



**NPA**

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Office of the National Public Auditor



# **Annual Report**

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## **Fiscal Years**

### **2017 & 2018**

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# FEDERATED STATES OF MICRONESIA

## *Office of The National Public Auditor*

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863; Fax: (691) 320-5482;

CID Hotline: (691) 320-6768; E-mail: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

Excellency Peter M. Christian, President  
Honorable Members, 20<sup>th</sup> Congress of the FSM

As required by law, this Annual Report for FY2017& FY2018 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.

We issued 48 financial audits under the Single Audit Contract with Deloitte & Touche for the two years 2017 and 2018. These single audits are required by the Compact Agreement between the United States and the Federated States of Micronesia.

We provided support through our IT Division to the State Public Auditors to improve transparency in the state governments by making their audits and financial information available online for public access. This assistance continues in order to suggest improvement in computer hardware and software applications for efficiency and effectiveness as well as for data storage, retrieval and contingencies to mitigate risks.

Our office took part in two external reviews to learn of any strengths that we can capitalize on and to identify any operational and management weaknesses where to focus corrective actions. These were carried out by external independent reviewers using the guidelines set out by the Generally Accepted Government Auditing Standards for the first review, and the Supreme Audit Institution Performance Measurement Framework, for the second review. The results of these reviews will assist us revise our strategic plan and annual operational plan, an activity which we will complete in 2019.

We need to accelerate our capacity development program both in terms of completing essential operational guidelines, training and developing our human resources, and to continuing to reform our legislation and mandates to regain our efficiency and effectiveness in providing relevant and timely assurance services for our key internal and external stakeholders.

Turnover of staff was high during the two years period. Unfortunately, the employees we lost left with many years of work experience and audit skills, their loss of which has

affected our performance output for the current reporting periods. Congress has approved additional funding we requested in order to refocus and to accelerate our staff training and capacity building efforts.

We acknowledge the support received from the FSM executive and legislative branches. Additionally, technical grants from OIA were keys in achieving our single audit deliverables. Various forms of assistance from other regional and sub-regional entities such as the INTOSAI Development Initiative, PASAI, DOI-OIA, DOI-OIG, Graduate School, APIPA, the local media outlets and the FSM State Public Audit Offices have supported our efforts in many ways and to all of them, we are grateful.

Without the staff at the National OPA, we won't be able carry out our mandates and responsibilities as endorsed to us by law. Their willingness to acquire new skills and to grow in their professional capacities give us reasons to be optimistic that our office will fulfill its operational targets, going forward, as we strive to contribute to the effort of improving government operations in FSM.

Respectfully submitted,



Haser Hainrick  
National Public Auditor

December 28, 2018

Xc: FSM Vice President

## Highlights of Key Issues and Challenges in 2017 & 2018

### Audit

Our performance output for the two years was significantly low especially in the audit area although we continued to achieve our targets with the annual single audits (financial) which we out-sourced to our contracted CPA firm of Deloitte & Touche.

Employee turnover was high. We lost eight (8) key staff from our audit division. These included an audit manager and senior auditors, most of them performed key roles in directing, supervising and leading the audit assignments. The recruitment for new replacements took months and indeed it's still ongoing. Then, training and mentoring for the new recruits to be able to perform their key duties and responsibilities spanned over several months, thus performance output in our audit division was low.

Our audit backlog included the following:

1. Procurement and Contracts (performance audit with compliance focus)
2. National Department of Health and Social Services (performance audit)
3. Yap Department of Health Services (performance audit initiated jointly with the Yap Public Auditor as a joint audit between the National OPA and Yap OPA)
4. Overseas Development Assistance Program (performance audit with compliance focus)
5. MiCare Plan (performance audit)
6. Social Security Administration (performance audit)

### Investigation

We reported in 2016 that the authority delegated to our office to conduct criminal investigations ended when the Department of Justice terminated the Memorandum of Understanding (MOU) between the two offices. By statute, Congress restored the Public Auditor's authority to conduct criminal investigations when it amended the Public Auditors Act in 2017 to give power and authority to perform such function. Investigation activities were hampered when the MOU was cancelled and although the PA Act has been amended, it still requires some improvement to provide for efficiency and effectiveness in carrying out our legal mandates for administrative and white-collar crime investigations.

## Governance

Our Strategic Plan was due for renewal in 2017. However, we did not revise it to allow for our office to participate in the SAI PMF<sup>1</sup> assessment which was being pilot-tested in 2017 and then launched in 2018 under the PASAI umbrella for the Pacific supreme audit institutions. SAI PMF is an INTOSAI framework developed and intended to be used to establish how well a SAI (Audit Office) performs compared to international good practices, as well as to identify its strengths and weaknesses of the participating audit offices. We volunteered to join other Pacific audit offices to be independently reviewed using the approaches and guidelines of the SAI PMF assessment. The results are essential to inform the revision of our office strategic plan and the corresponding annual operational plan for the years going forward.

## **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.

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<sup>1</sup> Supreme Audit Institutions Performance Measurement Framework

## **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.

## **Core Objectives**

Goals 1: to continuously provide high quality and high impact products through audits and investigations.

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 timeliness, quality and accessibility of audit and investigation reports.

Goal 2: To continue enhancing auditing and investigating capabilities to attain high standard of staff competencies.

Objectives:

- 2.1 To strengthen the staff's technical knowledge, skills and expertise through training and development.
- 2.2. To evaluate employee's performance and identify training needs.
- 2.3. To enhance the professional capacity of the staff.

Goal 3: To strengthen and protect ONPA independence and credibility and enhance its operation.

Objectives:

- 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.
- 3.4 To continue or increase cooperation with academic institutions, regional and international multilateral organizations.

Goal 4: To increase public knowledge of ONPA mission, work and impact

Objective:

4.1 To increase public awareness and outreach efforts

## 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 I on pages 33 and 34 for the Organizational Charts)

### 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

#### FY 2017

A total of \$742,855.00 was appropriated by Congress for the operation of ONPA for fiscal year 2017. Amount expended during the fiscal year totaled \$579,152.94 and the amount available by the end of the year totaled \$163,702.06.

#### FY 2018

A total of \$762,855.00 was appropriated by Congress for the operation of ONPA for fiscal year 2018. Amount expended during the fiscal year totaled \$612,959.30 and the amount available by the end of the year totaled \$149,895.70.

#### FY 2017

<b>Budget Category</b>	<b>Approved Budget</b>	<b>Allotted Budget</b>	<b>Reprogrammed</b>	<b>Expended</b>	<b>Available</b>
Personnel	\$ 464,290.00	\$ 464,290.00		\$ 346,597.74	\$ 117,692.26
Travel	\$ 124,565.00	\$ 124,565.00		\$ 117,635.25	\$ 6,929.75

Contractual Services	\$ 86,000.00	\$ 86,000.00	(\$29,980.00)	\$ 21,138.66	\$ 34,881.34
OCE	\$ 58,000.00	\$ 58,000.00	\$ 12,100.00	\$ 65,901.47	\$ 4,198.53
Fixed Assets	\$ 10,000.00	\$ 10,000.00	\$ 17,880.00	\$ 27,879.82	\$ 0.18
<b>Sub-total</b>	<b>\$ 742,855.00</b>	<b>\$ 742,855.00</b>		<b>\$579,152.94</b>	<b>\$ 163,702.06</b>

## FY 2018:

Budget Category	Approved Budget	Allotted Budget	Reprogrammed	Expended	Available
Personnel	\$ 464,290.00	\$ 464,290.00		\$ 349,803.30	\$ 114,486.70
Travel	\$ 139,065.00	\$ 139,065.00	\$20,000.00	\$ 160,039.79	(\$974.79)
Contractual Services	\$ 86,000.00	\$ 86,000.00	(\$20,000.00)	\$ 34,561.79	\$ 31,438.21
OCE	\$ 63,500.00	\$ 63,500.00		\$ 61,582.62	\$ 1,917.38
Fixed Assets	\$ 10,000.00	\$ 10,000.00		\$ 6,971.80	\$ 3,028.20
<b>Sub-total</b>	<b>\$ 762,855.00</b>	<b>\$ 762,855.00</b>		<b>\$612,959.30</b>	<b>\$ 149,895.70</b>

## 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.

## 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). (Note: discuss the amendment to the Act)

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 processes.

## Single Audit Division

These included the entities' financial statements for fiscal years 2016 & 2017, which were audited and issued during fiscal years 2017 & 2018, respectively.

FSM National and State Governments are required to have their general-purpose financial statements audited annually. This work, which was done by an independent CPA firm, is a requirement of the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133<sup>2</sup>, 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 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.

