

**INDEPENDENT AUDITOR'S REPORT
ON APPLYING AGREED UPON PROCEDURES
NATIONAL OCEANIC RESOURCE MANAGEMENT
AUTHORITY
FISHERIES ACCESS AGREEMENT
REPORT NO. 2017-02A (Redacted Copy)**



Haser H. Hainrick
National Public Auditor

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Abbreviations and Acronyms

DFW—Division of Fisheries & Wildlife
EEZ—Exclusive Economic Zone
FFA—Forum Fisheries Agency
FIMS—Fisheries Information Management System
FSMA—Federated States of Micronesia Arrangement
IFIMS—Integrated Fisheries Information Management System
KOFA—Korea Overseas Fisheries Association
NFD—Non-fishing Day
NORMA—National Oceanic Resource Management Authority
OFA—Office of Fisheries & Aquaculture
OFCF—Overseas Fishery Cooperation Foundation of Japan
PA—Palau Arrangement
PAE—Party Allowable Effort
PNA—Parties to the Nauru Agreement
PNAO—Parties to the Nauru Agreement Office
UST—US Treaty
VDS—Vessel Day Scheme
VMS—Vessel Monitoring System

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Independent Auditor's Report
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To Chairman of FSM Congressional Committee on Resources and Development and Executive Director of NORMA,

We have performed the procedures described below, which were agreed to by the Chairman of FSM Congressional Committee on Resources and Development and Executive Director of NORMA, solely to provide assistance in obtaining information specific to fishing revenues, fishing days and non-fishing days, traded fishing days, and donated goods by foreign fishing partners. The Executive Director of NORMA is responsible for monitoring and controlling revenues from fisheries access agreements as well as coordinating the donated goods and services received from fishing partners.

This agreed-upon procedure engagement was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, which incorporates related attestation standards established by the American Institute of Certified Public Accountants (AICPA).

The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we made no representation regarding the sufficiency of the procedures described below either for the purpose of which this report has been requested or for any other purpose. Our responsibility is to perform the agreed upon procedures and report the results.

The agreed-upon procedures covered several subject matters consisting of:

1. Fishing Revenue—Tracing of fisheries access fees in fisheries access agreements to fishing revenue received by FSM Department of Finance and Administration, determining the fees that were not collected or yet to be collected, and verifying the monitoring mechanism in place to provide control for collection of all fishing fees.
2. Donated Goods and Services—Verifying whether donated good from fishing partners were documented in any agreement as well as whether existing control processes were complied with for donated goods (e.g. FSM Congressional approval before the receipt of items, recording and accounting of assets in Fixed Register, and verifying the physical existence of donated assets).
3. Sold and Non-Fishing Days—Verifying control procedures in place to guide in selling fishing days and processing and monitoring non-fishing days; tracing and determining fishing days sold, used or unused, allocated fishing days, and approved non-fishing days.
4. Traded Fishing Day—Verifying the traded fishing days (sold and unsold), verifying the control procedures in place to guide the trading of fishing days, and identifying the number of traded days, trading partners and the fees collected from such trading.

The enclosure provides the detailed results of the performed agreed upon procedures. We also discussed the scope limitations in performing the procedures.

We were not engaged to and did not conduct an audit, examination, or review, the objective of which would be the expression of an opinion on the specified subject matters. Accordingly, we do not provide such an opinion.

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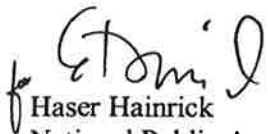
Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Chairman of FSM Congressional Committee on Resources and Development and Executive Director of NORMA. It should not be used by those who did not agree to the procedures or did not take responsibility for the sufficiency of the procedures for their purpose.

During the initial discussion, the Chairman of FSM Congressional Committee on Resources and Development and the Executive Director of NORMA raised concerns regarding the sensitivity and confidentiality of some information in this report, especially the results on procedures performed for subject matters #3 and #4 above. We have evaluated the concerns and agreed to develop two versions of this engagement report—full and redacted copy without the results for subject matters #3 and #4. The full report is distributed to selected officials while the redacted report is released to public.

