

# FEDERATED STATES OF MICRONESIA



## OFFICE OF THE NATIONAL PUBLIC AUDITOR

ANNUAL REPORT  
Fiscal Year 2011



Haser Hainrick  
Public Auditor

February 20, 2012





© 2 0 1 1 A N N U A L R E P O R T

## OFFICE OF THE NATIONAL PUBLIC AUDITOR

This Annual Report was produced by talented and dedicated staff. To these individuals, we would like to offer our sincere thanks and appreciation. Special recognition is given to the following individuals for their contributions.

Vanessa Sigrah  
Elina Paul  
Tracy Ardos  
J.R. (Bob) Hayes

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## Acronyms

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



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## Public Auditor's Message



Excellency Manny Mori, President  
Honorable Members, FSM Congress

I am happy to submit to you my Annual Report for the Office of the National Public Auditor covering the Fiscal Year 2011 as required by law.

I am thankful to the leadership of the National Government for your continuing support in providing necessary funding to pay for the office's core operational expenses necessary in order to carry out our mandated programs and activities, in audits and in investigations, during the year.

I am also grateful to our regional supporters, other external stakeholders, and allies for supporting us particularly in the area of capacity building both in institutional strengthening and manpower development. Other regional and local media have provided helpful coverage in disseminating the results of our audit works, hence contribute toward an accountable and transparent government.

In the pages that follow, you will read about the results of our operations and our accomplishments during 2011. These marked achievements were earned only through the hard-work and dedication of all my staff - - and to them I extend to each and every one my heartfelt gratitude.

Respectfully submitted,

Haser Hainrick  
National Public Auditor

January 31, 2012

## FY 2011 Highlighted Accomplishments

### FSM Public Auditor Was Re-appointed by President and Confirmed by Congress



Haser Hainrick has held the post since 2002 and this is his first reappointment to serve for another term starting the new fiscal year 2012. Hainrick was appointed by the President with the advice and consent of Congress and was sworn into office as the Public Auditor for the National Government of the FSM.

### CID Conducts 1<sup>st</sup> Fraud Awareness Briefing (FAB) in Pohnpei



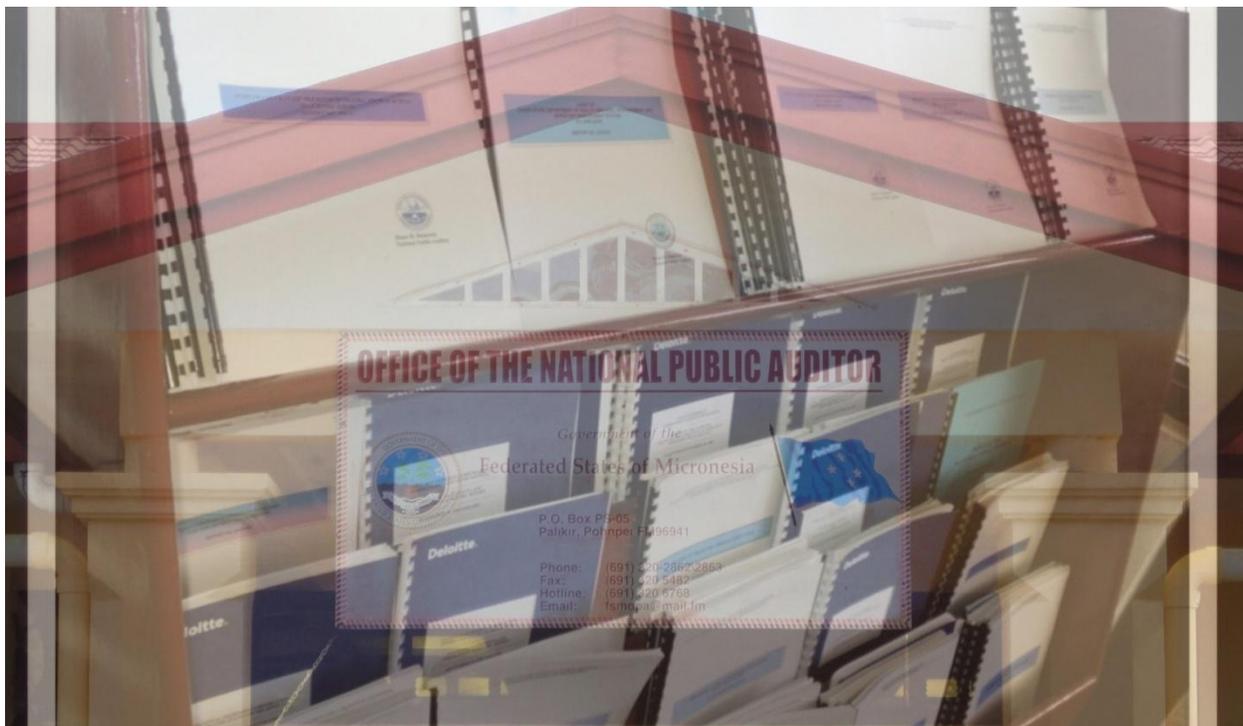
On March 28 to April 8, 2011, the ONPA's CID completed 18 briefings in the State of Pohnpei by educating state government employees, students at the schools (public and private), and employees of the local governments on what fraud is and how it impacts government

operations. The ONPA hopes to encourage the public to be more vigilant in recognizing and reporting fraud. There were 645 participants during the FAB briefings. The FAB involved the dissemination of fraud detection and prevention information throughout the FSM by the use of banners, flyers, hotline cards, t-shirts, key chains and the fraud awareness briefings. The briefings are provided as an opportunity for the public to meet the CID Investigators and learn about the investigative processes and how they handle the fraud tips and complaints received from concerned citizens. Based on the evaluations, the participants wanted the FAB to be conducted periodically.

### **ONPA Completes 7 Audits during the FY 2011**

In fiscal year 2011, seven audits were completed and distributed to the President, Congress of the FSM and interested citizens all over the entire FSM. All the audits were conducted by staff members by request as required by the Public Auditor's Act in accordance with the audit selection standard.

The seven completed audits include the following: Audit of Caroline Islands Airline; Audit of the Professional and Market Place Premiums; Inspection of Chuuk Department of Education Concerns; Audit of ADB Grant Assistance Weno Water Supply Well Remediation Project; Audit of ADB Loans 2099-FSM (SF) and 2100-FSM, Omnibus Infrastructure Development Project; Audit of Chuuk State Off-Island Medical Referral Program for Non-Insured Patients; Audit of Budget Overruns in Salaries and Benefits.



## About the Annual Report

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This Fiscal Year 2011 Annual Report by the Public Auditor, as required by law, serves to inform the Congress on the Office of the National Public Auditor's progress and performance in safeguarding the Nation's assets through audits and investigations that lead to improving government operations, efficiency and accountability.

When information about government operations is open and readily accessible to the public, governing is considered transparent. Transparency in government makes it more representative because it equips citizens with knowledge about their government's operations. ONPA's Annual Reports provide easy access to aspects of the finances and operations of government and contribute to transparency.

## Mission, Vision, Values

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### **Mission**

We conduct audits and investigations to recommend improvements in government operations, efficiency and accountability for the public's benefit.

### **Vision**

We create a high performing, transparent, and accountable government through the performance of high quality, independent audits and investigations.

### **Values**

The ONPA values reflect the way in which staff conducts the business of auditing and investigating—adhering to confidentiality, and operating with accuracy and efficiency. ONPA values:

- Independence – we maintain our independence at all times.
- Professionalism – we are a highly skilled, dedicated and hardworking team adhering to the highest ethical and professional standards.
- Public Service – we serve to protect and improve public services for the public's benefits.
- Honesty – we conduct our work with honesty, diligence and responsibility.