The Compact Agreement also provides that the single audits are to be equally funded by both the FSM and the US. The US Department of the Interior's Office of the Insular Affairs is the cognizant agency for the single audits and provides the US portion (50%) of the funds. The FSM Congress provides the FSM 50% portion of the single audit fees, which some of them are reimbursed through collection received from the entities that are capable to pay.

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, and 2018, 2019, and 2020 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 30<sup>th</sup> 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.

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<sup>2</sup> 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.

The ONPA provides IT support services and assistance to the FSM audit offices based on their needs and requests in areas such as development, training and support for their internet websites for some of the state offices, and also assists in research and preparations for the audit offices' readiness to implement appropriate audit software to use in their audit and investigation functions.

## Audit Division FY 2017& FY 2018 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](http://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 years 2017& 2018, ONPA issued the following audits:

**Audit Report No. 2017-01 – A performance audit on the Division of Customs & Tax Administration entitled, “Improvement is Needed in Assessing and Collecting the Taxes Due from Some Independent Contractors.”**

Independent Contractors are considered businesses for tax purposes, and there is no employer-employee relationship under an independent contract arrangement.

Section 141 Title 54 FSM Code requires that businesses, which are earning revenues, should be assessed, levied, and paid gross receipt taxes in the following manner:

- \$80 on the first \$10,000 of their gross revenues,
- 3% additional tax on gross revenue exceeding \$10,000, and,
- Gross revenues of not more than \$2,000 per year are exempt from taxation. Taxes paid should be claimed by filing for a refund.

We judgmentally selected 84 (out of 104) independent contracts for 2013 to 2015 to test their assessment and collection of the corresponding gross receipt taxes. Based on our test, we found that 73 (70%) of the independent contractors during the years 2013 to 2015 did not pay taxes on their gross revenues, and the Division of Customs & Tax Administration was not aware of the non-payments. Refer to Table 1 below.

<b>Table No. 1</b>								
Test Computation of Taxes on Revenues Earned by Independent Contractors								
Description	FY-2013		FY-2014		FY-2015		Grand Total	
	#	Amount	#	Amount	#	Amount	#	Amount
Total Payments to Independent Contractors	36	\$ 457,892.29	34	\$ 491,102.55	34	\$ 461,914.37	104	\$1,410,909.21
Sample selected to check the collection of taxes	28	\$ 448,820.91	26	\$ 481,222.02	30	\$ 457,894.77	84	\$1,387,937.70
Total taxes Due on Revenue		\$ 8,961.23		\$ 9,702.85		\$ 9,026.29		\$27,690.37
Less Taxes Collected	0	\$ -	5	\$ 585.14	6	\$ 5,043.00	11	\$5,628.14
Uncollected Taxes	28	\$ 8,961.23	21	\$ 9,117.71	24	\$ 3,983.29	73	\$22,062.23
Note: About 87% did not pay their tax obligations; only 13% out of the total made tax payments								

Furthermore, our examination of the samples tested disclosed that some independent contractors had employer-employee relationship with the National Government. Therefore, they had the status as employees subject to taxes on their salaries and wages.

These conditions existed because;

- Lack of internal policies and guidelines to manage and monitor independent contractors;
- Not all Independent Contracts were routed to the Division of Customs & Tax for tax assessment; and,
- Inconsistent use of contract forms.

**Audit Report No. 2017-02A – Independent Auditor’s Report on Applying Agreed Upon Procedures on NORMA Fisheries Access Agreement**

We performed the procedures described below, which were agreed to by the Chairman of FSM Congressional Committee on Resources and Development and Executive Director of NORMA, solely to provide assistance in obtaining information specific to fishing revenues, fishing days and non-fishing days, traded fishing days, and donated goods by foreign fishing partners. The Executive Director of NORMA is responsible for monitoring and controlling revenues from fisheries access agreements as well as coordinating the donated goods and services received from fishing partners.

## Fishing Revenue

**Procedure 1A:** Trace all of the fisheries access agreement amounts to the fishing revenue (Fishing Right Fees General Ledger) received by FSM Department of Finance and Administration or to NORMA Tufman<sup>1</sup> collection report (i.e. Foreign and domestic associations/companies' purse seine, long line, etc.) for Calendar Years 2012-2015. Determine over/under collections or receipts that were delayed and inquire the reason for over/under collection or delayed receipts.

### Results 1A:

- We traced all the fisheries access agreement amounts to the fishing revenue reports for calendar years 2012-2015; however, we were unable to trace some amounts in the general ledger report. We accumulated an approximate total of \$9.8 million for those collections as "unidentified collection" shown in Table 1.1A.

Table 1.1A Fishing Revenue							
FSM Finance Collection (Fishing Rights Fees General Ledger)							
Calendar Year	FSM National Treasury Total Collection A=B+C	Other Fees Collection B	Fishing Rights Fees Collection				Total G=C+D+E+F
			Identified Collection for Fisheries Access Agreement C	Long Line/Pole and Line D	CFC/Diving Seagull Inc./FSMA E	Unidentified Collection F	
2012	\$ 32,869,015.72	\$ 467,793.70	\$ 23,720,306.00	\$ 1,565,286.65	\$ 227,285.90	\$ 6,888,343.47	\$ 32,401,222.02
2013	\$ 31,238,944.23	\$ 457,515.00	\$ 29,560,021.00	\$ 770,700.00	\$ 20,225.00	\$ 430,483.23	\$ 30,781,429.23
2014	\$ 43,030,992.43	\$ 464,208.25	\$ 35,223,637.98	\$ 1,667,800.00	\$ 5,567,610.90	\$ 107,735.30	\$ 42,566,784.18
2015	\$ 67,841,823.41	\$ 431,804.59	\$ 60,529,584.00	\$ 1,508,400.00	\$ 2,908,360.56	\$ 2,463,674.26	\$ 67,410,018.82
Total	\$ 174,980,775.79	\$ 1,821,321.54	\$ 149,033,548.98	\$ 5,512,186.65	\$ 8,723,482.36	\$ 9,890,236.26	\$ 173,159,454.25

**Source:** FSM Department of Finance fishing rights fees report, Cash receipts, Payment Advices, NORMA Tufman Collection Report, and FSM Fisheries Access Agreements.

- Based on application of the procedures and the review of underlying supporting documents and records, we have established the amounts of over or under collection of fishing revenue from purse seine fishing associations/companies with access agreements<sup>7</sup> presented in Table 1.2A.

Table 1.2A Fisheries Access Agreement Collection			
Calendar Year	Fisheries Access Agreement A	Identified Collection for Fisheries Access Agreement (Column C Table 1.1A) B	Under Collection C=B-A
2012	\$ 26,246,006.00	\$ 23,720,306.00	\$ (2,525,700.00)

2013	\$	33,043,121.00	\$	29,560,021.00	\$	(3,483,100.00)
2014	\$	38,820,848.00	\$	35,223,637.98	\$	(3,597,210.02)
2015	\$	60,550,584.00	\$	60,529,584.00	\$	21,000.00
Total	\$	158,660,559.00	\$	149,033,548.98	\$	9,627,010.02

**Source:** FSM Fisheries Access Agreements

- Due to inadequate monitoring of collectibles, we could not determine whether the collections for fisheries access agreements were delayed.

**Procedure 1B:** Verify the monitoring mechanism in place both at FSM Department of Finance and Administration and at NORMA Office to ensure that all fishing fees based on the fishing agreements were collected and received in the correct amounts.

**Results 1B:**

We found that the monitoring mechanism to ensure collection of all fishing fees was in place at NORMA but not at the FSM Department of Finance and Administration. NORMA’s monitoring mechanism only started in calendar year 2015; however, there has been no regular reconciliation between FSM Department of Finance and Administration and NORMA to establish uncollected amounts and to identify and resolve discrepancies between their records.

**Donated Goods and Services**

**Procedure 2A:** Determine whether written policies and procedures are in place to govern the receiving of donated goods and services.

**Result 2A:**

We found that FSM National and States Finance had no written policies in place to govern the receiving of donated goods and services by the recipients.

**Procedure 2B:** Verify donated goods provided by foreign fishing partners to determine whether the donated goods were reflected in the fisheries access agreements or in any written agreement.

**Result 2B:**

We verified the donated goods provided by the foreign fishing partners. We found that among the fishing partners, only Japan and Korea provided donated goods to FSM during the period covered. We also found that these donated goods were not reflected or provided for in the fisheries access agreements. Instead, the practice has been to execute a “Memorandum of Understanding” in case of Japan and no written agreement in case of Korea.

