

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA



**Deficient Handling of Deposits and Safeguarding Controls of
National Government Funds in Kosrae State**
REPORT NO. 2026-03





FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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January 9, 2026

His Excellency President Wesley W. Simina

Members of the 24th Congress

Secretary, Department of Finance and Administration

Secretary, Department of Resources and Development

Postmaster General, FSM Postal Services

Federated States of Micronesia

RE: Inspection of FSM Revenue Collection Offices in Kosrae State

We have completed the inspection of four approved FSM Government collection field offices in Kosrae State, focusing on the effectiveness of the collection process, facility security, and internal controls. These included the Division of Customs Tax and Administration and National Treasury at the Department of Finance and Administration, the Quarantine Facility under the Division of Agriculture at the Department of Resources and Development, and the FSM Postal Services, Kosrae Branch. This inspection was conducted in accordance with the Council of the Inspector General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation.

Our inspection identified the following issues regarding the accountability of the FSM Government's collected revenue in the specified approved collection field offices:

1. Delayed Deposits of Government Funds by the Kosrae CTA Field Office.
2. Inadequate Safeguarding of Collections Due to Lack of Secure Storage.

This inspection report on the surprise cash count is part IV of a four-part series covering inspections of approved FSM Government collection offices and agencies across all four FSM states.

Sincerely,

A blue ink signature of the name "Haser H. Hainrick".

Haser H. Hainrick
National Public Auditor

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Abbreviations

CIGIE	Council of the Inspectors General on Integrity and Efficiency
CTA	Division of Customs and Tax Administration
DoFA	Department of Finance and Administration
FMR	Financial Management Regulations
NPS	National Post Services
PMG	Postmaster General
QSIE	Quality Standard for Inspections and Evaluations
R&D	Department of Resources and Development

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1. INTRODUCTION

1.1. Reason for the Assignment

This engagement was initiated following a request from the then Acting Secretary of the Department of Finance and Administration to conduct surprise cash count audits at the Division of Treasury, including all field offices in the FSM states. Our office, the National Public Auditor, then decided to expand the review to include the other cash-handling entities because they had not previously undergone a surprise cash count.

This engagement review, originally focused on the Division of Treasury, has now been extended to include the Division of Customs Tax and Administration, the Quarantine Unit at the Airport, and the FSM Postal Services field offices in Kosrae State.

1.2. Background

Division of Treasury

The Division of Treasury is a core operational unit within the Department of Finance and Administration, established under Section 206 of the Financial Management Act of 1979. Section 207 of the Act (PL 1-45, Subsection 5) outlines the key responsibilities of the FSM Treasurer, a role held by the Secretary of Finance, who delegates these duties to the Treasury Division staff. By law, the Division is responsible for managing, collecting, and safeguarding all revenues owed to and received by the FSM Government. All public financial management functions are centralized and processed through the FSM Treasury Division, which also maintains field offices in each of the four states of the FSM.

Division of Customs Tax and Administration

The Division of Customs and Tax Administration (CTA) is another core operation division within the Department of Finance & Administration (DoFA), which was established pursuant to Title 54 of the FSM Code. CTA maintains its main office in Palikir, Pohnpei and has a field office in each of the four FSM States. Its primary responsibilities are to maximize the collection of local revenues and maintain border control through its customs services.

FSM Postal Services

The FSM National Postal Services (NPS) was established in 1983 through Public Law No. 3-13, known as the National Postal Services Act, codified under Title 39 of the FSM Code. The Act created the NPS as an independent agency of the FSM National Government, tasked primarily with providing and delivering postal operations and services, as well as selling stamps and other philatelic products within the FSM and internationally. The agency is led by the Postmaster General, with its headquarters in Kolonia, Pohnpei. Each of the four FSM States has at least one post office. Yap and Kosrae each operate a single post office, while Chuuk and Pohnpei each have two. All are managed by State Postmasters who serve under the authority of the Postmaster General. The headquarters is in Kolonia, Pohnpei.

