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**OFFICE OF THE NATIONAL PUBLIC AUDITOR  
FEDERATED STATES OF MICRONESIA**



**NONCOMPLIANCE WITH PROCUREMENT REGULATIONS  
RESULTED IN THE LOSS OF FUNDS FOR THE  
KOSRAE BROADCAST STATION**

**REPORT NO. 2023-08**



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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Tuesday, August 8, 2023

His Excellency Wesley W. Simina, President  
The Honorable Aren B. Palik, Vice President  
Honorable Members of the 23rd Congress  
Federated States of Micronesia  
Palikir, Pohnpei FM 96941

&

The Honorable Osamu Nedlic  
Acting Mayor of Lelu Town Government

### **RE: Inspection of Kosrae Broadcasting Station Equipment**

We have completed our inspection of the Kosrae Broadcasting Station which was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) Quality Standards for Inspections and Evaluations (QSIE).

Based on our inspection, we concluded the following noncompliance with the Financial Management Regulations (FMR):

1. Value for money was not achieved in the procurement process.
2. Payments were processed without the Project Inspection Official's certification.
3. Full payment was issued prior to receiving the equipment.
4. Payment was made without the bank verification process.

We discussed the findings and recommendations with the Allottee and the Acting Secretary of Finance and Administration. We also requested their formal management responses, which are included in this final report.

Respectfully submitted,

Haser Hainrick  
National Public Auditor

cc: Sohs John, Acting Secretary of DOFA  
Molina Seneres, Acting Assistant Secretary for Budget  
Margarette Abraham, Deputy Assistant Secretary – DOFA Kosrae Field Office

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<b>Abbreviations</b>	<b>Meaning</b>
A/A	Advice of Allotment
CIGIE	Council of Inspectors General on Integrity and Efficiency
DOFA	Department of Finance & Administration
FMR	Financial Management Regulations
KBA	Kosrae Broadcasting Authority
LTG	Lelu Town Government
PCD	Project Control Document
PL	Public Law
QSIE	Quality Standards for Inspection and Evaluation

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**1. INTRODUCTION**

1.1 Reason for the Assignment

This inspection was initiated based on a request from the FSM Vice President out of concern for Kosrae Broadcast Authority's (KBA) essential public service to the State of Kosrae.

1.2 Background

In 2020, Kosrae Broadcast Station's AM radio transmission broke down resulting in no broadcasting services for some time. A short-term solution was found, which was to switch from AM to FM. However, this temporary fix had limited transmission. KBA's Board reached out to FSM Congress for assistance with funding. The 21<sup>st</sup> FSM Congress amended PL 20-178 per PL 21-178 to include an appropriation of \$40,000.00 for the purchase of the Kosrae Broadcast Station equipment. Once the Project Control Document (PCD) and the advice of allotment (A/A) were issued, KBA began its search for a new AM radio transmission. This was done by going online searching the web for a vendor that sells such equipment. A vendor was selected without the three-quotation requirement. As they proceeded with the purchase, several irregularities were found with the vendor and the purchase.

The first A/A was issued on October 2, 2020 with the Governor of Kosrae as allottee. From this A/A, the initial payment to the vendor was made via wire transfer through DOFA's main office in Palikir. A second A/A was then issued changing the allottee from the Governor of Kosrae to the Mayor of Lelu Town Government (LTG). Despite sending the initial payment, the vendor did not send the equipment. They wanted full payment prior to sending the equipment. While discussions were still ongoing, a third party was solicited to assist with the shipping of the equipment. Said third party made full payment to the vendor in order to have the equipment released to them. They then arranged for shipping of the equipment then requested reimbursement from KBA. Reimbursement was done prior to receiving the equipment. Once the equipment reached Kosrae, it was released without the required inspection report, but rather just a receiving report. Upon installation of the equipment, it was discovered that it didn't work. It was inoperative. Attempts to communicate with the manufacturer and vendor were unsuccessful.

Request for a refund or replacement have not been made. Moreover, \$34,728.33 has been expended.

**2. AUDIT MANDATE**

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

*"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, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government."*

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**3. OBJECTIVE, SCOPE, METHODOLOGY**

**3.1 Objective**

The objective of this inspection was to determine whether CFSM funds used for the Kosrae Broadcast Station equipment project were in accordance with its intended purpose, including compliance with all applicable laws and regulations.