**Procedure 2C:** Verify whether FSM Congress Resolution as required by FSM Code Title 24-chapter 1 Section 114 approved the received donations.

**Result 2C:**

We verified all the donated goods received from Japan and Korea for calendar years 2012-2015. We found that received donated goods from Korea (KOFA) in 2013 and 2014 and Japan (OFCF) in 2014 did not comply with FSM Code Title 24 Chapter 1 Section 114 requiring FSM Congress approval thru Resolution. There was no Resolution approving the goods received. Additionally, received donated goods from Japan for 2013 and 2015 did not comply with FSM Code Title 24 Chapter 1 Section 114; but complied with Title 55 FSMC 210(2) as cited in the corresponding FSM Congress Resolution.

**Procedure 2D:** Verify whether donated fixed assets were recorded in the FSM Department of Finance and Administration or FSM State Finance Fixed Asset Registry and inspect the fixed assets to confirm their physical existence.

**Result 2D:**

- We verified all the donated fixed assets and found that either only few of the donated fixed assets or none at all was recorded in each respective government's fixed assets register.
- We conducted an inspection of the donated assets received for all five governments and we could not locate or inspect some of the fixed assets received due to absence of proper documentation for redistributed assets.

**Sold and Non-Fishing Days (Results redacted for sensitivity and confidentiality purposes)**

**Procedure 3A:** Determine whether written processes and procedures were in place to provide guidance in selling fishing days.

**Result 3A:**

*This finding was redacted for sensitivity and confidentiality purposes.*

**Procedure 3B:** For all fishing fleets, determine how non-fishing day claims were processed and monitored to provide periodic non-fished and actual fished days from the sold fishing days in the access agreements for calendar years 2012-2015.

**Result 3B:**

*This finding was redacted for sensitivity and confidentiality purposes.*

**Procedure 3C:** Obtain detailed reports of allocated days, days in FSM EEZ, days remaining, and non-fishing days per vessel and fishing party for calendar years 2012-2015. Trace the non-fishing days to the claim forms, trace allocated days to the access agreements, and trace vessel days to the VMS records. Determine how many non-fishing days were claimed and the days used and unused by each fishing vessel.

**Result 3C:**

*This finding was redacted for sensitivity and confidentiality purposes.*

## **Traded Fishing Days (Results redacted for sensitivity and confidentiality purposes)**

**Procedure 4A:** Determine whether written policies and procedures were in place to guide the trading of fishing days, e.g. policy on trading fee, etc.

### **Result 4A:**

*This finding was redacted for sensitivity and confidentiality purposes.*

**Procedure 4B:** Obtain the system report/listing of fishing days traded by NORMA for calendar years 2012-2015 and determine the terms of the number of days traded, purchasers and fees paid.

### **Result 4B:**

*This finding was redacted for sensitivity and confidentiality purposes.*

## **Audit Report No. 2018-01: NORMA SHOULD IMPROVE ITS COMPLIANCE WITH THE TERMS AND CONDITIONS OF THE PROP PROJECT**

The Financing Agreement between FSM and World Bank requires a performance audit to be conducted on the PROP (Pacific Island Regional Oceanscape Program) project covering two years. Performance audit has been conducted on the PROP project covering the period from March 2015 to September 2017.

The objective of the audit was to determine whether the implementation of the PROP project was in compliance with the terms and conditions of the Financing Agreement in the following three areas:

1. Component 1 on Sustainable Management of Oceanic Fisheries
2. Component 2 on Sustainable Management of Coastal Fisheries
3. Component 3 on National Program Management, Monitoring and Evaluation

We recognized that that the PROP Project was still on-going within its approved 6 years term from March 2015 to September 2020. Based on our audit, we found the following:

1. Component 1 was not implemented in full compliance with the terms and conditions of the financing agreement specifically on the DLI reporting requirements and on the monitoring, control and surveillance activities.
2. The FSM Department of R&D and NORMA have approximately 1 year and 2 months under the terms of this Project to fully implement Component 2 as defined in the Financing Agreement. Further, a contractor was hired to help develop a coastal fishery management planning process and has until June 30, 2018 to complete the Plan. Both of the implementing entities are confident that this will be achieved by the due date.
3. Component 3 National Program management, monitoring and evaluation was not implemented in full compliance in four specific areas; (i) Project Operation Manual was still in its draft form; (ii) 3-months delay in executing agreement between the Forum Fisheries Agency and FSM Government; (iii) delayed in recruitment of the key personnel to provide supports to FFA's component part of the PROP as agreed with FSM; and (iv) 1-month delay in the recruitment of the FSM Project Coordinator.

## Single Audit Division FY2017 & FY2018 Accomplishments

FSM National and State Governments are required to have their general-purpose financial statements audited annually. The following are the results for the FY2016 & FY2017 Single Audits conducted during Fiscal Years 2017 & 2018.

### FY 2017:

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
FSM National Government	Unmodified	3	\$ 4,257,599	\$4,230,168	\$ -	\$ 27,391
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 MiCare	Unmodified	0	\$ -	\$ -	\$ -	\$ -
National Fisheries Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei State Government	Unmodified And Qualified	3	\$ 911,132	\$ -	\$ -	\$ 911,132
Pohnpei Housing Authority	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Pohnpei Port Authority	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Pohnpei Utilities Corporation	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Chuuk State Government	Unmodified and Qualified	3	\$ 364,448	\$ -	\$ -	\$ 364,448
Chuuk Public Utilities Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Chuuk State Health Care Plan	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Government	Adverse and Unmodified	6	\$1,023,998	\$ -	\$ 74,514	\$1,098,512
Yap Visitors Bureau	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Public Services Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Diving Seagull	Unmodified	2	\$ -	\$ -	\$ -	\$ -

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
Kosrae State Government	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Port Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Utilities Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Housing Authority	Qualified	2	\$ -	\$ -	\$ -	\$ -

The following are the financial highlights for the FY2016 Single Audits, taken directly out of reports submitted by Deloitte & Touche.

**FSM National Government**

For the fiscal year ended September 30, 2016, FSM National Government has total net position of \$414M compared to FY2015 of 360M. The increase is primarily due to the increase in value of investments, and an increase in general and grants assistance revenues.

During the year, the FSM National Government wrote-off old receivables of \$703k

The net change in governmental funds is increased by \$36M. Total revenues reported are \$139M with total expenditures of \$103M. Total loan proceeds from ADB Loans are \$879k

At September 30, 2016 the General Fund reported an unassigned surplus of \$19M.

**Caroline Island Air (CIA)**

Total assets increased from \$308k in FY2015 to \$528k in FY2016. Total liabilities increased from \$11k in FY2015 to \$15k in FY2016.

For fiscal year 2016, revenue sources of CIA operations are from \$250k of passenger airfare, \$354k of charter services, \$50k of baggage fees, and 20k of freight and others.

**College of Micronesia-FSM (COM-FSM)**

Total assets of the College of Micronesia-FSM increased by \$462K, while the total liabilities decreased by (\$371K).

The comparison of the statement of net position for fiscal year 2016 with prior year indicates an increase in net position by \$833K or 4%.

### **FSM Development Bank**

Total assets increased slightly by \$3.3M in FY2016, while liabilities decreased by (\$11K), which resulted in an increase of about \$3.3M in total net position.

The Bank in 2016 approved \$22.8M for 463 loans. In terms of loan approvals for 2016, over 70% was approved for loans in the commercial, tourism, and agriculture/fisheries sectors.

In 2016, the lone long-term liability the Bank has with the European Investment Bank (EIB) was reduced to \$1.2M compared to \$1.3M in 2015.

### **FSM National Government Employees' Health Insurance Plan (MiCare Plan)**

Total assets increased slightly by \$229K, and the total liabilities also increased by \$1M. Total net position decreased by \$817K or 222% from \$367K net position in 2015.

Total operating revenues increased by \$365K or 6% from \$5.9M in 2015 to \$6.3M in 2016, while operating expenses increased by \$852K or 13% from \$6.3M in 2015 to \$7.2M in 2016. Non-operating revenues decreased by 1% from \$97K in 2015 to \$96K in 2016

### **FSM Petroleum Corporation (PetroCorp)**

Total assets increased from \$47M in FY2015 to \$50M in FY2016 with a difference of \$3.4M, while total liabilities decreased by \$7.9M in FY2016 from \$10M in FY2015. Total net position increased by \$42M in FY2016 compared to \$36M in FY2015

The total amount received from sales of petroleum products exceeded the amount paid to vendors and employees for goods and services. The net cash provided by operating activities in 2016 was \$3.5M as compared to \$9.4 in 2015.

