

**National Government FMIS: Full Capabilities Not Utilized
to Provide Efficient Financial Management and
Reporting Services**

REPORT NO. 2015-07



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Excellency President Peter Christian
Honorable Members of the 19th Congress
Federated States of Micronesia

RE: Performance Audit on National Government Financial Management Information System

We have completed the audit on National Government Financial Management Information System (FMIS). Our scope of work covered the FMIS modules and features that were implemented at the National Government's Divisions of Budget, National Treasury and Personnel in Palikir and information security, specifically contingency planning and user access/privilege. The focus of the audit was generally up to September 30, 2014; however, we requested for some information (e.g. security reports) beyond this cut-off date for verification purposes.

This audit subject was identified as one of the key areas for audit in the ONPA Strategic Plan and in response to the Secretary of Finance and Administration's request to identify areas for improvement in the National Treasury's operation. The results of the initial audit survey had helped bring into focus the opportunities that exist to improve the efficiency in the operation of the existing integrated Financial Management Information System.

The audit objectives were to: (1) determine whether all the needed modules and features of the existing financial management information system were fully implemented; and if implemented, to further determine whether the functions, information and reporting needs of the users were significantly satisfied; (2) determine whether the operation of the financial management information system provided adequate information security.

The results of the audit are as follows:

- The needed modules and features of the existing financial management information system were yet to be implemented (e.g. integrated bank reconciliation, direct deposit payroll, budget preparation and others). For example, the direct deposit feature of Payroll module allow direct deposit of the employees' net pay into their bank accounts instead of individually printing and distributing each pay check. Thus, implementing the direct deposit feature would significantly reduce paperwork and streamline payroll payment since there would be no more checks to print, distribute and reconcile.

On the other hand, the modules that were considered operational status (e.g. Accounts Payable, Accounts Receivable, General Ledger, Fixed Assets, Payroll and others) have not been fully satisfying the functions, information and reporting needs of the users. Until now,

National Treasury is unable to satisfy the government financial reporting requirements (by GASB 34) which were represented by the vendor as standard reports from the system. An example of a standard system financial report that was not satisfied was the balance sheet for FY 2014 that was not balanced with a discrepancy of \$8.5 million. Another example was the fixed assets report on depreciation expense. These have been manually prepared for management and audit purposes; that is about six years after the integrated system was put in operational status in 2008.

Considering that some modules and features were not working as desired, the full benefits of the system were not maximized in terms of reengineering the operation to match the system and improving the operational efficiency in financial management and reporting. The investment to acquire and implement the system was not protected.

- Adequate controls were not in place to provide reasonable assurance that the control objectives would be met regarding the integrity, security, and availability of information system's processing and data management.

The National Treasury's contingency plan in place was incomplete and not in ready state that accurately reflects the systems requirements, procedures, organizational structure and policies in case of emergency. There was no assurance of prompt recovery and business continuity of the system's operational functioning in times of disaster or a total breakdown of the system.

In addition, conflicted users access rights exist with significant control issues as users were granted access rights without consistently observing the principle of proper segregation of functions or were granted excessive rights than needed to perform the official job duties and assigned roles. Potential problems could arise such as fraud, material misstatement, financial statement manipulation, and concealment of errors without timely detection by management.

We discussed the findings and recommendations with Secretary of Finance and Administration and other concerned officials and requested for formal management response, which is included in this final report.

Respectfully submitted,



Haser H. Hainrick
National Public Auditor

CC: Vice President
Secretary of Finance and Administration
Assistant Secretary of National Treasury

Table of Contents

INTRODUCTION.....	1
Background	1
FMIS (FundWare) Implementation.....	1
FMIS Users at the National Government.....	2
Existing Systems Other than FMIS.....	2
Conclusion	5
FINDINGS AND RECOMMENDATIONS.....	7
Finding 1: Needed Modules and Features Were Yet to Be Implemented.....	7
Finding 2: User Requirements Were Yet To Be Satisfied By the Implemented Modules..	10
Finding 3: Incomplete Contingency Planning Provided No Assurance of Quick Recovery and Business Continuity in Times of Disaster	16
Finding 4: User Rights Granted to Access the System Could Lead to Potential Problems like Undetected Fraud and Financial Misstatements.....	17
APPENDICES	23
Appendix I—Software Cost and Maintenance.....	23
Appendix II—Division of National Treasury Functions	24
Appendix III—Prior FMIS Review and Audits.....	24
Appendix IV—FMIS Modules and Features.....	26
Appendix V—Examples of Access Rights of System Administrator	32
Appendix VI—Glossary	33
MANAGEMENT RESPONSE	39
ONPA EVALUATION OF MANAGEMENT RESPONSE.....	41
NATIONAL PUBLIC AUDITOR’S COMMENTS	44
ONPA CONTACT AND STAFF ACKNOWLEDGEMENT.....	45

INTRODUCTION

The Secretary of Finance and Administration requested an audit to identify areas for improvement in the National Treasury's operation. An audit survey was conducted and the results helped in bringing into focus the opportunities that exist to improve the efficiency in the operation of the integrated Financial Management Information System (FMIS).

Background

FMIS (FundWare) Implementation

For years, each government had been using different information systems, which in turn, caused problems in managing, consolidating and reporting of financial data for the FSM governments (the states of Chuuk, Kosrae, Pohnpei and Yap and the National Government). In addition, the challenges of training and staffing for the systems as well as maintaining and supporting the different hardware and software requirements were proven to be difficult. These problems prompted the need for a uniform financial management information system across all the FSM governments.

In 2004, the FSM governments agreed to acquire and implement an integrated system called FundWare. The system was then in operation at Yap State. It was envisioned as using a standard chart of account (for all the governments) and business policies and procedures to efficiently generate and consolidate financial data and reports for the FSM governments. Likewise, the use of a standard system was foreseen as providing significant capacity building in accounting and in information technology areas to further professionalize the staff.

FMIS was acquired and implemented at an approximate cost of \$2.8 million for all the FSM governments, principally funded by the US Office of Insular Affairs in the Department of the Interior. Phased implementation method was used to implement the system. The modules in Phase 1 implementation consist of the core modules such as General Ledger, Project Grant, Accounts Payable, Accounts Receivable, and Payroll. While the modules in Phase 2 consist of Integrated Bank Reconciliation, Fixed Assets Management, Budget Preparation, Allocation Management, and Advanced Financial Reporting. According to an inquiry with one of the FMIS implementation Technical Assistant, the implementation was completed in all government locations as follows: Yap State - March 2006, Pohnpei State -October 2006, Kosrae State - June 2007, Chuuk State - March 2008, and National Government - August 2008.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Provided below is the total costs of the software including its implementation.

Category	Amount
Software License	\$ 386,655
Hardware	413,025
Implementation Services	1,585,548
Travel and Accommodation	424,787
Total	\$ 2,810,015

The details of the software cost amounting to \$386,655 are in [Appendix I on page 23](#).

The system implementation transitioned from three different Project Managers and two software ownerships – American, Inc. and Kintera, Inc. The first Project Manager resigned after implementing the system at Pohnpei State. The second Project Manager was temporarily hired by the US Graduate School. The third Project Manager was hired by the FSM Government after the implementation was completed at the National Government.

In July 2008, Blackbaud Inc. took the FundWare ownership after its acquisition of the software from Kintera Inc. According to its software manual, FundWare is a fund accounting software designed in accordance with the most widely accepted accounting principles which has the flexibility to meet governments' and non-profit organizations' requirements. FundWare has been in existence for over 27 years.

FMIS Users at the National Government

The employees in the Divisions of Budget, Personnel, and in National Treasury in the national and state offices perform some of their functions using the FundWare system.

The Division of Budget inputs the approved budget into the system for budgetary control purposes. The Division of Personnel maintains the employees' data for the National Treasury to process payroll. The finance offices in Chuuk, Kosrae and Yap email their transaction files to National Treasury in Palikir for upload into the system.

The Division of National Treasury consists of three units- Treasury and Accounting, Information Management, and Supplies and Procurement (refer to [Appendix II on page 24](#) for the functions of each unit). The field offices in Chuuk, Kosrae, and Yap are under the supervision of a Manager who reports to the Assistant Secretary of National Treasury.

Existing Systems Other than FMIS

The Division of Budget performs the processing and publishing of the national annual budgets using a standalone system called Budget Preparation System, designed in Microsoft Access. In addition, a Budget Reporting tool designed in Microsoft Access is currently under testing at Pohnpei and Kosrae States to be able to export and import data to/from FundWare for budget preparation. It should be noted that an equivalent module called Budget Preparation was integrated in FundWare.

Audit Objectives, Scope and Methodologies

Objectives

The objectives of this audit were to:

1. Determine whether all the needed features of the existing financial management information system (FMIS) were fully implemented and if yes, whether the functional, information and reporting needs of the users were satisfied.
2. Determine whether the operation of the FMIS provided adequate access control and contingency planning.

Scope

Our audit covered the FundWare modules and features implemented at the National Government Divisions of Budget, National Treasury and Personnel in Palikir. The focus of the review (observation, analysis, and assessment of the documentation, processes, information and reports) was generally up to September 30, 2014. We requested though for some information (e.g. security reports) beyond this cut-off for verification purposes.

