

ONPA

Office of the National Public Auditor

2014 ANNUAL REPORT



Acronyms

ADB	Asian Development Bank
AGA	Association of Government Accountants
AG	Attorney General
ACFE	Association of Certified Fraud Examiners
APIPA	Association of Pacific Island Public Auditors
ASMC	American Society of Military Comptrollers
AusAID	Australian Agency for International Development
CFE	Certified Fraud Examiner
CDHS	Chuuk State Department of Health Services
CDOE	Chuuk State Department of Education
CGAP	Certified Government Auditing Professional
CID	Compliance Investigation Division
CIP	Capital Improvement Project
CPA	Certified Public Accountant
CPE	Continuing Professional Education
CSCIP	Chuuk State Capital Improvement Project
DFA	Department of Finance and Administration
DOI	Department of Interior
DOJ	Department of Justice
EEZ	Exclusive Economic Zone
FAP	Fraud Awareness Prevention
FMR	Financial Management Regulation
FSM	Federated States of Micronesia
FY	Fiscal Year
GAAP	General Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
HRM	Human Resource Management
IIA	Institute of Internal Auditors
IAACA	International Association of Anti-Corruption Authorities
IDI	INTOSAI Development Initiative
IGPC	Inter Governmental Philatelic Corporation
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standard of Supreme Audit Institutions
JFPR	Japan Fund for Poverty Reduction
MOU	Memorandum of Understanding
MICR	Magnetic Ink Character Recognition
MTCU	Micronesia Transnational Crime Unit
NOC	National Olympic Committee
OCE	Other Consumable Expenses
OIA	Office of Insular Affairs
OIG	Office of the Inspector General
OJT	On-the-Job Training
OMB	US Office of Management and Budget
ONPA	Office of the National Public Auditor
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRAI	Pacific Regional Audit Initiative
SAI	Supreme Audit Institution
SBOC	Statistic, Budget & Economic Management, Overseas Department Assistance & Compact Management
SDP	Strategic Development Plan
SEG	Supplemental Education Grant
TPA	Third Party Administrator
UNDESA	United Nations Department of Economic and Social Affairs
UNCAC	United Nations Convention Against Corruption

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FEDERATED STATES OF MICRONESIA

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Excellency Manny Mori, President
Honorable Members, FSM Congress

I am happy to submit to you the annual report for the Office of the National Public Auditor for the fiscal year 2014.

Respectfully,

A handwritten signature in blue ink, appearing to read "Haser Hainrick", is written over a horizontal line.

Haser Hainrick
National Public Auditor

December 2014

Executive Summary

As required by law, this annual report serves to inform the Congress and President about the National Public Auditor's progress and performance in safeguarding the Nation's assets through audits and investigations that lead to improving government operations, efficiency and accountability.

During the fiscal year FY 2014, we completed eight performance audits and twenty-four single audits; referred three investigated cases to DOJ for legal review and action and closed two investigative cases (i.e. issued an advisory management) and implemented decisive activities required by our strategic plan.

The results of the audits and investigations disclosed weaknesses and opportunities for improvements and promoted transparency and accountability in government. However, we've identified the need for an effective audit follow-up process of audit issues and resolution of investigated cases.

The eight completed performance audits include: (1) The Management of the Impacts of Climate Change on Food Security in the FSM (fiscal year 2010-2012); (2) ADB Loans 2099-FSM (SF) and 2100-FSM Omnibus Infrastructure Development Project for fiscal year ended September 30, 2012; (3) Travel Activities of the FSM National Government fiscal years 2010, 2011 and 2012; (4) Inspection of Chuuk State Tax and Revenue Section (fiscal years 2010 to 2012); (5) ADB Grant Assistance Weno Water Supply Well Remediation Project (fiscal years 2012 to 2013); (6) The Pohnpei State Department of Health Services Procurement Activities (fiscal years 2010-2013); (7) The National Government Public Debt; and (8) ADB Loans 2099-FSM (SF) and 2100-FSM Omnibus Infrastructure Development Project for fiscal year ended September 30, 2013.

The twenty four Single Audits include FSM National Government and its nine component units, Pohnpei State Government and its three component units, Chuuk State Government and its two component units, Yap State Government and its three component units and Kosrae State Government and its two component units.

Compliance Investigation Division (CID) received 8 complaints, referred three cases to DOJ for legal review/action and closed two cases. The allegations were misuse of funds, tax evasion, travel, payroll, employee conduct and housing allowance.

The audit and investigative trainings, conferences and workshops attended were to continuously strengthen the staff capacity building. These trainings, conferences and workshops were funded through different sources which include: PASAI, APIPA, US Graduate School, DOI/OIG, ONPA Budget, Road Map¹ and technical grants.

In addition to the above mentioned accomplishments, we continued to effectively promote transparency through this required annual report, our office website and the local media, Kaselehlie Press. Digital copies of our audit reports issued since 2000, trainings and other activities' articles can be found on our website at www.fsmopa.fm. Some of our audit press releases can be found in the KPress website at www.kpress.fm and also in the PASAI website at www.pasai.org. Hard copies of our audit reports can be obtained from our office lobby in Palikir.

¹ Road map is a training fund source for the FSM National Government.

ONPA's Vision, Mission and Core Values

Vision

High performance, transparent and accountable government

Mission

We conduct audits and investigations to improve good governance and prevent fraud, waste and abuse for the public's benefit.

Core values

Independence—we remain independent in mind and in appearance to be able to act with integrity and exercise objectivity and professional skepticism in our professional responsibilities. We do not allow any form of interference, conflict, threat or impairment in determining the scope, performing the work and in communicating the results of our work.

Professionalism—we conduct ourselves in a competent and professional manner while upholding our code of ethics and professional standard behavior.

Public Service—we place priority on our responsibilities to the public's interest and to honor the public trust. To meet this, we observe integrity and objectivity in discharging our professional responsibilities.

Integrity—to maintain the public's confidence, we conduct our work with an attitude that is objective, fact-based, nonpartisan and non-ideological and we report our findings without fear or favor.

Performance Measures

Performance measures relate to the desired results of our audits and investigations and the ability to monitor and assess the progress of our work. We measure our performance through understandable, timely and useful reports, accepted and implemented recommendations, improvement in governmental practices and operations, and fiscal impact.

Duties of the National Public Auditor

The Public Auditor is the nation's premier watchdog against government waste, fraud and abuse and helps in providing assurance that funds are properly managed and expended in an appropriate, transparent and accountable manner. The Public Auditor plays a key role in combating financial crime and corruption involving the use of the National Compact funds and local funds. The Public Auditor's office is authorized by statute to examine and evaluate the adequacy and effectiveness of systems of management control provided by the National Government policies, plans and directives. The FSM President, with the advice of the FSM Congress, appoints the Public Auditor. ([Refer to Appendix I for more information on powers, duties and responsibilities of the Public Auditor.](#))

ONPA Organization

The ONPA organization consists of five divisions – Administration, Audit, Investigation, Single Audits, Information Technology. The Public Auditor is the director of the office with a total of 21 permanent employees. ([Refer to Appendix II for the organizational chart](#))

Administration Division

The personnel under Administration Division consists of the Public Auditor, Administrative Officer, Administrative Clerk and the Executive Secretary. This division handles all office support activities for the core operations for the main office in Palikir, Pohnpei and the field office in Chuuk.

Budget

A total of \$701,849 was appropriated by Congress for the operation of ONPA for fiscal year 2014. Amount expended during the fiscal year totaled \$599,023.18 and the amount available by the end of the fiscal year totaled \$102,825.82.

