



NPA
Office of the National Public Auditor

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Annual Report

Fiscal Year

2019



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

His Excellency David W. Panuelo, President
The Honorable Members of the 21th FSM Congress

I am pleased to submit my Annual Report for 2019 for the Office of the National Public Auditor.

I am thankful to the executive leadership specifically the President and Vice President for their continuing support and assistance. I am equally thankful to the members of the FSM Congress. The support that I have been getting from both the executive and the legislative in terms of funding and amendment to the Public Auditor's Act have been crucial for our operations.

Other key stakeholders whom I must also acknowledge with deep appreciation include the following;

- Our clients/auditees
- US Department of the Interior, Office of the Insular Affairs
- US Department of the Interior, Office of the Inspector General
- Association of the Pacific Islands Public Auditors
- Pacific Association of Supreme Audit Institutions
- INTOSAI Development Initiatives
- US Graduate School / Pacific Island Training Initiatives
- Deloitte & Touche

Last and certainly not the least are the employees of the office. Their service, commitment and sacrifice make them the most important assets without whom I would never be able perform the services which are mandated by law for the Office of the National Public Auditor.

In the following pages, you will find some information about our work during 2019, what we accomplished, the challenges we faced, and some leads as to what we hope to strive for in the coming years.

Respectfully submitted,

Haser Hainrick
National Public Auditor

Wednesday, April 22, 2020

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Highlight of Key Issues in 2019

1. Filled key positions with experienced expat auditors

The three (3) key positions, which comprised of one (1) audit manager and two (2) audit supervisors within the Audit Division were filled during the year with experienced auditors whom we hired from off-island. The audit manager was hired from Tanzania, Africa; while the two audit supervisors, one was hired from Philippines and the other from Fiji. As expected, it took a little bit to settle in and to familiarize with their new working environment before they could start performing at speed.

2. Issued 46 reports

We issued a total of forty-six reports during the year with breakdown as follows: twenty-six (26) single audits, thirteen (13) investigation reports, six (6) performance audits, and one (1) annual report.

3. Revision of the Strategic Plan

The revision of our Strategic Plan continued during most of 2019 and was due for renewal in 2017. We however did not revise our Strategic Plan as planned to allow for our office to participate in the SAI PMF¹ 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 establish as to 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 for the revision of our office strategic plan and the corresponding Annual Operational Plan for the years going forward.

4. Reformed and strengthened the Public Auditor's Act

We engaged an expert attorney through PASAI to review the Public Auditor's Act and to identify areas that need to be amended by coursing such through the Congressional review and approval process. This program of assistance, received with no cost attached, was delivered at our office in Palikir. We expanded the program coverage by including the FSM State Audit Offices as well and added value to all FSM local audit offices.

5. TeamMate+: researched, identified, negotiated, acquired (with training and launching in year 2020)

We bought TeamMate+, using our technical grant from the DOI-OIA. If we learn it well, it will make our audits more efficient.

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¹ Supreme Audit Institutions Performance Measurement Framework

6. Revised and upgraded the Annual Risk-Based Audit Plan

The new audit manager enhanced the methodology we use to select and identify audit subjects to schedule per our annual audit plan, with a risk-based approach.

7. Finalized the Stakeholders' Engagement Strategy

Under the sponsorship of PASAI, we took part in a program to assist our office in developing its strategy on how to effectively engage our stakeholders as a way of ensuring that the office's programs and activities would contribute positive values and benefits for the public and our key stakeholders.

8. Finalized the Communication Strategy

Also during the year, we finalized our Communication Strategy. Through our independent audits and investigations which are conducted in-house or by out-sourcing, we endeavor to make our governments transparent by disseminating financial and operational information to our internal and external stakeholders in accordance with the approaches as outlined in the Communication Strategy. Our stakeholders must be informed and our governments must follow the accepted transparency norms in order to earn their high marks in the international communities. Our Communication Strategy also addresses the gap with our own citizens living on the remote islands and in the rural villages, who need to be informed on relevant information about their central governments.

9. Received technical grant from US DOI-OIA

We received a technical grant in the amount of \$240,150 from the US Department of the Interior (DOI), Office of Insular Affairs, to which we are grateful, for the following purposes, (1) to support Team, Mate+ acquisition; (2) capacity building for local staff in order to acquire professional certifications; and (3) earn continuing professional education hours in the Association of Certified Fraud Examiners and the Association of Pacific Islands Public Auditors.

10. 2019 Annual conference/training for FSM Public Auditor and FSM State Auditors and their respective staff

With support from the US Graduate School through its Honolulu-based office, we were fortunate to have Audit Director Kip R. Memmott, Oregon Secretary of State, who conducted the training on *A Noble Profession: Performance Auditing for Maximum Value and Impact* from October 14-17, 2019 at the brand-new Administration Building Complex on Weno, Chuuk State. Over fifty (50) participants from the FSM National and State Audit Offices attended and each participant earned 40 CPE hours to satisfy the *Yellow Book* requirements for government auditors.

11. Joint Cooperative Performance Audit (CPA) as a new audit approach

The joint Cooperative Performance Audit (CPA) is a new audit approach that is globally initiated and supported by INTOSAI, and PASAI has been leading world-wide in successfully performing and

issuing a number of joint CPA audits throughout its Pacific region members. Replicating this new audit approach within the North Pacific sub-region is a testament of the maturity as we take on more joint performance audits that are locally executed within FSM based on the regional support by the Pacific Secretariat in Auckland, New Zealand in line with the global push from INTOSAI in Norway.

As a result of the first joint CPA effort, Office of the National Public Auditor issued Audit Report No. 2019-04 entitled *Performance Audit on FSM Preparedness for Implementation of Sustainable Development Goals* on behalf of National and all State Audit Offices. This initiative was carried out by ONPA on behalf of all Public Auditor Offices from the National and State levels.

At the 2019 annual conference/training in Chuuk, the Principals approved an FSM-wide audit under the education sector to be conducted using the joint CPA approach. This will be the second joint CPA effort for the Offices of National and four (4) State Public Auditors.

The approved FSM-wide joint CPA audit focusing on the education sector will commence at the later part of year 2020 based on current audit schedule and work-load.

12. Peer-reviewed the Audit Function of the Development Bank of FSM

We conducted an internal quality control peer review on the internal audit function of the FSM Development Bank (DB). The DB was in line to receive some funds from an external source and to lend it to eligible recipients under the DB's lending program. A peer review of the DB's internal audit function was one of the pre-requisites to access the funds, hence, the request for our office to perform the required review.

13. Continued our first joint performance audit with Yap OPA

We continued to work on our first joint performance audit with the Yap OPA involving the Department of Health Services.

14. Peer review of Chuuk Public Auditor's Office

Our Office led a 3-member team to conduct a peer review on the Chuuk OPA under the auspicious of APIPA in accordance with its peer review guidelines. All government audit offices that perform audits in accordance with the Yellow Book are required to have a peer review once every three years.

15. Our biggest need now

Our biggest need and challenge is to develop an effective HRM system for our office.

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

Core Objectives

Goal 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 Chart

The ONPA organization consists of five main divisions and they are: Administration, Audit, Compliance Investigation, Single Audits, and Information Technology. The Public Auditor is the director of the office with a total of twenty-three (23) permanent employees. (Refer to Appendix I on pages 31 for the Organizational Charts).

Administration Unit

The personnel under the 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 2019

A total of \$876,771 was appropriated by Congress for the operation of ONPA for fiscal year 2019. Amount expended during the fiscal year totaled \$760,262.75 and the amount available by the end of the year totaled \$116,508.25.

