



NPA

Office of the National Public Auditor

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Annual Report

Fiscal Year 2016

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FEDERATED STATES OF MICRONESIA

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Excellency Peter M. Christian, President
Honorable Members, 19th Congress of the FSM

As required by law, this Annual Report for 2016 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 2016, we completed seven performance audits and twenty-four single audits; referred one case to DOJ for legal review and action and closed one case (i.e. issued an advisory management); and implemented other essential 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 seven completed audits are: (1) Agreed-Upon Procedures (AUP) on the Project "Improving Pig Production in Nel, Village, Yap State"; (2) Financial Audit on Micronesian Trade & Economic Community FY-2014; (3) Agreed-Upon Procedures on the Project "Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State; (4) The We Care Kosrae Patient Referral Program: Use of Funds Not in Full Compliance; (5) Prepaid Tel-Card Purchases: Highly Susceptible to Abuse and Misuse Due to Lack of Effective Controls; (6) FSM Consulate Office in Guam: Performance, Monitoring and Reporting Affected Consular Services; (7) OMINIBUS Infrastructure Asian Development Bank Loans 2099-FSM (SF) AND 2100-FSM (OCR).

The twenty three Single Audits included FSM National Government and its eight 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.

The Compliance Investigation Division (CID) received 4 complaints during the year.

One significant occurrence during 2016 was the cancellation of the Memorandum of Understanding between this office and the Department of Justice. The Secretary of DOJ has chosen to cancel the MOU.

The audit and investigative trainings, conferences and workshops were to strengthen the staff's professional capacity. These were funded by PASAI, APIPA, US Graduate School, DOI/OIG, ONPA Budget, Road Map¹ and technical grants.

We continued to promote transparency through this required annual report, our office website and the local media, *Kaselehlie Press*. Audit reports issued since 2000, trainings and other articles can be found on our website: www.fsmopa.fm. Some press releases can be found on the KPress website: www.kpress.fm and also on the PASAI website: www.pasai.org. Copies of our audit reports are also available at our office lobby in Palikir.

Respectfully,



Haser Hainrick
National Public Auditor

December 5, 2016

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 on page 19 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, and Information Technology. The Public Auditor is the director of the office with a total of 19 permanent employees. ([Refer to Appendix II on page 20 for the organizational chart](#))

Administration Division

The personnel under Administration Division consist of the Public Auditor, Administrative Officer, Administrative Clerk and the Executive Secretary. This division handles all support activities for the core operations of the office.

Budget

A total of \$743,355.00 was appropriated by Congress for the operation of ONPA for fiscal year 2016. Amount expended during the fiscal year totaled \$687,563.31 and the amount available by the end of the year totaled \$55,791.69.

MAIN OFFICE					
Budget Category	Approved Budget	Allotted Budget	Reprogrammed	Expended	Available
Personnel	\$ 464,290.00	\$ 464,290.00		\$ 436,793.84	\$ 27,496.16
Travel	\$ 124,565.00	\$ 124,565.00	\$ 25,000.00	\$ 128,842.46	\$ 20,722.54
Contractual Services	\$ 6,000.00	\$ 86,000.00	\$ (46,564.01)	\$ 31,867.37	\$ 7,568.62
OCE	\$ 8,500.00	\$ 58,500.00	\$ 17,190.10	\$ 75,685.73	\$ 4.37
Fixed Assets	\$ 10,000.00	\$ 10,000.00	\$ 4,373.91	\$ 14,373.91	\$ -
Sub-total	\$ 743,355.00	\$ 743,355.00		\$ 687,563.31	\$ 55,791.69

Audit Division

The 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 on page 21 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

These included the entities' financial statements for fiscal year 2015, which were audited and issued during fiscal year 2016.

FSM National and State Governments are required to have their general purpose financial statements audited annually. This work is done by independent CPA firms 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 2015, 2016 and 2017, 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 monthly status reports and distributed to senior officials at the National and State Governments, along with the management of each component unit. The monthly reports are then uploaded on our 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. The new "Super Circular", which will take effect for single audits beginning on or after January 1, 2015, will increase the threshold amount from \$500,000 to \$750,000.

