

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

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

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**YEAR ENDED SEPTEMBER 30, 2015**

**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, in accordance with the 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, the financial statements of Yap State Public Service Corporation (the "Corporation"), which comprise the statement of net position as September 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 7, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

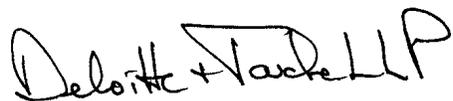
As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002.

## **YSPSC's Responses to Findings**

YSPSC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. YSPSC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 7, 2016

**YAP STATE PUBLIC SERVICE CORPORATION,  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

Finding No. 2015-001

Federal Agency: US Department of the Interior  
CFDA No.: 15.875 Economic, Social, and Political Development of the Territories  
Grant No.: MAP-YSPSC-2014-1  
Area: Allowable Costs / Cost Principles  
Questioned Cost: \$10,000

Criteria: Federal expenditures should be supported by invoices, supplier statements and/ or contracts.

Condition: A \$10,000 check (no. 37931) dated September 21, 2015 was issued to a program trainer intended for liability insurance as required by the National Joint Apprenticeship and Training Committee (NJATC) and as stated in the approved grant application. Adequate documentation on the provision of a liability insurance policy that would evidence compliance with the project requirement was not available.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures ensuring compliance and understanding of the program requirement.

Effect: The effect of the above condition is noncompliance with the applicable allowable cost/cost principle requirements and a questioned cost results.

Recommendation: We recommend YSPSC comply with existing project requirements and require that disbursements from federal awards are adequately documented and supported.

Auditee Response and Corrective Action Plan:

YSPSC management concurs with the above finding and recommendation.

Required corrective action will be addressed following this audit.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-002

Federal Agency: US Department of the Interior  
CFDA No.: 15.875 Economic, Social, and Political Development of the Territories  
Area: Procurement  
Questioned Cost: \$247,296

Local Noncompliance

Criteria: Federal expenditures should be made in compliance with Federal procurement policies.

Condition: The Corporation, as subrecipient of a DOI grant received \$247,496 of capital contributions from Yap State government. YSPSC purchased materials from the vendor while Yap State government paid the vendor. Documentation that supports the competitive procurement process was not available.

Cause: The cause of the above condition is lack of adequate internal control policies and procedures ensuring compliance with Federal regulations.

Effect: The effect of the above condition is noncompliance with the applicable procurement requirements and questioned costs result.

Recommendation: We recommend YSPSC adhere with the Federal procurement requirements and ensure that competitive procurement processes are performed and adequately documented.

Auditee Response and Corrective Action Plan:

YSPSC management agrees with the above finding and recommendation.

Consequent to this audit, immediate corrective action will be implemented and adherence to the Federal Procurement requirements will be strictly followed.

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Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2015

There are no unresolved prior year audit findings.