Budget Category	Approved Budget	Allotted Budget	Net of all Reprograms	Expended	Available
Personnel	\$ 562,271	\$ 562,271		\$ 464,926.43	\$ 97,344.57
Travel	\$ 139,000	\$ 139,000	\$16,000	\$ 153,974.00	\$ 1,026.00
Contractual Services	\$ 99,000	\$ 99,000	(\$39,000)	\$ 45,382.22	\$ 14,617.78
OCE	\$ 66,500	\$ 66,500	\$8,000	\$ 71,033.41	\$ 3,466.59
Fixed Assets	\$ 10,000	\$ 10,000	\$15,000	\$ 24,946.69	\$ 53.31
Sub-total	\$ 876,771	\$ 876,771		\$760,262.75	\$ 116,508.25

Audit Division

The Audit Division provides the audit services. The types of audits conducted by this division are 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 in the year 2017 when Congress amended the Public Audit Act to give power to the Public Auditor to conduct criminal investigations.

CID's professional responsibilities are to identify systems and accountability weaknesses in the Nation's financial administration and to gather evidence of criminal activity for appropriate legal review and action, where the latter is handled by the Department of Justice based on cases referred by CID. CID uses Quality Standards for Investigations which streamlines their investigating and reporting processes.

Single Audit Division

These included the FSM entities' financial statements for fiscal year 2018, which were audited and issued during fiscal years 2019.

The FSM National and the four (4) FSM State Governments are required to have their general-purpose financial statements audited annually. This work, done by an independent Certified Public Accountant (CPA) firm, and is a requirement of the Compact of Free Association agreement between the Governments of the Federated States of Micronesia (FSM) and the United States of America (USA) in conformity with the US Single Audit Act. Under the 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 positions of the respective entities. Achieving the Compact's requirement regarding single audits is critical as the funding donors must know how their financial assistance were spent and what they were used for in the FSM. Also, decision-makers within the FSM Governments needed current financial data in order to make sound decisions.

The Compact Agreement also requires that the single audits are to be equally funded by both the FSM and the USA. The US Department of the Interior's Office of the Insular Affairs is the cognizant agency for the single audits and contributes 50% of the funds as the US portion. The FSM Congress provides the other half of the single audit fees as FSM's contributing portion, 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 responsibility for the single audits. For the fiscal year 2018 accounts, ONPA contracted Deloitte & Touche to perform the single audits for the entire FSM five (5) primary governments (National and four (4) FSM States) and their respective component units. At the end of each month until the June 30th as the deadline, updates were received from Deloitte & Touche on the status of the Single Audits. These updates were then compiled into monthly status reports and were distributed to the chief executives of the National and the four (4) FSM State Governments, and also to the chief executives for each of the various component units. The monthly reports were then uploaded to our website at www.fsmopa.fm.

Information Technology Unit

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

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.

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 four (4) FSM State 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. ONPA also assists in research and preparations for the audit offices' readiness to implement appropriate audit software to use in their audit and investigation functions.

The role of the IT division is to become even more crucial with the acquisition of TeamMate+.

Audit Division FY 2019 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 and 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.

Implementation of Risk Based Audit Plan for Fiscal Year 2019

The Medium-Term Risk Based Audit Plan for Fiscal Year 2019 became operational on October 01st, 2018 and the implementation of this plan was a major activity undertaken by the ONPA during the year under review. A summary of work done is as presented in Table 1.0 below:

Table 1.0: Summary of AUDIT work done FY 2019

Description	Planned (including Carry Overs)	In progress by 09/30/2019	No-Go	Completed assignments
Performance and Compliance	22	15	1	6
Single Audit 2019(By External Auditor)	26	0	0	26
Working tools (Plan, Manuals, IT Applications)	2	2	0	1
TOTAL	50	17	1	33

As indicated above, there were 22 performance/compliance audit reviews, 26 single audits and establishment of two-working tool which were planned for implementation during the year under review.

Out of the twenty two (22) planned performance/compliance audit reviews, six (6) were completed, one (1) was a No-Go while fifteen (15) were still in progress by September 30, 2019;

single audit was outsourced to external Certified Public Accountant firm; and on the other hand, the establishment of working tool Risk Based Audit Plan was completed as planned.

The main challenge that faced the ONPA was inexperienced staff, new staff who had to adapt to the environment, delay in receiving information requested from auditee. In order to address these challenges, ONPA engaged in various interventions including in-house training, external training, hands-on on-job training, etc. Despite these challenges, overall, ONPA carried out a total of 33-assignments out of the planned 50 activities. Table 2.0 below gives additional details of the assignments carried out during the year.

Table 2.0: Performance/Compliance Audit Review and other Projects Conducted in Fiscal Year 2019

#	CODE	AUDIT PROJECT	RISK PROFILE	STATUS
PERFORMANCE/COMPLIANCE AUDIT				
(i)		MiCare Health Insurance Plan	High	Completed
(ii)		YAP Department of Health and Social Affairs	High	W.I.P.
(iii)		FSM Department of Health and Social Affairs	High	W.I.P.
(iv)		SDG Preparedness	High	Completed
(v)		CFSM Public Projects – Kosrae State	High	Completed
(vi)		CFSM Public Projects – Yap State	High	Completed
(vii)		CFSM Public Projects – Chuuk State	High	W.I.P.
(viii)		Preparation of Audit Manual	High	W.I.P.
(ix)		FSM Personnel Division: Professional and Marketing Premium Program	Medium	Completed
(x)		FSM Personnel Division: Housing Program	Medium	Completed
(xi)		FSM Department of Transport, Communication and Infrastructure: Procurement	High	W.I.P.
(xii)		Land Acquisition/Real Property	High	W.I.P.
(xiii)		FSM Postal Services	High	W.I.P.
(xiv)		FSM Development Bank	High	W.I.P.
(xv)		Follow-Up Audit: Guam Consulate General Office	High	W.I.P.
(xvi)		Follow-Up Audit: Improvements are Needed at Personnel Office to Effectively Administer the Housing Programs	High	W.I.P.
(xvii)		Follow-Up Audit: MICARE Plan Challenged by Oversight and Management Issues; New Team Optimistic About Future Prospects	Medium	W.I.P.
(xviii)		Follow-Up Audit: Norma Should Improve Its Compliance with The Terms and Conditions of The Prop Project	Medium	W.I.P.
(xix)		Follow-Up Audit: Divisions of Customs & Tax Administration: Improvement Is Needed in Assessing and Collecting the Taxes Due from Some Independent Contractors	Medium	W.I.P.
(xx)		Follow-Up Audit: Prepaid Tel-Card Purchases: Highly Susceptible to Abuse and Misuse Due to Lack of Effective Controls	Medium	W.I.P.
(xxi)		Follow-Up Audit: THE WE CARE Kosrae Patient Referral Program: Use of Funds Not in Full Compliance	Medium	W.I.P.
(xxii)		Follow-Up Audit: MTEC Financial Audit	Medium	W.I.P.

