

FEDERATED STATES OF MICRONESIA

OFFICE OF THE  
NATIONAL PUBLIC AUDITOR

ANNUAL REPORT

Fiscal Year 2006  
With Highlights from  
Fiscal Years 2002-2005

**December 14, 2007**

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# FEDERATED STATES OF MICRONESIA

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### Public Auditor's Message



As your Public Auditor, it is a privilege and a pleasure to present the first Annual Report published during my tenure. The Public Auditor is appointed by the President of FSM with the advice and consent of the Congress. As Public Auditor, I have faced many challenges during the past five years. The challenges began with my first week when I found out that the Office of the National Public Auditor (ONPA) had failed its Peer Review. I also discovered that we were losing audit experience as the last expatriate was preparing to leave the office. I realized that a variety of resources available to the ONPA staff were either lacking or obsolete; audit and investigation procedures, policies and manuals, computers and office equipment. Because the office space was inadequate, the staff was working under congested conditions which, quite naturally, led to low staff moral and productivity. The credibility of ONPA was fast eroding within the country and among its peers in regional institutions. And, after the Peer Review results were announced, I received direct and specific instruction that my unwavering mission was to turn the office around.

Recognizing that office reorganization was the first step needed for improvement, I took quick action to fill key positions that had been left vacant, purchased new computers and other office equipment, and launched a program of capacity building for my resident staff. The work was difficult. However, the time spent in reorganizing and updating paid off when we passed our 2005 Peer Review with the highest possible ratings!

In the second half of my first term, my focus shifted from reorganizing and improving staff morale to enhancing service delivery to stakeholders and clients and reestablishing our credibility in FSM and the Region. I engaged an outside consultant to guide us identify our strengths and weaknesses and help us to better understand our position and provide enhanced value to government.

I began recruiting expatriate to support my local staff by sharing their audit and investigation skills. The future of ONPA rests in the hands of the resident staff. I must support them fully! We began producing quality reviews and issuing them in a timely manner, and saw an increase in the number of reports issued. As a team, we saw that our early efforts brought results. We passed Peer Review, relocated to a new building, improved our auditing and investigations, and updated our office policies and procedures.

Updating our manuals remains an on-going effort. The staff is happy. They are producers of the value we deliver in our products and services for the public's benefit.

I want to extend my thanks to our expatriate staff that helped prioritize training, shared their knowledge, and contributed in capacity building, conducting audits, in-house OJT, and holding classes and conferences. I want to highlight the assistance from the DOI Inspector General particularly his Insular Liaison on Guam, who helped us identify how to produce quality reviews in a timely manner.

I am deeply appreciative of the support we have received from our government leaders, the FSM President and the Congress. Further, I want to acknowledge my appreciation for the technical and scholarship grants we received from the DOI Office of Insular Affairs and Australia, the support from AIPA, USDA PITI and their instructors, all of my former staff and especially my current staff. I hope they recognize that they are a part of a very important, well-run organization and that they are an integral part of our success.

Happy Holidays,



Haser Hainrick  
National Public Auditor

December 14, 2007

## HIGHLIGHTED ACCOMPLISHMENTS

### **Public Auditor Chairs Workshop at the Annual Joint Finance & Budget Officers Conference, August 2006**

National Public Auditor, Haser Hainrick, was invited to Chair the Working Group on audit related issues at the joint conference for the Finance and Budget Officials of the Governments of the FSM meeting in Tofol, Kosrae in August, 2006. The purpose of the two-day session was to discuss a wide range of critical issues facing the Nation. Mr. Hainrick was honored to chair the Working Group and to participate in discussions that will result in improvements to the single audit process and that will assist in resolving audit findings and questioned costs. The Conference adopted 14 resolutions in total and Mr. Hainrick's Working Group developed and presented five of these resolutions.

### **ONPA Hosted Association of Pacific Islands Public Auditors Conference and Workshop, July 2006**

ONPA hosted the Association of Pacific Islands Public Auditors (APIPA) 17<sup>th</sup> Annual Conference for Public Auditors and Finance Accountants in Pohnpei in July 2006. The APIPA conference promotes educational training, networking and professional development opportunities for Public Finance Officers and Auditors. More than 280 participants from American Samoa, the Commonwealth of the Northern Mariana Islands, Territory of Guam, the Republic of Palau, the Republic of the Marshall Islands, and the FSM National Government and the FSM States of Chuuk, Kosrae, Pohnpei and Yap attended the week-long conference. Public Auditor, Haser Hainrick, was the 2006 APIPA Chairman.

Chief Justice Andon Amaraich gave the Opening Ceremony remarks and Ms. Marion Hinga, Hawaii State Auditor, opened the plenary session with a presentation on "Transparency in the Public Sector." His Excellency Joseph J. Urusemal, the then President of the Federated States of Micronesia, delivered the closing remarks. In his closing remarks, President Urusemal underscored the importance of the Public Auditor Offices in ensuring that there is accountability and transparency in the governments with a view of enhancing governance.



### **ONPA Receives Highest Rating for 2004/2005 Peer Review, October 2005**

In a complete turnaround from the 2002 Peer Review, the Association of Pacific Islands Public Auditors gave its highest possible rating to ONPA in its last external quality control review. The report, which was completed in October, 2005, reviewed audits issued during the period October 1, 2002 through August 31, 2005. In letters addressed to the FSM President and Speaker of the Congress, the Peer Review Team stated that ONPA was in full compliance with government auditing standards. Full compliance is the highest of three possible ratings issued in an external quality review. National Public Auditor Hainrick attributed the outstanding results of the Peer Review to the entire staff of ONPA and further stated that this was the result of collective work as a team.

### **Website Development Completed, February 2005**

The design, development, and implementation of the ONPA website was fully completed in February 2005. The Public Auditor recognized that the audience of those interested in ONPA reports had grown in size and covered a wide geographic range. He also noted that financial and audit information on FSM could no longer be effectively disseminated using only the traditional medium of circulating hard copies of audit reports to the few recipients whose names appeared on the Distribution List. To be able to reach and serve the wider audience, ONPA created and launched an internet website. The successful implementation of the website is a step forward in the Public Auditor's strategic aim of enhancing transparency within the FSM Governments.

### **Single Audits for Fiscal Year 2005 Completed On Time**

For the first time, FSM completed its 2005 single audits within the required timeframe specified in the Amended Compact. The National Public Auditor thanked the Finance & Budget officers from all the FSM National and State Governments, as well as the Heads of the Component Units for their excellent contributions that made this achievement possible.

## ONPA'S MISSION, PERSPECTIVES AND VALUES

The essence of a mission statement is to explain why an organization exists and what it hopes to achieve. ONPA seeks to improve the effectiveness and integrity of government operations through its audits and inspections of departments, programs, and other entities that utilize National Government and Compact funds. These views are reflected in the ONPA Mission Statement.

### **Mission Statement**

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*We create an environment where audits and investigations produce reports that lead to improved government operations.*

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While a mission statement communicates the purpose of the organization, the vision statement concentrates on the future with an optimistic but realistic perspective. A vision statement communicates values; it is literally a possible dream. In creating a vision statement, ONPA sought to incorporate basic tenets of accounting that hold to ethical standards and a commitment to independence.

### **Vision Statement**

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*To enhance governance, accountability and performance in the public sector through the delivery of independent assurance and investigative services.*

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### **Values and Performance Measures**

Necessary to implementing a mission dedicated to improving government operations and a vision of high quality, independent audits and investigations are values and performance measures. These values and measures are essential to carrying out the legislative mandate of ONPA as set out by the Congress. The values reflect the way in which ONPA staff conducts the business of auditing and investigating. For example, adhering to confidentiality and operating with accuracy and efficiency. The performance measures relate to the desired results. For example, ONPA reports will be read and used and will lead to changes in governmental practices and operations.

#### **Values**

- ◆ Credibility
- ◆ Confidentiality
- ◆ Relevance
- ◆ Professional
- ◆ Ethical

- ◆ Timely
- ◆ Independent
- ◆ Integrity
- ◆ Accurate
- ◆ Factual
- ◆ Competent
- ◆ Efficient
- ◆ Effective
- ◆ Good Communication

### **Performance Measures**

- Understandable, read and used reports
- Accepted and implemented recommendations
- Changes in governmental practice and operations
- Recovered or saved funds
- Capacity



## AUTHORITIES AND POWERS OF THE NATIONAL PUBLIC AUDITOR

The National Public Auditor is charged with directing a broad, comprehensive program of auditing within the National Government. The Public Auditor's Office is authorized by statute to examine and evaluate the adequacy and effectiveness of systems of management control provided by the National Government to direct its activities toward the accomplishment of its objectives in accordance with National Government policies, plans and directives. In accomplishing these activities, the Public Auditor and his staff are authorized to have full, free and unrestricted access to all National Government functions, records, property and personnel including States and nonprofit organizations receiving funds from the National Government.

The President, with the advice and consent of the Congress makes the appointment of the Public Auditor. The Public Auditor serves a term of four years and until a successor is confirmed. An individual may be reappointed for an additional term or terms with the advice and consent of Congress. Congress has the authority to remove the Public Auditor from office, when necessary, prior to the end of his term. In the event of such removal, the Chief Justice appoints an acting Public Auditor until a successor is confirmed.

The Office of the FSM National Public Auditor was established under Article XII, Section 3 of the FSM Constitution. Title 55, Chapter 5 of the FSM Code empowers the Public Auditor to inspect and audit accounts in every branch, department, agency or statutory authority of the National Government and in any other organizations receiving public funds from the National Government. This includes funds provided by National Government and those provided by the United States under the Compact of Free Association. Furthermore, the FSM Legal Code, *inter alia*, provides the Public Auditor with the power to conduct financial and compliance audits, economy and efficiency audits and audit program results. In addition, the Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities. See Appendix I, for a listing of the specific authorities and powers of the Public Auditor as set forth by the Congress.

## ORGANIZATION AND RESPONSIBILITIES OF ONPA

ONPA has two Divisions to handle its legislative requirements—Audit and Compliance Investigation. The Audit Division examines and evaluates the programs and systems of the audited entity. The Compliance Investigation Division investigates allegations regarding financial mismanagement and abuse involving national funds and may refer cases to the Department of Justice. In addition, ONPA is responsible for the single audits of the FSM National and State Governments' general purpose financial statements, which are performed annually. This work is done by an outside contractor. ONPA has full oversight responsibilities for ensuring that the required Single Audit work is completed. See Appendix II, for ONPA Organization Chart as of September 30, 2006.

### **Audits Group Conducts Performance Audits and Inspections**

The Congress has mandated that ONPA will perform three types of performance audits: program results, economy and efficiency and financial. These audits are not mutually exclusive and any audit or review may include more than one type of performance audit. However, in all circumstances, the Public Auditor will perform audits in conformity with generally accepted audit standards. See Appendix III, for a description of performance audits.

In 2005, the Public Auditor made a key move towards improving the time frames for conducting audits and issuing reports when he authorized that inspections be performed in addition to comprehensive audits. Inspections are a method for handling the requirements of the performance audit, not a substitution for them. The tools used in both the inspection and the performance audit are similar, but the processes and how they are conducted make them different. Inspections have a more defined focus whereas performance audits are more detailed and in-depth, examine an entire process from start to finish, and generally assess systems. In both, the auditors evaluate, review, study and analyze the programs and activities of the audited entity. Both result in providing information to managers for decision-making, making recommendations for improvements, and identifying where administrative actions may be necessary.

In making this forward-looking decision, the Public Auditor sought the opinion of an expert in the field and recruited an experienced practitioner to conduct a training course for ONPA staff to help them better understand how to approach, design, and conduct inspections. As a result, in May 2006, ONPA formally adopted uniform standards used in inspections. These 13 standards are the *Quality Standards for Inspections* issued by the U.S. President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency. This has been a highly successful endeavor and we have experienced an increase in the number of examinations performed and a decrease in the amount of time needed for each examination. This has been accomplished without any compromise on the quality and integrity of ONPA products. See Appendix IV, for a description of the 13 *Quality Standards for Inspections*.

Adding inspections to the audits has resulted in a significant increase in the number of reviews ONPA staff have been able to conduct as well as in the number of reports issued

in 2005 and 2006 (13 reports issued) when compared to the prior three-year period (three reports issued). See Appendix V, for a list of audits and inspections performed from 2002 through 2006.