We received and evaluated the NORMA management response dated January 27, 2017 and management generally agreed to all the findings/results.

This redacted report is available on our website at www.fsmopa.fm. If you have any question or concern, we can be reached thru telephone numbers 320-2863/2862.


Haser Hainrick
National Public Auditor

Monday, March 13, 2017

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Agreed Upon Procedures and Results

Fishing Revenue

Procedure 1A: Trace all of the fisheries access agreement amounts to the fishing revenue (Fishing Right Fees General Ledger) received by FSM Department of Finance and Administration or to NORMA Tufman¹ collection report (i.e. Foreign and domestic associations/companies' purse seine, long line, etc.) for Calendar Years 2012-2015. Determine over/ under collections or receipts that were delayed and inquire the reason for over/under collection or delayed receipts.

The manner of determining the fees for collection for purse seine and long line/ pole and line associations/ companies differs. Purse seine associations/ companies' collections are based on fisheries access agreement while long line/ pole and line associations/companies are based on license issued to each vessel. Long line/ pole and line associations/companies had access agreements; however, the access agreements did not indicate the payment terms.

We tried to trace the collected fishing fees from fisheries access agreements to corresponding general ledger report (account) maintained by the FSM Department of Finance and Administration for fishing rights fees, to the official receipts and/or to NORMA Tufman collection report. However, we had difficulty in tracing the fees because some collections in the general ledger report were not properly described or identified. In addition, all types of collections related to fisheries were lumped and recorded into one general ledger (GL) account called fishing right fees.

We verified the transactions in the fishing right fees account to separate the revenues collected for fishing rights (access agreement fees, traded fishing days and additional sold fishing days) from other collections such as research and support fees. Table 1.1A presents the results of the verification with yearly amounts of identified and unidentified collections from fishing associations and companies.

Calendar Year	Table 1.1A-Fishing Revenue						
	FSM Finance Collection (Fishing Right Fees General Ledger)						
	Fishing Right Fees Collection						
	FSM National Treasury Total Collection	Other Fees Collection	Identified Collection for Fisheries Access Agreement ²	Long Line/ Pole and Line ³	CFC/Diving Seagull Inc./FSMA ⁴	Unidentified Collection ⁵	Total ⁶
	A+B+G	B	C	D	E	F	G=C+D+E+F
2012	\$ 32,869,015.72	\$ 467,793.70	\$ 23,720,306.00	\$ 1,565,286.65	\$ 227,285.90	\$ 6,888,343.47	\$ 32,401,222.02
2013	31,238,944.23	457,515.00	29,560,021.00	770,700.00	20,225.00	430,483.23	30,781,429.23
2014	43,030,992.43	464,208.25	35,223,637.98	1,667,800.00	5,567,610.90	107,735.30	42,566,784.18
2015	67,841,823.41	431,804.59	60,529,584.00	1,508,400.00	2,908,360.56	2,463,674.26	67,410,018.82
Total	\$ 174,980,775.79	\$ 1,821,321.54	\$ 149,033,548.98	\$ 5,512,186.65	\$ 8,723,482.36	\$ 9,890,236.26	\$173,159,454.25

Source: FSM Department of Finance fishing rights fees report, Cash receipts, Payment Advices, NORMA Tufman Collection Report, and FSM Fisheries Access Agreements.

¹ NORMA Tufman—NORMA's information system for issuing licenses and accounting for license payments.

² Collections from US Treaty and Purse Seine Fishing Associations/Companies with Fisheries Access Agreements.

³ Collections from long line/ pole and line associations/companies

⁴ Collections from Caroline Fisheries Corporation, Diving Seagull Inc. and FSMA with no fisheries access agreement.

⁵ Collections from purse seine fishing associations/companies with fisheries access agreements and from other unidentified fishing companies.

⁶ Total collection for fishing right fees.