#	CODE	AUDIT PROJECT	RISK PROFILE	STATUS
SINGLE AUDIT 2018				
(i)		FSM National Government	High	Completed
(ii)		FSM Telecommunications Corporation	High	Completed
(iii)		FSM Government Employees' Insurance Health Plan	High	Completed
(iv)		FSM - National Fisheries Corporation	High	Completed
(v)		FSM Development Bank	High	Completed
(vi)		College of Micronesia -FSM	High	Completed
(vii)		FSM Petroleum Corporation	High	Completed
(viii)		Caroline Islands Air Inc.	High	Completed
(ix)		FSM Social Security Administration	High	Completed
(x)		Chuuk State Government	High	Completed
(xi)		Chuuk State Health Care Plan	High	Completed
(xii)		Chuuk State Housing Authority	High	Completed
(xiii)		Chuuk State Public Utility Corporation	High	Completed
(xiv)		Kosrae State Government	High	Completed
(xv)		Kosrae Housing Authority	High	Completed
(xvi)		Kosrae Port Authority	High	Completed
(xvii)		Kosrae Utilities Authority	High	Completed
(xviii)		Pohnpei State Government	High	Completed
(xix)		Pohnpei Fisheries Corporation	High	Completed
(xx)		Pohnpei Port Authority	High	Completed
(xxi)		Pohnpei Utilities Corporation	High	Completed
(xxii)		Pohnpei State Housing Authority	High	Completed
(xxiii)		Yap State Government	High	Completed
(xxiv)		The Diving Seagull Inc.	High	Completed
(xxv)		Yap State Public Services Corporation	High	Completed
(xxvi)		Yap Visitors Bureau	High	Completed

All twenty-six (26) Single Audits were outsourced to Deloitte & Touche LLP and were completed. During the implementation of the Medium-Term Risk Based Audit Plan for Fiscal Year 2019, priority was given to audit areas whose risk rating was ranked to be 'higher' followed by those with 'medium' risk. However, in some cases, the low-rated risk projects were selected based on their sensitivity to the public and other stakeholders.

The preparation and operationalization of Risk Based Audit Plan (RBAP) for Fiscal Year 2018-2021 was also completed as scheduled; and installation and operationalization of the Team Mate+ Audit; development and operationalization of Strategic Plan were still in progress

Implementation of Audit Recommendations for Fiscal Year 2019

Conducting audit follow-ups was a new service we started during 2019, and Table 3.0 has the status of audit recommendations and implementation thereof as of the year ended 2019

Table 3.0: Progress of Implementation of Audit Recommendations

#	Name of the Audit Project	Recommendations			Remarks
		Raised	Implemented	In progress	
1	Pacific Regional Oceanscape Program Project -National Oceanic Resource Management Authority (World Bank) Audit Report No.	4	4	N/A	Feedback has been received from the management of NORMA.
2	MiCare Plan Challenged by Oversight and Management Issues: New Team Optimistic About Future Prospects (Audit Report No. 2019-01)	18	0	18	Feedback has been received from the management of MiCare Plan.
3	Kosrae CFSM Public Projects and Social Programs (Audit Report No. 2019-05)	18	0	0	No feedback has been received yet.
4	Limited Capacities at the Division of Personnel Affects the Administration of the Professional and Market Place Premium Program (Audit Report No. 2019-03)	4	0	4	No feedback has been received yet
5	Improvements are needed at Personnel Office to Effectively Administer the Housing Program (Audit Report No. 2019-02)	5	0	4	No feedback has been received yet
6	CFSM Public Projects for Yap State – Lack of Compliance with Laws and Regulations (Audit Report No. 2019-06)	10	0	0	No feedback has been received yet.

Development of Working Tools

The Audit Division continued with ongoing initiatives to develop all necessary working tools as well as participating in developing ONPA's internal policies and procedures as and when need arises. In this regard, the Audit Division worked and participated in activities earmarked for FY 2019 which included but not limited to review of the Audit Manual, establishment of Risk Management Framework together with the Risk Register, IT Policies and Procedures, Management Information System, etc.

TeamMate+ Audit (Computer Aided Audit Tool) which was not part of our planned activities for FY 2019, was installed and training conducted during the last week of September 2019. It is expected that the acquisition and operationalization of TeamMate+ will change the way things are being conducted specifically in auditing and administration of various activities within the Office of the National Public Auditor.

Performance and Compliance Audits Issued during FY-2019

The six (6) performance and compliance audits we completed and issued in FY-2019 are as follows;

1. Audit Report No. 2019-01, MiCare Plan Challenged by Oversight and Management Issues: New Team Optimistic About Future Prospects;
2. Audit Report No. 2019-02 – Improvements Are Needed at Personnel Office to Effectively Administer the Housing Program;
3. Audit Report No. 2019- 03 – Limited Capacities at the Division of Personnel Affects the Administration of the Professional and Market Place Premium Program;
4. Audit Report No. 2019-04 – Performance Audit of Preparedness for Implementation of Sustainable Development Goals, Federated States of Micronesia;
5. Audit Report No. 2019-05 – Kosrae CFSM Public Projects and Social Programs Were Approved Without Appropriate Selection Processes; and,
6. Audit Report No. 2019-06 – CFSM Public Projects for Yap State Lack Compliance with Law and Regulations.

Audit Report No. 2019-01, MiCare Plan Challenged by Oversight and Management Issues: New Team Optimistic About Future Prospects

Based on our audit findings, we concluded that the Board and Management exposed the Plan and took risks that had no corresponding internal controls to mitigate them to an acceptable level. The risks in various processes were not mitigated by systems in place (internal controls), that should have been expected to adequately identify, measure, monitor, and most importantly, control the risks to the acceptable level. As a result, the Board and Management did not adequately fulfill their responsibilities to ensure that the Plan operated in a safe and sound manner; the Plan's overall financial condition improved rather than declining and incurring substantial financial losses; and depletion of the Plan's capital leading to a need for a considerable capital infusion for the Plan to survive. Our audit had disclosed the following weaknesses:

- (i) There was inadequate Corporate Governance;
- (ii) Management had inadequate annual budget that failed to implement Strategic Plan of the organization in order to achieve goals and objectives promulgated therein;
- (iii) Lack of risk management policy and framework;
- (iv) Lack of performance evaluations for the Administrator and Senior Management;
- (v) There was an absence of effective information and communication technology (ICT) controls resulted in breakdown of MiCare's operations and loss of critical data;
- (vi) Absence of performance results/measures to implement monitoring and reporting controls;
- (vii) Management had not developed adequate internal policies to provide necessary direction and guidance in managing their day-to-day operations;
- (viii) There was absence of code of ethics and independence declaration for Senior Management and Board of Directors; and

- (ix) The Board and Management failed to provide effective oversight and guidance on management of the Plan's accounts receivable.

Our recommendations were:

1. Corporate Governance

- (i) The Board of Directors of the Plan should ensure that meetings aimed at reviewing the performance of the Plan are held after the end of every financial quarter and before the end of the following quarter; and
- (ii) Board Meeting Minutes should be appropriately documented to ensure that their intended purposes are met, which include, but not limited to, decision making and corporate memory.
- (iii) Annual Operation Plan and Budget

The Plan to prepare a comprehensive 'annual operational plan and budget' based on the approved Strategic Plan to guide the management in utilizing the limited resources especially for priority areas. The operational plan will also ensure that all activities are aligned with the overall vision of its current Strategic Plan (2014-2018) and clearly show anticipated performance results (both financial and non-financial) over the period of the Plan.

2. Risk Management

- (i) The Plan to develop and adopt an appropriate formal risk management policy and framework and procedures;
- (ii) Conduct awareness through capacity building to members of the Board, Management and entire staff; and
- (iii) To ensure that the developed and adopted Risk Management Policy and Framework and Procedures are used for strategic and operational plan and implementation thereon.