### **Performance Measures**

Performance measures relate to the desired results of publishing reports that are read and used to lead positive changes in governmental practices and operations. ONPA performance measures:

- Understandable, Timely and Useful Reports
- Accepted and Implemented Recommendations
- Improvement in Governmental Practices and Operations
- Fiscal Impact

## Duties of the National Public Auditor

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The Public Auditor is the Nation's premier watchdog, helping to provide assurance that National funds are properly managed and are expended in an appropriate, transparent and accountable manner. The Public Auditor plays a key role in combating financial crime and financial corruption involving the use of National and Compact funds. The Public Auditor's office is authorized by statute to examine and evaluate the adequacy and effectiveness of systems of management control provided by the National Government to direct its activities toward the accomplishment of its objectives in accordance with National Government policies, plans and directives. The President, with the advice and consent of the Congress, appoints the Public Auditor. (Refer to Appendix I, for additional information regarding the powers, duties and responsibilities of the Public Auditor)

## Organization and Responsibilities of the ONPA

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ONPA has an administrative and secretarial team to handle office operations, and the Public Auditor has established two divisions to handle the legislative requirements of reviews and investigations. The Audit Division conducts the reviews and examinations of National Government, agencies, and national funds. The Compliance Investigation Division (CID) investigates criminal and civil misconduct, allegations regarding financial mismanagement and abuse involving national funds and maintains a working arrangement between the ONPA and the Department of Justice (DOJ) on cases that CID refers.

Annual Single Audits of the FSM National and State Governments' general purpose financial statements are also required. Although this work is done by an outside contractor, the ONPA

has full oversight responsibility for monitoring and coordinating all matters pertaining to these audits of the five governments—FSM National Government, Pohnpei, Chuuk, Kosrae, Yap and their respective component units. (Refer to Appendix II, for the ONPA Organization Chart as of September 30, 2011).

## Administration Division

### Budget

A total of \$965,612 was appropriated by the 16th Congress for the operation of ONPA for Fiscal Year 2011. Of that amount, \$792,207 came from local revenue to fund the operations of the main office in Palikir and the remaining balance of \$173,405 from Compact Sector Grant to fund the Chuuk Field Office on Weno.

	Approved Budget	Expenditures
Main Office	\$792,207	\$634,220
Chuuk Field Office	\$173,405	\$69,416
<b>Total</b>	<b>\$965,612</b>	<b>\$703,636</b>

Budget Categories	Expenditures for the last five Fiscal Years					
	2006	2007	2008	2009	2010	2011
Personnel	\$329,709	\$374,803	\$409,423	\$447,692	\$480,061	\$440,209
Travel	\$127,590	\$227,959	\$186,808	\$109,487	\$91,715	\$132,226
Contractual Services	\$43,053	\$119,917	\$49,734	\$51,678	\$68,240	\$25,630
OCE	\$66,651	\$94,642	\$88,458	\$75,673	\$69,297	\$105,571
Fixed Assets	\$11,797	\$31,074	\$22,718	\$9,737	\$19,795	-
<b>Total</b>	<b>\$578,800</b>	<b>\$848,395</b>	<b>\$757,141</b>	<b>\$694,267</b>	<b>\$729,108</b>	<b>\$703,636</b>

## Audit Division



The Audit Division conducts three types of comprehensive audits—program results, economy and efficiency, and financial. These three types of audits are not mutually exclusive and any audit or review may include more than one type of audit. In addition, audit inspections are performed. These inspections follow established Quality Standards for Inspections. Inspections have the same quality and integrity as comprehensive performance audits, but have a more narrowly defined focus which decreases the time frame for completing an examination and issuing a report. All audit work, the three types of performance audits and audit inspections, conforms to generally accepted government auditing standards. (Refer to Appendix III, for additional information on audit operations and Quality Standards for Inspections).



The ONPA prepares written reports communicating the results of each audit or inspection performed and issues these reports to the agency under audit for resolution of the recommendations presented in the report. Reports generally include a description of the scope, objectives and methodology of the audit, the audit findings, and recommendations for corrective action. In FY 2011, the Audit Division issued seven (7) reports. Reports issued since 2000 are posted on the FSM ONPA website: [www.fsmopa.fm](http://www.fsmopa.fm), except when there are reasons of security or privacy.

## Audit Reports Issued in FY 2011

ONPA Report Number	Audit Report Title
Report No. 2010-11	Audit of Caroline Islands Airline
Report No. 2011-01	Audit of The Professional and Market Place Premiums
Report No. 2011-02	Inspection of Chuuk Department of Education Concerns
Report No. 2011-03	Audit of ADB Grant Assistance Weno Water Supply Well Remediation Project
Report No. 2011-04	Audit of ADB Loans 2099-FSM (SF) and 2100-FSM, Omnibus Infrastructure Development Project
Report No. 2011-05	Audit of Chuuk State Off-Island Medical Referral Program for Non-Insured Patients
Report No. 2011-06	Audit of Budget Overruns In Salaries and Benefits

### Report No. 2010-11: Audit of Caroline Islands Airline

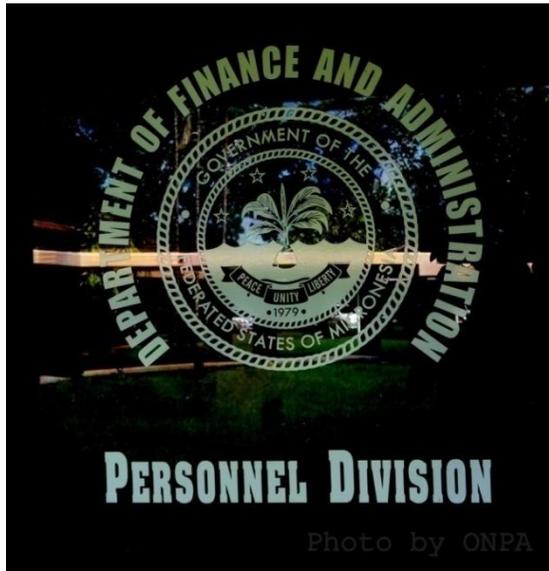


The main objective of the audit was to determine if management and oversight systems provided sufficient assurance and that operational goals and objectives are achieved; cash is sufficiently secured; assets, equipment, and supplies are properly protected; and, procurement procedures are satisfactorily.

The airline remains more than a decade as a government owned corporation lacking the strategic and tactical capacity to operate as a self-sustaining enterprise. The airline is dependent on government subsidies in

order to operate. The Board has not built the necessary management capacities to perform business planning.

As a result, there is no employee trained in financial planning, financial analysis, or in the General Accepted Accounting Principles (GAAP). This was due to lack of management oversight by the Board of Directors and their lack of training in its governance responsibilities. And, the board, likewise, was not held accountable by the FSM President's Office or the Congress, both of which also have oversight responsibilities. The audit found that the lack of Board oversight resulted in poor management performance which led to the lack of long term or short term business planning and no financial analysis.

**Report No. 2011-01: Audit of the Professional and Market Place Premiums**

The main objective of this audit was to determine whether the Division of Personnel implemented the Professional and Market Place Premiums in compliance with the requirements of Title 52 which include verification that the candidate actually achieved the educational and or professional certifications required by Title 52 and asserted by the employee or applicant.

During fiscal year 2010, 25 FSM employees received payment of the premium awards, of which 24 received the professional premium and one received market place premium. The 25 employees received total compensation of approximately \$992,000 or nearly \$1 million. Approximately \$457,000 was awarded as the

professional premium and \$5,366 as the Market Place Premium.

The nearly \$1 million of total compensation, of which \$462,000 was paid as premiums, was approved and awarded without the Division of Personnel performing verification of the educational and or professional certifications asserted. In other words, significant amounts of compensation may have been awarded to individuals who were not eligible.

The audit recommended the following:

- Personnel institute procedures to verify educational and professional attainments asserted by employees and applicants.
- Recover the premiums awarded to recipients who falsely asserted the attainment of educational and or professional certifications.
- And, to consider legal action.