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.

Core Objectives

Our 2014-2016 Strategic Plan Goals and Objectives:

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			
1.1 To continuously improve and update the processes, methodologies, standards and manuals. 1.2 To ensure corrective actions are implemented based on audit findings and recommendations and cases under investigations are resolved 1.3 To select, audit and investigate high impact subjects and topics 1.4 To enhance the	2.1 To strengthen the staff's technical knowledge, skills and expertise through training and development. 2.2 To evaluate employees' performance and identify training needs 2.3 To enhance the professional capacity of the staff	3.1 To strengthen the ONPA's independence and effectiveness. 3.2 To implement a risk-based and results-oriented long range ONPA Strategic Plan 3.3 To implement an annual operational budget and performance plan To continue or increase cooperation with academic institutions, regional and international multilateral organizations	4.1 To increase public awareness and outreach efforts

<p>timeliness, quality and accessibility of audit and investigation reports.</p> <p>1.5 To manage and monitor the outsourcing of financial audit</p>			
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Audit Division FY 2016 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 2016, ONPA issued the following audits:

Report No. 2016-01 – Agreed-Upon Procedures report on the project named “Improving Pig Production in Neil Village, Yap State.” This involved a grant from the Japan Embassy awarded to College of Micronesia-FSM, Yap Campus, for a piggery project.

Three agreed upon procedures were performed for the piggery project as follows;

1. To verify that the grant was used properly for the purchase of goods and/or services strictly for the project and that all expenses were valid and properly supported.
2. To ensure that the applicable laws and regulations regarding procurement and competitive bidding were adhered to during the selection and acquisition of products and/or services.
3. To conduct an inspection of the Project to verify the completion, proper maintenance, and the achievement of project goals/objectives (outputs & intended beneficiaries).

Procedure 1 was sub-divided into three sub-procedures. The test results for sub-procedures 1 and 2 had no exceptions. For sub-procedure 3, two exceptions were noted; (a) no prior authorization from grantor for the purchase of materials, and (b) difference between the amount authorized to purchase and the actual amount of payment. However, documented justification was provided to explain the variance.

The test result for Procedure 2 showed compliance in most cases except in a few instances where the rationale for actions taken was not documented to justify why less than 3 price quotes were provided (i.e., vendors did not have the materials required).

Procedure 3 was sub-divided into two sub-procedures. The test result for sub-procedure 1 had an exception. The construction of the project was not completed on time. The test result for sub-procedure 2 also had an exception. The project was abandoned and the project's sustainability was doubtful.

Report No. 2016-02 – A Financial Audit on Micronesian Trade and Economic Community for fiscal year 2014. The objective was to audit the schedule of sources and uses of funds and changes of cash position for the year ended September 30, 2014, and the related notes to the financial statement. Based on our audit, we rendered an unqualified opinion. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies. These deficiencies include (1) No preparation of annual budget, (2) No books of accounts maintained, (3) No periodic preparation of financial statements, (4) No periodic reconciliation of bank accounts and financial records, and (5) No clearly established regulation on the annual contributions from each Member State.

Report No. 2016-03 – An Agreed-Upon Procedures Engagement entitled, "Project for Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State."

Four procedures were agreed to between the parties to be tested as follows.

1. To confirm that the grant was used properly for the purchase of goods and/or services strictly for the project and that all expenses were valid and properly supported.
2. To conduct an inspection of the Project to verify existence.
3. To ensure that the applicable laws and regulations regarding and competitive bidding were adhered to during the selection and acquisition of products and/or services.
4. To verify the execution of plans for maintenance and public awareness.

Procedure 1 was sub-divided into three sub-procedures. For sub-procedure 1, we confirmed that the Recipient properly acknowledged and received the full amount of the grant from the Grantor. For sub-procedure 2, we confirmed that appropriate ledgers were set up to account for the grant funds and to appropriately record all transactions for the grant. For sub-procedure 3, we also confirmed that the grant was expended for products/services necessary to implement the project.