### **FSM Social Security Administration (FSMSSA)**

Contributions collected increased by \$939K to \$18.5M in 2016 compared to \$17.6M in 2015. The increase in contributions was attributed mainly to a number of employers who paid their current quarterly tax dues on time.

Benefit payments to members or their beneficiaries increased by \$666K to \$19.9M in 2016 compared to \$19.2M in 2015. The rise in benefit payments was partly due to the return of retirees' eligibility back to 100% of benefit effective January 2016. As of end of year 2016, 6,473 beneficiaries received social security benefits and 772 retirement, survivor and disability claims were also received and processed in year 2016.

Total net position increased to \$50M as of December 31, 2016 compared to \$49.8M as of December 31, 2015 with an increase of 1.15%.

In year 2016, \$899K was collected from delinquent accounts. Some delinquent employers remain non-compliant and will not pay their delinquent account. For this reason, more of these employers are being referred to legal counsel.

### **FSM Telecommunications Corporation (FSMTC)**

Total assets decreased by \$2.5M and total liabilities also decreased by \$2.0M compared with prior year. The decrease is due to RUS loan and 3G revenue sharing repayments. The equity of FSMTC was affected by the change in both assets and liabilities and decreased by a net loss from operation of \$481K.

During FY2016, total cash received from telecommunications services exceeded the amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of \$4.0M as compared with \$2.9M in FY2015.

Total operating revenue in FY2016 increased by \$1.1M compared to FY2015. The increase is mainly due to increase in internet services, mobile services and net inbound carrier revenues. Operating expenses in FY2016 decreased by \$134K compared to FY2015. The decrease in operating expenses can be attributed to continuing cost control by the Corporation and some major savings from satellite and circuit costs.

### **National Fisheries Corporation (NFC)**

Company assets of \$2.3M comprised \$894K of current assets and \$1.4M noncurrent assets. The major portion of the \$894 current assets is cash, which accounts for \$828K accounts receivable and advances for \$67K. The noncurrent assets of \$1.4M comprised \$1.3 of investment and \$82K of the Company's property and equipment, net of accumulated depreciation.

NFC's liabilities of \$3.1M comprised a 3.1M loan from the National Government, which comprises 99% of NFC total liabilities, and other accounts payable, deferred revenue and accrued liabilities of \$16K.

### **Pohnpei State Government**

The Pohnpei State's total government activities net position for FY2016 is \$46M.

The net change in total governmental fund balance is an increase of \$814K. Total revenues reported are \$33.8M against total expenditures of \$33.0.

Actual revenues for the general fund were \$343K higher than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$846K. The general fund reported an unassigned fund deficit of \$512K, which is an increase of \$684K from the prior year unassigned fund balance of \$172K.

### **Pohnpei Port Authority (PPA)**

Operating revenues increased by \$57.9M from last year and operating expenses were \$196K lower compared to fiscal year 2015.

Current assets decreased by \$273K while liabilities increased by \$21K. Total net position decreased by \$417K in FY2016.

### **Pohnpei State Housing Authority (PSHA)**

For fiscal year ended September 30, 2016, the Authority's net operating revenues increased by \$194K from prior year's \$185K. The increase in revenues was mainly due to recovery of loan losses of \$177K which is 47% of total revenue.

During the year, the Authority's total expenses decreased by \$28K to \$151K from prior year. The Authority also collected an aggregate amount of approximately \$190K representing the actual interest and fees paid by customers on loans.

### **Pohnpei Utilities Corporation (PUC)**

Overall changes in the statements of net position components includes an increase of utility plant of \$2.0M, net increase of current and other noncurrent assets of \$966K and a decrease in total liabilities of \$9K. Decrease in liabilities is due to a line of credit at the Bank of FSM to assist in the maintenance of generators, also an increase of balance due to Pohnpei State Government.

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 mainly due to the decrease in fuel expense and inventory purchases due to less maintenance on new generators.

### **Chuuk State Government**

For the fiscal year ended September 30, 2016, Chuuk State's total net position increased by \$0.2M from \$39.6M, as restated in the prior year to \$39.8M

Chuuk State's revenues of \$38.8M increased by \$1.6M from \$37.1M, as restated, in fiscal year 2015. The increase in revenue was primarily attributable to increased operating grants, revenue sharing, local taxes and fees and write-off of stale dated checks. Expenses in fiscal year 2016 of \$38.5M increased by \$1.5 from \$37.0M in fiscal year 2015. The increase is due to increases in expenses for

education sector, health, general government, public safety, public works and payment to component units.

The General Fund deficit decreased by \$0.5M in FY2016, decreasing from \$5.6M, as restated, in the prior year to \$5.1M. The write-off of stale dated checks of \$0.4M contributed to the deficit decrease.

### **Chuuk Public Utilities Corporation (CPUC)**

Total assets at the end of FY2016 were \$23.6M, compared to \$16.8 in FY2015. There was a significant improvement in CPUC's net position during FY2016, \$17M compared to \$9.6M in FY2015.

There is a slight increase in operating revenue compared to last year. The increase is due to increase in power sales and expanding services for water and sewer to the community of Weno Chuuk. Operating expenses have also seen a positive improvement as it comes out to the about same level as last year.

CPUC comes out positive in net income at the end of FY2016 with \$334K.

### **Chuuk State Health Care Plan (CSHCP)**

Total net position increased by \$0.1M from \$1.4M in FY2016 compared to \$1.3M in the prior year. The increase comes from the premium revenue.

During FY2016, the Plan had premium revenues of \$1.505M compared to \$1.501M in FY2015. The \$0.004M increased was the result of new private sector enrollees. This FY2016, we collected \$50K premium past due from the Department of Education-SPED. Medical claim expenses of \$1.14M in FY2016 decreased \$0.015M from \$1.140M in the prior year. This decrease in medical claim expenses reflects the results from greater plan utilization by enrollees and patient.

The Plan had net income of \$0.146M compared with the net income of \$0.003 in FY2015. The Plan's net revenues increased \$0.211M.

### **Yap State Government**

Total net position increased by \$2.25M from \$95.02M, as restated, in the prior year to \$97.27M. Total fund balance increased by \$4.3M from \$75.3M as of the prior year, as restated to \$79.6M.

In comparison to FY2015, revenues increased by \$7.01M, and total expenditures decreased by \$0.95. The increase in revenue was due mainly to significant gains in the fair value of investments; \$1.5M was attributed to unrestricted investments and \$3.78 was attributed to the State Investment Trust Fund. The Yap State Investment Trust Fund reported a balance of \$46.2M, which was an increase of \$3.78M from the prior year, due to gains in the fair value of the investment

### **Yap Diving Seagull, Inc.**

Total assets of \$9.9M at the end of FY2016 represent a 18% decrease over FY2015. The decrease in total assets in 2016 is primarily due to a decrease in time certificates of deposit and drydocking costs.

Operating revenue generated from fish sales of \$7.8M represents a decrease of 9% over 2015. The company has applied new fishing technology during the time after when *Mathawmarfach* was operable to fish efficiently, just gradually to recover our loss in 2015. Fuel cost decreased in 2016, which allowed the Company to recover some of its loss. The Company ended FY2016 with a loss from operations of \$1.5M while the Company had a \$1.1M loss from operations in FY2015.

The Company's cash flows from operating activities was a negative \$427K in 2015 and became a positive of \$356K in 2016. Cash and cash equivalents increased from \$1.3M to \$1.9M as of FY2016.

### **Yap State Public Services Corporation (YSPSC)**

Financial operations for 2016 realized an operating profit of \$421K mainly because of the continuous descent of world fuel prices. Operating revenues increased by 3% while operating expenses decreased by 2%.

Total assets increased by \$2.5M from \$13.1M in FY2015 to \$15.7 in FY2016. Total liabilities also increased by \$2.6M in FY2016 compared to \$279K decrease in FY2015.

### **Yap Visitors Bureau**

Total assets increased to \$188K in FY2016 compared to \$91,854 in FY2015. Total liabilities also increased from \$3.7K to \$4.0K in FY2016.

The Bureau's total operating expenses increased from \$279K in FY2015 to \$312 in FY2016. The non-operating revenues also increased from \$284K to \$409K in FY2016. Total net position also increased to \$184K from \$88K in FY2015.

### **Kosrae State Government**

Total net position increased by \$11.83M from \$27.88M in FY2015 to \$39.71M, as restated, in the current year. The increase is mainly due to a donated \$12.91M bridge received from a foreign government.

