

OFFICE OF THE NATIONAL PUBLIC AUDITOR



ANNUAL REPORT FISCAL YEAR 2023





FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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Friday, December 29, 2023

His Excellency Wesley W. Simina, FSM President
The Honorable Members of the 23rd FSM Congress

In accordance with the provisions specified in FSM Code, Title 55, Chapter 5, Section 505(6), I am pleased to submit the Annual Report for the Office of the National Public Auditor, for the fiscal year 2023.

Additionally, this report highlights our performance and operational results over the fiscal year ending on September 30, 2023.

We dedicate this Annual Report for 2023 in remembrance of our fallen colleague, Mr. Keller Phillip, Senior Auditor, who passed away in December 2023 after serving the National Government of the Federated States of Micronesia for close to 30 years with 21 years at the ONPA.

Respectfully submitted,

Haser H. Hainrick
National Public Auditor

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MESSAGE FROM THE NATIONAL PUBLIC AUDITOR

As we reflect on the fiscal year 2023, I am pleased to present a summary of key accomplishments and milestones achieved by the FSM Office of the National Public Auditor (ONPA). It has been a year of dedication, collaboration, and continuous improvement, and I am proud to share the highlights of our efforts.

Throughout the fiscal year, the ONPA conducted a series of audits, addressing a range of critical areas in the financial and operational landscape. Our dedicated audit teams comprising of our full-time permanent employees and the contracted CPA for the Single Audits successfully completed and issued fifteen audit reports on key government agencies and programs, providing valuable insights into financial accountability, transparency, and efficiency. These audits have played a crucial role in promoting responsible fiscal management and ensuring that public resources are utilized effectively.

Recognizing the importance of continuous professional development, our team actively participated in various workshops and training programs. These initiatives were designed to enhance our skills, stay up to date on audit methodologies, and strengthen our capacity to address evolving challenges in public auditing. By investing in our team's knowledge and expertise, we are better equipped to uphold the highest standards of accountability in our work.

Building trust and transparency within the community is at the forefront of our mission. In FY23, the ONPA increased its outreach efforts, engaging with stakeholders and the public through informative sessions, town hall meetings, and educational campaigns both in the state of Pohnpei and Kosrae. These activities aimed to foster a deeper understanding of the audit process, promote public awareness, and encourage collaboration in the pursuit of accountable governance. More of the key accomplishments will be highlighted and shared within the next few pages.

In conclusion, I want to express my heartfelt gratitude to the President, Congress, and the entire ONPA team for their steadfast support and dedication. The achievements we've reached wouldn't have been possible without the combined efforts of everyone involved. As we move forward, let's keep working together to reinforce the pillars of transparency, accountability, and good governance in our wonderful nation.

Respectfully submitted,



Haser H. Hainrick
National Public Auditor

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ABOUT US

The duties of the Public Auditor as specified in the FSM Code allows the Office to hold the entities receiving public funds from the FSM National Government accountable through the performance of financial & compliance audits, economy & efficiency audits and program results audits.

Our Vision

To contribute to a high performing, transparent and accountable government.

Our Mission

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

Our Mandate and Legal Form

The ONPA is the Supreme Audit Institution for the Federated States of Micronesia National Government, established under Article XII, Section 3 of the FSM Constitution.

The Public Auditor Act of 1983 (Public Law 3-47) further specifies the powers of the Public Auditor to examine and inspect all books, records, files, papers, documents, and all financial affairs of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National government, as well as other public legal entities, including state and nonprofit organizations receiving funds from the National Government.

The mandates specified in the FSM Public Auditor Act include the Appointment, Tenure, Removal, Duties and Powers of the Public Auditor and likewise the types of audits and audit standards.

Our Core Values

- | | | |
|-------------------|-------------------|------------------|
| • Independence | • Teamwork | • Respect |
| • Professionalism | • Timeliness | • Innovative |
| • Public Service | • Confidentiality | • Maturity |
| • Integrity | • Excellence | • Accountability |

THE WAY WE ARE ORGANIZED

Divisions

Audit Division – provides the audit and inspection services including the administration of the single audit engagements. Our audits are performed in conformity with either the *Generally Accepted Government Auditing Standards* (GAGAS), widely known as the “Yellow Book”, issued by the Comptroller General of the United States Government Accountability Office or the *Quality Standards for Inspections & Evaluations* (QSIE) issued by the U.S. Council of the Inspectors General on Integrity and Ethics (CIGIE).

Compliance Investigation Division (CID) – provides the investigation services and has two (2) primary functions: administrative and criminal functions. The Public Auditors Act was amended in 2007 to give the Public Auditor power to conduct criminal investigations. CID’s professional responsibilities are to identify systems and accountability weaknesses in the FSM National Government’s financial administration and to gather evidence of criminal activity for appropriate legal review and action, the latter is handled by the Department of Justice based on cases referred by CID. The standard used by CID to streamline their investigation and reporting processes is the *Quality Standards of Investigations (QSI)*, issued by the U.S. Council of the Inspectors General on Integrity and Ethics (CIGIE).

Corporate Services Division - The Corporate Services Division (CS) plays a critical role in supporting and enhancing the core operations of the office through a range of key functions. One of its primary responsibilities is to drive and coordinate the revision and preparation of the office's strategic and operational plans, ensuring alignment with organizational goals. CS diligently monitors, evaluates, and reports on the office's operational and performance targets, providing valuable insights to improve efficiency and effectiveness. Moreover, CS takes charge of managing all critical components of the office's human and staff resources, overseeing their performance, evaluations, and appraisal. The division takes a proactive stance in preparing the office's annual budget, thoroughly managing and controlling the administration of operational and program expenditures and delivering timely quarterly and annual reports. Additionally, CS is instrumental in ensuring that the necessary equipment, facilities, and other assets are readily available to facilitate the effective implementation of key programs and projects. Lastly, the division plays a crucial role in preparing, building, and assuring the readiness of the Office of the National Public Auditor (ONPA) to effectively manage and implement any additional key reforms under its Public Audit Act, contributing to the organization's adaptability and preparedness for evolving challenges.

Information, Communication & Technology Division – supports and maintains the existing computer network, procurement of computer and related items, monitoring of network, installation and reporting of computers and network components, troubleshooting, and maintaining the office website. In addition to its primary responsibilities, the ICT Division carries crucial roles within the Office of the National Public Auditor (ONPA). Firstly, as ONPA transitions into the next

generation of audit and inspection engagements facilitated by the automated audit tool TeamMate+, the ICT Division diligently oversees the proper management and maintenance of the system. This proactive approach ensures the seamless and efficient operation of TeamMate+ for all employees, upholding standards of effectiveness and appropriateness. Secondly, recognizing the significance of transparency in governance, the ICT Division becomes instrumental in ONPA's efforts to promote the Federated States of Micronesia (FSM) as a highly transparent government. This involves the strategic dissemination of vital audit and financial information through various social media channels, a crucial step in engaging key stakeholders both within and beyond the borders of the FSM. Through these additional roles, the ICT Division contributes significantly to the overall effectiveness and transparency of ONPA's operations.