The audit of access control was limited to the implementation of user rights to access the FMIS, and the review of the related security policies and procedures. It did not cover the other types of access control like physical access to computing environment and logical access to computers.

The audit of contingency planning was limited to the assessment of document for the business recovery and continuity plan, and to the review of regular data/system backup and related policies and procedures.

We conducted this audit pursuant to the authority vested in the Public Auditor as codified under Chapter 5, Title 55 of the FSM Code, which states in part:

“The Public Auditor 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.”

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether all the system modules and features were fully implemented, we gained an understanding of the FMIS features and functionalities and verified the status of the modules and features that were implemented. We also interviewed some current users of the system including key personnel involved in its implementation.

To determine whether the implemented modules and features satisfied the functional needs of the users in terms of key processing, information and reporting, we analyzed and established the actual functional needs of the users in the National Treasury, Budget Office, and Personnel office and compared them with the functionalities actually implemented using the system to establish the unsatisfied gaps. We obtained a sample of system's reports/print screens, manual reports, and interviewed key users of the system.

To determine whether the National Treasury provided an adequate contingency planning for the continuity of the FMIS operation in case of a failure, we reviewed the existing contingency plan to assess that the basic elements of a well developed and adequate contingency plan are evident and that the plan would ensure continuity of the system's operational functioning in times of prolong failure and disaster. The assessment resulted in the identification of gaps that were further analyzed. We also interviewed the key personnel involved in the contingency planning.

To determine whether the operation of the FMIS provided adequate controls in the assignment of access rights, we reviewed the administration of rights, generated users and functions listing/ report to check if segregation of duties were considered in granting of access rights, and verify whether the user access rights were approved according to an approved user matrix. We requested an audit trail report to verify if the actual user access to the system was according to authorization and to detect violations of access rights. In addition, we obtained the related IT policies and procedures. Lastly, we interviewed the key employees involved in the administration of user rights.

Prior Audit Coverage

The USDA Graduate School and the Pacific Islands Training Initiatives Office in Honolulu, at the request of the US Department of the Interior, conducted a project review of the FMIS and released a report on the results of the review in August 2010 that reported findings and recommendations relevant to our audit objectives:

- The project office was scheduled to:
 - Implement the post-core modules (budget, fixed assets, and advanced report writing) from August to October 2010;
 - Install local area network to all finance offices;
 - Implement the new budget process and systems to replace the old Budget Preparation System and the Performance Budget System.
- Lack of users (IT and accounting) skills on the FMIS. The inadequacy in skills resulted in creating *work around* and *shadowing systems* to by-pass the FMIS to accomplish their tasks. By-passing the system defeated the purpose of implementing the FMIS and weakened its sustainability.

ONPA's report on Audit of National Government Travel Activities (Audit Report No. 2014-03) includes audit findings related to our current audit objectives.

- Ineffective monitoring and reviewing of travel advances and documents result in various non-compliances.
- Inadequate internal control procedure in writing off travel advances/overdrawn advances.

Additionally, ONPA's report on Payroll Operation Controls (Audit Report No. 2012-04) includes audit findings related to our audit objectives

- Lack of planning documentation for payroll continuity and disaster recovery.
- Lack of segregation of duties and user privileges.

Refer to [Appendix III on page 24](#) for further details on the FMIS review and prior audit findings and recommendations.

The results of this audit disclosed that similar issues and concerns continued to exist as reported in previous reviews and audits.

Conclusion

Based on the results of our audit, we conclude that;

- The needed modules and features of the existing financial management information system were yet to be fully implemented.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

- The modules that were considered “on live” or operational (e.g., Accounts Payable, Accounts Receivable, General Ledger, Payroll and others) have not been fully satisfying the functional, information and reporting needs of the users.
- Adequate controls were not in place to provide reasonable assurance that the control objectives would be met regarding the integrity, security, and availability of information systems processing and data management. For instance,
 - The contingency plan in place was incomplete and not in ready state that accurately reflects the systems requirements, procedures, organizational structure and policies in case of emergency.
 - Conflicted users access rights exist with significant control issues as users were granted access rights without consistently observing the principle of proper segregation of functions or were granted excessive rights than needed to perform the official job duties and assigned roles.

The findings are summarized below:

1. Needed modules and features were yet to be fully implemented;
2. Users’ requirements were yet to be satisfied by the implemented modules;
3. Incomplete contingency planning provided no assurance of quick recovery and business continuity in times of disaster;
4. User rights granted to access the system could lead to potential problems like undetected fraud and financial misstatements.

The findings and recommendations are discussed in detail in the following pages.

FINDINGS AND RECOMMENDATIONS

Finding 1: Needed Modules and Features Were Yet to Be Implemented

To improve the efficiency and effectiveness in public sector financial management, a government should implement a financial management information system that is integrated, comprehensive and has the right functionality to satisfy its financial information needs, and that should improve operational efficiency by automating procedures, strengthening financial controls, and promoting accountability.

The existing FMIS system has comprehensive modules and features that can satisfy the functional, processing and reporting requirements of the FSM National Government for an effective financial management. About seven years after the system's implementation in 2008 however, the needed modules and/or features integrated in the purchased system were yet to be implemented to satisfy the needs of the users and improve operational efficiency:

Unimplemented Modules

1. Project/Grant
2. Integrated Bank Reconciliation
3. Budget Preparation

Unimplemented Features

4. Direct Deposit (Payroll Module feature)
5. Advanced Financial Reporting (General Ledger Module feature)
6. Allocation Management (General Ledger/Project Grant Modules feature)

As a result of not implementing these modules and features, the full benefits of the system were not maximized in terms of reengineering the operation to match the system and improving the operational efficiency and effectiveness in financial management. Furthermore, the investment to acquire and implement these modules was not protected.

The following are general description of the modules and features that were yet to be fully implemented to satisfy the needs of the users and to improve operational efficiency:

1. Project/Grant

Using this module, the entity could track the grants, projects, contracts, and construction activities. Furthermore, the module could provide detailed cost accounting information to effectively manage the grants, activities and program.

2. Integrated Bank Reconciliation

Bank reconciliation module could provide the ability to reconcile bank statement's transactions with the related transactions in the system. The program can also provide

an automatic reconciliation by uploading the bank files (electronic bank statements) into the system. This automatic bank reconciliation could shorten the time for the reconciliation and could help in minimizing the risk of errors and fraud.

From the review of the actual bank reconciliation statements, we found that the current method of manual bank reconciliations was inefficient and ineffective considering the following conditions and/or deficiencies:

- There were a total of 26 active bank accounts that were manually reconciled on a monthly basis.
- There were more than 2,000 bank transactions (monthly deposits and check payments) involving the general fund and special funds that were exported from the FMIS system into Microsoft Excel to perform the manual bank reconciliation.
- The electronic bank statements (in Compact Disk) provided by the Bank of FSM were not used for its intended purpose which is to upload bank data into the system and perform the automatic bank reconciliation.
- Monthly manual bank reconciliations were performed but the journal vouchers (JVs) to record the adjustments for the reconciling items were prepared only at year-end creating excessive manual journal entries to record the adjustments.
- Some manual journal vouchers were prepared merely to book the total difference between the bank statement and the related general ledger account balance without investigating the details of the difference;
- A total of about \$1.2 million adjustments were made even before the receipt of source documents;
- Approximately \$60,000 transactions tested from the year-end adjustments in Journal Vouchers were encoded and posted to General Ledger without the required supervisory review and approval.

As a result, the excessive manual journal voucher entries processed at fiscal year-end, and the accounting adjustments without investigating the details and appropriate supervisory review and approval (of the JVs), increased the risks in misstatements involving cash in bank transactions.

3. Budget Preparation

The module would allow the execution of the entire budgeting process that is integrated in the FMIS system. It exports budgeting information directly into Microsoft Excel and imports seamlessly back to the FMIS Budget Preparation, including the user revisions.

To satisfy the budget preparation needs and in lieu of the budget preparation module integrated in the FMIS, the Budget Office has been using an alternative stand-alone Budget systems created in Microsoft Access; Budget Preparation System and Budget Reporting Tool.

- The Budget Preparation System is used by the Budget Office to process and publish departmental budgets. After a budget is appropriated (budget approval), the Budget Office processes them using the Budget Preparation System. Every quarter, an advice of allotment (template created in Microsoft Word) is filled out, approved and encoded into FMIS General Ledger through journal entry.
- The Budget Reporting Tool¹ created in Microsoft Access, cost the National Government approximately \$126,000, is currently under testing in Pohnpei and in Kosrae State Finance offices for the purpose of exporting/importing data from/to FMIS.

4. Direct Deposit (Payroll Module Feature)

This feature would allow the payroll accountant to produce a file of an electronic fund transfer (EFT) of payroll. The employees' net pay can then be directly deposited into their bank accounts instead of individually printing each pay check.

The current state of payroll processing was as follows:

- The FSM National Government has approximately 769 employees for processing of timesheets and approximately 745 employees for printing and distributing of pay checks on a bi-weekly basis.
- It takes approximately two days to encode timesheets (including weekends) into the system, approximately one hour to print and approximately three additional hours to distribute pay checks to all departments/divisions/offices.
- A number of staff is involved in payroll processing: the Payroll Manager who encodes timesheets; the Payroll Assistant who verifies the encoded timesheets; the Computer Programmer who prints the pay checks; and the Administrative Secretaries from each Department/Division offices who pick up the pay checks from National Treasury for distribution to respective employees.

