

FEDERATED STATES OF MICRONESIA

OFFICE OF THE NATIONAL PUBLIC AUDITOR

ANNUAL REPORT
Fiscal Year 2007



Haser Hainrick
National Public Auditor

May 12, 2008

Table of Contents

PUBLIC AUDITOR'S MESSAGE	3
2007 HIGHLIGHTED ACCOMPLISHMENTS	5
MISSION STATEMENT.....	6
VISION STATEMENT.....	7
VALUES	7
PERFORMANCE MEASURES	7
DUTIES OF THE NATIONAL PUBLIC AUDITOR.....	7
ORGANIZATION AND RESPONSIBILITIES OF THE ONPA	8
Audit Division.....	8
Compliance Investigation Division.....	15
Single Audit.....	18
Other Matters of Interest	20
Construction to Expand the Office Building Began in September, 2007	20
Funding for New Field Office in Chuuk State Made Available in March 2007.....	21
Strategic Plan Updated.....	22
Public Auditor Hainrick Represents FSM at DOI/OIG and Association of Pacific Island Public Auditors Conference	23
Seminar on Auditing Officials for South Pacific Countries Held in Beijing, China, Attended by a Staff Member	24
ONPA Hotline	25
OFFICE ADMINISTRATION	26
Budget	26
Staff Achievements and Activities.....	27
TRAINING CLASSES AND PROFESSIONAL DEVELOPMENT	30
Promotions, New Hires, and Departures	36
Main Office	36
Main Office	36
Chuuk Field Office.....	39
Main Office	41
APPENDICES	44
Appendix I: Powers and Responsibility of ONPA.....	44
Appendix II: ONPA Organizational Chart.....	47
Appendix III: Description of Performance Audits	48
Appendix IV: Audits Inspection Standards.....	49
Appendix V: General and Qualitative Standards for Investigations	51
Appendix VI: CID Case Discussions	52
Appendix VII: Single Audit Opinions	53
Appendix VIII: Strategic Plan, FY 2008-2010	55
Appendix IX: Training Courses Attended by ONPA Staff.....	65



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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

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

CID Hot Line: (691) 320-6768; E-mail: FSMOPA@mail.fm



PUBLIC AUDITOR'S MESSAGE

His Excellency Manny Mori, FSM President
The Honorable Members of the FSM Congress

It gives me great pleasure to submit the Fiscal Year 2007 Annual Report of the Office of the National Public Auditor (ONPA) as required by law. ONPA serves as watchdog, safeguarding FSM's assets and resources through audits and investigations aimed at improving government operations, efficiency and accountability. This Report presents an overview of the achievements of ONPA and highlights our continuing efforts to improve performance. We anticipate that the Report will stir both our Stakeholders and the public's interest in our work.

This was a challenging year for the staff at ONPA and it brings humble satisfaction knowing that we improved the quality, quantity, and timeliness of our audits. ONPA issued eight new audits completed by our Audit Division covering Compact Sector Grants in Chuuk State, FSM Passport Securities, Chuuk Personnel System, FSM Embassies in Washington DC and in Suva, Fiji, Private Sector Development Project by ADB, Customs and Tax Administration and Congress Appropriations for Public Projects in Yap State. The quality and relevance of our work is evident by the number of audit requests from our Stakeholders and Government leaders and in reforms instituted by the Government based on our findings.

Our Compliance Investigation Division implemented a two-tier system, Preliminary Inquiry and Investigation, which maximizes its resources by screening all complaints received to determine whether they meet ONPA criteria for investigation before beginning the investigating process. CID also adopted quality standards that streamline the investigating and reporting process. Eighteen active cases were handled by CID.

We took active role in the oversight of the FSM Single Audits. We are pleased to report that four of five required annual single audits for the FSM National and State Governments were completed by the June 30, 2007 deadline. This is a complete turn-around from few years ago when audits were issued two to three years after the required deadline. Kosrae, Pohnpei and Yap States achieved unqualified opinions in their general purpose financial statements and Pohnpei realized a zero amount of questioned costs in the past two years. All Single Audit reports issued in the past twenty years have been uploaded onto the ONPA website (www.fsmpublicauditor.fm), and we now have a 'one-stop' center for single audits which is useful to policy-makers, researchers, academia, and the general public.

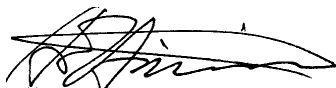
We continue to modernize our internal operating systems and procedures; refine key milestones to follow in the audit process; and, require that audit conferences be held throughout the main phases of an audit cycle. We implemented capacity building programs to support our local staff knowing that the future of ONPA rests in their hands as leadership transfers from the expatriates, those experienced auditors who are on short-term contract. However, we are indebted to them for their willingness and effort to implement our training and capacity building programs.

One of the most significant administrative achievements this past year was the opening of a field office in Chuuk. The State receives a significant portion of National and Compact funds but faces a major financial crisis due to many years of poor management. A permanent, full-time site will enable ONPA to fulfill its mandate to inspect and audit on a national basis and to provide real assistance to Chuuk. In addition, we updated our strategic plan, which provides ONPA with a sound basis for selecting the highest priority issues, and began the construction of an 800-square foot annex in our Main Office building that will provide space for our three CID investigators who currently occupy a 13 by 16 foot cubicle. Our budget expenditures for 2007 totaled \$848,395 which was divided between the main office in Pohnpei and the new field office in Chuuk.

We continue to maintain close ties with our affiliates within the region as well as our international allies and supporters, whose partnership and assistance have been essential in building good governance and stronger accountability within FSM. We extend our thanks to US DOI Office of Inspector General, Office of Insular Affairs, USDA Graduate School/Pacific Island Training Initiative, SPASAI, APIPA, Australian Government and AusAID and the International Association of Anti-Corruption Authorities.

The success we achieved in 2007 was possible because of the excellent support that I received from the FSM National Government specifically the President and the Congress. I am most appreciative of the dedicated and hard-working staff at the Main Office in Palikir and at the Field Office in Weno. I am grateful for your commitment and look forward to 2008.

Respectfully submitted,



Haser Hainrick
National Public Auditor

May 12, 2008

2007 HIGHLIGHTED ACCOMPLISHMENTS

Funding for New Field Office in Chuuk State Made Available in March 2007

Establishing a permanent, fulltime Field Office in Chuuk enables the National Public Auditor to carry out his Constitutional and statutory duties efficiently and will enable the ONPA to provide real assistance to Chuuk State. Chuuk, as the most populous State in the FSM, receives a significant portion of National and Compact funds. Despite his mandate to inspect and audit on a national basis, there have been no ONPA offices in the States of Chuuk, Kosrae and Yap. All of the audit work undertaken by ONPA had to be conducted from the Public Auditor's office in Pohnpei.

The ONPA office in Chuuk will adopt a collaborative, advisory, and educational approach to its work rather than an adversarial stance. The Public Auditor is strongly of the view that prevention and education are far more effective in promoting compliance, good governance, and thwarting corruption than legal sanctions alone.

Construction to Expand the Office Building Began in September, 2007

An 800-square foot annex to the southwest end of the Office building was completed in April 2008. The new space will alleviate our current congestion problem. We have relocated the Compliance Investigation Division to this much needed, new space. Moving CID to the annex has freed up much needed space for an expansion of the Board Room for meetings, conferences and workshops.

Public Auditor's Work on Capacity Building Continues

Capacity building, training and technical education and shared learning experiences, enhances the individual's audit capacity and improves the overall expertise and quality of the ONPA audit work. Capacity building is an integral part of ONPA's strategic planning, which has continued through a variety of experiences. The Public Auditor along with Mr. Donald Yamada and Ms. Sophia Pretrick represented FSM at the DOI/IG and the Association of Pacific Islands Public Auditors Conference in San Diego, CA. Ms. Yolanda Leben attended a seminar on Auditing Officials for the South Pacific Countries held in Beijing, China. Mr. Moses Russel completed on-the-job training at the U.S. Government Accountability Office in Washington, D.C., which included work at GAO's Dallas Field Office. In addition, Mr. Kelly Samuel traveled to Samoa to attend a workshop on Proceeds of Crime, Money Laundering and Terrorist Financing.

Michael Henry Receives FSM National Government's Employee of the Year Award, 2007

The Public Auditor takes great pride in, once again, having a member of his staff selected as FSM's Employee of the Year. Mr. Michael Henry, Auditor III, was selected for this honor in 2007. Last year, Sophia Pretrick received this award. Mr. Henry is an outstanding employee, a conscientious and enthusiastic team member, and an excellent ambassador for the National Government in his travels abroad. Mr. Henry has a Bachelor of Arts degree in Business Administration and has an extensive understanding of the budget and expenditure process which gives him an excellent basis for our audits. Mr. Henry's ability to interact effectively with staff at the departments being audited makes him a very successful auditor.

In 2005, under President Joseph J. Urusemal, FSM National Government initiated this program to recognize the superior public achievements of its employees and to acknowledge their achievements with the Employee of the Year Award.

Strategic Plan Updated

In July, the Public Auditor released the ONPA Strategic Plan for fiscal years 2008 to 2010. The revised Strategic Plan builds on the previous Plan for fiscal years 2004 to 2007 and upon our progress made during the last three years in the areas of quality, productivity, and capacity building. In developing the Plan, we revised our mission and vision statements to reflect our experiences. The Plan is designed to allow ONPA a sound basis for selecting the highest priority issues to audit or investigate which will lead to improving the overall operations of the government.

MISSION STATEMENT

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

ONPA seeks to improve the effectiveness and integrity of government operations through its audits and inspections of departments, programs, and other entities that utilize National Government funds. The Public Auditor is dedicated to improving government operations by providing the President, Congress, and audited entities with high quality, independent, unbiased reports. Establishing a mission statement, vision statement, values and performance measures are essential to carry out the legislative mandate of the ONPA as set out by the Congress.

VISION STATEMENT

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

The ONPA's values reflect the way in which staff conducts audits and investigations, adhering to confidentiality and operating with accuracy and efficiency. Performance measures relate to desired results—publishing reports that are read and used and lead to positive changes in governmental practices and operations.

VALUES

- ◆ Independence
- ◆ Professionalism
- ◆ Public Service
- ◆ Honesty

PERFORMANCE MEASURES

- ◆ Understandable, Timely and Useful Reports
- ◆ Accepted and Implemented Recommendations
- ◆ Improvement in Governmental Practice and Operation
- ◆ Fiscal Impact

DUTIES OF THE NATIONAL PUBLIC AUDITOR

The Public Auditor is the Nation's premier watchdog in ensuring 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 National Public Auditor is charged with directing a broad, comprehensive program of auditing within the National Government. 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 makes the appointment of the Public Auditor. See Appendix I for a complete list of the powers, duties and responsibilities of the Public Auditor as set forth by the Congress.

