

**YAP STATE PUBLIC SERVICE CORPORATION,
A COMPONENT UNIT OF THE STATE OF YAP**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2012

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

The Board of Directors
Yap State Public Service Corporation:

We have audited the financial statements of the Yap State Public Service Corporation as of and for the year ended September 30, 2012, and have issued our report thereon dated June 29 2013. 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

Management of the Yap State Public Service Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Yap State Public Service Corporation'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 Yap State Public Service Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Yap State Public Service Corporation's internal control over financial reporting.

A deficiency in internal control 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 detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as item 2012-1, that we consider to be a significant deficiency in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Yap State Public Service Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 2012-1.

We noted certain matters that we reported to management of the Yap State Public Service Corporation in a separate letter dated June 29, 2013.

The Yap State Public Service Corporation's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Yap State Public Service Corporation's response and, accordingly, we express no opinion on it.

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

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned above the date.

June 29, 2013

**YAP STATE PUBLIC SERVICE CORPORATION,
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Schedule of Findings and Responses
Year Ended September 30, 2012

Procurement

Finding No. 2012-1

Criteria: For small purchases between \$25,000 and \$50,000, the General Manager must solicit price quotations from at least three vendors and base the selection on competitive prices and quality. Further, hotel and lodging for all travel must be arranged at the most economical rates possible.

Conditions:

1. Of three repairs and maintenance expenses tested, two (Document No. po7908 dated 07/01/2012 for \$32,222 and Document No. 00010917 dated 09/01/2012 for \$43,898) did not reflect evidence that price quotations from at least three vendors were obtained.
2. Of eight property, plant and equipment additions tested, the following did not contain evidence that price quotations from at least three vendors were obtained.

<u>Asset</u>	<u>Acquisition Date</u>	<u>Cost</u>	<u>Addition Tested</u>
Asor & Fadrai Solar PV systems 24,000 Hrs Maintenance Work (Overhaul)	10/31/2011	\$ 292,852	\$ 90,544
Woleai Prepayment System	09/30/2012	308,400	282,448
	09/30/2012	<u>77,140</u>	<u>68,692</u>
		\$ <u>678,392</u>	\$ <u>441,684</u>

3. Of three operating expenses tested, one (Document No. 31989 dated 11/21/2011 for \$2,885) relating to travel did not reflect documentation that the hotel and lodging arrangement is the most economical.

Cause: The cause of the above condition is the lack of adherence to the criteria.

Effect: The effect of the above condition is potential noncompliance with the criteria.

Recommendation: We recommend that the YSPSC establish policies and procedures to comply with the criteria.

Auditee Response and Corrective Action Plan:

Auditee Response:

- YSPSC Management concurs with the recommendation made in this Report. An action plan has been developed to address the above recommendation.

Action Plan:

- Management must implement necessary actions to ensure that YSPSC Procurement Policies and procedures were adhered to and enhance specific controls in the procurement process.

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Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2012

There are no unresolved prior year internal control findings or questioned costs.