## **Audits and Inspections Highlights**

### ***Inspection of FEMA Expenditures for Chuuk State (Report No. 2006-01)***

The U.S. Federal Emergency Management Agency (FEMA) allocated \$4.96 million to FSM for the State of Chuuk to recover from damages done by three typhoons, one occurring in 2002, and two occurring in 2003. The funds were to assist Chuuk State and its Local Governments' response to and recovery from the disasters created by the typhoons. FEMA determined the amount of funds to provide for public assistance projects, the amount of funds to provide to the sub-grantee for administration of the public assistance projects, and provided assistance for hazard mitigation measures during the recovery process.

In June 2006, the inspection of FEMA expenditures for fiscal years 2004 and 2005 was completed and a report issued. The objectives of the inspection were to determine whether FEMA expenditures were properly authorized and approved prior to the processing of payment checks and whether payment checks were addressed to the right payees. The findings included lack of internal control procedures that resulted in missing or incomplete documentation and internal control procedures that were not followed resulting in \$145,700 in payments that were made without proper authorization. The number and category of documents paid without authorization is listed in the following table.

**Table 1: Number and Percentage of Missing Documents by Type of Document**

<b>Type of Documentation Missing</b>	<b>Number</b>	<b>Percentage</b>
Accounts Payable Vouchers	8	9
Purchase Orders	19	20
Purchase Requisitions	8	9
Total payments made without proper authorization	28	30

ONPA recommended that the Director of Administrative Services ensure that all internal control procedures are followed.

### ***Inspection of the Compact Trust Fund (Report No. 2006-03)***

The Amended Compact of Free Association between the Government of the United States of America and the Government of the Federated States of Micronesia provides for the establishment of a Trust Fund. The purpose of the Trust Fund is to contribute to the economic advancement and long-term budgetary self-reliance of the FSM by providing an annual source of revenue after Fiscal Year 2023. In accordance with the Sections of the Compact, FSM contributed \$30.3 million to the Trust Fund in 2004 and the U.S. contributed \$32.2 million in 2004 and \$16.4 million in 2005. The Trust Fund is to be

governed by provisions of the Agreement and administered by a Joint Trust Fund Committee (TFC).

In July 2006, the inspection was completed and a report issued. The objective of the inspection was to evaluate whether the TFC was effectively and efficiently complying with the administrative requirements of the Agreement. In summary, the findings reported were that the TFC had not provided needed leadership, communication and coordination to meet the requirements of the Agreement. Also, key positions outlined in the Agreement (such as a Trustee, an Investment Advisor, Money Manager(s), and an Auditor) were not appointed in a timely manner. In addition, various administrative functions were not performed or were not performed in a timely manner.

These actions resulted in a lower than expected income for the first years of the Trust Fund and eventually could lead to potential underperformance of the Trust Fund assets and potential lost earnings. Specifically, for fiscal years 2004 and 2005 the Trust Fund only earned a 2.23 percent rate of return, while even a conservative investment strategy in 2003 forecasted a 6 percent rate of return. This 6 percent rate of return is comparable with the U.S. Congressional Budget Office's 2003 average forecasted return for long-term U.S. Government Bonds of 5.8 percent.

ONPA recommended that the TFC focus on enhancing oversight to ensure full compliance with the Agreement.

***Inspection of the FSM Embassy in Washington, D.C. FY 2003-2006 (Report No. 2006-04 and 2006-05)***

The FSM National Government has maintained an Embassy in Washington, D.C. since 1979 when the FSM Constitution was approved and ratified. The Embassy represents the FSM Government before the U.S. Congress, departments and agencies of the U.S. Government, other organizations, public and private, on all matters pertaining to the FSM. The Embassy assists public officials from the FSM, provides consular assistance to FSM citizens in the U.S., disseminates general information about the FSM, and promotes business opportunities in the FSM to domestic and international business organizations. The Embassy also promotes and carries out the programs and policies of the FSM National Government as they are duly authorized.

In October 2006, the inspection was completed and report was issued. The objectives of the inspection were to determine whether FSM laws and regulations were complied with regarding 1) financial transactions, 2) the acquisition and use of a loan, 3) a renovation contract, and 4) passport controls.

Regarding the financial transactions, the Embassy and the Department of Finance & Administration did not comply with FSM regulations and prudent business practices. Of the total expenditures of \$3,332,993, about 16 percent of the expenditures, or \$530,655 could not be categorized due to lack of adequate documentation. Regarding the Embassy's loan, the loan proceeds were commingled in the operating account with all other sources of funds and auditors could not determine what the loan funds were used

for because of the commingling. Regarding the Embassy's renovation, the Embassy did not comply with FSM laws and regulations or with the terms and conditions of the contract. Further, the Embassy overspent by \$14,799 on the \$200,000 allotted for the renovation work and the Department had not properly recorded the renovation costs. Finally, regarding the handling of passports, the Division of Immigration & Labor and the Embassy did not comply with FSM laws and regulations and did not adequately safeguard FSM passports.

ONPA auditors made a dozen recommendations regarding operations necessary to bring the Embassy into compliance with regulations.



### **Compliance Investigation Division**

CID is the specialized group within ONPA that investigates allegations of financial mismanagement and abuse involving National funds. Additionally, CID has the expanded capacity to investigate financial crime and financial corruption under the provisions of a Memorandum of Understanding (MOU) between ONPA and the FSM Department of Justice. This MOU came into effect in September 2005. As a result, CID has both an administrative investigation function and a criminal investigation capacity.

In 2000, CID became a member of the Head of Law Enforcement Association (previously called the Joint Law Enforcement Association). The Association's aim is to improve coordination and communication among law enforcement agencies among the four States and National Government of FSM and to facilitate and promote the professionalism and enhancement of law enforcement. The Association meets annually to identify and resolve common problems and work towards finding solutions to improve law enforcement delivery. Members of the Association include the Chiefs/Directors of the four states (Pohnpei, Yap, Kosrae, and Chuuk), the Commissioner of FSM Customs, the Chief of Immigration, the Chief of Postal Services, and the Chief of CID.

CID has participated annually at the Association meetings presenting their agency reports and issues of prevention, deterrence and detection of fraud and corruption. The

continued effort to participate in HOLEA has resulted in successful investigative collaboration and support from member States and other National law enforcement agencies.

While CID is the Public Auditor's investigative arm and has a delegated anti-corruption and criminal investigation capacity in conjunction with the Department of Justice, CID is just as concerned with identifying systems and accountability weaknesses in the Nation's financial administration as it is with gathering evidence of criminal activity for criminal prosecutions in the courts. In order to streamline the investigating and reporting process, within the past year, CID adopted *Quality Standards for Investigations*, which have been prepared by the U.S. President's Council on Integrity and Efficiency. See Appendix VI, for a list of the General and Qualitative Standards.

In addition to adopting quality standards, CID has reviewed the manner in which investigations of complaints are conducted and has introduced a two-tier system, the *Preliminary Inquiry* and the *Investigation*, in order to maximize resources. As part of this new case screening process, all complaints received by the Public Auditor are subject to a *Preliminary Inquiry*. The purpose of the *Preliminary Inquiry* is to determine whether the Public Auditor has the legal jurisdiction to investigate the matter, whether there is a reasonable cause to suspect that breaches of the FSM Financial Management Regulations have occurred or a criminal offence has been committed by a known person, the nature and strength of the evidence available to support or refute the allegation and the likelihood of appropriate remedial administrative action being taken or successful legal action being commenced if the supporting evidence is available.

The purpose of the *Investigation* is to fully explore the allegation and any administrative, managerial or criminal issues that may be uncovered as a result of that investigation. In investigations, both administrative and criminal, the primary aim is to discover the truth of the matter under investigation. The investigation determines, on the balance of probabilities, whether or not National Government financial management regulations, financial management policy, appropriate administrative procedures or aspects of the criminal code have been breached.

During Fiscal Year 2006, CID was handling 13 active cases, seven new complaints of serious financial mismanagement or financial crime involving National Government funds or property and carried over six cases from prior years. At the close of the year, four cases had been referred to DOJ and nine cases were carried over into 2007. For reasons of confidentiality, CID investigations can not be made public until the DOJ releases the information.

### **CID Investigation Highlights**

Investigators from CID played a key role in the court proceedings that was heard in Chuuk from March 06, to April 05, 2006. The trial involved charges ranging from theft to conspiracy to defraud the National Government. It was alleged that more than half a million dollars in National Government funds had been diverted and improperly

obligated or been the subject of a conspiracy to improperly obligate. The defendants involved some high government officials and employees, and private business people.

Investigators Sophia Pretrick and Fletcher Poll, along with Audit Supervisor Omar E. Njie, assisted the litigation staff of the FSM Department of Justice in the investigation and prosecution of the case. The one-month trial heard evidence from over fourteen Government witnesses. One defendant came forward and entered a plea of guilty during the trial. This defendant was sentenced to eight months imprisonment and was ordered to pay restitution. A further four defendants were convicted of felony charges for the conspiracy count on the evidence before the Court.

### **Single Audits**

Under the Compact of Free Association agreement between the FSM and the United States of America, FSM National and State Governments are required to have their general purpose financial statements audited annually. Audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position. This work is done under OMB Circular A-133, which sets standards for consistency and uniformity of financial audits, and in accordance with the U.S. Single Audit Act of 1984, as amended.<sup>1</sup> ONPA has full management responsibilities for ensuring that this requirement is met. Achieving the Compact's requirement on single audit is very critical. The fund donors must know how their financial assistance was spent and what it was used for in FSM. The decision-makers within FSM need current financial data in order to make sound decisions.

ONPA plays a key role in the single audit process by providing oversight responsibilities for the audit contract and performing other essential roles to facilitate the single audits. In 2005, for the first time, FSM completed its single audits on-time. The Public Auditor expressed thanks to all Finance and Budget officers and the Heads of the Component Units for their efforts which made this accomplishment possible. The single audits were performed by an outside contractor with the oversight of ONPA staff who monitors the contract to ensure that conditions and provisions are met. These single audits are outsourced to Deloitte & Touche, LLP, which has its main office based on Guam and a Field Office in Kolonia, Pohnpei. This firm has been awarded the audit contracts every year since the inception of the Compact of Free Association in 1985. The selection of the independent auditor is done on a competitive procurement basis. An Audit Committee reviews audit proposals and awards the audit contracts to the winning bidder.

During 2006, 16 financial audits and three management letters were issued by the independent auditor and audit work was conducted at FSM National Government and in every State Government. Three of the 16 audits and the management letters were performed under OMB Circular A-133. In 2005, the contractor issued 10 reports, five

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<sup>1</sup> OMB Circular No. A-133 was issued pursuant to the Single Audit Act of 1984 as amended, P.L. 98-502, and the Single Audit Act Amendments of 1996 P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. Subpart B of A-133 sets a threshold amount of \$500,000 for federal monies that are expended during a year to be audited.

under OMB Circular A-133; in 2004, 20 reports, five under A-133; in 2003, 19 reports, five under A-133; and, in 2002, 16 reports, five under A-133. See Appendix VIII, for a list of Single Audits performed.

### **Highlights of Single-Audits**

The highest ranking that a government or entity can receive in the financial audit is an unqualified opinion. The Pohnpei State Government received an unqualified opinion in both 2005 and 2006, while Yap and Kosrae State Governments received an unqualified opinion in 2006. Since 2002, six entities have consistently received an unqualified opinion in their single audit—the Coconut Development Authority, FSM Development Bank, FSM Social Security Administration, FSM Telecommunication Corp, Micronesia Petroleum Corporation, and Yap State Public Service Corp. The College of Micronesia and the Kosrae Utilities Corp have consistently received an unqualified opinion beginning with their first single audit in 2004 and 2003 respectively. See Appendix VIII for a complete list of single audit opinions issued for 2002 through 2006.



## OTHER MATTERS OF INTEREST

### **Work-Related Activities**

ONPA work groups perform valuable audit-related activities in addition to the inspections and investigations that result in formal reports. Staff issue alternative work products such as opinions, formalize methods of cooperation among government entities, work on strategic planning, and develop procedures and manuals for accomplishing work product, among other things.