MAIN OFFICE					
Budget Category	Approved Budget	Allotted Budget	Reprogrammed	Expended	Available
Personnel	\$ 408,397.00	\$ 408,397.00		\$ 382,986.36	\$ 25,410.64
Travel	\$ 135,952.00	\$ 135,952.00	\$ (6,000.00)	\$ 118,575.45	\$ 11,376.55
Contractual Services	\$ 86,000.00	\$ 86,000.00	\$ (10,000.00)	\$ 30,007.17	\$ 45,992.83
OCE	\$ 55,500.00	\$ 55,500.00	\$ 17,497.00	\$ 67,454.20	\$ 5,542.80
Fixed Assets	\$ 16,000.00	\$ 16,000.00	\$ (1,497.00)	\$	\$ 14,503.00
Sub-total	\$ 701,849.00	\$ 701,849.00		\$ 599,023.18	\$ 102,825.82

Audit Division

Audit Division provides the audit services. The types of audits conducted by this division are performance audits, financial audits, attestation engagements, and inspections. Inspection is an alternate type of study that may be conducted by the ONPA and is defined as a process that evaluates, reviews, studies, and/or analyzes the programs and activities of a Department/Agency for the purpose of providing information to managers for decision making. Regardless of the variation in the audits, all works are performed in conformity with either Generally Accepted Government Auditing Standards (GAGAS), known widely as the “Yellow book”, issued by the U.S. Government Accountability Office or the Quality Standards for Inspections (QSI) issued by the U.S. Council of the Inspectors General on Integrity and Ethics (CIGIE). Our audit selection method is also based on risk. ([Refer to Appendix III under Audit, Inspection and Investigative Standards](#))

Compliance Investigation Division

The Compliance Investigation Division (CID) provides the investigation services. The CID has two primary investigation functions: administrative and criminal functions. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice (DOJ).

CID’s professional responsibilities are to identify systems and accountability weaknesses in the Nation’s financial administration and gathers evidence of criminal activity for appropriate legal review and action. CID uses Quality Standards for Investigations which streamlines their

investigating and reporting process. ([Refer to Appendix III under Compliance Investigation Division for the general and qualitative standards for investigations](#))

Single Audit Division

The FSM National and State Governments are required to have their general purpose financial statements audited annually. This single audit (financial audit) work is done by an independent CPA firm under the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133², audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position of the respective entities. Achieving the Compact's requirement regarding single audits is very critical as the fund donors must know how their financial assistance was spent and what it was used for in the FSM. Also, decision-makers within the FSM Governments need current financial data in order to make sound decisions.

Under the annual Memorandum of Understanding (MOU) for Single Audits between the FSM and the US, the single audits are to be equally funded by both the FSM and the US. The US Department of Interior's Office of the Insular Affairs is the cognizant agency for the single audits and provides the US portion of the funds.

The Office of the National Public Auditor (ONPA) has full management and oversight responsibilities for the single audits. For fiscal years 2012, 2013 and 2014, ONPA contracted Deloitte & Touche to perform the single audits for the entire FSM Governments and their respective component units. At the end of each month until the June 30th deadline, updates are received from Deloitte & Touche on the status of the Single Audits. These updates are then compiled into a monthly status report and distributed to senior officials at the National Government and the State Governments, along with the management of each component units. The monthly status reports are then uploaded on our website.

Information Technology Division

The Information Technology Division supports and maintains the existing computer network. The responsibilities of the IT Specialist include procurement of computer and all computer related items, monitoring the office computer network, installing and reporting of computers and network components, troubleshooting and maintaining the office website.

² OMB Circular A-133 was issued pursuant to the Single Audit Act of 1984 as amended, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. This sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. Subject B of A-133 sets a threshold amount of \$500,000 for federal monies that are expended during a year to be audited.

Core Objectives

Our 2014-2016 Strategic Plan Goals and Objectives are:

Goals			
1. To continuously provide high quality and high impact products and services through audits and investigations.	2. To continue enhancing auditing and investigating capabilities to attain high standard of staff competencies.	3. To strengthen and protect ONPA independence and credibility and enhance its operation.	4. To increase the public knowledge of ONPA mission, work, and impact
Objectives			
<p>1.1 To continuously improve and update the processes, methodologies, standards and manuals.</p> <p>1.2 To ensure corrective actions are implemented based on audit findings and recommendations and cases under investigations are resolved</p> <p>1.3 To select, audit and investigate high impact subjects and topics</p> <p>1.4 To enhance the timeliness, quality and accessibility of audit and investigation reports.</p> <p>1.5 To manage and monitor the outsourcing of financial audit</p>	<p>2.1 To strengthen the staff's technical knowledge, skills and expertise through training and development.</p> <p>2.2 To evaluate employees' performance and identify training needs</p> <p>2.3 To enhance the professional capacity of the staff</p>	<p>3.1 To strengthen the ONPA's independence and effectiveness.</p> <p>3.2 To implement a risk-based and results-oriented long range ONPA Strategic Plan</p> <p>3.3 To implement an annual operational budget and performance plan</p> <p>To continue or increase cooperation with academic institutions, regional and international multilateral organizations</p>	<p>4.1 To increase public awareness and outreach efforts</p>

Audit Division FY 2014 Accomplishments

ONPA prepares written audit reports which communicate the results of each audit and inspection to the agencies under audit, stakeholders, and the general public. These reports identify areas of weaknesses followed by recommendations for corrective actions and improvements. To ensure full disclosure and transparency of government financial activities, digital copies are also available at the ONPA website at www.fsmopa.fm or at the office lobby for public review. Press and media releases are also issued. The reports generally include the objective, scope, methodology, findings and recommendations.

During fiscal year 2014, ONPA issued the following reports:

Performance Audits

1. **Report No. 2014-01** - AUDIT ON THE MANAGEMENT OF THE IMPACTS OF CLIMATE CHANGE ON FOOD SECURITY IN THE FSM (FISCAL YEAR 2010-2012)

The objective of the audit was to assess the effectiveness of the actions taken by key agency/agencies in developing and implementing strategic action plans to address the impacts of climate change on food security in the FSM.

There are two entities in the FSM National Government responsible for developing the overall action plans to address the impacts of climate change on food security. The Office of Environmental and Emergency Management (OEEM) is responsible for climate change policy, addressing climate change issues and providing technical assistance to the four states (Pohnpei, Chuuk, Yap & Kosrae) on any related climate change issues. The Department of Resources and Development is responsible for fisheries and agriculture and is responsible for addressing the nation's climate change issues in relation to the FSM's food security needs.

According to the reviews on the impacts of climate change in the FSM, the biggest threat to food security systems in the FSM is climate change. As a small island developing country, the FSM is one of the most vulnerable countries in the world to the impacts of climate change.

Poor policy and planning by R&D and OEEM has led to minimal actions. What has been done has been uncoordinated and inefficient with no assessment of whether the action is achieving improved food security.

As a result of the audit, the audit team identified the following weaknesses:

- No comprehensive action plan to address the impacts of climate change on food security
- Inadequate food security vulnerability assessment
- Inadequate food security policy (Agriculture Policy)

- Duplication of efforts/overlapping activities between national and state as well as non- government organization (NGOs)

In addressing the weaknesses above, we recommended the following:

- That both the FSM Department of R&D, in consultation with OEEM, develop and implement a comprehensive Food Security Plan that complies with the food security policy and mainstreams the impact of climate change.
- That the OEEM and R&D should collaborate to conduct a comprehensive food security and vulnerability assessment/analysis that should integrate the climate change impacts on food security covering not only the low lying atolls, but the high atolls (ridge to ridge) and all the food components such as agricultural products, fish and food importation as well.
- R&D should develop and implement a Food Security Policy to address the impact of Climate Change on food security. The policy should include the following: Climate Change Impact on Food Security; actions to address the vulnerabilities; responsibilities to coordinate actions to implement the policy and implement individual actions; and mechanisms for managing national-state consultation and coordination.
- The designated person to coordinate and monitor climate change/food security related activities should assess whether the efforts administered by the national, state, communities, agencies, NGOs overlap and recommend that the budget for those activities be put into more productive use. Furthermore, the Nation should coordinate well with the State and NGOs in terms of planning to avoid any overlapping activities and should record all projects/programs to readily identify and avoid repetitive and overlapping activities.