ORGANIZATION AND RESPONSIBILITIES OF ONPA



Administrative Staff



Audit Staff

The ONPA has two Divisions to handle its legislative requirements: Audit and Compliance Investigation. The Audit Division examines and evaluates the programs and systems of the audited entity. The Congress has mandated that ONPA will perform three types of 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.

The Compliance Investigation Division (CID) investigates allegations regarding financial mismanagement and abuse involving national funds and may refer cases to the Department of Justice.

The ONPA is also responsible for the audits of the FSM National and State Governments' general purpose financial statements. These audits are performed annually. Although this work is done by an outside accounting firm, ONPA has full oversight responsibility for ensuring that the FSM single audits are completed as required. See Appendix II for the ONPA Organization Chart as of September 30, 2007.

Audit Division

As mandated by Congress, the Audit Division performs three types of audits; program results, economy and efficiency, and financial. In 2005, ONPA started performing inspections in addition to audits. All audit work conforms to generally accepted audit standards. See Appendix III for a description of audits; and, Appendix IV for the Quality Standards for Inspections.

Inspections have the same quality and integrity as comprehensive performance audits, but with a more defined focus, thus the time frame for completing an inspection and issuing a report is reduced. The strategic move of adding inspections to the audit work has resulted in a significant increase in the number of reviews the ONPA staff have been able to

conduct as well as in the number of reports issued. In 2007, the ONPA staff issued eight reports.

Table1: Audit Reports Issued, FY 2007

Report Number	Audit Report Title
2007-01	Inspection of Chuuk Sector Grant Funds Fiscal Year 2006
2007-02	Custom and Tax Audit Fiscal Year 2006
2007-03	Inspection of the FSM Embassy in Suva, Fiji, (FY2005-2006)
2007-04	Audit of Private Sector Development Project – ADP Loans 1874 FSM (FY2006)
2007-05	Review of Chuuk State Office of Personnel (FY2006-2007)
2007-06	Audit of FSM Passport Security Measures
2006-04 & 2006-05	Inspection of the FSM Embassy in Washington D.C., FY2003-2006
2006-06	Inspection of Congress Funded Public Projects in Yap State, Fiscal Year 2005-06

Highlights of Audit Reports Issued in 2007

Inspection of Chuuk Sector Grant Funds Fiscal Year 2006 (Report No. 2007-01)

This review of Chuuk Compact II funds was initiated based on a discovery made by the Compact Funds Control Commission (CFCC) Vice Chairman that Chuuk received \$2,058,309.78 of Compact II funds but only deposited \$1,000,000 into the Chuuk Compact II account. The Department of the Interior (DOI) considered this a misuse of Compact II funds which resulted in FSM National Government repaying this amount.

The objectives of the review were to describe the flow of information and flow of funds from the request for the drawdown of Compact II funds to repayment to DOI, and to determine if expenditures paid from Compact II funds were actually used for Compact II authorized expenses.

Under the Compact II, to assist the FSM in its efforts to promote the economic advancement, budgetary self-reliance, and economic self-sufficiency, the United States provides assistance on a sector grant basis for a period of twenty years. The grants are to be used in the sectors of education, health, private sector development, the environment, public sector, capacity building, and public infrastructure, with priority in education and health sectors. The grants are distributed to the National Government and the four FSM States for implementation.

Regarding the flow of Compact II funds, nine transfers were made. The first three transfers were deposited into Chuuk's Compact II account while the remaining six were deposited into the Chuuk State savings account. This resulted in a co-mingling of State funds and Compact II funds. When it came time to transfer the deposits that were made to the State savings account over to the Compact II account, insufficient funds were

available in the State savings account. Because the funds were co-mingled in the general fund, we could not determine specifically what was expended with the funds. We recommended that funds be transferred directly into the Compact II account.

Regarding expenditures, the CFCC does not summarize its detailed records of Compact II expenditures, thus cannot easily determine the amount of funds remaining to be transferred for Compact II expenditures, does not reconcile its records with Chuuk records, and does not obtain all the information it needs to do proper oversight. We recommended that the CFCC work closely with Chuuk; review and reconcile CFCC records with Chuuk's; and maintain summary records of specific expenses not previously documented in order to facilitate reconciliation. Also, we recommended that Chuuk provide copies of all budget information to CFCC so that they have the correct and complete data needed to support its management decisions.

***Custom and Tax Audit Fiscal Year 2006
(Report No. 2007-02)***

In our audit of the Division of Customs & Tax Administration (CTA) within the FSM Department of Finance and Administration, our objectives were to determine whether customs and tax revenue collections were reported and accounted for in an accurate and timely manner; customs and tax revenue distributions to the State Governments were accurate and timely; and year-end accruals of customs and tax revenue and payables to the State Governments were accurate. We found that the Division of National Treasury and CTA have accurately accounted for customs and tax revenue collections, revenue distributions to the State Governments, and year-end accruals of revenue and payables to the State Governments. However, we found that Treasury did not consistently remit revenue shares to the State Governments in a timely manner. For the 61 remittances that we reviewed, 27 were made after the required date and the amount of late payments totaled \$3,140,489. Further, CTA Field Offices did not consistently deposit customs and tax cash collections to the Division of National Treasury in a timely manner. Based on the sample of 138 collections reviewed, 38 were late. Although we reported these two findings in fiscal years 2004 and 2005, management has not taken corrective action to resolve the situation. Again, we recommended actions to ensure that the remittances and deposits are done in a timely manner.

***Inspection of the FSM Embassy in Suva, Fiji, (FY2006-2007)
(Report No. 2007-03)***

Our review objectives for the audit of the FSM Embassy in Suva, Fiji, were to determine whether the monthly financial reports were submitted, complete, and timely; fund disbursements complied with the Financial Management Regulations; and, the Embassy had procedures in place for the handling of FSM passports.

In summary, we found that the FSM Embassy in Fiji did not comply with some of the Financial Management Regulations. The Embassy submitted all the monthly financial

reports, however, most of the reports were late and occasionally some documentation was not included. We also noted that the Ambassador did not document his approval on numerous transactions including procurement of supplies, disbursement documents and travel voucher claims. These non-compliance issues could have been identified by the Department of Finance and Administration staff if they had properly reviewed the monthly financial reports. Regarding passports, as the Embassy in Fiji does not handle FSM passport booklets, it did not have procedures in place for handling them.

We made several recommendations to the Ambassador of the Embassy that, when implemented, will improve operations.

***Audit of Private Sector Development Project – ADP Loans 1874 FSM (FY2006)
(Report No. 2007-04)***

We audited the Statement of Project Account of the FSM Asian Development Bank Loan and in our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended September 30, 2006.

***Review of Chuuk State Office of Personnel (FY2006-2007)
(Report No. 2007-05)***

The objective of our review of the Chuuk State Personnel Office was to determine whether the Personnel Office complied with the Chuuk State Public Service System Act (CSPSS) and related regulations concerning personnel administration. During our review, we examined the processes used to hire new employees, classify positions and determine compensation. In testing transactions, we selected a sample of employees from the Chuuk Department of Health Services. Since our review focused on the systems and the processes used by the Personnel Office, we concluded that the deficiencies noted in the review of specific transactions for the Department of Health Services would also exist for all other departments, offices, and agencies.

As a result of our review, we concluded that the Personnel Office did not comply with the requirements of the CSPSS Act. Examples of non-compliance included employees hired before the approval of Personnel Actions with several moved to permanent status prior to the end of the 1-year probationary period requirement, positions that were not properly classified, pay increases larger than authorized, and promotions and reallocations not based on merit. In addition, the Personnel Office had outdated policies and procedures and had internal control weaknesses.

The Personnel Office's lack of leadership has resulted in a personnel system with no written policies and procedures and an office that is vulnerable to pressure from politicians and department officials. The Personnel Office has inadvertently abandoned its fiduciary responsibilities as the administrator and protector of the CSPSS. We made recommendations to the Public Service Commission, which is the agency now responsible for the CSPSS, to improve the conditions identified in our review.

***Audit of FSM Passport Security Measures
(Report No. 2007-06)***

This audit is part of the ONPA efforts to review the primary causes of the mishandling of passport booklets at the FSM Embassy in Washington, D.C. which was disclosed in our FSM Embassy report (Report No. 2006-04 and 2006-05). We performed this audit pursuant to Chapter 5 of Title 55 of the FSM Code. One of the functions of the Division of Immigration and Labor (DIL) is to administer the issuance of passport booklets, and to do so in compliance with the Passport Act, Passport Revolving Fund Act, Citizenship and Naturalization Act, Passport Regulations, Financial Management Regulations and other applicable laws, regulations, policies, and procedures.

The objectives of the audit were to determine whether DIL complied with passport regulations when issuing passport booklets, and whether adequate internal controls were in place to ensure that passport booklets were safeguarded from error, fraud, misuse and unauthorized alteration. Based on our audit, we concluded that DIL did not issue passports in accordance with regulations, and that internal controls were inadequate to safeguard passports.

To determine whether passport booklets were issued according to regulations, we selected a sample of 102 applications for review.

Table 2: Applications selected for review by passport type, number selected for review, and number selected for review that could not be located

Passport Type	Applications Selected for Review	Number of Applications Selected for Review That Could Not Be Located
Regular	72	11
Official	20	8
Diplomatic	10	3
Totals	102	24

Prudent government practice requires logbooks to track passport applications received (logged in) and passport booklets distributed or sent to another location (logged out). For the 102 applications selected for review, 83 of the 102 were not logged in and 61 of the 102 were not logged out. In fact, 58 of the 102 applications (57%) selected for review were neither logged in nor logged out.

Although we selected a sample of 102 passport applications for various types of review, only 78 of the 102 applications could be located and these were the applications we reviewed. For the missing 24 applications, there was no assurance that the passport booklets were issued to eligible applicants. For the 78 applications located, we reviewed five requirements for issuing passport booklets: 1) proof of citizenship, 2) surrender of current passport booklet, 3) affidavit to support lost passport booklet, 4) fee payment, and 5) eligibility (for eligibility, we reviewed the Diplomatic passport booklets issued). The

number of passport applications that we reviewed varied based on the requirement being reviewed, although they were all a part of the 78 passport applications in our sample.

Table 3: Review for compliance by requirement, number of applications reviewed, and number not in compliance

Requirement	Number Reviewed	Number not in Compliance
Proof of Citizenship	78	42
Surrender of Current Passport Booklet	15	15
Affidavit of Lost Passport Booklet	3	1
Payment of Fee	78	48
Eligibility (Diplomatic Passport Booklets)	6	3

In addition, we looked at dual citizenship. FSM Code Title 7 Section 203 prohibits dual citizenship. We found no regulations, policies or procedures that ensure that an FSM citizen was not claiming dual citizenship and acquiring passports from more than one country.