THE WAY WE ARE ORGANIZED

ONPA Team

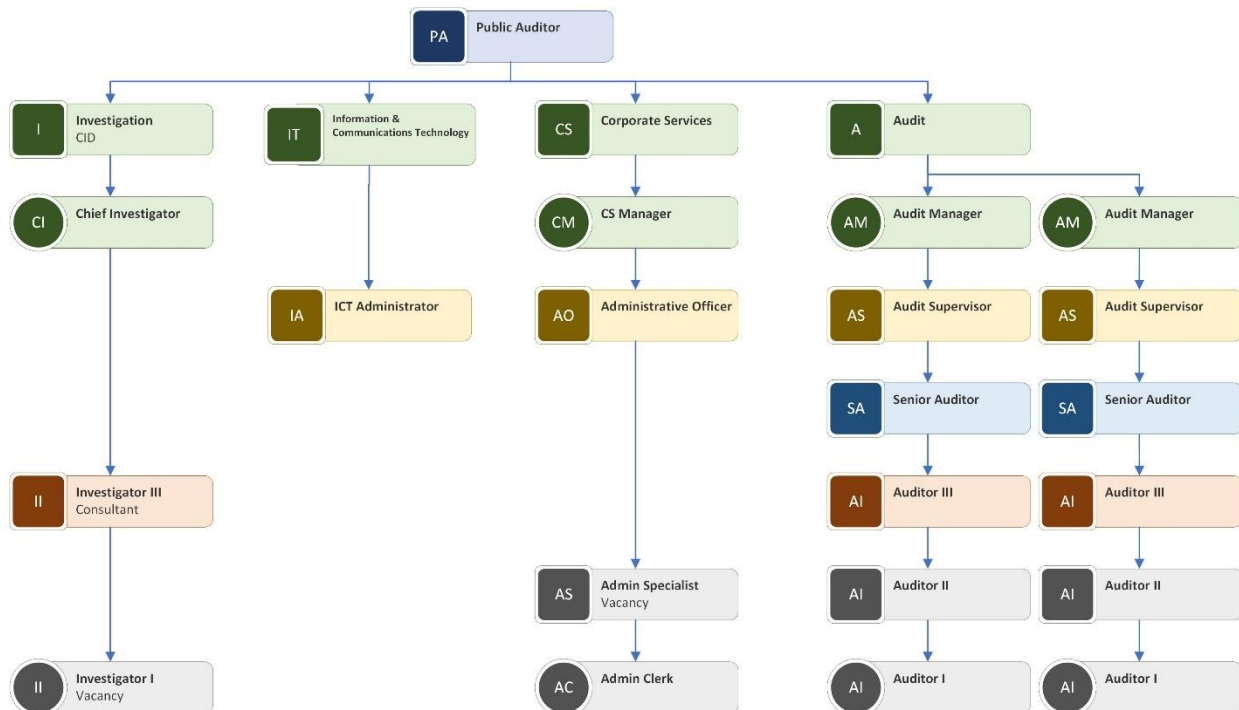
Our workforce comprised of 25 auditors, investigators, specialists, and corporate staff. According to our approved staff establishment, there are three (3) vacant positions, and the Office is working towards filling these vacant positions in the fiscal year 2023.

The Management Team



THE WAY WE ARE ORGANIZED

ONPA Structure



Refer to **Appendix 1.0** for the Approved Organization Chart as of September 30, 2023

Appointments in the year were as follows:

- FY2023: Lisa Johnny Administrative Clerk; appointed on 12/19/22.
- FY2023: Midson Tom Corporate Services; appointed on 01/09/23.

Resignations from the office were as follows:

- FY2023: Administrative Specialist Mr. Jeimy Soaz resigned on 08/18/23.



Professional Developments

The Government Auditing Standards (2018 Revision) issued by the Comptroller General of the United States Government Accountability Office sets-out certain requirements on continuing professional education. The Office is committed to ensuring that our workforce meets these requirements and through our affiliations with institutions such as APIPA, PASAI and INTOSAI we were able to meet these requirements.

Professional development for our staff is important, to build and equip our staff with the relevant knowledge to complete our work.

THE WAY WE ARE ORGANIZED

Table 1.0: Trainings attended by our staff for professional development:

No.	Date of Training	Topic	Facilitator/Support	No. of Staff attended the training
1	January 26, 2022	Preparing Finance Officers for the new Auditing Standards	United States Graduate School	2
2	March 16 & 21, 2022	Administration Training for TeamMate+	PASAI/Wolters Kluwer	8
3	March 25, 2022	End Users Training for TeamMate+	PASAI/Wolters Kluwer	15
4	April 28, 2022	Bluebook Standard	DOI-OIG	21
5	April 29, 2022	Introduction to Public Finance Management	PASAI /UNDP	21
6	June 06-17, 2022	Lakewood Experience Training	DOI-OIG	2
7	August 29, 2022	Opening Plenary Session – 33 rd APIPA Conference	US Graduate School & PITI-VITI	21
8	August 29, 2022	Creative & Critical Thinking	US Graduate School & PITI-VITI	21
9	August 30, 2022	Understanding the financial statement	US Graduate School & PITI-VITI	12
10	August 30, 2022	Leadership, Motivation & Accountability for High Performance Organizations	US Graduate School & PITI-VITI	10
11	August 30, 2022	Understanding the Single Audit	US Graduate School & PITI-VITI	9

No.	Date of Training	Topic	Facilitator/Support	No. of Staff attended the training
1	January 26, 2022	Preparing Finance Officers for the new Auditing Standards	United States Graduate School	2
2	March 16 & 21, 2022	Administration Training for TeamMate+	PASAI/Wolters Kluwer	8
3	March 25, 2022	End Users Training for TeamMate+	PASAI/Wolters Kluwer	15
12	August 31, 2022	Green Disclosures: Fact or Fiction	US Graduate School & PITI-VITI	13
13	August 31, 2022	GAS – What’s the Same, What’s Changed & Everything you need to know now	US Graduate School & PITI-VITI	6
14	August 31, 2022	Planning for a Risk Based Audit: It’s a Radical Idea!	US Graduate School & PITI-VITI	13
15	September 01, 2022	A New Day: Maximizing Impact & Value During a Transformative Time	US Graduate School & PITI-VITI	6
16	September 01, 2022	Being Realistic: Writing Good Goals and Objectives	US Graduate School & PITI-VITI	13
17	September 01, 2022	How to Deal with Risk: Implementing Internal Controls	US Graduate School & PITI-VITI	13
18	September 02, 2022	Closing Plenary – 33 rd APIPA Conference	US Graduate School & PITI-VITI	21
19	September 23-28	Internal Audit Strategic Planning Workshop	Internal training facilitated by the Audit Manager & Audit Supervisors	7

