



FEDERATED STATES OF MICRONESIA

Office of *The National Public Auditor*

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Friday, September 16, 2005

Mr. Satrunino Tewid
Team Leader & Public Auditor
Republic of Palau
Office of the Public Auditor
P. O. Box 850
Koror, Palau 96940

Dear Mr. Tewid:

We wish to express our gratitude to you, Mr. Faumuina Francis Sefo – Acting Territorial Auditor for American Samoa, and Mr. Charles W. Hester – Technical Consultant for conducting our external quality control review (Peer Review) covering the period October 1, 2002 through August 31, 2005.

Our desire is to continue to provide relevant, useful, and timely audits to the government and people of the Federated States of Micronesia as well as other stakeholders. It is in this regard that we find the suggestions contained both in the draft management letter and peer review report useful in continuing to enhance and add value to our audits.

Attached please find our comments in response to your suggestions contained in the draft report and management letter. Also forwarded in a separate email are copies of the relevant working papers and the audit report which clearly documented our review of prior audit coverage as required.

Should you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Haser H. Hainrick".

Haser H. Hainrick
National Public Auditor

Attachment

Office of the National Public Auditor

Federated States of Micronesia

Comments on Draft Management Letter & Peer Review Report

1. Types of audits conducted and auditing standards used:

We concur with your suggestion that our enabling legislation (the FSM Code) should be in line with the type and nature of audits we perform. We however want to ensure that the language of the proposed enabling legislation is broad enough to accommodate request for audits that are to be performed in accordance with standards different from that established by the AICPA and the US GAO. The FSM receives loans and/or grants from international institutions that require audits to be performed in accordance with different auditing standards other than those as established by the AICPA or GAO.

2. Performance audit working papers:

Your finding specifically related to the fact that we did not include a "stand-alone" working paper in the audit files indicating that we have considered the results of previous audits in order to follow-up on significant findings and recommendations.

During our preliminary review and planning phase of the audit in question, we did inquire whether prior audits or studies were performed from the auditees.

(A) Review of prior audit reports and prior audit work-papers are required steps in our Preliminary Review & Planning Programs. This is a congressional appropriated project, with no prior audits or reviews performed, and hence we indicated "N/A" in the audit program.

(B) Additionally, in our Risk Checklist completed during the planning stage of the engagement we noted that "this is the first audit conducted for this project"; and

© Also, we indicated the following in the indexed, referenced, reviewed draft audit report included in the current file:

PRIOR AUDIT COVERAGE

This is the first audit of the Ta Outer Island Airport Project

As can be seen from the above, we documented that there was no prior audit coverage twice in our audit working papers and, additionally, we also presented it within the body of the audit report itself.

Although we did not include a "stand-alone" working paper in the audit files, we had inquired and determined that no previous audits were performed on this project. Although we do agree that a more comprehensive documentation of the issue would have helped in preventing any confusion, we believe that this omission did not affect the quality of our audit. Nonetheless, we will ensure that there is sufficient



documentation to demonstrate that the results of previous audits are considered and that appropriate follow-up is performed on all significant findings and recommendations in all future audits. In addition, our audit program will be revised to require a full and complete documentation of audit steps referenced as not applicable.

In light of the above discussion, we feel that the inclusion of this matter in the management letter implies that a more significant issue exists than what realistically has occurred. We have taken steps to ensure that this issue is more fully documented in the future and we request the peer review team to downgrade this item to a discussion item and eliminate the management letter.

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STANDARD OPERATIONAL AUDIT PROGRAM
AN OUTER AIRPORT PROJECT AUDIT
FISCAL YEARS 1990 TO JULY 31, 2004

Prepare: *7/16-10-07*
Review: *[Signature]* 7/20/07

+ 8/31/05
Page 1 of 5

AUDIT WORKPAPER NUMBER: 240 RISK CHECKLIST

AUDIT OBJECTIVES: To determine:

1. The risk level of the auditee
2. If, considering the risk level, the entity can be audited.

RISK EVALUATION
Avg. Risk

Low Risk High Risk

1 2 3 4 5

Risk Evaluation is on a scale of 1 – 5, with one (1) being lowest risk and five (5) being the highest risk. (If the question is Not Applicable (N/A) to the current audit, the evaluation should be zero (0).)

Item No.	Risk Question	Risk Eval	W/P Ref.	Basis for Evaluation
1	Is management concerned and/or committed to strong internal control policies and procedures?	5	020-A 49/52 to 50/52	Lack of internal controls exists in both Departments as some policies and procedures in the FMR were not being implemented (PCDs were not properly prepared by Allottee, Budget failed to comply with FMR in receiving of PCD and issuing of Advice of Allotments. In addition, contract payments were not properly certified by the PIO and contracts were not properly review prior to approval.
2	Do key administrators and financial personnel appear to devote sufficient time to budgeting and financial reporting processes?	3		Yes, key administrators and financial personnel devoted times for budgeting and financial reporting.
3	Are laws and regulations pertinent to programs funded by grants maintained up to date, and are program administrators informed of significant changes in regulations?	3	030-C5 1/195 – 195/195	Congress appropriated project funds through Public Laws
4	Are there major grant programs?	0		This does not apply to this particular audit.
5	Can the auditee produce a correct Statement of Financial Assistance?	2		Yes, Auditee can produce correct statement of financial assistance.
6	Are grant reports (to include interim reports) submitted to grantors on a timely basis?	0		This is not apply to our audit.
7	Were there questioned costs in the last audit?	0		This is the first audit conducted for this project.

Re: no audit risk checklist

Same: AIC

4/0/05

OFFICE OF THE NATIONAL PUBLIC AUDITOR
Audit of Ta Outer Island Airport Project
Fiscal Years 1990 to July 31, 2004

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AUDIT METHODOLOGY

To achieve the audit objectives, we obtained reports and documents from the Division of Infrastructure, Department of TC&I. We requested and obtained from the FSM Division of Budget copies of allotment advices and PCDs. We also obtained copies of Public Laws from the FSM Congress Library. We discussed the Ta Airport project with the Project Management/PIO and reviewed relevant project documents. We obtained accounting reports from the FSM DoF&A and performed audit tests of all expenditures at the department. We also visited the State of Chuuk and the project site on Ta Island to inquire about the Ta project and to review relevant documents.

PRIOR AUDIT COVERAGE

This is the first audit of the Ta Outer Island Airport Project.

OTHER MATTERS

We have referred certain matters, which came to our attention during the course of the audit to the Compliance Investigation Division (CID) of the Office of the National Public Auditor for appropriate action.

AUDIT CONCLUSIONS

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

1. The Allottees have not fully complied with the FMR concerning the filing of the semi-annual reports with the FSM Congress and the Secretary of the DoF&A. In addition, not all PCDs were properly prepared prior to submission to the Division of Budget;
2. The Division of Budget did not fully comply with the FMR in reviewing PCDs and issuing of Advice of Allotment forms;
3. The Division of Treasury did not fully comply with the FMR in the handling of the disbursement of project funds as some contract payments were not properly certified by the PIO prior to the issuance of check payments;
4. The PIOs did not fully comply with the FMR as some contract payments were not properly certified as prescribed in the FMR; and no written inspection reports were filed with the CSCIP office;
5. The Department of TC&I did not properly utilize the "Sole Source Waiver" to achieve its intended purpose;