**Report No. 2011-02: Inspection of Chuuk Department of Education Concerns**

The purpose of this inspection was to address the stated concerns of the Chuuk Director of Education and determine if they warranted further investigation. The concerns were as follows:

- Significant amounts of construction materials, purchased for schools in the Faichuuk Region, were not delivered.
- Fuel or funds for fuel designated (allotted) for the boats for delivery of construction materials from the delivering vessel to the shores of the Faichuuk islands, was in significant part misused.
- Significant amounts of food for the Secondary Schools were taken from the warehouse by employees for personal use.

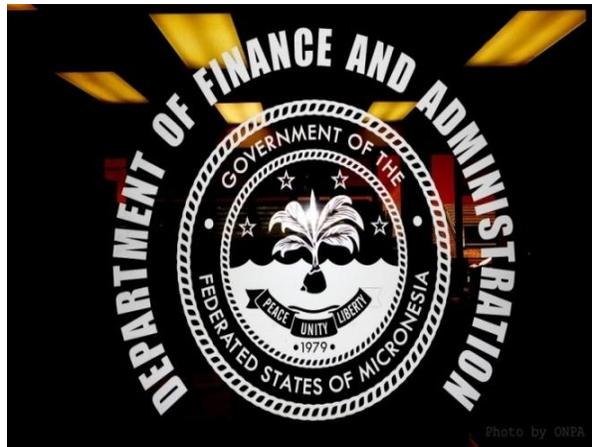
### **Report No. 2011-03: Audit of ADB Grant Assistance Weno Water Supply Well Remediation Project**

ONPA audited the financial statement of project account of Federated States of Micronesia Weno Water Supply Well Remediation Project, Asian Development Bank (ADB) Grant Assistance financed by Japan Fund for Poverty Reduction (JFPR). This financial statement is the responsibility of the Project's management. ONPA's responsibility was to express an opinion on the financial statement based on the audit. ONPA believed that the audit provided a reasonable basis for their opinion.

The following internal control deficiencies were considered to be material weaknesses: segregation of duties is lacking over the control of cash disbursements. Presently, checks issued by the Department of Finance & Administration (DFA) in payment of project expenditures are returned to the Project Accountant. This individual who prepared the payment requests, maintains vendor and invoice files, records all project transactions, and reconciles cash. Monitoring of reconciliations is not consistently performed. Our review of reconciliations of the imprest account revealed that reconciliations were not timely performed and reconciling items were not cleared on a timely basis.

### **Report No. 2011-04: Audit of ADB Loans 2099-FSM (SF) and 2100-FSM, Omnibus Infrastructure Development Project**

ONPA audited the accompanying statement of project account of the Federated States of Micronesia Omnibus Infrastructure Development Project, Asian Development Bank (ADB) Loans 2099-FSM (SF) and 2100 FSM (the Project) as of and for the year ended September 30, 2010. The result of this audit was to express an opinion as to whether the financial statements present fairly, in all material respects, the cash receipt and disbursements of the project for the year ended September 30, 2010.



Significant weaknesses in internal control deficiencies: manual checks were used for project disbursement instead of the Magnetic Ink Character Recognition (MICR) encoded checks routinely used for most payments processed through DFA. The project checks were prepared using a type writer. Current certificates of insurance were not maintained on file by the project for consulting and engineering contracts.

Idle cash was not properly managed. The project has maintained its funds in a non-interest bearing checking account with the Bank of Guam. It also has incurred bank service charges in connection therewith. At the time the bank account was established by DFA the bank offered,

and still does offer, an interest bearing checking account. The project failed to comply with the covenants of the loan or grant in connection with the preparation and submission of project progress reports.

### Report No. 2011-05: Audit of Chuuk State Off-Island Medical Referral Program for Non-Insured Patients



The main objective of this audit was to determine whether the Chuuk State DHS expended the funds in accordance with the Program requirements and the Third Party Agreement (TPA). The audit found that the program requirements and the TPA agreement were not followed by the Chuuk State DHS. In the short period of its existence, the program administration was deeply plagued with numerous control and compliance deficiencies involving approximately \$415,578 or approximately 35% of the total program funds of

\$1.2 million through September 30, 2010.

- \$262,589 was expended on just 7 patients, of which \$122,589 exceeded the per patient program limit. Furthermore, \$174,000 of the total \$262,589 was expended for just 5 of the 7 patients who were treated for conditions specifically excluded by the program; 3 of the 5 patients treated for excluded conditions died shortly after their return to Chuuk.
- \$68,168 was expended on 4 patients with medical insurance and was therefore not eligible.
- \$26,153 was expended for travel to Hawaii in violation of the Sector Grant.
- \$58,668 was expended in overcharges and unsupported charges. These include physician fees not supported by receipts, payment of services fees to the TPA beyond the maximum allowed, overpaid stipends to patients, and payment of irregular fees (refundable room deposits).
- The \$250,000 advanced to the TPA is largely at risk of loss since DHS did not retain control of the account and significant amounts of claims are not disputed between the TPA and DHS.

The program requires patient beneficiaries to share in the cost if financially able; however, DHS did not implement this requirement. DHS failed to monitor and did not approve treatment for problems diagnosed while patients were entirely different from the condition approved by DHS. The audit recognizes the limited local capability in Chuuk to properly diagnosed patient with medical problems but also reported that DHS did not have a procedure to review and approve or not approve for problems diagnosed at off-island hospitals.

## Report No. 2011-06: Audit of Budget Overruns in Salaries and Benefits



The main objective of the audit was to determine the extent of the budgetary overruns by establishing the dollar amount of total expenditures, the related appropriations and allotments at September 30, 2010 prior to special appropriations to cover budget overruns, and the primary cause(s) of the overruns and why the conditions were allowed to continue.

- The approved budget and the amount appropriated for fiscal year 2010 for the Division of Immigration and Labor for payroll expenditure was \$602,335 but the total expenditure was \$732,522, therefore, it exceeds the original appropriation by \$130,187.
- Department of Justice, divisions of immigration and labor and national police, its overtime totaling \$227,450 for fiscal year 2010 was not charged to fiscal year 2010 but was charged to fiscal year 2011; employees may be compensated for time not worked, and uncontrolled overtime.
- The department of education's budget resulted in the loss of 2009 supplemental education grant (SEG) funding of \$494,240.
- Statistics, Budget & Economic Management, Overseas Development Assistance & Compact Management (SBOC) internal policies and procedures should be updated.
- FSM President's office and Congress had a lack of budget reporting transparencies to keep the President and congress well-informed about budgets and expenditures status.

We recommend the secretary of DOJ perform a personnel analyses of the overall man hours needed in a scalable model that can be adjusted for projected increases or decreases in economic activity, the Director of SBOC should only apportion quarterly amounts for all personnel costs, and the secretary of DFA should not make payments if the resulting expenditure will exceed the allotted amounts.

## Other Matters of Interest

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### **Resolution Passed by Chuuk Legislature Regarding Chuuk DHS Audit**

The Chuuk Legislature passed a resolution requesting the ONPA to do further investigation regarding the audit of Chuuk Department of Health Services. On the issue of procurement fraud, the efforts to improve the existing procurement procedures may be motivated more by legislation. This resolution stemmed from the audit's declaration that \$700,000 worth of medications was not delivered because, until the release of the audit report, the auditors were not shown evidence indicating receipt of some of the prepaid medications.