**3.2 Scope**

The scope of this inspection covered the Kosrae CFSM Public Project “Kosrae Broadcast Station Equipment” appropriated under Public Law 21-178, as amended.

**3.3 Methodology**

This inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency’s (CIGIE) Quality Standards for Inspections and Evaluations (QSIE). These standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our inspection objective.

Inspection procedures were conducted at the FSM Department of Finance (DOFA), Lelu Town Government (LTG), Kosrae Broadcast Authority (KBA), and the Finance Field Office. Our methodology also comprised of the review of Public Laws, Advice of Allotments, Project Control Documents (PCD), expenditure reports and their respective check disbursement records. We also reviewed other relevant supporting documents and information provided by the allottee and key personnel. We also conducted interviews with those charged with the administration and implementation of the project. Finally, we conducted surveys throughout the communities to further gather information and feedback to assess the nature and the impact of the CFSM funded public project at hand.

**4. CONCLUSION**

Based on our inspection, we concluded that the CFSM appropriated funds that were used for the Kosrae State Broadcast Station Equipment Public Project were not in compliance with all applicable laws and regulations. Moreover, we also found that the equipment that was purchased was defective or not working. As a result, radio transmission remains limited. Recovery of the loss for this project appears unlikely.

The inspection disclosed the need for improvement. As a vital service, it is essential that radio transmission reaches throughout the island.

Below is the summary of our findings:

1. Value for money was not achieved in the procurement process.
2. Payments were processed without the Project Inspection Official’s certification.
3. Full payment was issued prior to receiving the equipment.
4. Payment was made without the bank verification process.

The following pages contain the findings in further detail and our recommendations.

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**5. FINDINGS AND RECOMMENDATIONS**

**5.1 Finding 1: Value for Money was not Achieved in the Procurement Process**

Criteria:

Pursuant to FMR Section 5.2.7, *'Value for money' is obtained for all expenditure by obtaining three competitive quotations for the specifications of the product/service that needs procuring. If for any reason, three competitive quotations cannot be obtained due to a limited market available 'on island', then this must be explained and approved by the Allottee.*

Part 7.1.10 also requires obtaining quotations for fixed assets:

- 1) *Subject to the requirements of subpart 5.2.7, special consideration must be given when obtaining quotations for fixed assets.*
- 2) *Considerations must be given to the following:*
  - a) *cost price of the asset;*
  - b) *quality of the asset from reputable manufacturers;*
  - c) *unit costs of consumables multiplied by the estimated usage;*
  - d) *estimated useful life of the asset;*
  - e) *ready availability of consumables;*
  - f) *costs of freight and customs clearance if relevant; and*
  - g) *costs of ongoing servicing and maintenance.*
- 3) *A comparison of all of these factors will assist the Allottee to select the most cost-effective fixed asset.*

Condition:

Allottee did not obtain three competitive quotations when purchasing KBA's equipment nor did they justify their reason for not obtaining the required three quotations as required by the FMR. The method used for procuring the equipment was merely browsing online and there was no other information provided by the allottee addressing Part 7.1.10 of the FMR. Had they considered the concept of 'value for money', the outcome would have been more satisfactory.

Cause:

1. Lack of awareness by the Allottee to administer and implement CFSM public projects in accordance with applicable laws and regulations.
2. The DOFA, particularly the National Treasury Division, did not thoroughly review the payment requests to ensure compliance with all applicable laws and regulations prior to disbursements.

Effects:

1. An unreliable vendor was selected;
2. The equipment purchased online was not working;
3. The amount of \$34,728.33 was spent purchasing defective equipment; and

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4. KBA's essential service to the public was not restored.

Recommendations:

We recommend that:

