpei Port Authority (the Authority) was established by Pohnpei State Public Law 2L-224-91. The primary purpose of the Authority is to oversee the use and maintenance of Pohnpei State's sea and air ports. The Authority began operating as a separate entity in fiscal year 1993 although the accounting for the Authority was not transferred from the Pohnpei State Department of Treasury until January 1994.

The affairs of the Authority are managed by a seven-member board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four year terms. Daily operation of the Authority is delegated to a General Manager, who is appointed by and serves at the pleasure of the Board.

The Authority is a component unit (a discretely presented proprietary fund) of the Pohnpei State Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the State of Pohnpei as a whole.

B. Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Authority are organized as a discretely presented component unit - proprietary fund of the Pohnpei State Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income, with maintenance of capital.

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. This is in contrast to "governmental" funds which are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. The Authority utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. The 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 Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies, Continued

C. Budget

A detailed statement of the Authority's proposed annual budget is required to be prepared and submitted to the Governor on or before March 15th of each year. The annual budget is adopted upon the Governor's approval. In the event of the Governor's disapproval of the proposed budget, the Authority and the Governor, or their representatives, shall within 10 days after notification by the Governor, meet and discuss the proposed budget in order to reach an agreement. If a satisfactory agreement is not reached within 10 days thereafter, the proposed budget shall be submitted for consideration and decision to a board of arbiters, whose decision shall be final.

D. Cash and equivalents

For the purposes of the balance sheets and statements of cash flows, cash and equivalents are defined as cash in checking accounts, savings accounts and cash on hand. Of these amounts, \$300,000 is insured through the Federal Deposit Insurance Corporation (FDIC), with the balance exceeding insurable limits. The Authority does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed the FDIC insurable limits are characterized as uncollateralized.

E. Property, Plant and Equipment

Property, plant and equipment are stated at cost or at estimated appraised values as of the transfer date (note 5), less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets.

F. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken. The value of accumulated sick leave was not available at September 30, 2001.

G. Management 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.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies, Continued

H. Deferred Revenue

Deferred revenues represent funds received from a grantor (the Federated States of Micronesia National Government) that will be used for a capital project. This balance will be recorded as revenue as amounts are expended for the project.

(2) Restricted Cash

Restricted cash represents a 1995 FSM Congress continuing appropriation of \$300,000 for the purpose of constructing an air strip for Kapingamarangi Municipal Government. As of September 30, 2001, the \$300,000 cash advanced to the Authority was invested in a time certificate of deposit.

(3) Advances

Advances represent travel advances and credit cards and other charges at September 30, 2001 and 2000, and are summarized as follows:

	<u>2001</u>	<u>2000</u>
Travel advances	\$ 63,972	\$ 66,474
Less allowance for doubtful debts	<u>(53,424)</u>	<u>(53,124)</u>
	<u>10,548</u>	<u>13,350</u>
Credit card and other charges	19,173	19,548
Less allowance for doubtful debts	<u>(19,173)</u>	<u>(19,472)</u>
	<u>-</u>	<u>76</u>
Receivables from employees	<u>386</u>	<u>498</u>
Total	\$ <u>10,934</u>	\$ <u>13,924</u>

(4) Accounts Receivable, Net

Accounts receivable represent receivables from businesses and individuals related to public land leases, space rentals, landing fees, port and handling charges, wharfage, gross receipts fees and other fees. The detail of accounts receivable, net, at September 30, 2001 and 2000, is as follows:

	<u>2001</u>	<u>2000</u>
Accounts receivable	\$ 164,363	\$ 85,850
Less allowance for doubtful debts	<u>(69,529)</u>	<u>(38,101)</u>
	\$ <u>94,834</u>	\$ <u>47,749</u>

All of the Authority's accounts receivable are with businesses and individuals based in Pohnpei State.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(5) Property and Equipment

A summary of the Authority's property and equipment at September 30, 2001 and 2000, is as follows:

	<u>Estimated Useful Lives</u>	<u>2001</u>	<u>2000</u>
Land		\$ 2,776,034	\$ 2,776,034
Building, infrastructure and improvements	7 to 70 years	12,930,752	12,928,957
Machinery and equipment	3 years	463,290	455,075
Construction in progress		548,807	495,291
Less accumulated depreciation		<u>(10,421,240)</u>	<u>(9,756,846)</u>
Property and equipment, net		\$ <u>6,297,643</u>	\$ <u>6,898,511</u>

During fiscal year 1996, an appraisal of the Authority's facilities was made by an independent contractor and the resultant appraised values of the land are reflected in the accompanying financial statements.

