

FEDERATED STATES OF MICRONESIA

**OFFICE OF THE
NATIONAL PUBLIC AUDITOR**

ANNUAL REPORT
Fiscal Year 2008



Haser Hainrick
National Public Auditor

December 01, 2008

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The Kaselehlle Press, Wednesday, July 11-24, 2007

New National Public Auditor Field Office

Chuuk State

Office of the National Public Auditor
(Wen, Chuuk) - With fundi

he felt it was necessary to take immediate action because of his concern that the negative international publicity surrounding poor financial management of the State of Chuuk, and will manage operations of the Office. The reports to the Main Office at the Main Office matters performed in the

Letters to the Editor

...Audit

Chuuk Travel Section contributing misuse of funds says ONPA

By BILL JAYNES

The Republic of

Public

an audit

November

2008 says

State

travel funds

2007. The

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By BILL JAYNES

The Kaselehlle

Public, Polipol

an opinion last

people in the

function of Chuuk

school Office

subject of interest

and the government

financial problems

has pushed for MEC

other so-called "state owned enterprises" (SOEs) to be privatized. This is a good discussion to be having.

But we think Ben Gram's suggestion concerning SOEs made at this month's Chamber of Commerce meeting is on point. Gram recommends that there needs to be a comprehensive audit MEC.

It is not only MEC that is in a difficult situation and service

For the RMI to engage in development Bank or the Pacific Bank from a person qualified in the area of SOEs, to provide useful recommendations about privatization and improvement for these government agencies, such a review should not be limited to MEC, but should include NTA, AMI, Tobolar, and others.

MEC's ongoing financial issues have focused our government's attention

Palau Horizon

More on the ONPA Audit
Passport Security

Hands reviews Pol

HERRIE ANNE LAHERMO

KASELEHLIE Press

This bi-weekly publication is \$100
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CID Investigating Possible Criminal Activity in Kosrae

investigators from CID to determine. Investigators from that Department are Deputized National representatives at a rate of \$200,000 per representative. Kosrae has two representatives in the State of the major department in the State Chuuk Government.

FSM PUBLIC AUDITOR RELEASED REPORT

Continued from page 3

FSM Leads RMI in Transparency

The islands in what was once the US Trust Territory of the Pacific Islands have special bonds dating way back. But within these friendly ties, we see also, responsibly competitive and like to compare who is doing better in education, health and so on.

Here's our contribution to the competition. The Federated States of Micronesia is doing a much better job in government financial transparency than the Marshall Islands. "Government financial transparency" means giving people relatively easy and direct access to financial information about the national government.

Why is the FSM ahead of the RMI? Because 1) the FSM Public Auditor has an Internet Web site on which every audit is posted in pdf format so it can be easily obtained by anyone with a computer and Internet access; 2) all audits are quickly posted to the Web site after they are completed.

audits, has not conducted any. There are reasons for this: The RMI Auditor General's office has been managed by the Acting Auditor General for going on two years now, and has historically been underfunded. One of the easy things that the RMI Auditor General could do is make its audits available to the public in a more timely fashion. In the FSM, their auditor officially sends an audit to the FSM President (or head of an agency) and a week later the audit is out for the public to see.

Here, an audit could be done in February or March, but we won't see it until at least late August or September. This is because the RMI Auditor General does not release audits in a timely manner. The RMI Constitution says merely that the Auditor General "shall report at least once annually to the National at its regular session." There is nothing in

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Acronyms

ADB	Asian Development Bank
AGA	Association of Government Auditors
APIPA	Association of Pacific Island Public Auditors
CFSM	Congress of the Federated States of Micronesia
CIA	Caroline Islands Air
CID	Compliance Investigation Division
CNMI	Commonwealth of the Northern Mariana Islands
CTA	FSM Customs and Tax Administration
DF&A	FSM Department of Finance and Administration
DOI	US Department of Interior
DOJ	FSM Department of Justice
FMR	Financial Management Regulation
FSM	Federated States of Micronesia
FY	Fiscal Year
GAS	Government Auditing Standard
HOLEA	Head of Law Enforcement Association
IDP	Staff Individual Development Plan
JEMCO	Joint Economic Management Committee
MOU	Memorandum of Understanding
OIA	US Department of Interior, Office of Insular Affairs
OIG	US Department of Interior, Office of the Inspector General
OJT	On-the-Job Training
OMB	Office of Management and Budget
ONPA	FSM Office of the National Public Auditor
OPA	Office of the Public Auditor
PCD	Project Control Document
PITI	Pacific Islands Training Initiative
PRAI	Pacific Regional Audit Initiative
SAI	Supreme Audit Institutions
SPSAI	South Pacific Association of Supreme Audit Institutions
USDA	US Department of Agriculture



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PUBLIC AUDITOR'S MESSAGE

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

I am deeply honored and very pleased to submit to you the Fiscal Year 2008 Annual Report of the Office of the National Public Auditor as required by law. As your Public Auditor, it is my duty and responsibility to report annually to the Congress on ONPA's progress and performance in safeguarding FSM's assets through audits and investigations that lead to improving government operations, efficiency, and accountability. It is our expectation that this Annual Report will inform our Stakeholders and increase the public's interest in our work. Within this report, we present our achievements for the year and the highlights of our continuing efforts in improving our performance.

Our Audit Division continues to produce quality and timely audits, conduct performance audits and inspections and, using the audit selection process described in our Strategic Plan 2008-2011, target critical areas for audit. We issued six audits this year covering Congress Funded Public Projects in Kosrae State, the FSM Permanent Mission to the United Nations, the FSM Congress Budget, FSM Embassy in Tokyo, Customs & Tax Administration, and the Chuuk State Travel Section. We strive for transparency in government by quickly posting all audit reports to our website upon completion and transmission to the audited entity.

Our Compliance Investigation Division continues to use its internally developed two-tier system, a system that maximizes the resources of CID, to screen all complaints received and determine which meet criteria for investigation. During Fiscal Year 2008, CID handled 27 cases, 11 of which were new cases.

In the area of FSM Single Audits, we continue in our responsibility of oversight and are extremely satisfied to report that all audits for the FSM National and State governments were completed on time. An increasing number of audited entities are receiving an Unqualified Opinion, the highest ranking that a government or entity can receive. This year, 18 of the 23 entities under audit received an Unqualified Opinion. In addition, the results of more and more

audits are without any questioned costs. We took a proactive stance in monitoring and encouraging actions to resolve questioned costs throughout FSM as well as in the performance and supervision of the Chuuk State Quarterly reviews.