### **Not All Audit Work Results in a Formal Report**

Occasionally, inspections work performed by the Audits group does not result in issuing a formal report. This situation can occur for a variety of reasons. For example, in May 2005 an audit team looked into financial statements for the Micronesia Long-line Fishing Corporation (MLFC) for the year ended September 30, 2004. The purpose of the audit was to express an opinion on the financial statements. Since the necessary evidence to substantiate an opinion on the financial statements as a whole could not be obtained, ONPA issued a management letter indicating that the engagement would be withdrawn without issuing an opinion on MLFC's financial statements.

In another example, lack of recordkeeping on the part of the audited entity may prohibit the audit team from a complete inspection or audit. For example, in November 2005, the team looked into the Maritime Operations Revolving Fund and determined that a custodian for the Fund was lacking, therefore the Fund did not hold any records of their own. The audit team was unable to complete the audit due to this lack of recordkeeping.



### **Strategic Plan for 2004-2007**

ONPA recognizes the need and usefulness of preparing a strategic plan for the Office's operations. In 2004, the Office undertook a significant amount of work to create a

Strategic Plan for the four year period 2004 to 2007. Engaging in this work provided ONPA with a more comprehensive understanding of the environment and stakeholder needs and ONPA's current capability to respond to those needs. Based on this understanding, the staff developed action steps for the four years 2004-2007. Dr. Lowell Kuehn, a Consultant from Pacific Northwest Consulting Services, facilitated the weeklong Strategic Planning process, and all staff participated.

Mr. Stephen Latimer, Pacific Island Training Initiative in Honolulu, facilitated the funding for this critical project. A full text of the Office's Strategic Plan for 2004-2007 can be accessed at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm), under "What's New" and then "Archives."



### **New MOU between ONPA/CID and FSM Department of Justice**

In 2005, a new MOU between ONPA and the FSM Department of Justice was signed in a short ceremony at Palikir. The MOU, which seeks to formalize and improve cooperation between the two agencies in the investigation of financial crime and financial corruption involving National Government and Compact funds, was signed by Public Auditor Hainrick and Ms. Marstella Jack, who was then the Attorney General for the FSM. The signing was witnessed by staff from both agencies.

The MOU builds on a formal relationship between the two organizations going back to 1996 when the first MOU was signed. Among other things, the latest MOU reinforces the authority of the CID of the National Public Auditor's Office to conduct *preliminary* inquiries into allegations of non-compliance in public office, misuse of public resources, financial crime, financial corruption or any other breach of National laws or regulations involving public funds from the National Government. The MOU also empowers the CID to work with the Department of Justice, including the National Police, in the *investigation* of criminal allegations of financial crime and financial corruption. The MOU allows for cooperation in the field of financial crime investigations education and training and the sharing of intelligence and information related to financial crime and corruption.

Ms. Jack stated that the signing of the MOU emphasized the commitment of both agencies in fighting serious financial abuse of FSM National Government funds. Echoing these sentiments, Public Auditor Hainrick said that the MOU will provide mutual authority to work together as a team to fight fraud in the National Government.

### **Other Major Activities**

ONPA staff work continuously on projects to improve the quality and procedures of audits and other office operations. Examples of work conducted over the past five years include the following:

- Developed a Manual for administrative and secretarial services
- Established a fixed assets tracking report
- Developed an Administrative Manual
- Developed an Audit Manual
- Developed a Data Collection Form for use in inspections and audits
- Developed a method for selecting work to be audited

### **Other Activities and Items of Interest**

#### **ONPA Receives Highest Rating for 2004/2005 Peer Review**

In a complete turnaround from the 2002 Peer Review, the Association of Pacific Islands Public Auditors gave its highest possible rating to the FSM Office of the National Public Auditor in its most recent external quality control review of ONPA. In letters addressed to the FSM President and Speaker of the Congress, the Peer Review Team stated that ONPA was in full compliance with government auditing standards. Full compliance is the highest of three possible ratings issued in an external quality review.

Government Auditing Standards promulgated by the Comptroller General of the United States, mandate government audit agencies to undergo an independent external quality control review every three years. ONPA's audit reports issued during the period October 1, 2002 through August 31, 2005 and its system of internal quality control in place during this period were reviewed by the Peer Review Team.

Public Auditor Hainrick attributed the outstanding results of the Peer Review to the entire staff of ONPA and further stated that this was the result of collective work as a team. He noted that staff has worked very hard to ensure that useful audit reports were produced and that the mission of enhancing accountability in the public sector was being accomplished. Public Auditor Hainrick underscored the fact that the current Peer Review results are a complete turnaround from the last Peer Review in 2002 where numerous deficiencies were noted at the office. See Appendix IX, for Peer Review letters and documents.

## **Public Auditor Chairs Workshop at the Joint Finance & Budget Officers Conference, Summer 2006**

Public Auditor Hainrick was invited to participate in the Joint Conference as a Chair for one of the Working Groups on audit related issues at the Finance and Budget Officials of the Governments of the FSM meeting in Tofol, Kosrae in August, 2006. The purpose of the two-day session was to discuss a wide range of critical issues facing the Nation. Mr. Hainrick said that he was honored to chair this Group and to participate in discussions that resulted in improvements to the single audit process and assist in resolving audit findings and questioned costs. The Conference adopted 14 resolutions in total and Mr. Hainrick's Working Group developed and presented five of these resolutions. These Resolutions were:

- 1. Resolution No. 1** - Requesting the FSM National Government to appropriate funds to cover the five FSM Governments' contribution to the annual single audit costs commencing with the FY 2006 single audit.
- 2. Resolution No. 5** – Congratulating Pohnpei State Government for being the first FSM Government to receive an unqualified audit opinion for its FY 2005 single audit.
- 3. Resolution No. 6** – Requesting the FSM National Government to provide to the States clear procedures regarding the resolution of audit questioned costs by the Questioned Costs and Resolutions Committee (QCRC).
- 4. Resolution No. 7** – Requesting the FSM National Government to provide necessary assistance to the States and their Component Units in order to produce their financial statements in a timely manner.
- 5. Resolution No. 8** – Requesting all Department Heads, Major Program Managers, and Heads of all Component Units to work closely with their respective Finance Department to improve annual audits for the FSM National and State Governments.

Mr. Hainrick, who was accompanied at the Conference by Mr. Eric E. Elias, Auditor III of the FSM Office of the National Public Auditor, expressed his appreciation to the Conference coordinators for the opportunity to chair a working group and stated that he looked forward to participating at future meetings of the FSM Finance and Budget Officers.



### **FSM Hosted 17<sup>th</sup> Annual Association of Pacific Islands Public Auditors Conference**

In 2006 ONPA hosted the annual APIPA conference. The conference is an annual event that promotes educational training, networking and professional development opportunities for Public Finance Officers and Auditors. More than 280 participants from all over the Pacific attended the week-long conference. This is the third time that FSM National Public Auditor's Office has hosted APIPA. Although it takes a tremendous amount of work on the part of ONPA staff to host such a major event, the professional benefits are well worth the effort.

The conference started on July 24, 2006, with a plenary presentation by the Hawaii State Auditor, Ms. Marion Hinga on "Transparency in the Public Sector" and closed on July 28, 2006 with a plenary session entitled "Ethical Concerns for Public Sector Employees" facilitated by Mr. Ralph Capio. Four tracks—workshop sessions—were offered at the conference to promote accountability and transparency in government. The courses offered were: "Conducting Performance Audits: Techniques for Success," "Developing and Presenting Audit Findings," "Fraud Auditing: What You Should be Looking For," "Report Structure: How to Reach Your Audience," "Audit Risk Update: New AICPA Auditing Standards," "Procurement for Auditors," "Project Management of Performance Audits: Keeping on Track from Start to Finish," "Review of Current Yellow Book Standards," "Reviewing Audit Reports," "Strategic Planning for Audit Offices: Moving Forward with Next Steps," "Performance Measures and the Service Delivery Model," "Nuts and Bolts of Governmental Accounting," "What Auditors Do and How to Make Them Go Away Happy," "GASB Updates," "Management Controls for Financial Managers: Applying Best Practices," "Performer Updates," "Post Award Procurement Considerations," "Pre-Award Procurement Considerations."

In his closing remarks, His Excellency Joseph J. Urusemal, who was then the President of Federated States of Micronesia congratulated all the participants and expressed gratitude to the United States Office of Insular Affairs and the USDA Graduate School for funding such an important endeavor.

The 2006 conference was implemented by ONPA with close coordination with the United States Department of Agriculture (USDA) Graduate School and Pacific Islands Training Initiative (PITI) Program based in Honolulu and its staff, including Stephen Latimer, Jason Aubuchon and Skip Polson.

The National Public Auditor Hainrick, who is also the APIPA Chairman for 2006, acknowledged and thanked the Office of Insular Affairs, the USDA Graduate School / PITI, all the Public Auditors from the APIPA member countries, and all participants for making the conference a success. Public Auditor Hainrick also expressed heartfelt thanks to the able staff of the ONPA, Upward Bound volunteers, and contributing sponsors and donors for their assistance and contributions.

### **ONPA Hotline**

The Public Auditor has established a hotline for use by concerned private citizens to report possible misconduct and alleged abuse at all government entities. Since inception of the hotline in 1999, 25 tips have been received. Information from the public is a valuable part of the audit process and helps ONPA focus resources.

The Hotline is available twenty-four hours a day, every day of the week, by an answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA offers an on-line complaint form. The form can be found at <http://www.fsmpublicauditor.fm>. All reports are treated as confidential.

### **Website Development Completed, 2005**

Recognizing the need to reach a wider audience of those interested in ONPA reports, the Public Auditor created and launched an internet website. To achieve the implementation of an internet website, ONPA identified a webmaster<sup>2</sup> and a designer, laid out the ground work for implementation, executed a contract for these services, and engaged them to create the internet website and conduct training for staff regarding regular maintenance of the website. Website development was completed in February 2005.

At that time, Jason D. Aubuchon, the website developer, transferred the entire website administrative and maintenance functions over to ONPA. Christina Elnei and Omar E. Njie, who were then the Administrative Officer and Audit Supervisor, respectively, were trained to be responsible for the administration and maintenance of the website. In addition, some other staff from the Pohnpei State Auditor's Office and from the FSM Telecommunication Office received the training.

One of the many benefits of this undertaking is that the website has provided an avenue for viewing finished audit reports which are inclusive of all audits outsourced to and

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<sup>2</sup> Webmasters manage all aspects of Web operations. Core responsibilities of a webmaster generally include the regulation and management of access rights of different users of a web site and the appearance and setting up web site navigation. Content placement can be part of a webmaster's responsibilities, while content creation is typically not.

conducted by the external auditor plus all of those audits and inspections performed by ONPA staff. Written results of investigation activities done by the investigative staffs of CID may also be posted online when permissible.

Additionally, the users and interested parties of ONPA products and services are now afforded the ability to file and communicate any complaints they may wish to submit electronically to the Office without fear of divulging their identity. The website can be accessed at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm)

### **New Building Dedication, 2003**

On September 17, 2003 ONPA officially opened a new office building in Palikir. The new office is located opposite the Capitol Complex and across from the Kaselehlia Building which houses the Departments of Resources & Development; Transportation, Communications and Infrastructure along with the National Oceanic Resource Management Agency. At the time of the opening, Public Auditor Hainrick, said the location of the building "appropriately reflects the independence as required by law, under which the National Public Auditor must function, from the rest of the Branches of the National Government."



Mr. Hainrick said the new building is conducive to preparations needed to face the new responsibilities and challenges under the Amended Compact. With his team of "very competent staff," Mr. Hainrick reaffirmed the commitment of ONPA in assisting the FSM Governments in their effort to build a better FSM through the performance of independent audit, inspection and investigation services. Mr. Hainrick thanked the President for the support and approval of the project and further expressed appreciation for the Congress' allocation of funding to construct the building. Mr. Hainrick further thanked the Department of Transportation, Communication & Infrastructure for their part in the planning, designing, executing and monitoring of the project and the Contractor, VCS-White Sands, for realizing the structural concept.