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Quarantine

FSM Quarantine Services Unit is under the Agriculture Division within the FSM Department of Resources and Development. The Quarantine Services is promulgated as a means of preventing the introduction and further dissemination of injurious insects, pests, and diseases into and within the FSM (Title 22. Agriculture and Livestock, Chapter 4). All four FSM States has a Quarantine Service office.

All the above entities are tasked with the collection of funds as part of their respective mandates.

2. OBJECTIVES, SCOPE, METHODOLOGY

2.1. Objectives

The objectives of this inspection were to determine and assess the following:

1. Ensure accurate cash counts, timely deposits, secure collections, and compliance with cash handling procedures, with all transactions properly documented.
2. Evaluate the safeguard effectiveness of operational infrastructure to improve revenue collection.

2.2. Scope

The inspection commenced on July 14, 2025, and fieldwork concluded on July 18, 2025. During this period, the Team carried out unannounced cash counts and examined the internal controls related to revenue collection. The following table outlines the dates and inspection activities conducted for the respective divisions and entities in Kosrae:

Field Offices	Dates	Activity
Treasury	July 15-16, 2025	Interview, cash count & observations
CTA	July 16-17, 2025	Interview, cash count & observations
Post Office Services	July 17, 2025	Interview, cash count & observations
Quarantine Services	July 17, 2025	Interview, cash count & observations

2.3. Methodology

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards required 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 objectives.

The team conducted interviews, observations, and cash counts at the National Field offices and entities, which are CTA, National Treasury, the Post Office, and Quarantine. The team also conducted reviews and analysis of relevant internal controls surrounding the cash collection process.

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3. Legal Mandates/Standards

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 as 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”.

4. PRIOR AUDIT COVERAGE

This surprise cash count inspection represents Part IV of a four-part inspection series reviewing approved FSM Government collection offices and agencies across all four states. The first report in the series, Report No. 2024 – 08, was issued by ONPA on September 30, 2024. The second report, Report No. 2025 – 02, was released on March 28, 2025, followed by the third report, Report No. 2025- 06, issued on August 8, 2025.

The surprise cash count inspection parts I, II, and III were conducted at Pohnpei State, Chuuk State, and Yap State, respectively, at the following FSM National collection offices and agencies:

- National Division of Treasury
- CTA Field Office
- CTA Post Office
- Quarantine Unit at the Airport
- FSM Postal Services

5. CONCLUSION

In conclusion, this particular inspection concluded that cash collection and safeguarding practices at the Kosrae CTA Field Office and related collection agencies revealed significant weaknesses in compliance with the Financial Management Regulations. Two primary issues were identified: (1) delayed deposits of government funds and (2) inadequate safeguarding of collections due to the lack of secure storage facilities.

Concerns over Segregation of Duties at the Division of Treasury and Quarantine Unit at the Airport

The inspection team noted a potential segregation of duties concern with the Division of Treasury and the Quarantine Unit at the Airport, as both offices are staffed by only two personnel. Consequently, when one employee is absent, the other assumes all operational duties, which could compromise segregation of responsibilities.

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However, the team concluded that this condition does not warrant a formal finding for two main reasons. First, the small size of the offices and the relatively limited volume of funds handled, particularly within the Quarantine Unit, reduce the associated risk. Second, adequate compensating controls are in place. Specifically, all Quarantine deposits are receipted by Treasury upon deposit, and Treasury issues receipts for collections received from Quarantine, Postal Services, and Passport payments for Immigration. Furthermore, all cash receipts from Treasury's branch offices are immediately recorded in the Main Office computer system.

Accordingly, while the situation presents an inherent limitation in segregation of duties, the existing controls provide reasonable assurance that the risk of misappropriation or error is mitigated.