During this fiscal year, we worked in other areas designed to improve our overall performance. We developed Annual Performance Plans for our main office in Palikir and the Chuuk Field Office. These Plans broaden the focus of information currently being reported moving from performance activities and into the areas of plans and results. We worked with staffers visiting from the U.S. Congress who emphasized the role of the Public Auditor in running a strong and effective audit office to safeguard the resources of the FSM Governments. In addition, construction was completed on a much needed 800-square foot extension to our main office building. Our budget expenditures for 2008 totaled \$757,141, with \$634,360 expended in our main office in Palikir and \$122,780 in our field office in Chuuk. Personnel costs continue to represent our largest budget expenditure.

The continuing effort to implement our capacity building programs to support our local staff remains a top priority, realizing that the future of ONPA rests in their hands as leadership transfers from the expatriates. Some staff are pursuing their four year degrees, graduate certificates through distance education, and certification in anti-fraud and audit professional organizations. OJT at selected OIG offices in the US mainland and the receipt of technical training grants were also realized during the year. We have seen some fruits of this effort with the localizing of the chief investigator position through the promotion of Ms. Sophia Pretrick, CFE, who is the first FSM citizen to have received this anti-fraud professional designation. We anticipate continuation of this process as more resident staff pursue professional certification.

We extend our appreciation to our regional and international partners whose assistance has been essential in building good governance and stronger accountability in FSM. US DOI Office of the Inspector General, Office of Insular Affairs, USDA Graduate School/Pacific Island Training Initiative, PASAI, APIPA, the Australian Government and AusAID are some of the agencies deserving our acknowledgment.

Finally, I am indebted to the Members of Congress and the President for their cooperation and support. My hard working staff at the main office in Palikir and at the field office in Chuuk are the real heroes whose commitment and contributions have helped move the office in a forward direction.

Respectfully submitted,



Haser Hainrick
National Public Auditor

December 1, 2008

2008 HIGHLIGHTED ACCOMPLISHMENTS

ONPA Develops Annual Performance Plans

Annual Performance Plans were developed by the Public Auditor and his staff for the Main Office in Palikir and the Chuuk Field Office. Performance Plans are designed to broaden the focus of information currently being reported moving from performance inputs, activities and processes and into the areas of plans and results. The Plans present ONPA strategic goals and list the activities necessary to achieve these goals. Each activity includes a measurable objective with outputs that are designed to indicate how progress is measured. For the Palikir Office, four strategic goals were identified and for the Chuuk Field Office, ONPA identified three strategic goals.

Key Staffers from the US Congress Visit FSM

Staff from the US Senate Energy and US House of Representatives Natural Resources Committees visited FSM to observe the implementation of the Amended Compact. A visit by these key staffers signals the importance that the US Congress has placed on the successful implementation of the Compact. The staffers were receptive to and appreciative of learning the process of ONPA operations. Public Auditor Hainrick expressed his appreciation to the staffers and especially for sharing the Congressional perspective on FSM's current efforts in implementing the requirements of the Amended Compact.

ONPA Proactive in Chuuk State Quarterly Reviews

The US Department of Interior's Office of Insular Affairs directed that DOI cash receipts and expenditures of the Chuuk State Government be audited quarterly. This came as a component of the Reform Plan, a product of the collaborative effort between OIA, the FSM National Government, and Chuuk State. The Plan necessitated that ONPA amend the contract for the Single Audits for FY 2006 to FY 2008 to incorporate the required FY 2007 quarterly audits for Chuuk State. ONPA has played an active role in the performance and supervision of these quarterly reviews. In addition, the JEMCO members adopted resolution 2008-01 requiring FSM National Government to secure the service of a professional audit firm to provide quarterly reports on the financial conduct and internal control environment of Chuuk's Department of Administrative Services for FY 2009.

More Single Audits Completed on Time and Number of Unqualified Opinion Ratings Increasing

All audits for the FSM National and State governments were completed on time this year and an increasing number of audited entities received an Unqualified Opinion. This year 18 entities received an Unqualified Opinion while only 15 received this rating last year. Beginning with their first Single Audit, nine entities have consistently received an Unqualified Opinion—the Coconut Development Authority, FSM Development Bank, FSM Social Security Administration, FSM Telecommunication Corporation, Kosrae Utilities Authority, Micronesia Petroleum Corporation, Yap State Public Service Corporation, the College of Micronesia, and the Diving Seagull, Inc.

ONPA Participation in Peer Reviews

The Public Auditor determined that ONPA staff participation in peer reviews of other public auditor offices would provide his staff with an excellent opportunity to enhance their audit skills by reviewing the processes, techniques, and methodologies used by the OPA under review. In addition to gaining skills, the Public Auditor requires that all senior staff involved in peer reviews conduct a training presentation to the rest of the staff. In pursuit of these opportunities, the Public Auditor led a team that conducted the Palau OPA peer review in July and Michael Henry, Auditor III, participated in the Association of Pacific Islands Public Auditors' external quality control peer review of the OPA for the Commonwealth of Northern Marina Islands.

FSM ONPA Rated High in Transparency When Compared to Marshall Islands

In an editorial in the *Marshall Islands Journal*, it was reported that the FSM ONPA exceeds the Marshall Islands Public Auditor in government transparency—giving citizens easy and timely access to financial information about their national government. The FSM Public Auditor has achieved this by creating an ONPA internet website and posting all ONPA audits to this website, posting the audit reports in a timely manner after the audit report is completed and transmitted to the audited entity, and conducting performance audits and producing reports beyond routine financial audits in areas including government travel, customs and tax collection, and the operations of the FSM Congress.

MISSION, VISION, AND VALUES



Photo 1. ONPA Common Room Wall

The Office of the Public Auditor seeks to improve the effectiveness and integrity of government operations through its inspections and audits 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, dependable, 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.

Mission Statement

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

Vision Statement

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

Values

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

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

Performance Measures

Performance measures relate to desired results—publishing reports that are read and used and that lead to positive changes in governmental practices and operations. ONPA 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, 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 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. Refer to Appendix I, for more information regarding the powers, duties and responsibilities of the Public Auditor.