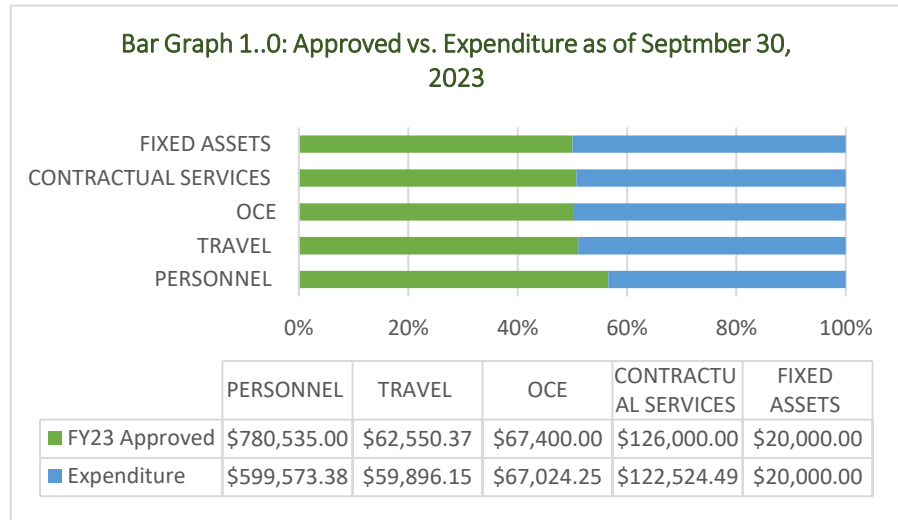


THE WAY WE ARE ORGANIZED

Our Finances

The Office was allocated an approved budget of \$1,056,485 for the fiscal year 2023, and the Office only expended \$869,017.90 in total.

The Office of the Public Auditor carefully planned its budget, demonstrating a commitment to using resources efficiently. Personnel expenses, vital for the organization, made up 62% of the budget, and 77% were wisely spent. Travel expenses, accounting for 8% of the budget, were well-managed with 96% utilization. Consumables made up 10% of the operational budget, and 99% was wisely spent. Contractual services, essential for expertise, comprised 17% of the budget, with 97% effectively used. The fixed assets category, supporting infrastructure, represented 3% of the budget and it was fully expended. This percentage-based budget approach highlights the Office's commitment to financial responsibility and smart resource allocation.



Details of our spending are presented in Bar graph 1.0 displayed above.



THE WAY WE ARE ORGANIZED

Other Engagement Activities

Our staff also actively participated in all activities organized by the Office. These activities are celebrations for International Women’s Day, Father’s Day, Welcome lunches for new appointments, celebrations to mark quarterly achievements, birthday celebrations, Christmas party, and APIPA Closing Reception.

The following lists in chronological order listing other engagement activities carried out or accomplished in 2022 to 2023.

- December 2022: The Public Auditor was nominated to serve as a member of the Audit Risk Sub-Committee for the Pacific Island Forum Secretariat representing the FSM.
- November 04, 2022: Participated in the JEMCO meeting by providing a 10-year analysis on the single audits conducted for all the primary governments which includes meeting the audit completion timeline, types of opinion issued and the audit findings raised in the reports.
- November 14, 2022: Launching of the ONPA Stakeholders Engagement Strategy.
- November 14, 2022: Promotion: Makereta Dyer as the Audit Manager effective from.
- November 17, 2022: Risk-Based Audit Strategic Plan for 2023 Finalized and approved by management.
- Ongoing efforts continued in seeking Congressional approval on the proposed amendments to the Audit Act.
- Ongoing efforts continued for our networking/communications to migrate from Google to MS365 Cloud and installation of a new firewall, which is expected to be completed by March 31, 2023.
- December 19, 2022: Appointment of Lisa Johnny as the New Administrative Clerk.
- January 01, 2023: ONPA completed its term as Chair for APIPA and handed over to RMI-OAG.
- January 17, 2023: ONPA promoted 3 Audit staff: Ethel Alik, Joey Iwo, and Neong Yoma.
- January 18, 2023: Congress defeated "PUBLIC AUDITOR BILL TO AMEND TITLE 55 OF THE FSM CODE" for the second time.
- January 23 – 27: ONPA conducted external quality peer review for the CNMI audit office.
- January 24 - 27, 2023: The FSM ONPA was invited to present during the finance officers conference on the theme ‘Accountability, Transparency and Oversight of the Public Finance.’ Presentation was delivered by Single Audit Specialist, Jimmy Ponapart.

- March 13 to 17, 2023 - Peer review for FY 2018-2020 completed by RMI & Guam audit offices.
- March 20, 2023: Approval of our first Follow Up Guidelines.
- April 6, 2023: Implementation of Biometric Time clock.
- April 14, 2023: Submission of request to DOI-OIA to extend the audit completion timeline from June 30, 2023, to September 30, 2023.
- April 28, 2023: Issuance of the final report for FSM Compilation report for FY2021
- May 3, 2023: Informal approval provided through email from DOI-OIA on the extension of timeline however communication is ongoing to confirm the extension.
- May 8, 2023: Implementation of TeamMate on-premise migration to TeamMate cloud.
- May 8, 2023: Zoom meeting with Burger Comer Magliari CPAs (BCM) as introduction and discussion of the single audit engagement for FY2022.
- May 15, 2023: Implementation of computer system from on-premise to Microsoft 365 cloud.
- May 29, 2023: Haser Hainrick, Public Auditor; Midson Tom, Manager of Corporate Services; and Jimmy Ponapart, Single Audit Specialist, attended an oversight FY 24 budget hearing hosted by the Ways and Means Committee
- June 2, 2023, Zoom meeting with Ernst & Young LLP (EY) as introduction and discussion of the single audit engagement for FY2022.
- June 9, 2023: Meeting with the Administrator for the FSM Compact Management Office to discuss compact matters and single audit financial assistance.
- June 17, 2023: OIA inquiry on the approved extended timeline for FY022 audits if amendment needed.
- June 16 - 24, 2023: Neong Yoma, Auditor III travels to Kosrae to participate in the peer review for the Kosrae Audit office.
- June 24, 2023: Meeting with the Director of Finance for the Kosrae State Government to discuss the requirements, audit timeline, issues, and challenges for the FY2022 audits.
- June 26-30: Brandon Rodriguez and Joey Iwo participated in the peer review of the Guam Office of Public Accountability
- July 12 - 24, 2023: Single Audit Team visited Yap and Chuuk to discuss matters regarding the FY2022 single audits.
- July 26, 2023: All Users issued access to TM+ Connect.
- July 30 - August 05, 2023: Contracted Auditors BCM visited Pohnpei primarily to visit the entities management and finance staff to discuss the FY2022 single audits.
- August 8, 2023: ONPA accepted the opportunity to host Mr. Lexter James as a trainee under the WD&ST program with the Pohnpei State Department of Education.

- August 09 - 12, 2023: Contracted Auditors EY also visited Pohnpei to meet the management and finance staff of the FSM National Government and some component units to discuss the FY2022 single audits.
- August 18, 2023: Administrative Specialist staff Mr. Jeimy Soaz resigned.
- September 9, 2023: After Hours and Weekend work policy drafted and approved.
- Professional Education for SAI Auditors Program (PESA).
- September 15, 2023: FY 2023 Budget Closing.
- September 30, 2023: ONPA Continues to Participate in the HRM Championship Program.
- September 30, 2023: ONPA Continues to participate in the Global Cooperative Audit of Climate Change Adaptation Actions program



OUR PERFORMANCE AND ACCOMPLISHMENTS

Goal 1: Strengthen accountability and transparency in the government through impactful audits and investigations.