Thus, implementing the direct deposit feature would significantly reduce paperwork and streamline payroll payment since there would be no more checks to print, distribute and reconcile.

5. Advanced Financial Reporting

Advanced Financial Reporting feature is a flexible and powerful feature that has the ability to customize any report format and content.

6. Allocation Management

This feature would integrate with the General Ledger and the Project Grant module to maximize the cost recovery against grants and contracts. Furthermore, it would automate the processes of allocating revenue earned for pooled investment.

¹ No user and system manuals in place to guide the operation of the system.

Causes and Recommendations

Administrative and technical controls were not in place to help ensure that the National Treasury's business processes were performed and monitored effectively and efficiently.

1. Lack of system's output review and oversight

Title 55 of FSMC, Chapter 2, and Section 202.6 require that the Secretary of Finance and Administration, together with the Budget Officer, shall conduct a continuous review program for the improvement of accounting and financial reporting in the Government of the Federated States of Micronesia.

We found that the management has not effectively implemented a continuous improvement program for its system operation as demonstrated by the fact that some of the system modules and features that could improve the National Treasury's operational efficiency were yet to be implemented.

We recommend that the Secretary of the Department of Finance and Administration should:

1. Develop and implement a continuous improvement program to monitor and assess the operations of the FMIS to improve its operational efficiency.
2. Require a cost/benefit analysis to decide whether to implement the unimplemented modules and features, to 'stay status quo' or to migrate to new integrated but robust FMIS software.

Finding 2: User Requirements Were Yet To Be Satisfied By the Implemented Modules

To improve the efficiency and effectiveness in public sector financial management, a government should implement a system that is comprehensive and/or integrated, and substantially, has the right functionality to satisfy the financial information needs of the government, and should automate procedures, strengthen financial controls and promote accountability.

Of the FMIS modules that were considered as implemented ("live") by the National Treasury, we found that many user requirements were yet to be satisfied using the implemented modules. We further found that these unsatisfied user requirements were represented in the software licensing agreement as basic software standard features, functionalities or capabilities. However, they were not activated or configured to make them work.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

For example, one of the standard report requirements that the General Ledger module could provide was the electronic printing of financial statements in accordance with the reporting requirements of GASB Statement No. 34. As of the date of this audit report, the system was only capable of printing the Trial Balance from which the financial statements were manually prepared using a spread sheet. In another example, the Fixed Assets Module has a standard feature to electronically compute the depreciation expense and automatically process the related accounting entries for posting to general ledger. Yet, manual journal entries were processed to record the monthly depreciation expense. These manual procedures run counter to the purpose of an automated system and make the National Treasury vulnerable to processing errors and delays.

The examples of functional requirements that were not satisfied using the implemented modules are indicated in Table A.

Table A	
Examples of Functional Requirements Not Satisfied By the Implemented Modules	
Modules	User Requirements and Features
1. General Ledger (GL)/Financial Reporting	<ul style="list-style-type: none"> • Electronic generation of GASB Statement No. 34 financial reporting requirements like the basic financial statements. For example, <ul style="list-style-type: none"> ➤ Government-Wide Financial Statements ➤ Governmental Fund Financial Statements <ul style="list-style-type: none"> ✓ Balance Sheet by Fund ✓ Revenue and expenses by account by fund ➤ Discretely Presented Component Unit Financial Statements • Conformity of budget classification structure and chart of accounts with the classification framework in the International Monetary Fund's (IMF) Government Finance Statistics Manual (GFSM). • Online validation and/or disallow processing of journal vouchers or interfacing the GL entries from other modules against the expired grants. Produce exception reports for these unprocessed transactions. • Automated carry forwarding of year-end open encumbrances to next fiscal year's budget. • System balancing report to maintain integrity between general ledger balances and subsidiary ledgers' balances by Fund/ by GL Account e.g., Accounts Payable, Accounts Receivable-Travel Advances, Open Encumbrance and Fixed Assets. • Automated year-end GL processing.
2. Accounts Payable/Purchase Order	<ul style="list-style-type: none"> • Reconciled total or aggregate amounts of all Account Payable subsidiary ledgers by Fund

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Table A Examples of Functional Requirements Not Satisfied By the Implemented Modules	
Modules	User Requirements and Features
	<p>with the corresponding controlling balance in the General Ledger.</p> <ul style="list-style-type: none"> • Online validation and/or disallow processing of payments against expired grants. Produce exception reports for these unprocessed transactions.
3. Payroll	<ul style="list-style-type: none"> • Online checking against employee contract date when entering timesheet hours and disallow data entry for employees with expired contract. • Accurate vacation and sick leave balances in the system. • Managing the donated leaves.
4. Accounts Receivable (AR)	<ul style="list-style-type: none"> • Reconciled total or aggregate amounts of all Account Receivable Subsidiary Ledgers by Fund with the corresponding controlling balance in the General Ledger. • Report of outstanding Travel Advances (both summary and details). Note: The module was generating erroneous AR reports. For example, <ul style="list-style-type: none"> ➤ Aging of receivable/travel advances by account shows blank amounts and descriptions. ➤ AR Travel Advance report shows amounts without the name of the traveler. ➤ Customer Aging Report has no invoice date, due date and description.
5. Fixed Assets Management	<ul style="list-style-type: none"> • Complete Fixed Assets Master • Electronic computation of periodic depreciation and electronically processed the related accounting entries for posting to general ledger on a monthly basis. • Reconciled total or aggregate cost and accumulated depreciation amounts, of all Fixed Assets Ledgers by Fund, with the corresponding controlling balance in the General Ledger.

Additionally, our review of a sample of reports generated from the different modules as well as observations of the current processes disclosed the following deficiencies:

1. General ledger balances for the following accounts have discrepancies and not reconciled with the subsidiary ledger reports generated in each module:

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Acct. No.	Account	As of	Per General Ledger (Trial Balance)	Per Subsidiary Ledger (Module)	Variance
1310	Accounts Receivable- Federal grants Nat'l	9/30/14	4,572,848.82	2,306,567.98	2,266,280.84
1320	Accounts Receivable- Grants Nat'l	9/30/14	3,555,373.04	1,745,933.48	1,809,439.56
1810	Accounts Receivable-General	9/30/14	4,642,146.43	4,991,570.24	349,423.81
2240	Accounts Receivable - Travel Advance	9/30/14	109,735.34	127,162.79	17,427.55
8690	Depreciation Expense	9/30/14	11,373,621.12	525,231.61	10,848,389.51
3110	Accounts Payable	9/30/14	3,825,272.30	4,364,410.52	539,138.22

2. Fixed Assets

- File build up of the assets master was incomplete since some of the recorded fixed assets in the old information system were not migrated to FMIS.
- Fixed assets module was partially implemented. The assets information were encoded but reporting and depreciating them were manually calculated using a spread sheet and the corresponding journal voucher was encoded to the system's General Ledger.
- The National Treasury was inefficient and ineffective in submitting the schedules of fixed assets for single audit. In FY 2014 single audit, the fixed assets schedules were submitted in April and May 2015.

3. Payroll

- No regular checking to ensure the accuracy of vacation and sick leave balances. The Payroll section relied on the system timesheet to provide the vacation and sick leave balances to departments/divisions/offices instead of using the system. Based on inquiry, there was no periodic reconciliation of vacation and sick leave. At the end of each year, the computer programmer carry forwards the vacation and sick leaves to the next year's balance where vacation leaves are maintained at 280 hours per employee and the excess hours are deleted. This process was not documented.

4. General Ledger and Financial Reporting

- The financial statement feature was not properly configured to provide the automated reporting of standard financial statements. For fiscal year 2014, the financial statements were prepared manually using a template provided by the external auditor.
- The only related report printed from the system was the Trial Balance from which the financial statements were prepared. However, we noted the presence of numerous undefined account numbers called "created by posting"² in the printed

² FMIS will define "created by posting" accounts if a user posts a transaction to an undefined account number

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Trial Balance. The proper accounts using the Chart of Accounts could not be identified by the employees.

- The system balance sheet generated for FY 2014 was not balanced; assets should equal total liabilities and fund balance. The assets totaled to \$200,489,232.50 and the liabilities and fund balance totaled to \$208,991,041.42 with a discrepancy of \$8,501,808.91.

Encumbrance

- The system generated report as of 9/30/14 indicated a total encumbrance amount of about \$15 million. However, the funds associated with these encumbrances may not be accurately showing the unreserved balances because our test review of the activities of the encumbered accounts showed that at least \$4.6 million has no activity since fiscal year 2008 to 2011. See table below for more details.