ORGANIZATION AND RESPONSIBILITIES OF THE ONPA



**Photo 2. Administrative Staff (L-R):
MacKenzie Reynold, Christina Elnei, Lover Haimin, Hileen Jack Allen and Haser Hainrick**

The Public Auditor has an administrative and secretarial team to handle the responsibilities relative to the operation of the office. Two divisions have been established by the Public Auditor to handle the legislative requirements of reviews and investigations. The Audit Division conducts the reviews and examinations of National Government, agencies, and national funds. The Compliance Investigation Division (CID) investigates criminal and civil misconduct, investigates allegations regarding financial mismanagement and abuse involving national funds and maintains a working arrangement between the ONPA and the Department of Justice on referral cases. The ONPA is also responsible for the annual Single Audits of the FSM National and State Governments' general purpose financial statements. Although this work is done by an outside contractor, the ONPA has full oversight responsibility for monitoring and coordinating all matters pertaining to the annual Single Audits for the five governments—FSM National Government, Pohnpei, Chuuk, Kosrae, and Yap and their respective component units. Refer to Appendix II, for the ONPA Organization Chart as of September 30, 2008.

Audit Division



Photo 3. Audit Staff (L-R) Back: Michael Henry, Ivan Jimbo Alafanso, Manny San Jose, Moses Russel, Keller Phillip, Eric Elias and Edwin Barnuevo. Front: Aisi Mori, Yolanda Leben, Julinida Weital and Erwihne David

The Audit Division conducts three types of comprehensive performance 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 performance audit. Also, audit inspections are performed using established Quality Standards for Inspections. These inspections have the same quality and integrity as comprehensive performance audits, but have a more narrowly defined focus, thus the time frame for completing an examination and issuing a report is reduced. All audit work, the three types of performance audits and audit inspections, conforms to generally accepted audit standards. Refer to Appendix III, for more information on audit operations and quality standards for inspections.



Photo 4. Chuuk Field Office Staff (L-R): William Billimon, Charlene Joker, Evelyn Paul and Nakama Sana

The ONPA prepares written audit reports communicating the results of each audit performed and issues the report to the Nationally-funded agency for resolution of the recommendations presented in the report. Reports generally include a description of the scope, objectives and methodology of the audit, and a description of the audit findings and recommendations for corrective action. Reports issued since 2000, are posted on the FSM ONPA website (www.fsmopa.fm), with the rare exception for reasons of security or privacy. The following table presents FY 2008 audit reports issued by the ONPA.

Table 1: Audit Reports Issued, FY 2008

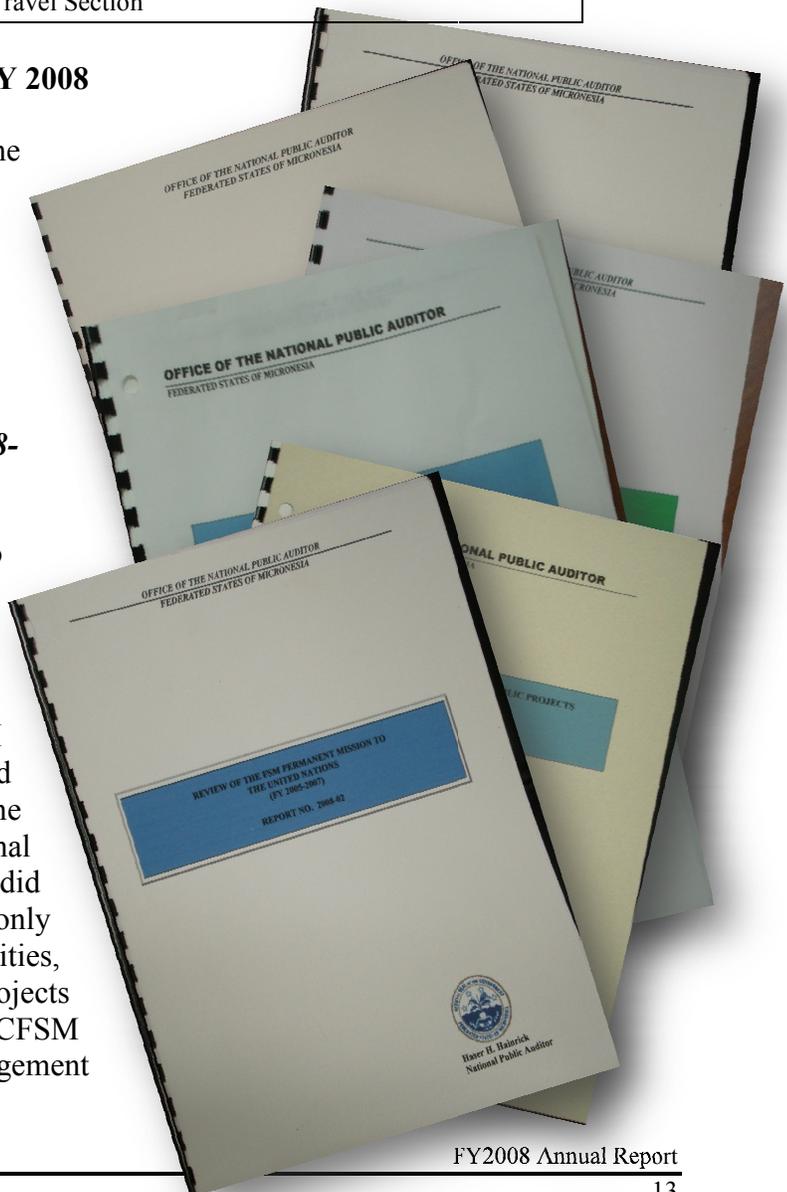
ONPA Report Number	Audit Report Title
2008-01	Review of Congress Funded Public Projects in Kosrae State
2008-02	Review of the FSM Permanent Mission to the United Nations (FY 2005-2007)
2008-03	Inspection of the FSM Congress Budget (FY 2005 to 2007, as of July 31)
2008-04	Review of the FSM Embassy in Tokyo (FY 2005, 2006, and 2007)
2008-05	Review of Customs & Tax Administrations
2008-06	Inspection of the Chuuk State Travel Section

Highlights of Audit Reports Issued in FY 2008

Following is a brief discussion of the objectives and conclusions for each of the reports issued by our Audit staff during this fiscal year. For more comprehensive knowledge, please refer to the specific report.