The State's General Fund unassigned fund deficit has increased to \$1.04M from \$0.94M, as restated, in the prior year or an increase of \$0.1M.

The General Fund total fund balance increased by \$0.52M from \$1.40M, as restated, in fiscal year 2015 to \$1.92M in fiscal year 2016. The increase was due to the excess of revenues and other financing sources of \$4.23M over expenditures of \$3.72M.

**Kosrae Port Authority (KPA)**

Total assets for FY2016 were \$16.7M, a decreased compared to \$17.5M in FY2015. Total liabilities also decreased from \$121K in FY2015 to \$113K in FY2016. This resulted in a decrease of about \$784K in net position in FY2016.

Total operating revenues increased from \$337K in FY2015 to of \$435K in FY2016. However, the total operating expenses in FY2016 was \$1.2M increased from \$1.1M in FY2015. This also resulted in an operation loss of \$776K in FY2016.

**Kosrae Utilities Authority (KUA)**

Total assets increased from \$4.0M in FY2015 to \$4.2M in FY2016. Total liabilities are decreased from \$253K in FY2015 to \$233K in FY2016.

Total net position in FY2016 is \$4.2M compared to the prior year of \$4.0M. This resulted in an increase in net position of \$134K in FY2016.

Total operating revenues decreased from \$2.48M in the prior year to \$2.46M in the current year and total operating expenses decreased to \$2.30M in FY2016 from \$2.59M in FY2015 with a difference of \$157K in net operating earnings.

**Kosrae Housing Authority**

This is the first audit on the Authority to be conducted by Deloitte & Touche in FY2016.

The total assets for the year ended September 30, 2016 were \$788K and the total liabilities were \$103K. The total net position was \$685K.

Total operating revenues was \$20K, while the total operating expenses was \$147K with an operating loss of \$127K.

**FY 2018:**

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
FSM National Government	Unmodified	1	\$27,391	-	-	\$27,391

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
Caroline Islands Air	Unmodified	0	\$ -	\$ -	\$ -	\$ -
College of Micronesia-FSM	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM Petrocorp	Unmodified	2	\$ -	\$ -	\$ -	\$ -
FSM Telecommunications	Unmodified	1	\$ -	\$ -	\$ -	\$ -
FSM Social Security	Unmodified	1	\$ -	\$ -	\$ -	\$ -
FSM Development Bank	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM MiCare	Unmodified	2	\$ -	\$ -	\$ -	\$ -
National Fisheries Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei State Government	Unmodified And Qualified	2	\$ 911,132	\$448,013	\$ -	\$ 463,119
Pohnpei Housing Authority	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Pohnpei Port Authority	Unmodified	1	\$ -	\$ -	\$ -	\$ -
Pohnpei Utilities Corporation	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Chuuk State Government	Unmodified and Qualified	3	\$ 364,448	\$ -	\$ -	\$ 364,448
Chuuk Public Utilities Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Chuuk State Health Care Plan	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Government	Adverse and Unmodified	3	\$1,098,512	\$916,523	\$95,055	\$277,044
Yap Visitors Bureau	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Public Services Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Diving Seagull	Unmodified	3	\$ -	\$ -	\$ -	\$ -
Kosrae State Government	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Port Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Utilities Authority	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Kosrae Housing Authority	Qualified	1	\$ -	\$ -	\$ -	\$ -

The following are the financial highlights for the FY2017 Single Audits, taken directly out of reports submitted by Deloitte & Touche.

### **FSM National Government**

For the fiscal year ended September 30, 2017, FSM National Government has total net position of \$488M compared to FY2016 of 414M. The increase is primarily due to the increase in value of investments, and an increase in general and grants assistance revenues.

During the year, the FSM National Government wrote-off old receivables of \$254k

The net change in governmental funds is increased by \$66M. Total revenues reported are \$186M with total expenditures of \$127M. Total loan proceeds from ADB Loans are \$7k

At September 30, 2017 the General Fund reported an unassigned surplus of \$23M.

### **Caroline Island Air (CIA)**

Total assets increased from \$528k in FY2016 to \$650k in FY2017. Total liabilities decreased from \$15k in FY2016 to \$9k in FY2017.

For fiscal year 2017, revenue sources of CIA operations are from \$272k of passenger airfare, \$346k of charter services, \$55k of baggage fees, and 19k of freight and others.

### **College of Micronesia-FSM (COM-FSM)**

Total assets of the College of Micronesia-FSM increased by \$695K, while the total liabilities increased by (\$248K).

The comparison of the statement of net position for fiscal year 2017 with prior year indicates an increase in net position by \$447K or 2%.

### **FSM Development Bank**

Total assets increased slightly by \$3.6M in FY2017, while liabilities increased by (\$268K), which resulted in an increase of about \$3.3M in total net position.

The Bank in 2017 approved \$11.49M for 435 loans. In terms of loan approvals for 2017, over 75% was approved for loans in the commercial, tourism, and agriculture/fisheries sectors.

In 2017, the lone long-term liability the Bank has with the European Investment Bank (EIB) was reduced to \$1.0M compared to \$1.2M in 2016.

### **FSM National Government Employees' Health Insurance Plan (MiCare Plan)**

Total assets increased slightly by \$1.5M, and the total liabilities also increased by \$2M. Total net position decreased by \$694K or 154% from \$449K net position in 2016.

Total operating revenues increased by \$112K or 2% from \$6.3M in 2016 to \$6.4M in 2017, while operating expenses increased by \$396K or 5% from \$7.2M in 2016 to \$7.6M in 2017. Non-operating revenues increased from \$96K in 2016 to \$503K in 2017.

### **FSM Petroleum Corporation (Petrocorp)**

Total assets increased from \$50M in FY2016 to \$59M in FY2017 with a difference of \$9.3M, while total liabilities increased by \$7.9M in FY2016 to \$12M in FY2017. Total net position increased by \$47M in FY2017 compared to \$42M in FY2016.

The total amount received from sales of petroleum products exceeded the amount paid to vendors and employees for goods and services. The net cash provided by operating activities in 2017 was \$6.5M as compared to \$3.5M in 2016.

### **FSM Social Security Administration (FSMSSA)**

Contributions collected increased by \$327K to \$18.8M in 2017 compared to \$18.56M in 2016. The increase in contributions was attributed mainly to a number of employers who paid their current quarterly tax dues on time.

Benefit payments to members or their beneficiaries increased by \$557K to \$20.78M in 2017 compared to \$20.22M in 2016. The rise in benefit payments was partly due to the return of retirees' eligibility back to 100% of benefit effective January 2016. As of end of year 2017, 6,104 beneficiaries received social security benefits and 712 retirement, survivor and disability claims were also received and processed in year 2017.

Total net position increased to \$55.51M as of December 31, 2017 compared to \$50.67M as of December 31, 2016 with an increase of 9.5%.

In year 2017, \$712K was collected from delinquent accounts. Some delinquent employers remain non-compliant and will not pay their delinquent account. For this reason, more of these employers are being referred to legal counsel.

### **FSM Telecommunications Corporation (FSMTC)**

Total assets decreased by \$3.1M and total liabilities also decreased by \$2.7M compared with prior year. The decrease is due to RUS loan and 3G revenue sharing repayments. The equity of FSMTC was affected by the change in both assets and liabilities and decreased by a net loss from 2017 operations of \$395K.

During FY2017, total cash received from telecommunications services exceeded the amounts paid to vendors and employees for goods and services. This resulted in net cash provided by operating activities of \$3.9M as compared with \$4.0M in FY2016.

Total operating revenue in FY2017 decreased by \$3.7M compared to FY2016. The decrease is mainly due to continuous decline in international revenue and carrier revenue. Operating expenses in FY2017 decreased by \$223K compared to FY2016. The decrease in operating expenses can be attributed to continuing cost control by the Corporation and some major savings from satellite and circuit costs.

### **National Fisheries Corporation (NFC)**

Company assets of \$3.2M comprised \$1.2M of current assets and \$1.9M noncurrent assets. The major portion of the \$1.2M current assets is cash, which accounts for \$581K accounts receivable and advances for \$170K. The noncurrent assets of \$1.98M comprised \$1.91M of investment and \$72K of the Company's property and equipment, net of accumulated depreciation.

NFC's liabilities of \$19K are all current and consist of \$18K of accrued liabilities and \$1K of accounts payable.

### **Pohnpei State Government**

The Pohnpei State's total government activities net position for FY2017 is \$53M.

The net change in total governmental fund balance is an increase of \$8.4M. Total revenues reported are \$43M against total expenditures of \$34M.