GOAL 1: STRENGTHEN ACCOUNTABILITY AND TRANSPARENCY IN THE GOVERNMENT THROUGH IMPACTFUL AUDITS AND INVESTIGATIONS			
Strategic Objectives	Performance Indicator (PI)	Activities	Our Progress & Achievements in FY2023
Objective 1.1: Value adding and quality services - Impact.	1.1.1 Planned audits & Inspections for the fiscal year completed within the fiscal year.	Target: 12	Achieved: 7 Ongoing/On hold: 3 Did not start: 2
	1.1.2 Carried forward audits & inspections that are completed within the current fiscal year.	Target: 5	Achieved: 2 Ongoing/On hold: 3
	1.1.3. Audit opinions for all primary governments and component units for the period are issued within the timeline.	Target: 27	Achieved: 6 Ongoing: 21 (Reason: procurement of audit service provider after the last Single Audit contract agreement was ended by former contractor Deloitte & Touche)
	1.1.4 Percentage of audit & inspection reports with a completed Quality Assurance Review (QAR)	Target: 5	Achieved: 3 Ongoing: 1 Pending: 1
	1.1.5 Percentage of recommendations that are accepted by the audited	Target: Recommendations for 12 reports	Achieved: Recommendations for 12 reports

	organizations (in their management response)		
	1.1.6 Number of recommendations fully implemented according to audited organizations	N/A – activity yet to be implemented and performance measured.	N/A
	1.1.7 Percentage of audited organizations agreeing that ONPA’s reports added value by assisting in improving operations and internal controls.	N/A – activity yet to be implemented and performance measured.	N/A
	1.1.8 Investigations opened during the fiscal year that are completed within the fiscal year	Opened: 6	Completed: 4
	1.1.9 Investigations carried forward from prior fiscal years that are completed within the current fiscal year	Carried over from FY22: 3	Completed: 1
Objective 1.2: Efficiently improving our structure and practices for a high performing ONPA - Quality	1.2.1 Percentage of reports successfully generated for each project in Teammate	N/A – activity yet to be implemented and performance measured.	N/A
Objective 1.3: Support our people to be healthy, motivated, skilled and strong performers – Quality	1.3.1 Percentage of audit and investigation vacant positions to be filled within 4 months	Three vacancies need to be filled: the Audit Supervisor position and two Auditor 1 positions	ONPA was unable to recruit and fill all three vacancies due to limited office space.
	1.3.3 Staff turnover	Staff development and other professional training attended off island.	Two staff turnovers for this year.
	1.3.4 Number of Team Building activities	Team building workshop in or outside the office.	No team building activities for this year.
	1.3.5 Staff who have completed the specified number of CPE hours in the last two years	Continuing Professional Education is a critical component for public	ONPA participated in APIPA, other

		auditors to stay abreast of changes in accounting standards, regulations, and industry practices.	CPE-credited courses or training offered by PASAI or the US Graduate School, as well as in-house trainings to earn CPE hours.
	1.3.6 Number of audit staff who receive a Professional Certification	Profession certification in any of the following is preferred, i.e. certified public accountant (CPA), certified internal auditor (CIA), certified government auditing professional (CGAP), certified government financial manager (CGFM), certified risk management assurance (CRMA), or certified information system auditor (CISA). A certified fraud examiner (CFE) or white-collar crime investigator.	No professional Certification was achieved this year.
Objective 1.4: A Transparent ONPA	1.4.1 Reports published on the ONPA website	Single Audit Status reports and Audits issued are posted on the ONPA Website.	Completed five (5) and Issued Nine 9 audit Reports.
	1.4.2 Number of Followers on Facebook	Facebook followers are people who have opted-in to “follow” ONPA page.	Total Facebook followers is 1423
	1.4.3 Number of subscribers on the ONPA website	"Website subscribers" refers to individuals who have chosen to register or sign up to receive updates, information, or other content from ONPA website http://www.fsmopa.fm/	Total website Subscription is 346

OUR PERFORMANCE AND ACCOMPLISHMENTS

Goal 2: Increase stakeholders' confidence in ONPA through effective engagement with stakeholders and demonstrating internal accountability.

GOAL 2: INCREASE STAKEHOLDERS' CONFIDENCE IN ONPA THROUGH EFFECTIVE ENGAGEMENT WITH STAKEHOLDERS AND DEMONSTRATING INTERNAL ACCOUNTABILITY			
Strategic Objectives	Performance Indicator (PI)	Activities	Our Achievements
Objective 2 Create more visibility for ONPA	2.1.1 Percentage of outreach programs performed during the year targeting different stakeholders (Congress, Executive Branch, Citizens)	ONPA conducts outreach programs to connect, inform, and gather feedback from the public regarding the services of the office.	ONPA completed four (4) outreaches in Pohnpei and four (4) in Kosrae state.
Objective 2.2: Increase participation in reporting of fraud, waste and abuse	2.2.1. Number of allegations on fraud, waste and abuse effectively resolved.	The number of allegations received varies from year to year	Four cases were closed or completed during this fiscal year.

OUR PERFORMANCE AND ACCOMPLISHMENTS

Goal 3: Strengthen our contribution to improvement in Public Financial Management through enhancement of our legal framework.

Strategic Objectives	Performance Indicator (PI)	Activities	Our Achievements
Objective 3.1: Submit the model legislation and regulation to relevant stakeholder	NA	NA	NA
Objective 3.2: Advocate for improved Financial Accountability in Government	NA	NA	NA
Objective 3.3: Stronger coalition with relevant stakeholders to enhance our legal framework	NA	NA	NA

Note: ONPA made a second attempt to have Congress review its proposed amendments to its legal framework; however, the bill was defeated for the second time.

OUR PERFORMANCE AND ACCOMPLISHMENTS

OUR REPORTS

Issued Audit Report Highlights

Fiscal Year 2023

We issued nine (9) Reports during the fiscal year 2023. These are summarized below.

Report No. 2023-01

Issued on October 14, 2022

Inspection on the Implementation of Public Law 21-76

More Collective Efforts Are Needed to Ensure Full Compliance with the Ban on Single Use Styrofoam & Plastic Items and Reduce Environmental Threats

What we found?

- Public law and regulations were created without including penalties for violation and without consultation with the implementing agencies.
- Key agencies were not equipped with the skills and tools to implement the law.
- Current locations are not secure for storing the confiscated items.

What we recommended:

1. Congress to consider:

- a) Approving Congressional Bill 22-72 to amend PL 21-76 “To specify the penalties for violation of the prohibition on the import of plastic materials.” This will add to the effectiveness of the law and regulations in meeting its intended

purpose in ensuring a safer environment.

- b) Consulting with implementing or relevant agencies prior to creating new legislations to ensure that good intentions are achieved without delay.
2. DECEM, as the national agency for safeguarding the environment shall request through the FSM Congress funding for:

- a) Measuring tools for plastic bags; and
- b) A consultant to provide training to both DECEM and CTA officials in the area of recycled and biodegradable items.