Internal controls were not adequate to safeguard passports, including key duties were not segregated; inventories of blank and specimen passport booklets were not done; specimen passport booklets were not adequately safeguarded; access to the Passport work section was not adequately restricted; passport booklets were illegally forwarded to the FSM foreign missions for final distribution; and, passport booklets were sent through unsecured mail.

We made a number of recommendations to correct the problems identified in issuing passport booklets as well as to improve internal controls needed to safeguard passport booklets.

***Inspection of the FSM Embassy in Washington, D.C. FY 2003-2006
(Report No. 2006-04 and 2006-05)***

The FSM National Government has maintained an Embassy in Washington, D.C. since 1979 when the FSM Constitution was approved and ratified. The Embassy represents the FSM Government before the U.S. Congress, departments and agencies of the U.S. Government, and other organizations, public and private, on all matters pertaining to the FSM. The Embassy assists public officials from the FSM, provides consular assistance to FSM citizens in the U.S., disseminates general information about the FSM, and promotes business opportunities in the FSM to domestic and international business organizations. The Embassy also promotes and carries out the programs and policies of the FSM National Government as they are duly authorized.

In October 2006, the inspection was completed and reports were issued. The objectives of the inspection were to determine whether FSM laws and regulations were complied

with regarding 1) financial transactions, 2) the acquisition and use of a loan, 3) a renovation contract, and 4) passport controls.

Regarding the financial transactions, the Embassy and the Department of Finance & Administration did not comply with FSM regulations and prudent business practices. Of the total expenditures of \$3,332,993, about 16 percent of the expenditures, or \$530,655 could not be categorized due to lack of adequate documentation. Regarding the Embassy's loan, the loan proceeds were commingled in the operating account with all other sources of funds, thus auditors could not determine what the loan funds were used for because of this commingling. Regarding the Embassy's renovation, the Embassy did not comply with FSM laws and regulations or with the terms and conditions of the contract. Further, the Embassy overspent, by \$14,799 on the \$200,000 allotted for the renovation work, and the Department of Finance & Administration had not properly recorded the renovation costs. Finally, regarding the handling of passports, the Division of Immigration & Labor and the Embassy did not comply with FSM laws and regulations and did not adequately safeguard FSM passports.

The ONPA auditors made a dozen recommendations regarding operations necessary to bring the Embassy into compliance with regulations.

***Inspection of Congress Funded Public Projects in Yap State, Fiscal Year 2005-06
(Report No. 2006-06)***

Our review of Congress appropriations for public projects in the State of Yap focused on determining whether the projects were properly reviewed prior to being funded; whether the project's management complied with applicable laws, policies, and regulations; and, whether the project's administration, utilization, and expenditures were in accordance with applicable rules and regulations.

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

Compliance Investigation Division



CID Staff (Left-Right): Fletcher Poll, Sophia Pretrick, and Kelly Samuel

The second of the two groups established by ONPA to conduct its work is the Compliance Investigation Division. CID has two separate functions, administrative investigations and criminal investigations. On the administrative side, CID investigates allegations of financial mismanagement and abuse involving National funds. On the criminal side, CID investigates financial crime and financial corruption. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice.

CID is also concerned with identifying systems and accountability weaknesses in the Nation's financial administration and with gathering evidence of criminal activity for criminal prosecutions in the courts. In order to streamline the investigating and reporting process, CID recently adopted Quality Standards for Investigations. See Appendix V for the General and Qualitative Standards for Investigations.

CID introduced a two-tier system, the Preliminary Inquiry and the Investigation, in order to maximize resources. As part of this case screening process, all complaints received by the Public Auditor are subject to a Preliminary Inquiry to determine whether the Public Auditor has the legal jurisdiction to investigate the matter, whether there is a reasonable cause to suspect that breaches of the FSM Financial Management Regulations have occurred or a criminal offence has been committed by a known person, the nature and strength of the evidence available to support or refute the allegation, and the likelihood of appropriate remedial administrative action being taken or successful legal action being commenced if the supporting evidence is available.

The purpose of the Investigation is to fully explore the allegation and any administrative, managerial or criminal issues that might be uncovered as a result of an investigation. In investigations, both administrative and criminal, the primary aim is to discover the truth of the matter under investigation. The investigation determines, on the balance of

probabilities, whether or not National Government financial management regulations, financial management policy, appropriate administrative procedures, or aspects of the criminal code have been breached.

During Fiscal Year 2007, CID was handling 18 active cases, nine new complaints of serious financial mismanagement or financial crime involving National Government funds or properties, and nine carried over from prior years. Additionally, at the close of the year, five cases had been referred to DOJ and five cases were closed or referred for administrative action. For reasons of confidentiality, CID investigations cannot be made public until the DOJ releases the information. See Appendix VI for CID case discussions.

Table 4: CID Cases, FY 2007

Description	Quantity
Open Cases	9
Active Cases	18
Referred Cases to DOJ	2
Closed Cases or Cases Referred for Administration Action	1

In 2000, CID became a member of the Head of Law Enforcement Association (HOLEA). The Association's aim is to improve coordination and communication among law enforcement agencies among the four States and National Government of FSM and to facilitate and promote the professionalism and enhancement of law enforcement. Members of the Association include the Chiefs/Directors of the four States (Pohnpei, Yap, Kosrae, and Chuuk), the Commissioner of FSM Customs, the Chief of Immigration, the Chief of Postal Services, and the Chief of CID. CID has participated annually at the Association meetings presenting their agency reports and issues of prevention, deterrence and detection of fraud and corruption. The continued effort to participate in HOLEA has resulted in successful investigative collaboration and support from member States and other National law enforcement agencies

Highlights of CID Activities

Criminal Case Number 2005-1502

During 2007, CID Investigators Poll and Pretrick played key roles in the court proceedings for this case. The charges for this case ranged from two counts of theft against the government, misappropriation of government funds, and misappropriation of Compact Funds. Guilty pleas were entered by the defendant for these charges. During the judicial proceedings, the counsel for the defense entered into a plea agreement with the plaintiff which resulted in the following sentencing by the court:

- Defendant sentenced to three years for Count one of the information filed.
- Two of these years were suspended and one year of incarceration was imposed.

- As part of the sentence, work release was authorized.
- At the end of time served in jail, two years of probation was imposed.
- Defendant ordered to pay \$10,000 commencing at the start of the probationary period as financial restitution
- A condition of the probation, as it relates to payment of monetary restitution, probation time will terminate immediately at the time of payment in full and prior to the end of the 2-year probation.
- If work release is granted, it shall be for five days a week from the hours of 8:00 a.m. to 5:00 p.m.
- Whenever the defendant is out in the community on work release, all laws shall be obeyed at all times
- If work release is granted, payment of restitution shall commence 30 days after employment begins on the work release program.

Criminal Case No. 2007-501

In May 2007, this case was filed with the FSM Supreme Court. CID investigators Poll and Pretrick, and National Police Investigator Johnny Santos, along with former Chief Investigator Nigel Savidge, assisted the litigation staff of the FSM Department of Justice with the filing. The case involves the administration and operations of an FSM Overseas Mission. The resulting investigation led to 13 counts of FSM National Criminal misconduct stemming from violations of laws and regulations; unlawful expenditure and over-obligation of government funds; unlawful loan agreements; passport fraud; and, over-obligation of embassy renovation funds regarding the counts of theft against the government as follows:

- Four counts involving theft against the government;
- Four counts involving over-obligation of government funds;
- Two counts involving bribery in official and political matters;
- Two counts involving tampering with public records and information; and,
- One count involving criminal conspiracy.

This case is currently awaiting a trial date.

Single Audit

Under the Compact of Free Association agreement between the FSM and the United States of America, FSM National and State Governments are required to have their general purpose financial statements audited annually. 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 entity. This work is done under OMB Circular A-133.¹ The ONPA has full management responsibilities for ensuring that this requirement is met. Achieving the Compact's requirement on single audit is very critical. The fund donors must know how their financial assistance was spent and what it was used for in FSM. The decision-makers within FSM need current financial data in order to make sound decisions.

The single audit work requirement is met by an outside accounting firm, Deloitte & Touche, LLP, which has been awarded the audit contracts since the inception of the Compact of Free Association in 1985. However, the ONPA plays a primary role in the single audit process by providing oversight responsibilities for the audit contract and performing other essential roles to facilitate the single audits. Ms. Christina Elnei is the ONPA's Single Audit Specialist, and she assists the Public Auditor for this oversight.



Christina Elnei, Single Audit Specialist

The highest ranking that a government or entity can receive in the financial audit is an unqualified opinion. For 2007, 15 Single Audit Opinions were issued; 13 unqualified and 2 qualified.

¹ 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. It 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. Subpart B of A-133 sets a threshold amount of \$500,000 for federal monies that are expended during a year to be audited.

Table 5: Single Audit Opinions Issued

Government or Entity	Opinion Issued before 6/30/07
Kosrae State Government	Unqualified
Pohnpei State Government	Unqualified
Yap State Government	Qualified
College of Micronesia	Unqualified
Coconut Development Authority	Unqualified
FSM Development Bank	Unqualified
FSM Social Security Administration	Unqualified
FSM Telecommunication Corporation	Unqualified
Kosrae Utilities Authority	Unqualified
MiCare Plan Inc.	Qualified
Micronesia Petroleum Corporation	Unqualified
Pohnpei Port Authority	Unqualified
Pohnpei Utilities Corporation	Unqualified
The Diving Seagull	Unqualified
Yap State Public Service Corporation	Unqualified

Since 2002, six entities have consistently received an unqualified opinion in their single audit: Coconut Development Authority, Development Bank, Social Security Administration, Telecommunication Corporation, Micronesia Petroleum Corporation, and Yap State Public Service Corporation, the College of Micronesia-FSM and the Kosrae Utilities Corporation have consistently received an unqualified opinion beginning with their single audit in 2004 and 2003 respectively. The Pohnpei State Government, Pohnpei Port Authority, Pohnpei Utilities Corporation, and the Diving Seagull, Inc. all received unqualified opinions in 2005, 2006, and 2007. Kosrae State Government received an unqualified opinion in 2006 and 2007. See Appendix VII for a complete list of single audit opinions issued from 2002 through 2007.

Other Matters of Interest

Construction to Expand the Office Building Began in September, 2007



Office extension under construction in October, 2007

The construction of an 800-square foot annex to the southeast end of the Office building was completed in April 2008. As part of the design, the appearance of the new annex blends in nicely with the current structure resulting in a cohesive look for the entire project. The new space is going to alleviate ONPA's congestion problem.

CID has been relocated into the new space. The three investigators, their desks, and filing cabinets were cramped into a 13 by 16 foot cubicle. Moving CID to the annex has freed up much needed space for an expansion of the Board Room for meetings, conferences and workshops.