2. **Report No. 2014-02** - AUDIT OF ADB LOANS 2099-FSM (SF) AND 2100-FSM OMNIBUS INFRASTRUCTURE DEVELOPEMENT PROJECT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2012

The audit was performed for the purpose of expressing an opinion as to whether the statement of project account presented fairly, in all material respects, the cash receipts and disbursements of the project for the year ended September 30, 2012, and we rendered a qualified opinion thereon.

The FSM Department of Transportation, Communications and Infrastructure served as the Executing Agency and was responsible for carrying out the Project, including authorization of payments made from the Imprest Fund.

Based on our audit, we reported a number of deficiencies as highlighted below.

1. Modified Audit Opinion - We modified our opinion on the Statement of Project Account due to documentation issue surrounding a \$225,454 overpayment for which we were unable to determine its fairness through applying our designed or alternative auditing procedures.

2. Prior Audit Findings & Recommendations - The Department's lack of action to implement prior audit findings and recommendations. For instance,

- Segregation of duties was lacking over the control of cash disbursements.
- Manual checks were used for project disbursements instead of the MICR encoded checks routinely used for most payments processed through DFA.
- The project maintained its funds in a non-interest bearing checking account.
- Files and/or records were not intact and the Accountant/Bookkeeper did not have on file documents supporting some payments. They were either misfiled or missing.

3. Additional deficiencies in internal controls included;

- No regular review and reconciliation between Project Accountant's records and ADB online Loan Data Information to ensure that the Project Accountant's financial record was accurate, complete and consistent.
- Contractor's accounts e.g. cash advances, retention payable, were not monitored.
- The Project Management was lax in its responsibility for keeping and organizing records and preparing its own statement of project account.
- The Project Accountant is not properly maintaining the imprest fund for the project e.g. regular replenishment of the fund not made.

3. **Report No. 2014-03** - AUDIT OF TRAVEL ACTIVITIES OF THE FSM NATIONAL GOVERNMENT FISCAL YEARS 2010, 2011 AND 2012

The objectives of the audit were to determine whether:

1. The travel activities of the National Government complied with the applicable laws and the implementing rules and regulations.

2. Internal controls over travel activities were operating effectively.

We concluded that the DFA needed to improve the internal controls over travel activities to ensure compliance with the applicable laws and regulations. The areas that need significant improvement included:

- A. Monitoring of liquidation and/or processing of submitted liquidation reports;
- B. Writing-off of travel advances;
- C. Processing of airfare payments;
- D. Control of travels fully funded by sponsoring agencies; and
- E. Control of travels by non-government employees.

The audit reported the following weaknesses:

- 1. Ineffective monitoring and reviewing resulted in various non-compliances.
- 2. Travelers with outstanding and/or overdrawn travel advances were still issued travel advances.
- 3. Inadequate internal control procedures in writing-off travel advances/ overdrawn advances.
- 4. Travels funded by outside sponsoring agencies not refunded to the government.
- 5. Requirement for a non-government employee traveler not complied with.

As a result, long outstanding travel advances that were due for liquidation have accumulated in the books necessitating the set up of allowance to cover the uncollectible/unsettled travel advances. As of fiscal year ended September 30, 2012, the total travel advances in the financial statement amounted to \$1.7 million of which the allowance for bad debts was \$1.5 million (89%). This condition further led to a host of other problems - inaccurate travel expenditure per function (some were recorded as bad debts expenses), improper write-off of travel advances and others.

4. **Report No. 2014-04** - INSPECTION OF CHUUK STATE TAX AND REVENUE SECTION
(FISCAL YEARS 2010 TO 2012)

The objective of our inspection was to determine whether the Chuuk State Tax and Revenue Office's compliance function implemented the efficient and effective processes to ensure taxpayers' compliance with Chuuk State tax system.

We concluded that although the Chuuk State Tax and Revenue Office had implemented some measures to ensure taxpayers' compliance with the tax system, there was still opportunity to improve the efficiency and effectiveness of the processes in order to ensure improvement in the taxpayers' compliance. The office did not have a complete tax audit manual and it also lacked regulations with the implementing procedures and guidelines for efficient and effective conduct of its tax audit function, collection and enforcement of all the required taxes under the Chuuk State tax law.

As a result, the potential for tax revenue collections was not maximized, which in turn, has contributed to lesser government funds. We highlighted a number of areas of tax administration and collection that needed improvement.

- About \$1.2 million assessed liabilities for sales taxes and penalties had long been pending for collection
- Two tax delinquent cases involving about \$661,000 referred for legal action not resolved in a timely manner
- Absence of strategic planning process to define priority and focus for tax audits
- Absence of tax audit manual resulted in lack of consistency in the delivery of tax audit services
- Absence of regulations that would improve the effective and consistent implementation of the tax law

To improve taxpayers' compliance, the Chuuk State Tax and Revenue office should develop appropriate plans of action that include:

- Strengthening the tax audit function and enforcement programs with the development of audit tools, improvement of internal control procedures and further strengthening of legal authority in order to achieve operational efficiency and effectiveness in the enforcement of laws on tax collections.
- Collaboration between the Attorney General and the Director of the Department of Administrative Services to develop and implement the control procedures to ensure that decisions on tax cases referred for legal action are quick, timely and decisive.
- Training and development for the management and the staff to:
 - Develop and implement strategic and operational plans to focus the office's efforts on results-oriented tax audit activities
 - Implement performance measures to guide actions and monitor the achievement of tax revenue goals and objectives
 - Use tax gap analysis and risk assessment techniques to identify potential areas of taxpayers' noncompliance.
 - Develop and implement a tax audit manual to ensure consistency and quality in the delivery of tax audit services
 - Develop and promulgate tax regulations, where appropriate, to implement the tax law

5. **Report No. 2014-05** - AUDIT OF ADB GRANT ASSISTANCE WENO WATER SUPPLY WELL REMEDIATION PROJECT (FISCAL YEARS 2012 TO 2013)

Grant assistance from the JFPR was provided to the FSM National Government to improve the delivery of safe and secure water supply to the residents of Weno Island in Chuuk State.

The grant amounting to \$980,000 was administered by the Asian Development Bank. The

Department of Transportation, Communication & Infrastructure was the Executing Agency for the project while the Chuuk Public Utilities Corporation was the Implementing Agency.

The project started in 2009 and was completed in July 2012. As a result, 28 water wells were made operational, delivering safe and secure water supply to the residents of Weno Island.

Based on our audit, we reported the following deficiencies:

- Segregation of duties was lacking over the control of cash disbursements.
- Monitoring of reconciliations was not consistently performed.
- Manual checks were used for project disbursements instead of the MICR encoded checks routinely used for most payments processed through DFA.
- Certificates of insurance were not maintained on file for consulting and engineering contracts.
- The project maintained its funds in a non-interest bearing checking account.
- The project did not submit the required quarterly and annual progress reports.
- Payments to suppliers directly paid by ADB were not recorded in the books of accounts of the FSM National Government.
- Disbursements from the Imprest Accounts were not replenished/liquidated timely.

We recommended the concerned departments to take corrective actions to improve the deficiencies noted by the audit.

6. **Report No. 2014-06** - THE POHNPEI STATE DEPARTMENT OF HEALTH SERVICES PROCUREMENT AUDIT (FISCAL YEARS 2010-2013)

The Pohnpei State Department of Health Services Procurement Audit was conducted due to a complaint received regarding undelivered medical and pharmaceutical supplies. We performed an audit survey that led to identification of the focus area: Procurement of Medical and Pharmaceutical Supplies. Therefore, our audit objective was to determine if the procurement process ensures timely receipt of the highest quality and at the lowest cost of medical and pharmaceutical supplies.

Based on our audit, we reported that the DHS management needed to act with promptness to improve the procurement process and ensure the timely receipt of high quality and lowest cost medical and pharmaceutical supplies. Five years after it was last audited, the results of our audit showed that DHS was still experiencing the same major operational problem with regards to the procurement and management of medical and pharmaceutical

supplies. The DHS management did not implement the necessary procurement and inventory controls, which were indicative of the lack of consciousness in bringing about significant positive improvements on the procurement process and on warehouse inventory operation to provide efficient and effective services for the citizens.