Procedure 2 was broken down into two sub-procedures. For sub-procedure 1, we confirmed that the project existed. For sub-procedure 2, we confirmed that the project was completed as agreed. However, the project has not been put into use because grass and maintenance had not been put into place.

For Procedure 3, we tested and confirmed that not all the applicable laws and regulations on procurement were fully complied with.

Procedure 4 was sub-divided into two sub-procedures. For sub-procedure 1, we confirmed that the maintenance of the project had been turned over to COM-FSM and maintenance cost was computed on a yearly basis to provide for budget allocation in order to pay for the maintenance of the project

beginning in 2016 until 2020. For sub-procedure 2, we tested and confirmed that the public awareness plan had not been developed. Officials are saying that public awareness will be done when the project is complete and ready for public use.

Report No. 2016-04 – The We Care Kosrae Patient Referral Program: Use Of Funds Not In Full Compliance

The objective of this audit was to determine whether the We Care Kosrae Patient Referral Program used its funds in accordance with its own by-laws, other applicable laws, rules and regulations.

Based on our audit, we concluded that the We Care Program did not fully comply with the Program's By-Laws and the Financial Management Regulations (FMR) regarding disbursements of its funds. Some examples of the non-compliance weaknesses are as follow:

- Program funds were not used for eligible applicants.
- Program's funds were spent on insured patients.
- Payment request not authorized by the Allottee.
- Lack of accountability and record keeping.
- Accounts Payable Vouchers (APV's) not approved by Finance Officer.
- Promissory notes were not collected.
- Progress reports were not submitted to the FSM Congress on status of the program funds.
- Withdrawal applications prepared and submitted to ADB remained unpaid.

Report No. 2016-05 – Prepaid Tel-Card Purchases: Highly Susceptible to Abuse and Misuse Due to Lack of Effective Controls

The objective of this audit was to determine whether the FSM Department of Finance and Administration and the concerned departments/offices have established and implemented an effective system to provide controls on the purchase and use of prepaid calling cards and to safeguard them from loss and abuse.

Based on our audit, we concluded that the FSM Department of Finance and Administration and the concerned departments did not establish and implement an effective system to provide controls on the purchase and use of prepaid calling cards and safeguard them from loss and abuse. Records were not maintained to provide accountability for the prepaid calling cards, and related calls were not reviewed to ensure that calling cards were not used for personal purposes. As a result, funds for purchasing prepaid cards were exposed to increased risks of fraud, abuse and misuse.

Our audit disclosed some key internal control weaknesses as follows;

- Absence of written policies and procedures governing the purchase and use of prepaid telephone cards.
- Excessive purchases of prepaid calling cards.
- Prepaid calling cards were used to share loads.

Report No. 2016-06 – The FSM Consulate Office in Guam: Performance, Monitoring and Reporting Affected Consular Services.

The objective of this audit was to determine whether the Guam Consulate Office's processes and internal controls over (a) the development of performance measures and targets, and (b) the

monitoring and reporting of the consulate performance resulted in an efficient and effective consular service delivery.

Based on our audit, we concluded that the Guam Consulate Office did not implement appropriate processes and internal controls over the development of performance measures and targets. In addition, we found that there was no monitoring and reporting of the consulate performance, and thus, opportunities to render improved, efficient and effective services delivery were not given focused attention.

The final audit shows the following weaknesses:

- FSM consular functions and services in protecting and safeguarding FSM citizen in Guam need improvement.
- No written guidelines and procedures to guide the operations of the Consulate Office.
- Lack of checking, monitoring and reporting of information to effectively evaluate the performance and accomplishments of consulate office.
- Reimbursements of fuel costs to consulate staff for using their own vehicles lacks authorization.