Fund Type	FY 2014 Balance	2008	2009	2010	2011	Open Encumbrance by Fund
Sector Grants	9,585,164.13	182,854.80	53,171.69	38,579.58	1,965,791.67	2,240,397.74
General Fund	4,000,605.69	598,781.63	105,175.80	124,904.98	192,954.99	1,021,817.40
Federal Grants	(582,951.57)	273,286.17	30,151.55	264,553.73	181,556.86	749,548.31
CFSM Public Projects	603,600.65	126,980.74	173,477.41	46,804.11	25,461.46	372,723.72
Foreign Grants	684,587.29	45,095.84	9,252.97	51,997.22	26,025.20	132,371.23
Observers Revolving	306,861.06	9,235.32	10,132.90	38,054.64	4,640.00	62,062.86
Capital Improvement Projects	501,690.43	0	0	22,119.92	28,345.28	50,465.20
Total Open Encumbrance	\$ 15,099,557.68	\$ 1,236,234.50	\$ 381,362.32	\$ 587,014.18	\$ 2,424,775.46	\$ 4,629,386.46
Percentage		8%	3%	4%	16%	31%

- There has always been delay in submitting the financial reports to management and to external auditor.

As a result, the implemented modules were not fully satisfying the critical functions, information and reporting needs of the National Treasury.

Causes and Recommendations

Administrative and technical controls were not in place to help ensure that National Treasury business processes were performed and monitored effectively and efficiently. Several factors caused these deficiencies:

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

1. Lack of Configuration and change control management

The presence of many unimplemented user requirements showed that there were no adequate testing on key user requirements before implementing the system and the software was not completely configured to the satisfaction of the National Treasury's system requirements³. The National Treasury has continued to work with a consultant to configure the software as necessary to resolve issues and concerns.

We found that gap analysis between the actual requirements and the system's capabilities was not done. Thus, there was no assurance that the system satisfied the baseline functions, information and reporting requirements before the decision to acquire and implement the system was made. Additionally, there was no documentation evidencing configuration and change control management.

2. Lack of a written business procedure/ process or user manuals

National Treasury did not have written business procedures/ processes or manuals consistent with the processes required by the system (i.e., accounts payable, travel advances, accounts receivable, vacation and sick leave, bank reconciliation, etc.). The documentation of business processes is necessary to match the actual processes with the system. Furthermore, the manuals were not user friendly and did not provide clear instructions to users.

3. Lack of output review and oversight

The presence of errors in the computer generated reports and the un-reconciled balances between subsidiary ledgers and the general ledger balances showed that management did neither review system reports nor oversee the implementation of the related business processes. These discrepancies have been floating for years without clear plan of action and resolution.

4. Lack of user's familiarity with the system

We found that there was lack of user's familiarity with the system. For example, staff was not knowledgeable on information in the system related to their jobs like the knowledge on the details of accounting entries pertaining to an activity or input and available reports that could be printed such as aging of receivables, payables, and audit trails.

We recommend that the Secretary of Finance and Administration should:

1. Require the conduct of a study on the unimplemented modules and features to understand the full capabilities of the system considering the current system needs of the Treasury.

³ The documentations were not on file for reference purposes regarding the original Request for Proposal outlining the detailed functional requirements that the system should satisfy, as well as the 'User Acceptance' of the results of testing showing that the agreed upon requirements were met.

2. Require the conduct of a cost/ benefit analysis to determine whether to implement the unimplemented modules and features with the current software owner, or remain at the current operation status, or migrate to the latest software.
3. Develop and implement business processes consistent with the system requirements to make it easy for configuration and change control management. Implementing the configuration management would help ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring the changes to these configurations.
4. Require that the information regarding the financial statements and other standardized reports be generated from the system to ensure that the system is providing accurate information.
5. Identify the training needs of the FMIS users and require continuous software training.

Finding 3: Incomplete Contingency Planning Provided No Assurance of Quick Recovery and Business Continuity in Times of Disaster

Best practice requires that security controls like in a form of a contingency plan, properly documented, must be in place for the organization to have the capability to process, retrieve and protect the system information, and to react quickly in the event of interruption or failures from incidents, epidemic, natural disasters, or catastrophes leading to temporary or permanent loss of computer processing and/or facilities.

We found that the contingency plan in place was incomplete. It was not in the ready state that accurately reflects the system requirements, procedures, organizational structure and policies in case of emergency. The results of the assessment of the written contingency plan indicated the following deficiencies:

- The disaster risks and the corresponding strategies to mitigate those risks were not established. In addition, the plan did not reflect the restore priorities including the risks (tolerable risks) that the management had accepted considering the cost of managing certain risks.
- The plan neither identified the resources (e.g., hardware, applications system, operating system, telecommunication system, IT supplies, recovery team member's roles and responsibilities, etc.), nor identified the details of recovery strategies/processes to restore immediately the system's operation, based on target recovery time objectives (RTO) and recovery processing objectives (RPO).

- There was regular data backup to ensure the restoration of critical data in the future but the offsite storage location was not secured because it was taken home daily by the operator.
- The contingency plan was not periodically tested to identify deficiencies that should be addressed to ensure that the plan is always at ready state when executed.

In addition, we noted that only one employee knows the entire technical aspects of the information system, which could create uncertainty in business continuity when the employee no longer works for Finance.

As a result, there was no assurance of prompt recovery and business continuity of the system's operational functioning in times of disaster. This placed the National Treasury in a position of high risk that, in case of disaster, the system and business processes may never be recovered timely or may result in an extended delay and increased in cost of recovery or risk of loss of data. In case of a disaster, the National Treasury could face difficulties in processing transactions like collecting revenues, processing payments to vendor, processing employee payroll, and satisfying the financial reporting requirements for the government, which are all system dependent.

Cause and Recommendation

Administrative and technical controls were not in place to provide adequate data and information security that would assure the system's operation in case of a disaster. There were no written policies and procedures requiring contingency planning. In addition, there was absence of management monitoring to ensure that the contingency planning is in place.

We recommend that the Secretary of Finance and Administration should develop and adopt a comprehensive/properly documented contingency plan that would allow quick recovery and continuity of the National Treasury system's operation in an event of disaster (e.g. fire, damage to network and equipment, etc).

Finding 4: User Rights Granted to Access the System Could Lead to Potential Problems like Undetected Fraud and Financial Misstatements

To protect the information system from inappropriate or undesired user access, prudent practice dictates that access control should be implemented, separation of duties (SOD) be enforced, and no user should be given enough privileges to misuse the system.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

While conducting the audit survey and the fieldwork, we obtained copies of FMIS user/workgroup security reports at different dates (8/27/14, 10/27/14, 1/29/15, 3/4/15, 3/24/15 and 6/10/15) and noted from these security reports that the existing user access rights were changed without formal approval process. Thus, there was no effective access control in place.

Furthermore, we found that conflicted users access rights (improper segregation of functions) exist with significant control issues. For example, users were granted excessive access rights than what they need to perform their official job duties and assigned roles. We found these deficiencies:

- Users were granted excessive access rights than what they need to perform their official job duties and assigned roles
- Generic or shared user accounts (that users can log into) existed
- Access of terminated/resigned employees was not timely deactivated
- Proper segregation of duties was not consistently followed in the assignment of user access rights
- Audit trail reports or system logs were not reviewed

4.1 Users were granted excessive access rights than what they need to perform their official job duties and assigned roles.

Prudent practice dictates that no individual should have excessive access in an application system that would enable an execution of transactions across an entire business process without checks and balances. From the review of security reports, we found the following:

- Six users⁴ were assigned an ‘administration right’ (super user) which permits access to all the system’s functionalities and/or menus, screens and transaction codes. Users with this access rights could be able to complete all the setup tasks, file maintenance, and all processing and transaction level functions within the system e.g., processing payments to vendors and printing of vendor check; receipting of collection and recording of revenues; payroll processing and printing of paycheck; and approving, recording and posting transactions to General Ledger. Refer to [Appendix V on page 32](#) for the examples of access rights granted to this account.
- The Payroll Manager and Payroll staff assistant was assigned with incompatible system access. Based on the user access rights assigned in the Payroll Module, the Payroll Manager and Payroll staff assistant can authorize, process and handle related assets as follows:

Payroll Module Access Right/Function	ONPA’s Evaluation of Function
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⁴ This observation on the existing user access rights were based on a security report obtained on 1/29/15. Subsequently, the system administration deactivated the access rights assigned to the two former consultants per the security report obtained on 3/4/15.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Payroll Module Access Right/Function	ONPA's Evaluation of Function
Add/Edit Employee Master (includes pay rates)	Authorizing function, this is an incompatible function for the Payroll Manager and should be assigned to Personnel Division.
Edit Employee Values	Authorizing function, this is an incompatible function for the Payroll Manager and should be assigned to Personnel Division.
Modify/Delete/Post Timesheet	Processing
Calculate Net Pay/Enter one-time deductions/Print (write) pay check for the Net Pay	Processing

- The Bank Reconciliation Manager was assigned with incompatible system access. Based on the user access rights assigned in the Accounts Payable Module, the Bank Reconciliation Manager also processes payments and adjustments to the General Ledger in the system aside from doing the job of manual bank reconciliation:

Access Rights/Function	ONPA's Evaluation of Function
Accounts Payable Module	
Mark/Unmark/Remove/Post Invoice obligations for pay	Processing, this is an incompatible function for the Bank Reconciliation Manager and should be assigned to Accounts Payable Staff.
Bank Reconciliation (Manual)	
Receive bank statements	Reconciliation
Prepare bank reconciliation	Reconciliation
Prepare journal voucher to record the adjustments to cash in bank	Reconciliation
Post journal entries to record journal voucher prepared for adjustment to cash in bank or other adjustments	Data entry directly into the General Ledger. This is an incompatible function to bank reconciliation; should be assigned only to the Accounts Payable staff.