3. The Secretary of DoFA should promptly initiate the necessary arrangements (collaboration with DECEM, budget allocation etc.) to identify secure locations or facilities to store confiscated

prohibited items to avoid theft, unauthorized release of confiscated items and overcrowding at the current locations.



Report No. 2023-02

Issued on April 04, 2023

Inspection of \$9.5 Million Booked by the Department of Finance and Administration for Lawsuit Involving Pacific International Inc. (Congressional Resolution No. 22-194

What we found and recommended?

No findings and recommendations were noted and made in this report as it was concluded that the \$9.5 million was a book-entry adjustment only and not physical money.

Report No. 2023-03

Issued on April 12, 2023

Financial Audit – ADB Renewable Energy Development Project (REDP)

What we found?

- Non-Maintenance of separate accounts and records for the project
- Non-Compliance with financial covenants

What we recommended:

1. Oversight function to be strengthened by:
 - a) Increased monitoring by the National Project Coordinator to ensure that records are maintained and updated for the Project.
 - b) Adequate guidance such as capacity building and/or approved procedural guidance provided to the Project Finance & Administration Officer on the day-to-day activities to be completed for the Project.
 - c) Ensure that financial statements are thoroughly reviewed, checking that all balances are properly supported and free from errors and misstatements, prior to submission for audit verification.
2. We recommend that the financial covenant requirements of the Grant Agreement be reviewed to specify how the Departments (DOFA and DORD) of the FSM National Government can assist the project beneficiaries comply with the financial covenant requirements.



Report No. 2023-04

Issued on June 05, 2023

Performance Audit on the Recommendations of Prior Audit (Report No. 2021-02)

Improvement Needed in the Oversight Function of the Board and Management of the Fund

What we found?

- The main objective of establishing the fund may not be achieved in the next ten (10) years with the current pace.
- Lack of effective governance and risk management activities.
- Capacity building of the board and management of the fund needs to be strengthened.
- Lack of effective and efficient management.
- The management of the fund did not appropriately carry out accounts reconciliation.
- Unclear duties and responsibilities of employees administering and monitoring the Fund.

- Lack of operating manual for the Fund operations.
- The sub-accounts of the Fund were co-mingled in the Financial Management Information System (FMIS)
- The Fund Management and Department of Finance and Administration did not implement all Audit recommendations issued in Audit Report No. 2015-08.

What we recommended:

1. We recommend that the Secretary, DoFA and the Board of Trustees should ensure that:
 - a) A Strategic Plan, charting out the direction of the Fund with appropriate milestones, identifying existing and potential sources of funds, is established and operationalized.
 - b) Full (100%) reliance on contractors for management of Fund investment and the embedded risks are minimized to an acceptable level through concerted efforts that should include capacity building of the existing employees and members of the Board of Trustees (Board).
 - c) Management tools for managing the activities of the Fund are developed and enshrined in all existing and planned operations e.g., strategic plan, risk management framework and register, training program for employees and members of the Board.
2. The Board and Management of the Fund to strengthen its oversight function by ensuring that:

- a) The strategic plan, risk management framework, risk register, procedures on the documentation and maintenance of training records and other documents concerning the operations of the Fund are developed; and
 - b) Appropriate and competent resources are available to develop these documents and procedures.
- 3. We recommended that the Secretary, DOFA and the Board of Trustees should:
 - a) Initiate review and seek amendments of Chapter 12 of Title 55 of FSM Code to capture issues identified within this audit report.
 - b) Ensure that risk management framework and risks registers are established for guidance and reference to the Board of Trustees and staff of DIIF.
 - c) Oversight function by the Board and Management of the Fund to be strengthened by ensuring that the risk management framework and risk registers are developed, and that appropriate and competent resources are available to develop these documents.
- 4. Based on the fact that the Fund is projected to be one of the lifelines for financial viability in the event of full termination or significant reduction in economic assistance under the renewed Compact of Free Association, we recommend that the Secretary of DFA and the Board of Trustees should ensure that:
 - a) Appropriate and sufficient plans (in trust fund administration and management) are developed and operationalized for building the capacity of management and employees in the DIIF in order to enable them to effectively and effectively carry out their duties as delineated in Chapter 12 of Title 55 of the FSM Code.
 - b) The Capacity of members of the Board of Trustees to understand and interpret information relating to the investment of funds is developed to enable them to make timely and informed decisions.
 - c) Staff and management receive adequate training courses such as Certification in Fund Administration.
 - d) Strengthen the oversight function by the Board and Management of the Fund to establish written procedures on the documentation and maintenance of training records.
- 5. We recommend that the Secretary of DOFA in collaboration with the Board of Trustees should perform the following:
 - a) Create awareness to management, staff and members of the Board of Trustees on the Investment Policy Statement (IPS) and other applicable laws pertaining to administering and managing the Fund.
 - b) Review the establishment Act, Chapter 12 of Title 55 of the FSM Code where necessary recommend amendment or update.
 - c) Develop and operationalize appropriate and sufficient internal

- policies and procedures to guide staff and management in carrying out their day-to-day activities.
- d) Supervisory oversight by the Board and Management of the Fund to be strengthened to ensure that an Operations Manual; and policies & procedures pertaining to the day-to-day activities of the Fund are developed; and appropriate and competent resources are available to develop these documents.
6. We recommend that the Secretary, DOFA should ensure that the Assistant Secretary and the Investment officer should:
 - a) Implement all prior audit recommendations.
 - b) Establish and maintain its own independent books of account to record and monitor every activity incurred on the Fund instead of updating its records based on the bank statements received from the Bank of New York (BNY).
 - c) Reconcile the Fund accounts and produce accurate reports regularly.
 - d) The Board and Management of the Fund should establish written procedures to guide staff through the reconciliation process.
 7. We recommend that the Director of the Office of Personnel and Secretary, DOFA should:
 - a) Update the personnel files and records to match employees' current title and job descriptions.
 - b) Amend the Public Service System Regulation (PSSR) and job Classifications and Qualifications to reflect new positions, titles, and job descriptions.
 - c) Establishment of a filing system or checklist detailing the records & documents to be filed in each of the personnel files maintained by the Office of Personnel.
 - d) Supervisory check should be strengthened through the continuous review of personnel files to ensure that the records are properly maintained and updated with the current position title and approved job descriptions for the current position.
 8. We recommend that the Secretary, DOFA to establish an operating manual to guide the Division's employees with their day-to-day operations.
 9. To strengthen the oversight function by the Board and Management of the Fund to ensure that an Operating Manual is developed and that resources are available within the Division to develop the Manual.
 10. We recommend that the Secretary, DOFA and Board of Trustees should ensure that:
 - a) Separate accounts are established to record the funds for each of the five (5) governments to avoid confusion and error in the posting of transactions.
 - b) Transactions are recorded based on accounting principles, which include but are not limited to matching, consistency, cost measurement, objectivity, etc.
 11. We recommend that the Secretary, DOFA and the Board of Trustees should:

- a) Implement all audit recommendations identified in our Audit Report No. 2015-08 and where it is possible, alternative methods should be used to correct the identified weaknesses.
- b) Ensure that staff who are assigned accounting and bookkeeping duties are responsibilities are qualified and where there are deficiencies, capacity-building intervention should be considered timely.
- c) The Board and Management of the Fund should ensure that the Division has adequate resources to perform the reconciliations.
- d) The Board and management of the Fund should improve their supervisory oversight functions to prioritize addressing/resolving the weaknesses identified about the operations of the Fund.