3. Performance Evaluation

Develop an annual performance evaluation process for senior management (including the Administrator) of the Plan to:

- (i) formally evaluate the senior management's performance against the established duties and objectives that were agreed to by the Board and the Administrator at the start of the year;
- (ii) discuss and agree on performance measures for the subsequent year; and
- (iii) communicate the results of the evaluation.

4. Information Technology

- (i) Develop, test and implement business continuity and recovery plan including backup procedures for ICT systems; and
- (ii) Employ qualified ICT personnel to ensure management information system is adequately managed, supported and maintained.

5. Performance Monitoring and Reporting

The Plan to establish appropriate performance indicators or targets, and implement adequate measurement, monitoring and reporting of the Plan's performance to ensure an effective service delivery through the achievement of goals and objectives.

6. Internal Policies and Procedures

The Plan to develop and establish internal policies and procedures and the related accountability requirements, as guidance to all MiCare's key activities and processes.

7. Code of Ethics

- (i) The Plan to develop a **Code of Ethics** to provide guidance on the ethical behavior required for Members of the Board of Directors; and
- (ii) To develop a process to ensure that all new Board Members sign 'independence declaration forms' to confirm their independence before commencement of board duty.

8. Collection of Accounts Receivable

- (i) The Plan to assign and build the capacity of staff responsible for monitoring, reporting and collection of accounts receivables;
- (ii) The Plan to ensure Accounting Division submit accurate and timely accounts receivable information on weekly and monthly basis annually; and
- (iii) The Plan to develop and implement policies and procedures for credit and collection for all receivables.

Audit Report No. 2019-02 – Improvements Are Needed at Personnel Office to Effectively Administer the Housing Program:

The audit objectives were to determine whether Personnel Office: (a) Complied with the PSSR requirements in administering the Housing Program; (b) Had a proper monitoring system to ensure that the Housing Program was operating effectively in accordance with its applicable regulations; and (c) Had sufficient guidelines to effectively administer the Housing Program.

Based on our audit, we concluded that the Personnel Office's administration and management of the Housing Program was greatly challenged and faced institution issues which included understaffing, insufficient budgeting, policies and guidelines that needed to be updated, and duties and responsibilities that needed to be established, aligned and clearly included in Key Staff's Job Description. In addition, the legal mandates and legal framework for the office should be carefully reviewed and improved in order to give the Office the efficiency and effectiveness in administering the Housing Program.

The findings included the following:

- (i) Possible non-compliances and lack of documentation to support determination of eligibility;
- (ii) Monitoring of the housing program could be improved; and
- (iii) Inadequacy of regulations for the housing Program;

In addition, we referred several transactions to the Compliance Investigation Division for further review and evaluation.

Audit Report No. 2019- 03 – Limited Capacities at the Division of Personnel Affects the Administration of the Professional and Market Place Premium Program:

This is the second audit our Office has done on the Professional and Market Place Premiums Program. It was conducted mainly based on information we received from a key departmental staff

who alleged that a recipient of the professional premium within the same department where he worked did not meet the eligibility requirements.

Our review focused on two main areas: internal controls and performance, and to address these areas, we developed two audit objectives:

To determine whether there were internal controls (policies and procedures) to guide the Division and beneficiaries; and their effectiveness in relation to the program; and
To review the implementation of the program and determine whether the Program was achieving its intended goals and if there is value for money.

Based on our audit, we concluded that there was lack of adequate and effective internal controls (i.e. policies and procedures) to guide the staff of the Division of Personnel and the Program beneficiaries. As a result, the National Government did not fully achieve the desired goals and values of the Program by attracting and retaining qualified workforce in the government.

Specifically, during our audit we found that there:

1. Were employees who did not qualify for the premiums but were receiving professional premium.
2. Were no appropriate mechanisms to ensure that the beneficiaries deliver the services required in terms of training and capacity development for the local employees.
3. Was no awareness provided to the departments/offices/and entities of the National Government regarding the existence and purpose of the Professional and Market Place Premium Program. Consequently, a small number of employees from only a few departments were aware of and took the effort to apply and access the Program.

In addition, some issues were referred to Compliance Investigation Division for further review and evaluation.

Audit Report No. 2019-04 – Performance Audit of Preparedness for Implementation of Sustainable Development Goals, Federated States of Micronesia:

We conducted this audit at the Office of the National Public Auditor (ONPA) in collaboration with Office of Public Auditors of the four states (Pohnpei, Kosrae and Yap) with regard to localization or integration and implementation status of the UN's 17-Strategic Development Goals (SDGs).

This audit was conducted based on the initiatives made by as part of a cooperative initiative undertaken by the Pacific Association of Supreme Audit Institutions (PASAI) with the support of the Asian Development Bank and INTOSAI Development Initiative (IDI) aimed at ensuring that Supreme Audit Institutions (SAIs) of the Pacific Region participate in assisting governments and their agencies to improve in localization, monitoring and reporting of SDGs. The audit begun in July 2017 and it has taken more than 22 months up to finalization of this report. The length of the assignment was mainly due to the fact that FSM National Government and the State Governments

did not establish any coordinated efforts in implementing the SDGs of which FSM National Government is a signatory along with other 192 members states of the UN (the resolution committing these nations to the 2030 Agenda for Sustainable Development was adopted in September 2015). The Agenda contains 17 SDGs and 169 targets, seeking to build on the Millennium Development Goals (MDGs) that ended in 2015.

The audit assessed the extent to which the actions implemented by the FSM Governments at the national level since the endorsement of the 2030 Agenda in September 2015, are adequate to support preparedness for the achievement of the SDGs. Specifically, the audit assessed whether, besides being a signatory to the UN resolution, the SDGs were adopted and integrated in national long-term and short-term plans; and the institutional framework, resource allocation system, communication *and engaging with stakeholders*, as well as whether monitoring and reporting mechanisms were developed and were in place as at May 2019. The audit also examined SDGs preparedness at the sub-national level since much of the SDGs implementation will take place at the sub-national level. Appendix I, outline the key audit questions used to achieve the audit objectives.

Based on our audit, we concluded that within the FSM National Government and the State Governments there were:

- (i) Inadequate mechanism for adaptation of UN's Sustainable Development Goals to FSM's National Context;
- (ii) Inadequate identification and mobilization of resources and capacities; and
- (iii) Lack of mechanism to monitor, follow-up, review and report on the progress towards the implementation UN's Sustainable Development Goals.

Audit Report No. 2019-05 – Kosrae CFSM Public Projects and Social Programs Were Approved Without Appropriate Selection Processes; and,

Between Fiscal Years 2017 and 2018 the Congress of the Federated States of Micronesia passed sixteen (16) Public Laws to appropriate funds from the General Fund to fund public projects and social programs in the four states of the Federated States of Micronesia (FSM) (referred to as CFSM public projects and social programs). The objectives of this performance audit were to determine whether:

- (i) appropriate processes for reviewing and selecting projects were developed;
- (ii) project funds were expended in accordance with their intended purposes; and
- (iii) project implementations were in accordance with applicable laws and regulations.

We found that there was no adequate review and scrutiny of projects purpose, cost, and benefits were performed by the Kosrae Congressional Delegation Office before proposed projects and project funding amounts were submitted to Congress and enacted into public law. We also observed that the Delegation Office did not coordinate or request assistance from the Kosrae State Governor's office in reviewing and selecting projects. For the most part, the State Government had little or no involvement with these projects.