The lack of purchase planning caused the hospital to procure medical and pharmaceutical supplies at a high cost. Consequently, purchasing frequently through high-priced emergency/regular orders had been practiced. It was estimated that the hospital could save a significant amount of the total money spent for purchases had the procurement planning been in place and strategies adopted to obtain the best value in purchases (e.g. establishing an accurate quantification of requirements for the year and purchasing greater portion of the annual requirement thru the competitive bidding which provided the best prices). Despite the significant yearly spending on medical and pharmaceutical supplies (yearly average of \$1.2 million for the period FY2010-2013), the hospital did not make it a priority to restore and sustain the maintenance of an inventory management system, a crucial key to procurement planning and inventory control, thus affecting the department's ability to monitor the timely receipt of medicines and provide ready and accurate management information on inventory such as undelivered purchases, re-order point, expiry, inventory balance, historical prices, supplier delivery lead time and others. The condition also unnecessarily exposed the hospital to additional costs associated with the risks of fraud, theft, misuses, stock outs, losses and others.

We found the following weakness during our audit:

- Absence of inventory management system resulted in \$3.8 million purchases of medical and pharmaceutical supplies for FY 2011-2013 not fully tracked, controlled and provided with inventory accountability.
- Deliveries of paid medical and pharmaceutical supplies worth approximately \$415,000 in FY 2013 cannot be accounted.
- Frequent use of emergency orders increased the cost of buying medicines during FY 2010 – 2013.
- Approximately \$400,000 could have been saved in bids awarded from FY2010 to FY2013.
- Quality assurance did not consistently ensure receipt of quality medicines.

7. **Report No. 2014-07** - AUDIT OF THE NATIONAL GOVERNMENT PUBLIC DEBT

The objective of the audit was to assess the adequacy of the FSM National public debt management with respect to:

- The legal and institutional framework and the related processes and controls on compliance, monitoring and reporting.
- Government loan relending and guaranteeing activities.

We reported that the National Government's legal and institutional framework lacked the permanent and necessary provisions to adequately implement the system of debt management. It was only during the approval of each debt that the FSM Congress defines the requirements and some functions related to debt management. The basic requirements included borrowing purposes, debt management goals and objectives, reporting of debt obligations and others. We also found that the institutional framework needed further strengthening prior to deployment of debt management system. Similar to the legal framework, the institutional functions related to debt management were scattered and performed by different departments and offices without proper coordination to ensure an adequate debt management. Lastly, we found that the State Governments and their public enterprises could generate risks to the National Government not only in consequence of guaranteed loans but also by the risks of undisciplined borrowing and unsustainable manner of borrowings. Moreover, there has been no limit on such borrowings and analysis of the related risks.

The audit disclosed the following findings;

- \$21 million of the FSM's external debt was spent on failed or partly successful projects;
- \$13 million in Trust Account/Sinking Fund not regularly assessed whether sufficient for the repayment of the associated loans with outstanding balance of \$31 million;
- Legal framework was limited and lacked provisions to enable the implementation of a sound debt management system;
- Limited organizational functions resulted in inadequate implementation of an effective debt management system;
- Absence of loan limit and regular risk analysis on the States' and public enterprises' loans and on guaranteed and/or relent loans; and
- Lack of available information on public debt and borrowing activities.

8. **Report No. 2014-08** - AUDIT OF ADB LOANS 2099-FSM (SF) AND 2100-FSM OMNIBUS INFRASTRUCTURE DEVELOPMENT PROJECT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2013

The audit concluded that the financial statements presented fairly, in all material respects, the project cash receipts and disbursements. However, findings regarding internal control deficiencies were reported as described below.

- Lack of actions on prior audit recommendations resulted in findings still cited in the current financial audit as listed below:
 - Segregation of duties
 - Lack of reconciliation and review
 - Manual checks
 - Interest income not earned
 - Maintenance of records
 - Statement of project account and record keeping
 - Maintenance of imprest fund
- Other findings regarding internal control deficiencies included the following:
 - There were gaps in the numbering sequence for Withdrawal Applications prepared by the Project Accountant and the Chuuk Public Utilities Corporation (CPUC).
 - A payment was disbursed from the imprest account under loan number 2099 for payment of supplies not related to the ODP projects.

A modified opinion was rendered due to documentation issues which impacted our auditing procedures. The audit report included recommendations to address the aforementioned deficiencies and management expressed its agreement.

Single Audit Division FY 2014 Accomplishments

Single audit report is a financial audit report of an auditor's opinion on internal control over financial reporting of a department, office or entity. The opinion should identify whether the financial statements have or do not have material weaknesses/misstatements. There are four types of audit opinions: unmodified, modified, adverse and disclaimer.

An unmodified audit opinion assures the public that the auditor has examined the financial reports and is of the opinion that the financial information is presented fairly and in accordance with Generally Accepted Accounting Principle (GAAP). A modified audit opinion means the auditor found the financial reports essentially in conformance with Generally Accepted Accounting Principles, except for one or a few areas where the auditor, cannot, or does not want to, assert conformance. An adverse opinion means the auditor has concluded that the audited financial statements do not fairly represent the organization's financial position or financial performance, and that there are significant departures from GAAP. A disclaimer of opinion is when an auditor has publicly reported that he has chosen not to issue an opinion. This may occur when the auditor decides he cannot be impartial or independent, when the auditor's scope of coverage was substantially limited, or when the auditor has significant uncertainties regarding the appropriateness of parts or all of the financial reports.

Entity	Opinion	
	Financials	Compliance
FSM National Government	Unmodified	Modified & Unmodified
Caroline Islands Air	Unmodified	-
College of Micronesia-FSM	Unmodified	-
PetroCorp	Unmodified	-
Telecommunications	Unmodified	-
Social Security Administration	Unmodified	-
Development Bank	Unmodified	-
MiCare Plan	Unmodified	-
Coconut Development Authority	Unmodified	-
National Fisheries Corporation	Unmodified	-
Pohnpei State Government	Unmodified	Modified & Unmodified
Pohnpei State Housing Authority	Unmodified	-
Pohnpei Port Authority	Unmodified	-
Pohnpei Utilities Corporation	Unmodified	-
Chuuk State Government	Unmodified & Modified	Modified
Chuuk Public Utilities Corporation	Unmodified	-
Chuuk State Health Care Plan	Unmodified	-
Yap State Government	Adverse & Unmodified	Modified & Unmodified
Yap Visitors Bureau	Unmodified	-
Yap State Public Services Corporation	Unmodified	-
Diving Seagull	Unmodified	-
Kosrae State Government	Unmodified	Unmodified
Kosrae Port Authority	Unmodified	-
Kosrae Utilities Authority	Unmodified	-

(Refer to Appendix IV for the single audit reports for FY 2013 completed in FY 2014)

Compliance Investigation Division (CID) FY 2014 Accomplishments

The Compliance Investigation Division (CID) is one of the five divisions established by the ONPA to conduct its work. CID's two primary investigation functions include both administrative and criminal. CID works to identify systems and accountability weaknesses in the Nation's financial administration and gathers evidence of criminal activity for criminal prosecution in court. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the Department of Justice (DOJ).