## **Additional Items**

ONPA staff has worked on a variety of projects over the past 5 years that include, but are not limited to the following:

- Updated in-house library and updated reference materials
- Re-established affiliation/membership in regional organizations
- Established relationship with U.S. Government Accountability Office (GAO) and got a proposal approved for an auditor staff member to attend and participate in the GAO Internship Program for 2005
- Designed and implemented strategic action plans in order for ONPA to pass its next Quality Control Peer Review
- Addressed staff turn-over issues

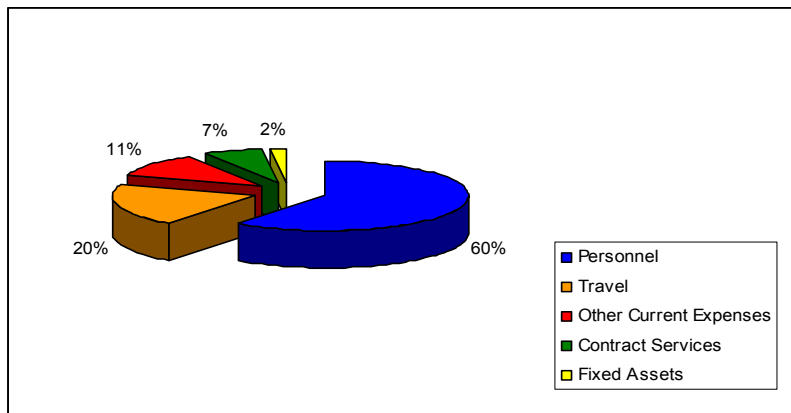


## OFFICE ADMINISTRATION

### **Budget**

Of the total ONPA budget of \$578,800 for fiscal year 2006, Personnel Costs represent 60 percent or \$329,709. Travel Expenses, an integral part of conducting inspections and investigations, represents 20 percent or \$127,590 of the total budget. This is followed by Other Current Expenses, such as communications, supplies, and utilities, at 11 percent, or \$66,651 of the total budget. Contract Services represents 7 percent or \$43,053 of the total budget. The primary expenditure in this category is the outsourcing of the Single-Audit contract. Fixed Assets, such as computers, represents 2 percent, or \$11,797 of the total ONPA budget.

**Graph: Percent of Budget Expended by Category for Fiscal Year 2006**



Over the 5-year time frame, 2002 through 2006, Personnel costs, which always ranked first, varied by less than 10 percent primarily because staff numbers remained fairly constant. The Travel budget over this period of time has shown a slight decrease. One notable change in expenditures is found in Other Current Expenses in 2005. As shown in the Budget Expenditures table below, in fiscal year 2005, Other Current Expenses took up almost one-fourth of the annual budget when a one-time authorization of \$107,000 was approved to be used as a supplement for the single audit per Public Law 13-87.

**Table 2: Budget Expenditures by Category and Fiscal Year**

Budget Category	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Personnel</b>	\$326,797	\$326,797	\$331,209	\$331,209	\$329,709
<b>Travel</b>	128,200	128,200	103,413	126,659	127,590
<b>Contract Services</b>	39,000	42,000	33,000	45,000	43,053
<b>Other Current Expenses</b>	24,000	26,000	34,930	153,160	66,651
<b>Fixed Assets</b>	6,000	1,000	3,000	9,000	11,797
<b>Totals</b>	<b>\$523,997</b>	<b>\$523,997</b>	<b>\$505,552</b>	<b>\$665,028</b>	<b>\$578,800</b>

## **Staff and Responsibilities**

### **Audits and Investigations**

In 2006, the Audits Group welcomed Don Yamada to its team. Mr. Yamada, who has a two-year contract with ONPA as an audit supervisor, comes from the San Francisco Bay Area. He retired from the Government Accountability Office in 2003, as a Senior Analyst, after working 27 years there. Mr. Yamada's wife, Lucia, remains in the Bay Area along with their two children, a 29-year old daughter and a 28-year old son.



In 2005, ONPA hired Ann Walker under a two-year contract as audit supervisor but she has since been promoted to Audit Manager. After 32 years, Ms Walker retired from the Government Accountability Office in 2005. While at GAO, Ms. Walker served as a Senior Analyst and worked in Technical Assistance managing massive databases and assessing the reliability of electronic data. Ms Walker has a Master of Business Administration from Johns Hopkins University, Baltimore, Maryland and is a Certified Public Accountant.

In 2006, the Audits Group was comprised of an Audit Manager, Ryan Torvik, two Audit Supervisors Ann Walker and Don Yamada, two Auditor III's, Eric Elias and Moses Russel, three Auditor II's, Michael Henry, Yolanda Leben and Limanman Elanzo, and three Junior Auditors, Keller Phillip, Julinida Weital, and Aisi Mori. Staff at the Auditor III level, generally serve as auditors-in-charge, planning and leading audits. Auditor II's generally conduct audit work, prepare audit plans, conduct interviews, and examine documents. Junior Auditors perform entry-level audit tasks generally under close supervision.



Our audit manager, Ryan Torvik, audit supervisor, Omar Njie, and temporary executive secretary, Michelle Lemuel left ONPA in 2006 to pursue other endeavors. Ryan came to us from Kamloops, British Columbia, Canada in the summer of 2003 where he was a member of the KMPG International, an accounting firm, and a member of the Chartered Accountants of British Columbia. Ryan earned a B.A. degree from the University of Saskatchewan, who was hired as an audit supervisor and later became the audit manager.

Omar Njie of The Gambia, West Africa, came to us with a B.S. in accounting from Berea University, Berea, Kentucky, USA and a Masters in Business Administration from the University of Monroe, Monroe, Louisiana. He is a Certified Internal Auditor and received his training at the Institute of Internal Auditors, Altamonte Springs, Florida. He had extensive prior experience including the Cleco Corporation of Pineville, Arkansas, Trans World Airlines, Inc. in St. Louis, Missouri, and Bank One, Inc. in New Orleans, Louisiana. Omar and Ryan left with additions to their families. Both welcomed baby girls into their families while here.

Michelle Lemuel worked at the National Public Auditor as a temporary clerk beginning on July 7, 2005. Miss Lemuel, a citizen of Pohnpei, was also appointed as the temporary executive secretary until her resignation from the Office in May, 2006.

### **Compliance Investigation Division**

Mr. Nigel Savidge was recruited as Chief Investigator for the Compliance Investigation Division in 2005. ONPA was able to accomplish this with the help of the Australian Volunteers International, the FSM Foreign Affairs, and the Australian Embassy in Pohnpei. Mr. Nigel Savidge began his two-year contract in April 2005. Mr. Savidge received a Master of Science degree in Criminal Justice from the University of Portsmouth, UK in 2000. He received a BA degree in Social Science (Policing) from Charles Sturt University in Australia in 1996.

The CID has three positions. The Chief Investigator, Mr. Nigel Savidge, whose placement ended in early 2007, served the Public Auditor as an Advisor on White Collar Crime Investigation and Review under the Pacific Assistance Technical Facility provided by the Australian Government's AusAID program, managed CIDs workload, and worked on developing CID's investigations management policies and procedures. Mr. Fletcher Poll and Ms Sophia Pretrick, who conduct the

bulk of the case work, are investigative Auditor Level III's and are also Certified Fraud Examiners.

### **Administrative**



Ms Christina Elnei was the ONPA Administrative Officer. She joined the Office of the National Public Auditor as an Administrative Officer I in 2004. Ms. Elnei, a citizen of Pohnpei, FSM, came to ONPA with extensive experience in collections, loans supervision and loan production.

Dorian Kyioshi was the ONPA Executive Secretary. The executive secretary handles the secretarial work for all of the office and reports to the Public Auditor through the Administrative Officer.

Michelle Lemuel has served as temporary staff in the ONPA office for more than a year. She began as a replacement for Dorian Kyioshi while Dorian was on maternity leave. Michelle also helped with arrangements for APIPA and a variety of other administrative tasks.

### **Staff Achievements**



## **Moses Russel Attended the 2006 International Fellowship Program at GAO**

The United States Government Accountability Office in Washington, D.C. accepted Moses Russel, Auditor III for a 150-day International Fellowship Training Program. Mr. Russel completed the six month training program in October 2006. This cooperative training effort is designed to improve the skill levels of auditors, and will benefit the FSM National Government as a whole in that it will increase ONPA's ability to better perform its audit function. In the long-term, these improved capabilities will result in ONPA being better able to fulfill its mandate of monitoring governmental operations.

GAO has been providing/sponsoring International Auditor Fellowship Programs for the past 27 years. GAO sponsors this program to (1) enhance participants' skills in order to strengthen the institutional capacity of Supreme Audit Institutions (SAIs), (2) foster continuous learning and knowledge sharing, and (3) strengthen professional networks to promote institutional relationships among SAIs, and other partners in the accountability community. The program engages in a comprehensive, 16-week learning experience that includes classroom training and participation in job-related activities. The program focuses on GAO's methods and techniques for conducting performance audits.

In addition to participating in the above described training programs, Mr. Russel was also required to prepare a strategy paper, Audit Report Writing and Reviewing, a topic identified by the FSM National Public Auditor. At the end of the program, he had an opportunity to take part in an 8-week placement with the GAO Dallas Regional Office where he met with various teams working on individual audit projects. At the Dallas Regional Office, he received instruction and learned how GAO puts into practice various aspects of its work including how to determine scope and methodology for audits and how audit reports are prepared to ensure quality and accuracy.

Mr. Russel's training at GAO this year was made possible through the utilization of training funds provided by the U.S. Office of Insular Affairs to support the FSM Public Auditor's training programs which are facilitated by OIA, the Department of Interior Inspector General, and other relevant agencies. ONPA expressed appreciation to all those involved within the GAO community in making Mr. Russel's training attachment program a success.

## **ONPA Investigator Ms Sophia Petrick Receives FSM National Government's Employee of the Year Award**

In 2005, under President Joseph J. Urusemal, FSM National Government initiated a program to recognize the superior public achievements of an individual employee and to acknowledge their achievements with the Employee of the Year Award. A 3-member committee was established to interview, evaluate the nominations, and to apply a uniform set of criteria for overall evaluation of each employee nominated—one from each department. A variety of performance factors are considered in bestowing this honor

including job knowledge, quality and accuracy of work, ability to adapt, and initiative and resourcefulness.

In 2005, Sophia Pretrick, a Level Three Investigative Auditor, was nominated and in January 2006 was selected as the recipient and given the 2005 Employee of the Year Award. In nominating Ms. Pretrick, the Public Auditor noted that she has consistently performed her duties at a significantly higher level than that required of her; demonstrated that she is capable of independent inquiry; been a keen, conscientious, and enthusiastic team member, and that her commitment to the betterment of the people of the Federated States of Micronesia through her work cannot be questioned. Her integrity and high ethical standards are beyond reproach. Ms. Pretrick further distinguished herself in becoming a Certified Fraud Examiner—an internationally recognized award which requires lengthy courses of study and a rigorous examination. As a professional investigator and National Government employee, she is an excellent ambassador for the National Government of the FSM.

### **Training, Workshops, and Conferences**



The Public Auditor recognizes the need for staff to keep abreast of developments in their field of work and to continue to expand their knowledge and skills. ONPA staff obtain their continuing professional education through a variety of learning opportunities—classroom training, workshops, and conferences.

While training opportunities come from many sources, one of the many benefits of conferences is the opportunity to attend mini-workshops and classes that are offered to conference participants, providing ONPA staff with critical training opportunities while presenting updated material vital to ONPA operations. The Public Auditor acknowledges and expresses appreciation to the USDA Graduate School, in cooperation with the Pacific Islands Training Initiative grant for the training opportunities they have provided to ONPA staff over the past six years. And, as mandated in the *Generally Accepted Government Auditing Standards* handbook (Yellow Book), auditors are required to

complete 80 hours of continuing professional education credits every two years. See Appendix X, for a list of training classes, workshops and conferences attended by ONPA staff.

### **DOI-OIG Joint Program Provides Auditors with On-the-job Training**

A joint training program between the Insular Areas’ Public Auditor’s Offices, DOI Office of the Inspector General, and DOI Office of the Insular Affairs was initiated in 2002 to meet a DOI objective of improving the Insular Area Governments’ administration of federal funds and collection of revenue. Since its inception, five employees have participated in the on-the-job program and DOI has provided more than \$210,000 for the program. The training is fully funded by DOI. The training provides the Public Auditor’s Offices with capacity building through training and technical assistance programs and enhances the individual’s audit capacity. Staff from Insular Area governments are selected for the training and sent to OIG-designated field locations for 60 to 90 day “hands-on” training. OIG Liaison Officer, Mr. Ben Privitt and the FSM Public Auditor, Mr. Hainrick co-ordinate and organize the training opportunities.