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Results 1A:

- We traced all the fisheries access agreement amounts to the fishing revenue reports for calendar years 2012-2015; however, we were unable to trace some amounts in the general ledger report. We accumulated an approximate total of \$9.8 million for those collections as “unidentified collection” shown in Table 1.1A.
- Based on application of the procedures and the review of underlying supporting documents and records, we have established the amounts of over or under collection of fishing revenue from purse seine fishing associations/companies with access agreements⁷ presented in Table 1.2A.

Table 1.2A-Fisheries Access Agreement Collection						
Calendar Year	Fisheries Access Agreement		Identified Collection for Fisheries Access Agreement (Column C Table 1.1A)		Under Collection	
	A		B		C-B-A	
2012	\$	26,246,006.00	\$	23,720,306.00	\$	(2,525,700.00)
2013		33,043,121.00		29,560,021.00		(3,483,100.00)
2014		38,820,848.00		35,223,637.98		(3,597,210.02)
2015		60,550,584.00		60,529,584.00		(21,000.00)
Total	\$	158,660,559.00	\$	149,033,548.98	\$	(9,627,010.02)

Source: FSM Fisheries Access Agreements.

- Due to inadequate monitoring of collectibles, we could not determine whether the collections for fisheries access agreements were delayed.

We encountered difficulty in accounting the collections and in determining the delayed collections of revenues because of the following:

1. “Unidentified Collection” column in Table 1.1A include amounts could not be traced to the fisheries access agreements or the supporting documents did not provide proper basis in determining the nature and amount that should be collected for fishing fees. In addition, some collections could not be traced to any fishing association/company.
2. CFC, Diving Seagull, Inc., and FSMA collections did not have fisheries access agreements (though not required by law) or did not have basis to determine the amount that should have been collected.
3. Long Line/ Pole and Line fisheries access agreements did not establish the total amount that should be collected per year or in the duration of the agreement and the NORMA Information System (Tuffman) did not provide accurate reports for those collections.
4. No reconciliation of actual collections versus supporting documents and the amounts recorded at FSM Department of Finance and Administration’s general ledger account.

⁷ Fishing associations/companies with fisheries access agreements include China Overseas Fisheries Association, Taiwan Deep Sea Tuna Purse Seine Boatowners and Exporters Association, Korea Overseas Fisheries Association, Japan Purse Seine Fisheries Association, Trans-Pacific Journey Fishing Corporation, Taiyo Micronesia Corporation, Kaşar Fishing Corporation and US Treaty (FFA Financial Statement Audit was used as basis of collection).

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Procedure 1B: Verify the monitoring mechanism in place both at FSM Department of Finance & Administration and at NORMA Office to ensure that all fishing fees based on the fishing agreements were collected and received in the correct amounts.

Result 1B:

We found that the monitoring mechanism to ensure collection of all fishing fees was in place at NORMA but not at FSM Department of Finance and Administration. NORMA's monitoring mechanism only started in calendar year 2015; however, there has been no regular reconciliation between FSM Department of Finance and Administration and NORMA to establish uncollected amounts and to identify and resolve discrepancies between their records.

Best practice requires that the reconciliation of the control account balance to the sum of the individual customer accounts is a valuable check on the accuracy of the accounting records. Best practice also requires that differences between records should be promptly pursued, resolved and records are adjusted accordingly because reconciliations provide little internal control if differences noted during the reconciliation process remained unresolved.

Donated Goods and Services

Procedure 2A: Determine whether written policies and procedures are in place to govern the receiving of donated goods and services.

Result 2A

We found that FSM National and States Finance had no written policies and procedure in place governing the receiving of donated goods and services by the recipients.

Procedure 2B: Verify donated goods provided by foreign fishing partners to determine whether the donated goods were reflected in the fisheries access agreements or in any written agreement.

Results 2B

We verified the donated goods provided by the foreign fishing partners. We found that among the fishing partners, only Japan and Korea provided donated goods to FSM during the period covered. We also found that these donated goods were not reflected or provided for in the fisheries access agreements. Instead, the practice has been to execute a "Memorandum of Understanding" in case of Japan and no written agreement in case of Korea.