CID Case Statistics

Description	Quantity
Carried over from FY '13	7

Opened	8
Referred to DOJ	3
Closed/referred for administrative action	2

CID Case Discussions

Case No.	Allegation	Source	Status
CID 12-003	CIP Funds	Municipal Government	Ongoing
CID 12-007	CIP Funds	Municipal Government	Ongoing
CID 12-008	Payroll	Audit Referral	Ongoing
CID 12-010	Procurement	Concerned Citizen	Ongoing
CID 13-002	Government Asset & Travel Authorization (TA)	Concerned Citizen	Referred to DOJ
CID 13-005	Payroll	Anonymous	Referred to DOJ
CID 13-006	CIP Funds	Concerned Citizen	Ongoing
CID 13-007	Contractual Services	Anonymous	Ongoing
CID 14-001	CIP Funds	Municipal Government	Ongoing
CID 14-002	Federal Grant	State Government	Closed/Under Management Review
CID 14-003	Import Tax	Concerned Citizen	Initial complaint closed / Opening another case from findings
CID 14-004	Employee Conduct	Concerned Citizen	Referred to DOJ
CID 14-005	CIP Funds	Concerned Citizen	Ongoing
CID 14-006	Housing Allowance	Concerned Citizen	Ongoing
CID 14-007	Employee Conduct	Concerned Citizen	Ongoing

CID Hotline

The ONPA has a Hotline for reporting possible misconduct and abuse in the government entities. Information from the public is a valuable part of the audit process and helps ONPA focus its resources. The Hotline number is (691)320-6768 and is available twenty-four hours by answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA also offers an on-line complaint form on the ONPA website: <http://www.fsmopa.fm>.

Trainings • Conferences • Workshops

As part of ONPA's staff capacity building effort, the staff attended numerous audit and investigative trainings, conferences and workshops also to continuously enhance their skills and competencies. These trainings, conferences and workshops were funded through several sources including PASAI, APIPA, US Graduate School, DOI/OIG, ONPA Budget, Road Map and technical grants.

The trainings, conferences and workshops include PASAI audit trainings in Fiji, IIA audit training in Florida, INTOSAI audit training in Jarkarta, AGA finance training in Guam to name a few. ([Refer to Appendix V for more information on the trainings/conferences/workshops](#))

Transparency Continues

Transparency means providing citizens with information about their government's operations. It also promotes accountability and should be open and readily available to the public's use. Our strategic goal to improve transparency in the government is promoted through this required annual report, the use of the ONPA website at www.fsmopa.fm, and the local media, Kaselehlle Press, at www.kpress.info. Some of our audit reports can be accessed on PASAI's website at www.pasai.org. Hard copies of our audit reports are also available in our office lobby in Palikir.

Other Matters of Interest

Erwihne David and Julinida Weital accredited as ISSAI Facilitators by the IDI and INTOSAI Professional Standards Committee. In January 2014, Public Auditor Mr. Haser Hainrick received letters from IDI congratulating Erwihne and Julinida for successfully completing the ISSAI Certification Program. These two facilitators are to serve as change agents at the FSM National SAI and within the region to take forward the cause of ISSAI implementation activities.

Alexander Kalau took his internship at the National OPA in Palikir, FSM. He is currently pursuing a double major with a professional degree in Accounting and a bachelor's degree in Business Administration at Simpson University in California. He interned at ONPA from December 17 to December 27, 2013. As partial requirement for his major, he is required to earn 40 hours of internship in the field of accounting.

In April 2014, Public Auditor attended the 5th Annual Members Meeting of the Pacific Ombudsman Alliance (POA) sponsored and funded by POA.

ONPA administers the technical grant for the APIPA Peer Reviews and the Peer Review manual revision and oversight on all administrative matters relating to the Peer Review project.

In August 2014 the Public Auditor attended the 17th PASAI Congress in APIA and the 25th Annual APIPA Conference in Pago, American Samoa.

The Year 2015 At A Glance

A new Public Auditor for Chuuk State has been nominated by the Governor and confirmed by the Chuuk Senate. The National OPA assisted in recruiting David Hausman and recommended him to the Chuuk leadership for the Public Auditor's position.

Implementation of the approved programs and activities required by the National OPA's Strategic Plan is continuing. A comprehensive evaluation of the implementation progress will be reported at the next report.

The National OPA is administering and coordinating the external quality peer review for all APIPA member offices. The National OPA will undergo its own peer review in 2015.

The National OPA has been inducted as a member of the Pacific Ombudsman Alliance.

The first annual conference for the National and State Public Auditors will take place in Chuuk.

The National OPA to host the first in-country training and workshop by PASAI.

New Hires • Promotions • Departures

New Hires



Siena Seker is the newest and only Investigator hired at the Office of National Public Auditor's field office in Chuuk. She joined ONPA on October 7, 2013. She previously worked at the Chuuk State Attorney General's office.



Lani Braxton was hired in June 2014 as the secretary of the ONPA Chuuk field office. She previously worked as a teller at Bank of Guam, Chuuk Branch. She attended Honolulu Community College and Pacific Islands University in Guam.



JK Kaminanga from Weno, Chuuk was hired in June 2014 as Auditor I. His employment commenced at the ONPA field office in Chuuk then his move to the main office became official a month later. He graduated from Washington State University with a Bachelors degree in Criminal Justice.



Fidarina Akapito was hired as an Auditor I on August 6, 2014. Prior to joining ONPA, Fida was employed at FSM R&D as an Investment Program Manager. She obtained her Bachelor of Business Administration from Chaminade University in Honolulu Hawaii.

Promotions

Pernes Samuel was promoted to Investigator II after he completed the Association of Certified Fraud Examiner's exam and received the Certified Fraud Examiner (CFE) designation.



Vanessa Tareg formerly Vanessa Sigrah was promoted to Auditor II. She has been working at ONPA since 2011.



Neong U. Yoma was promoted to Administrative Officer II.



Clayton Eliam was promoted to Single Audit Specialist I/Auditor II.



Shelolyn Neth was promoted to Executive Secretary II.

DEPARTURES

Evangeline Hilario Eko resigned from the Chuuk Field Office on July 18, 2014. She was employed as Auditor I for over a year. She is now working at Chuuk State Finance.



Aisi Mori Peter resigned in June 2014 due to medical reasons. She was employed at ONPA for 8 years. She now resides in Honolulu, Hawaii with her family.



Mermina Mongkeya resigned from her Auditor III post in March 2014. She was employed at ONPA for approximately 5 years. Mermina is now working at SBOC as a Budget Analyst.



Charlene Joker resigned in March 2014. She was the first secretary at the ONPA field office. Her employment spanned 7 years. She was promoted to Executive Secretary I prior to her departure. She now resides in Guam with her family.

Appendices

Appendix I—National Public Auditor's Powers, Duties and Responsibilities

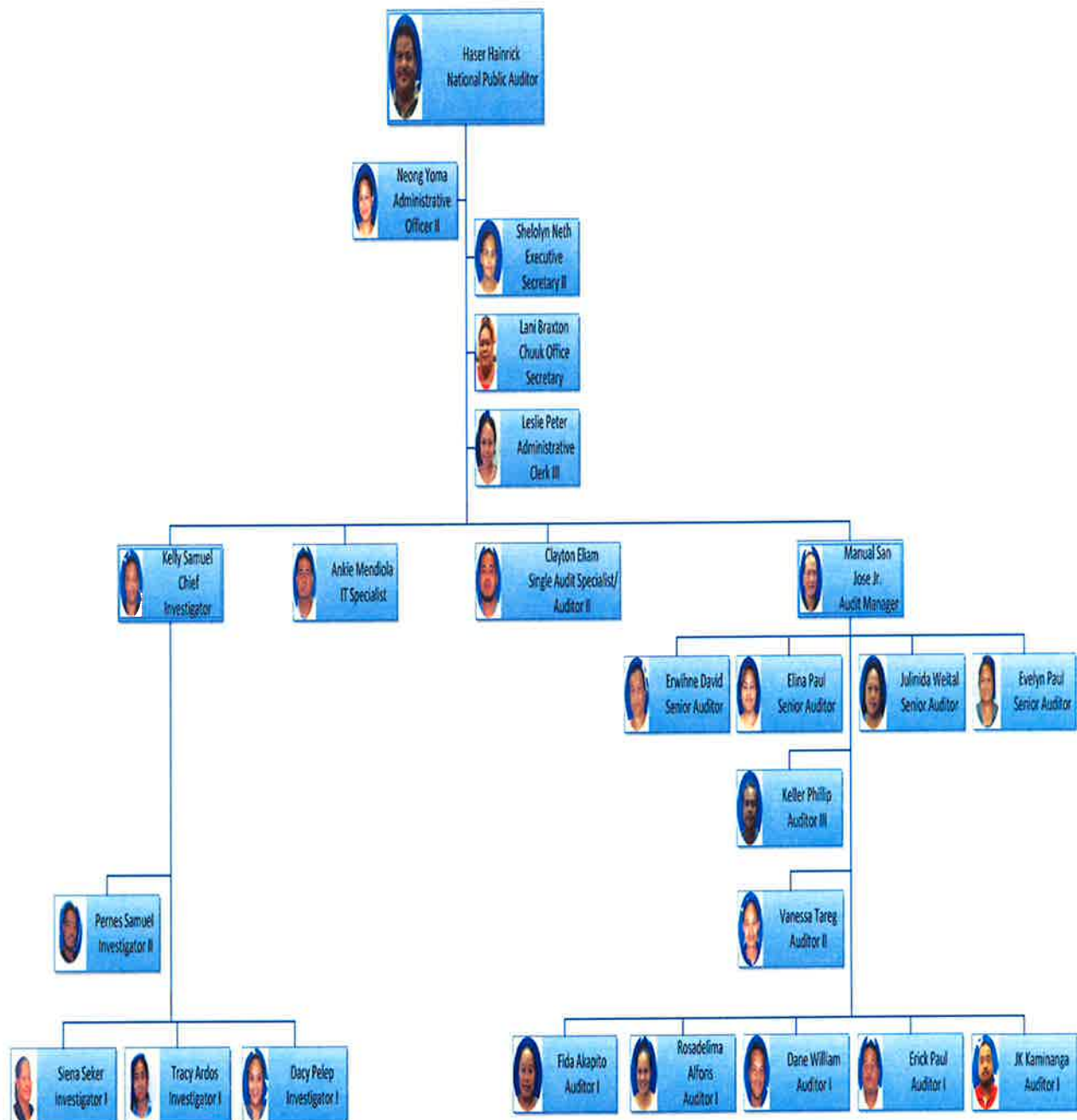
Powers: The Public Auditor has both general and specific audit powers for the National Government, including branches, departments, commissions, and bureaus and contractors performing public works. The Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities.