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6. FINDINGS AND RECOMMENDATIONS

7.1 Finding No.1: Delayed Deposits of Government Funds by Kosrae CTA Field Office

Criteria:

In accordance with the Financial Management Regulations:

Pursuant to Section 4.4.2, Provision of Responsibility for cash holdings states that:

- 1. The Assistant Secretary for National Treasury or designee is responsible for safeguarding and balancing any revenue collected on behalf of the FSM Government.*

In addition, Section 4.4.6, Provision of Deposit by other Division/Department of the Financial Management Regulations, states that:

- 1. All other approved cash collection agencies collecting cash at their premises must ensure that all cash collections are deposited into the approved bank account or with National Treasury on a daily basis or no later than the next business day.*
- 2. All cash collection agencies must also follow these Regulations with respect to safeguarding cash, cash equivalents and cash receipt books.*

Also, Section 4.1, Revenue -General, states the following:

Unless otherwise specified by FSM Law, all public monies raised or received by any FSM Government Agency shall be tendered to the FSM Treasury or only upon the prior approval of the Secretary, deposited in an approved depository account in a timely manner. The FSM Treasurer shall promptly deposit money received into an approved depository account.

Condition:

During our visits to the Customs and Tax Administration Field Office on July 16 & 17, 2025, we observed and confirmed instance of noncompliance with the FMR.

We noted that CTA had retained cash collections for a period exceeding one week. Specifically, funds totaling \$925.25 collected on July 4, 2025, from multiple customers, were not deposited until July 25, 2025, with only \$854.00 reflected at the time of deposit. Management explained that delays occurred because CTA was awaiting customers to complete their import entries in the ASYCUDA system. Under this process, a receipt is generated only after all inputs for a single payment are finalized, at which point CTA proceeds with depositing the funds into the bank. However, many customers lack familiarity with ASYCUDA and require assistance from CTA officers, contributing to delays in deposits.

The observed delays in depositing funds, where collections were retained for extended periods beyond the prescribed timeframe, demonstrate noncompliance with Sections 4.1 and 4.4.6 of the FMR. Such practices heighten the risk of loss, misappropriation, or misuse

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of public funds, and the noted discrepancy between collected and deposited amounts raises concerns over accountability and accuracy in revenue management.

Potential Effect:

Holding collections for extended periods increases the risk of funds being lost, theft, misappropriate or misused of government revenue due to prolonged holding of cash. The discrepancy between the collected and deposited amounts (\$71.25) also indicates potential weakness in internal controls and accountability over government revenues.

Cause:

Delays occurred because CTA relies on customers to complete their import entries in the ASYCUDA system before deposits can be made. Many customers are not well versed with the ASYCUDA and require assistance from CTA officers, which further prolongs the process.

Recommendation:

CTA should deposit collections within 24 hours of receipt, regardless of ASYCUDA input delays in compliance with the FMR requirements. Management should then establish interim receipt arrangements for ASYCUDA procedures performed by concerned vendors and also provide targeted ASYCUDA training to enable the vendors to process transactions independently.

7.2 Finding No. 2: Inadequate Safeguarding of Collections Due to Lack of Secure Storage

Criteria:

Pursuant to Section 4.4.3, Provision of safe custody facilities, of the Financial Management Regulation, states that:

1. *It is the responsibility of the Head of Department to ensure that adequate safe custody facilities are provided to officers working within the Department that is accountable for any cash.*
2. *It is the responsibility of the Head of Department to ensure that all due precautions are taken to prevent loss or theft of all cash collected for the FSM Government.*

Condition:

During our visit on July 15 and 16, 2025, we observed that the Treasury field office does not have secure storage for collections. Instead, collections are kept in a money pouch placed inside a locked filing desk, which is also used for other purposes. Staff stated that a request for a safe vault had been made some time ago, but one has not yet been provided as of our visit.

Additionally, during our visit on July 17, 2025, we noted that the Quarantine Office at the airport lacks a dedicated safe for securing collections. Instead, collections are kept in a locked drawer that is also used for other purposes.

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On July 17, 2025, at 9:30 AM, we also visited the Post Office and learned that the Post Office deposits its daily collections with the Treasury. If a deposit is not made, collections are kept in a locked desk drawer. Collections accumulated on Fridays remain in the drawer, which is also used for other purposes, until they are deposited on Monday. They used to have a safe vault, but Postal Service employees do not have the combination code.