We further observed that the sub-allottee responsible for overseeing 90% of public projects and social programs was overextended in his duties, allowing some projects to be mismanaged and funds misused.

Regarding management of public projects and social programs, we found that public contracting and financial regulations were not followed, accounting records were absent or not kept, and there were insufficient controls over expenditures. In particular, the Project Control Documents, that were completed by the project sponsor, were not always clear, complete, or accurate, or effective as a control document.

The Department of Finance and Administration, which was responsible for safeguarding public resources, failed to take necessary actions to ensure that appropriate documents were submitted when allottees were accounting for funds disbursed to them and to also failed recover public funds from allottees even where it was clear that such were used for purposes other than those described in the appropriation law.

Accordingly, the FSM National and the Kosrae State Governments had little assurance that the Congressional funded Public Projects and Social Programs in Kosrae were managed with the State's interest and priority, or compliment the State's infrastructure or development plans; be confident that the project costs were reasonable or appropriate and that financial regulations were followed.

Audit Report No. 2019-06 – CFSM Public Projects for Yap State Lack Compliance with Law and Regulations.

The objectives of this performance audit were to determine whether:

- Appropriate processes for reviewing and selecting projects were developed;
- Project funds were expended in accordance with their intended purposes; and
- Implementation of CFSM public projects were in accordance with laws and regulations.

We noted that public projects initiated through the Yap Congressional Delegation Office and passed into public laws were not reviewed or coordinated with the Yap State Governor's office. Yet, the Governor and the State were required to implement and manage these projects irrespective of the State's available resources or the priority the State may assign to these projects. We also noted that project costs were not analyzed with enough scrutiny before being enacted into public law resulting in the authorized appropriation becoming the budgeted amount to spend regardless of how reasonable the amounts were for the projects. With regards to management of public projects, we found instances where oversight was poor or lacking, contractual and financial regulations were not followed, record keeping was absent, and program guidelines were not followed.

Furthermore, the FSM National and the Yap State Governments have little assurance that the Congressional funded public projects in Yap were managed with the State's interest and priority, or compliment the State's infrastructure or development plans. Both governments couldn't be confident that the project costs were reasonable or appropriate. Moreover, management oversight did not ensure that regulations were followed. With enhanced restrictions on Compact funds and with limited resources, FSM funds might have been better used to achieve the YAP State's

development goals had efforts of the State Government, communities and Congressmen been coordinated.

Single Audit Division FY2019 Accomplishments

FSM National and State Governments are required to have their general-purpose financial statements audited annually. The following are the results of the Fiscal Year 2018 Single Audits conducted during Fiscal Year 2019.

FY 2019: Contents of Fiscal Year 2018

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
FSM National Government	Unmodified	2	-	-	-	-
Caroline Islands Air	Unmodified	0	\$ -	\$ -	\$ -	\$ -
College of Micronesia-FSM	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM Petrocorp	Unmodified	3	\$ -	\$ -	\$ -	\$ -
FSM Telecommunications	Unmodified	1	\$ -	\$ -	\$ -	\$ -
FSM Telecommunications Corporation	Unmodified	0	-	-	-	-
FSM Social Security	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM Development Bank	Unmodified	0	\$ -	\$ -	\$ -	\$ -
FSM MiCare	Unmodified	2	\$ -	\$ -	\$ -	\$ -
National Fisheries Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Pohnpei State Government	Unmodified And Qualified	2	\$ 584,803		\$ -	\$ 584,803
Pohnpei Housing Authority	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Pohnpei Port Authority	Unmodified	1	\$ -	\$ -	\$ -	\$ -
Pohnpei Utilities Corporation	Unmodified	2	\$ -	\$ -	\$ -	\$ -
Chuuk State Government	Unmodified and Qualified	4	-	\$ -	\$ -	-
Chuuk Public Utilities Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Chuuk State Health Care Plan	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Yap State Government	Adverse and Unmodified	3	\$277,044	-	-	\$652,924
Yap Visitors Bureau	Unmodified	0	\$ -	\$ -	\$ -	\$ -

Entity	Opinion	No. of Findings	Questioned Costs			
			Prior Years	Resolved	Current	Total
Yap State Public Services Corp.	Unmodified	0	\$ -	\$ -	\$ -	\$ -
Diving Seagull	Unmodified	2	\$ -	\$ -	\$ -	\$ -
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 FY2018 Single Audits, taken directly out of reports submitted by Deloitte & Touche.

FSM National Government

For the fiscal year ended September 30, 2018, FSM National Government had total net position of \$610M compared to FY2017 of \$488M. The increase was primarily due to the increase in general and grants assistance revenues.

During the year, the FSM National Government wrote-off old receivables of \$1.2M compared to FY 2017 of \$254K.

The net change in governmental funds was increased by \$106M (FY17 \$66M). Total revenues reported were \$217M with total expenditures of \$111M. Total loan proceeds from ADB Loan were \$669K.

At September 30, 2018 the General Fund reported an unassigned surplus of \$30M (FY17 \$23M).

Caroline Island Air (CIA)

Total assets decreased from \$650K in FY2017 to \$450K in FY2018. Total liabilities increased from \$9k in FY2017 to \$42k in FY2018.

For fiscal year 2018, revenue sources of CIA operations were from \$395K of passenger airfare, \$204K of charter services, \$142K of baggage fees, and \$72K of freight and others.

College of Micronesia-FSM (COM-FSM)

Total assets of the College of Micronesia-FSM increased by \$502K, while the total liabilities increased by (\$55K).

The comparison of the statement of net position for fiscal year 2018 with prior year indicated an increase in net position by \$447K or 2%.

FSM Development Bank

Total assets increased slightly by \$5K in FY2018, while liabilities decreased by \$4K, which resulted in an increase of about \$9K in total net position.

The Bank in 2018 approved \$23.15M for 494 loans. In terms of loan approvals for 2018, over 89% was approved for loans in the commercial, tourism, and agriculture/fisheries sectors.

In 2018, the lone long-term liability the Bank had with the European Investment Bank (EIB) was reduced to \$900K compared to \$1.0M in 2017.

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

Total assets decreased slightly by \$1.9M, and the total liabilities also decreased by \$1.5M. Total net position decreased by \$448K from \$694K net position in 2017.

Total operating revenues decreased by \$87.5K from \$6.4M in 2017 to \$6.3M in 2018, while operating expenses increased by \$104K from \$7.6M in 2017 to \$7.7M in 2018. Non-operating revenues increased from \$503K in 2017 to \$594.1K in 2018.

FSM Petroleum Corporation (Petrocorp)

Total assets increased from \$59M in FY2017 to \$65M in FY2018 with a difference of \$6M, while total liabilities increased by \$12M in FY2017 to \$17M in FY2018. Total net position increased by \$48M in FY2018 compared to \$47M in FY2017.

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 2018 was \$3.2M as compared to \$6.5M in 2017.

FSM Social Security Administration (FSMSSA)

Contributions collected increased by \$829K to \$19.72M in 2018 compared to \$18.89M in 2017. The increase in contributions was attributed mainly to the increase in maximum quarterly taxable wages from \$7K to \$8K effective January 01, 2018.

Benefit payments to members or their beneficiaries increased by \$1.4M to \$22.18M in 2018 compared to \$20.78M in 2017. 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 2018, 6,696 beneficiaries received social security benefits and 810 retirement, survivor and disability claims were also received and processed in year 2018.

Net position totaled \$49.8M as of December 31, 2018, compared to \$55.5M as of December 31, 2017, a decrease of 10.2%.