4.2 Generic or shared user accounts (that users can log into)

Prudent practice in internal control requires that all users in the system should have a unique user name and that a shared user account be prohibited. The reason for these controls is to ensure that access can be appropriately restricted and activities can be traced to the specific user.

While reviewing the security access reports, we found that a generic user account assigned with an access rights of a system administration. We also found a shared user account that

allows users to perform functions not part of their job duties and responsibilities. This presents a challenge as it is impossible to tell with certainty the identity of the user that has used the specific account. We were informed by the IT System Administrator that no one is using the generic user account; however, we found, from the review of the Employee Record Update report dated March 23, 2015 that this generic account accessed the employee master file that included data on pay rates.

4.3 Access of terminated/resigned employees not timely deactivated

We found from the review of security report that the user accounts of terminated/resigned employees were not deactivated from the system at separation date. For example, the two former Finance consultants have long been not connected with the Finance Department but their access rights were only deactivated per security report obtained on 3/4/15 while this audit was ongoing. These two consultants were assigned with the access rights for the system administration (super user).

4.4 Proper Segregation of duties not assessed when assigning user access rights

Prudent practice requires that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for (1) authorizing transactions, (2) processing and recording them, (3) reviewing the transactions, and (4) handling any related assets. Segregation of duties is a basic internal control that attempts to ensure no single individual has the authority to execute two or more conflicting sensitive transactions with the potential to impact the financial statements.

Based on the review and analysis of the assignment of user access rights in the FMIS, we found cases of users assigned with conflicting functions or with segregation of duties issues. For example,

- Both the Finance Manager and the Accounts Payable Manager were assigned a user access right with incompatible functions.
 - The payroll staff from Accounting was assigned access right to maintain the employee master file when this function should be restricted to personnel Division. Payroll and personnel workgroup have the same access rights to add and edit employee records when the payroll workgroup should not be given access to employee master file most especially the pay rate.
 - The Payroll Manager and the two accountants had incompatible functions with respect to their assigned tasks.

4.5 No regular review of audit trail or logs

Prudent practice requires that audit trail reports be reviewed to identify system security issues and data integrity events. According to the System Administrator, the audit trail report or logs were never reviewed for lack of awareness.

As a result, the current practice of granting user rights to access the system could lead to potential problems like fraud and misstatements in the financial statements without timely detection. By not properly implementing user access/privileges and segregation of duties; potential problems could arise such as fraud, material misstatement, financial statement manipulation, and concealment of errors may occur or may have occurred without timely detection by management.

Cause and Recommendation

User Access/ User privileges and segregation of duties were not properly implemented due to lack of IT security policies and procedures to protect the integrity of the data and to govern the access rights and passwords in the FMIS. The master file for the access rights were maintained without formal approval process.

Management monitoring was also lacking particularly in the regular review of audit trail or logs and the user accounts granted to ensure that the associated permissions are valid.

We recommend that

- The Secretary of Finance and Administration should:
 1. finalize and implement a comprehensive Information Technology (IT) security policies and procedures that include, among others, policies (1) governing the proper maintenance of user access rights and passwords; (2) defining the responsibility for protection and review of the systems audit trail or log by person other than system and security administrator; (3) on removing access rights of terminated/resigned employees;
 2. Develop and implement an effective compensating controls or mitigating measures to closely monitor and control the use of super user account (administrator). Its use should be restricted to a single responsible individual.
- The Assistant Secretary of National Treasury should:
 1. Develop and implement an approved matrix for user access rights with due consideration to the principles of 'proper segregation of duties' and of the 'least privilege' to promote better system security. The approved matrix should provide guidance in granting the level of user access rights to the system.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

2. Implement an approval of a 'User Request Form' to maintain user access rights in the system. The security officer should not maintain user access rights merely on verbal request and approval order.
3. Periodically review all access rights to ensure compliance with the approved matrix.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

APPENDICES

Appendix I – Software Cost and Maintenance

Modules	Pohnpei	Training Center	Yap Upgrade	Kosrae	Chuuk	National	Total	Maintenance
General Ledger	\$ 9,995	\$ 9,995	-	\$ 6,197	\$ 1,499	\$ 1,499	29,185	1,113
Project/Grant	7,995	7,995	-	4,957	1,199	1,199	23,345	
Accounts Payable/Purchase Order	9,995	9,995	7,496	6,197	1,499	1,499	36,681	1,113
Payroll	9,995	9,995	-	6,197	1,499	1,499	29,185	1,113
Accounts Receivable/Cash Receipt	9,995	9,995	-	6,197	1,499	1,499	29,185	1,113
Advanced Security	2,995	2,995	2,246	1,857	449	449	10,991	334
Advanced Financial Reporting	5,995	5,995	5,995	3,717	899	899	23,500	668
Integrated Bank Reconciliation	7,995	7,995	-	4,957	1,199	1,199	23,345	
Budget Preparation	9,995	9,995	-	6,197	1,499	1,499	29,185	1,113
Allocation Management	7,995	7,995	7,995	4,957	1,199	1,199	31,340	
FAS Gov SQL (Fixed Assets Government)	8,240	8,240		8,240	8,240	8,240	41,200	668
Others - Utility software	22,420	23,780	3,095	13,671	8,271	8,271	79,508	10,394
Total	\$ 113,610	\$114,970	\$ 26,827	\$73,341	\$28,951	\$ 28,951	\$ 386,655	17,630

The total cost including software and implementation costs are as follows:

Category	Amount
Software License	\$ 386,655
Hardware	413,025
Implementation Services	1,585,548
Travel and Accommodation	424,787
Total	\$ 2,810,015

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Appendix II: - Division of National Treasury Functions

Division of National Treasury consists of 3 units, Treasury and Accounting, Information Management and Supplies and procurement.

Treasury and Accounting unit performs the functions of Treasury, Fund Certification, Accounts Payable and Travel, Payroll, Accounts Receivable and Bank Reconciliation. The unit is responsible for collecting and disbursing payments, maintaining records of all revenues, obligations, disbursements, assets and liabilities of the National Government, and issue payroll, checks and other financial documents. They prepare such regular and special financial statements and reports required by management and single audit.

Information Management unit maintains records and produce management information for the Department of Finance and Administration and as authorized for other government agencies, produce accounting records and other documents, and assists officials in devising systems to facilitate agency activities through computer application.

Supplies and Procurement unit procures, maintains storage and inventory record of supplies, material and other property for the National Government. They also conduct periodic physical inventory and monitor fixed assets.

Appendix III - Prior FMIS Review and Audits

Report Title and Number	Findings	Recommendations
FMIS Review 2010— Graduate School	<ul style="list-style-type: none"> • The project office scheduled to implement the post-core modules—budget, fixed assets, and advanced report writing in August, September and October 2010, and also calls for installation of local area network for all the finance offices and the introduction of a new budget process and systems to replace the Budget Preparation System and Performance Budget System. 	<ul style="list-style-type: none"> • To complete post-core implementation quickly and effectively and discuss the implementation of the new budget process and systems with its key budget stakeholders.
FMIS Review 2010— Graduate School	<ul style="list-style-type: none"> • Lack of users (IT and accounting) skills on the FMIS. Their inadequacy result in creating work around and shadowing systems to by-pass 	<ul style="list-style-type: none"> • To improve the skill base for the users to be able to train other staff, prepare and document FMIS policies, procedures and process and

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Report Title and Number	Findings	Recommendations
	the FMIS to accomplish their tasks which they defeated the purpose of the uniformed FMIS and weakened its sustainability.	acquire the skills to conduct annual operation reviews in all the governments.
Travel and Activities of the FSM National Government Report no. 2014-03	<ul style="list-style-type: none"> • Ineffective monitoring and reviewing of travel advances and documents result in various non-compliance 	<ul style="list-style-type: none"> • Consistently monitor and review the control procedures to assure sufficient compliance with the travel laws, regulation, policies and procedures; reject and return travel documents submitted without proper documentation; provide training to Travel Section staff, monitor the performance of staff; and evaluate and study the existing man power to determine the sufficiency in performing travel activities.
Travel and Activities of the FSM National Government Report no. 2014-03	<ul style="list-style-type: none"> • Inadequate internal control procedures in writing off travel advances/overdrawn advances 	<ul style="list-style-type: none"> • Collect the travel advances from the concerned travelers for fully funded travels; develop and implement policies and procedures in handling travel advances by outside organizations; review prior fiscal years outstanding travel advances and make collections...
FSM Payroll Controls Report no. 2012-04	<ul style="list-style-type: none"> • Lack of segregation of key duties and user privileges 	<ul style="list-style-type: none"> • Should require restricted access to edit employee master information, super users to not have access to blank checks, all user accounts should have a user name, develop a policy that governs the user access privileges...
FSM Payroll Controls Report no. 2012-04	<ul style="list-style-type: none"> • Lack of planning documentation for payroll continuity and disaster recovery 	<ul style="list-style-type: none"> • Should prepare and document payroll business continuity and disaster recovery and should be practiced and periodically tested.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Appendix IV: FMIS Modules and Features