Review of Congress Funded Public Projects in Kosrae State (Report No. 2008-01)

The objectives of this review were to determine whether appropriate processes for reviewing and selecting projects were followed for Congress of the FSM (CFSM) public projects and, whether implementations of CFSM projects were in accordance with laws and regulations. We concluded that the Congress members did not have a formal process for selecting public projects and did not use project selection standards commonly employed by other government entities, therefore, we question whether the projects selected and funded were a proper use of CFSM funds. Furthermore, project management



officials did not follow the Financial Management Regulations in implementing projects and, in some instances, noncompliance led to mismanaged and misused project funds resulting in higher costs and overpriced purchases. In other instances, the Project Control Documents (PCD) were not sufficiently clear or complete as required by the FMR, thus preventing oversight officials from ensuring that project expenditures were for their intended purpose.

Review of the FSM Permanent Mission to the United Nations (Report No. 2008-02)

The objectives of the review were to determine whether 1) fund disbursements complied with FSM laws, regulations, policies and procedures, and 2) the monthly operations fund reports submitted were complete and timely. Based on our inspection, we found that the Mission did not comply with FSM laws, regulations, policies and procedures in disbursing funds and submitting monthly operations fund reports. For example, the total operations fund budget and budget categories were over spent. An appropriation for UN membership contributions was improperly used to provide funding for the over spending without proper authorization. In addition, a significant portion of fund disbursements were not properly approved, certified, recorded and documented. Finally, all of the monthly operations fund reports reviewed were submitted to DF&A an average of 47 days past the deadline established by regulation.

Inspection of the FSM Congress Budget (FY 2005 to 2007, as of July 31) (Report No. 2008-03)

The objectives for our inspection of the FSM Congress operating budget were to determine whether the processes used by the Congress in appropriating and spending its operational budget were sufficient to establish the clarity of purpose, and would promote accountability and transparency in the use of public funds. We found that certain processes used by the Congress in budgeting, appropriating, and spending of funds for their own operations did not support these principles. This was particularly noted in Delegation Office expense, Representation expense allowance and Official expense allowance. These expenses accounted for 39% of the Congress budget for FY 2007. The process used by the Congress in appropriating its budget for Delegation Offices allows for lump sum appropriations with no details. This is not transparent and led to expenditures that did not directly finance the operations of the Delegation Offices. In addition, most of the expenditures were not related to the Operation of the Delegation Offices, as required. Regarding Representation Funds, the total amount used is not transparent because the Senators increased their Representation Funds using funds from the Delegation Office budget and Official Expense Allowances. Furthermore, we found that the Senators are not following FSM laws regarding conflict of interest issues, use of affidavits, and travel authorizations.

Review of the FSM Embassy in Tokyo (FY 2005, 2006, and 2007) (Report No. 2008-04)



Photo 5. Exit Conference with the President on the Review of the FSM Embassy in Tokyo

Our objectives were to determine whether 1) funds were disbursed in accordance with FSM laws and regulations, and 2) accounting and reporting of operating activities complied with the Financial Management Regulations. We found that the Embassy did not adhere to FSM laws and regulations, paying its FSM employees higher salaries and higher living allowances than permitted by regulations or than authorized by Congress. Employees also received a Foreign Service Premium that nearly tripled their salaries, but that had little relevance to a cost of living differential for which it was intended and was based on a rate that DF&A was not able to substantiate or justify considering that nearly all of an employee's living expenses were already paid by the Embassy. We further found that the Embassy did not comply with budgetary and financial management requirements, overspending its budget authorization for FY 2005. Additionally, the incomplete and inaccurate accounting of Embassy expenditures at the DF&A resulted in misleading financial records and reports and, as a consequence, Embassy expenditures were understated in FY 2005 and overstated in FY 2006 and FY 2007.

Review of Customs & Tax Administrations (Report No. 2008-05)

In this review, our objectives were to determine whether 1) customs and tax revenue collections were reported and accounted for in an accurate and timely manner, 2) customs and tax revenue shares payable to the State governments were remitted accurately and timely, and 3) year-end accruals of customs and tax revenue and payables to the State Governments were accurate. We concluded that customs and tax revenue collections were not reported in a timely manner, revenue distributions to the Governments (four State Governments and the National Government) were not made in a timely manner, and there were discrepancies between Customs and Tax Administration (CTA) and Treasury records—a similar finding reported in a prior ONPA audit covering FY 2004. We did find that revenue collections were reported and accounted for in an accurate manner and revenue distributions were accurate. However, lack of timeliness in remittance of shares to the State Governments was noted in 30% of the remittances we sampled. Regarding CTA and Treasury records, a system is not in place to

periodically reconcile the customs and tax collections. Ultimately, CTA underreported the total amount of collections made in FY 2007.

Inspection of the Chuuk State Travel Section (Report No. 2008-06)

Our objectives were to ascertain whether the Travel Section and other concerned departments and offices complied with regulations in the processing of travel advances and expenses to prevent misuse, abuse, and irregularity in the use of travel funds and whether the Travel Section collected travel advances in a timely manner. In our review, we found that these entities did not comply with regulations and either did not collect outstanding travel advances or did not do so in a timely manner. Due to weak enforcement of collections, the total outstanding travel advances was increased by more than 55% in one year. In addition, the aging of travel advances due resulted in the decision to write-off overdue accounts amounting to \$119,364.

Compliance Investigation Division



Photo 6. CID Staff (L-R): Fletcher Poll, Sophia Pretrick and Kelly Samuel

The Compliance Investigation Division (CID) is the second of the two Divisions established by the ONPA to conduct its work. CID has two primary investigation functions, administrative and criminal. CID works to identify systems and accountability weaknesses in the Nation's financial administration and gathers evidence of criminal activity for criminal prosecutions in the courts. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice. Refer to Appendix III, for the general and qualitative standards for investigations.

Complaints received by the Public Auditor are subject to a Preliminary Inquiry, the first of an internally-developed two-tier system, to determine facts that would qualify the complaint for

CID action, facts such as jurisdiction, whether there is reasonable cause to suspect that breaches of the FSM Financial Management Regulations have occurred, or a criminal offence has been committed. In the Investigation, the second of the two-tier system, CID explores the allegation and any administrative, managerial or criminal issues that might be uncovered and investigates whether National Government financial management regulations, financial management policy, appropriate administrative procedures, or aspects of the criminal code have been breached. One case example highlighting these activities is Criminal Case No. 2008-2500 (FY 2008) which was filed with the FSM Supreme Court in Kosrae. The case involved the management and administration of the National Aquaculture Center in Kosrae. CID's investigation led to a charge of two counts of theft against each of the defendants in the case and involved about \$32,000. The case is currently pending a trial date.

During FY 2008, CID handled 27 cases, 16 of which were carried over from prior years. As indicated in the following table, the number of cases CID referred to the Department of Justice for prosecution increased from two in FY 2007 to nine in FY 2008.