Report No. 2016-07 – A Financial Audit on the Omnibus Infrastructure Development Project financed by Asian Development Bank Loans 2099-FSM (SF) and 2100-FSM (OCR). The objective was to audit the statement of project account for the year ended September 30, 2014, and the related notes to the financial statement. Based on our audit, we rendered a qualified opinion.

The basis for the Qualified Opinion was due to material amounts paid disbursements either without proper supporting documentation or without the underlying source documentation on file (invoices, contracts, etc.). Thus, the accuracy, validity and propriety of those disbursements could not be ascertained. We were unable to obtain sufficient and appropriate evidence supporting disbursements pertaining to Fiscal Year 2014 and to cumulative disbursements as of the end of Fiscal Year 2014 totaling \$1,331,441 and \$2,249,377, respectively. We considered the amounts material considering that such represent 42% of the total disbursements in Fiscal Year 2014 and 13% of the total cumulative disbursements as of the end of Fiscal Year 2014, respectively.

There were numerous findings including;

- Lack of reconciliation and review;
- Gaps in sequential numbering of withdrawal applications;
- Unallowable costs;
- Client's inability to prepare on his own the statement of project account and deficiencies in filing and keeping of supporting documents;
- Unrecorded FSM share on the Project costs;
- Supporting documents not properly filed to support financial statement transactions;
- Idle cash not properly managed and maintained in interest non-bearing bank account; and,
- Maintenance of the imprest fund affected due to un-liquidated/un-replenished reimbursements submitted to ADB by the Project Accountant.
- Withdrawal applications were prepared and submitted to ADB but have remained unpaid.

Single Audit Division FY 2016 Accomplishments

FSM National and State Governments are required to have their general purpose financial statements audited annually. The following are the results for the FY-2015 Single Audits conducted during fiscal year 2016:

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
FSM National Government	Unmodified	7	\$ 4,262,203	\$ 33,580	\$ 28,936	\$ 4,257,559
Caroline Islands Air	Unmodified	0	\$ -	\$ -	\$ -	\$ -
College of Micronesia-FSM	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM PetroCorp	Unmodified	2	\$ -	\$ -	\$ -	\$ -
FSM Telecommunications	Unmodified	1	\$ -	\$ -	\$ -	\$ -
FSM Social Security	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM Development Bank	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM National Government Employees' Health Insurance Plan	Unmodified	0	\$ -	\$ -	\$ -	\$ -
National Fisheries Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei State Government	Unmodified	5	\$ 541,593	\$ -	\$ 368,539	\$ 910,132
Pohnpei Housing Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei Port Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei Utilities Corporation	Unmodified	1	\$ -	\$ -	\$ -	\$ -
Chuuk State Government	Unmodified and Qualified	6	\$ 309,156	\$ -	\$ 55,292	\$ 364,448
Chuuk Public Utilities Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Chuuk State Health Care Plan	Unmodified	1	\$ -	\$ -	\$ -	\$ -
Yap State Government	Adverse and Unmodified	4	\$ 993,644	\$ -	\$ 30,354	\$ 1,023,998
Yap Visitors Bureau	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Public Services Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Diving Seagull	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae State Government	Unmodified	1	\$ -	\$ -	\$ -	\$ -
Kosrae Port Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Utilities Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -

The following are the financial highlights for the FY15 Single Audits, taken directly out of reports submitted by Deloitte & Touche.

FSM National Government

Total net position increased from \$318M in FY14 to \$358M in FY15. The increase is primarily due to the decrease of primary government expenses and an increase in fishing access collections.

Old receivables in the amount of \$6M were written off by the National Government in FY15.

The net change in governmental funds increased by \$24M. Total revenue was reported at \$108M with total expenditures of \$77M. Total loan proceeds from the ADB Loan were \$2M.

At September 30, 2015, the General Fund reported an unassigned surplus of \$20M.

Caroline Islands Air (CIA)

Total assets increased from \$234K in FY14 to \$308K in FY15, and a slight decrease in total liabilities from \$14K to 11K.