Duties and Responsibilities: The duties and responsibilities of the Public Auditor, as prescribed by the Congress, shall require inspections, audits, recommendations, and annual reporting on the Public Auditor's progress and performance of these responsibilities. The specific responsibilities, which are designed to promote integrity and improve performance in government operations, are:

1. 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;
2. Inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the National Government;
3. Perform audits as otherwise specifically required by the statutes;
4. Have the discretion to perform audits, or assist in the performance of audits, upon request by the states;
5. Have the exclusive audit jurisdiction over public funds of the National Government of the Federated States of Micronesia, but shall have the authority to contract for independent auditing services to be performed under his supervision in instances where specialized expertise is required, or where auditing requirements are beyond the capacity of the Public Auditor's staff and separate funding is available;
6. File a report at least once a year with the Congress, and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the public;
7. Submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditures of public monies, and the need for amendments or new laws to secure the efficient expenditure of public funds; and
8. Keep a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

Appendix II—Organizational Chart

Office of the National Public Auditor Federated States of Micronesia



Appendix III—Audit, Inspection and Investigative Standards

Audit Division

The types of audits and applicable audit standards shall be as follows:

1. *Financial:* These audits determine whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principles and whether the entity has complied with the laws and regulations that may have a material effect upon the financial statements.
2. *Economy and efficiency:* This type of audit determines whether an entity is managing and utilizing its resources economically and efficiently, the cause of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning economy and efficiency.
3. *Program results:* This type of audit determines whether the desired results or benefits established by the Congress, or other authorizing body, are being achieved and whether the program administrator has considered alternatives that might yield desired results at a lower cost.

Any given audit or review may include one or more objectives in the reasonable exercise of the Public Auditor's discretion. The Public Auditor shall perform audits in accordance with generally accepted government auditing standards (GAGAS) and the quality standards for inspections issued by the U.S. President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

Quality Standards for Inspections

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1993 and revised in 2012. The 14 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at <http://www.ignet.gov/pande/standards/iestds12.pdf>.

- ❖ *Competency:* The staff assigned to perform inspection work should collectively possess adequate professional competency for the tasks required.
- ❖ *Independence:* In all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.
- ❖ *Professional Judgment:* Due professional judgment should be used in planning and performing inspections and in reporting the results.
- ❖ *Quality Control:* Each OIG organization that conducts inspections should have appropriate internal quality controls for that work.
- ❖ *Planning:* Inspections are to be adequately planned.
- ❖ *Data Collection and Analysis:* The collection of information and data will be focused on the organization, program, activity, or function being inspected, consistent with the inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions.
- ❖ *Evidence:* Evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations.

- ❖ *Records Maintenance:* All relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time.
- ❖ *Timeliness:* Inspections should strive to deliver significant information to appropriate management officials and other customers in a timely manner.
- ❖ *Fraud, Other Illegal Acts, and Abuse:* In conducting inspection work, inspectors should be alert to possible fraud, other illegal acts, and abuse and should appropriately follow up on any indicators of such activity and promptly present associated information to their supervisors for review and possible referral to the appropriate investigative office.
- ❖ *Reporting:* Inspection reporting shall present factual data accurately, fairly, and objectively and present findings, conclusions, and recommendations in a persuasive manner.
- ❖ *Follow-up:* Appropriate follow-up will be performed to assure that any inspection recommendations made to Department/Agency officials are adequately considered and appropriately addressed.
- ❖ *Performance Measurement:* Mechanisms should be in place to measure the effectiveness of inspection work.
- ❖ *Working Relationships and Communication:* Each inspection organization should seek to facilitate positive working relationships and effective communication with those entities being inspected and other interested parties.

Compliance Investigation Division

CID has adopted the Quality Standards for Investigation, prepared by the U.S. President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency. These are the standards that have been set for all U.S. Offices of Inspector General and provide a sound benchmark by which we can set our own standards. The General and Qualitative Standards are listed below. The complete guidelines for investigations are located on the internet at <http://www.ignet.gov/pande/standards/invstds2011.pdf>.

General Standards: General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.

1. **Qualifications** - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.
2. **Independence** - In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.
3. **Due Professional Care** - Use due professional care in conducting investigations and in preparing related reports.

Qualitative Standards: Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.

- ❖ *Planning* - Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.

- ❖ *Execution* - Conduct investigations in a timely, efficient, thorough, and legal manner.
- ❖ *Reporting* - Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.
- ❖ *Information Management* - Store investigative data in a manner allowing effective retrieval, referencing, and analysis.

Appendix IV—Single Audits FY 2013

The following are the results for the FY13 Single Audits conducted during fiscal year 2014 taken directly from the reports submitted by Deloitte & Touche.

FSM National Government

Audit Opinion: The FSM National Government received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: For the year ended September 30, 2013, FSM National Government has total net position of \$292,447,253 (FY12 \$279,824,588). The increase was primarily due to the receipt of Compact of Infrastructure Sector grants pertaining to infrastructure and construction in progress for airport improvement and infrastructure projects and increase in the fishing access collections. Total expenses for governmental activities were \$86,178,637 (FY12 \$61,782,904) and were funded by program revenues of \$46,765,128 (FY12 \$75,395,542) and were further funded with taxes and other general revenues that totaled \$54,583,549 (FY12 \$47,076,189). During the year, the FSM National Government wrote-off old receivables of \$4,427,120 (FY12 \$1,158,594). The net change in governmental funds increased by \$11,105,293 (FY12 \$13,972,579). Total revenues reported were \$103,667,288 with total expenditures of \$91,259,607. Total Loan proceeds from ADB Loan were \$3,124,732. At September 30, 2013, the General Fund reported an unassigned surplus of \$13,158,762 (FY12 \$7,182,424).

Caroline Islands Air (CIA)

Audit Opinion: Caroline Islands Air received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Fiscal year 2013 revenue sources of CIA operations are from \$171,000 of passenger airfare, \$102,000 of charter services, \$43,000 of baggage fees, and \$21,000 of freight and others. Total assets of \$115,000 comprise of \$105,000 of current assets and \$10,000 of capital assets. CIA succeeded in generating a net profit in FY2013 by increasing airfares and reducing fuel costs. However, CIA continues to face challenges during FY2014, mainly operating issues.