### **ONPA Auditors Summoned by Congressional Special Committee**

On October 1, 2010 the Office of the National Public Auditor (ONPA) received a letter dated September 29, 2010 from the Speaker of the 16<sup>th</sup> FSM Congress requesting this Office to perform an audit regarding FY 2010 expenditures and the related appropriations, specifically salaries and benefits. The specific concern expressed in the letter was that the FY 2010 expenditures by the National Department of Education (NDOE) and Department of Justice- specifically the Divisions of Immigration & Labor and National Police, and Coconut Development Authority exceeded congressional appropriations, thus necessitating a request for supplemental appropriations by Congress. Congress had conducted public hearings and received reports that these Departments / Divisions and CDA (the "four entities") had incurred expenditures exceeding the limits authorized by the Congressional appropriation laws. A Congressional special committee was formed, tasked with conducting an investigation on the reasons why there were cost overruns and possible violations of the Financial Management Act of 1979. During the course of the audit, the Auditors were called to testify to the special committee on several occasions.

### **Congress Voiced Concerns Regarding ONPA Field Office in Chuuk**

The Committee on Ways and Means voiced strong concerns with the continued existence of the ONPA Field Office in Chuuk, in light of the apparent lack of a plan to transition the Office to Chuuk State or phase-out in some other manner. The Chuuk Branch was initially established as a temporary office that would be phased-out of the National Government at some point. The Committee expressed concern with the possibility of other States experiencing unfair treatment regarding the National Government funding Chuuk State, and not the other State Auditor Offices. Chuuk State does not, for reasons unknown, have their own State Audit Office. The National Office was tapped to fill that void when a need was obvious. Furthermore, OPA considered their presence in Chuuk vital, and that many benefits have resulted from the OPA office in Chuuk; OPA considers the Chuuk office to be important not only for Chuuk State, but

for the entire FSM. OPA concurred that the ideal situation would be for Chuuk State to have its own State Audit Office.

### **PEFA Training for FSM National**

Auditor III, Erwihne David attended the Public Expenditure and Financial Accountability (PEFA) training. The workshop was conducted for all departments, offices and agencies of the National government that have direct functions and duties for the Public Financial Management (PFM) of the central government. PEFA is a multi-agency partnership program sponsored by The World Bank, The International Monetary Fund, The European Commission and others. PEFA Performance Measurement Framework incorporates a PFM report, and a set of high level indicators based on expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards. PEFA Performance Measurement Framework makes assessment of the extent to which a country's existing PFM system supports the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

### **CID Visited MTCU**



On February 11, 2011 a brief presentation was conducted by the Micronesian Transnational Crime Unit (MTCU) Mr. Steve Hamilton, Support Advisor and the Team Leader, Captain Johnny Santos, regarding an overview of MTCU's inner operations. The attendees at the presentation were among several national and local law enforcement agencies. Representing the ONPA's CID were Chief Investigator Sophia Pretrick and Investigators Michael Nakasone and Sinter Alexander. The purpose of the visit was to

strengthen cooperation and mutual understanding between the local agencies and MTCU in their fight against transnational crimes. The MTCU aims to combat the transnational crimes such as illegal drug, human trafficking, human smuggling, organized crimes, money laundering, fraud, and corruption. In fighting these crimes, they required the regional cooperation with intelligence sharing and resources, being proactive in engagement strategies and the strengthening of the inter-agency cooperation. During the presentation, Chief Pretrick stressed the necessity to strengthen assistance and cooperation with MTCU in their inquiries on transnational crimes. MTCU's assistance in providing and sharing intelligence to ONPA was highly regarded.

**Accountability and Transparency Project**

Ms. Aolele Su'a Aloese, a charter accountant from New Zealand and, as a consultant, was selected by the PASAI to visit the FSM. The purpose of the visit was to produce an updated report showing the state of accountability and transparency in respect of public sector resources across the Pacific. This report was to be used as a basis for communication with regional governments and for a broader advocacy about the role of the SAIs and associated governance mechanisms in achieving accountable, transparent use of public resources.

## Compliance Investigation Division



CID is the second of the two Divisions established by the ONPA to conduct its work. CID has two primary investigation functions, 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 prosecutions in the courts. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM DOJ. (Refer to Appendix III, for the general and qualitative standards for investigations)

During FY 2011, CID handled 16 new cases along with 14 cases that were carried over from prior years.

### CID Case Statistics

No.	Description	Quantity
1.	Open Cases	16
2.	Open and Carried Over	30 (14 Carried Over)
3.	Referred Cases to FSM DOJ	0
4.	Closed Cases and/or Referred for Administrative Action	8
5.	Active Cases as of September 30, 2011	22

### CID Case Discussions

Case Number	Date Closed and/or Referred	Allegation	Source of Request	Summary Findings
CID 10-009	10/13/2010	Pohnpei Housing Authority	Anonymous	Closed/Lack of Jurisdiction/Referred to State AG
CID 09-012	10/18/2010	FSM Chuuk/CSCIP	Secretary of a Department	Closed/Unsubstantiated
CID 10-0210	02/08/2011	Piis Panau Municipal Subsidy	Concern Citizen	Closed/Funding Expended in Line of PCD
CID 10-005	02/11/2011	National Olympic Committee (NOC)	Anonymous	Closed/Matter Resolved Internally
CID 11-004	04/27/2011	Diving Seagull	Audit Referral	Closed/Lack Jurisdiction/Referred to Yap AG
CID 10-017	06/09/2011	Fraudulent Medical School	Concern Individual	Findings Showed School has not Started yet, Proposals are Underway/Placed Under Intelligence Watch
CID 10-018	06/09/2011	Co-mingling of Government vs. Private Business	Concern Citizen	Source of Fund is Unsubstantiated/Office Activity Closed Down
CID 11-002	06/09/2011	DOE Missing Government Properties	Hotline Call	Matter Resolved Internally - Individual Returned Items

### Pending Cases at DOJ as of September 30, 2011

Case Number	Allegation	Date Referred	Length of Time Since Referral				Status/Responses
			Less Than 1 year	1 – 2 years	2 – 3 years	3 years & Over	
CID-04-003	Conspiracy and Theft of Fishing	03/08/2005				XX	Pending at DOJ
CID-05-007	Theft and Embezzlement from Fishing Corporation	03/30/2005				XX	Pending at DOJ
CID-04-2001	Conflict of Interest and Attempted Fraud	10/20/2006				XX	Pending at DOJ

CID-05-2001	False Travel Claim	05/02/2007				XX	Pending at DOJ
CID-07-2005	Contract Fraud Involving Marine Park	03/10/2008		XX			Pending at DOJ
CID-07-012	False Claim	02/27/2008		XX			Pending at DOJ
CID-04-005	Misappropriation of CIP Fishing Project Funds	07/04/2008		XX			Pending at DOJ
CID-08-002	Tax Evasion and Money Laundering	09/10/2008		XX			Pending at DOJ
CID-06-009	False Claim, Payroll Fraud and Forgery	02/16/2009		XX			Pending at DOJ
CID-08-006	Misappropriation of Public Project Funds	05/07/2009		XX			Pending at DOJ
CID-09-003	Internet Scam	06/09/2009		XX			Pending at DOJ
CID-08-003	Payroll Theft and Forgery	08/19/2009		XX			Pending at DOJ
CID-09-009	Conspiracy and Conflict of Interest	11/23/2010	XX				Pending at DOJ
CID-08-012	Theft of Services	11/23/2010	XX				Pending at DOJ
CID-08-011	False Medical Claims	02/19/2010	XX				Pending at DOJ
CID-09-010	Misappropriation of Funds	03/25/2010	XX				Pending at DOJ
CID-09-013	Collusion, Conspiracy and False Billing	05/25/2010	XX				Pending at DOJ
CID-09-002	Tax Evasion and Unsworn Falsification	06/29/2010	XX				Pending at DOJ
CID-09-007	Chuuk Health Undelivered Pharmaceuticals	07/08/2010	XX				Filed Both Civil and Criminal at Chuuk State Court
CID-10-007	AS Degree Forgery	09/07/2010	XX				Pending at DOJ

## Cases Pending in Court

### CSSC CR NO. 082.2010

CID-09-007- July 8, 2001, this case was filed with the Chuuk State Supreme Court by the Chuuk State AG regarding a vendor who believed to be a resident of the Republic of the Philippines. Defendant has been a supplier of medicines and medical supplies including other medical needs of the Chuuk State Department of Health Services. Evidence appears to show that defendant was a supplier of the said Department for a period of not less than five (5) years until August 18, 2009, the date of his last delivery. Defendant unlawfully and intentionally withheld, stole, embezzled and converted the \$205,861.73 in his possession without delivering the pharmaceuticals.