Table 2: CID Cases FY 2008

Description	Quantity
Open Cases	11
Carried over open cases	16
Referred Cases to DOJ	9
Closed Cases or Cases Referred for Administration Action	4
Active cases at close of FY 2008	14

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 and to facilitate and promote the professionalism and enhancement of law enforcement. Participation in HOLEA has resulted in successful investigative collaboration and support between member States and other National law enforcement agencies.

FY 2008 CID cases, the allegation, source, and CID findings are presented in the following table.

Table 3: FY 2008 CID Case Discussions

Case Number	Allegation	Source of Request	Findings
CID-04-005	Misappropriation of CIP fishing project funds	Concerned citizen	Funds were allocated for a municipal fishing project involving \$400,000. Fraudulent documents were used. Matter referred to DOJ for review and appropriate action.
CID-05-015	Theft and misappropriation of dispensary funds	Concerned Citizen	Findings showed that funds in excess of \$6,000 were diverted for personal use and dispensary was never constructed. Matter referred to DOJ for review and appropriate action.
CID-06-003	Theft and misuse of the Secondary Nutrition Program	DOI/OIA	Findings showed missing and unaccounted food stuff worth approximately \$300,000 Matter referred to DOJ for review and appropriate action.
CID-07-004	Collusion and violation of bidding procedures involving school supplies	Audit Referral	Investigation showed appearance of conflict and collusion between a government official and a vendor. Matter referred to DOJ for review and appropriate action.
CID-07-005	Contract fraud involving marine park	Audit Referral	Findings showed contract breach and conflict of interest. Referred to DOJ for proper disposition.
CID-07-008	Mismanagement of funds involving farm road	Audit Referral	Findings showed purchased items were not delivered. Matters referred to DOJ for review and appropriate action.
CID-07-011	Theft of program funds	Departmental Referral	Investigations showed approximately \$30,000 were embezzled by management. Case referred to DOJ for review and appropriate action.
CID-07-012	False claim	Departmental Referral	Showed fraudulent declaration of import goods to avoid correct tariff
CID-08-002	Tax evasion and Money Laundering	Concerned Citizen	Findings showed underreporting of gross revenue. Referred to DOJ for review and appropriate legal action.
CID-07-006	Misuse of project funds	Audit Referral	Allegation disproved, project funds accounted for.
CID-06-002	Theft of government property	Internal Referral	Allegation disproved, property accounted for.

CID cases sent to DOJ for review, advice and/or appropriate legal action, and still pending as of the end of the year, are aged and presented in the table below. As shown in the table below, of the 11 cases referred to DOJ, four were referred more than two years ago. The statute of limitation could potentially run out if actions are not speedily taken on these matters.

Table 4: Aging of pending cases sent to DOJ as of September 30, 2008

Case Number	Allegation	Date Referred	Length of Time Since Referral			
			Less than 1 year	1 to 2 yrs.	2 to 3 yrs	3 years and over
CID-04-003	Conspiracy and theft of fishing funds	3/8/05				X
CID-05-007	Theft and embezzlement from fishing corporation	3/30/05				X
CID-03-016	False damage and crops claim	5/16/06			X	
CID-04-001	Conflict of Interest and attempted fraud	10/20/06			X	
CID-05-011	False travel claim	5/2/07		X		
CID-07-005	Contract fraud involving marine park	3/10/08	X			
CID-07-004	Collusion and violation of bidding procedures involving school supplies	3/10/08	X			
CID-07-012	False claim	2/27/08	X			
CID-06-003	Theft and misuse of the Secondary Nutrition Program	7/1/08	X			
CID-04-005	Misappropriation of CIP fishing project funds	7/4/08	X			
CID-08-002	Tax evasion and money laundering	9/10/08	X			

Single Audits



Photo 7. Single Audit Specialist, Christina Elnei

FSM National and State Governments are required to have their general purpose financial statements audited annually, under the Compact of Free Association agreement between the FSM and the United States of America. Audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position. This work is done under OMB Circular A-133.¹ Achieving the Compact's requirement on single audit is very critical and the fund donors must know how their financial assistance was spent and what it was used for in the FSM. The decision-makers within the FSM need current financial data in order to make sound decisions. The ONPA has full management responsibilities for ensuring that this requirement is met. Ms Christina Elnei is the ONPA's Single Audit Specialist, responsible for this oversight.

Deloitte & Touche Single Audits

Deloitte & Touche, LLP is the outside contractor handling the bulk of the single audit work requirement. This firm has been awarded an audit contract every year since the inception of the Compact of Free Association in 1985.

The highest ranking that a government or entity can receive in the financial audit is an unqualified opinion. For FY 2007 (opinions that were issued before July 1, 2008) 21 opinions were issued, 18 Unqualified and 3 Qualified. All audits for the FSM National and State governments were completed on time. An increasing number of audited entities are receiving an Unqualified Opinion. The following table presents the results of the Single Audits since 2002.

Table 5: Single Audit Opinions Issued 2002 through 2007

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.

Government or Entity	2002	2003	2004	2005	2006	2007
FSM National Government	Q	Q	Q	Q	Q	Q
Chuuk State Government	Q	Q	D	D	D	Q
Kosrae State Government	Q	Q	Q	Q	UQ	UQ
Pohnpei State Government	Q	Q	Q	UQ	UQ	UQ
Yap State Government	Q	Q	Q	Q	Q	Q
College of Micronesia	X	X	UQ	UQ	UQ	UQ
Coconut Development Authority	UQ	UQ	UQ	UQ	UQ	UQ
Chuuk State Public Utility Corporation	Q	D	D	D	D	D
Chuuk State Health Care Plan	X	X	UQ	Q	Q	UQ
FSM Development Bank	UQ	UQ	UQ	UQ	UQ	UQ
FSM Social Security Administration	UQ	UQ	UQ	UQ	UQ	UQ
FSM Telecommunication Corporation	UQ	UQ	UQ	UQ	UQ	UQ
Kosrae Utilities Authority	UQ	UQ	UQ	UQ	UQ	UQ
MiCare Plan, Inc.	X	X	X	Q	Q	UQ
Micronesia Petroleum Corporation	UQ	UQ	UQ	UQ	UQ	UQ
National Fisheries Corp	Q	Q	D	D	D	NC
Pohnpei Fisheries Corp	UQ	UQ	X	X	UQ	UQ
Pohnpei Housing Authority	X	X	X	X	UQ	UQ
Pohnpei Port Authority	Q	Q	Q	UQ	UQ	UQ
Pohnpei Utilities Corp	UQ	Q	UQ	UQ	UQ	UQ
The Diving Seagull, Inc.	X	X	X	UQ	UQ	UQ
Yap State Public Service Corporation	UQ	UQ	UQ	UQ	UQ	UQ
Yap Visitor's Bureau	X	X	X	X	X	UQ