Construction work was done by 4TY Construction Company, a local firm that was awarded the project from among three bidders. The construction process, selection of contractor, inspection and monitoring of the project was handled by the Department of Transportation, Communication & Infrastructure (TC&I). The ONPA extends its appreciation to the Department of TC&I for their critical role in managing the annex construction project.

Funding for New Field Office in Chuuk State Made Available in March 2007



Chuuk Field Office (Top floor)

This past year the Public Auditor submitted a proposal to the FSM National Government for a fully staffed Branch Office in Chuuk State and in March, funding for this field office was made available. The work of the ONPA will be greatly facilitated by having permanent staff located in Chuuk. Despite his mandate to inspect and audit on a national basis, there have been no offices of the Public Auditor in the States of Chuuk, Kosrae and Yap. All of the audit work undertaken by the ONPA staff has been conducted from the Public Auditor's office in the National Capitol at Palikir, Pohnpei.

Chuuk, as the most populous State in the FSM, receives a significant portion of National and Compact funds. Unfortunately, Chuuk State also faces a major financial crisis due to many years of poor financial management, and the State's debt is very high compared to the other Governments in the Federation. The negative international publicity surrounding this situation and the ongoing allegations of serious financial corruption have adverse effect upon all the good citizens of Chuuk and on the reputation of the people of FSM as a whole. The current administration for Chuuk State has been trying to address these problems, which are not simply problems of Chuuk State but truly national problems that require a national response.



Chuuk Field Office Staff
Left-Right: (Back) Nakama Sana and William Billimon
(Front) Gillian Doone and Charlene Joker

Establishing a field office in Chuuk enables the National Public Auditor to carry out his Constitutional and statutory duties efficiently on a permanent, full-time basis, and will enable the ONPA to provide real assistance to Chuuk State. The ONPA office in Chuuk will be adopting a collaborative, advisory, educational, regulatory and corruption prevention approach to its work rather than pursuing an adversarial and prosecutorial stance. The Public Auditor is strongly of the view that prevention and education are far more effective in promoting compliance, good governance, and thwarting corruption than legal sanctions alone.

Strategic Plan Updated



Workshop on Strategic Plan for Fiscal Years: 2008-2010 led by Dr. Lowell Kuehn

In July, the Public Auditor released the ONPA Strategic Plan for fiscal years 2008 through 2010. The revised Strategic Plan builds on the previous Plan, fiscal years 2004 through 2007, and upon the progress made during the last three years in the areas of quality, productivity, and capacity building. In developing the Plan, the ONPA revised its vision and mission to reflect its experiences. The Plan is designed to allow the ONPA

a sound basis for selecting the highest priority issues to audit or investigate which will lead to improving the overall operations of the government.



Strategic Plan revision workshop participants, June 27, 2007

The Plan was produced at a week-long workshop where all the staff reviewed and reevaluated the ONPA performance. The session offered staff the opportunity to appreciate their achievements and to identify factors that contributed to the accomplishment of the goals and objectives established in the 2004-2007 Strategic Plan. The ONPA staff also identified action plans needed to achieve the ONPA's objectives over the next three years. In doing so, the team identified changes and modifications needed to meet the needs and demands of the dynamic environment in which they operate. See Appendix VII for the Strategic Plan, FY 2008 through 2010.

The workshop was lead by Dr. Lowell Kuehn from the Pacific Northwest Consulting Services. Members of the ONPA staff at the Main Office as well as from the Chuuk Field Office participated in the workshop. In addition, some members from the Pohnpei State Auditor's office also participated in the process.

Public Auditor Hainrick Represents FSM at DOI/OIG and Association of Pacific Island Public Auditors Conference



6th Annual DOI/OIG APIPA Conference in San Diego, CA



At the invitation of the DOI/OIG, Public Auditor Hainrick represented FSM at the Sixth Annual DOI/OIG and the Association of the Pacific Islands Public Auditors conference. The 2-day conference was held in San Diego, California. Hainrick was accompanied by Audit Supervisor Donald Yamada and Investigator Pretrick.

The Insular Area Act of 1982 requires that the DOI/OIG maintains a satisfactory level of independent audit oversight of the governments of the Insular Areas. DOI/OIG presented the conference as part of this requirement. The conference focused on the existing capabilities and limitations of each office, new and currently developed audit and investigative tools, and training needs and opportunities. In addition, the potential for other mutual assistance that would assist in fulfilling this responsibility while assisting the Public Auditors with their respective responsibilities was addressed. The DOI/OIG funded the attendance of the three participants from ONPA.

Seminar on Auditing Officials for South Pacific Countries Held in Beijing, China, Attended by a Staff Member



Yolanda Leben in China

The Central University of Finance and Economics of China sponsored a two-week seminar on “*Auditing Officials for South Pacific Countries.*” The seminar presented the outcome of China’s reforms and experiences since it opened up to the world; the establishing and improving of its auditing system; its international auditing principles and auditing practices; and its enterprises in internal auditing.

The conference was held in Beijing from November 5-23, 2006. Ms. Yolanda Leben, Auditor II, attended the conference. The trip was financed by the Central University and the Embassy of the People’s Republic of China in FSM.

ONPA Hotline

The Public Auditor has established a hotline for use by concerned citizens to report possible misconduct and alleged abuses at all government entities. Information from the public is a valuable part of the audit process and helps ONPA focus resources.



Investigator Fletcher Poll

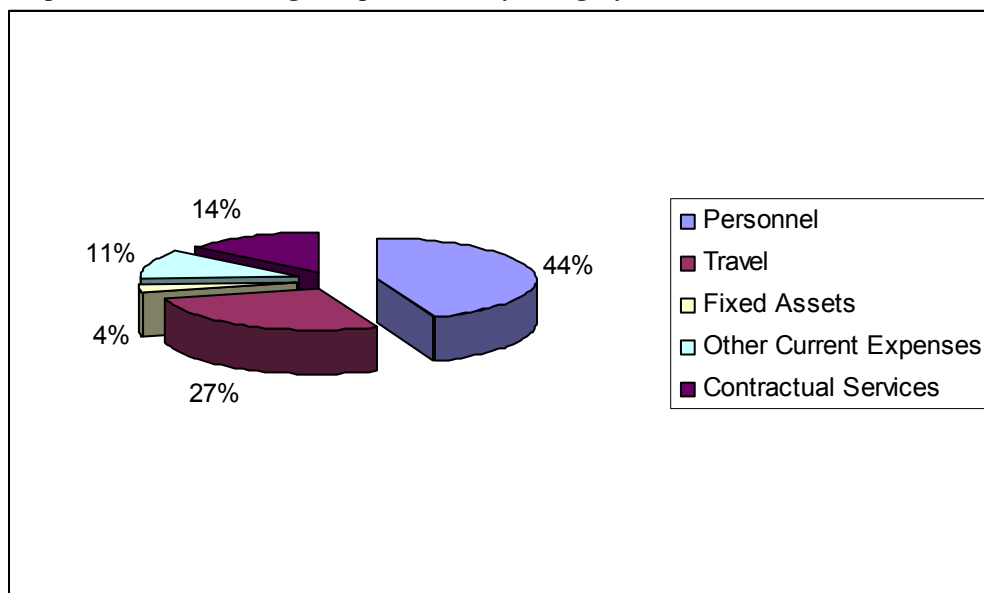
The Hotline number is 691-320-6768 and is available twenty-four hours a day, every day of the week, by an answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA offers an on-line complaint form. The form can be found at <http://www.fsmpublicauditor.fm>. All reports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

OFFICE ADMINISTRATION

Budget

Budget expenditures for fiscal year 2007 totaled \$848,395. This budget amount was divided between the main office in Pohnpei and the new field office in Chuuk, with \$732,831 (86%) expended at the main office and \$115,564 (14%) at the field office. Personnel costs represented the largest budget expenditure item at both offices. The balance of the expenditures was divided between travel costs; fixed assets; other current expenses, such as communications, supplies, and utilities; and, contractual services.

Graph 1: Percent of Budget Expenditures by Category for FY2007



Personnel costs, which varied by less than 10 percent over the 6-year time frame, 2002 through 2006, primarily because staff numbers remained fairly constant, increased somewhat for fiscal year 2007. This is true for all other budget categories and the total amount expended due to the opening of our new field office in Chuuk.

Table 6: Total Budget Expenditures by Category and Fiscal Year

Budget Category	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Personnel	\$326,797	\$326,797	\$331,209	\$331,209	\$329,709	\$374,803
Travel	128,200	128,200	103,413	126,659	127,590	227,959
Fixed Assets	6,000	1,000	3,000	9,000	11,797	31,074
Other Current Expenses	24,000	26,000	34,930	153,160	66,651	94,642
Contractual Services	39,000	42,000	33,000	45,000	43,053	119,917
Totals	\$523,997	\$523,997	\$505,552	\$665,028	\$578,800	\$848,395

The category Other Current Expenses for FY2005 includes a one-time authorization of \$107,000, as a supplement for the FSM single audit fee per Public Law 13-87.

A breakdown of the fiscal year 2007 expenditures between the main office and the new field office in Chuuk provides a clearer comparison of expenditures over the 6-year time frame (2002 through 2007) and accounts for the increases in fiscal year 2007.

Table7: Expenditures by Category, and Main Office and Field Office for Fiscal Year 2007

Budget Category	Main Office in Pohnpei	Field Office in Chuuk	Total for Category
Personnel	\$344,531	\$30,272	\$374,803
Travel	205,823	22,136	227,959
Fixed Assets	9,823	21,251	31,074
Other Current Expenses	64,054	30,588	94,642
Contractual Services	108,600	11,317	119,917
Totals	\$732,831	115,564	\$848,395

Staff Achievements and Activities

Michael Henry Receives FSM National Government's Employee of the Year Award, 2007



Employee of the Year Award

The Public Auditor takes great pride in having another member of his staff, Michael Henry, Auditor III, selected as FSM National Government's Employee of the Year, 2007. Last year, Sophia Pretrick, an ONPA Investigative Auditor received this award.

In nominating Michael Henry for this Award, the Public Auditor noted that Mr. Henry was an outstanding employee, and a conscientious and enthusiastic team member. In his work, Mr. Henry is required to travel extensively, both within the FSM and internationally, and his conduct is always exemplary and he is an excellent ambassador for the National Government of FSM.

Mr. Henry graduated from Xavier High School. He has a Bachelor of Arts in Business Administration, which gives him an excellent base for audit work. He has an excellent understanding of FSM laws and the FSM financial budget and expenditure process. He

always finds time to help his audit staff and colleagues and is often sought out for advice on computer as well as audit issues. In addition, Mr. Henry's ability to interact effectively with staff at the departments being audited makes him a very successful auditor.