Actual revenues for the general fund were \$4.5M higher than budgeted revenues. The total expenditures-budgetary basis showed a favorable variance of \$436K. The general fund reported an unassigned fund balance of \$3.6M, which is an increase of \$4.1M from the prior year unassigned fund deficit of \$512K.

### **Pohnpei Port Authority (PPA)**

Operating revenues increased by \$1.3M from last year and operating expenses were \$17K higher compared to fiscal year 2016.

Current assets increased by \$2.6M while liabilities increased by \$16K. Total net position increased by \$1.02M in FY 2017.

### **Pohnpei State Housing Authority (PSHA)**

For fiscal year ended September 30, 2017, the Authority's net operating revenues decrease by \$108K from prior year's \$380K. The decrease in revenues was mainly due to reduction of \$121K from the recovery of loan losses.

During the year, the Authority's total expenses increased by \$17K from prior year of \$151K. The Authority also collected an aggregate amount of approximately \$208K representing the actual interest and fees paid by customers on loans.

### **Pohnpei Utilities Corporation (PUC)**

Overall changes in the statements of net position components includes a decrease in utility plant of \$2.0M, net decrease of current and other noncurrent assets of \$89K and a decrease in total liabilities of \$194K. increase in liabilities is due to increase in our accounts payable for operations, also an increase of balance due to Pohnpei State Government.

Increase in operating revenue before bad debts is mainly due to the increase in tariff for electricity and an increase in water sales due to additional hookups. increase in operating expenses is mainly due to the increase in fuel expense and inventory purchases due to maintenance on new generators.

### **Chuuk State Government**

For the fiscal year ended September 30, 2016, Chuuk State's total net position increased by \$3.047M from \$39.864M, as restated in the prior year to \$42.911M.

Chuuk State's revenues of \$43.094M increased by \$4.282M from \$38.812M, as restated, in fiscal year 2016. The increase in revenue was primarily attributable to increased operating grants, revenue sharing, local taxes and fees and unrestricted investment earnings. Expenses in fiscal year 2017 of \$40.046M increased by \$1.493M from \$38.553M in fiscal year 2016. The increase is due to increases in expenses for education sector, health, economic development, capital projects and unallocated interest on long-term debt.

The General Fund deficit decreased by \$1.588M in FY2017, decreasing from \$5.177M, as restated, in the prior year to \$3.589M. The increase in revenues contributed to the deficit decrease.

### **Chuuk Public Utilities Corporation (CPUC)**

Total assets at the end of FY2017 were \$24.6M, compared to \$23.6M in FY2016. There was a significant improvement in CPUC's net position during FY2017, \$19.5M compared to \$17.0M in FY2016.

There is a slight increase in operating revenue compared to last year. Operating revenue continues to improve, bringing in \$6.3M in service revenue, while expenses are relatively maintained. Operations continue to improve financially, with operation loss of \$280, 158 in FY2017 compared to \$445,707 in FY2016.

CPUC comes out positive in net income at the end of FY2017 with \$19.5M.

### **Chuuk State Health Care Plan (CSHCP)**

Total net position increased \$0.14M from \$1.499 M in the prior year to \$1.634M. The increase comes from premium revenues. This is another increase in net position since fiscal 2006.

During FY2017, the Plan had premium revenues of \$1.644M compared to \$1.505M in FY2016. The \$0.139M increased was the result of new private sector enrollees and premium past dues resulting from payroll inspections in the private sector. Medical claim expenses of \$1.273M in FY2017 increased \$0.149M from \$1.124M in the prior year. This increase in medical claim expenses reflects the results of the off-island medical cost increase of the medical treatment in Manila, referred more patients and a few critical patients compared to prior year 2016.

The Plan had net income of \$0.135M compared with the net income of \$0.146 in FY2016. The Plan's net revenues decreased \$0.011M.

### **Yap State Government**

Total net position increased by \$8.0M from \$97.3M in the prior year to \$105.3M. Total fund balance increased by \$9.51M from \$79.6M to \$89.1M.

In comparison to FY2016, revenues increased by \$8.21M, and total expenditures increased by \$3.6M. The increase in revenue was due mainly to significant gains in the fair value of investments; \$2.5M was attributed to unrestricted investments and \$6.07M was attributed to the State Investment Trust Fund. The Yap State Investment Trust Fund reported a balance of \$52.3M, which was an increase of \$6.07M from the prior year, due to gains in the fair value of the investment.

### **Yap Diving Seagull, Inc.**

Total assets of \$9.5M at the end of FY2017 represent a 4% decrease over FY2016. The decrease in total assets in 2017 is primarily the result of depreciation expense and amortization of drydocking costs.

Operating revenue generated from fish sales of \$9.2M represents an increase of 16% over 2016. The company has applied new fishing technology during the time after when *Mathawmarfach* was operable to fish efficiently, just gradually to recover our losses from 2016. In addition, the price per ton of fish sold in 2017 was up by over 15% when compared to 2016. Fuel cost decreased in 2017, which allowed the Company to recover some of its loss. The Company ended FY2017 with a loss from operations of \$1.9M while the Company had a \$1.5M loss from operations in FY2016.

The Company's cash flows from operating activities was a positive of \$374K and \$356K for fiscal years 2017 and 2016. Cash and cash equivalents decreased from \$1.9M to \$1.7M as of FY2017.

### **Yap State Public Services Corporation (YSPSC)**

Financial operations for 2017 is breaking even with income from operations of \$1,567. Operating revenues decreased by 4% while operating expenses increased by 3% as compared to fiscal year 2016.

Total assets increased by \$5.2M from \$15.7M in FY2016 to \$21.0 in FY2017. Total liabilities also increased by \$4.3M in FY2017 compared to \$2.6M increase in FY2016.

### **Yap Visitors Bureau**

Total assets increased to \$189K in FY2017 compared to \$188K in FY2016. Total liabilities also increased from \$4.0K to \$10.6K in FY2017.

The Bureau's total operating expenses decreased from \$312K in FY2016 to \$284K in FY2017. The non-operating revenues also decreased from \$409K to \$278K in FY2017. Total net position decreased from \$184K to \$178K in FY2017.

### **Kosrae State Government**

Total net position decreased by \$0.95M from \$39.71M in FY2016 to \$38.76M, in the current year. The decrease is mainly due to the depreciation expense exceeding the capital acquisition costs.

The State's General Fund unassigned fund deficit has increased to \$1.25M from \$1.04M, as restated, in the prior year or an increase of \$0.21M.

The General Fund total fund balance decreased by \$0.35M from \$1.92M, as restated, in fiscal year 2016 to \$1.57M in fiscal year 2017. The decrease was due to the reduction of other financing sources of \$0.82M for the year as compared to the prior year; although the total expenditures for the year were reduced by \$0.55M in the current year and negative change in revenues of \$0.59M.

### **Kosrae Port Authority (KPA)**

Total assets for FY2017 were \$15.9M, a decreased compared to \$16.7M in FY2016. Total liabilities increased from \$113K in FY2016 to \$130K in FY2017. This resulted in a decrease of about \$824K in net position in FY2017.

Total operating revenues decreased from \$435K in FY2016 to of \$376K in FY2017. However, the total operating expenses in FY2017 was \$1.218M increased from \$1.211M in FY2016. This also resulted in an operation loss of \$841K in FY2017.

### **Kosrae Utilities Authority (KUA)**

Total assets increased from \$4.222M in FY2016 to \$4.2225M in FY2017. Total liabilities are increased from \$233K in FY2015 to \$254K in FY2017.

Total net position in FY2017 is \$4.225M compared to the prior year of \$4.222M. This resulted in an increase in net position of \$3K in FY2017.

Total operating revenues decreased from \$2.46M in the prior year to \$2.55M in the current year and total operating expenses increased to \$2.6M in FY2017 from \$2.3M in FY2016 with a difference of \$64K in net operating loss.

### **Kosrae Housing Authority**

This is the second audit on the Authority to be conducted by Deloitte & Touche in FY2017.

The total assets for the year ended September 30, 2017 were \$788K and the total liabilities were \$175K. The total net position was \$613K.

Total operating revenues was \$132K, while the total operating expenses was \$240K with an operating loss of \$107K.

## **Compliance Investigation Division (CID) FY 2017& FY 2018**

### **Accomplishments**

The Compliance Investigation Division (CID) is one of the two core 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 investigation procedures and guidelines are derived from the US Council of the Inspectors General on Integrity and Efficiency (CIGIE) investigations standards and Association of Certified Fraud Examiners (ACFE) manual for Investigations which streamlines its investigating and reporting process. The criminal investigative function initially came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice (DOJ) which was terminated on August 09, 2016. In place of the MOU, FSM Congress passed in March 2017 an amendment to the Public Auditor's Act to give power to the Public Auditor to conduct investigations of fraud and corruption within the National Government.