Key:

UQ = Unqualified Opinion, the financial statements are reasonably correct

Q = Qualified Opinion, there are some reservations

D = Disclaimer, the auditor could not form, and consequently refuses to present, an opinion

X = No audit performed

NC = Not completed by deadline

Since 2002, seven entities have consistently received an Unqualified Opinion in their single audit—the Coconut Development Authority, FSM Development Bank, FSM Social Security Administration, FSM Telecommunication Corporation, Kosrae Utilities Authority, Micronesia Petroleum Corporation, and Yap State Public Service Corporation. The College of Micronesia and the Diving Seagull, Inc. have consistently received an Unqualified Opinion beginning with their first single audit in 2004 and 2005 respectively. The Pohnpei Utilities Corporation received an Unqualified Opinion in their past four single audits. The Pohnpei State Government and Pohnpei Port Authority received Unqualified Opinions in their past three single audits.



Photo 8. Public Auditor Haser Hainrick (*center*) with Deloitte and Touche staff, Daniel Fitzgerald (*right*) and Simao Iehsi (*left*)

ONPA Outsources Additional Single Audits

In an effort to maximize ONPA in-house audit resources and to increase the number of firms auditing in FSM, the Public Auditor authorized the outsourcing of financial audits for Caroline Island Air, Inc. and for a program funded by the Asian Development Bank. The main objective of a financial audit is to express an opinion on the fairness of the financial statements of the audited entity. FSM Government is better-served when ONPA resources are directed at performance, compliance, and inspections audits and reviews whose results can be utilized in making sound decisions regarding the nation's resources.

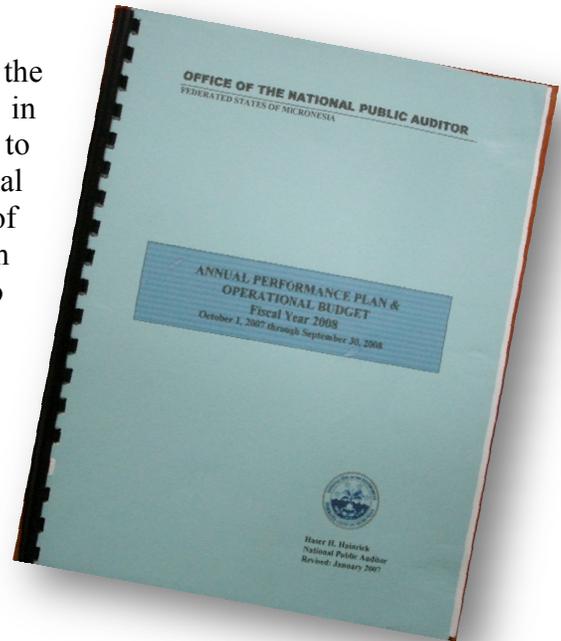
J.E. Fortenberry, III, P.C. audited the financial statement of the Caroline Islands Air, Inc and issued two reports, one for the timeframe covering 2004 and 2005 and another for the timeframe covering 2006 and 2007. For the 2004-2005 timeframe, the auditor issued an Unqualified Opinion for the financial statements and identified no material weaknesses or reportable conditions identified that are considered to be a material weakness. In the second report, an Unqualified Opinion was issued with no material weaknesses identified. However, the auditor identified significant deficiencies in the internal control considered to be a matter of material weakness.

RC Holsinger Associates, P.C. audited the statement of account of the FSM Asian Development Bank Loan 1874-FSM (SF) for the year ending September 30, 2007. They did not identify any deficiencies in internal control over financial reporting that they considered to be material weaknesses. The opinion issued was unqualified.

OTHER MATTERS OF INTEREST

Individual Annual Performance Plans Prepared for ONPA Main Office in Pohnpei and the Chuuk Field Office

FY 2008 Annual Performance Plans were prepared by the Public Auditor and his staff for the ONPA Office in Palikir and the Chuuk Field Office and were submitted to His Excellency Manny Mori, President, FSM.² Annual Performance Plans are designed to broaden the focus of information currently being reported moving from performance inputs, activities and processes and into the areas of plans and results. Performance Plans present ONPA strategic goals and the requisite activities needed to achieve these goals. Each of the stated activities includes a measurable objective as well as outputs designed to indicate how progress is measured.



ONPA Annual Performance Plan

The ONPA plan has four strategic goals and each has corresponding activities, objectives, and outputs. The first strategic goal is improving the effectiveness of audit services by effectively monitoring Single Audits in order to achieve completion within nine months after the end of the year; increasing internal audit coverage for the National Government and its related agencies by conducting the greatest number of performance, compliance, and financial audits possible; and, obtaining resolution of the reported findings and questioned costs in all audits.

The second strategic goal is establishing effective deterrence against and investigation of white collar crime reported through tips, allegations, and referrals; strengthening the capacity level of fraud and financial investigators; and implementing deterrent activities such as education campaigns for the public and in schools.

The third strategic goal is to enhance transparency in the public sector by disseminating audit results to a broader audience and launching an awareness campaign by publishing audit results in local media and websites.

The fourth strategic goal is to strengthen capacity building for ONPA staff by implementing strategic planning exercises; providing in-house training programs; and, providing 'best practice' audit training.

Chuuk Field Office Annual Performance Plan

² The Annual Performance Plan is submitted pursuant to Section 103 of Title 55 of the FSM Code.

For the Chuuk Plan, three strategic goals were established and each has corresponding activities, objectives, and outputs. The first strategic goal is to increase and improve audit coverage in Chuuk by maintaining a fully functional ONPA office in Chuuk State with adequate staff numbers and budget necessary to finance operations; and, increasing audit coverage of Compact funds, Federal Program grants and FSM Congressional appropriation.

The second strategic goal is to establish effective deterrence against, and investigation of white collar crime by investigating tips, allegations, and referrals and strengthening the capacity level for new auditors.

The third strategic goal is to enhance accountability and fiscal transparency in the public sector by disseminating audit results to a broader audience such as websites and local media; and by launching a public awareness campaign to heighten public understanding.