1. Allottees should always seek guidance from the FMR and the DOFA whenever they have questions or concerns surrounding the procurement of goods or services. It is the very reason that the FMR standardizes using the concept of value for money because it considers the potential risks associated with the procurement process. It involves assessing the reliability of suppliers, their track record, and the potential risks involved in terms of delivery delays, product defects, or service failures.
2. The Secretary of DOFA should take accountability of its processes and resources by making the needed changes and make a strong stand to help eradicate non-compliance. These include:
  - a. strengthening the verification / scrutinization procedures (in the Division of National Treasury) for payment requests to ensure that all relevant supporting documents are sufficient before authorizing payments, keeping in mind the requirements of the approved PCD. (As previously recommended in many past audit/inspection reports for CFSM projects);
  - b. putting in place strict internal control measures to ensure that allottees submit adequate and meaningful evidence (e.g., inspection/certification report by an independent PIO) to support project implementation prior to processing payments;
  - c. taking necessary actions (disciplinary or awareness trainings) for Non-National allottees and other responsible officials involved with public project administration that are identified to continually breach the FMR and other contractual agreements relevant to public projects;
  - d. contacting the allottee and all other key offices or officials involved in the administration and implementation of the above public project to collectively determine and refund the amount in question to the FSM National Government as it was not used in accordance with the full requirements of applicable FSM laws and regulations;
  - e. exercising its authority to suspend or bar allottees from the Roster of Eligible Allottees who have not been complying with the applicable FSM laws and regulations multiple times as it pertains to the administration of public projects.

**5.2 Finding 2: Payments Were Processed and Paid Without the Project Inspection  
Official's Certification**

Criteria:

Part 10.2.4 of the FMR requires that:

*1) Funds subject to this Part 10 (Administration of Public Projects) shall be disbursed only to satisfy obligations legally incurred and due under these regulations. Any request for payment*



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*under a design, construction, procurement, or independent consulting contract must be certified by the Project Inspection Official before payment is made.*

Part 10.2.5 of the FMR also requires that:

*2) The Project Inspection Official designated in the PCD shall provide project management and oversight so as to ensure adequate accountability of funds expended and completion of the project.*

**Condition:**

The role of the designated Project Inspection Official (PIO), which is a critical component of the public project administration process, was also not utilized during the implementation of the project. All payment requests were submitted and processed without the PIO's certification. It is vital to have the PIO involved throughout the implementation of the project given that he or she serves as an independent official, apart from the allottee and key officials charged with the administration and implementation of the project, that is responsible for overseeing the project and ensuring funds accountability. Had the role of the PIO have been utilized, the project outcome could have been more satisfactory.

**Cause:**

1. Poor oversight and monitoring by the allottee over the administration and implementation of the public projects resulting in the lack of awareness by the designated PIO.
2. The project manager's receiving report was used in lieu of the inspection report. His role was to assist KBA with the purchase. We learned from his interview that there was no inspection done by the project inspection official. Therefore, no certification.

**Effects:**

1. As a result, payments were made prior to the assurance that the equipment received were in good condition which was later found to be defective or inoperative.
2. Public funds may have been vulnerable to waste and potential fraud; with limited implementation of the actual public project in terms of restoring the essential public service of radio broadcasting to the people of Kosrae State and the unsatisfactory impact to the people who should have benefited from this particular public project.

We are referring this matter for further review by our Compliance Investigation Division (CID).

**Recommendations:**

The Secretary of DOFA should:

1. Hold the Allottee accountable in ensuring that the role of the designated PIO is diligently fulfilling his/her duties and responsibilities given that it serves as an important role for oversight, monitoring and compliance purposes.
2. Review payment requests thoroughly and not process and/or issue payments without the PIO's certification.

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3. Consider documenting a procedure as part of the FMR to address steps to be taken by the Allottee when there is a need to re-assign the PIO role.

**5.3 Finding 3: Full Payment was Issued Prior to Receiving the Equipment**

Criteria

Part 5.2.2 of the FMR states that for Purchase requisition/Purchase order:

- 7) The Secretary or designee will then approve the Purchase Order to be presented to the supplier to uplift the goods.*
- 8) Once the department has uplifted or received the goods specified on the Purchase Order, the receiving officer will sign the 'supply docket' or 'receiving docket' or 'invoice' prepared by the vendor.*
- 9) The original purchase order together with the 'supply docket' and/or signed invoice, is then delivered to the National Treasury directly by the Vendor for payment*

Furthermore Part 5.2.6. 7) of the FMR requires that:

*At payment stage, the Allottee must sign the Miscellaneous Payment Request form approving payment and also submitting adequate documentation to support the amount to be paid and that the goods and services have been received.*

Condition

The allottee and his key officials charged with the administration and implementation of the project had attempted to make an agreement with the vendor that two payment installations will take place. Based on the information provided to us, we noted that the vendor, while acknowledging their agreement, was not committed with it. The allottee went ahead and made the first payment installation without the full assurance from the vendor that they will release the equipment. As per the Project Manager, the final payment was to be made after the equipment was received. However, we noted that the implementation of the project was being managed by the project owner instead of the project manager and allottee. We learned that the project owner made arrangements to expedite receipt of the equipment. In doing so, full payment was made prior to receiving the equipment. Installation and testing of the equipment were done thereafter, which was found to be defective or not working.