Mr. Henry participated in on-the-job training with the Office of Inspector General at their regional office in Lakewood, Colorado in 2005. At the conclusion of his training, the Acting Regional Audit Manager, Keith R. Clark, stated that they admired and appreciated his work ethic, and that he was truly a valued asset during his training period and that they would miss working with him.

In 2005, under President Joseph J. Urusemal, FSM National Government initiated a program to recognize the superior public achievements of an individual employee and to acknowledge their achievements with the Employee of the Year Award. A variety of performance factors are considered in bestowing this honor including job knowledge, quality and accuracy of work, ability to adapt, and initiative and resourcefulness.

Moses Russel Completes On-the-job Training at U.S. Government Accountability Office



*Moses at 6-month on-the-job training
at GAO, in Washington D.C.*

Moses Russel, Auditor III successfully completed a 6-month on-the-job training assignment at GAO in their International Auditor Fellowship Program. This was the first opportunity for FSM to participate in the GAO Auditor Fellowship Program. Moses began his training on May 2, 2006 and completed it on October 13, 2006; arriving back in Pohnpei on October 19, 2006. At the graduation ceremony, GAO's Comptroller General David Walker presented certificates of completion to all participants.

The training program offers participants a comprehensive 16-week learning experience that includes classroom training and participation in job-related activities. The program focuses on GAO's methods and techniques for conducting performance audits. Moses also prepared a strategy paper on audit report writing and reviewing, a topic identified for him by the Public Auditor. As part of this on-the-job training, Moses took part in an 8-

week placement with the GAO Dallas Field Office. While there, he met with audit teams and studied how GAO puts into practice various aspects of its work including how to determine the scope and methodology of an audit, and how audit reports are prepared to ensure quality and accuracy.

Upon his return, Moses spent a half day with the ONPA staff discussing and highlighting the training program and its content, and explaining the new skills which he acquired. Making presentations after training experiences is a requirement of the Public Auditor as part of his capacity building efforts. Such sharing allows more staff to benefit from the individual's experience and gain from the knowledge and skills acquired through educational experiences. Moses' training was funded by a technical grant from OIA.

FSM Attorney General Deputizes Three Investigative Auditors



Deputization of CID Staff at the Department of Justice, Palikir

Three investigative auditors from the Compliance Investigation Division, Ms. Sophia Pretrick, Mr. Fletcher Poll, and Mr. Kelly Samuel, were sworn in as special National Police Officers by FSM Attorney General Marstella Jack on January 30, 2007. The action was in accordance with the Memorandum of Understanding between the Department of Justice and the ONPA. As deputized members of the National Police Force, the three are now empowered to execute any police function in enforcing the laws of FSM particularly in regards to financial investigations.

TRAINING CLASSES AND PROFESSIONAL DEVELOPMENT



ONPA Staff attending training classes

The Public Auditor recognizes the need for staff to keep abreast of developments in their field of work and to continue to expand their knowledge and skills. The ONPA staff obtain their continuing professional education through a variety of learning opportunities—classroom training, workshops, and conferences.

While training opportunities come from many sources, one of the many benefits of conferences is the opportunity to attend mini-workshops and classes that are offered to conference participants, providing the ONPA staff with critical training opportunities while presenting updated material vital to the ONPA operations. The Public Auditor acknowledges and expresses appreciation to the USDA Graduate School and the Pacific Islands Training Initiative for the training opportunities they have provided to the ONPA staff over the past six years. And, as mandated in the *Generally Accepted Government Auditing Standards* handbook (Yellow Book), auditors are required to complete 80 hours of continuing professional education credits every two years. See Appendix VIII for a complete list of audit staff training in FY2007.

DOI-OIG Awards ONPA a \$60,000 Technical Assistance Grant

The DOI awarded a Technical Assistance Grant in the amount of \$60,000 for the ONPA. The funds are to provide continued support for the Auditor's Training Program with DOI's Office of the Inspector General. The training will enable the ONPA staff to continue to produce quality and timely audit and investigative products. Outcomes will include improving capacity building and increasing self-sufficiency for the ONPA which will result in an increased ability to monitor the expenditure of FSM domestic funds and US federal funds for the mutual benefit of all parties involved.

The ONPA staff will continue to receive on-the-job training through internship programs at selected OIG offices (as well as other related training). This grant is a joint initiative with the DOI/OIG, Office of Insular Affairs, and ONPA. This training program was

initiated in 2002 to meet a DOI objective of improving the Insular Area Governments' administration of federal funds and collection of revenue. Since its inception, DOI has provided more than \$280,000 for the program and five employees have participated in on-the-job training. OIG Liaison Officer, Mr. Ben Privitt and the FSM Public Auditor, Mr. Hainrick, coordinate and organize these training opportunities.

Table 8: Staff participating in on-the-job training through the Technical Assistance Grant

Staff Member	Dates of Training	Location of Training
FSM ONPA		
Michael Henry	2/4-4/17/2005	Denver, Colorado
Limanman Elanzo	4/20-7/5/2004	Albuquerque, New Mexico
Pohnpei State Public Auditor		
Jackleen Route	2/24-5/1/2006	Albuquerque, New Mexico
Nercy Edward	5/27-8/1/2005	Sacramento, California
Yap State Public Auditor		
Charles Yalaarow	7/30-10/6/2004	Denver, Colorado

Sophia Pretrick Completes Fraud Certification Program Funded by AusAID Grant

Investigative Auditor Sophia Pretrick has earned a Graduate Certificate in Fraud Investigation from Charles Sturt University, Albury, Australia. As part of her course study, Ms. Pretrick studied the investigative processes, fraud prevention and investigation, and forensic accounting. Ms. Pretrick began her graduate studies program in 2006 as part of an AusAID scholarship to enable ONPA fraud investigators to take graduate studies by distance education. This allows investigators to remain active at their work while pursuing their studies.

In 2006, the ONPA received a grant from AusAID of USD \$12,200 for scholarships to enable two fraud investigators to undertake graduate studies by distance education in the field of fraud investigation with Charles Sturt University in Australia. The scholarships, awarded to Investigators Fletcher Poll and Sophia Pretrick, are the successful end product of a grant application made under the AusAID Pacific Regional Policy and Management Reform Fund and negotiations between ONPA, the Australian Embassy in Kolonia, and Charles Sturt University. This effort culminated on April 28, 2006 when Public Auditor Hainrick accepted and signed the scholarship contract from the Australian Embassy.

Chief Investigator Nigel Savidge, a former investigations lecturer at Charles Sturt University, believes that this is a particularly relevant and useful certificate program for CID staff given the challenging nature of their work. ONPA extends its appreciation to the former Australian Ambassador, H. E. Corinne Tomkinson, and the former AusAID Development Assistance Officer at the Australian Embassy, Ms Mary O Enciso, for their assistance and support in providing this valuable training opportunity.

**Kelly Samuel Represents ONPA at Crime
Workshop in Apia, Samoa**



Investigator Kelly Samuel

In July 2007, Kelly Samuel traveled to Samoa to attend a workshop on Proceeds of Crime, Money Laundering and Terrorist Financing. The workshop was designed for law enforcement officials currently involved in the investigation of those activities. Mr. Samuel is an Investigative Auditor II.

At the workshop, instructors from the Anti-Money Laundering Assistance Team and Pacific Anti-Money Laundering Project shared their knowledge and experiences through presentations, discussions, practical exercises, and case studies. Techniques emphasized as useful tools in investigation included the Evidence Matrix, Charting, and Mutual Assistance Requests. Traditional tools such as the Search Warrant and Restraining Order were also highlighted. The topic of Terrorist Financing was facilitated by a member of the U.S. Treasury/IRS with lectures and case study exercises.

**Sophia Pretrick Represents FSM at the
Pacific Stakeholder Consultation on Corruption**



Investigator Sophia Pretrick

The two-day consultation workshop on corruption was held in Suva, Fiji Islands in November 2006, and was sponsored and funded by the United Nations Development Project's Regional Center (UNDP) overseeing Asia Pacific. Ms. Pretrick met with other workshop participants who came from Papua New Guinea, Samoa, Vanuatu, Cook Islands, Niue, Solomon Islands, Marshall Islands, and Fiji Islands. Presentations were delivered by each member island and interactive discussions led to the identification of similar problems facing these island countries. Issues discussed included how the political systems are vulnerable to corruption, election fraud, access to information, natural resources, economic growth, corruption in the social services such as health and education, and the role of the NGO's and traditional chiefs. The ONPA appreciates UNDP and the FSM Department of Foreign Affairs for recognizing and inviting the ONPA to attend.

**Effective Audit Supervision Course Presented
by Elizabeth Cohn, of USDA's Graduate School**



Workshop on "Effective Management of Audit Engagement" presented by Ms. Elizabeth Cohen

The ONPA hosted a training course on the basic essentials for effective management in the audit engagement. The course is designed to improve audit performance as well as ensure overall government accountability and transparency. Presented by Elizabeth (Betsy) Cohn from the USDA Graduate School, the course is considered a good fit for FSM auditors. According to Ms. Cohn, the course has been very well received and has become quite popular.

The course focused on managing the audit engagement. Supervisors and supporting staff learned about the supervisor's technical roles and human relationship roles necessary in leading audit engagements. The course aimed to provide supervisors with a more effective basis for audit selection, survey design and reporting audit results. Course objectives included understanding the contributions of each phase in the audit process; the decisions necessary at each phase; and, the role that the conference plays in making decisions at each phase of the audit process. The course also defined each team member's role in the audit engagement. In addition to presentation and discussion, a case study illustrating the essence of the course and its usefulness for FSM and especially the ONPA was presented. The course was financed by USDA Graduate School and Pacific Islands Training Initiative.

**One-Day Course on Government
Revenue conducted by Ben Privitt**



ONPA and Pohnpei State Public Auditor's Office Staff attending workshop on Government Revenue

Auditors from the National Government and Pohnpei attended the course on revenue. The one-day training, held in the FSM Telecommunication Corporation's conference room, taught auditors to expand their focus to include examining the revenue side of the government financial accounts in addition to the traditional focus on expenditures.

The course introduced the Revenue Management System as an audit tool to provide more effective assessing, collecting, recording, safeguarding and reporting government revenue, such as the revenue generated by the FSM Government through the collection of import duties, fishing rights, and taxes, etc. This management system is critical and the presentation timely in light of the diminishing financial assistance under the Amended Compact. The Governments must seek new ways and means to supplement its revenue base as well as to ensure that its system for assessing, processing, collecting, recording, and safeguarding its revenue streams are adequately controlled. Ben Privitt from DOI/OIG in Guam conducted the conference and it was free of charge.