## Cases Adjudicated

### Criminal Case No 2008-2500

CID-07-011-September 2008, this case was filed with the FSM Supreme Court in Kosrae involving two defendants. The case involved mismanagement of the FSM National Aquaculture Center in Kosrae. The resulting investigation and prosecution led to two counts of theft of government funds against each defendant.

August 2011- Defendant pled guilty and sentenced to imprisonment for 2 years. The defendant was ordered to pay a fine and restitution to the National Government beginning in September 2011.

### Criminal Case No 2010-501

CID-09-005-May 19, 2010, this case was filed with the FSM Supreme Court involving theft by unlawful taking and aggregated criminal mischief. This individual embezzled and forged Social Security Beneficiary Checks for his/her own personal benefit. The defendant entered a guilty plea.

## ONPA/CID Hotline



The Public Auditor has established a Hotline for use by concerned private citizens to report possible misconduct and abuse in the government entities. Information from the public is a valuable part of the audit process and helps ONPA focus its resources.

The Hotline number is 691-320-6768, and is available twenty-four hours a day, every day of the week, by an answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA also offers an on-line complaint form. The form can be found at the ONPA website at: <http://www.fsmopa.fm>.

### ONPA Website: Transparency in Government Continues via ONPA's Website

ONPA's strategic goal to improve transparency in government is furthered through the use of the ONPA internet website ([www.fsmopa.fm](http://www.fsmopa.fm)). Transparency means providing citizens with information about their government's operations. One indicator of transparency is FSM citizens' use of the web site, tracked by the number of visits to the site, to locate information about ONPA activities. Google Analytics is the system used to track utilization of the web site. Another important indicator is whether visitors accessed the web site directly using the ONPA web address<sup>1</sup>. This type of visit could denote the visitor's specific intention to go to the ONPA web site to read ONPA reports, learn about staff, or find out what's new in the ONPA office. This type of access can be considered a direct link to transparency. The number of web visits to the ONPA site has increased over the past year. For example, the average number of visits to the web site monthly is 1,400; whereas, the average number of monthly visits for the period reported in 2010 were 500. However, FSM citizens are the primary users of the ONPA web site.

<sup>1</sup> Access is tracked by whether the visitor came to the ONPA web site by (1) direct access (2) a search engine service, or (3) a referral. Using direct access, visitors enter the ONPA web address and are sent directly to the ONPA site. Using a search engine, visitors reach the site using key words that are inserted into the engine and then the service (for example Google) searches the web or a specialized database for any information related to the key words. In a referral, while visitors are at another web site, they are referred to the ONPA web site.

## Single Audits

FSM National and State Governments are required to have their general purpose financial statements audited annually. This work is done by independent CPA accounting firms under the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133<sup>2</sup>, audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position of the respective entities. Achieving the Compact's requirement regarding single audits is very critical as the fund donors must know how their financial assistance was spent and what it was used for in the FSM. Also, the decision-makers within the National Government need current financial data in order to make sound decisions.

The ONPA has full management responsibilities for ensuring that this requirement is met. The Public Auditor has oversight responsibilities for the contract work.

### Single Audit Opinions Issued 2005 through 2010

Government / Entity	2005	2006	2007	2008	2009	2010
<b>FSM National Government</b>	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified
Development Bank	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Social Security Administration	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Coconut Development Authority	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Telecommunication Corporation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
College of Micronesia - FSM	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
MiCare Plan Health Insurance	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
National Fisheries Corporation	Disclaimer	Disclaimer	Disclaimer	Qualified	Qualified	Unqualified
FSM Petroleum Corporation	X	X	X	Unqualified	Unqualified	Unqualified
Caroline Islands Air Inc.,	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
<b>Pohnpei State Government</b>	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Pohnpei Utilities Corporation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

<sup>2</sup>OMB Circular No. 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.

Pohnpei Port Authority	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Pohnpei Housing Authority	X	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Pohnpei Fisheries Corporation	X	Unqualified	Unqualified	Unqualified	Unqualified	X
<b>Chuuk State Government</b>	Disclaimer	Disclaimer	Qualified	Qualified	Qualified	Qualified
Chuuk Public Utilities Corporation	Disclaimer	Disclaimer	Disclaimer	Disclaimer	Unqualified	Unqualified
Chuuk Health Care Plan	Qualified	Qualified	Unqualified	Qualified	Unqualified	Unqualified
Yap State Government	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified
Yap State Public Service Corporation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Diving SeaGull Inc.,	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Yap Visitors Bureau	Unqualified	Unqualified	Unqualified	-	-	Unqualified
<b>Kosrae State Government</b>	Qualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Kosrae Port Authority	X	X	X	X	Unqualified	Unqualified
Kosrae Utilities Corporation	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

Compliance with the Single Audit Act is a requirement of the Compact of Free Association Amendments of 2003 and is a condition for receiving Federal grant programs for the entire FSM.

Under the annual Memorandum of Agreement (MOU) for single audits between the FSM and the US, the audits are to be equally funded by both FSM and the US. The Office of the Insular Affairs of the Department of Interior is the cognizant agency for the single audits and provides the US portion of the funds. The FSM Public Auditor Office is the oversight agency on the single audits for the entire FSM. Financial reporting on the annual grant is done quarterly through the FSM Department of Finance and Investment Division.

On July 10th 2009, the FSM Public Auditor contracted two CPA firms (Deloitte & Touche and Fortenberry and Ballard LLC) to perform the single audits for the entire FSM for fiscal years 2009, 2010, and 2011.

For the fiscal year 2010, all audits for the FSM Government, the State Governments and their component units were completed on time prior to the deadline of June 30, 2011. Highlights for the FY'10 single audits include the following improvements:

- All of the audits for the entire FSM receive unqualified opinions for the single audits with the exception of two entities: Chuuk State Government.

## Information Technology



ONPA created the Information Technology (IT) section under the administration division to support users on the existing computer network. Melvin Poll is currently the IT Specialist, whose responsibilities include monitoring of the office computer network, installation and repair of computers and network components, troubleshooting of computer issues and maintenance of the office website.

### **ONPA Website Updates**

IT updated the staff section of the ONPA website several times this fiscal year, to synchronize with the in-processing and out-processing of employees for the year. Changes were done to the staff page in the general page and individual links to each Staff. Miscellaneous website rendering was also done in the staff page with things like individual photo updates and updates on each staff CPE records updates. The company organization chart was also rendered and updated. Other website updates include uploads of our current audit reports.

### **Software Upgrades**

During the Fiscal year 2011, the ONPA office purchased a two- year subscription for an Anti-virus Program called BitDefender 2011. After its use in the previous years, it has been in the best interest of the IT Committee to continue with BitDefender Anti-virus Program and take on its newest product which is the BitDefender 2011, two-year subscription plan. IT installed the program in all the PCs for the ONPA staff in Palikir and at the Chuuk Field Office. Other programs that the office started using were Microsoft 2010, Mozilla Firefox Internet Browser and some malware programs.

## Conferences/Trainings/Workshops Attended

### PASAI Tier 1



documentation, audit approach, analytical conducting stock-takes, and practical cases.