Key US Congressional Committee Staffers visit ONPA to Observe Progress in the Implementation of the Amended Compact

A team of key staffers from the US Senate Energy and the US House of Representatives Natural Resources Committees came to FSM for first-hand observation on the implementation of the Amended Compact. This move signals the importance that the US Congress attaches to the successful implementation of the Amended Compact, particularly to financial assistance and programs. The Amended Compact also emphasizes effective auditing and fiscal control mechanisms. The team will report their findings regarding implementation to the US Congress.



Photo 9. Public Auditor Haser Hainrick with US Congressional Committee Staffers

Prior reports, including those from the Government Accountability Office, indicate that the FSM Government is plagued with poor management and planning which leads to a waste of resources. The FSM Government needs to implement strong and effective monitoring

mechanisms on Compact implementation and on FSM performance. The team of staffers was receptive to and appreciative of learning the process of ONPA operations.

Mr. Hainrick expressed his appreciation to the team and especially for sharing the Congressional perspective on FSM's current efforts in implementing requirements of the Amended Compact. The team members included Mr. Allen Stayman, Majority Staff, Senate Energy Committee, who was formerly the US Chief Negotiator for the Amended Compact; Mr. Joshua Johnson, Minority Staff, Senate Energy Committee; Mr. Richard P. Stanton, Republican Staff Director, Natural Resources Subcommittee on Insular Affairs; and Mr. Brian Modeste, Counsel, Natural Resources Subcommittee on Insular Affairs. The team was accompanied by Department of Interior, Office of Insular Affairs staff Mr. Victor Hobson Jr. from the US Embassy in Kolonia and Ms Jane Chigiyal from FSM Department of Foreign Affairs.

Joint Economic Management Committee Meets in Washington, D.C.

At the Joint Economic Management Committee (JEMCO) meeting, the FSM and the US were able to reach consensus on continued methods for improving both delivery and expenditure of Compact Funds. Three resolutions were adopted seeking closer cooperation between the FSM National Government, the four State Governments, and the US JEMCO Resolution 2008-03 addresses ONPA audit findings.

JEMCO Resolution 2008-03 Audit Findings and Questioned Costs

RESOLVED that all program managers, chief executives and financial officials will work to resolve all audit findings and questioned costs raised in the FY 2007 Single Audits.

RESOLVED further, that the Office of Insular Affairs continue its work with all Federal grantor agencies to develop an aggressive program with FSM officials to resolve audit findings and questioned costs, and to recover disallowed costs when warranted.

RESOLVED further, that the FSM Office of the Public Auditor report to JEMCO by July 1, 2009, on the progress that US grantor agencies and the FSM governments have made to resolve audit resolution matters and questioned costs identified in the FY 2007 Single Audits.

ONPA Proactive in Chuuk State Quarterly Reviews

The US Department of Interior's Office of Insular Affairs directed that DOI cash receipts and expenditures of the Chuuk State Government be audited quarterly. This came as a component of the Reform Plan which was the product of a collaborative effort between OIA, the FSM National Government, and Chuuk State. The objective of the Reform Plan is to improve the administrative set up and service delivery of the Chuuk State Department of Administrative Services. To implement the Reform Plan, OIA issued a grant award to the FSM National Government and allocated \$100,000 under contractual services for expenses related to the quarterly audits. To accomplish this quarterly audit requirement, ONPA amended its contract

with Deloitte & Touche for the Single Audits for FY 2006 to FY 2008 to incorporate the FY 2007 quarterly audits for Chuuk State. ONPA has taken a leadership role in the performance and supervision of these new quarterly reviews.

Further, JEMCO resolution 2008-01 requires the FSM National Government to secure the service of a professional audit firm to provide quarterly reports on the financial conduct and internal control environment of Chuuk's Department of Administrative Services and a contract for the FY 2009 audits will be awarded. ONPA will continue its role in the performance and supervision of these quarterly reviews.

Public Auditor and Staff Participate in Peer Reviews



Photo 10. Public Auditor Haser Hainrick and Moses Russel on Palau OPA Peer Review team

The Public Auditor made the determination to involve ONPA staff in peer reviews in other OPA locations outside of FSM, explaining that participation in peer reviews affords ONPA staff the excellent opportunity to work with other auditors and to enhance their auditing skills derived from reviewing and studying the processes, techniques and methodologies used by the OPA under review. Furthermore, the Public Auditor requires that, when they return, all senior staff involved in peer reviews conduct a presentation to the rest of the staff to share the skills acquired. Mr. Hainrick has decided that all senior staff will become involved in peer reviews.

Peer Review in Palau

Public Auditor Haser Hainrick led the team which conducted the Palau OPA peer review from July 28, to August 1, 2008. ONPA Senior Auditor Moses Russel participated as an observer. Every three years, members of the Association of the Pacific Islands Public Auditors (APIPA) of which Palau OPA is a member, must undergo an external quality control review to assure compliance with governmental auditing standards.

The team reviewed Palau OPA past audit engagements, reports, and working papers to ensure that an adequate internal quality control system was in place. The Palau OPA issued nine performance audits and an attestation engagement between June 2005 and December 2007 and the team reviewed eight of these including the attestation. Moreover, the team compiled a draft report on its findings and provided recommendations.

Peer Review in Commonwealth of Northern Marina Islands (CNMI)

Michael Henry, Auditor III, was part of the team that conducted the Association of Pacific Islands Public Auditors' external quality control peer review of the CNMI Office of the Public Auditor from March 31 to April 4, 2008. As a member of APIPA, CNMI must undergo an external quality control peer review every three years to establish reasonable assurance that it has adequately met the government auditing standards that are promulgated by the Comptroller General of the US Government Accountability Office. The team reviewed reports, audits, and engagements and analyzed procedures, methodology and evidences used in OPA's conclusions and recommendations.

FSM ONPA Rated Higher than the Marshall Islands in Government Transparency

In an editorial in the *Marshall Islands Journal*, it was reported that FSM is doing a much better job in government financial transparency than the Marshall Islands. Government financial transparency means giving citizens relatively easy and timely access to financial information about their national government. FSM ONPA exceeds the Marshall Islands in three areas of government financial transparency.

First, the FSM Public Auditor has created an ONPA internet website on which every ONPA audit is posted thus can be readily obtained by everyone who has access to a computer with internet capabilities. Second, all FSM ONPA audits are quickly posted to the website upon completion and transmission to the audited entity. Third, FSM ONPA conducts performance audits and produces reports in areas including government travel, customs and tax collection, and the operations of the FSM Congress. This is in addition to its routine financial audits of government departments and agencies.