Promotions, New Hires, and Departures

Promotions

Main Office



Ms. Christina Elnei promoted to Single Audit Specialist position

In 2007, the ONPA created a new Single Audit Specialist position and the Public Auditor promoted Ms. Christina (Chris) Elnei into this position. She will report directly to the Public Auditor. Ms. Elnei, who is from the State of Pohnpei, has been on the frontline at the ONPA serving as an Administrative Officer since December 2004.

Ms. Elnei's new duties and responsibilities will include preparing, issuing, and managing single audit contracts, facilitating the work of the FSM Audit Committee to obtain and review audit proposals, and selecting independent auditors to perform the FSM-wide annual single audits as required by the Amended Compact. She assists the Public Auditor in the oversight of the FSM single audits. Chris stated that her new job will be very interesting and challenging.

New Hires

Main Office



Manuel L. San Jose, Jr, Audit Supervisor

In May, the ONPA hired Manuel L. San Jose, Jr., as an Audit Supervisor at the Main Office in Palikir. Manny hails from the Philippines where he started his career in external auditing at Sycip Gorres & Velayo, the largest auditing firm in the Philippines. Within two years, he had worked his way up to their executive level. Manny has also worked with different multinational companies such as Union Ajinomoto Inc., Pepsi Cola, Zurich Insurance, and AMA Computer University, where he held various positions such as Senior Auditor, Computer Auditor, Audit Supervisor, Senior Assistant Vice President for Audit, Vice President Comptroller/Finance and Chief Financial Officer.

As one of two Audit Supervisors, Manny will be responsible for supervising and overseeing two on-going audits, planning and establishing audit procedures, organizing, assigning and directing the work of team members, and ensuring that audits are carried out efficiently and appropriately.



Erwihne David, Auditor II

Ms. David has her Associate of Science degree in Accounting from the College of Micronesia. She is from Pohnpei. Prior to accepting the position as ONPA Auditor II, Erwihne worked for four years as a Tax Auditor II for the Pohnpei State Office of Revenue and Taxation. While there she reviewed tax returns, conducted field audits, investigated, and examined taxpayer records to determine correct tax liabilities. Ms. David also has experience with Best Buy Inc., where she maintained the company books, reconciled account receivables and payables, and bank accounts. Prior to this, she worked at the FSM ONPA as an Auditor III (Auditor-in-Charge). The ONPA welcomes Ms David's return.



Ivan Alafanso, Auditor I

The ONPA welcomes Ivan Alafanso, Auditor I. Mr. Alafanso earned a Bachelor of Arts in Organizational Communications from Creighton University, Omaha, Nebraska. He minored in Business Management and Marketing. He was the Student Body President and a graduate of Xavier High School. He is from the island of Onei in Chuuk.

Mr. Alafanso joined ONPA after transferring from the Department of Finance & Administration where he served as the Federal Grants Manager.



Kelly Samuel, Investigative Auditor I with CID

In January, 2007, the Public Auditor hired Kelly Samuel, from the Department of Justice, as an Investigative Auditor I with the Compliance Investigation Division. Kelly worked for thirteen years at the FSM National Police, initially serving as a Patrol & Security Officer, then as a Drug Enforcement Agent, and finally as an Investigator before he was recruited by the ONPA.

Kelly graduated from Xavier High School in Chuuk and has earned college credits and attained over 100 credit hours attending numerous short term courses in criminal investigations including white collar crime.



Hileen Jack, Executive Secretary

Ms. Hileen Jack was hired as the ONPA's new executive secretary. Hileen was previously employed at the ONPA on a temporary basis as an assistant clerk. She is from Pohnpei. Before joining the ONPA, Hileen worked with Neime Rendezvous Café as a cashier and computer assistant where she handled a variety of tasks including customer service, cash collections, floor operations supervisor, and assistant to the manager. In 2006, Hileen was executive secretary to the mayor of Kolonia Town Municipality. Hileen commented that she enjoys the new work environment and never seems to run out of work that needs to be done.



Mackenzie Reynold, Administrative Officer

Mr. Mackenzie Reynold was recently hired as the new Administrative Officer, replacing Christina Elnei who was promoted to Single Audit Specialist. As Administrative Officer, Mackenzie will be a key player in supporting the staff and in facilitating an efficient office environment for the auditors and investigators at the Main Office and the Chuuk Field Office.

He graduated from the U.S. International University, now known as Alliance University, in San Diego with a Bachelor's of Science Degree in Business Administration with a major in accounting.

Mr. Reynold previously worked for the Chuuk Department of Administrative Services where he was Assistant Chief of Finance for over four years. He began his career at the Department in 1997, with responsibilities that included the supervision of the accounts payable section. Subsequently, he was assigned additional duties to include supervising over 20 accountants within the Fund Certification, Payroll and Travel Sections.

In his new position, Mackenzie will report directly to the Public Auditor and he will be a key player in managing and implementing critical activities relating to staff support services, human resource management, fiscal and budgetary matters, and other tasks.

New Hires

Chuuk Field Office



Charlene Joker, Executive Secretary

Ms. Charlene Joker attended Guam Community College where she was certified in Travel & Ticketing Operations in May, 1996. She studied at Micronesia Institute of Biblical Studies (1989), attended Guam Community College (1992-1996) as a part-time student, and studied at the Pacific Island Bible College (2002-2004). She also is a

candidate for an associate of science degree in travel agency management. She is originally from Chuuk.

Ms. Joker served in different capacities such as a clerk, secretary, and administrative assistant at Chuuk Personnel Office, Onward Beach Resort and Far East Travel Agency in Guam, Chuuk State Housing Authority, and at the Chuuk State School System.



Gillian Doone, Auditor III

Gillian Doone returned to the ONPA in March 2007 after the Public Auditor recruited him from Honolulu to fill an Auditor III position. Mr. Doone is the officer-in-charge responsible for overseeing the day-to-day operations and supervising and managing three other staff at the new office. Gillian's strong desire to help Chuuk recover from its financial challenges was one of the factors in his decision to return and work at the new ONPA field office in Chuuk.

Mr. Doone, originally from Chuuk, attended Xavier High School, Community College of Micronesia, and Chaminade University of Honolulu. His previous experience includes more than 18 years in accounting or financial analyst activities in locations such as The Arc in Hawaii, The Associates, Inc. of Honolulu, and Community College of Micronesia in Kolonia, Pohnpei. He served as a Residential Advisor for the Hawaii Job Corps in Honolulu and was a trainee at Micronesian Legal Services in Kolonia.



Nakama Sana, Auditor III

Mr. Sana received a Bachelor of Arts in Business Administration in 1980 from Linfield College, McMinnville, Oregon. He is originally from Chuuk. He previously served as Director of Administrative Services, Chuuk State Government for two years and was Director of Treasury, Chuuk State Government for three years.



William Billimon, Investigative Auditor I

Mr. Billimon received a Bachelor of Science in Administration of Justice in 1982 from Portland State University, Portland, Oregon, and an Associate of Arts in Criminal Justice in 1979 from Clatsop Community College, Astoria, Oregon. He has also taken a variety of continuing education courses. Prior to joining the ONPA, Mr. Billimon was Coordinator for USDA Urban Community Forestry (2004-2005), Marketing Officer for the Chuuk Visitors Bureau (2000-2004), FSM National Government investigator for the White Collar Crime Task Force (1996-1997) and Drug Enforcement Unit (1993-1996). In addition, for more than 10 years he worked for the Chuuk State Government in various management positions.

Departures

Main Office



Nigel Savidge, Chief Investigator

Mr. Nigel Savidge has ended his tour serving as the Chief Investigator and White-Collar Crime Advisor at the Compliance Investigation Division. Nigel has accepted a job with the Asian Development Bank. He departed Pohnpei, FSM on January 4, 2007, along with his wife June and step-son Jake, heading back to his home country in Australia for a brief visit before moving to Manila, Philippines for his next call of duty.



*Left-Right: Nigel Savidge, Sophia Pretrick
and Haser Hainrick*

Nigel has contributed so much to the ONPA's fight against financial crimes and public corruption in the islands during his two-year tenure serving in FSM. In addition to his exceptional skills in managing and directing investigation cases, Nigel also devoted a good amount of his time and energy in resource and capacity building initiatives within the Compliance Investigation Division. As a result, investigation methodologies, procedures and steps, and guidelines and policies were developed and incorporated into a Manual of Operations which is now the guide in conducting investigations.

As a former lecturer at universities in Australia, Nigel mentored the two resident investigators through on-the-job training as well as secured outside funding from AusAID to underwrite the costs of having Sophia Pretrick and Fletcher Poll undertake some residential and distance courses in the master's degree program in fraud investigations from Charles Sturt University.

As a project under the Australian Volunteers International (AVI), which was managed by the Pacific Technical Assistance Facility (PACTAF) and funded by AusAID, Nigel was attached at the FSM Office of the National Public Auditor under a two year contract which has ended with many positive achievements.

“The last two years that I spent working in the FSM with you and your team was one of the best times of my life. June, Jake and I will always remember it with much fondness and hope to return someday,” wrote Nigel in an email to the Public Auditor.



Dorian Kiyoshi, Executive Secretary

Ms. Kiyoshi worked for the Public Auditor as Executive Secretary from May 2005 until her resignation in July, 2007. Dorian resigned her position to join her family on the US mainland.



Limanman Elanzo, Auditor II

Ms. Limanman Elanzo worked as an Auditor II, for over six years. In January, 2007, she resigned her position with the Public Auditor to join the Micronesian Conservation Trust, Small Grant Programme, Pohnpei.

APPENDICES

Appendix I: Powers and Responsibility of ONPA

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.

The Public Auditor shall:

- 1) The Public Auditor may examine and inspect all books, records, files, papers, documents, and 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
- 2) The Public Auditor may audit the records of any contractor performing public work on cost-reimbursement-type contracts for the National Government of the Federated States of Micronesia to verify the cost charged to public contract. Any contractor performing public work pursuant to a contract with the National Government of the Federated States of Micronesia shall keep and maintain records adequate to establish the validity of costs charged to the National Government.
- 3) The Public Auditor may subpoena summon person to appear at a reasonable time before him and administer oaths to such persons. He may question such persons, under oath, regarding receipts and expenditures of money and any other reasonable and relevant matters necessary for the performance of his duties.
- 4) The Public Auditor may issue subpoena duces tecum within a reasonable time requiring the production of books, records, documents, or other relevant financial papers or objects necessary for the performance of his duties.
- 5) Any subpoena or subpoena duces tecum issued under the authority of the Public Auditor shall run in the name of the Federated States of Micronesia and shall be addressed to the chief or other officer of the Division of Security and Investigation of the office of the Attorney General of the National Government of the Federated States of Micronesia. The subpoena or subpoena duces tecum shall be signed by the Public Auditor and shall identify the witness to be served or the books, records, documents, or other relevant financial papers or objects to be produced together with a reference to the account subject to inspection and audit.