College of Micronesia-FSM (COM-FSM)

Audit Opinion: College of Micronesia-FSM received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: A comparison of the statement of net position for FY2013 with prior year indicated a slight increase in net position by \$329,000 or 1.4%. Total current assets provided a 7% increase or \$1.009 million, from \$13,780 million in FY2012 to \$14.789 million in FY2013, while total noncurrent assets slightly decreased from \$13.567 million (FY2012) to \$13.432 million (FY2013).

FSM Coconut Development Authority (CDA)

Audit Opinion: FSM Coconut Development Authority received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: As of September 30, 2013, CDA had total assets of \$343,889, a decrease of \$14,753 compared to prior year's total assets of \$358,642. Gross loss was \$4,550 while total operating expenses were \$319,402 resulting in a net loss from operations of \$323,952. The net loss was funded by operating grants and subsidies received from FSM National Government of \$205,355. During FY2013, CDA received a copra subsidy appropriation of \$100,000, and operational grants of \$105,355 from the FSM National Government. CDA continued to maintain its operation at a minimal level to meet the objective of minimizing operation costs of the government.

FSM Development Bank

Audit Opinion: FSM Development Bank received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Total assets of \$46.5 million increased from prior year amount of \$42.3 million mainly due to increase in the financial investment portfolio. Decrease in liabilities from \$934,000 to \$712,000 is due to the repayment of the Export Import Bank of China loan. In 2013, the Bank approved loans totaling \$9.9 million for 346 borrowers compared to 2012's approval of \$7.6 million for 262 borrowers. The four largest loans were for hotel development and improvements. The Bank was able to generate \$2.2 million in loan interest income in 2013 and was able to cover its operating expenses in full. The Bank ended the year with a total increase in net assets of about \$4.4 million, \$3.4 million from its internal resources and \$1 million as FSM National Government contributions.

FSM MiCare Health Insurance Plan

Audit Opinion: FSM MiCare Plan received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Total current assets slightly decreased from \$1.99 million in 2012 to \$1.95 million in 2013, while noncurrent assets increased from \$22,000 in 2012 to \$60,000 in 2013. Total net position for the year 2013 increased by 77%, from \$358,000 in 2012 to \$634,000 in 2013. Current liabilities also decreased by 17%, from \$1.65 million in 2012 to \$1.38 million in 2013. The primary cause of the change was due to higher outstanding obligations to health care providers for medical claim expense in 2012.

FSM Petroleum Corporation (PetroCorp)

Audit Opinion: FSM PetroCorp received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Gross revenues for CY2013 were \$58.7 million, reflecting a decrease of \$2.8 million over the prior year. The decrease in revenue is attributed equally to decreased sales volume, as well as lower input oil prices in 2013. Total assets increased from \$30.6 million in CY2012 to \$36.5 million in CY2013. The net position for PetroCorp also increased from \$24.0 million in CY2012 to \$28.5 million in CY2013.

FSM Social Security Administration

Audit Opinion: FSM Social Security Administration received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Total contributions collected increased by 5.33% from \$16.37 million in 2012 to \$17.24 million in 2013. Total benefit payments to members or their beneficiaries also increased by 3.74% from \$17.98 million in 2012 to \$18.66 million in 2013. The investment portfolio, including marketable securities, increased by 17.55% from \$37.21 million in 2012 to \$43.74 million in 2013. Net position totaled \$49.13 million in December 31, 2013, compared to \$42.84 million in December 31, 2012, an increase of 14.69%. The Administration's close monitoring of expenses led to a budget surplus of 8% in fiscal year 2013.

FSM Telecommunications Corporation (FSMTC)

Audit Opinion: FSM Telecom received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: The total assets of FSMTC decreased compared to prior year. The statement of net position revealed that the decrease in total assets is primarily the result of an increase in depreciation and retirement of ICTV assets in Yap. Total liabilities of FSMTC decreased by \$1.98 million (or 6.11%) compared with prior year. This reduction in total liabilities can be attributed to the repayment of remaining balance for the construction of Chuuk and Yap digital TV, RUS note repayments of \$1.51 million and payments to various vendors. The equity of FSMTC was affected by the change in both assets and liabilities and decreased by a net loss from operations of \$2.07 million. The cash and cash equivalents at the end of FY2013 are \$1.20 million as compared to \$1.25 million at the end of prior year.

National Fisheries Corporation (NFC)

Audit Opinion: National Fisheries Corporation received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: FY13 revenue sources of NFC operations are \$446k of management fees from Kasar Fishing Corporation (KFC) and Taiyo Micronesia Corporation (TMC). During the year, NFC also generated \$10k from other operating income. NFC assets of \$1,199k comprised of \$428k or 36% of current assets and \$771k or 64% of noncurrent assets.

Pohnpei State Government

Audit Opinion: Pohnpei State Government received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: The Pohnpei State primary government's total net position for FY13 totaled \$39,714,664. The net change in government fund balance is a decrease of \$1,395,533. Total revenues reported are \$33,864,564 against total expenditures of \$32,469,031. Actual revenues for the General Fund were \$280,971 higher than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$443,098. The General Fund reported an unassigned fund balance of \$1,585,025, which represents a decrease of \$404,866 from the prior year balance of \$1,989,891.

Pohnpei Port Authority (PPA)

Audit Opinion: Pohnpei Port Authority received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Current assets for PPA decreased by \$478,974 or 13.1% mainly due to an increased bank balance. Capital assets and investment increased by 3.2% and 100% respectively due to investment as well as depreciation and amortization. On the other hand, liabilities decreased by \$23,664. Overall, net position increased by \$1,333,893.

Pohnpei State Housing Authority (PSHA)

Audit Opinion: Pohnpei State Housing Authority received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: For fiscal year ended September 30, 2013, PSHA's total operating revenues decreased by \$14,931 or 7% to \$204,575 from the prior year. Total expenses also decreased by \$7,501 or 6% from the prior year. The total aggregate amount collected from actual interest and fees by customers on loans was \$177,165. The total net position for PSHA increased by \$169,934 or 8% during fiscal year 2013 compared with the prior year due to higher loan revenue.

Pohnpei Utilities Corporation (PUC)

Audit Opinion: PUC received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Overall changes in the statement of net position components from September 30, 2012 to 2013 include an increase in utility plant of \$6,369,877, an increase in current assets of \$340,083 and an increase in current and long term liabilities of \$1,480,305. Increase in operating revenues before bad debts is mainly due to a slight increase in average fuel tariff during the year plus the electricity base rate adjustment that was implemented for the whole year. PUC incurred a loss of \$1,348,704, which is an improvement of \$428,156 from 2012. After capital contributions, PUC's net position improved by \$5.2 million made possible by the grant from the government of Japan for the solar system and Caroline Fisheries Corporation's (CFC) contributions for the acquisition of NPP4 (Two used Caterpillar generators).

Chuuk State Government

Audit Opinion: Chuuk State Government received a UMODIFIED and QUALIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: For The fiscal year ended September 30, 2013, Chuuk State's total net position increased by \$1.593 million (or 4.1%) from \$39.103 million in the prior year to \$40.696 million. This increase is primarily attributable to the Compact Trust Fund earnings of \$1.447 million. Chuuk State's revenues declined from \$35.043 million in fiscal year 2012 to \$34.581 million in fiscal year 2013 (or 1.32%). The decline in revenue was attributable to decreased in revenue sharing proceeds and operating grants. Expenses in fiscal year 2013 of \$35.173 million also declined by \$0.480 million (or 1.35%) from \$35.653 million in fiscal year 2012. The decline in expenses reflects a decrease in municipal affairs, health sector and general government. The General Fund deficit slightly decreased by \$0.642 million in fiscal year 2013, decreasing from \$5.38 million in the prior year to \$4.74 million. Chuuk State's general operating revenues reflected a small deficit even after repayment of ADB loan principal and interest of \$0.1 million.