Cause

1. Lack of oversight and strict monitoring of the administration and implementation of the project.
2. Project owners overstepping their role per PCD.
3. DOFA's lack of proper review and scrutiny of payment requests.

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Effect(s)

1. Direct Noncompliance with the FMR by the allottee in terms of administering and implementing the project.
2. The receipt of defective equipment as a result of not following the procurement procedures prescribed by the FMR.
3. The loss of funds as a result of not complying with the FMR.

We are referring this matter for further review by our Compliance Investigation Division (CID).

Recommendations:

1. Allottee should frequently monitor and oversee administration and implementation of projects to ensure compliance with the FMR and to avoid loss.
2. Allottee should clarify roles of those charged to administer project to avoid any conflicts or misunderstandings.
3. The Secretary of DOFA should exercise due diligence and ensure that goods and/or services being sought and provided for are satisfactory prior to payment disbursements.

**Finding 4: Payment was made without the Bank Verification Process**

Criteria:

When it comes to the verification process for making a payment by direct credit to a supplier or individual's bank account, the following prudent practices can be considered:

- a. Standardize the bank verification form: The 'bank verification' form should be standardized and follow the format determined by the Secretary of Finance or regulatory authorities. This ensures consistency and uniformity in the verification process.
- b. Obtain a signed bank verification form: Request the individual or business owner to complete and sign the 'bank verification' form. The signature serves as an acknowledgment and confirmation of the accuracy of the provided information.
- c. Verify the authenticity of the wire transfer request. It is critical that employees verify a wire transfer request, especially if received by email. Staff should call the authorizing employee requesting the wire by phone, using contact information that is already on file and previously used.
- d. Verify the information on the form: Thoroughly review the details mentioned on the 'bank verification' form. Ensure that the information matches the individual or business owner's name, address, and bank account number. Any discrepancies should be clarified and resolved before proceeding with the payment.
- e. Require a bank statement: Request a recent bank statement from the individual or business owner. The bank statement should contain their name/business name, address, and bank account number. This serves as additional documentation to validate the accuracy of the provided details.

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- f. Verify the bank statement information: Cross-check the details on the bank statement with the information provided on the 'bank verification' form. Ensure that the name/business name, address, and bank account number are consistent. Any discrepancies or irregularities should be investigated and addressed before authorizing the payment.
- g. Contact the bank if necessary: If there are any doubts or concerns regarding the authenticity of the bank account, consider contacting the bank directly to verify the account's existence and legitimacy. Obtain confirmation from the bank representative regarding the accuracy of the provided information.
- h. Review verification documentation: Management should review and approve verification documentation before the wire transfer is sent.
- i. Require special approval when making such payments: Certain officials may be able to approve an expenditure, but your policy should require special approval when making such payments.
- j. Retain records of the verification process: Maintain a comprehensive record of the bank verification process, including the completed and signed 'bank verification' form, the accompanying bank statement, and any additional correspondence or communication related to the verification. These records serve as evidence of due diligence and can be useful for auditing or reference purposes.

**Condition:**

The first payment made was made via direct credit by the allottee. However, the payment did not go through the bank verification process as recommended by prudent practices. Upon further review of the payment and its relevant supporting documents, we could not provide reasonable assurance that a bank verification process and other direct payment related procedures were applied given the nature of this particular transaction. It is vital that such processes be considered to prevent making erroneous or potential fraudulent transactions.

**Cause:**

Lack of clear procedures set out by the FMR in regard to making wire transfer payments or direct credit payments.

**Effect:**

- 1. Lack of accountability and inconsistent practices as result of unclear guidelines and procedures with respect to wire transfers or direct credit payments.
- 2. Funds may have been prone to waste or the potential for fraud.

**Recommendation:**

DOFA should develop and implement a policy or process that outlines certain procedures relating to making payments via wire transfer or direct credit.