- 6) Any officer to whom such subpoena or subpoena duces tecum is directed shall forthwith serve or execute the same upon delivery thereof to him.
- 7) Any person who willfully fails or refuses to appear upon receiving service of subpoena, or who willfully fails or refuses to produce any books, records, documents, or other relevant financial papers or objects designated in a subpoena duces tecum properly issued by the Public Auditor, upon conviction thereof, shall be fined not more than \$ 1,000.00, or imprisoned for not more than one year, or both. Failure by the Public Auditor to comply in any material respect with the requirements of this chapter shall relieve any person of the obligation to appear or the obligation to produce designated materials, and such failure shall be defense in any proceeding against such person for punishment.
- 8) Any person subject to a subpoena duces tecum shall have only those privileges against producing books, records, documents, or other relevant financial papers or objects which are authorized under the rules of evidence of the Supreme Court of the Federated States of Micronesia, the Constitution of the Federated States of Micronesia, the Trust Territory Bill of Rights, or other applicable law.

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. There are eight specific responsibilities which are designed to promote integrity and improve performance in government operations.

The Public Auditor shall:

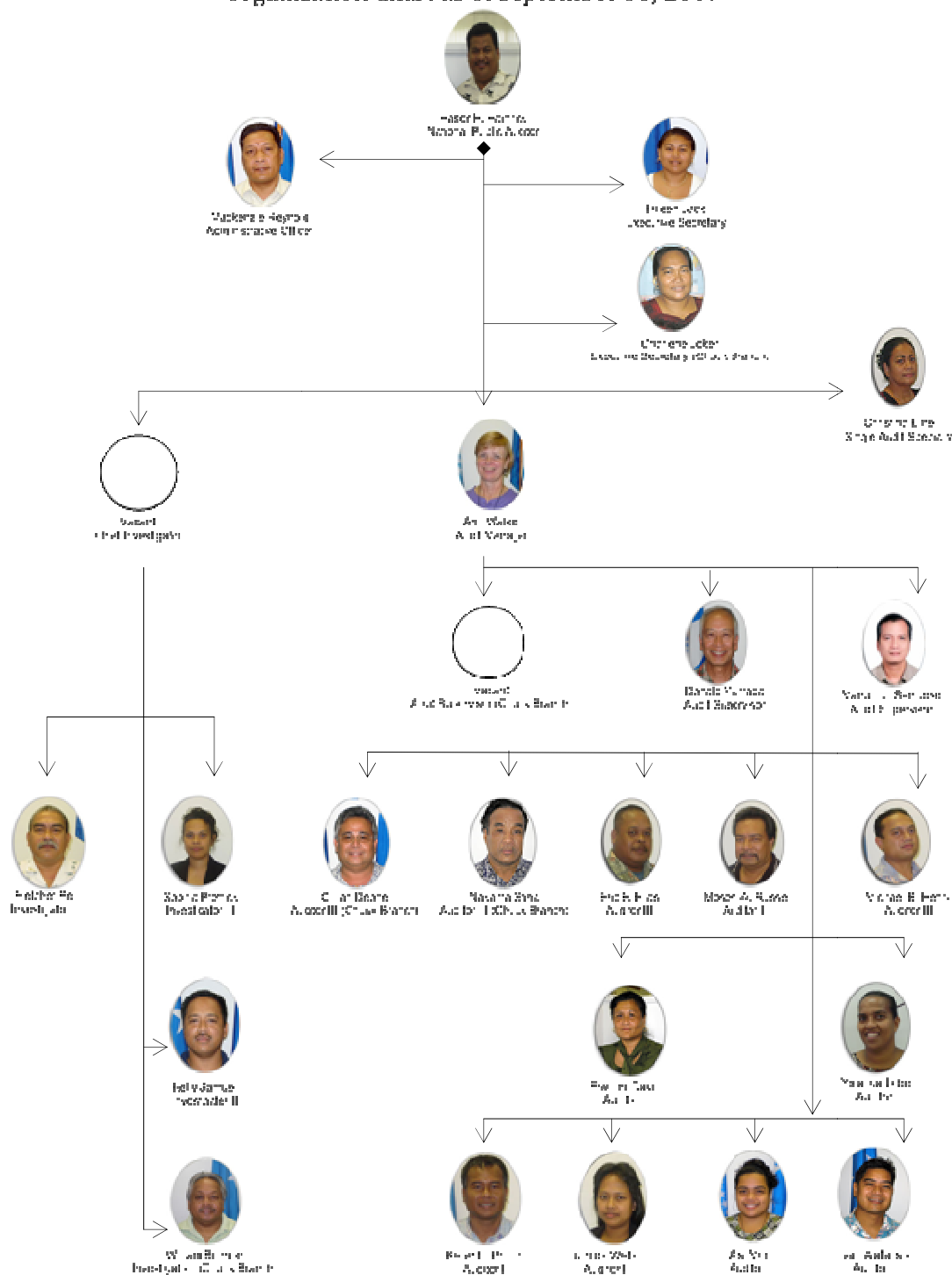
- 1) shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivision thereof, 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 service 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) keep a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

Appendix II: ONPA Organizational Chart

Office of the National Public Auditor
Organization Chart as of September 30, 2007



Appendix III: Description of Performance Audits

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

- 1) Types of audits be performed:
 - 1) Financial and Compliance. 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 is 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 have considered alternatives that might yield desired results at a lower cost.
- 2) Any given audit or review may include one or more of the objectives in subsection (1) of this section in the reasonable exercise of the Public Auditor's discretion.
- 3) The Public Auditor shall perform audits in conformity with generally accepted audit standards as established by the American Institute of Certified Public Accountants.

Appendix IV: Audits Inspection Standards

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1995 and revised in 2005. The 13 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at the following website 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.

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.

Appendix V: General and Qualitative Standards for Investigations

CID has adopted the Quality Standards for Investigations which have been 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

Appendix VI: CID Case Discussions

CID Case Discussions

Audit No.	Audit Title	Source of Request	Findings
CID-03-014	Allegation of Theft and Misappropriation of CIP Funds	Single audit referral	Investigations show theft of public funds involving \$30,000. Case referred and adjudicated.
CID-04-003	Allegation of Funds Misappropriation	Concerned Citizen	Funds were allocated for a municipal fishing project involving \$2,000. Fraudulent documents were used to obligate National Government funds. Matter referred to DOJ for review.
CID-05-001	Allegation of Kickback and Conflict of Interest	Hotline	Findings show that the funds were of local revenue and not within ONPA jurisdiction. Case closed for file.
CID-05-009	Allegation of Embezzlement and Mismanagement	Audit finding	Findings show numerous account discrepancies and system weaknesses involving about \$80,000. Matter referred to DOJ for proper disposition.
CID-06-004	Allegation of Passport Fraud, Over-Obligation of Government Funds And Theft	Congress referral	DOJ and ONPA findings show system weakness and mismanagement of National funds involving approximately \$500,000. Matter with DOJ for prosecution.
CID-06-005	Allegation of Theft	Departmental referral	Over-obligations for purposes other than allotted. Refer to department for administrative action. Amount less than \$100.
CID-07-001	Allegation of Unauthorized Use of Federal Funds	Hotline	Findings show that the law authorizes Department head to reprogram funds. Investigation

			closed
CID-07-008	Allegation of Misappropriation of CFSM Project Funds	Audit finding	Mismanagement, misappropriation and theft of funds involving a \$15,000 CFSM project. Referred to DOJ for appropriate action.
CID-07-011	Allegation of Mismanagement and Embezzlement of National Funds	Departmental referral	Investigation shows that more than \$30,000 embezzled and unaccounted for. Matter referred to DOJ for proper action.

Appendix VII: Single Audit Opinions

Single Audit Opinions Issued 2006

FSM National and State Governments are required to have their general purpose financial statements audited annually. This work is done by an outside contractor, Deloitte & Touche, LLP under the Compact of Free Association agreement between the FSM and the United States of America.

Government or Entity	2006	Completed before 6/30/07
FSM National Government	Qualified	NO
Chuuk State Government	Disclaimer	NO
Kosrae State Government	Unqualified	Yes
Pohnpei State Government	Unqualified	Yes
Yap State Government	Qualified	Yes
College of Micronesia	Unqualified	Yes
Coconut Development Authority	Unqualified	Yes
Chuuk State Public Utility Corp	X	No
Chuuk State Health Care Plan	Qualified	No
FSM Development Bank	Unqualified	Yes
FSM Social Security Administration	Unqualified	Yes
FSM Telecommunication Corp	Unqualified	Yes
Kosrae Utilities Authority	Unqualified	Yes
MiCare Plan Inc.	Qualified	Yes
Micronesia Petroleum Corp	Unqualified	Yes
National Fisheries Corp	X	No

Pohnpei Fisheries Corp	Unqualified	No
Pohnpei Housing Authority	Unqualified	No
Pohnpei Port Authority	Unqualified	Yes
Pohnpei Utilities Corp	Unqualified	Yes
The Diving Seagull, Inc.	Unqualified	Yes
Yap State Public Service Corp	Unqualified	Yes

Appendix VIII: Strategic Plan, FY 2008-2010

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

STRATEGIC PLAN

FISCAL YEARS 2008 THROUGH 2010



Haser H. Hainrick
National Public Auditor
July 2, 2007

TABLE OF CONTENTS

Introduction by The National Public Auditor	1
Vision	2
Mission	2
Values	2
Performance Measures	2
ONPA Critical Success Factors	3
Goals, Objectives and High Priority Actions	4
• Goal 1: Improve productivity, quality and visibility of ONPA products by strengthening internal management of audits and investigations.	4
• Goal 2: Increase staff technical skills; support staff development.....	6
• Goal 3: Strengthen ONPA independence and secure funding.	7
Staff Affirmation	8

Introduction By The National Public Auditor

I am pleased to release the Office of the National Public Auditor Strategic Plan for fiscal years 2008 to 2010. This revised Strategic Plan builds on the Strategic Plan for fiscal years 2004 to 2007 and upon the progress during the last three years in the areas of quality, productivity, and capacity building. In developing this plan, we revised our vision and mission to reflect more accurately our experiences and to guide our decisions. In addition, we developed our strategies and actions for the next three years to accomplishing our goals. Finally, this Strategic Plan provides a basis from which we can select the highest priority issues to audit or investigate and thus improve the operations of the government.

We extend our sincerest appreciation to Dr. Lowell Kuehn from Pacific Northwest Consulting Services for accepting the contract and taking the time to facilitate the process for us. Finally, I thank the staff members of the Office of the National Public Auditor who contributed. It was only through the active involvement of people like you that made this project an outstanding success.