Revenue sources of operations are from \$203K of passenger airfare, \$160K of charter services, \$47K of baggage fees, and \$23K of freight and others.

College of Micronesia-FSM (COM-FSM)

Total assets of the College decreased by \$367K, while the total liabilities also decreased by \$111k, which resulted in a decrease in net position of \$256K.

In FY15, the College slightly increased its overall financial position from last year. Net position ratio over its total assets at September 30, 2015 is 94%, a slight 1% increase from last year.

FSM Development Bank

Total assets increased slightly by about \$250K, while liabilities decreased by \$350K, which resulted in an increase of about \$607K in total net position.

The Bank approved \$14.8M for 507 new loans in 2015, and was able to generate \$2.2M in revenue from its core operations to cover its operating expenses in full.

FSM National Government Employees' Health Insurance Plan (dba MiCare Plan)

Total assets increased slightly by \$100K, and the total liabilities also increased by \$432K, or 27% compared to prior year. This resulted in a decrease of \$329K or 47% in the total net position.

Total operating revenues increased by \$39K, total operating expenses increased by \$423K, and the total non-operating revenues decreased by \$9K.

Local private providers showed a decrease of \$69K while off-island providers showed an increase of \$347K. Patient airfare costs also increased by \$31K or 12% compared to prior year.

FSM Petroleum Corporation (PetroCorp)

Total assets increased from \$42M in FY14 to \$47M in FY15, and a slight decrease in total liabilities from \$10.4M in FY14 to \$10.3M in FY15, resulting in a change in net position of \$4M.

Total amount received from sales of petroleum products exceeded the amount paid to vendors and employees for goods and services. Net cash provided by operating activities in 2015 was \$9.5M as compared to \$9.3M in 2014.

FSM Social Security Administration

Contributions collected slightly decreased by \$18K due mainly to lower collection on delinquent accounts.

Total net position was \$49.8M compared to \$50.1M in 2014, a slight decrease of 0.6%.

Total benefit payments to members or their beneficiaries increased by 1.3% from \$18.9M in 2014 to \$19.2M in 2015. Benefits will continue to increase every year as wage earners or their dependents become eligible for benefits.

FSM Telecommunications Corporation (FSMTC)

Total assets decreased by \$3.8M, and total liabilities decreased by \$1.7M compared to prior year. This decrease in liability is due to the reduction in the RUS loan and the 3G equipment contract liability.

During FY15, total cash received from telecommunications services exceeded amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of \$2.9M as compared to \$3.9M in FY14.

Total operating revenue decreased by \$213K, due mainly to the continuous decline in international revenue and TV revenue. Operating expenses also decreased by \$73K.

National Fisheries Corporation (NFC)

Total assets decreased from \$1.6M to \$1.5M, and total liabilities also decreased from \$3.4M to \$3.2M in 2015.

Major portion of the \$738K current assets is cash, and the noncurrent asset of \$808K is comprised mostly of investments.

NFC's liabilities of \$3.24M are all current consisting mostly of a loan from the National Government.

Pohnpei State Government

Total net position for fiscal year 2015 was \$47M.

The net change in total governmental fund balance is a decrease of \$795K. Total revenues reported are \$31M against total expenditures of \$32M.

Actual revenues for the General Fund were \$145K lower than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$254K. The General Fund reported an unassigned fund balance of \$172K, which is a reduction of \$599K from the prior fiscal year balance of \$772K.

Pohnpei Port Authority (PPA)

Operating revenues decreased by \$572K, and operating expenses were \$1K or 0.1% lower compared to fiscal year 2014.

Current assets decreased by \$842K or 26.3%, while liabilities increased by \$69K or 30%. Net position for the Authority decreased by \$806K compared to prior year.

Pohnpei State Housing Authority (PSHA)

The Authority's total operating revenues decreased by \$8K or 4% compared to prior year. Total expenses during the year increased by \$10K or 6% compared to prior year.

For FY15, the Authority collected an aggregate amount of \$176K representing actual interest and fees paid by customers on loans.