In year 2018, \$945K was collected from delinquent accounts. Some delinquent employers remained non-compliant and did not pay their delinquent accounts. For this reason, more of these employers

were being referred to legal counsel. As of first quarter 2019, \$42.4M delinquent accounts were with court judgment.

FSM Telecommunications Corporation (FSMTC)

Total assets decreased by \$2.5M and total liabilities also decreased by \$1.7M compared with prior year. The decrease was due to RUS loan and 3G revenue sharing repayments and updated payments with major vendors and suppliers. The equity of FSMTC was affected by the change in both assets and liabilities and decreased by a net loss of \$822K.

During FY2018, 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 \$3.5M as compared with \$3.9M in FY2017.

Total operating revenue in FY2018 increased by \$73K compared to FY2017. The Operating expenses in FY2018 increased by \$815K compared to FY2017 operating expenses. This increase could be attributed to satellite commitments that were now overlapping with fiber optic connectivity.

National Fisheries Corporation (NFC)

Company assets of \$4.921M comprised \$1.8M of current assets and \$3.081M noncurrent assets. The \$1.840M current assets consist of cash, which accounts for \$1.220M, investments in securities, which accounts for \$554K, and accounts receivable and advances for \$66K. The noncurrent assets of \$3.081M comprised \$2.968M of equity investment and \$113K of the Company's property and equipment, net of accumulated depreciation.

NFC's liabilities of \$29K were all current and consisted of \$18K of accrued liabilities and \$11K of accounts payable.

Pohnpei State Government

The Pohnpei State's total government activities net position for FY2018 was \$58M.

The net change in total governmental fund balance was an increase of \$5.4M. Total revenues reported were \$41M against total expenditures of \$36M.

Actual revenues for the general fund were \$42.8M higher than budgeted revenues. The total expenditures-budgetary basis showed an unfavorable variance of \$1.3M. The general fund reported an unassigned fund balance of \$3.3M, which was an increase of \$253K from the prior year unassigned fund balance of \$3.6M.

Pohnpei Port Authority (PPA)

Operating revenues increased by \$438K from last year and operating expenses were \$30K higher compared to fiscal year 2017.

Current assets increased by \$1.3M while liabilities increased by \$60K. Total net position increased by \$1.3M.

Pohnpei State Housing Authority (PSHA)

For fiscal year ended September 30, 2018, the Authority's net operating revenues decreased by \$45K from prior year's \$271K. The decrease in revenues was mainly due to reduction of \$42K from the interest and fees on loans.

During the year, the Authority's total expenses increased by \$15K to \$183K from prior year. The Authority also collected an aggregate amount of \$194K representing the actual interest and fees paid by customers on loans.

Pohnpei Utilities Corporation (PUC)

Overall changes in the statements of net position components included a decrease in utility plant of \$2.0M, an increase of current and other noncurrent assets of \$291K and a decrease in total liabilities of \$365K. Decrease in liabilities was primarily due to a decrease in long-term debts.

Increase in operating revenue before bad debts was mainly due to the increase in tariff for electricity and an increase in water sales due to additional hookups. Increase in operating expenses was 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, 2018, Chuuk State's total net position decreased by \$1.292M from \$42.911M in the prior year to \$41.619M.

Chuuk State's revenues of \$41.436M decreased by \$1.261M from \$42.697M, as restated, in fiscal year 2017. The decrease in revenue was primarily attributable to decrease in Operating grants and contributions, revenue sharing proceeds, and unrestricted investment earnings. Expenses in fiscal year 2018 of \$42.728M increased by \$2.780M from \$39.948M in fiscal year 2017. The increase was due to increases in expenses for general government, health services, boards and commissions, community affairs, judiciary, capital projects and unallocated interest on long-term debt.

The General Fund deficit slightly decreased by \$0.708M in FY2018, decreasing from \$3.589M in the prior year to 2.881M. The increase in state taxes, fees and departmental charges contributed to the deficit decrease.

Chuuk Public Utilities Corporation (CPUC)

Total assets at the end of FY2018 were \$24.9M, compared to \$24.6M in FY2017. The net position at the end of the FY2018 also increased to \$20M from \$19.5M at the end of FY2017.

There was a slight increase in operating revenue compared to last year. Operating revenue continued to improve, bringing in \$7.3M in FY2018 compared with \$6.3M in FY2017. Operating

expenditure increased in FY2018 by \$0.9M, resulting in an operating loss of \$235K. The trend has been improving for CPUC over the years; operating loss for FY 2017 for example was \$280K compared with FY2018's loss of \$235K.

Chuuk State Health Care Plan (CSHCP)

Total net position decreased by \$0.021M from \$1.634 M in the prior year to \$1.612M. The decrease was from the low premium revenues and more claims in the fiscal year.

During FY2018, the Plan had premium revenues of \$1.574M compared to \$1.644M in FY2017. The \$0.070M decrease was the result of the closing of two of the biggest private sector businesses. Medical claim expenses of \$1.377M in FY2018 increased by \$0.104M from \$1.273M in the prior year. This increase in medical claim expense resulted in net loss in FY2018 compared to net income in FY2017.

The Plan had net loss of \$0.021M compared with the net income of \$0.135M in FY2017. The plan had a larger number of patients off-island referrals in FY2018 compared to FY 2017.

Yap State Government

Total net position increased by \$4.1M from \$105.3M in the prior year to \$109.4M. In comparison to FY2017, revenues decreased by \$6.7M, and total expenditures decreased by \$5.3M. The decrease in revenue was due to decreases in general fund of \$2.4M and foreign assistance grants of \$1.9M compared to fiscal year 2017 of \$9.2M in general fund and \$14.4M in foreign assistance grants. Revenues available for appropriation were \$5.2M less than budgeted for the general fund. Actual expenditures were \$615K less than the final budgeted amount.

The Yap State Investment Trust Fund reported a fund balance of \$56.8M, which was an increase of \$44.5M from prior year, due to gains in the fair value of the investment.

At the end of the fiscal year, the unassigned balance of the general fund was \$9.2M.

Yap Diving Seagull, Inc.

Total assets of \$8.2M at the end of FY2018 represented a 14% decrease over FY2017. The decrease in total assets in 2018 was primarily the result of depreciation expense and payment of outstanding liability with the Parties of the Nauru Agreement (PNA).

Operating revenue generated from fish sales of \$8.9M represents a decrease of 3% over 2017. The company had applied new fishing technology during the time after *Mathawmarfach* was operable to fish efficiently, just gradually to recover their losses from 2017. In addition, the price per ton of fish sold in 2017 was up by over 15% when compared to 2016. License, agent, and port fees decreased in 2018, and has saved the Company and allowed to recover some of its loss.

The Company ended FY2018 with a net loss from of \$167K, an improvement compared to fiscal year 2017 with a net loss of \$1.9M.

The Company's cash flows from operating activities was a positive of \$302K and \$374K for fiscal years 2018 and 2017, respectively. Cash and cash equivalents decreased from \$1.7M to \$1.01M as of FY2018.

Yap State Public Services Corporation (YSPSC)

Financial operations for 2018 was a loss of \$201K compared to fiscal year 2017 operating income of \$1.5K. Operating revenues increased by 2% while operating expenses increased by 6% as compared to fiscal year 2017.

Total assets increased by \$1.2M from \$21.0M in FY2017 to \$22.2 in FY2018. Total liabilities also increased by \$4.3M in FY2017 compared to \$2.6M increase in FY2016.