Report No. 2023-05

Issued on June 12, 2023

Performance Audit on the Recommendations of Prior Audit (Report No.2019-03)

On Professional Premium Benedit Administered by the Office of Personnel

What we found?

- Implementation of recommendation on prior Finding 1.
- Implementation of recommendation on prior Finding 2.
- Implementation of recommendation on Prior Finding 3.

What we recommended:

1. We recommend that the Office of Personnel's capacity be strengthened to achieve greater effectiveness in its: 1. Leadership and management; 2. Staffing; 3. Budget; and 4. Oversight responsibility for monitoring and for evaluating the organizational and individual's performance.

Director of the Office of Personnel to comply with Part 9 (Performance Evaluation) of the PSSR and start evaluating the performance of his staff on an annual basis.

2. We recommend that the Office of Personnel should develop and implement appropriate internal controls (policies and procedures) to guide the administration and the effective management of the Premium Program.

We recommend that an effective oversight over the Administrator's (now renamed as Director) duties and responsibilities should be done, by the Administrator's immediate supervisor, to appropriately monitor, evaluate and take appropriate actions to reward good performance or otherwise discipline if poor performance.

3. We recommend that the Office of Personnel should provide effective oversight to ensure that the recipients of the professional premium program provide training to local staff.

Director of the Office of Personnel should collaborate with the Departments on how they can work together to ensure that the value from the professional premium program is realized and adds value to the workforce.



Report No. 2023-06

Issued on July 28, 2023

Improvement Needed in the Oversight Function of the Board of Directors for the Caroline Islands Air, INC.

What we found?

- Lack of indicators to support that the corporation is financially valuable to sustain its operations in the longer run.
- Non-Compliance with the requirements of the Board of

Directors By-Laws, establishing law and amendments to the composition and effectiveness of the Board of Directors were noted.

- Lack of documentation, hence we could not confirm whether the corporation has adequate and sufficient staff to administer its operations.

What we recommended:

1. We recommend that the Board of Directors and management of the Corporation to continue their initiative to request and obtain support from the Congress to invest and fund quality aircrafts.
2. The Board of Directors should strengthen their oversight function by ensuring that standard operating procedures on the Corporation's involvement in the acquisition of aircraft is in place, and to also consider having the appropriate resources to draft the procedures.

We recommend that the Board of Director's strengthen its oversight function by ensuring that:

- a) A strategic plan is in place for the Corporation.
- b) It is clearly documented who will be responsible for developing and updating the Plan, and its submission to the Board of Directors for approval.
- c) A BCP is in place for the Corporation.
- d) It is clearly documented who will be responsible for developing and submitting the BCP to the Board of Directors for approval and updating it so that the BCP remains effective and relevant.

3. We recommend that the oversight function performed by the Board of Directors Secretary to be strengthened to ensure that all meeting minutes are properly documented, endorsed, and maintained for future references.

Oversight function by the Board of Directors to be strengthened to ensure that:

- a) Important decisions that will necessitate the amendments to the By-Laws are properly documented and maintained.
- b) The By-Laws are updated to reflect the changes and maintained for future references.
- c) The requirements of the By-Laws are adhered to.

The oversight function of the Board of Directors to be improved to ensure that the requirements of the public law are adhered to on the appointment of the Board members.

4. We recommend strengthening the oversight function by the management team to:
 - a) Have an updated and approved Organization Structure.
 - b) Implement a mechanism to prompt the revision and update of the organization structure.

We recommend that the Board of Directors strengthen their oversight function by ensuring that:

- a) There are approved policies on human resource matters, especially on employee selection & recruitment.
- b) Appropriate resources are identified to develop the policy and timelines

outlined when the policy should be approved.

- c) Documentations on the approval of the Operation Manual and awareness made are properly maintained.

We recommend that the oversight function by the management team to be strengthened to ensure that:

- a) The Operations Manual is amended to include the requirements on the filing of job announcements and valid contract agreements in all personnel files.
- b) A mechanism or system is established that will prompt the persons responsible for human resource matters on the renewal of employment contracts.
- c) A proper records management system is established to allow for the records and information of staff to be properly captured, resulting in employment decisions made based on complete and reliable information.



Report No. 2023-07

Issued on August 04, 2023

***Board Oversight Needs to be Strengthened
to Improve the Governance and
Performance of the National Fisheries
Corporation***

What we found?

- The current composition of the Board of Directors is not aligned with the legislative requirements.
- Process for budget preparation is not aligned with the required procedures.
- Passenger vessel operation in Chuuk State is non-compliant to the establishing law.
- Inadequate internal controls in the Fishing vessel management and Chuuk branch operations.
- Administration of Contract Agreement was not effective.
- Four out of seven prior findings and recommendations remain outstanding for implementation.

What we recommended:

1. To ensure compliance to the law, and to strengthen the governance of the Corporation and partnership with the National Government administration, the Chairman of the Board to consider initiating and presenting a formal request to the FSM President for the appointment of a suitable candidate to be a member of the Board of Directors as a representative of the FSM National Government.
2. The CEO should involve the managers or the divisional heads in the preparation of the annual budgets especially the Chief Financial Officer who should be directly responsible for the process. The CEO may consider conducting an annual workshop for this purpose. Evidence of this process should always be documented for reference and evaluation.
3. To ensure compliance to the establishing law of the Corporation and increase its

financial performance, the Board of Directors and Management should:

- a) Seek legal advice on the operation of the North Star passenger vessel in line with the mandated authority of the Corporation and take appropriate actions to ensure compliance to the establishing law.
 - b) Strengthen the Corporation's core operations to improve and maximize financial performance on fishing and fisheries development as mandated by law.
4. The Chief Executive Officer (CEO) through the approval of the Board of Directors should:
 - a) Develop the appropriate budget or seek financial assistance to fund the appointment of a consultant to develop written policies and procedures for the Corporation.
 - b) Identify relevant courses for the management team to attend in relation to their role in ensuring effective controls including the documentation of policies.
 - c) Recruit an experienced and capable person to manage the Chuuk North Star operations with an attractive salary package.
 - d) Review and update the Personnel, Finance and Administration policy manual 2015 to include relevant procedures relating to the operations of the Chuuk branch which should include effective oversight and monitoring mechanisms of the Accounting Division in the head office.
 5. The CEO should:

- a) Seek legal advice for the execution (including the legal sufficiency) and administration (includes the filing) of all contract agreements to ensure consistent and approved practice. The FSM FMR Section 5.1.6 (used as criteria above) can be used as a reference.
6. The Board of Directors should strengthen its oversight role and hold the Management accountable for the implementation of the remaining prior audit recommendations below:
- a) Develop an effective performance evaluation process for the Corporation which will improve productivity, provide the basis for promotions and incentive programs and drive a high performing workforce.
 - b) Dialogue with the joint venture partners and agree on a negotiation process that needs to be documented to provide guidance to the employees.
 - c) Ensure effective supervision and setting of performance measures indicators for the CFO direct relation to internal controls for the accounting division which has been highlighted in the single audit reports.
 - d) Update the Personnel Finance and Administration Policy and Procedure Manual 2015 to include the recording (in a fixed assets register) and tagging, annual inspection and reconciling of fixed assets.