Haser Hainrick
National Public Auditor

July 2, 2007

Vision:

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

Mission:

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

Values:

- Independence
- Professionalism
- Public Service
- Honesty

Performance Measures:

- Understandable, timely and useful reports
- Accepted and implemented recommendations
- Improvements in governmental practice and operation
- Fiscal impact

ONPA Critical Success Factors:

Internal Management – *Short-term goal*

- Quality control
- Quality products
- More reports, increased productivity
- Time management system
- Do this plan
- Management and leadership
- Information management system

Staff Development and Creating The Environment – *Short-term goal*

- Training
- Local staff certification, upgrade
- Teamwork

Impact Of ONPA On Government – *Long-term goal*

- Understand/follow our mission, focus
- Expand CID
- Improved networking
- Communications
- Penalties for non-compliance

Autonomy – *Long-term goal*

- Protected budget, sustainable resources
- Independence

Goals, Objectives and High Priority Actions

High Priority Actions are Underlined

Goal 1: Improve productivity, quality and visibility of ONPA products by strengthening internal management of audits and investigations.

Objective 1: Establish Management Information System for recommendations and results of audits and investigations. Include information gathered during follow-up and ideas on how to change recommendations so they will be implemented.

- Action 1: Define MIS requirements
- Action 2: Review by management and staff
- Action 3: Determine how to do follow-up for database
- Action 4: Implement – set up database and enter data
- Action 5: Determine system to update regularly

Objective 2a: Assure Quality Control – Audits

Action 1: Update Audit Manual

Action steps	Start & End Dates	Accountability Link	Resources Required
Add APIPA Manual, modify for inspections and performance audits, add procedures for timeliness and accountability and for audit follow-up for database and story conference approach	7/25 to 9/30	Audit Manager	None

- Action 2: Verify Audit Manual includes check lists of peer review and report requirements and compliance with audit manual
- Action 3: Create *pro forma* performance report and sample of audit work-papers
- Action 4: Review for reasonableness
- Action 5: Review and adopt audit manual for ONPA

Objective 2b: Assure Quality Control – CID

Action 1: Update CID Manual

Action steps	Start & End Dates	Accountability Link	Resources Required
Review CID manual, create checklist if needed	7/4 to 7/31	Acting Chief CID	none
Add procedure for follow-up for database	7/4 to 7/31	Acting Chief CID	none
Review and Adopt for ONPA	7/4 to 7/31	Acting Chief CID	none

Objective 2c: Assure Quality Control – Administration

- Action 1: Add code of ethics
- Action 2: Add yearly requirement that staff certify they understand audit manual or CID manual
- Action 3: Add yearly requirement that staff certify they understand code of ethics
- Action 4: Add yearly requirement that staff provide financial disclosure statement
- Action 5: Review and adopt for ONPA

Strategic Plan, FY 2008 –2010
Office of National Public Auditor
Federated States of Micronesia

Objective 3: Evaluate Audit Selections

Action 1: Evaluate audit selection process

Action steps	Start & End Dates	Accountability Link	Resources Required
Modify by adding elements from mission and performance measures as needed	7/2 to 7/9	Audit Manager	\$0
Collect data on completed audits	7/2 to 7/9	TBD	\$0
PA and AM meet to evaluate last year	7/10	Haser and Ann	\$0
Update data for next year's selection matrix	7/2 to 7/9	Ann + TBD	\$0
Score possible audits	7/11	Audit Manager	\$0
Summarize for staff	7/12	Audit Manager	\$0
Meet and decide	7/23 to 7/24	AI staff	\$0
Document process and decisions	8/1	Audit Manager	\$0

Action 2: Before next selection, evaluate on-going and finished audits and methodology to determine if they meet mission and performance measures.

Objective 4: Facilitate an Integrated Accounting System for the National Government (Networking)

Action 1: Negotiate accessibility to department data

- Budget information
- Financial information
- Public Information Office of Congress

Objective 5: Accessibility to Audit Reports and ONPA presence

Action 1: Expand use of radio broadcasting (use translated materials)

Action 2: Newspaper

Action 3: Update and upgrade website

Action 4: Expand public awareness especially in schools (enhanced with brochures regarding the value of ONPA products, translated into local languages).

Goal 2: Increase staff technical skills; support staff development

Objective 1: Ensure that all staff attain one higher level of accounting, auditing and technical proficiency

Action 1: maintain human resource system and employee goal setting plan (goals, objectives, and training needs) and conduct performance appraisals based on agreed-upon plans.

Objective 2: Ensure staff obtain relevant audit and investigation certification

Action 1: create a training program and committee to support and research professional and education needs (e.g. online certification)

Objective 3: Develop and sustain teamwork to ensure quality product

Action 1: Complete implementation of story conference audit approach

Action steps	Start	End	Accountability Link	Resource Required
Develop policies and procedures on how to conduct proper story conferences. Integrate into Work program and milestones plan	6/28	to 9/30	Audit Manager	\$0

Action 2: Modify story conference approach for investigations

Action steps	Start	End	Accountability Link	Resource Required
Develop policies and procedures how to conduct proper story conferences and integrate into Work program and milestones plan and the CID manual	7/4	to 7/31	Acting Chief CID	\$0

Objective 4: Hire highly qualified audit supervisors

Action 1: Advertise position

Action steps	Start	End	Accountability Link	Resource Required
Post vacancy announcements in appropriate internet websites	7/10	until position is filled	Public Auditor	\$0
Solicit assistance from known contacts at various outside agencies	7/10	until position is filled	Public Auditor	\$0

Strategic Plan, FY 2008 –2010
Office of National Public Auditor
Federated States of Micronesia

Goal 3: Strengthen ONPA independence and secure funding -- Long-term

Objective 1: Review Public Auditor Act and suggest revisions as needed, e.g. standards being used, term of Public Auditor, include authority to conduct financial investigations.

Objective 2: Research how funding is handled and implement model for sustainable funding.

Objective 3: Develop and nurture sustainable relationships (government, academic, and other stakeholders) with a view to improve government.

Action 1: Create a committee

Action steps	Start	End	Accountability Link	Resources Required
Create a working committee to address objectives 1, 2, and 3	7/10	on-going until year 2010	Public Auditor	\$0

Action 2: Perform research

Action steps	Start	End	Accountability Link	Resources Required
Perform necessary research	7/10	on-going until year 2010	Public Auditor	\$0

Strategic Plan, FY 2008 –2010
Office of National Public Auditor
Federated States of Micronesia

Staff Affirmation:

I have reviewed in detail the seven (7) pages of this Strategic Plan.

By signing below, I affirm that I understand and fully commit to mission and vision contained in the Plan and will work diligently to help the Office achieve its goals and objectives.

Aisi Mori		Ann Walker	
Christina Elnei		Donald Yamada	
Eric Elias		Erwinne David	
Fletcher Poll		Gillian Doone	
Haser Hainrick		Ivan Jimbo Alafonso	
Julie Weinal		Keller Phillip	
Kelly Samuel		Manuel San Jose, Jr.	
Michael Henry		Moses Russel	
Nakama Sana		Sophia Pretrick	
William Billimon		Yolanda Leben	

Appendix IX: Training Courses Attended by ONPA Staff

Audit Staff Training, FY2007

Date	Location	Training/ Course Title	Instructor/ Institution	Sponsor	Participants
Mar 7-8	Guam	2007 Professional Ethics, Government Auditing & AICPA Accounting Standards	W.A.Broadus, AGA AGA Guam Chapter & Guam Society of CPA	AGA, Guam Chapter & Guam Society of CPA	Julinida Weital Mike Henry
May 15	FSM, Tele-Communication Corporation Conference Room, Pohnpei	Government Revenue Training	Ben Previtt, Department of Interior, IOG	Department of Interior, IOG	Haser Hainrick Eric Elias, Moses Russel Ann Walker Don Yamada Manny San Jose Jr. Gillian Doone Nakama Sana Mike Henry Keller Phillip Julinida Weital Yolanda Leben Erwihne David Ivan Alafanso Sophia Pretrick Fletcher Poll Kelly Samuel Aisi Mori, ONPA and Annes Lebehn, Pohnpei State Auditor

Date	Location	Training/ Course Title	Instructor/ Institution	Sponsor	Participants
July 16-20	Pohnpei State Hospital Conference Room, Pohnpei, FSM	Managing the Audit Engagement	Elizabeth Betsy Cohn, USDA Graduate School	USDA Graduate School	Haser Hainrick Eric Elias, Moses Russel Ann Walker Don Yamada Manny San Jose Jr. Gillian Doone Nakama Sana Mike Henry Keller Phillip Julinida Weital Yolanda Leben Chris Elnei Ivan Alafanso Sophia Pretrick Fletcher Poll Kelly Samuel Aisi Mori, ONPA, and Annes Lebehn Pohnpei Stte Auditor, and Nick Andon CFCC
August 13-17	Pagopago, American Samoa	Impact of SAS 112 on Government Audit, Investigative Techniques for Auditors, Ethics, Fraud and their Relationship, Introduction to Audit Report Writing, Nuts and Bolts of Audit, Reporting Audit Results, Government	Various, USDA Graduate School/ PITTI	USDA Gradate School/ PITTI	Haser Hainrick Moses Russell

		Performance Based			
Date	Location	Training/ Course Title	Instructor/ Institution	Sponsor	Participants
August 20-21	Honolulu, Hawaii	Accountability Issues, Facing Hawaii; Homeland Security Audit Issues, Katrina and Beyond; Improving Audit Efficiency, Performance Measurements in King County, A Collaborative, Incremental Process; The Abilne Paradox, A Workshop on Effective Strategies for Group Decision-Making, Roundtables, 2007 Yellow Book Changes, Emerging Issues in the Accountability Community, Internal Controls; Lessons Learned from Katrina and Iraq	Various, Western Intergovernmental Audit Forum	Western Intergovernmental Audit Forum	Haser Hainrick Eric Elias

Date	Location	Training/ Course Title	Instructor/ Institution	Sponsor	Participants
August 22-24	Honolulu, Hawaii	Improve Audit Efficiency, Performance Measurement in King County, Emerging Issues in Accountability Community, Managing and Evaluating Public Services, Transforming Government, management and Accountability, What's New in Accounting and Auditing, Importance of Ethics in Government Accounting Standard Board Update, Working Together Audit and Financial Personnel, Single Audit Issues and Updates, and AGA and ASMC Initiatives that Help Advance Government Accountability	Various, Pacific Emerging Issues Conference/ RPD	Advancing Government Accountability (AGA), American Society of Military Comptrollers	Haser Hainrick Eric Elias
Sept 24-28	Washington, D.C.	Basic Governmental	David Lowe	USDA Graduate	Chris Elnei Erwihne David

		Auditing		School	Ivan Alafanso
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Date	Location	Training/ Course Title	Instructor/ Institution	Sponsor	Participants
Sept 24-28	Washington, D.C.	Data Collection Techniques	Management Concept	ONPA	Mike Henry