Modules and Features	Functionalities
Accounts Payable module	<p>Manages payables where each transaction is assigned a stage which is used to move the obligation through the payables cycle until the actual check is written and reconciled.</p> <p>FundWare Accounts Payable/Purchase Orders is a robust payable management tool that processes vendor payments and helps to control spending before a purchase is authorized. Using our exclusive workflow concept, users can set up individual payable stages that represent different processes in an obligation's life cycle.</p> <p>You can:</p> <ul style="list-style-type: none"> • Achieve online budget control with three levels of user-defined thresholds (1-message, 2-warning, and 3-full lock out) while entering requisitions, purchase orders, and invoices. • Process backorders and voids easily, with all correcting entries made automatically in FundWare General Ledger and Accounts Payable. • Gain immediate access to vendor detail and full audit trail of obligation flow, from requisition to check reconciliation, including dates and user ID information. • Generate automatic interfund transactions when expenses are coded to multiple funds. • Allow users to enter requests and purchase orders, with online budget control and multiple levels of approval provided. • Calculate discounts automatically. • Add vendors on the fly. • Utilize multiple checking accounts.
Accounts Receivable module	<p>Creates processes, manages, and reports invoices and receipts. It records funds deposited in the General Ledger module, distributes revenue to multiple funds and or departments, and posts in summary or detail based on journal settings established. This module includes cash receipt feature.</p> <p>The FundWare Accounts Receivable and Cash Receipts modules deliver a total solution for managing your revenue flow and customer detail. Together, they provide the unique functionality that nonprofit and government organizations need to process invoices, record cash receipts, and issue customer refunds. Develop revenue codes for various revenue types that allow distribution of the amount to multiple account numbers in FundWare General Ledger based upon percentages or fixed amounts.</p>

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Modules and Features	Functionalities
	<p>You can:</p> <ul style="list-style-type: none"> • Choose to set the access property on revenue codes to lock to prevent the default settings from being changed during data entry. • Create memo invoices (ideal for pre-emptive billing such as voluntary membership fees) and post revenue upon receipt of funds or when appropriate to recognize the revenue. • Retain complete customer history for historical analysis and reporting. • Post automatically to each fund's receivable account in FundWare General Ledger. • Create credit memos that may be applied to the outstanding balance on customer invoices. Or, choose to remove the credit from the customer's account by automatically creating an obligation in FundWare Accounts Payable to refund the customer from within Accounts Receivable. • Generate recurring invoices automatically through the powerful scheduler functionality that allows the user to specify the frequency and term. • Produce an aging report with the incredible flexibility of defining the number of aging columns to display and the increment of time between columns. • Enjoy FundWare Cash Receipts (included with the purchase of Accounts Receivable) to simultaneously post revenue through the creation of invoices and through the posting of non-invoiced cash receipts. <p>With the Cash Receipt Feature, you can:</p> <ul style="list-style-type: none"> • Enter data in easy grid format for high-volume operations and efficient back-office processing with the flexibility to process a single receipt when needed. • Track all cash receipts by customer. • Drill down to the individual receipts in each bank deposit, allowing tight audit trail of revenues. • Post to the FundWare General Ledger and Project/Grant modules on your schedule. • Share your customer database with FundWare Accounts Receivable for seamless integration
Advanced Financial Reporting feature	<p>An addition to the general ledger module. This feature is a flexible and powerful feature to customize any report format and content.</p> <p>Advanced Financial Reporting feature is a flexible and powerful feature that has the ability to customize any report format and content to meet organizational reporting needs.</p>
Advanced Security	<p>An addition to the system's basic security that allows restrictions to accessing users based on specific segments of account number,</p>

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Modules and Features	Functionalities
	account attribute (allowing users inquiry, reporting, and posting to appropriate responsibility centers) or based on group assignments.
Allocation Management	Integrates with the General Ledger/Project Grant module to maximize the cost recovery against grants and contracts. Automates the processes of allocating revenue earned for pooled investment.
Bank Reconciliation Module	Bank reconciliation module provides the ability to reconcile bank statements with the transactions in the bank accounts set in the system. The program can also compare bank files (<u>electronic bank statements</u>) to the reconciling items in the bank accounts set in the system. This automatic bank reconciliation shortens the time for reconciliation and help minimizing the risk of errors and fraud.
Budget Control feature	Budget Control feature works with the general ledger accounts to monitor the budget on an annual basis and or period basis. When a transaction is posted that surpass the budgeted amount for the account, the budget control compares the account total to the budgeted amount and informs the user when approached or passed any of the three defined budget levels.
Budget Preparation Module	<p>Provides the tools to manage budgeting process from initial set up to final posting of budget amounts to General Ledger Project/Grant module. This module helps to set up multiple budget cycles, create budget workbooks and worksheets, calculate costs, revenues and expenditures, and export and import from Microsoft Excel and post the budget to the General Ledger Project/Grant.</p> <p>The Budget Preparation allows you to perform your entire budgeting process within the financial application itself. With the look and feel of electronic spreadsheets, Budget Preparation allows you to easily create multiple budget revisions and submit final scenario for organization-wide review and approval.</p> <p>You can:</p> <ul style="list-style-type: none"> • Utilize an independent database, pulling historical information from FundWare General Ledger and Project/Grant for any user-defined period of time. • Create budgets that cross fiscal years. • Manage unlimited budgeting cycles, allowing simultaneous modification of current year budget and posting of next year's projected budget. • Document budget assumptions, by cell, with detailed user comments flowing into the <i>Final Budget Center</i> for full reporting. • Distribute your budget automatically by fiscal period, using unlimited custom distribution tables. • Export budgeting information directly into Microsoft® Excel and import seamlessly back to FundWare Budget

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Modules and Features	Functionalities
	Preparation, including user revisions.
Financial Institution feature	Allows in defining bank accounts for existing FundWare modules using a central log.
ADP Import	FundWare has created ADP® to FundWare Import to convert summary payroll information from ADP Payroll processing system directly into FundWare General Ledger and Project/Grant eliminating the burden of redundant data entry. Save data entry time and remove the potential of making entry mistakes with this automatic interfacing module.
Fixed Assets Module	An asset management and control module that allows in tracking an asset through its life cycle from acquisition, depreciation to disposal. Fixed assets can post assets transactions to General Ledger.
General Ledger Project/grant Module	<p>Provides seamless connectivity with other modules. Allows in defining an account structure that meets the specific reporting needs of an organization, and provides multi-year reporting, online budget control, advanced security, more than 60 standard reports, and unlimited user-defined reports.</p> <p>FundWare General Ledger serves as the heart of your financial application and the central point for all monetary reporting. It delivers enhanced inquiry flexibility, powerful analysis tools, and robust reporting options you need to adhere to strict budgeting and financial performance tracking.</p> <p>You can:</p> <ul style="list-style-type: none"> • Create customized databases and screens with self-balancing fund and program accounts. • Drill-down to transaction detail for actual, budget, encumbrance, and even requisition information. • Cross fiscal years for online inquiry and standard reporting, helping you manage federal and state grant activity. • Isolate transactions for inquiry and reporting using FundWare’s powerful account masking and user-defined attribute functionality. • Perform account inquiry by item description and alias number, as well as account masking. • Track and report across fiscal periods. • Benefit from strong, multi-level security including user-defined group profiles and user-specific print queues. • Import 3rd party data seamlessly using FundWare’s standard import programs with full error checking prior to importation, and self-balancing transactions automatically created. • Comply with FASB 116/117 and GASB 34 requirements.
Idata	An analysis and reporting tool offered for the FundWare Enterprise edition. It delivers quick access to financial data

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Modules and Features	Functionalities
	without the need for deciphering complicated data dictionaries. It allows creating reports from well-organized smart views, which conform to an organization's unique system configuration and report across divisions.
Payroll/ Personnel Module	<p>Provide detail cost accounting so that each employee's efforts are tied to the appropriate grant, program or cost center. Labor cost can be distributed by percentage, time sheet cost codes, and a number of other flexible methods. Offers a simple functionality for W2s, direct deposit, and taxes. It allows tracking of employee data and benefits, including non-taxable retirement plans, etc.</p> <p>With FundWare Payroll, users can create a comprehensive Payroll/Human Resource database that easily conforms to the way your organization works. It allows extensive customization of labor cost calculations, accruals, benefits and employee deductions. Allocate employee fringe benefit costs based on labor distributions resulting in full costing to departments, programs, and grants.</p> <ul style="list-style-type: none"> • Customize unlimited benefits and deductions with a powerful programming language to tackle even your most complex exceptions. • Tag employee records with user-defined distribution tables to efficiently generate custom timesheets. • Post payroll activity to the FundWare Project/Grant ledger, if desired. • Produce standard reports for quarterly state and federal requirements. • Customize employee HR information by developing unlimited user-defined fields. • Process direct deposits. • Calculate tax, withholding, and disbursement automatically with federal and state tables maintained by American Fundware. • Apply multiple activity-based pay rates to employees, including piece rates.
Project Grant	<p>FundWare Project/Grant is the solution for complete management of activities, projects, grants, cost centers, contracts, and investments. This parallel single-sided ledger allows users to track a segment of financial transactions in more detail.</p> <p>You can:</p> <ul style="list-style-type: none"> • Track grants, projects, contracts, and construction activities in more detail than your main ledger. • Utilize a unique account structure to explode/summarize information for grantor reporting requirements in a subsidiary ledger. • Develop control accounts in your General Ledger with automatic explosion to your Project/Grant ledger.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Modules and Features	Functionalities
	<ul style="list-style-type: none">• Achieve online, real-time access to detail cost accounting information to manage grants, activities, and programs effectively.• Create specialized reports or use standard reports that automatically summarize based on grant inception-date or ending-date, regardless of fiscal year parameters.• Establish security access independent of the General Ledger.• Post seamlessly into Project/Grant from all FundWare modules, including Accounts Payable and Payroll.• Add fields and customize screens for unlimited options.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Appendix V – Examples of Access Rights of System Administrator