Pohnpei Utilities Corporation (PUC)

Overall changes in the statement of net position includes an increase of utility plant of \$1.8M, net decrease of current and other noncurrent assets of \$1.6M, and an increase in total liabilities of \$312K.

Decrease in operating revenue before bad debts is mainly due to the decrease in tariff for electricity and a decrease in water sales.

Decrease in operating expenses is due mainly to the decrease in fuel expenses and inventory purchases due to less maintenance on new generators.

Chuuk State Government

Total net position increased minimally by 0.31% due to a reduction in long-term debt of \$2.1M offset by a reduction in capital assets of \$1.5M.

Both revenues and expenses increased by 6.05% and 1.38%, respectively. The increase in revenues was primarily attributable to an increase in program revenues of \$2.1M, while the increase in expenses was associated with certain account balance reconciliations performed during the year.

The General Fund deficit increased by \$780K.

Chuuk Public Utilities Corporation (CPUC)

Total assets increased from \$12.0M (FY14) to \$16.8M (FY15). Net position also increased from \$5.2M in prior year to \$9.6M at the end of fiscal year 2015.

Operating revenues was reduced by 12% compared to prior year due to a reduction in the price of fuel. Operating expenses was also reduced by \$700K, also due to a reduction in fuel price.

Overall, operating loss is \$600K which includes depreciation and the management support funded by external grants. Total change in net position is an increase of \$4.4M.

Chuuk State Health Care Plan (CSHCP)

Net position increased by 2.3% from prior year due primarily premium revenues and a reduction in force of the government sector education employees.

Premium revenues totaled \$1.5M compared to \$1.3M in prior year. This slight increase is a result of new private sector enrollees.

The Plan's net revenues increased by \$111K, and the net income had a slight decrease from \$31K in FY14 to \$30K in FY15.

Yap State Government

Total net position decreased by \$5M from \$98.9M in prior year to \$93.9M in FY15.

Revenues decreased by \$4.9M, and total expenses decreased by \$156k compared to prior year. The decrease in revenue is due mainly to significant losses in the fair value of investments.

At year end September 30, 2015, revenues available for appropriation were \$668K less than budgeted for General Fund, and actual expenditures were \$376K less than the final budgeted amount.

Diving Seagull, Inc.

Total assets at the end of fiscal year 2015 represent a 11% decrease from prior year.

Operating revenues generated from fish sales of \$8M represents an increase of 49% from prior year. The Company ended the year with a net operating loss of \$1.3M, which is an improvement compared to the prior year amount of \$4.2M.

Yap State Public Services Corporation

Financial operations netted a profit of about \$84K, compared to a loss of operations of \$673K in the prior year.

Total assets increased by \$450K, while the total liabilities decreased by \$279K.

Yap Visitors Bureau

There were minimal changes in total assets and total liabilities compared to prior year, resulting in a slight increase in the total net position from \$83K in FY14 to \$88K in FY15.

The Bureau saw a decrease in the total operating expenses, from \$370K in FY14 to \$279K in FY15, and also a slight increase in non-operating revenues, from \$271K in FY14 to \$284K in FY15.

Kosrae State Government

The State's total net position for FY15 decreased by 3.4%, due primarily to the reduction in non-cash capital contributions from depreciation. Both total assets and total liabilities had a minimal decrease compared to the prior year as well.

Unassigned fund deficit was increased from \$580K in prior year to \$750K in FY15.

Kosrae Port Authority (KPA)

Total assets for FY15 were \$17M, a decrease compared to \$18M in FY14. Total liabilities, on the other hand, saw a slight increase from \$108K to \$121K. This resulted in a decrease of about \$730K in total net position.

Total operating revenues increased from \$245K in FY14 to \$337K in FY15. Total operating expenses decreased from \$1.2M in prior year to \$1.1M in FY15.

Kosrae Utilities Authority (KUA)

Operating revenues from electricity sales decreased by approximately 7%. Operating expenses were also reduced by around 7% due primarily to the drop in fuel prices while some expense components increased.