Treasury and Quarantine have both been requesting a secure safe, but the national government has not provided any until now.

The absence of secure storage facilities at the Treasury Field Office, Quarantine Office at the Airport, and Post Office indicates noncompliance with Section 4.4.3 of the FMR. Storing collections in multipurpose drawers or money pouches exposes government funds to heightened risk of theft, unauthorized access, and mismanagement, further undermining public trust in financial stewardship.

Potential Effects:

1. Without a secure storage facility, collections are more vulnerable to loss, theft, or unauthorized access.
2. Storing collections in shared multipurpose drawers increases the probability of loss, theft and unauthorized access, as well as assessable to fraud.
3. Weak safeguarding practices may undermine stakeholders' confidence in agency's/division's ability to properly handle and safeguard public resources.

Causes:

1. The continued use of unsecured methods for government collections occurred because management had not prioritized the procurement or replacement of safe deposit boxes for these offices. Despite previous requests and clear operational need, no effective action was taken to ensure that each revenue-collecting office was equipped with an appropriate and functioning safe for safeguarding funds.
2. Oversight by heads for Post Office, Quarantine Office, and Treasury may not have adequately monitored or followed up on requests from branch offices to ensure proper safes were provided, couple with no reported incidents of fund loss, may have contributed to the continued reliance on inadequate cash storage practices.

Recommendation:

Management should strengthen internal controls by enforcing Section 4.4.3 of the FMR, which requires that all cash collections be stored in secure safes. Each branch office handling collections should be equipped with a safe and branch managers should be held accountable for compliance through quarterly monitoring and reporting. This will safeguard collections, ensure timely responses to branch requests, and set clear expectations for management oversight.

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7. MANAGEMENT RESPONSE



Postal Service
FEDERATED STATES OF MICRONESIA
P.O. Box 1376
POHNPEI, FM 96941-1376
TEL: (691) 320-2614/5614 FAX: (691) 320-2612

EPEL K. ILON
POSTMASTER GENERAL

December 17, 2025

The Honorable Haser Hainrick
National Public Auditor
Office of the National Public Auditor
Palikir, Pohnpei FM 96941

Dear Mr. Hainrick:

This is to comment on your office's findings and recommendations contained in your office Report No. 2026-03, as it pertains to the FSM Post Office in Kosrae.

As a matter of policy and procedure, all FSM Post Offices are to deposit their collections daily with FSM Treasury. The issue arises when Treasury is not open for whatever reason and all, except Kosrae Post Office, have proper safes to keep their collections until Treasury is open. Kosrae Post Office has a safe vault but they have forgotten the combination code to be able to use it. As I said in my recent meeting with your staff, this issue must be resolved as soon as possible. I have, therefore, instructed my staff to search for a source and purchase an appropriate safe for Kosrae Post Office.

Please let me know if further clarification is needed.

Sincerely,

Epel K. Ilon
Postmaster General

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Federated States of Micronesia
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December 18, 2025

Haser Hainrick
National Public Auditor
Office of the Public Auditor
Palikir, Pohnpei FM 96941

Subject: Response to Finding No 2: Inadequate Safeguarding of Collections Due to Lack of Secure Storage

Greetings from FSM R&D:

This letter is submitted in response to Finding No. 2, "Inadequate Safeguarding of Collections at Several Field Offices," as detailed in the Office of the National Public Auditor (ONPA) Report No. 2026-03.

We extend our appreciation to your office for the audit report. The FSM Department of Resources & Development, Agriculture Division, Quarantine Unit, acknowledges the cited finding. We are grateful for the identification of this control weakness and accept the finding in its entirety. The security of government collections is of paramount importance, and we are fully committed to achieving and maintaining compliance with the Financial Management Regulations.

Management's Corrective Action Plan

In direct response to this finding, the following immediate and planned actions have been, or will be, implemented:

1. Quarantine Unit – Immediate Rectification: We wish to confirm that the specific issue identified at the Kosrae Quarantine Field Office has been resolved. A dedicated safe/cash box was procured and provided to this office effective November 8, 2025. To ensure consistent compliance across all operations, similar secure storage units have been supplied to all other Quarantine Field Offices. Verification of this action can be obtained from the respective state offices.