**Table 3: Participants Attending DOI-OIG Training, Dates, Office, and Training Site**

<b>Participant Name</b>	<b>Date of Training</b>	<b>Office</b>	<b>Training Site</b>
Limanman Elanzo	4/20-7/05/2004	FSM ONPA	Albuquerque, New Mexico
Charles Yalaarow	7/30-10/06/2004	Yap State Public Auditor	Denver, Colorado
Michael Henry	2/04-4/17/2005	FSM ONPA	Denver, Colorado
Nercy Edward	5/27-8/01/2005	Pohnpei State Public Auditor	Sacramento, California
Jackleen Route	2/24-5/01/2006	Pohnpei State Public Auditor	Albuquerque, New Mexico

### **AusAID Fraud Investigation Training**

In 2006, ONPA received a grant from AusAID of USD\$12,200 for scholarships to enable two fraud investigators to undertake graduate studies by distance education in the field of fraud investigation with Charles Sturt University in Australia. The entire course of study will be conducted by distance education which will enable both investigators to remain active at their work within FSM while pursuing their studies, with the exception of one residential program to be conducted at the University's Bathurst Campus in Australia.

The scholarships awarded to Investigators Poll and Pretrick is the successful end product of a grant application made under the AusAID Pacific Regional Policy and Management Reform Fund and negotiations between ONPA/CID with staff of the Australian Embassy and Charles Sturt University, which culminated in a brief signing ceremony by Mr. Hainrick, on April 28, 2006 as he accepted and signed the scholarship contract from the Australian Embassy, with all CID staff present.



Chief Investigator Nigel Savidge, himself a former investigations lecturer at Charles Sturt University, believes that this is a particularly relevant and useful degree for CID staff given the challenging nature of their work. Public Auditor Hainrick, Chief Investigator Savidge and Investigators Pretrick and Poll, extend their thanks to the Australian Ambassador, H. E. Corinne Tomkinson, and the AusAID Development Assistance Officer at the Australian Embassy, Ms Mary O Enciso, for their assistance and support in providing this invaluable training opportunity.



### **Elizabeth Cohn Presented a Week-long Course on Team Developed Audit Reports**

In 2006, the USDA Graduate School and Pacific Islands Training Initiative sponsored a week-long training session on Team Developed Audit Reports for ONPA and Pohnpei State Auditor's Office. Seventeen participants attended the training including Public Auditor Hainrick of the FSM National Government, and Public Auditor Mr. Annes Leben of Pohnpei State, and their staffs.

Ms. Cohn is a training consultant for GAO and USDA Graduate School working extensively with federal, state, and local government audit organizations to improve their



most important product—audit reports. Participants learned about Team Developed Audits, the five stages of report development, defining the story conference, and audit selection methods. The training was a success and Mr. Hainrick thanked the USDA Graduate School and PITI for their generosity in funding Ms. Cohn to help further staff growth and development.

### **Eric Elias Attended South Pacific Association of Supreme Audit Institutions Workshop in China**

In 2005, the National Audit Office of the People's Republic of China hosted an International Training Program for Auditor Generals and other senior auditors of South Pacific countries and regions. Mr. Elias, Auditor III, represented the FSM Public Auditor's Office and attended the training program.

The training included a general introduction about China's Economy and Audit System, Legal Framework for Auditing in China as well as the experiences and achievements of the China National Audit Office in the following fields: Financial Audit, Economic Accountability Audit, Environmental Audit, Public Investment Audit, Performance Audit, IT Audit and Training and Management of Auditors. As an added benefit, the participants were flown to Beijing to tour the Forbidden City and the Great Wall of China. According to Mr. Elias, the workshop was very successful in that participants and facilitators exchanged audit experiences and other related experiences. The trip was funded by the China National Audit Office and coordinated by South Pacific Association of Supreme Audit Institutions.

### **ONPA Staff Members Attend News Writing Skills and Media Concept Workshop**

In 2005, ONPA sent three of its staff members, Christina Elnei, Sophia Petrick, and Fletcher Poll to attend a week-long training course on News Writing Skills and Media Concepts. The training was held at COM Pohnpei Campus with Mr. Joseph Saimon as the instructor. The three ONPA staff members learned, among other things, how to write for a mass media, how to form creative platforms for advertisements, and how to create and handle a public relations news or press release.

### **The 16th Annual Association of Certified Fraud Examiner's Conference**

In 2005, the 16<sup>th</sup> Annual Association of Certified Fraud Examiner's (ACFE) Conference was held in Washington, D.C., and almost 2,000 ACFE members from over 100 countries participated. The FSM National Public Auditor's representatives were Chief Investigator Nigel Savidge and Investigative Auditor Sophia Pretrick. Participants were invited to attend pre- and post-conference seminars as well as the main, three day conference itself. The topic for the 1-day pre-conference seminar was Investigating Conflicts of Interest. There were several 2-day post-conference events for auditors and investigators.

ONPA staff attended the session on Investigating Procurement Fraud. The main conference itself offered over 50 sessions including such diverse topics as “Getting Started in the Wonderful World of Fraud Examination,” “Opportunities in Expert Witnessing,” “How To Detect Money Laundering.” The conference provided an excellent opportunity to develop professional networks and exchange ideas about fraud investigation in an open forum, as well as allowing ONPA Certified Fraud Examiners to earn valuable training hours.

### **Auditors and Investigators Attend FBI Training on Public Corruption and White Collar Crime**

In 2004, the United States Federal Bureau of Investigation (FBI) conducted a three-day course for the Public Auditors and law enforcement officers in the South Pacific rim in Guam. Participants came from all over the Pacific including American Samoa, Commonwealth of the Northern Mariana Islands, Republic of the Marshall Islands, Federated States of Micronesia, Palau, and Guam attended the training.

Public Auditor Hainrick headed the FSM delegation which included Moses Russel, Auditor in Charge, Sophia H. Pretrick, Investigative Auditor, Frank Darra of Office of the Pohnpei State Auditor and Joseph Cheay of Office of the Yap State Auditor. Lieutenant Lino Amor of the FSM National Police also participated.

The training was a joint effort between the U.S. Inspector General's office and the FBI. At the conference the following topics were discussed, white-collar crimes, public corruption, terrorism financing, crime scene and evidence handling, modern terrorism, intelligence update, civil aviation security, and weapons of mass destruction.

The FBI also presented current methods and techniques on suspicious activities of counter terrorism. Topics discussed included how public corruption and financial crimes lead to terrorism. The three-day course was very useful and it brought together two professions, auditors and law enforcers, who are critical in curbing and/or eliminating white-collar crimes, public corruption, and terrorism financing.

### **Supervising and Managing Human Resources Principles and Practices**

In 2004, the Pacific Islands Training Initiative, through its generous training initiative in the insular area governments, sponsored a workshop on Supervision and Management of Human Resources in the FSM. Facilitating the workshop was Ms Carole Buncher a former employee of the United States Government Accountability Office. The objectives of the course were to discuss the roles of the supervisor in today's organization, human resources management, skills for effective interpersonal communication, components of an effective performance management system and the supervisor's role in managing these components, and diagnosing and demonstrating skills to managing conflicts. All the Public Auditors of the FSM attended the workshop along with officials from finance, personnel, revenue, and tax.

## Pacific Island Training Initiative



In 2004, Public Auditor Hainrick met with Stephen Latimer, Program Manager for the Pacific Island Training Initiative in Honolulu to discuss opportunities for upcoming training initiatives.

The Pacific Islands Training Initiative is mandated with providing customized, results-oriented professional and organizational development services that enable Pacific Island governments to strengthen performance and accountability in financial management and program performance. This is a joint program of the U.S. Department of Interior/Office of Insular Affairs and the Graduate School, USDA/International Institute established through an inter-agency agreement in 1991. The meeting was an extremely beneficial exercise that resulted in a general understanding of some key new training projects that would be organized throughout the FSM. ONPA looks forward to future meetings with Mr. Latimer in a continued effort to address the ongoing training needs of the Nation.

## ACKNOWLEDGEMENTS

We want to acknowledge the contributions made by the following former staff members:

Lawrence Tan, Audit Supervisor, May 2003 to August 2004

Angie Semes, Administrative Officer, May 1990 to September 2004

Myrine Mori, Executive Secretary, July 2003 to March 2005

Michelle Lemuel, Temporary Executive Secretary, July 2005 to May 2006

Ryan Torvik, Audit Manager, July 2003 to April 2006

Omar Njie, Audit Supervisor, July 2004 to August 2006



## APPENDICES

### **Appendix I: Authorities and Powers of the Office of the Public Auditor**

**Powers.** The Public Auditor has both general and specific audit powers for the National Government, including branches, departments, commissions, and bureaus and contractors performing public works. The Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities.

The Public Auditor shall:

- 1) The Public Auditor may examine and inspect all books, records, files, papers, documents, and financial affairs of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government, as well as other public legal entities, including state and nonprofit organizations receiving funds from the National Government
- 2) The Public Auditor may audit the records of any contractor performing public work on cost-reimbursement-type contracts for the National Government of the Federated States of Micronesia to verify the cost charged to public contract. Any contractor performing public work pursuant to a contract with the National Government of the Federated States of Micronesia shall keep and maintain records adequate to establish the validity of costs charged to the National Government.
- 3) The Public Auditor may subpoena summon person to appear at a reasonable time before him and administer oaths to such persons. He may question such persons, under oath, regarding receipts and expenditures of money and any other reasonable and relevant matters necessary for the performance of his duties.
- 4) The Public Auditor may issue subpoena duces tecum within a reasonable time requiring the production of books, records, documents, or other relevant financial papers or objects necessary for the performance of his duties.
- 5) Any subpoena or subpoena duces tecum issued under the authority of the Public Auditor shall run in the name of the Federated States of Micronesia and shall be addressed to the chief or other officer of the Division of Security and Investigation of the office of the Attorney General of the National Government of the Federated States of Micronesia. The subpoena or subpoena duces tecum shall be signed by the Public Auditor and shall identify the witness to be served or the books, records, documents, or other relevant financial papers or objects to be produced together with a reference to the account subject to inspection and audit.
- 6) Any officer to whom such subpoena or subpoena duces tecum is directed shall forthwith serve or execute the same upon delivery thereof to him.

- 7) Any person who willfully fails or refuses to appear upon receiving service of subpoena, or who willfully fails or refuses to produce any books, records, documents, or other relevant financial papers or objects designated in a subpoena duces tecum properly issued by the Public Auditor, upon conviction thereof, shall be fined not more than \$ 1,000.00, or imprisoned for not more than one year, or both. Failure by the Public Auditor to comply in any material respect with the requirements of this chapter shall relieve any person of the obligation to appear or the obligation to produce designated materials, and such failure shall be defense in any proceeding against such person for punishment.
- 8) Any person subject to a subpoena duces tecum shall have only those privileges against producing books, records, documents, or other relevant financial papers or objects which are authorized under the rules of evidence of the Supreme Court of the Federated States of Micronesia, the Constitution of the Federated States of Micronesia, the Trust Territory Bill of Rights, or other applicable law.

**Duties and Responsibilities.** The duties and responsibilities of the Public Auditor, as prescribed by the Congress, shall require inspections, audits, recommendations, and annual reporting on the Public Auditor's progress and performance of these responsibilities. There are eight specific responsibilities which are designed to promote integrity and improve performance in government operations.