Procedure 2C: Verify whether FSM Congress Resolution as required by FSM Code Title 24 Chapter 1 Section 114 approved the received donations.

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Result 2C

We verified all the donated goods received from Japan and Korea for calendar years 2012-2015. We found that the received donated goods from Korea (KOFA) in 2013 and 2014 and Japan (OFCF) in 2014 did not comply with FSM Code Title 24 Chapter 1 Section 114 requiring FSM Congress approval thru resolution; there was no resolution approving the goods received. Additionally, received donated goods from Japan for 2013 and 2015 did not comply with FSM Code Title 24 Chapter 1 Section 114; but complied with Title 55 FSMC 210(2) as cited in the corresponding FSM Congress resolution.

Based on our observation on the FSM congress resolutions for the received donated goods for calendar years 2012-2015, either Title 24 FSMC 114⁹ or Title 55 FSMC 210(2)⁹ was cited; and both laws require the approval of FSM Congress thru resolution before acceptance of goods and services as division of fees or foreign financial assistance. The nature of donations received from Japan and Korea were in form of goods (with associated cost), not monetary. Refer to Table 2C1 for more details.

Calendar Year	Donor	Agreement	FSM Congress Resolution	Recipients	Amount
2012	OFCF	MOU	17-179 ¹⁰	Chuuk State Department of Marine Resource	\$ 357,169.88
2013	KOFA	None	None	NORMA	83,224.00
2013	OFCF	MOU	18-63 ¹¹	Pohnpei State Office of Fisheries and Aquaculture and Department of Fisheries and Wildlife	279,633.14
2014	KOFA	None	None	FSM National Government/ NORMA	101,422.00
2014	OFCF	MOU	None	Kosrae State Resource and Economic Affairs	254,447.48
2015	KOFA	None	19-125 ¹²	Yap State Office of the Governor	99,582.00
2015	OFCF	MOU	19-126 ¹³	Yap State Department of Resources and Development	281,111.88
Total Donations 2012-2015					\$ 1,466,590.38

Note: Freight and Insurance cost included in the amounts. Unlike Korea donated goods, Japan donated goods were not provided with the cost of each item.

The donated items below did not comply with the requirements set within the FSM Congress Resolutions regarding fisheries development:

- Chuuk State government received donated goods such as laptops (distributed to numerous individuals and some could not be located), electric fishing machine (for rent) and printer ink;
- FSM National Government including NORMA received donated goods such as vehicles, a boat and engine, desktop computers, laptops, ice-making machines, spin driers, sterilizers, photocopiers, sporting goods, etc (no FSM Congress resolution);
- Pohnpei State Government received donated goods such as vehicles, computers, projectors, air conditioners, camping tents, portable radio (incompatible/unused), etc;

⁹ 24 FSMC 114: Division of fees received as goods and services requires FSM Congress approval thru resolution.

⁹ 55 FSMC 210(2): Foreign financial assistance requires FSM Congress approval on any agreement for the acceptance or receipt of foreign financial assistance thru resolution.

¹⁰ Congress Resolution cited 24 FSMC 114

¹¹ Congress Resolution cited 55 FSMC 210(2)

¹² Congress Resolution cited 24 FSMC 114 and referenced "foreign financial assistance".

¹³ Congress Resolution cited 55 FSMC 210(2)

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- Kosrae State Government received donated goods such as vehicles, projectors, and chairs (no FSM Congress resolution);
- Yap State Government received donated goods such as a vehicle, laptops, PC tablets, etc.

Procedure 2D: Verify whether donated fixed assets were recorded in the FSM Department of Finance and Administration or FSM State Finance Fixed Asset Registry and inspect the fixed assets to confirm their physical existence.

Results 2D

- We verified all the donated fixed assets and found that either only few of the donated fixed assets or none at all was recorded in each respective government's fixed assets register.
- We conducted an inspection of the donated assets received for all five governments and we could not locate or inspect some of the fixed assets received due to absence of proper documentation for redistributed assets.