(6) Contingency and Commitment

The amount payable for a previously recorded master plan has been in dispute. In prior years, the Authority was of the opinion that it had no responsibility for any liability and all related balances were written off. However, in 2001, management of the Authority has determined that it owes the contractor the disputed amount of \$534,084 and therefore, has re-established the liability simultaneous with expensing the cost of the master plan. In early December 1997, the contractor had filed a suit against the Authority. In return, the Authority filed a motion to dismiss the suit based on the statute of limitations. The motion is still pending in court. Based on advice from the State Attorney General, the Authority has acknowledged the liability and recorded such via a charge to other operating expenses in 2001.

The Company leases certain land to a private corporation under a twenty-five year lease commencing September 1, 1997. Annual lease receipts for the first five years are \$75,380. Lease receipts increase in 10% intervals at the end of every five year period.

The Authority is party to litigation normal to port operations. No provision has been made for any liability that may arise, if any, upon ultimate resolution of these matters.

(7) Risk Management

Pohnpei Port Authority purchases insurance to cover workmen's compensation and life insurance risks. Pohnpei Port Authority is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

POHNPEI PORT AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(8) Notes Payable

	<u>2001</u>	<u>2000</u>
Loan of \$264,600 from the FSM Development Bank, interest at 9%, due in monthly installments of principal and interest of \$5,493, collateralized by a chattel mortgage and an assignment of lease revenue.	\$ 53,635	\$ 109,540
Notes payable to Bank of the FSM, interest at 6.6%, due in monthly installments of principal and interest of \$3,700, collateralized by TCD #404-4086066, accounts receivable, inventory, furniture fixtures and equipment, and assignment of Continental Micronesia lease proceeds.	<u>54,353</u>	<u>93,615</u>
	107,988	203,155
Less current maturities	<u>(95,705)</u>	<u>(97,828)</u>
Long-term portion of notes payable	\$ <u>12,283</u>	\$ <u>105,327</u>
Future maturities are as follows:		
2003	\$ <u>12,283</u>	

(9) Adoption of New Accounting Principle

Effective October 1, 2000, the Authority adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes more uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented. Implementation of GASB No. 33 had no material impact on the 2000 financial statements as such merely combined previously carried contributed capital with the retained earnings account. Therefore, there was no change in total equity, as previously reported.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Pohnpei Port Authority:

We have audited the financial statements of the Pohnpei Port Authority (the Authority), as of and for the year ended September 30, 2001, and have issued our report thereon dated August 5, 2002. 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.

Compliance

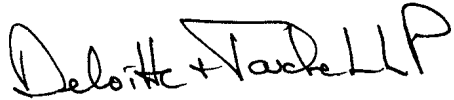
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2001-1 through 2001-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

This report is intended for the information of the Board of Directors and management of the Pohnpei Port Authority, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

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August 5, 2002

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2001

Disputed Invoice

Finding No. 2001-1

Criteria: Management should ensure that disputed liabilities undergo appropriate due diligence prior to being paid.

Condition: A disputed liability concerning a master plan has remained unpaid for approximately five years. The Authority has agreed to make payments against this liability based on advice from the State's Acting Attorney General. However, no independent legal advice was obtained to substantiate the acting Attorney General's legal assessment.

Cause: The cause of this condition is not known.

Effect: The effect of this condition is that the Authority may be incurring expenses that it may not be legally responsible for.

Recommendation: The Authority should obtain an independent legal assessment relative to its liability for the previously disputed payable.

Auditee Response: Management and Board of Directors have not agreed on a solution as of the date of this writing.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2001

Accrued Payables

Finding No. 2001-2

Criteria: Management should ensure that its financial statements are not materially misstated.