**FY 2017:****CID Case Statistics**

Description	Quantity
Carried over from FY '16	23
Opened	8
Cases refer to DOJ	9
Closed cases/ or referred for administrative action	1
Under Management Review	4

**CID Case Discussion**

Case No.	Allegation	Source	Status
12-003	CIP Funds	Municipal Government	Ongoing
12-008	Payroll	Audit referral	Refer to DOJ
14-001	CIP Funds	Municipal Government	Management Review
14-005	CIP Funds	Concerned Citizen	Ongoing
14-008	Import Tax	Concerned Citizen	Refer to DOJ
14-009	Compact Funds	Audit referral	Ongoing
15-001	NG Agency	Pohnpei State OPA	Ongoing
15-005	Component Unit	Concerned Citizen	Ongoing
15-006	CFSM Funds	Audit referral	Management Review
15-007	CFSM Funds	Audit referral	Ongoing
15-008	CFSM Funds	Audit referral	Ongoing
15-009	CFSM Funds	Audit referral	Referred to DOJ
15-010	CFSM Funds	Audit Referral	Referred to DOJ
15-011	CFSM Funds	Audit Referral	Referred to DOJ
15-012	NG Agency	Audit referral	Ongoing
15-013 to 15-025	CFSM Project Funds	Audit referral	Ongoing
16-003	Component Unit	Concerned Citizen	Ongoing
16-004	Health Grants	Concerned Citizen	Ongoing
16-006	NG Office	Concerned Citizen	Management Review
16-007	Component Unit	Concerned Citizen	Referred to DOJ
17-001	Component Unit	Concerned Citizen	Closed
17-002	CFSM Projects	Concerned Citizen	Ongoing
17-003	Component Unit	Concerned Citizen	Referred to DOJ
17-004	Component Unit Wire Transfer	Concerned Citizen	Referred to DOJ
17-005	Component Unit	Concerned Citizen	Referred to DOJ
17-006	Component Unit	Concerned Citizen	Ongoing
17-007	Component Unit	Concerned Citizen	Ongoing
17-008	CIP Funds/Municipal Gov't	Concerned Citizen	Ongoing

**FY 2018:****CID Case Statistics**

<b>Description</b>	<b>Quantity</b>
Carried over from FY '17	31
Opened	7
Cases refer to DOJ	6
Cases referred to audit section	3
Under Management Review	5

**CID Case Discussion**

<b>No.</b>	<b>Case #</b>	<b>Allegation</b>	<b>Source</b>	<b>Status</b>
1	14-001	CIP Municipal Funds	Municipal Government	Management Review
2	14-005	CIP Municipal Funds	Concerned Citizen	Ongoing
3	15-001	National Office	Pohnpei State OPA	Ongoing
4	15-005	Component Unit	Concerned Citizen	Referred to Audit
5	15-006	CFSM Project Funds	Audit referral	Management Review
6	15-007	CFSM Project Funds	Audit referral	Ongoing
7	15-008	CFSM Project Funds	Audit referral	Ongoing
8	15-009	CFSM Project Funds	Audit referral	Referred previously to and is still with DOJ
9	15-010	CFSM Project Funds	Audit referral	Referred previously to and is still with DOJ
10	15-011	CFSM Project Funds	Audit referral	Referred previously to and is still with DOJ
11	15-012	National Office	Audit referral	Ongoing

12	15-013	CFSM Project Funds	Audit referral	Ongoing
13	15-014	CFSM Project Funds	Audit referral	Ongoing
14	15-015	CFSM Project Funds	Audit referral	Ongoing
15	15-019	CFSM Project Funds	Audit referral	Ongoing
16	15-020	CFSM Project Funds	Audit referral	Ongoing
17	15-021	CFSM Project Funds	Audit referral	Ongoing
18	15-022	CFSM Project Funds	Audit referral	Ongoing
19	15-023	CFSM Project Funds	Audit referral	Ongoing
20	15-024	CFSM Project Funds	Audit referral	Ongoing
21	15-025	CFSM Project Funds	Audit referral	Ongoing
22	15-016	CFSM Project Funds	Audit referral	Referred to DOJ
23	15-017	CFSM Project Funds	Audit referral	Management Review
24	15-018	CFSM Project Funds	Audit referral	Management Review
25	16-003	Component Unit	Concerned Citizen	Ongoing
26	16-004	US Federal Grants	Concerned Citizen	Ongoing
27	16-006	National Office	Concerned Citizen	Management Review
28	17-002	CFSM Projects	Concerned Citizen	Ongoing
29	17-004	Component Unit	Board	Referred previously to and is still with DOJ
30	17-005	Component Unit	Concerned Citizen	Referred previously to and is still with DOJ
31	17-006	Component Unit	Concerned Citizen	Ongoing
32	17-007	Component Unit	Concerned Citizen	Referred to Audit

33	17-008	CIP Municipal Funds	Concerned Citizen	Referred to DOJ
34	18-001	CFSM Project Funds	Concerned Citizen	Ongoing
35	18-002	National Office	Concerned Citizen	Ongoing
36	18-003	CFSM Project Funds	Concerned Citizen	Ongoing
37	18-004	CFSM Project Funds	Referred from OPA	Ongoing
38	18-005	Government Officials	Concerned Citizen	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 online 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 and to earn their Continuing Professional Education (CPE) hours as required by the auditing standards that we use. These trainings, conferences and workshops were funded through several sources including IDI, PASAI, APIPA, US Graduate School, DOI/OIG, and ONPA Budget.

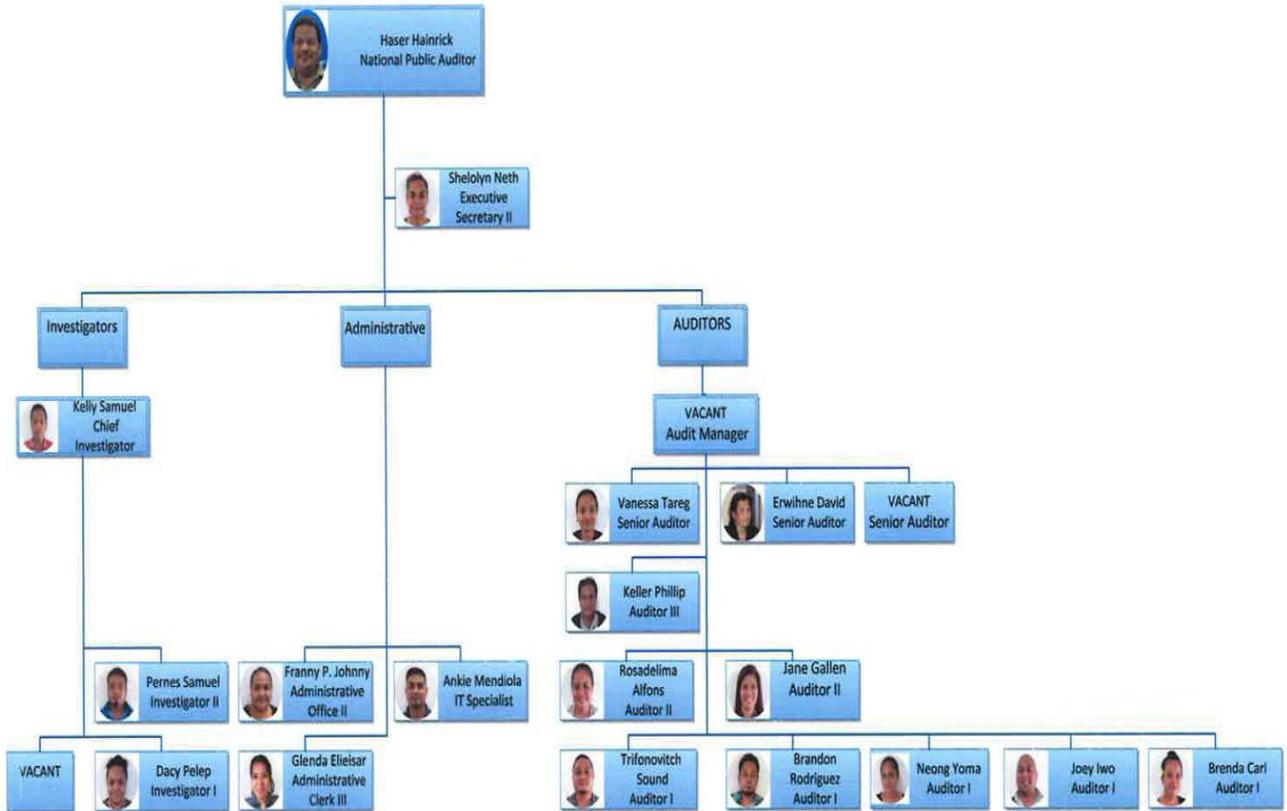
### **Transparency Continues**

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](http://www.fsmopa.fm), and the local media, Kaselehlie Press, at [www.kpress.info](http://www.kpress.info). Some of our audit reports can be accessed on PASAI's website at [www.pasai.org](http://www.pasai.org). Hard copies of our audit reports are also available in our office lobby in Palikir.