Chuuk Public Utilities Corporation (CPUC)

Audit Opinion: Chuuk Public Utilities Corporation received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: CPUC is solvent for the first time and its net position has come to a positive \$3.4 million as of September 30, 2013. As a comparison, the net position of CPUC in 2008 was a negative \$4.6 million. Revenue in 2013 increased by 20% or \$1.08 million compared to 2012. Expenses also increased by 13% or \$.74 million, necessary to meet the increased generation and improvement in services. In 2013, CPUC has an operating income of \$28,000, an improvement from a loss of \$319,000 last year and a loss of \$1 million in 2011. Net income in 2013 after all contributions and grants (including capital grants) from the United States and other countries is \$3.7 million.

Chuuk State Health Care Plan (CSHCP)

Audit Opinion: Chuuk State Health Care Plan received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: CSHCP's net position increased from \$1.213 million in 2012 to \$1.292 million in 2013. The increase mainly comes from the premiums on the one percent (1%) increase from the government sector, uncollected missing premium from government employees and from the Special Education unpaid premium. This is the fourth increase in net position since fiscal year 2006. CSHCP's premium revenues also increased from \$1.095 million in FY2012 to \$1.432 in FY2013, a result of the revenue realized from the court order on Special Education that covers the past due collections from 2009 to 2012.

Yap State Government

Audit Opinion: Yap State Government received an ADVERSED and UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: For the fiscal year ended September 30, 2013, Yap State's total net position increased by \$4.9 million (or 5.7%) from \$85.9 million in the prior year to \$90.8 million. In comparison to fiscal year 2012, revenues increased by \$1.7 million (or 52.1%), and total expenditures increased by \$0.4 million (or 1.7%). The increase in revenue was due to unrealized gains of \$8.4 million in the fair value of investments; \$5.5 million of which was attributed to the Yap Trust Fund and \$2.9 million were investment gains in other invested funds. Fiscal year 2013 revenues available for appropriation were \$3.7 million more than budgeted for the general fund. Actual expenditures were \$250,548 less than the final budgeted amount. At the end of the fiscal year 2013, the Yap State Trust Fund reported a balance of \$49 million, which was an increase of \$5.5 million from the prior year, due to unrealized gains in the fair value of the investments. Unassigned balance of the general fund at the end of the fiscal year 2013 was \$49 million.

Diving Seagull, Inc.

Audit Opinion: Diving Seagull received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: The total assets of \$17.271 million at the end of fiscal year 2013 represents a 5.8% over 2012. Operating revenues generated from fish sales of \$13.185 million represents a decline of 20% over 2012, and the net income from operations also decreased from \$5.939 million in 2012 to \$2.185 million in 2013. The decrease in net income from operations is attributable to a

lower volume of fish sold as compared to 2012. The Company's cash flows from operating activities totaled \$3.891 million in 2013 compared to \$5.120 million in 2012.

Yap State Public Services Corporation

Audit Opinion: Yap State Public Services Corporation received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: The operating loss for fiscal year 2013 of \$247,688 represents an improvement of 66% over fiscal year 2012. Total revenue from electricity was \$5.796 million, a modest 3% increase from fiscal year 2012, while water revenue remained about the same at \$495,555 for 2013, compared to \$496,224 for 2012. Ending cash at September 30, 2013 of \$1.2 million was 15% less than at fiscal year 2012 of \$1.4 million. Cash available at year-end consisted primarily of grant proceeds, specifically from the European Union for the EFII project.

Yap Visitors Bureau

Audit Opinion: Yap Visitors Bureau received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Total current assets for the Bureau decreased from \$102,068 in 2012 to \$83,221 in 2013. Operating expenses also decreased from \$304,537 in 2012 to \$291,589 in 2013, reducing the net position at year end from \$185,445 in 2012 to \$182,726 in 2013. For future prospects, the Bureau will continue with its Product Development and explore more creative ways of marketing Yap as a destination. Currently, the Bureau has no long-term debt.

Kosrae State Government

Audit Opinion: Kosrae State Government received an UNMODIFIED OPINION on their F13 Single Audit Report.

Financial Highlights: Kosrae State's total net position for fiscal year ended September 30, 2013 increased by \$2.29 million (or 11.5%) from \$19.94 million in the prior year to \$22.23 million in the current year. The increase is due mainly to the forgiveness of \$1.3 million in debt by the FSM National Government and \$1.3 million in non-cash capital contributions. The State's General Fund unassigned fund deficit has also increase to \$0.28 million from \$0.15 million in the prior year. The General Fund total fund balance was reduced by \$0.21 million from \$1.91 million in fiscal year 2012 to \$1.70 million in fiscal year 2013. The decrease was due to the reduction of the total revenues for the year of 18% as compared to the prior year.

Kosrae Port Authority (KPA)

Audit Opinion: Kosrae Port Authority received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Operating revenues for KPA are mainly from airport landing fees, sea port charges and departure fees. Fiscal year 2013 revenues registered a decrease of 15% compared to fiscal year 2012. Depreciation expense comprised 82% of total operating expenses while salaries and benefits registered 9%. Other expenses such as utilities, fuel, communications, travel, and other

totaling \$108,125 comprised 8.68% of the total operating expenses. There are no significant changes from amounts recorded in 2012.

Kosrae Utilities Authority (KUA)

Audit Opinion: Kosrae Utilities Authority received an UNMODIFIED opinion on their FY13 Single Audit Report.

Financial Highlights: Revenue derived from electricity sales increased by approximately 4% this year. A tariff increase was initiated effective April 2013 to partially recover losses on the cost of service. Operating expenses decreased by 3% in the current fiscal year. Fuel expense increased by approximately 1% as fuel usage in gallon increased by approximately 2% against last year's consumption even when the average fuel cost slightly decreased from \$4.5448 to \$4.5342 per gallon. Personnel cost, maintenance and administrative expenses show reductions during the year.

Appendix V—Trainings • Conferences • Workshops

In November 2013 Keller Phillip attended PASAI Communicating Effectively workshop/training in Honiara, Solomon Islands. The workshop was conducted by the Auditor General from the Solomon Islands Audit Office.

In March 2014 Public Auditor and Erwihne David attend PMF workshop in Nadi, Fiji.

In March 2014, Erwihne David attended PASAI's 5th CPA Public Debt Management Reporting Meeting in Cook Islands.

In May 2014 Dane William and Erick Paul attended an IIA training on Beginning Auditors Tools & Techniques in Tampa, Florida.

In May 2014, Elina Paul and Julinida Weital attended the 8th Meeting of ACAG/PASAI Regional Working Group on Environmental Auditing in Canberra, Australia. The meeting themes were auditing water, waste and climate change adaptation.

The United Nation Office on Drugs and Crime sponsored a training for Investigators and Prosecutors from May 28-30, 2014. The Anti-Corruption Training was conducted by Jason Reichelt, Criminal Justice Officer for the UNODC. Attendees included staff from Office of National Public Auditor and Department of Justice. All participants were awarded with 24 CPE hours.

In September 2014, Julinida Weital and Elina Paul attended the INTOSAI WGEA Training on Forestry Audit in Jakarta. The training was held in collaboration between the Audit Board of the Republic of Indonesia and INTOSAI WGEA. The object of the training was to enable participants to use the performance audit approach in conducting forestry audits using geo-spatial technology (remote sensing, Geographic Information System and Global Positioning System) to collect and analyze audit evidence.

From September 17 – 19, 2014, six of the auditors, the Administrative Officer and the IT Specialist attended the AGA Guam Professional Development Conference in Guam. .



Acknowledgements

This annual report was prepared by the FY 2014 Annual Report Committee:

Clayton Eliam, Single Audit Specialist
Siena Seker, Investigator
Dacy Pelep, Investigator
Neong U. Yoma, Administrative Officer II/Committee Chair

Edited by: Haser Hainrick, Public Auditor and Manuel San Jose, Jr., Audit Manager