Auditor I, Cherisse Irons, attended the Tier 1 Fundamentals of Government Auditing Pilot Training held in Nadi, Fiji on July 11-22, 2011 which was sponsored and funded by PASAI. The training was geared towards assistant entry level auditors, specifically those involved with financial audits. The subjects covered emphasized the International Standard of Supreme Audit Institutions (ISSAI) standards which includes how to apply the standards, phases of the audit process, assessing control environment, data collection strategies, audit review, interview skills, time management,

### PASAI Tier 2

Auditor II, Julinida Weital, attended the Tier 2 Immediate Government Auditing Skills Pilot Training held in New Zealand on February 14-25, 2011 which was funded and sponsored by PASAI. The participants were trained on the material and evaluated on the scope, relevance and appropriateness of the contents of the training material. The working group and the Capacity Building Advisor of Tier 2 will use the evaluation in regards to improving the training materials.

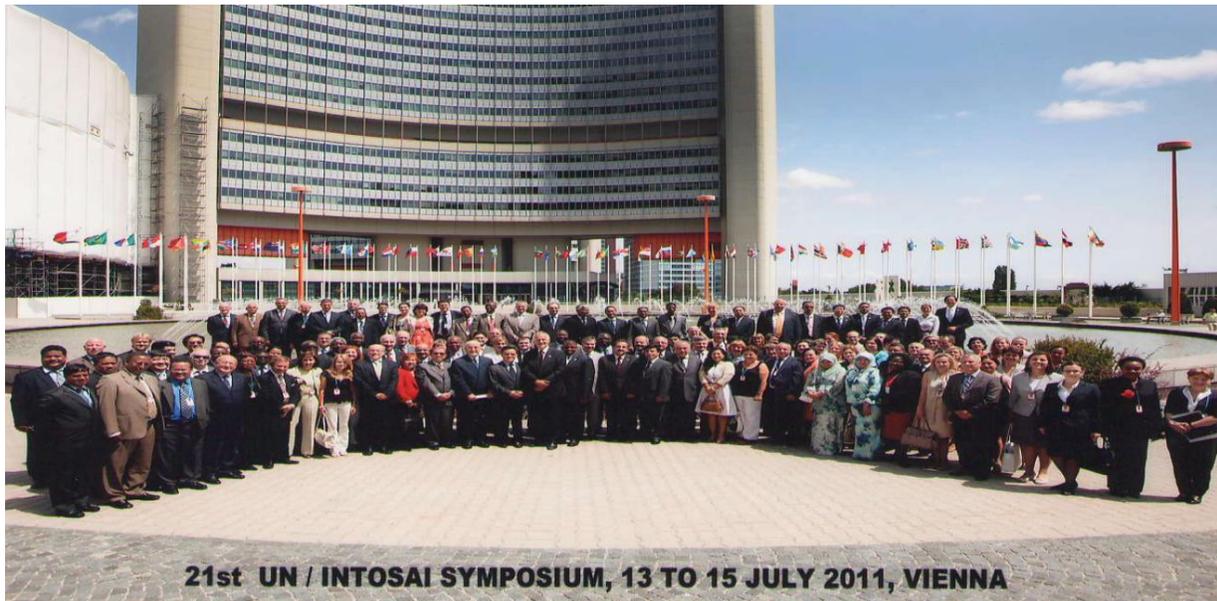


### PASAI Tier 3

Auditor III, Erwihne David, attended the Tier 3 Supervisory Auditing Skills Pilot Training held in Nadi, Fiji from March 14-25, 2011 which was sponsored and funded by PASAI. The Tier 3 was the first to be piloted as a result of the PASAI Capacity Building Conference held in June 2010, and was targeted for audit staff in the SAI at Senior Auditor/Audit

Supervisor/Audit Manager level. The workshop was an opportunity for participants to share, compare and exchange work experiences, techniques and systems that are conducted within their various SAI's.

### 21<sup>st</sup>UN / INTOSAI Symposium



Public Auditor, Hainrick and Investigator III, Kelly Samuel attended the 21<sup>st</sup> International Organization of Supreme Audit Institutions (INTOSAI) Symposium held in Vienna, Austria from July 13-15, 2011. The symposium was jointly sponsored by INTOSAI and the United Nations Department of Economic and Social Affairs (UNDESA) at the INTOSAI International Center. The theme was on "Effective practices of cooperation between SAIs and citizens to enhance public accountability." Hainrick's participation was paid by INTOSAI.



PASAI 4th Governing Board Meeting 2-3 February 2011  
Auckland New Zealand

### PASAI 4<sup>th</sup> Governing Board Meeting

Public Auditor Hainrick attended the 4<sup>th</sup> Governing Board meeting in Auckland, New Zealand from February 2-3, 2011. All members attended with three development partners and stakeholders. The purpose of the meeting was to discuss the progress of Pacific Regional Audit Initiative (PRAI) and its activities which includes its first annual report, and audited financial statements. Hainrick

served on the PASAI Governing Board as the representative of the Micronesia region which includes all of FSM National and States, Palau, RMI, CNMI and Guam.

### **AGA / ASMC Governmental Development Conference**

Administrative Officer, Neong Yoma; Auditor II, Keller Phillip; Auditor II, Julinida Weital; & Auditor I, Elina Paul; attended the 16<sup>th</sup> biennial AGA/ASMC Governmental Professional Development Conference in Honolulu, Hawaii at the Sheraton Waikiki Hotel on August 15-17, 2011 for the purpose of strengthening effectiveness and efficiency in Government operation, as well as an opportunity for auditors to earn CPE credits as required by GAGAS.

### **PASAI Co-operative Performance Audit**

Auditor III, Julinida Weital and Auditor I, Elina Paul attended the planning meeting, paid by PASAI, for the third Co-operative Performance Audit on Sustainable Fisheries Management that was held in Nadi, Fiji on 22-26 August 2011. The audit is designed to assess the effectiveness of the actions taken by key agency/agencies in ensuring sustainable fisheries in the countries Exclusive Economic Zone (EEZ) of the participating Audit Offices.

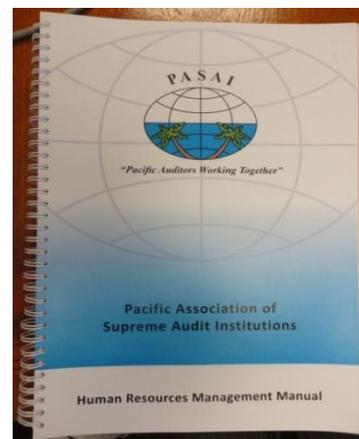
### **22<sup>nd</sup> APIPA Conference**



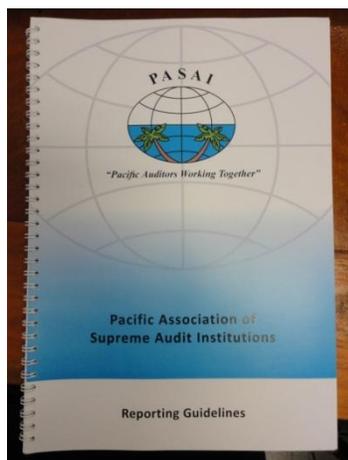
The FSM ONPA attended the 22<sup>nd</sup> annual conference of the Association of Pacific Islands Public Auditors held in the Marshall Islands from July 4-8, 2011. The following courses were accomplished during the trip: Giving Voice to Value: Practical Ethics in Action, Developing and Presenting Audit Findings, Audit Evidence and Documentation, Writing Audit Reports by Objective, Non-statistical Sampling for Auditors, and What Everyone Should Know When Reviewing Government Contracts.

### 1<sup>st</sup> Work Group to Complete Human Resource Manual

The production of this Human Resource Management (HRM) manual was a joint effort of representatives from the following SAIs: FSM Public Auditor and Leader of the HRM manual work group, Haser Hainrick; Audit Manager Sinaroseta Palamo-Losefo, Samoa audit office; Audit Manager Margaret Numanga, Cook Islands audit office; Kosrae State Public Auditor, Stoney Taulung; FSM auditor, Lover Haimin; and Champion Pohiva Tuionetoa, Tonga Auditor General. The purpose of the manual is to provide guidance for the PASAI members on HRM. It outlines international practices on recruitment, retention, career development and training of staff, their well-being, and performance management.