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**6. APPENDIX:**

Appendix A: Photos of equipment verified by the ONPA Inspection Team



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**7. MANAGEMENT RESPONSE**

Act. Mayor of Lelu's response:



**LELU TOWN GOVERNMENT**  
Lelu Municipality  
P.O. Box 307  
Kosrae State  
Federated States of Micronesia 96944  
Telephone: (961) 370-3037 Fax: (691) 370-3387

Date: July 24, 2023

*Haser*  
*7.25.2023*

Haser H. Hainrick  
National Public Auditor  
P.O. Box PS-05  
Palikir, Pohnpei FM 96941

Re: Response to Draft Inspection Report on PL 21- 178 Kosrae Broadcasting Station  
Equipment

Lenwo Mr. Hainrick,

I send greetings from the Lelu Town Government hoping you have a pleasant day with good health. I also take this privilege to convey my appreciation for the consultations with your staff which they have provided the draft inspection report referencing the subject herein.

I write this very brief response in my capacity as the Acting Mayor of Lelu Town Government. My response is with personal conviction that the content contains my best belief and precision. And I must admit that I have zero/limited knowledge of this project. Therefore, no comments or assuming response should I provide at this time.

With respect,

  
\_\_\_\_\_  
Osamu M. Nedlic  
Acting Mayor, LTG

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Act. Secretary of DOFA's response:



Secretary of Finance  
&  
Administration

July 28, 2023

Honorable Haser Hainrick  
Public Auditor  
Office of the National Public Auditor

**GOVERNMENT OF THE  
FEDERATED STATES OF MICRONESIA**  
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*Asen*  
8.1.2023

Dear Mr. Hainrick:

I take this opportunity to express my appreciation to the National Public Auditor's Office for the draft report, and please accept our apology for the delay in submitting our responses to the KBA findings. Please find our responses below:

**Management response to Finding #1.** DOFA concurs with this finding and will work diligently to strengthen our internal controls to ensure that the appropriate procurement method is utilized, and such appropriately reviewed by the National Treasury to demonstrate our compliance with the applicable laws and regulations.

**Management response to Finding #2.** In regards to this finding, DOFA agrees and acknowledges the recommendations, and will assess to reinforce internal controls to ensure that the PIO certifies all the required documents before the National Treasury proceeds with the processing of payments.

**Management response to Finding #3.** DOFA notes this finding along with the recommendations provided. DOFA will review cautiously to assure that all the supporting documents are in order before processing the payments.

**Management response to Finding #4.** DOFA concurs with the findings along with the recommendations, and will work closely within the department to find other ways of payments besides the wire transfers and direct deposits. DOFA will further assess on implementing a process that outlines the procedures of wire transfers, and direct deposits.

*John*

\_\_\_\_\_  
Sohs John  
Acting Secretary  
Department of Finance and Administration

cc: [illegible] and  
[illegible] [illegible]  
[illegible] [illegible]

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**8. ONPA EVALUATION OF MANAGEMENT RESPONSE**

We requested official management responses from the Act. Mayor of Lelu Municipal Government, Kosrae State, and the Acting Secretary of the Department of Finance and Administration (DOFA). The management responses provided by the Allottee and the Acting Secretary of DOFA generally agreed with the findings and recommendations in the report.



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**9. NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the staff of the Department of Finance and Administration and Kosrae Field Office, Kosrae Broadcasting Authority and Lelu Town Government for their assistance and cooperation during the course of the Inspection.

We have provided copies of the final inspection report to the President, Vice President and Members of the 23<sup>rd</sup> FSM Congress and those charged with governance. Copies will be available to interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate to contact our office. Contact information for the office can be found on the last page of this report with the National Public Auditor and staff that conducted the inspection and prepared this report.



Haser H. Hainrick  
National Public Auditor

August 8, 2023

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**10. ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS**

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**ONPA CONTACT**                      Haser H. Hainrick, National Public Auditor  
Email: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

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**ACKNOWLEDGEMENTS**            In addition to the contact named above, the following staff made key contributions to this report:

Brandon Rodriguez, Audit Supervisor  
Neong U. Yoma, Team Leader  
Christopher Delcampo, Team Member  
Jimmy Ponapart, Team Member

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**ONPA MISSION**                      We conduct quality audits and investigations to improve good governance and to prevent and deter fraud, waste and abuse for the stakeholders' benefit.

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