Net loss for the period increased by approximately 57%.

Compliance Investigation Division (CID) FY 2016 Accomplishments

The Compliance Investigation Division (CID) is one of the two 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 the courts. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. The criminal investigative function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice (DOJ) which was recently terminated on August 09, 2016.

CID Case Statistics

Description	Quantity
Carried over from FY ‘15	28
Opened	4
Cases refer to DOJ	5
Closed cases and/or referred for administrative action	9

CID Case Discussions

Case No.	Allegation	Source	Status
CID 11-007	Custom Inspector	Hotline call	Referred to DOJ
CID 12-003	CIP Funds	Municipal Government	Ongoing
CID 12-007	CIP Funds	Municipal Government	Referred to DOJ
CID 12-008	Payroll	Audit Referral	Under management review
CID 13-006	CIP Funds	Concerned Citizen	Referred to DOJ
CID 13-007	Contractual Services	Anonymous	Under Intel gathering
CID 14-001	CIP Funds	Municipal Government	Under management review

CID 14-003	Import Tax	Concerned Citizen	Closed
CID 14-005	CIP Funds	Concerned Citizen	Ongoing
CID 14-006	Housing Allowance	Concerned Citizen	Referred to DOJ/closed
CID 14-007	Employee Conduct	Concerned Citizen	closed
CID 14-008	Import Tax	Concerned Citizen	Under management review
CID 14-009	Compact Funds	Audit Referral	Ongoing
CID 15-001	FSM Public Funds	Pohnpei State OPA	Ongoing
CID 15-002 to CID 15-004	CFSM Project Funds	Audit Referral	Referred to audit div.
CID 15-005	FSM Public Funds	Concerned Citizen	Ongoing
CID 15-006 to CID 15-0025	CFSM Project Funds	Audit Referral	Ongoing
CID 15-026	Stipend	Concerned Citizen	Ongoing
CID 15-027	Blank checks	Concerned Citizen	Ongoing
CID 16-001	Social Security benefits	Concerned Citizen	Closed
CID 16-002	Sea Cucumber	Concerned Citizen	Referred to DOJ/closed
CID 16-003	Component Unit	Concerned Citizens	Ongoing
CID 16-004	Health grants	Concerned Citizens	Ongoing

CID Hotline

The ONPA has a Hotline for use by concerned citizens to report 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 24 hours a day by answering machine. All calls to the Hotline remain confidential. In addition, ONPA also offers an on-line complaint form. The form can be found at 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 knowledge. 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.

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, Kaselehlie 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

- Vanessa and Rose attended the 126th Training Programme on Auditing in IT Environment held in India and sponsored by ICISA.
- Various staff attended the 2nd FSM Public Auditor's held in Kosrae.
- APIPA 2016 was hosted by Pohnpei State Public Auditor. All staff from ONPA attended APIPA
- PASAI Congress was also hosted by Pohnpei State Public Auditor.
- Elina Paul attended the PASAI Regional Performance Audit Design Meeting in Auckland.
- Kelly Samuel and Haser Hainrick attended the Pacific Ombudsman Alliance and Pacific Ombudsman Regional conference in Melbourne.
- IAC and Moylans Insurance met with ONPA staff to discuss insurance policies.
- Erwihne David and Haser Hainrick went to Auckland for IDI-PASAI meeting with SAI Management & Stakeholders.
- Erick Paul and Clayton Eliam were chosen to attend the Lakewood Experience training in Denver, Colorado.
- Staff resignations included Elina Paul, Senior Auditor.
- Began to update our Manuals and Plans



Figure 1: Association of Pacific Islands Public Auditors, 27th conference held in Palikir, Pohnpei July 25-19, 2016.