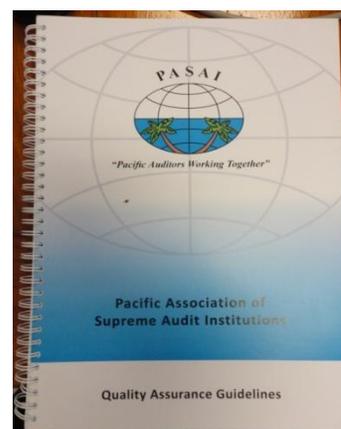
### PASAI Reporting Guidelines Manual



Auditor III, Erwihne David attended the PASAI Midpoint meeting in Auckland, New Zealand from February 28<sup>th</sup> - March 4<sup>th</sup>, 2011. The purpose of the meeting was to work with the assigned Audit Reporting Manual working group. She and the other members of the SAIs worked together by reviewing the contents of each sections of the manual and finalized their draft report. They were able to complete/ finalize the report, and submitted to the PASAI Technical Review Committee for final review and adoption. The manual outlines the characteristics of a good report as well as good reporting techniques, how to report on financial statement and performance audits in keeping with relevant audit reporting standards, how to produce special reports which contribute to improve public sector governance, and lastly, how to produce an annual report.

### PASAI Quality Assurance Guidelines Manual

Auditor III, Evelyn Paul, attended the PASAI Midpoint Meeting in Auckland, New Zealand from March 24<sup>th</sup> - April 3<sup>rd</sup>, 2011. The purpose of the meeting was to work with the assigned Audit Reporting Manual working group. She and the other members of the SAIs worked together by reviewing the contents of each sections of the manual and finalized their draft report. They were able to complete the report, and submitted to the PASAI Technical Review Committee for final review and adoption. The purpose was to develop a resource for SAIs to use when developing quality assurance systems in their respective jurisdictions. The Manual is designed as a reference tool based on international best practices as they existed at the time the manual was produced.



### ONPA Attends the 4th Annual IAACA

The conference took place in Macau, China from November 2-5, 2010. Delegates from all over the world attended. FSM delegates include the FSM National Public Auditor Haser Hainrick, Secretary of Justice Maketo Robert and Chief Investigator Sophia Pretrick. The conference theme was “United Nations Convention Against Corruption (UNCAC) Chapter IV: International Cooperation”. The UN member countries agreed to cooperate with one another in every aspect of the fight against corruption, including prevention, investigation and prosecution of offenders. UN countries are bound by the Convention to provide specific forms of mutual legal assistance in gathering and transferring evidence for use in court and to extradite offenders. Countries are required to undertake measures which will support the tracing, freezing, seizure and confiscation of proceeds of corruption. The conference emphasized that corruption is no longer a national or domestic issue, but is a transnational and borderless crime. That means implementing and strengthening the international cooperation by implementing the UNCAC, given that it is the strongest legal instrument to fight corruption.

### 22<sup>nd</sup> Annual ACFE Fraud Conference



Chief Investigator Sophia Pretrick and Investigator Michael Nakasone represented the Office to attend the 22th Annual ACFE Fraud Conference in San Diego. There were more than 2,300 anti-fraud professionals attending the conference from over 100 countries. The highlight of the conference was from keynote speaker, John Walsh, the host of “America’s Most Wanted,” who discussed fraud, his show and new business venture on the importance of bringing criminals to justice. The conference focused on fraud and ethics related issues, offering from basic to advance courses where the latest tools, techniques and software were presented to assist in combating, deterring and detecting financial crimes globally. The exhibit hall networking gave attendees a chance to explore today’s latest anti-fraud technology and services. Peer networking was very useful in the training. Aside from obtaining 40.0 CPE hours, the training was a success. Brandon Tara, who also participated in the conference, is a FSM citizen and ACFE

student member. He was one of the 12 out of 2,000 students in the US nationwide selected to participate in the conference.

### **ACFE Pacific Rim Conference**

The conference, a 3-day event hosted by the Association of Certified Fraud Examiners (ACFE), was attended by well over 100 investigators, auditors and other financial specialists throughout the Pacific Rim countries on November 14-16, 2010 in Melbourne, Australia. It was a great opportunity for the attendees to learn and share ideas and experiences with a number of authorities in the fraud prevention, investigation and detection field. One of the most important aspects of the conference is the networking of like-minded professionals from different jurisdictions. The sessions provided the participants an opportunity to update their required CPE hours as required by all dedicated anti-fraud practitioners. As Investigators for ONPA, Michael Nakasone and Kelly Samuel obtained valuable lessons from the conference. Not only were they updated on the prevention and detection methodologies, they also received current information on the fraud environment and practices in the Pacific Rim countries. A portion of the conference was dedicated to advanced interview techniques which immensely benefited the attendees.

### **Fraud Training Hosted by ONPA**



The US Office of the Inspector General, Department of the Interior, initiates capacity building for the insular areas focusing on fraud detection, deterrence and investigation. This year's training was hosted by the ONPA. It was attended by representatives from the various disciplines including the auditors, investigators, procurement officers, financial managers and prosecutors. Representatives came from the FSM National, Kosrae, Chuuk and the Republic of Palau. The training demonstrated to the participants a framework for ensuring that government employees have the knowledge of what fraud is, how it impacts government operations, and the role of the oversight agencies. It focused on government contract and

procurement fraud schemes; methods to improve detection, deterrence and investigation of fraud; and ethical decisions in government operations and activities.

## Other Activities

### ONPA Thanksgiving Picnic

Thanksgiving for the ONPA office was shared with families and friends. Annually ONPA host an office party either during Thanksgiving week or before Christmas. It is designed to strengthen the relationship amongst staff which also extends to their family and friends. This year ONPA decided on a Thanksgiving picnic. The staff enjoyed the good food, good company and reflected on the many blessings to be thankful for this year. In addition, the staff planned different activities for the adults and kids attended. Among the many activities, ONPA staff also did Power Point Presentations on conference and trainings attended. It was a momentous occasion shared with family and friends.

### ONPA Conducts Community Service on IOHL Road



A trash-a-thon was conducted by the ONPA staff in the afternoon of February 23, 2011 on the Iohl Road. The purpose was to demonstrate team work and assist in keeping the environment clean for the benefit of the public. The Public Auditor said “it was an awesome display of working together with team spirit and with lots of fun along the way”. The route starts from the ONPA office and ended on Pohras hillside. Members of the community joined the ONPA staff in picking up the trash bags with cans, bottles and plastics. The efforts

undertaken by the staff was tremendous, which demonstrated voluntary team work in keeping our environment clean and reaching out to the community.

### ONPA Exercise/Walk Program 4-5PM MWF

From early in his term, Public Auditor Hainrick emphasized his commitment to improving a healthy working environment for his employees. And it was not an empty promise. ONPA has created a healthier workforce through a 4-5 pm walking exercise from the main office down to the road at Pohras, Palikir and back, to promote a healthy environment for ONPA staff. Considering walking is the lightest form of exercise. ONPA staff enjoyed the MWF exercise/walk program which gives them a refreshing break from a long day of work before heading home. Healthy mind and body are needed for work productivity.

## New Hires, Promotions & Departures

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### New Hires



J. R. (Bob) Hayes filled a vacant Audit Supervisor position. He is a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE). Most recently he worked for a consulting firm in North Carolina that provided internal audit and financial management services.



Pernes Samuel from the State of Pohnpei filled a vacant Investigator position. Pernes graduated from the University of Guam with a Bachelor's Degree in Criminal Justice.