# Appendices

## Appendix I—Organizational Chart

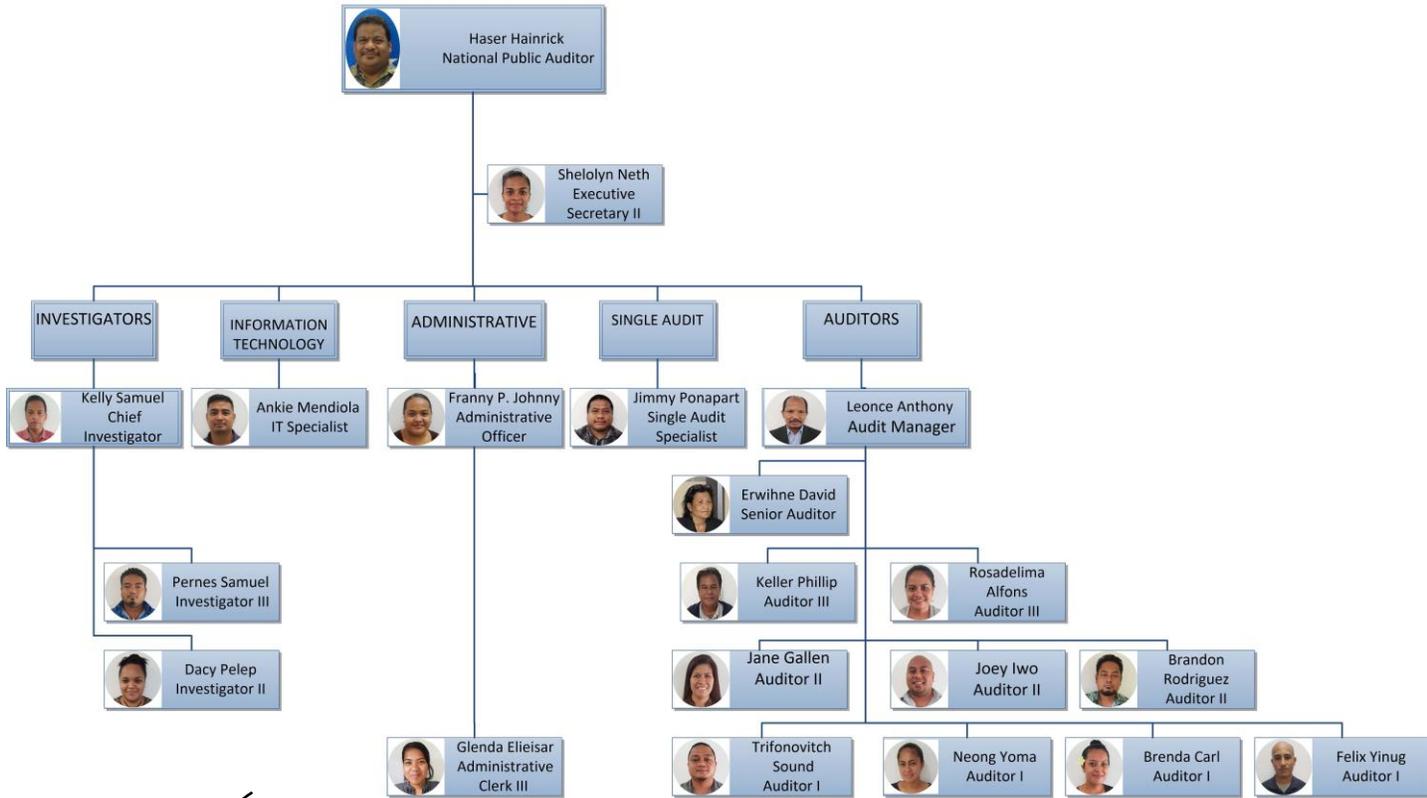
### Office of the National Public Auditor Federated States of Micronesia



Haser Hainrick: 

As of September 30, 2017

Office of the National Public Auditor Federated States of  
Micronesia



Haser Hainrick: 

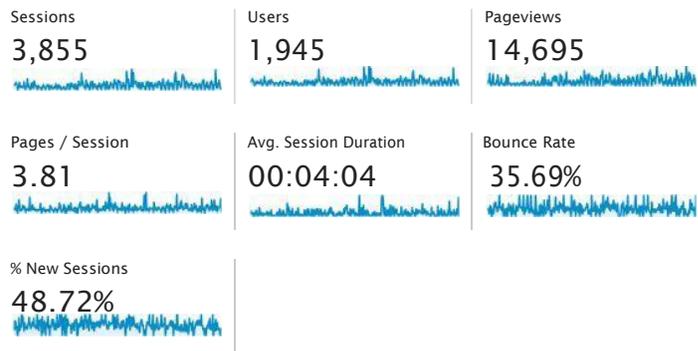
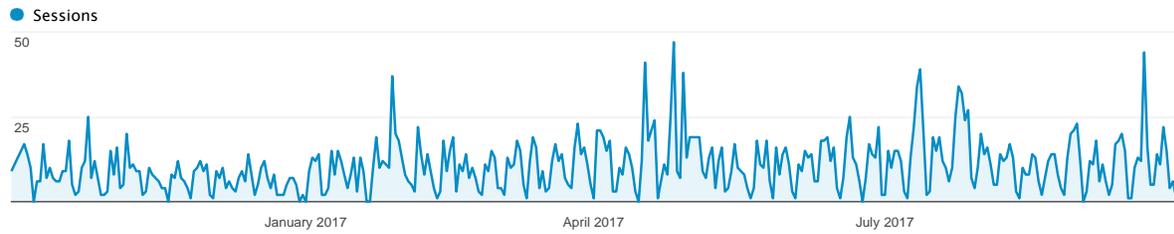
As of: November 15, 2018

## Audience Overview

Oct 1, 2016 - Sep 30, 2017

All Users  
100.00% Sessions

### Overview



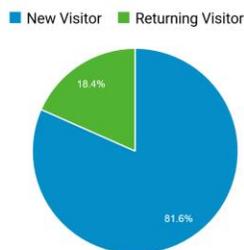
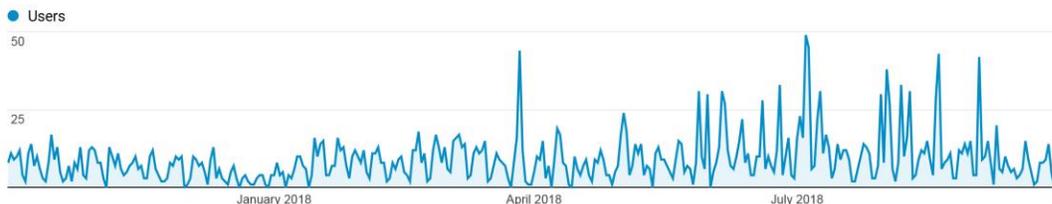
Language	Sessions	%Sessions
1. en-us	3,402	88.25%
2. en-gb	151	3.92%
3. en-au	98	2.54%
4. en-nz	64	1.66%
5. ko	23	0.60%
6. ja-jp	17	0.44%
7. ko-kr	15	0.39%
8. ja	11	0.29%
9. nl	11	0.29%
10. zh-cn	11	0.29%

Audience Overview

Oct 1, 2017 - Sep 30, 2018

All Users  
100.00% Users

Overview



Language	Users	% Users
1. en-us	1,578	73.46%
2. fr	274	12.76%
3. ko	76	3.54%
4. en-gb	53	2.47%
5. (not set)	31	1.44%
6. zh-cn	18	0.84%
7. ja-jp	15	0.70%
8. en-au	13	0.61%
9. ja	11	0.51%
10. en-ca	10	0.47%

## **Acknowledgement**

This annual report was prepared by:  
Franny P. Johnny, Administrative Officer  
Jimmy Ponapart, Single Audit Specialist