Modules	Access Rights
General Ledger	Edit/Delete Chart of Accounts
General Ledger	Add/Edit/Post Journal entries
General Ledger	Add/Edit/Delete Data Items
General Ledger	Post revenue and expenditures, roll balances, purge/save data, and save years for year-end processing
General Ledger	Lock/Unlock Period and Years Posting
General Ledger	Define parameter/start control for Budget Control
General Ledger	Produce (print) transaction reports
General Ledger	Produce Financial Statements
General Ledger	Produce Revenue and Expense Reports
General Ledger	Edit/Delete/Post imported journal entries
General Ledger	Add/Edit/Delete Journals
Accounts Payable	Add/Edit /Delete Vendor
Accounts Payable	Add/Edit Payment Code
Accounts Payable	Mark/Unmark/Remove/Post Invoice obligations for pay
Accounts Payable	Print/Log/Reconcile/Void/Post Reconciled computer generated check
Accounts Payable	Print Check Reports
Accounts Payable	Add/Edit/Remove/Post a manual check
Payroll	Add/Edit Employee Master
Payroll	Add/Edit/Delete Data Items
Payroll	Edit Employee Values
Payroll	Modify/Delete/Post Timesheet
Payroll	Calculate Net Pay/Enter one-time deductions/Print (write) pay check for the Net Pay
Payroll	Void payroll check
Payroll	Enter/Post/Purge/Import check for bank reconciliation
Payroll	Print master records list e.g., employee data item, rates and table list, employee master list
Accounts Receivable	Add/Edit/Delete Customer
Accounts Receivable	Add/Edit/Void/Post Invoice
Accounts Receivable	Add/Edit/Void/Post/Print Official Receipt
Accounts Receivable	Create/Return and Adjust Payment Item for the Deposit
Accounts Receivable	Purge Accounts Receivable
Fixed Assets	Acquire/Modify/Dispose/Purge Assets, Record Depreciation
Fixed Assets	Print asset master
Financial Institution	Add/Edit Banking Institution
Financial Institution	Add/Edit Bank Account
Financial Institution	Add/Edit GL Account Association

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Appendix VI: Glossary

Term	Definition
Access Control	Security technique that can be used to regulate who or what can view or use resources in a computing environment.
Access Rights	The permission or privileges granted to users, programs or workstations to create, change, delete or view data and files within a system, as defined by rules established by data owners and the information security policy.
Accounts Receivable	A current asset resulting from selling goods or services on credit (on account).
Accounts Payable	This current liability account will show the amount a company owes for items or services purchased on credit and for which there was not a promissory note. This account is often referred to as trade payables (as opposed to notes payable, interest payable, etc.)
Acquire	To come into possession or ownership of; get as one's own.
Adequate	Satisfactory or acceptable in quality or quantity
Administrative controls	The rules, procedures and practices dealing with operational effectiveness, efficiency and adherence to regulations and management policies
Aging (receivables/ payables)	Accounts Receivable Aging is a report that lists unpaid customer invoices and unused credit memos by date ranges. Accounts Payable Aging is a report that lists only those supplier invoices that are nearly due or overdue for payment, based on the invoice dates and supplier payment terms.
Aggregate	Formed by the conjunction or collection of particulars into a whole mass or sum; total; combined.
Application systems	An integrated set of computer programs designed to serve a particular function that has specific input, processing and output activities.
Assessment	A broad review of the different aspects of a company of function that includes element not covered by a structured assurance initiative.
Audit Trail	A visible trail of evidence enabling one to trace information contained in

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

	statements or reports back to the original input source.
Backup	Files, equipment, data and procedure available for use in the event of a failure or loss, if the originals are destroyed or out of service.
Bank Reconciliation	The process of comparing the amounts in the Cash account in the general ledger to the amounts appearing on the bank statement. The objective is to be certain that there is consistency between the amounts and that the company's amounts are accurate and complete.
Business Continuity	Preventing, mitigating and recovering from disruptions.
Business Continuity Plan	A plan used by an enterprise to respond to disruption of critical business processes. Depends on the contingency plan for restoration of critical system.
Business process	An inter-related set of cross functional activities or events that result in the delivery of a specific product or service to a customer.
Business Process Reengineering (BPR)	The thorough analysis and significant redesign of business processes and management systems to establish a better performing structure, more responsive to the customer base and market conditions, while yielding material cost savings.
Change Control Management	Management of all changes made to a product or system to ensure that no unnecessary changes are made, that all changes are documented, that services are not unnecessarily disrupted and that resources are used efficiently.
Compensating Controls	Data security measure that is designed to satisfy the requirement for some other security measure that is deemed too difficult or impractical to implement.
Computer server	1. A computer dedicated to servicing requests for resources from other computers on a network. Servers typically run network operating systems. 2. A computer that provides services to another computer (the client).
Configure	To arrange or order a computer system or an element of it so as to fit for a designated task.
Configuration Management	The control of changes to a set of configuration items over a system life cycle. Administrative and technical actions taken to identify and document the

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

	functional characteristics (such as interface settings, jumper settings, hardware drivers, software options) and physical layout of a computer system. It also includes (1) controlling and documenting changes made to the functional characteristics and layout, (2) recording model and vendor information on all discrete parts, and (3) setting up and tracking maintenance and testing schedules. Also called configuration control.
Conformity	Compliance with standards, rules or laws
Consolidating	To combine into a single more effective or coherent whole.
Contingency Plan	A plan used by an enterprise or business unit to respond to a specific systems failure of disruptions
Control objective	A statement of the desired result or purpose to be achieved by implementing control procedures in a particular process
Cost/ Benefit Analysis	It is an analytical tool for assessing and the pros and cons of moving forward with a business proposal.
Depreciation	The process of cost allocation that assigns the original cost of equipment to the periods benefited.
Disaster	A sudden, unplanned calamitous event causing great damage or loss. Any event that creates an inability on an enterprise's part to provide critical business functions for some predetermined period of time. Similar terms are business interruption, outage and catastrophe.
Disaster recovery	Activities and programs designed to return the enterprise to an acceptable condition.
Electronic Fund Transfer (EFT)	The exchange of money via telecommunications. EFT refers to any financial transaction that originates at a terminal and transfers a sum of money from one account to another.
Encumbrance	Name given to funds that have been reserved when a purchase requisition is finalized and encumbered.
Feature	A piece of information which is relevant for solving the computational task related to a certain application.
Financial Management Information System	Financial management information system is: <ul style="list-style-type: none"> • Information system that tracks financial events and summarizes information

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

	<ul style="list-style-type: none"> • supports adequate management reporting, policy decisions, fiduciary responsibilities, and preparation of auditable financial statements • Should be designed with good relationships between software, hardware, personnel, procedures, controls and data <p>Generally, financial management information system refers to automating financial operations.</p>
Financial Statement (Government)	Balance sheet, statement of activities, statement of cash flow, etc.
Fixed Asset	Assets that are purchased for long term use and not quickly converted into cash such as land, buildings and equipment—tangible assets.
Gap Analysis	A technique that businesses use to determine what steps needed to be taken in order to move from its current state to its desired, future state.
GASB 34	Statement that established financial reporting standards for state and local governments. It establishes that the basic financial statements and required supplementary information for general purposes government should consist of management's discussion and analysis (MD&A), basic financial statements, and required supplementary information (RSI).
General Ledger	A complete record of financial transactions over the life of a company. It contains account information from assets, liabilities, owner's equity, revenues and expenses used in preparing financial statements.
Ghost Employee	A ghost employee is someone recorded on the payroll system, but who does not work for the business. The ghost can be a real person who knowingly or not is placed on the payroll, or a fictitious person invented by the dishonest employee.
Hardware	The physical components of a computer system.
Information Security	Ensures that within the enterprise, information is protected against disclosure to unauthorized users (confidentiality), improper modification (integrity), and non access when required (availability).
Information System	The combination of strategic, managerial and operational activities involved in gathering, processing, storing, distributing and using information and its related technologies.
Integrate (Integrating/ integrated)	Combine one thing with another so that they become a whole.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