Tracy Ardos from the State of Pohnpei filled a vacant Investigator position. She has a Trial Counselor major and prior to joining the ONPA, she also worked with FSM National Police under Pacific Islands Chiefs of Police Secretariat.



Vanessa Sigrah from the State of Yap filled a vacant Auditor position. Vanessa graduated from the University of Guam with a Bachelor's Degree in Accounting. She did her internship at Deloitte & Touche LLP, Tax Department, in Tamuning, Guam.

### Promotions



Neong U. Yoma was promoted to the Administrative Officer position. Prior to her promotion, she was on a special contract as the Office Assistant. Neong also assumed the responsibilities of the Single Audit Specialist since the departure of Christina Elnei.

## Departures

The ONPA extend its appreciation to the following former staff for their contributions and wish them success in their future endeavors.



Christina Elnei resigned in December of 2010 and accepted a job offer with the Micronesian Shipping Commission in Kolonia. Christina was a Single Audit Specialist with ONPA prior to her resignation.



Sinter Alexander filled an investigator position at ONPA and worked for a few months. He has a Bachelor of Arts degree in Administration of Justice from the University of Hawaii-Hilo, and Associate of Arts degree in Liberal Arts from College of Micronesia-FSM, 2005.



Yolanda Leben resigned from ONPA on January of 2011 and accepted a job offer from the Pohnpei State Public Auditor's Office. Yolanda was an Auditor II with ONPA prior to her resignation.



Michael Nakasone resigned from ONPA on August of 2011 and accepted a job offer from the FSM Public Defender's Office. Michael was an Investigator II with ONPA's CID prior to his resignation.



Loreen Cindy Hadley resigned from ONPA in April of 2011 to continue her education at the University of Guam. Cindy was the Administrative Officer at ONPA prior to her resignation.



Julein Danis resigned from ONPA in August of 2011. Julein was the Executive Secretary to the Public Auditor prior to her resignation.

## APPENDICES

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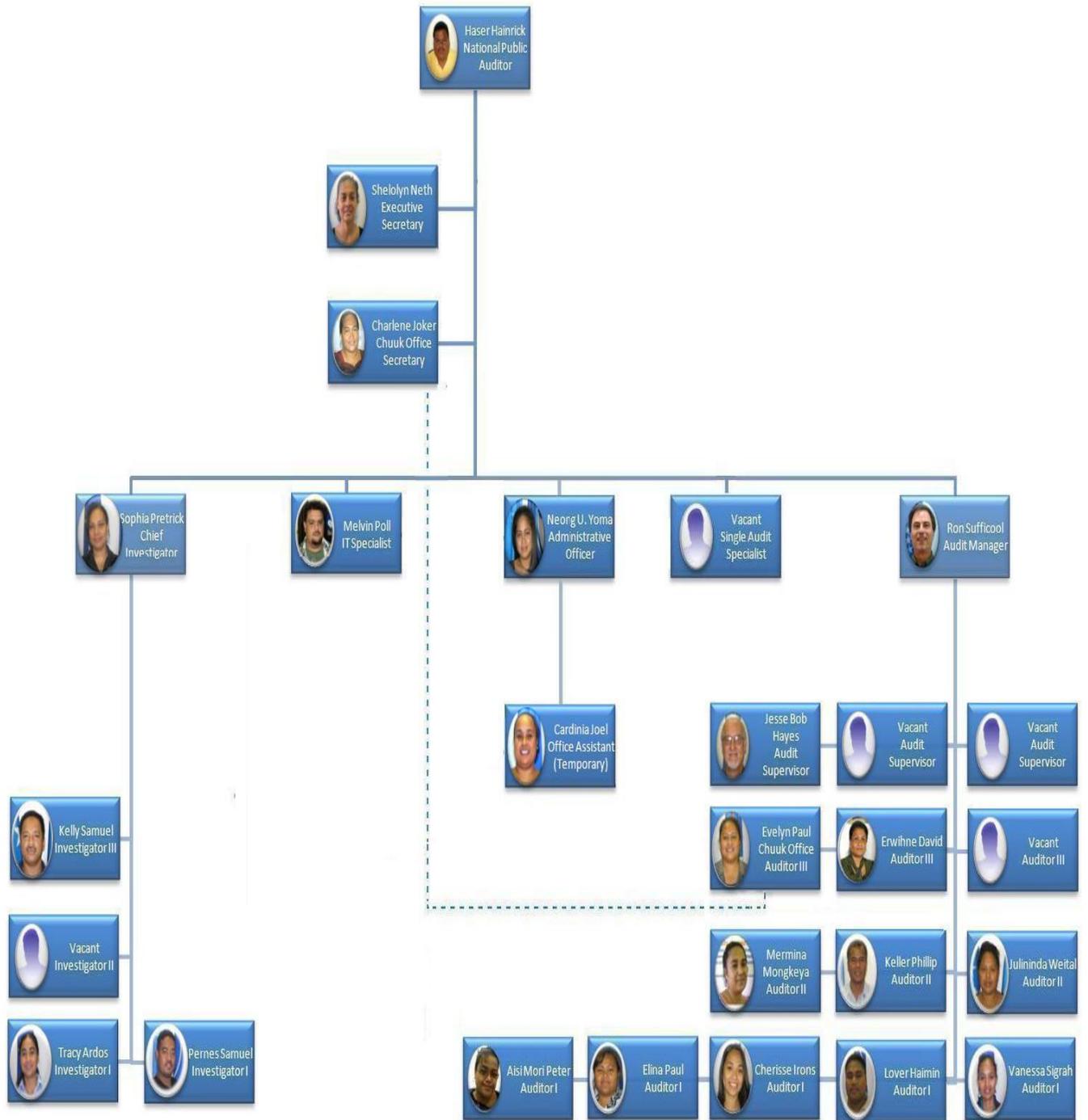
### **Appendix I – Powers of the Office of the Public Auditor and Duties and Responsibilities**

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

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

1. Inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government,
2. Inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the National Government,
3. Perform audits as otherwise specifically required by the statutes,
4. Have the discretion to perform audits, or assist in the performance of audits, upon request by the states,
5. Have the exclusive audit jurisdiction over public funds of the National Government of the Federated States of Micronesia, but shall have the authority to contract for independent auditing services to be performed under his supervision in instances where specialized expertise is required, or where auditing requirements are beyond the capacity of the Public Auditor's staff and separate funding is available,
6. File a report at least once a year with the Congress, and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the public,
7. Submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditures of public moneys, and the need for amendments or new laws to secure the efficient expenditure of public funds,
8. Keeps a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

Appendix II – Organizational Chart: ONPA as of September 30, 2011



## Appendix III: Audit and Compliance Investigation Division Operations

### *Audits Division*

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

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

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

### *Quality Standards for Inspections*

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1993 and revised in 2005. The 14 standards for inspection work are listed below. The complete guidelines for inspections is located on the internet at the following website: [www.ignet.gov/pande/standards/oeistds.pdf](http://www.ignet.gov/pande/standards/oeistds.pdf)

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

inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions

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

### *Compliance Investigation Division*

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

- *General Standards:* General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.
  - ✓ **Qualifications** - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.
  - ✓ **Independence** - In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to

independence; must be organizationally independent; and must maintain an independent attitude.

- ✓ **Due Professional Care** - Use due professional care in conducting investigations and in preparing related reports.
- *Qualitative Standards:* Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.
- ✓ **Planning** - Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.
  - ✓ **Execution** - Conduct investigations in a timely, efficient, thorough, and legal manner.
  - ✓ **Reporting** - Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.
  - ✓ **Information Management** - Store investigative data in a manner allowing effective retrieval, referencing, and analysis.



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## **Mission Statement**

*We conduct audits and investigations to improve government operations, efficiency and accountability for the public's benefit.*

## **Vision Statement**

*We create a high performing, transparent, and accountable government through the performance of high quality, independent audits and investigations.*