Condition: A detail listing of accrued payables did not reconcile with the general ledger balance as of September 30, 2001. The general ledger balance was understated by \$18,843.

Cause: Management failed to reconcile the accrued payable detail with the general ledger control account.

Effect: The effect of the above condition is a potential material misstatement of the financial statements.

Recommendation: Management should ensure that accurate financial records are maintained.

Auditee Response: Accurate maintenance of the financial record is being maintained accordingly.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Accrued Salaries

Finding No. 2001-3

Criteria: Management should ensure that its financial statements are not materially misstated

Condition: The general ledger balance for accrued salaries did not reconcile with underlying details at September 30, 2001. The general ledger was understated by \$31,864.

Cause: Management failed to reconcile its financial records.

Effect: The effect of the above condition is a potential material misstatement of the financial statements.

Recommendation: Management should ensure that accurate financial records are maintained.

Auditee Response: Reconciliation of financial records are being done on a monthly basis.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Advances Schedule

Finding No. 2001-4

Criteria: Management should ensure that amounts owed the Authority are collected.

Condition: Advance payments owed by ex-board members and employees remain uncollected.

Cause: The cause of this condition is that no consistent collection policy has been implemented.

Effect: The effect of this finding is a negative impact on cash flows.

Recommendation: We recommend that delinquent receivables be referred to its legal counsel for collection.

Auditee Response: Continual billing is being done on monthly basis.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2001

Fixed Assets Register

Finding No. 2001-5

Criteria: Management of the Authority should ensure that the fixed assets subsidiary ledger for the authority be updated and reconciled with the general ledger on a timely manner.

Condition: A fixed assets register was not made available until the end of audit fieldwork. In addition, management did not record current year depreciation in the general ledger.

Cause: The cause of this condition is that management was not aware of the importance of the reconciliation process.

Effect: The effect of this condition was a material misstatement of the financial statements. However, depreciation expense has been recorded through the audit process.

Recommendation: We recommend that management adhere to its financial policies whereby reconciliations of financial records are performed on a monthly basis.

Auditee Response: Management is in process of completing the fixed asset module for the Mas-90 Accounting System. This will help the reconciliation of FA with the GL on a timely manner.

POHNPEI PORT AUTHORITY

Schedule of Findings and Questioned Costs Year Ended September 30, 2001

General and Payroll Fund Accounts

Finding No. 2001-6

Criteria: Management should ensure that its bank accounts are reconciled on a recurring basis.

Condition: An unreconciled variance of \$5,465 between the bank reconciliation and the trial balance existed as of September 30, 2001.

Cause: No separate bank reconciliation was prepared for each cash in bank account. All cash in bank accounts were combined for reconciliation purposes. Therefore, the Authority was not able to identify the exact cause of the unreconciled variance.

Effect: The effect of the above condition is an immaterial misstatement of cash.

Recommendation: Management should ensure that accurate financial records are maintained.

Auditee Response: PPA accounting is reminded of this important task and bank reconciliation is done on a monthly basis.

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Schedule of Findings and Questioned Costs Year Ended September 30, 2001

Inaccurate Financial Records

Finding No. 2001-7

Criteria: The financial statements should be reviewed for obvious errors and reconciliations should be performed on a recurring basis.

Condition: The following errors were noted in the financial statements:

- 1) The fixed asset subsidiary ledger was not adjusted for an item that was sold during the year.
- 2) The detail schedule for accrued interest receivable was \$3,536 less than the amount per the general ledger control account.
- 3) Interest expense was reported as a credit balance. No explanation for this was provided to us.
- 4) The withholding tax liability per the general ledger control account varied \$1,289 from the actual filed tax return.
- 5) The social security tax payable per the general ledger varied \$1,481 from the actual tax return.

Cause: Management did not address these matters in the financial statements.

Effect: The effect of the matters set forth in the condition is errors in the financial statements that were corrected through the audit process.

Recommendation: Management should perform periodic reconciliations of its general ledger control accounts throughout the year.

Auditee Response: Finance and Accounting is taking a thorough review of the findings listed above to reconcile the GL accordingly.