Internal Control	The policies, procedures, practices and organization structures designed to provide reasonable assurance that business objectives will be achieved and undesired events will be prevented or detected and corrected.
IT Policies and Procedures	Standards/ policies and procedures that govern the operation of an information system.
Least Privilege	The principle means giving a user account only those privileges to access which are essential to that user's job duties and responsibilities. The user accounts in an application system at all times should run with as few privileges as possible.
Licensing Agreement	Legal contract between the licensor and or author and the purchaser of a piece of software which establishes the purchaser's rights.
Journal Voucher	An accounting record that notes the details of a transaction for record keeping and auditing purposes. Journal vouchers include the names of accounts affected, the date of the transaction, a description of the transaction, signatures of authorizing parties, and other details critical to proper accounting procedures.
Manipulate (Financial Statement)	To control or influence skillfully the <u>financial statements</u> in an unfair manner.
Material Misstatement	An accidental or intentional untrue statement that affects the result of an audit to a measurable extent.
Measure	A standard used to evaluate and communicate performance against expected result.
Microsoft Access	Microsoft's database application that allows users to create custom databases that store information in an organized structure. It provides a visual interface for creating custom forms, tables, and SQL queries.
Module	A <i>module</i> is a self-contained component of a system (e.g., a product) which has a well-defined <i>interface</i> to other components of the system. There is typically some degree of substitutability among identical and/or non-identical modules within a system or between systems.
Operating system	A master control program that runs the computer and acts as a scheduler and traffic controller.
Payroll Direct Deposit	Direct deposit (also known as Electronic fund transfer or EFT) allows you to produce a file for the electronic transfer of payroll funds rather than physical check forms. You submit this file to the financial

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

	institutions to transfer the monies to the accounts specified by the employee.
Preventive Control	An internal control that is used to avoid undesirable events, errors and other occurrences that an enterprise has determined could have a negative effect on a process or end product.
Recovery Processing Objective	The amount of data that can be lost if a disaster destroys the information system.
Recovery Time Objective	A duration of time and service level within which a business process must be restored (after a disaster) to avoid unacceptable consequences associated with the disruption to continuity.
Segregation of Duties /Separation of Duties (SOD)	A basic internal control that prevents or detects errors and irregularities by assigning to separate individuals the responsibility to initiating and recording transactions for the custody of assets.
Software	A set of instructions for a computer to perform specific operations.
Subsidiary Ledger	A record of details to support a general ledger account.
Travel Advance	The term travel advance is used to describe a sum of money paid to an employee prior to business-related travel
Trial Balance	A listing of the accounts in the general ledger along with each account's balance in the appropriate debit or credit column. The total of the amounts in the debit column should equal the total of the amounts in the credit column.

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

MANAGEMENT RESPONSE



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration

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September 15, 2015

Mr. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
FSM National Government
Palikir, Pohnpei 96941

Haser
9.15



Dear Mr. Hainrick:

Thank you for the opportunity to respond to the audit of **"National Government FMIS, Full capabilities Not utilized to Provide Efficient Financial Management and Reporting Services."**

Please find our responses below:

Finding No. 1: Needed modules and features were yet to be implemented.

We concurred with this finding, however, in regards to the unimplemented feature regarding payroll direct deposit, the feature is functional and there are employees that are utilizing the direct deposit. It is a matter of employee preference to utilize this feature. Currently there is no policy requiring that all employees are required to do direct deposits.

The Department will discuss these issues with the current consultant on each of the unimplemented modules as well as the unimplemented features when she does her scheduled maintenance trip out to the states.

Additionally, the department will explore options of whether it should migrate to a new system. The Department will contact representatives of the governments of Palau and Marshalls to seek assistance in granting access to the IT staff to look at their financial management system.

Finding No.2: User requirements were yet to be satisfied by the implemented modules.

We concurred with this finding. For General Ledger (GL) Financial Reporting, there are basic financial statements that can be run and produced from the financial management system, such as the balance

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

sheet by fund and Statement of Revenues and Expenses by account, by fund as mentioned in the audit report. In regards to the conformity of budget classification and chart of accounts to the IMF Government Statistical Manual, we agree that there should be a way for the system to be able to produce reports in such classifications but not necessarily be the determining factor of how the budget and chart of accounts is driven. The budget and chart of accounts, as is currently, is determined by the appropriation laws of the government, as it should be.

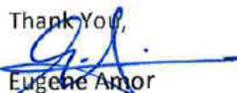
Finding No.3: Incomplete contingency planning provided no assurance of Quick Recovery and Business Continuity in times of Disaster.

One of the reasons for a unified financial management system is for each of the governments to be able to utilize the states systems if there is a disaster or in cases where the governments run into issues or problems with their financial system, instead of incurring additional costs of having a separate facility to host the additional server, hardware and software. The Department will secure a safety deposit box at the bank of FSM to store a CD containing the backed up data CD at the end of each business day. And at the end of each month, the monthly backed up data CD will be stored and the daily ones will be removed and reuse. At the end of each year all the monthly backed up CDs will be removed and replaced with the year end backed up CD.

Finding No. 4: User rights granted t access the system could lead to potential problems like undetected Fraud and Financial Misstatements.

We concurred with the findings and recommendations. The Assistant Secretary of DOFA-National Treasury will work with the IT staff to assign the employees access rights accordingly. Additionally, the segregation of duties will also part of the access assignments.

Thank You,


Eugene Amor

Acting Secretary of Finance

ONPA EVALUATION OF MANAGEMENT RESPONSE

The management response generally agreed with findings and recommendations in the report. However, we would like to clarify some statements made in the management response as follows:

Finding 1: Needed Modules and Features were yet to be implemented

Management Response: *“...In regards to the unimplemented feature regarding payroll direct deposit, the feature is functional and there are employees that are utilizing the direct deposit. It is a matter of employee preference to utilize this feature. Currently there is no policy requiring that all employees are required to do direct deposit...”*

ONPA Comments: Based on audit evidence and inquiries gathered during the audit, the direct deposit payroll feature was not utilized/ implemented. This was confirmed then with the IT Consultant who provided then with comments that the direct deposit can be implemented as long as the bank is capable of providing electronic fund transfer.

The direct deposit, as defined by FundWare, is a feature in the Payroll Module that produces an electronic file and stub rather than physical checks. Its implementation is not a matter of employee preference but a decision to improve efficiency.

The file is submitted to the financial institution to credit employees’ net pay to each employee bank account. Given the current payroll check processing involving approximately 745 checks per pay period, efficiency could be significantly improved not only in payroll check printing and distribution but also in monthly reconciling payroll checks cleared with the bank. The direct deposit payroll feature would significantly reduce paperwork and streamline payroll payment since there would be no more checks to print, distribute and reconcile.

Finding 2: User Requirements were yet to be Satisfied by the Implemented Modules

Management Response: *“... For the General Ledger (GL) Financial Reporting, there are basic financial statements that can be run and produced from the financial management system, such as the balance sheet by fund, and statement of revenue and expenses by account, by fund as mentioned in the audit report. In regards to the conformity of budget classification and chart of accounts to the IMF Governmental Statistic Manual, we agree that there should be a way for the system to be able to produce reports in such classifications but not necessarily be the determining factor how the*

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

budget and chart of accounts is driven. The budget and chart of accounts, as is currently, is determined by appropriation laws of the government, as it should be.”

ONPA Comments: Based on the evidence gathered during fieldwork, the system generated financial statements were not fully utilized. The current financial statements in use were prepared using an excel template provided by the external auditor. At the time of audit, the ONPA was provided with a system generated balance sheet as of 9/30/2014. The accounts appearing on the balance sheet were not properly grouped into major account, thus, the report was not a typical condensed Balance Sheet report and printed in an eight-page report. Furthermore, the total assets amounting to \$200.5 million on the report was over by \$ 8 million when compared to total ‘liabilities and fund balance’ when it should be equal.

ONPA would like to point out that, in any general ledger system; the processing needs and reporting requirements are the basis for defining both the budget classification and the chart of accounts. ONPA would like to also point out that the laws and regulations should be amended, if necessary, to implement a good government financial management information system.

Finding 3: Incomplete Contingency Planning provided no assurance of Quick Recovery and Business Continuity in Times of Disaster

Management Response: *“One of the reasons for a unified financial management information system is for each of the governments to be able to utilize the states’ system if there is a disaster or in cases where the governments run into issues or problems with the financial system instead of incurring additional costs of having a separate facility to host additional server, hardware and software... The department feels that this is sufficient to enable a quick recovery of data and to ensure that there is no adverse effect on operations should a disaster occur.”*

ONPA Comments: The audit report did not recommend a separate facility to host additional server, hardware or software but to develop and adopt a comprehensive contingency plan that would allow quick recovery and continuity in the event of disaster. In addition, the resource provisions in the contingency plan would depend on the risk of loss of data and processing the management would like to assume. It might be true that the National could utilize the States’ system but this must be arranged and properly provided for in the contingency plan. It should also be properly tested because the State’s hardware, operating software, and the application (FundWare) setup might need reconfiguration before the National data

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

could run using the State's system. The needed configuration in the system should be documented in the contingency plan.

NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff at the Department of Finance and Administration and Division of National Treasury for their assistance and cooperation during the course of the audit.

We have provided copies of the report to the President, Vice President and members of the Congress for their use and information. Copies will be available to other interested parties upon request and on our website at www.fsmopa.fm.

If there are any questions or concerns regarding this audit, please do not hesitate in contacting our office. Contact information for the Office appears on the last page of this report along with the staff that made major contribution to this audit.



Haser H. Hainrick
National Public Auditor

Wednesday, September 16, 2015

OFFICE OF THE NATIONAL PUBLIC AUDITOR
National Government FMIS: Full Capabilities Not Utilized to Provide
Efficient Financial Management and Reporting Services
Report No. 2015-07

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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