Chuuk State Government law requires identification and recording of all properties, including fixed assets and donated properties; however, none of the 60 fixed assets received from OFCF for calendar year 2012 was recorded in the fixed assets register. Further, we could not inspect 55 of the 60 assets because they were redistributed.

FSM National Government that includes NORMA follows the FSM National Financial Management Regulation that requires the identification and recording of all properties including fixed assets. In 2013, NORMA received donated goods from KOFA and 37 of which were assets. Out of the 37 fixed assets received, we found the following:

- 24 assets were not recorded in FSM Department of Finance and Administration fixed assets register;
- 13 assets were physically counted;
- 21 assets could not be inspected;
- 3 assets could not be located.

In addition, the FSM National Government/ NORMA received seven donated assets from KOFA for calendar year 2014; however, two of the seven assets (boat and engine) were located and inspected at an individual's residence.

Pohnpei State Government Financial Management Regulation requires that all properties of the government, including donated items shall be documented/recorded immediately upon receipt. However, we found that 37 out of 40 fixed assets received at Pohnpei State Office of Fisheries & Aquaculture and Department of Fisheries & Wildlife from OFCF for calendar year 2013 were not recorded in the Pohnpei State Finance fixed assets register. We also found that seven of the 40 fixed assets received could not be inspected because they were redistributed and two could not be located and inspected.

Kosrae State Government Property Regulation requires identification and recording of all properties including fixed assets; however, none of the 56 fixed assets received from OFCF for calendar year 2014 was recorded in the fixed assets register. We also found that eight of the fixed assets could not be inspected because they were redistributed.

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Yap State Government Financial Management Regulation requires identification and recording of properties with cost value of more than \$300.00 and when new, including fixed assets and donated properties. However, we found that OFCF donated one FPR boat in 2015 but was not recorded in the Yap State Fixed Asset registry. We also found that the 40 fixed assets received from KOFA for calendar year 2015 were not recorded in the fixed assets register. We could not inspect 38 of the 40 assets because they were locked in the Lieutenant Governor's Office. The Lieutenant Governor was off-island at the time of ONPA visit.

Sold and Non-Fishing Days (Results redacted for sensitivity and confidentiality purposes)

Procedure 3A: Determine whether written processes and procedures were in place to provide guidance in selling fishing days.

Result 3A

This finding was redacted for sensitivity and confidentiality purposes.

Procedure 3B: For all fishing fleets, determine how non-fishing day claims were processed and monitored to provide periodic non-fished days and actual fished days from the sold fishing days in the access agreements for calendar years 2012-2015.

Result 3B

This finding was redacted for sensitivity and confidentiality purposes.

Procedure 3C: Obtain detailed reports of allocated days, days in FSM EEZ, days remaining, and non-fishing days per vessel and fishing party for calendar years 2012-2015. Trace the non-fishing days to the claim forms, trace allocated days to the access agreements, and trace vessel days to the VMS records. Determine how many non-fishing days were claimed and the days used and unused by each fishing vessel.

Result 3C

This finding was redacted for sensitivity and confidentiality purposes.

Traded Fishing Days (Results redacted for sensitivity and confidentiality purposes)

Procedure 4A: Determine whether written policies and procedures were in place to guide the trading of fishing days, e.g. policy on trading fee, etc.

Result 4A

This finding was redacted for sensitivity and confidentiality purposes.

Procedure 4B: Obtain the system report/ listing of fishing days traded by NORMA for calendar years 2012-2015 and determine the terms of the number of days traded, purchasers and fees paid.

Result 4B

This finding was redacted for sensitivity and confidentiality purposes.

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ONPA Contact and Staff Acknowledgement

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

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Manuel San Jose Jr., CPA, CGAP, CIA, CISA, CRMA, Audit Manager
Vanessa Sigrah Tareg, Auditor-In-Charge
Rosadelima Alfons, Staff Auditor
Brandon S. Rodriguez, Staff Auditor

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P.O. Box PS-05
Palikir, Pohnpei FM 96941
Phone: (691) 320-2862/63

CONTACT: Website: www.fsmopa.fm
Hotline: (691) 320-6768