Yap Visitors Bureau

Total assets increased to \$211K in FY2018 compared to \$189K in FY2017. Total liabilities decreased from \$10.6K in FY2017 to \$7.8K in FY2018.

Current liabilities increased by \$781K in 2018 compared to 2017.

Kosrae State Government

Total net position for fiscal year ended September 30, 2018 decreased by \$348K from \$38.7M in the prior year to \$38.4M 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 decreased to \$(706K) from \$(1.2M) in the prior year.

The General Fund total fund balance increased by \$380K from \$1.57M in fiscal year 2017 to 1.95M in fiscal year 2018. The increase was mainly due to a \$503K contribution from the National Government.

Kosrae Port Authority (KPA)

Total assets for FY2018 were \$15.3M, a decreased compared to \$15.9M in FY2017. Total liabilities decreased from \$130K in FY2017 to \$103K in FY2018. This resulted in a decrease of about \$561K in net position in FY2018.

Total operating revenues increased from \$376K in FY2017 to of \$523K in FY2018. However, the total operating expenses in FY2018 was \$1.162M decreased from \$1.218M in FY2017. This also resulted in an operation loss of \$638K in FY2018

Kosrae Utilities Authority (KUA)

Total assets decreased from \$4.225M in FY2017 to \$4.105M in FY2018. Total liabilities decreased from \$254K in FY2017 to \$178K in FY2018.

Total net position in FY2018 was \$4.105M compared to the prior year of \$4.225M. This resulted in a decrease in net position of \$120K in FY2018.

Total operating revenues increased from \$2.55M in the prior year to \$2.69M in the current year and total operating expenses increased to \$2.9M in FY2018 from \$2.6M in FY2017 with a difference of \$214K in net operating loss.

Kosrae Housing Authority

This is the third audit on the Authority to be conducted by Deloitte & Touche in FY2018. The total assets for the year ended September 30, 2018 were \$787K and the total liabilities were \$190K. The total net position was \$597K.

Total operating revenues was \$71K, while the total operating expenses was \$206K with an operating loss of \$134K.

Compliance Investigation Division (CID) FY 2019 Accomplishments

The Compliance Investigation Division (CID) is one of the two divisions established by the ONPA to conduct its core activities. 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 by the Attorney General. In place of the MOU, FSM Congress passed in March 2017 an amended Public Auditor's Act enabling CID to conduct investigations on fraud and corruption within the National Government.

CID Case Statistics

Description	Quantity
Carried over from FY '18	4
Opened	7
Cases referred to DOJ	5
Cases referred to audit section	0
Cases completed (Closed & Management letter	8

2019 CID Case Discussion

No.	Case #	Program/Project	Source	Status
1	18-005	National Program	Concerned Citizen	Ongoing
2	19-001	National Program	Concerned Citizen	Ongoing

3	19-002	National Program	Audit Referral	Completed
4	19-003	CFSM Project	Informer	Management Review
5	19-004	National Program	Concerned Citizen	Ongoing
6	19-005	CFSM Project	Audit Referral	Ongoing
7	19-006	National Program	Concerned Citizen	Ongoing
8	19-007	National Program	Concerned Citizen	Ongoing

CID Hotline

The ONPA has a Hotline for any concerned citizens to report activities relating to 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 and calls are automatically recorded by an answering machine. All calls to the Hotline remain confidential. In addition, ONPA also offers an online complaint form, which 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 by several funding sources including IDI, PASAI, APIPA, US Graduate School, DOI/OIG, and ONPA Budget.

Other Matters of Interest

- November 2-30, 2018: Haser and Kelly attended the Strategy Performance Measurement & Reporting (SPMR) workshop in Cook Island
- November 29-December 07, 2018: Duke and Keller attended the IDI Capacity Development Program on SAI Engaging with Stakeholders workshop in South Africa
- December 05-10, 2018: Felix Yinug and Trifonovitch Sound attended the IIA-PI Risk Based Auditing: A Value-Add Proposition & Writing Effective Audit Report Training in Manila, Philippines
- December 14,15, 2018: Leonce Anthony attended the IIA-PI Audit of Construction Projects training in Manila, Philippines
- February 18-22, 2019: Haser, Erwihne, Kelly, Joey, Franny and Shelolyn attended the FSM Finance Management Regulation/CFSM Project in Conference in Chuuk
- April 2-4, 2019: Pernes attended Financial Investigation in Support to Asset Recovery Effort in Palau
- April 8-12, 2019: Haser, Kelly and Franny attended IDI/PASAI Program on SPMR- Monitoring and Reporting Workshop in Nadi, Fiji
- June 11-24, 2019: Jane attended the IIA-PI Writing Effective Audit Report and Tools & Techniques for internal Audit Staff in Manila, Philippines

- June 17-24, 2019: Felix, Rose and Trifonovitch attended the IIA-PI Tools and Techniques for Internal Audit Staff in Manila, Philippine
- July 31- August 2019: CID staff attended a workshop by UNDP on National Anti-Corruption Strategy and Implementation Mechanism
- August 19-29, 2019: Jane and Neong attended the 2019 Lakewood Experience in Colorado, Denver
- August 26-30, 2019: various staffs of ONPA attended the 30th Annual APIPA Conference in Guam
- August 28-30, 2019: Erwihne and Leonce attended the IIA-PI Tools and Techniques for IA Audit Manager in Manila, Philippine

Transparency Continues

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

New Staff Hired and Former Staff left

New Hires



Christopher Delcampo from Pohnpei was hired in February 18, 2019 as an Auditor I. Prior to working at the National Public Auditor Office he was a Tax Specialist at the Division of Customs and Tax Administration at the Department of Finance & Administration, FSM.



Susana A. Saballe from the Philippines was hired in April 23, 2019 as an Audit Supervisor of the ONPA. She previously worked as a Government/Tax Auditor with the Bureau of Internal Revenue, Tax Collecting Agency of the Philippines.



Miriamaa G.S.U Naivalu from Fiji was hired in May 17, 2019 as an Audit Supervisor of the ONPA. She previously worked as a Senior Internal Auditor with the iTaukei(Native) Land Trust Board in Fiji.