The Public Auditor shall:

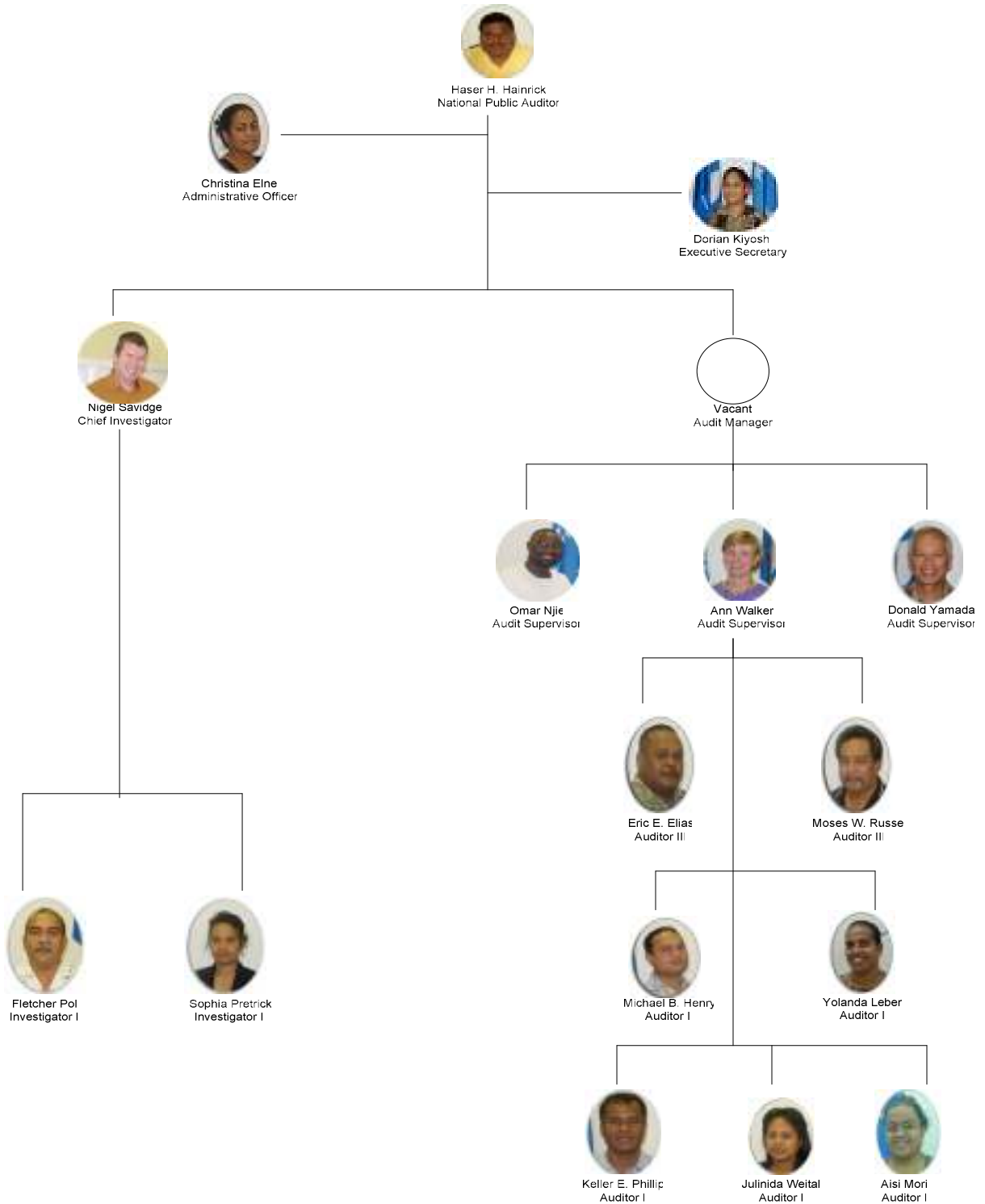
- 1) shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivision thereof, and nonprofit organizations receiving public funds from the National Government,
- 2) inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the National Government,
- 3) perform audits as otherwise specifically required by the statutes,
- 4) have the discretion to perform audits, or assist in the performance of audits, upon request by the states,
- 5) have the exclusive audit jurisdiction over public funds of the National Government of the Federated States of Micronesia, but shall have the authority to contract for independent auditing service to be performed under his supervision in instances where specialized expertise is required, or where auditing requirements are beyond the capacity of the Public Auditor's staff and separate funding is available,

- 6) file a report at least once a year with the Congress, and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the public,
- 7) submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditures of public moneys, and the need for amendments or new laws to secure the efficient expenditure of public funds,
- 8) keep a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

# Appendix II: ONPA Organization Chart as of September 30, 2006.

OFFICE OF THE FSM PUBLIC AUDITOR

## ORGANIZATIONAL CHART





### **Appendix III: Description of Performance Audits**

The types of audits and applicable audit standards shall be as follows.

- 1) Types of audits be performed:
  - 1) Financial and Compliance. These audits determine whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principles and whether the entity has complied with the laws and regulations that may have a material effect upon the financial statements.
  - 2) Economy and efficiency. This type of audit determines whether an entity is managing and utilizing its resources economically and efficiently, the cause of inefficiencies or uneconomical practices, and whether the entity is complied with laws and regulations concerning economy and efficiency.
  - 3) Program results. This type of audit determines whether the desired results or benefits established by the Congress or other authorizing body are being achieved and whether the program administrator have considered alternatives that might yield desired results at a lower cost.
- 2) Any given audit or review may include one or more of the objectives in subsection (1) of this section in the reasonable exercise of the Public Auditor's discretion.
- 3) The Public Auditor shall perform audits in conformity with generally accepted audit standards as established by the American Institute of Certified Public Accountants.

## **Appendix IV: Inspection Standards**

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1995 and revised in 2005. The 13 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at the following website [www.ignet.gov/pande/standards/oeistds.pdf](http://www.ignet.gov/pande/standards/oeistds.pdf)

### **Competency**

The staff assigned to perform inspection work should collectively possess adequate professional competency for the tasks required.

### **Independence**

In all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.

### **Professional Judgment**

Due professional judgment should be used in planning and performing inspections and in reporting the results.

### **Quality Control**

Each OIG organization that conducts inspections should have appropriate internal quality controls for that work.

### **Data Collection and Analysis**

The collection of information and data will be focused on the organization, program, activity, or function being inspected, consistent with the inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions

### **Evidence**

Evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations.

### **Records Maintenance**

All relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time.

### **Timeliness**

Inspections should strive to deliver significant information to appropriate management officials and other customers in a timely manner.

### **Fraud, Other Illegal Acts, and Abuse**

In conducting inspection work, inspectors should be alert to possible fraud, other illegal acts, and abuse and should appropriately follow up on any indicators of such activity and promptly present associated information to their supervisors for review and possible referral to the appropriate investigative office.

**Reporting**

Inspection reporting shall present factual data accurately, fairly, and objectively and present findings, conclusions, and recommendations in a persuasive manner.

**Follow-up**

Appropriate follow-up will be performed to assure that any inspection recommendations made to Department/Agency officials are adequately considered and appropriately addressed.

**Performance Measurement**

Mechanisms should be in place to measure the effectiveness of inspection work.

**Working Relationships and Communication**

Each inspection organization should seek to facilitate positive working relationships and effective communication with those entities being inspected and other interested parties.

**Appendix V: Audit and Inspection Reports issued Fiscal Years 2002 through 2006**

AUDIT NO.	AUDIT TITLE	OBJECTIVES	FINDINGS
04/26/07 2006-06	<b>Inspection of Congress Funded Public Projects in Yap State FY 2005-2006</b>	Determine whether <ul style="list-style-type: none"> <li>• the projects were properly reviewed prior to being funded;</li> <li>• the project’s management complied with applicable laws, policies, and regulations;</li> <li>• the project’s administration, utilization, and expenditures were in accordance with their guidelines or intended purposes.</li> </ul>	<ul style="list-style-type: none"> <li>• State officials were not involved in reviewing public projects selected by Congress members.</li> <li>• Yap Delegation Office did not have records, or documents including cost estimates that support the individual project appropriation amounts.</li> <li>• Insufficient review and analysis of a project’s estimated costs is performed by the Yap Congress members prior to introducing projects for Congressional consideration.</li> <li>• The Financial Management Records were not consistently followed, among them, the Project Control Document was not submitted or was incomplete, contract advances exceeded maximum limit, and inspection officials were not designated.</li> <li>• The FSM Scholarship Board members did not review individual student applications or determine whether the students met all the qualifying factors for award</li> </ul>
10/20/06 2006-05 and 2006-04	<b>Inspection of the FSM Embassy in Washington D.C. FY 2003-2006</b>	Determine whether FSM laws and regulations were complied with regarding <ul style="list-style-type: none"> <li>• financial transactions,</li> <li>• the acquisition and use of a loan,</li> <li>• a renovation contract and</li> <li>• passport controls.</li> </ul>	<ul style="list-style-type: none"> <li>• Expenditures were not in compliance with FSM requirements and most of them lacked adequate documentation</li> <li>• Loan records were not complete and funds were commingled</li> <li>• Embassy renovations were not in compliance with FSM and contract requirements</li> <li>• Passport handling practices were not in Compliance with FSM Requirements</li> </ul>
07/14/06 2006-03	<b>Inspection of the Compact Trust Fund</b>	Evaluate whether the TFC is effectively and efficiently complying with the administrative requirements of the Compact Trust Fund Agreement	<ul style="list-style-type: none"> <li>• The Joint Trust Fund Committee (TFC) has not provided needed leadership, communication and coordination to meet the requirements of the Agreement.</li> </ul>

			<ul style="list-style-type: none"> <li>Specifically, the TFC was established months after funds were deposited in a Trust Fund account.</li> <li>Also, key positions outlined in the Agreement (such as, a Trustee, an Investment Advisor, Money Manager(s), and an Auditor) were not appointed in a timely manner.</li> <li>Finally, various administrative functions were not performed or were performed in an untimely manner.</li> </ul>
06/23/06 2006-02	<b>Customs &amp; Tax Audit Fiscal Year 2005</b>	<p>Determine whether</p> <ul style="list-style-type: none"> <li>customs and tax revenue collections are reported and accounted for in a timely manner;</li> <li>customs and tax revenue distributions to the Governments (four State Governments and the National Government) are accurate and timely; and</li> <li>year-end accruals of customs and tax revenue and payables to the State Governments are accurate.</li> </ul>	<ul style="list-style-type: none"> <li>Customs and tax cash collections are not consistently deposited to the bank in a timely manner by the CTA Field Offices. In addition, their collections are not consistently receipted, recorded, and deposited to the bank in a timely manner.</li> <li>There is a lack of proper monitoring and oversight of the CTA collections by the Treasury, thereby causing discrepancies between CTA collections and the Treasury's general ledger records resulting in remittances of state revenue shares not being made in a timely manner.</li> </ul>
06/16/06 2006-01	<b>Inspection of FEMA Expenditures for Chuuk State</b>	<p>Determine whether FEMA expenditures in Chuuk were properly authorized and approved prior to processing of payment checks, and whether payment checks were addressed to the right payees. To meet these objectives, we obtained funds status and detailed expenditure reports, including related documents, from the DOF&amp;A in Palikir and from the Department of Administrative Services, in Chuuk State.</p>	<ul style="list-style-type: none"> <li>Commingling of funds resulted from issuing checks to a government official rather than to the government entity.</li> <li>Expenditures were made without proper authorization and documentation for expenditures was missing.</li> <li>FEMA expenditures were not properly authorized and approved prior to the processing of payment checks and, in some instances, the individual approving the expenditure was the same as the individual receiving the reimbursement.</li> </ul>
12/02/05 2005-07	<b>Asian Development Bank - Private Sector Development Project Audit, FY 2005</b>	<p>Determine whether the Project financial statement is free of material misstatement. Provide opinion on the internal control over financial reporting</p>	<ul style="list-style-type: none"> <li>The financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended September 30, 2005.</li> <li>No instances of noncompliance that</li> </ul>