Report No. 2023-08

Issued on August 08, 2023

Non-Compliance with Procurement Regulations Resulted in the Loss of Funds for the Kosrae Broadcast Station

What we found?

- Value for money was not achieved in the procurement process.
- Payments were processed and paid Without the project inspection official's certification.
- Full payment was issued prior to receiving the equipment.
- Payment was made without the bank verification process.

What we recommended:

1. Allottees should always seek guidance from the FMR and the DOFA whenever they have questions or concerns surrounding the procurement of goods or services. It is the very reason that the FMR standardizes using the concept of value for money because it considers the potential risks associated with the procurement process. It involves assessing the reliability of suppliers, their track record, and the potential risks involved in terms of delivery delays, product defects, or service failures.
2. The Secretary of DOFA should take accountability of its processes and resources by making the needed changes and make a strong stand to help eradicate non-compliance. These include:
 - a) Strengthening the verification / scrutinization procedures (in the Division of National Treasury) for payment requests to ensure that all relevant supporting documents are sufficient before authorizing payments, keeping in mind the

requirements of the approved PCD. (As previously recommended in many past audit/inspection reports for CFSM projects).

- b) Putting in place strict internal control measures to ensure that allottees submit adequate and meaningful evidence (e.g., inspection/certification report by an independent PIO) to support project implementation prior to processing payments.
 - c) Taking necessary actions (disciplinary or awareness trainings) for Non-National allottees and other responsible officials involved with public project administration that are identified to continually breach the FMR and other contractual agreements relevant to public projects.
 - d) Contacting the allottee and all other key offices or officials involved in the administration and implementation of the above public projects to collectively determine and refund the amount in question to the FSM National Government as it was not used in accordance with the full requirements of applicable FSM laws and regulations.
 - e) Exercising its authority to suspend or bar allottees from the Roster of Eligible Allottees who have not been complying with the applicable FSM laws and regulations multiple times as it pertains to the administration of public projects.
3. The Secretary of DOFA should:
- a) Hold the Allottee accountable in ensuring that the role of the designated PIO is diligently fulfilling

his/her duties and responsibilities given that it serves as an important role for oversight, monitoring and compliance purposes.

- b) Review payment requests thoroughly and not process and/or issue payments without the PIO's certification.
 - c) Consider documenting a procedure as part of the FMR to address steps to be taken by the Allottee when there is a need to re-assign the PIO role.
- 4. Allottee should frequently monitor and oversee administration and implementation of projects to ensure compliance with the FMR and avoid loss.
 - 5. Allottee should clarify roles of those charged to administer project to avoid conflicts or misunderstandings.
 - 6. The Secretary of DOFA should exercise due diligence and ensure that goods and/or services being sought and provided for are satisfactory prior to payment disbursements.
 - 7. DOFA should develop and implement a policy or process that outlines certain procedures relating to making payments via wire transfer or direct credit.

Report No. 2023-09

Issued on August 31, 2023



\$13.3 Million Paid from the Tourism Sector Mitigation Fund Program Without the Statutory Governance Structure, Thus Lacking the Proper Oversight Required by Law



**\$13.3 Million Paid from the Tourism Sector Mitigation Fund Program
Without the Statutory Governance Structure, Thus, Lacking the Proper
Oversight Required by Law**

Report No. 2023-09

What we found?

- Improper authorization of Funds resulting in \$13.3 Million worth of questioned relief payments.
- Relief payments were paid out to be ineligible businesses and individuals.
- Disbursement of \$1.4M Bank Loan interest payments deviated from the requirements of the law.
- Non-Compliance found toward the process of relief payments.

What we recommended:

1. For other future programs similar in nature to the TMF, we recommend that its oversight committee, when developing and implementing regulations, policies, and procedures, they should ensure that they are aligned with the intent of the law and to assure good governance through prudent practices such as approving the TMF Plan as well as formally documenting and adopting meeting

minutes for accountability and transparency purposes.

2. For other future programs similar in nature to the TMF, we recommend that its oversight body should exercise due diligence and scrutinize the eligibility process to ensure full compliance with their applicable laws and regulations.
3. For other future programs similar in nature to the TMF, we recommend that the oversight Committee should be more diligent by conducting thorough reviews in ensuring that the requirements of the laws are complied with.
4. For other future programs similar in nature to the TMF, we recommend that its oversight body should exercise due diligence and scrutinize the review process on the assessments being prepared to ensure full compliance to the laws and regulations with respect to the payment process and timelines.

SINGLE AUDIT

The FSM Office of the National Public Auditor oversees single audit engagements for the five (5) primary governments and their respective component units, totaling twenty-seven (27) auditees.

The audit completion timeline is set for June 30th of each consecutive year. Meeting this deadline has proven to be a challenge primarily due to the difficulties and impact stemming from COVID-19. Another factor contributing to the delay in meeting the timeline is the transition process for the newly awarded firms following Deloitte's exit from the region.

Request for Proposals (RFP) for interested bidders for single audits FY2022 & 2023:

- ✓ RFP advertised and issued on October 26, 2022
- ✓ RFP issued to the known CPA firms.
- ✓ RFP submission date was on November 25, 2023
- ✓ Ernst & Young LLP and Burger Comer Magliari, CPAs were awarded, and contracts were approved on March 16, 2023, for BCM and March 24, 2023, for EY

Below are the six (6) issued audit reports and were issued on the following dates:

1. FSM Development Bank: 10.31.2023
2. Telecom Regulatory Authority: 11.10.2023
3. Chuuk Power Utilities Corporation: 9.29.2023
4. Kosrae Utilities Authorization: 10.5.2023
5. Kosrae Port Authority: 11.01.2023
6. Diving Segal Incorporation: 11.30.2023

There are twenty-one (21) ongoing audits.

OUR COMPLIANCE & INVESTIGATIONS

Background

In the late 1990's the National Public Auditor (NPA) and FSM Department of Justice (DOJ) established a joint law enforcement Task Force, comprising of DOJ Investigators and the ONPA Compliance Investigation Division (CID), to investigate White Collar crimes committed within the National Government. Since its inception the unit had conducted numerous high-profile and serious cases involving high government officials and employees involved in fraud and corruption. The unit had evolved from a "joint effort and cooperation endeavor" between the NPA and DOJ where investigations are carried out jointly, sharing human and material resources to a lesser and limited cooperation effort by the two offices. A more repetitive and superfluous procedure has emerged to replace the original joint task force collaboration, where DOJ would replicate the investigation process after receiving Preliminary Inquiry Reports (PIRs) resulting from investigations conducted by CID. Presently the two agencies are discussing the "liaise" clause indicated in the amended Public Auditor's Act, to improve the role and expected participation of

each agency in the fraud investigation process. The recently amended FSM Constitution creating a Special Prosecutor is a positive addition to the investigation and prosecution of fraud in the National Government and component units.