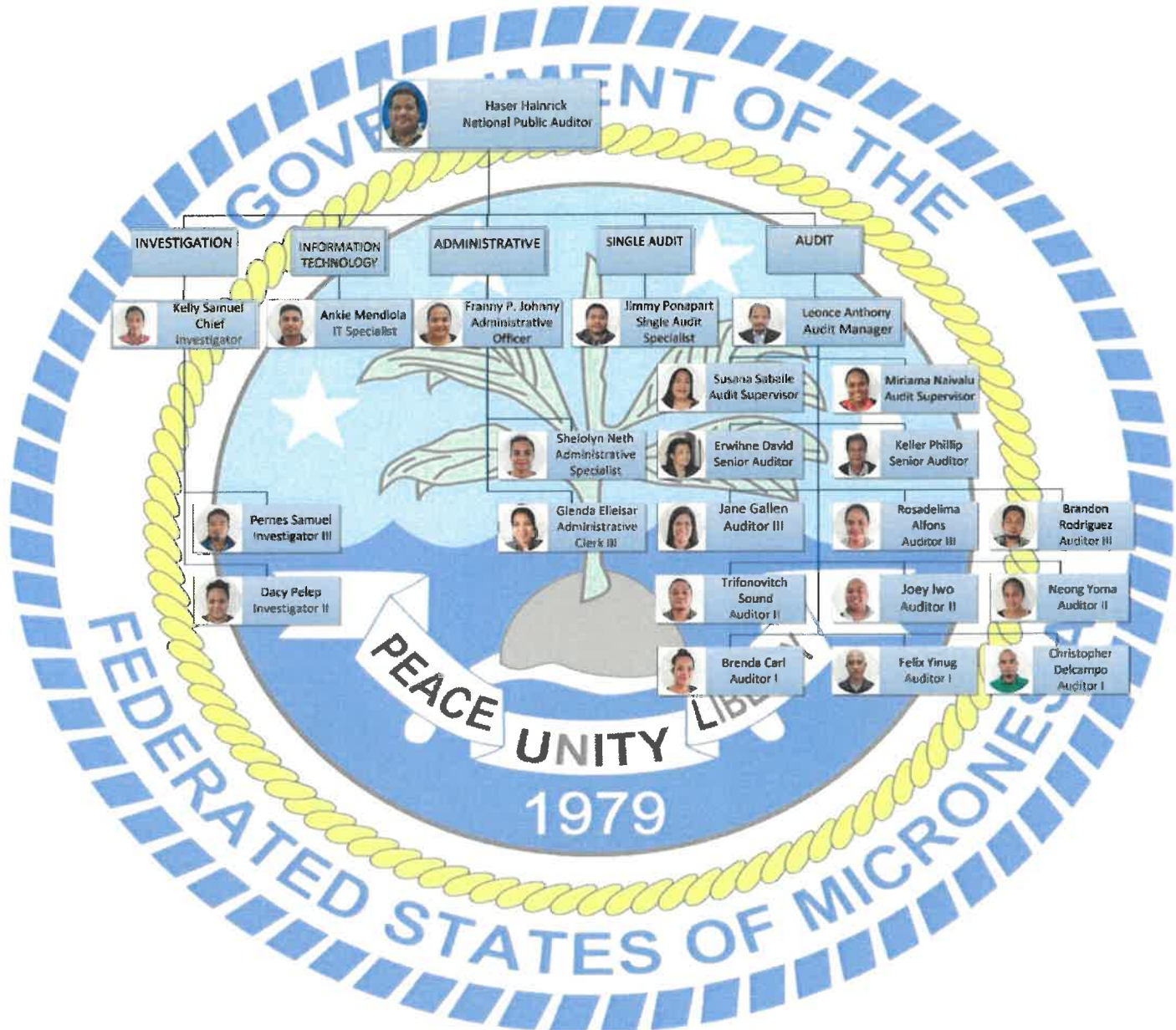
Looking Ahead to Fiscal Year 2020

1. We will start conducting audit follow-ups. This is a crucial service not only because it is a requirement of our Audit Manual and the Yellow Book, but also that if it is carried out effectively, this will compel the audited entities to implement audit finding and recommendations, which in almost all cases have already been agreed to by the Management. The value and benefits of our audit services can only be realized if the clients implement the recommendations. We will work closely with Congress to clearly report and highlight those entities with noncompliance so that appropriate legislative scrutiny on them can be carried out by the appropriate Congressional oversight committees.
2. The needed amendments to the Public Auditor's Act have been identified. The next step is to work with the Executive for its endorsement and with the Congress for its legislative approval for the identified changes.
3. We will assist the Kosrae OPA, the next host, to arrange and organize the 2020 annual conference/training for the Public Auditors and their staff.
4. Approval has been received to have the New Zealand OAG to deliver a SAINT workshop, which is a tool to evaluate the maturity of an organization's integrity systems.
5. We will continue to send our staff to attend the Lakewood Experience, which is an on-the-job training in Denver, Colorado provided by the US Department of the Interior, Office of the Inspector General.
6. We will finalize our office's strategic plan and annual operational plan.
7. We will provide an in-house training for staff and then implement TeamMate+, which is an computer aided audit tool acquired in 2019.
8. We will attend a team building workshop on Lenger island in Pohnpei, which will be conducted by Ms. Susana Saballe, Audit Supervisor.
9. We will begin to translate audit summaries into the local vernaculars and start airing them via the government run radio broadcasting stations throughout the FSM in order to reach our stakeholders who reside in the remote villages and outer islands.
10. We will explain and provide clear reasons as to why it is so important to re-establish a Field Office to be located on Weno in Chuuk State.
11. We will implement appropriate measures to proactively minimize staff's exposure to the COVID-19 pandemic and its effect on office operations.

Appendices

Appendix I—Organizational Chart

Office of the National Public Auditor Federated States of Micronesia



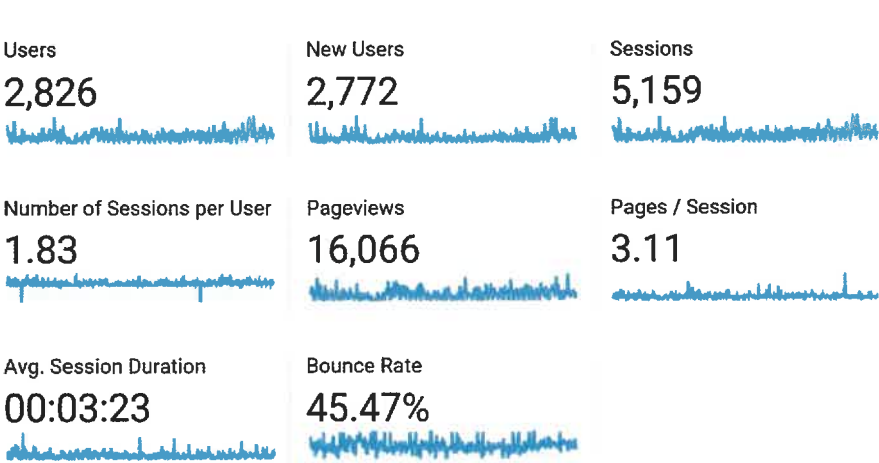
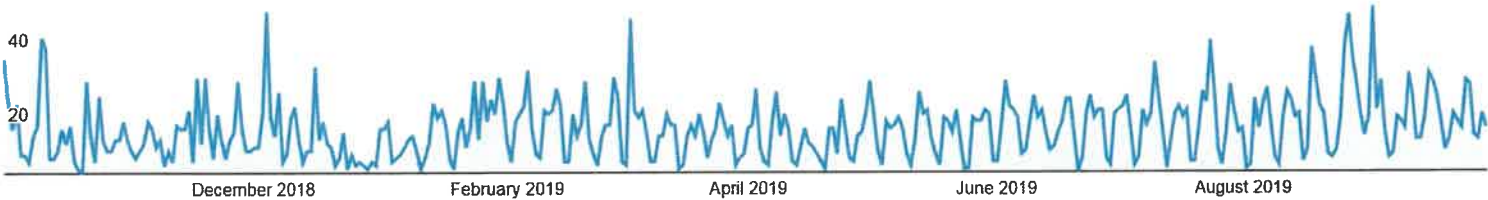
Audience Overview

Oct 1, 2018 - Sep 30, 2019

 All Users
100.00% Users

Overview

 Users
60



Language		Users	% Users
1.	en-us	2,354	83.24%
2.	ko	97	3.43%
3.	en-gb	74	2.62%
4.	fr-fr	34	1.20%
5.	pt-br	32	1.13%
6.	zh-cn	32	1.13%
7.	en-au	28	0.99%
8.	c	23	0.81%
9.	it-it	19	0.67%
10.	ja-jp	13	0.46%

Acknowledgement

This annual report was compiled by:
Franny P. Johnny, Administrative Officer