2. Enhanced Oversight: To strengthen daily revenue reporting and monitoring, we have implemented an online Daily Deposit Form. This system has been utilized by all field offices since May 2025 and enables active oversight from our headquarters in Palikir, ensuring greater accountability and timely identification of any discrepancies.

Division of Marine Resources, Division of Energy, Division of Statistics, Division of Trade & Investment, Division of Agriculture, and Division of Tourism

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We thank you again for bringing this critical matter to our attention. While we note there have been no reported incidents of loss at the Kosrae office, we fully concur that the previous storage method was non-compliant and presented an unacceptable risk. The corrective actions outlined above demonstrate our commitment to rectifying this issue comprehensively and strengthening our internal control environment.

We appreciate the continued support and guidance of your office as we work collaboratively to enhance the safeguarding of public resources.

Sincerely,

A handwritten signature in black ink, appearing to read "Elina Akinaga".

Elina P. Akinaga

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Secretary of Finance
&
Administration

**GOVERNMENT OF THE
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December 24, 2025

T.H. Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
Palikir, Pohnpei 96941

**SUBJECT: MANAGEMENT'S RESPONSE TO THE AUDIT FINDINGS AND
RECOMMENDATIONS- Report No. 2026-03**

The Department of Finance and Administration (DoFA) appreciates the Office of the National Public Auditor's inspection of FSM revenue collection offices in Kosrae State and acknowledges the observations and recommendations contained in Report No. 2026-03. Management takes its responsibility for safeguarding public funds seriously and provides the following responses to the findings noted.

**FINDING NO. 1: DELAYED DEPOSITS OF GOVERNMENT FUNDS – KOSRAE CTA
FIELD OFFICE**

Management Response:

Management acknowledges the auditor's observation regarding instances where certain collections were not deposited within the timeframe prescribed by the Financial Management Regulations (FMR). However, management clarifies that not all collections were retained for extended periods, and several deposits occurred within shorter timeframes.

The delays were primarily attributable to operational and system-related challenges, including the early implementation phase of the ASYCUDA system, limited familiarity of importers and agents with the system, and delays in the issuance of reference numbers required to complete transactions. In some cases, manual assessments were performed to facilitate trade clearance for importers needing timely access to goods, particularly where system constraints existed.

Management confirms that all collections were verified and accounted for prior to deposit, and there was no loss, theft, or misappropriation of government funds. Reconciliations were performed, and deposits were ultimately made in full to approved depository accounts.

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Corrective actions have been initiated, including reinforcing deposit timelines, providing continued training and guidance to staff and agents on ASYCUDA processes, and strengthening internal monitoring to ensure improved compliance with FMR requirements going forward.

**FINDING NO. 2: INADEQUATE SAFEGUARDING OF COLLECTIONS DUE TO
LACK OF SECURE STORAGE**

Management Response:

Management acknowledges the concern regarding the absence of dedicated secure storage facilities for collections at certain field offices. Due to infrastructure constraints, collections have been stored during business hours in locked drawers or designated secured areas until deposits are made.

While management recognizes that this arrangement is not ideal, no incidents of loss, theft, or unauthorized access were identified, and access to collections remained restricted to authorized personnel only. Management has previously communicated the need for proper safes or secure storage facilities to the appropriate authorities.

Management is committed to addressing this issue and will continue to pursue the procurement and installation of secure safes or approved storage solutions, subject to logistical considerations. In the interim, existing controls, restricted access, and management oversight remain in place to mitigate risk.

**OBSERVATION - SEGREGATION OF DUTIES – DIVISION OF TREASURY
(KOSRAE)**

Management Response:

Management acknowledges the auditor's observation regarding limitations in segregation of duties within the Division of Treasury at the Kosrae collection site. The office currently operates with two staff positions, which restricts the ability to fully segregate all cash handling, recording, and deposit functions always.