			are required to be reported were identified.
<b>03/10/06 2005-05</b>	<b>Customs &amp; Tax Administration Audit FY 2004</b>	<p>Determine that:</p> <ul style="list-style-type: none"> <li>• Customs and tax revenue collections are reported and accounted for in a timely manner, and</li> <li>• Customs and tax revenue distributions to the Governments (four State Governments and the National Government) are accurate and timely.</li> </ul>	<ul style="list-style-type: none"> <li>• Customs and tax cash collections are not consistently deposited to the bank in a timely manner by the CTA Field Offices.</li> <li>• In addition, the CTA Field Offices' collections are not consistently received, recorded, and deposited to the bank by the Treasury in a timely manner.</li> <li>• Access to a CTA Field Office facility is not restricted to authorized personnel only in order to preserve the confidentiality of the CTA files and to adequately safeguard government assets.</li> <li>• There is a lack of proper monitoring and oversight of the CTA collections by the Treasury; thereby, causing discrepancies between the CTA collections and the Treasury's General Ledger</li> </ul>
<b>08/08/05 2005-02</b>	<b>FSM National Government Travel Audit FY 2002-2004</b>	<p>Determine that the Secretary of the Department has complied with the FMR in managing the FSM National Government travel activities and transactions in the following sections:</p> <ul style="list-style-type: none"> <li>• FMR 1.4 published guidelines and procedures</li> <li>• FMR 1.8 Travel Advances</li> <li>• FMR 4.11 Valid Travel Authorizations</li> <li>• FMR 4.14 Authorized Travel Expenses</li> <li>• FMR 4.15 Travel Voucher Processing</li> <li>• FMR 4.16 Travel Voucher Documentation</li> </ul>	<ul style="list-style-type: none"> <li>• Government funds were issued to travelers with outstanding travel advances or who have not filed travel vouchers on previous travel advances.</li> <li>• Past travel advances are not constantly monitored and reviewed prior to the issuance of current travel advances.</li> <li>• Additionally, not all travelers are compelled to file all outstanding travel vouchers consistently.</li> <li>• Travel claim vouchers were either not filed or those filed did not contain complete and accurate supporting documents. The Secretary of the Department of Finance &amp; Administration or his designee cannot definitively determine that all travel was undertaken to conduct official Government business.</li> <li>• Outstanding and/or overdrawn travel advances for \$616,045 was</li> </ul>

			not properly monitored to ensure that repayment arrangements were negotiated or settled with the Secretary of the Department of Finance & Administration as required.
<b>07/31/05 2005-01</b>	<b>National Biodiversity Strategic Action Plan: TA Outer Island Airport Audit FY 1990-2002</b>	<ul style="list-style-type: none"> <li>• Allottees have complied with the FMR in implementing the Ta Airport Project;</li> <li>• The FSM Division of Budget has complied with the FMR in reviewing PCD and Processing of Advice of Allotment;</li> <li>• The FSM Division of Treasury has complied with the FMR in handling disbursement of project funds;</li> <li>• The Project Inspection Officials (PIO) have performed their duties as prescribed in the FMR;</li> <li>• The "sole source waiver" issued for the construction/renovation of the Ta Airport Project achieved its intended purpose;</li> <li>• All contracts are valid, properly authorized and approved, adequately documented and monitored, and that contractors comply with the contracts' terms and conditions; and</li> <li>• Controls over assets provide reasonable assurance that assets exist and are protected against loss that could result from theft, fire, improper or illegal activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Waiver of the requirement for open bidding in the amount of \$200,000, approved by former FSM President, was inappropriately issued. A waiver requires documentation as to the nature of the emergency and the danger to the public health, safety, or convenience caused by open bidding. The waiver was not effective due to inadequate planning and management and there was a lack of high-level oversight of the management of the waiver.</li> <li>• In addition, the Allottees did not submit the required semi-annual reports to the Congress and the Secretary of the Department of Finance and Administration which resulted in a lack of overall project oversight and accountability.</li> </ul>
<b>May 2005</b>	<b>Micronesian Long-line Fishing Corporation (MLFC)</b>	Express an opinion on MLFC's financial statements for the year ended 9/30/04.	<ul style="list-style-type: none"> <li>• Reasonable assurance that material misstatements, material weaknesses, in the financial statements will be prevented or detected on a timely basis did not always exist. In fact, seventeen significant internal control deficiencies were noted. These represent material weaknesses in the design and effectiveness of the internal controls at MLFC in effect as of 9/30/04.</li> </ul>

Nov '05	<b>Limited Audit of the Maritime Operations Revolving Fund</b>	Review the Fund (under partial management by the DOT, Communications, & Infrastructure Departments)	<ul style="list-style-type: none"> <li>• Custodian for the Fund is lacking, therefore the Fund does not hold any records of their own, and the audit team was unable to complete the audit due to this lack of recordkeeping.</li> </ul>
08/01/02 AD 01-006 2002	<b>CFSM Funds Appropriated in FY 1996-1999 to the Rural Development Agency</b>	<p>Determine</p> <ul style="list-style-type: none"> <li>• the total amount of yearly financial assistance provided by the FSM National Government to the USDA RDA operations;</li> <li>• whether the USDA RDA is achieving the purposes for which they are authorized and funded in the FSM</li> <li>• whether controls surrounding the FSM National Government contributions were adequate and effective to require and enforce allottee's accountabilities for funds received and responsibilities in ensuring efficient and effective application of resources and in complying with financial management regulation and reporting requirements</li> <li>• whether the USDA RDA offices have adequate office operating policies and procedures in place to properly plan, coordinate, account and report financial contributions received from all funding sources</li> <li>• whether the USDA RDA offices have adequate internal administrative and accounting controls to safeguard assets and prevent misuse and abuse of funds.</li> </ul>	<ul style="list-style-type: none"> <li>• During FY 1996-1999, the process that the RDA used to prepare budgets that were submitted to and accepted by the FSM National Government for funding requests were inadequate in terms of planning and review.</li> <li>• Accountability was lost due to lack of enforcement and monitoring over Allottee's (Fund Recipient) compliance with the FSM Financial Management Regulations.</li> </ul>
07/11/02 AD 01-007 July 2002	<b>Audit of Joint Law Enforcement, FY 1996-2000</b>	<ul style="list-style-type: none"> <li>• Verify details of actual expenditure of JLE funds by the State Governments</li> <li>• Determine whether the terms and conditions of the Agreements for joint administration of law enforcement by the FSM</li> </ul>	<ul style="list-style-type: none"> <li>• Provisions of the JLE Agreement signed by the FSM President and the State's Governors to draw down funds for the programs have not been complied with</li> <li>• There is a lack of specific guidance and procedures at the Executive Branch as to who or what</li> </ul>



		National and State governments have been complied with.	<p>department is responsible for ensuring that the provisions of the agreement are complied with prior to disbursements of funds</p> <ul style="list-style-type: none"> <li>• The JLE funds were commingled with the operations funds of the Public Safety Divisions at the States and it is difficult for the audit to determine whether costs charged to JLE funds were appropriate or not.</li> </ul>
<b>06/07/01 AD 01- 001 2002</b>	<b>Review of Travel by Government Employees of the National Government of FSM, FY 1996-1999</b>	<ul style="list-style-type: none"> <li>• Report on the total cost of travel for the National Government as a whole and the cost of travel for each of the various government agencies</li> <li>• Analytically review the relationship of the cost of travel as compared to other discretionary government expenditures and to determine reasonableness of government travels and whether the government benefits from such travels</li> <li>• Determine whether the National Government's travel activities are in accordance with applicable procedures, policies, and regulations</li> <li>• Determine whether adequate internal controls are in place to ensure operations involving processing and controlling of travel activities are properly administered</li> <li>• Determine timeliness of the Travel Section's, FSM DOFA, processing of Travel Authorizations as required under Finance's processing procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Control procedures are currently inadequate and the inefficient use of travel funds creates potential loss to the government</li> <li>• There has been very little improvement on the administration of government travels in terms of implementing procedures, reduction of long outstanding claims balances, efficient processing of TAs, and maintenance of accurate, reliable, organized and adequate records at the Travel Section of the FSM Department of Finance and Administration.</li> </ul>

## **Appendix VI: General and Qualitative Standards for Investigations**

CID has adopted the Quality Standards for Investigations which have been prepared by the U.S. President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency. These are the standards that have been set for all U.S. Offices of Inspector General and provide a sound benchmark by which we can set our own standards. The General and Qualitative Standards are listed below. The complete guidelines for investigations are located on the internet at the following website <http://www.ignet.gov/pande/standards/invstds.pdf>

### **General Standards**

General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.

#### **Qualifications**

Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.

#### **Independence**

In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.

#### **Due Professional Care**

Use due professional care in conducting investigations and in preparing related reports.

### **Qualitative Standards**

Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.

#### **Planning**

Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.

#### **Execution**

Conduct investigations in a timely, efficient, thorough, and legal manner.

#### **Reporting**

Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.

**Information Management**

Store investigative data in a manner allowing effective retrieval, referencing, and analysis

**Appendix VII: Compliance Investigation Division Investigations**

<b>AUDIT NO.</b>	<b>AUDIT TITLE</b>	<b>REQUEST</b>	<b>FINDINGS</b>
<b>CID 03-016</b>	Allegation of Conflict of Interest and Attempted Fraud	Department of Finance, October 2003, request for assistance in investigating an allegation of misuse of Capital Improvement Funds.	Duplicate claims for compensation in the amount of \$14,000 were submitted. Matter referred to Attorney General for consideration of further action by the DOJ.
<b>CID 04-001</b>	Allegation of Misappropriation of National Government Funds	Concerned citizen, March 1994, reported that a public official had been misusing or misappropriating municipal funds. CID conducted an investigation into a recent project in that municipality which was receiving funds from the National Government.	Although funds were not drawn down, project control documents were created which subsequently led to funds being allotted to the project and actions of officials were considered suspicious. Matter referred to Attorney-General for review and appropriate action.
<b>CID 05-007</b>	Allegation of Theft of National Government Funds	Public Officer of the National Government, April 2005, reported his belief that a significant sum of money was missing from one component units of a business operation. The unit received cash payments from the general public for delivery of a specific service.	After review, it was established that between \$19,000 and \$24,000 could not be accounted for. Several employees stated that, while they had “borrowed” money they denied “borrowing” the amount reported missing. Matter referred to the Attorney-General for review and appropriate action.
<b>CID 05-011</b>	Allegation of Forgery and Fraud	ONPA, in 2005, conducted an audit into National Government travel and found, among other things, irregularities in supporting documentation provided by a senior government employee.	Discrepancies existed between the dates of travel and documentation provided. The matter was referred to the Attorney-General for review and appropriate action.
<b>CID 05-012</b>	Assistance Given to State Police Agency	ONPA, in September 2005, received a request from a State Police Agency to assist with investigations into the alleged theft of property donated to them by an international aid agency.	As part of this assistance, CID obtained relevant documents and statements from National Government officials and the matter was forwarded to that State’s Attorney-General for review and appropriate action.
<b>CID 05-013</b>	Allegation of Misappropriation of National Government Funds	Concerned citizen, in November 2005, wrote ONPA about the employment of a medical specialist by a state government. The contract terms were subsequently reduced. The contract had been approved by an international aid donor and it was alleged that this was an attempt to misappropriate funds from the	CID found no evidence that the international aid donor approved the contract or that there was any attempt to misappropriate funds from the budget. It was determined that the matter did not warrant further investigation by CID and the case was closed.

		budget which had been allocated to employ the medical specialist.	
<b>CID 06-001</b>	Allegation of Theft of National Government Property	Municipal government member, in February 2006, alleged that another member of this same government had misappropriated property provided to the municipality by an international aid donor for a technical training program.	The value of the property was determined to be at \$7,000 and that the MOU between the international aid donor and the National Government that the property would become the property of the National Government at the conclusion of the training and would be returned to them. Inquiries indicated that the property had not been returned to either the municipal government or the National Government. The matter was referred to the FSM Attorney-General for review and appropriate action.

## **Appendix VIII: Single Audit Opinions Issued 2002 through 2006**

FSM National and State Governments are required to have their general purpose financial statements audited annually. This work is done by an outside contractor, Deloitte & Touche, LLP under the Compact of Free Association agreement between the FSM and the United States of America.