Appendices

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

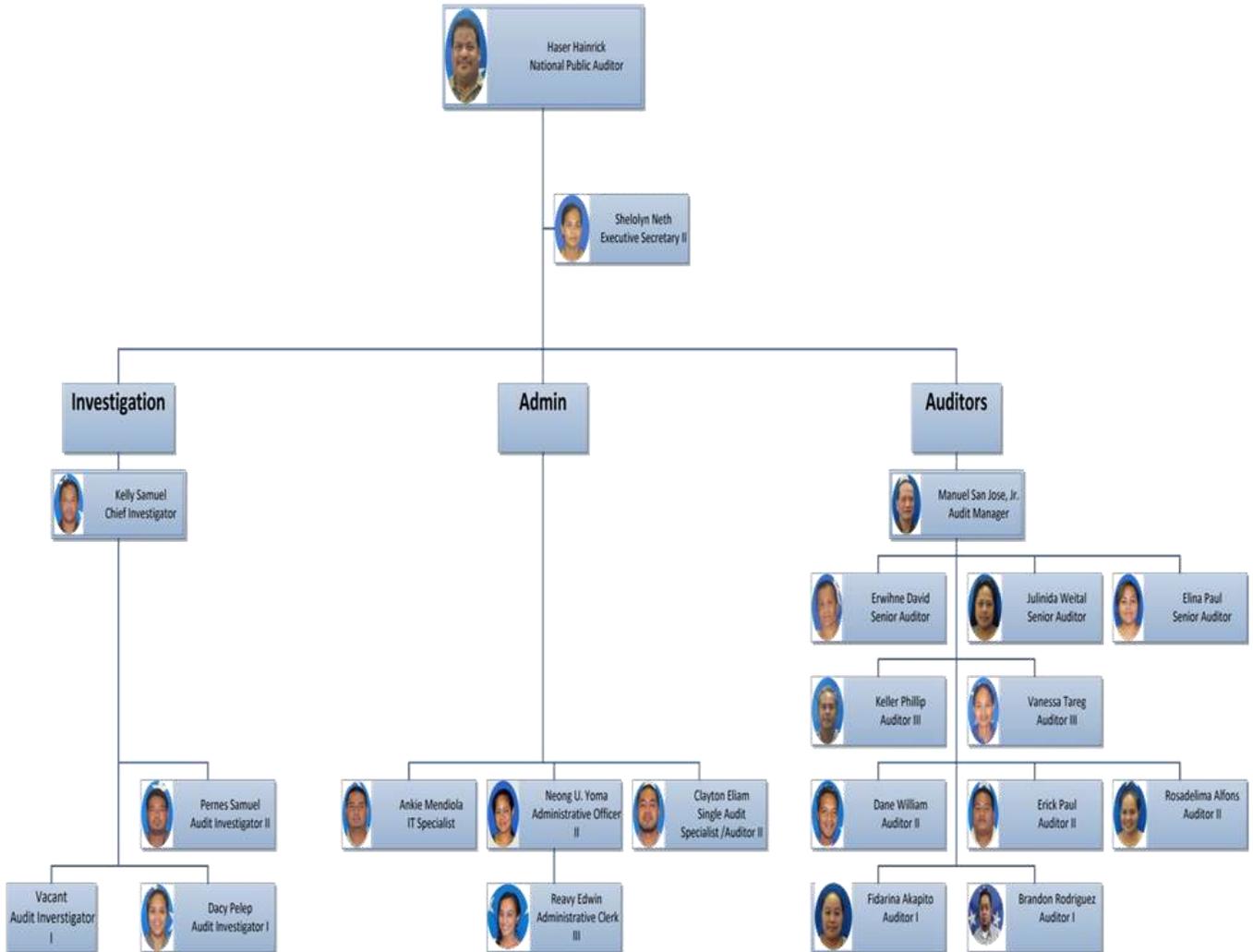
Powers: The Public Auditor has both general and specific audit powers for the National Government, including branches, departments, commissions, and bureaus and contractors performing public works. The Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities.

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*



Approved by: /s/ Haser Hainrick
Date: 11/16/2015

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.

Acknowledgement

This annual report was prepared by Reavy Shane Edwin, Administrative Assistant