To mitigate this limitation, daily transactions (including deposits) are sent to the IT to be uploaded into the system so that verification of deposits is made from the office in Pohnpei. We are pursuing other options like what is being implemented at the Yap Field Office now as well. Whereby when one Treasury staff member is absent, a Budget Division officer is assigned to assist with collection, verification, and deposit activities. These arrangements introduce independent oversight and reduce risks associated with overlapping duties.

Additionally, Treasury operations are subject to supervisory review, routine reconciliations of collections to deposit records, and periodic management monitoring to ensure accountability and compliance with applicable regulations.

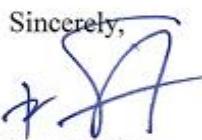
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Given the small office size, limited transaction volume, and existing compensating controls, management believes the risk of misappropriation or error is adequately mitigated during the interim period.

OVERALL CONCLUSION

Management is committed to strengthening internal controls, improving compliance with Financial Management Regulations, and enhancing revenue collection practices. The Department will continue to implement corrective measures, address structural limitations, and work collaboratively with oversight bodies to ensure transparency, accountability, and the safeguarding of public funds.

Sincerely,



Rose N. Nakanaga

cc: Kosrae CTA
FSM Treasury

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8. ONPA EVALUATION OF MANAGEMENT RESPONSE

As part of the inspection process, formal meetings were conducted with the management of the FSM Department of Finance and Administration (DoFA), the Department of Resources and Development (R&D), and FSM Postal Services. Management of the respective entities generally concurred with the findings applicable to their operations.

With respect to **Finding 2**, FSM Postal Services and R&D reported that corrective actions have been implemented or are in progress. Specifically, R&D procured and provided a secure cash box as of November 8, 2025. FSM Postal Services indicated that it is in the process of identifying a source and procure an appropriate safe. DoFA communicated the need for adequate safes or secure facilities to the appropriate authorities for further action.

Regarding **Finding 1**, DoFA reported that corrective actions have been initiated. These actions include reinforcing established timelines, providing continued training and guidance to staff and agents on the ASYCUDA process, and strengthening internal monitoring to improve compliance with Financial Management Regulations (FMR).

While interim measures – such as the use of locked drawers, designated secured areas, restricted access, and management oversight – provide limited risk mitigation, they do not constitute adequate or permanent controls for safeguarding collections. The lack of approved safes or secure storage facilities represents a material control weakness that exposes public funds to an increased risk of loss, theft, or misuse.

ONPA notes DoFA management's assertion that no incidents of loss or unauthorized access were identified during the period under review. Nevertheless, the absence of reported incidents does not reduce the inherent risk nor negate the requirement for adequate physical security controls. Internal controls standards require that controls be preventive in nature, not merely reactive.

We would also like to note that meeting the deadline for submitting the Management Response is critical to the timely issuance of our report. We appreciate your cooperation in providing management responses in a timely manner during upcoming engagements, as this helps avoid potential delays or related issues. We understand that all parties are working within established milestones and appreciate your continued collaboration.

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9. NATIONAL PUBLIC AUDITOR COMMENTS

We extend our sincere appreciation to the Secretary of the Department of Finance and Administration and her team, including the field offices in Kosrae, for their cooperation and support. We likewise extend our gratitude to the Department of Resources and Development. Furthermore, we acknowledge with thanks the assistance and collaboration of the Postmaster General and his team in Kosrae during this inspection.

We have provided copies of the final report to the President and Members of the 24th FSM Congress. Furthermore, the report is made available to the public through our official website and 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 along with the National Public Auditor and staff that contributed to this report.



Haser H. Hainrick
National Public Auditor

January 9, 2026

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10. ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT

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

ACKNOWLEDGEMENTS

In addition to the contact named above, the following staff made key contributions to this report during the period specified:

Brandon Rodriguez, Audit Manager
Gillian Doone, Audit Supervisor
Joey A. Iwo, Team Leader
Reed Floyd, Team member
Shelolyn Neth, Team member

ONPA MISSION

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