<b>Government or Entity</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
FSM National Government	Qualified	Qualified	Qualified	Qualified	Qualified
Chuuk State Government	Qualified	Qualified	Disclaimer	Disclaimer	Disclaimer
Kosrae State Government	Qualified	Qualified	Qualified	Qualified	Unqualified
Pohnpei State Government	Qualified	Qualified	Qualified	Unqualified	Unqualified
Yap State Government	Qualified	Qualified	Qualified	Qualified	Qualified
College of Micronesia	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Coconut Development Authority	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Chuuk State Public Utility Corp	Qualified	Disclaimer	Disclaimer	Disclaimer	X
Chuuk State Health Care Plan	X	X	Unqualified	Qualified	Qualified
FSM Development Bank	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
FSM Social Security Administration	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
FSM Telecommunication Corp	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Kosrae Utilities Authority		Unqualified	Unqualified	Unqualified	Unqualified
MiCare Plan Inc.	X	X	X	Qualified	Qualified
Micronesia Petroleum Corp	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
National Fisheries Corp	Qualified	Qualified	Disclaimer	Disclaimer	X
Pohnpei Fisheries Corp	Unqualified	Unqualified	X	Unqualified	Unqualified
Pohnpei Housing Authority	X	X	X	Unqualified	Unqualified
Pohnpei Port Authority	Qualified	Qualified	Qualified	Unqualified	Unqualified
Pohnpei Utilities Corp	Unqualified	Qualified	Unqualified	Unqualified	Unqualified
The Diving Seagull, Inc.	X	X	X	Unqualified	Unqualified
Yap State Public Service Corp	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

## Appendix IX. Peer Review Documents



# ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

November 15, 2005

His Excellency Joseph J. Urusemal  
President, Federated States of Micronesia  
Office of the President  
Palikir, Pohnpei FM 96941

Dear President Urusemal:

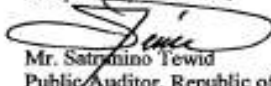
Attached for your reference is the final report of the Federated States of Micronesia's Office of the National Public Auditor pursuant to a Quality Control Review done by our team of auditors from the Association of Pacific Islands Public Auditors (APIPA). External quality control reviews of all audit offices issuing audit reports guided by generally accepted government auditing standards (GAGAS) are required at least every three years. Because of this requirement, your Public Auditor initiated and contracted with APIPA.

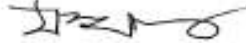
Your Public Auditor's Office was determined to be fully in compliance with government auditing standards for the period reviewed. Fully compliance is the highest of three possible ratings issued in an external quality control review. The report now becomes public information and may be made accessible to any interested person(s). The working papers and other supporting documentation accumulated during our review will be maintained by the Public Auditor's Office.

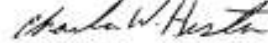
For your information, the expenses of the Quality Control Review were borne by the U. S. Department of Interior's Office of Insular Affairs.

It was a privilege working with the staff of the National Public Auditor's Office, most especially Mr. Hainrick, the National Public Auditor. Each member of Mr. Hainrick's Office was most cooperative and helpful to the team and exemplifies the highest standards of the auditing profession.

Respectfully Submitted,

  
Mr. Saturnino Tewid  
Public Auditor, Republic of Palau  
Team Leader

  
Mr. Faumuina Francis Sefo  
Acting Territorial Auditor,  
American Samoa Government  
Team Member

  
Mr. Charles W. Hester  
APIPA Peer Review  
Technical Consultant  
Team Member

Attachment

Cc: Mr. Haser Hainrick  
National Public Auditor

Members  
Office of the Public Auditor  
of  
Territory of American Samoa, Commonwealth of the Northern Mariana Islands,  
Republic of the Marshall Islands, Federated States of Micronesia, Republic of Palau,  
Philippines, Yap State, Territory of Guam, Cook State, Niue State



## ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

November 15, 2005

The Honorable Peter Christian  
Speaker, Office of the Speaker  
Congress of the Federated States of Micronesia  
Palikir, Pohnpei FM 96941

Dear Speaker Christian:

Attached for your reference is the final report of the Federated States of Micronesia's Office of the National Public Auditor pursuant to a Quality Control Review done by our team of auditors from the Association of Pacific Islands Public Auditors (APIPA). External quality control reviews of all audit offices issuing audit reports guided by generally accepted government auditing standards (GAGAS) are required at least every three years. Because of this requirement, your Public Auditor initiated and contracted with APIPA.

Your Public Auditor's Office was determined to be fully in compliance with government auditing standards for the period reviewed. Fully compliance is the highest of three possible ratings issued in an external quality control review. The report now becomes public information and may be made accessible to any interested person(s). The working papers and other supporting documentation accumulated during our review will be maintained by the Public Auditor's Office.

For your information, the expenses of the Quality Control Review were borne by the U. S. Department of Interior's Office of Insular Affairs.

It was a privilege working with the staff of the National Public Auditor's Office, most especially Mr. Hainrick, the National Public Auditor. Each member of Mr. Hainrick's Office was most cooperative and helpful to the team and exemplifies the highest standards of the auditing profession.

Respectfully Submitted,

Mr. Saturnino Tewid  
Public Auditor, Republic of Palau  
Team Leader

Mr. Faamunga Francis Sefo  
Acting Territorial Auditor,  
American Samoa Government  
Team Member

Mr. Charles W. Hester  
APIPA Peer Review  
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Phoenix State, Yon State, Territory of Guam, Chuuk State, Kosrae State



## Appendix X: Training Classes, Workshops, and Conferences Attended by ONPA Staff

Year	Title	No. Attended
<b>2002</b>	Auditing for Internal Fraud	1
	Computer-Aided Fraud Examination and Detection Techniques	1
	Fraud Forum: Auditing for Internal Fraud	1
	Fraud Forum: Computer Aided Fraud Examination & Detection Techniques	1
	Performance Auditing Workshop	1
	Skills for the New Auditor-In-Charge	2
	Tools and Techniques for the Beginning Auditor	2
<b>2003</b>	Audit Problem Solving and Analysis	5
	Audit Reporting - Expectations and Format	5
	Audit Reporting - Findings and Structure	7
	Audit Reporting - Expectations and Format	3
	Audit Selection for Performance Auditing	9
	Auditing for Fraud	4
	Auditing for Fraud under SAS 99	5
	Dealing with Auditor Independence Issues	5
	Financial Audit Workshop	1
	Formulating Precise Audit Objectives	9
	Formulating Workable Audit Programs	10
	GAGAS - Yellow Book for Government Auditing Standards	5
	Government Accounting and Auditing Update	2
	Reviewing Audit Reports	4
	Removing Obstacles to Achieving an Unqualified Audit Opinion	8
	How to Audit a Government Proficiently and Profitably	3
	Implementation of SAS 99, Consideration of Fraud in Financial Statements Audits	4
	Performance Auditing Workshop	2
	Skills for the New Auditor-in-Charge	2
	<b>2004</b>	15th Annual Fraud Conference and Exhibition:
Continuous Monitoring & Fraud		3
Steganography Detection		3
Audit Failures and Fraud		3
Investigating Alter Ego Companies		3
Identifying and Investigating Financial Reporting Fraud of Non-profit Entities		3
Conducting KickBack Investigations		3
WorldCom		3
Fraud Examiners Perspective	3	

Grant/Contract Fraud in the Public Sector	3
Professional Interviewing Skills	3
Analyzing GASB 34 Financial Statements: Let's Make the Statements Talk	1
Assessing Controls: The Key to Conducting Effective Audits	2
Attributes of an Audit Finding	2
Audit Report Writing	2
Basic Crime Scene	2
Civil Aviation Security	2
Creative Problem Solving for Auditors	1
Developing Audit Programs for Fun and Findings	2
Ethics	2
Evaluating Internal Controls: A COSO-Based Approach	1
Evidence	2
Federal Grant Management: Cost Principles (A-87) and Administrative Requirements (A-102)	3
Financial Statement Analysis	4
Government and Fraud: Must They go Hand in Hand?	4
IAS 1 - Presentation of Financial Statements	2
IAS 10 - Subsequent Events	2
IAS 11 - Construction Contracts	2
IAS 12 - Income Taxes	2
IAS 15 - Reflecting the Effect of Changing Prices	2
IAS 16 - Property, Plant and Equipment	2
IAS 17 – Leases	2
IAS 19 - Employee benefits	2
IAS 20 - accounting for government grants	2
IAS 21 - Foreign currency exchange	2
IAS 23 - borrowing costs	2
IAS 24 - Related party transactions	2
IAS 26 - Retirement benefits	2
IAS 27 - Consolidated financial statements	2
IAS 36 - Impairment of assets	2
IAS 37 – Contingencies	2
IAS 7 - cash flow statement	2
IAS 8 - Changes in accounting policies	2
Internal Investigations: The Do's and Don'ts of the Process	1
Legal Public Corruption/ RICO/ HOBBS	2
Locating Hidden Assets	1
Making a Better Audit Supervisor: Effective Audit Supervision	3
Mini GASB Update and Managing for Results and Suggested Criteria for Reporting Performance	5
Mini GASB Update and Managing: Cost Principal and Administrative Requirements	1
Modern Terrorism	2

	Performance Management: Setting Expectations, Providing Feedback, and Coaching	3
	Performance Audit General Overview	3
	Performance Audit General Review Workshop	5
	South Pacific Training Conference: Public Corruption and White Collar Crime	3
	Supervising and Managing Human Resources: Principles and Practices	4
	Team Building and Communication Styles	4
	Terrorism Incident Crisis Management	2
	Terrorist Financing Operation	2
	Using Ratios to Assess Financial Condition and Performance	2
	Valuation of Companies	2
	Weapons of Mass Destruction	2
<b>2005</b>	All About Derivatives: A Comparison of FASB and IASB Pronouncements	1
	Comparative Asian Response to International Accounting	1
	Contract Auditing and Procurements	1
	Cost of Granting Stock Options	1
	Creative Thinking for Auditors	1
	Developing Meaningful Audit Programs	1
	Efficiency Measurement in the Public Sector	1
	Financial Accounting in Japan, an Update	1
	Government Environment	1
	Government Finance Statistics	2
	Government Financial Statements: Tips for the Future	1
	Government Responses to Environmental Crisis	2
	Governmental Accounting, Financial Reporting and Budgeting	1
	Governmental Financial Management and Control	1
	Investigating Bribes, Kickbacks, and Payoffs	1
	ISA 120.. Framework of International Standards on auditing	1
	ISA 200.....Objectives & general principles governing an audit of financial statements.	1
	ISA 240....The auditor's responsibility to consider fraud in an audit of financial statements.	1
	ISA 540...Audit of accounting estimates	1
	ISA 550...Related Parties	1
	ISA 560...Subsequent Events	1
	ISA 570...Going Concern	1
	ISA 600...Using the work of another auditor	1
	ISA 610...Considering the work of Internal Auditor	1
	ISA 620...Using the work of an expert	1
	ISA 800...The auditor's report on special purpose audit engagements	1
	ISA 810...The examination of prospective financial information.	2
	Online Budget	1
	Performance of Corporate Diversification Strategy	1
	Professional Ethics	2

	Standard Setting in the Global Economy	1
	Strategic planning	2
	Team Developed Audit Reports	1
	Technical Workshop for Auditor Generals on International:	1
	The CPA Examinations	1
	Understanding Global, Regional & National State of the Environment	2
	Understanding Issues in Waste	2
	Understanding the Ecosystem	2
<b>2006</b>	AGA, Guam Chapter and Guam Society of CPA's	4
	Applying GAO's Writing Principles	2
	Assessing Controls in Performance Audits	3
	Audit Report Writing	2
	Basic Instructional Skills	2
	Being Prepared for Change	2
	Communicate for Results	2
	Conducting Performance Audits: Techniques for Success	1
	Critical Thinking	2
	Decisions and Risks	2
	Developing and Presenting Audit Findings	1
	Developing the GAO Engagement	2
	Effective Briefing Skills	2
	Ethical Considerations for Public Sector Employees	2
	Evidence Workshop	2
	Fraud	2
	Fraud Auditing: What You Should be Looking For	3
	Fundamentals of Indexing	2
	Fundamentals of Referencing	2
	International Financial Reporting Standards	2
	Interviewing for Information	2
	Mark of a Leader	2
	Nonprobability Sampling	2
	Nuts and Bolts of Governmental Accounting	1
	Pre-Award Procurement Considerations	1
	Principles of Data Analysis	2
	Principles of Probability Sampling	2
	Procurement Issues for Auditors	2
	Report Structure: How To Reach Your Audience	2
	Statistical Modeling	2
	Strategic Planning for Audit Offices	1
	Team Developed Audit Reports	11
	Tools & Techniques for the Beginning Auditor	2

	Transparency in the Public Sector	1
	What Auditors Do and How to Make Them Go Away Happy	1
	Writing to Reach the Audience	2