Standards

The CID Manual of Operating Procedures (MOP) is an investigation guideline based on the standards and procedures set by the US Council of the Inspectors General on Integrity and Efficiency (CIGIE) and the FSM Code on criminal violations and procedures. CID staff received investigation skills and knowledge through various fraud training, but more regularly from the Association of Certified Fraud Examiners (ACFE) trainings and its fraud manual. An Investigator II and above grade is required to become a Certified Fraud Examiner (CFE) not only to improve the Investigator's skills, but to enhance the credibility of the unit and the individual investigators in the fraud investigation field.

CID Case Statistics (FY '23)

Description	Quantity
Carried over from FY '22	3
Opened	6
Cases refer to DOJ	2
Cases referred to audit section	2
Cases Completed (Closed, Referred, etc.,)	4

FY '23 CID Case Description

No.	Case #	Allegations	Funding Source	Status
1.	21-003	Corruption & Misappropriation	National Government	Ongoing (Pending trip)
2.	21-008	Misappropriation	National Government	Closed (DOJ)
3.	22-002	Misappropriation	National Government & US Grants	Ongoing
4.	22-004	Corruption & Misappropriation	National Government	Ongoing
5.	22-005	Corruption	National Government	Closed (DOJ)
6.	22-006	Corruption	National Government	“
7.	23-001	Corruption	N/A	“
8.	23-002	Corruption	National Government	Closed (Audit)
9.	23-003	Corruption	National Government	Closed (Audit)

Complaint Mediums

CID receives complaints by concerned citizens, agencies, government employees, officials, etc., reporting allegations of misconduct, abuse and misappropriation of government funds and programs through the following channels:

- ✓ Hotline Telephone # (691)320-6768, available 24/7
- ✓ Complaint Form on www.onpa.fm
- ✓ Telephone # (691) 320-2862, weekdays
- ✓ Fax # (691) 320-5482
- ✓ Mail, PO Box PS-05, Palikir FM 96941
- ✓ Visit at ONPA, Paliki

Any individual(s) who wishes to remain anonymous may use the Hotline or the Complaint Form on the website. Information provided and identity of involved individuals are always treated with confidentiality and security, unless otherwise permitted.

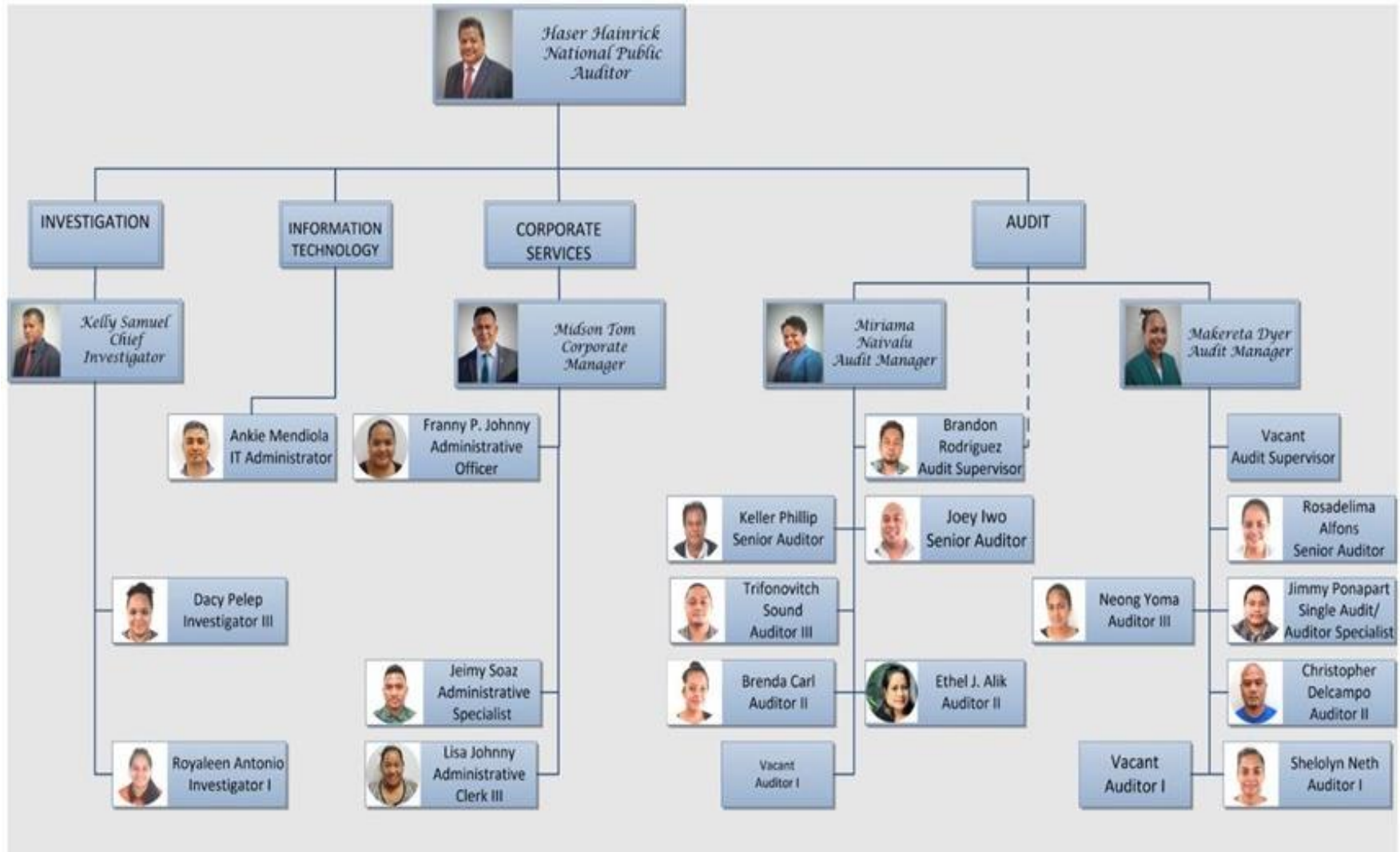


ACRONYMS AND ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
APIPA	Association of the Pacific Islands Public Auditors
CS	Corporate Services
CID	Compliance Investigation Division
CIGIE	Council of the Inspectors General on Integrity and Ethics
CFSM	Congress Federated States of Micronesia
DOJ	Department of Justice
DOI-OIA	Department of Interior – Office of the Insular Affairs
FMR	Financial Management Regulation
FSM	Federated States of Micronesia
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
ICT	Information Communication & Technology División
IDI	INTOSAI Development Initiatives
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards for Supreme Audit Institutions
ONPA	Office of the National Public Auditor
PASAI	Pacific Association of Supreme Audit Institutions
PCD	Public Control Document
PI	Performance Indicators
QA	Quality Assurance
QSIE	Quality Standards for Inspections & Evaluations
QSI	Quality Standards of Investigations
REDP	Renewable Energy Development Project
SA	Single Audit
TM+	TeamMate+

APPENDICES

Organization Chart as of September 30, 2023





Our Location

Palikir, Pohnpei

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Our Social Media Account



FSM Public Auditor