Transparency, according to the editorial, does not happen by itself. It takes action and a commitment to the principle that the public has the right to know how the government is spending taxpayers' money and to receive this information in a timely manner.

Tracking Information about Visits to ONPA Website

In January 2008, ONPA began tracking data about visitor use of the ONPA website, data such as the number of new and repeat visitors, where the visitor is located, and what they viewed while on the website. Using Google Analytics, data has been collected for the past 11 months. This tracking will give ONPA critical information about website functionality and, in tracking what visitors view, can be one indicator of transparency in government. For the 11-month period during which data has been maintained, there were more than 1,500 visits to the ONPA website with an average of just over four web pages viewed per visit. The visitors came to the

ONPA website from more than 70 countries and territories with the highest number of visits from the US and Micronesia. As we progress in this endeavor, we anticipate having data that can be reported by fiscal year.

ONPA Office Building Extension Completed



Photo 11. (Right side of the building): Recently completed ONPA Office Extension for the CID Division

In April, 4TY Construction Company completed the 800-square foot main office building extension and the Compliance Investigation Division moved into this new space. The area is nearly four times larger than the former CID section of the building. The annex consists of the Chief Investigator's room, an interview room, an evidence room and two working stations for Investigators. In addition, the evidence room will accommodate a server for the entire office. Moving CID into this bigger workspace underscores the importance placed on the work of the CID.

ONPA Hotline

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

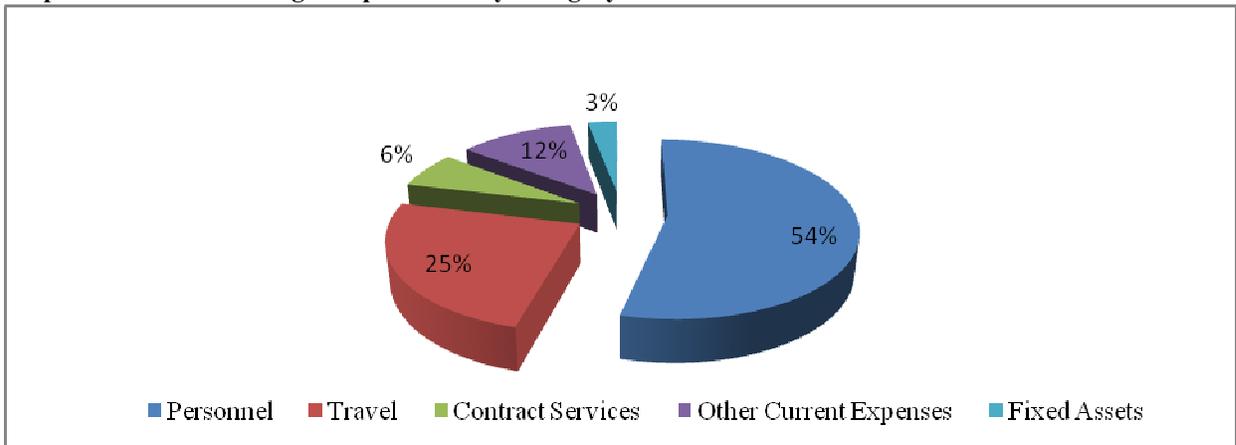
The Hotline number is 691-320-6768, and is available twenty-four hours a day, every day of the week, by answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA also offers an on-line complaint form. The form can be found at the ONPA website, <http://www.fsmopa.fm>.

OFFICE ADMINISTRATION

Budget

The ONPA budget expenditures for FY 2008 totaled \$757,141. This amount includes \$634,360 (84%) and \$122,780 (16%) expended at the main office in Palikir and the field office in Chuuk, respectively. Personnel costs represent the largest budget expenditure item and accounts for \$409,423 (54%) of the total budget expenditures. The remaining \$347,718 of the total budget was divided between travel costs, other current expenses, contractual services and fixed assets.

Graph 1: Percent of Budget Expenditure by Category for FY 2008



There was an 11 percent reduction in total budget expenditures for FY 2008 when compared to FY 2007. However, over the past seven years, budget expenditures increased by 45 percent and the largest increase occurred in FY 2007 with the opening of our new field office in Chuuk State.

Graph 2: Total Budget Expenditures by Fiscal Year



A breakdown of the total budget expenditures by category provides a comparison of expenditures over the seven-year period. Personnel costs increased by 26 percent and represented the largest expenditure item since 2002, while other budget categories changed by smaller margins.

Table 6: Budget Expenditures by Category and Fiscal Year

Budget Category	Fiscal Year						
	2002	2003	2004	2005	2006	2007	2008
Personnel	\$326,797	\$326,797	\$331,209	\$331,209	\$329,709	\$374,803	\$409,423
Travel	128,200	128,200	103,413	126,659	127,590	227,959	186,808
Contract Services	39,000	42,000	33,000	45,000	43,053	119,917	49,734
Other Current Expenses	24,000	26,000	34,930	153,160	66,651	94,642	88,458
Fixed Assets	6,000	1,000	3,000	9,000	11,797	31,074	22,718
Totals	\$523,997	\$523,997	\$505,552	\$665,028	\$578,800	\$848,395	\$757,141

A breakdown of FY 2008 budget expenditures for the Main Office in Pohnpei and the Chuuk Field Office also provides a comparison of the actual budget expenditures against the approved budget.

Table 7: Approved Budget vs. Budget Expenditures by Category for Fiscal Year 2008

Budget Category	Main Office in Pohnpei		Chuuk Field Office	
	Approved Budget	Budget Expenditure	Approved Budget	Budget Expenditure
Personnel	\$468,040.00	\$354,867.58	\$107,116.00	\$54,555.42
Travel	162,027.00	159,009.45	20,000.00	27,798.55
Contract Services	95,000.00	39,785.36	25,400.00	9,948.64
Other Current Expenses	69,860.00	73,913.11	21,140.00	14,544.89
Fixed Assets	6,800.00	6,784.88	700.00	15,932.99
Totals	\$801,727.00	\$634,360.38	\$174,356.00	\$122,780.49

Training Classes and Professional Development

The Public Auditor recognizes and supports 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.

Training

Anti-corruption Fraud Training

Investigator William Billimon represented ONPA at a two-week seminar on anti-corruption in Singapore. The course, held in the fall of 2007, targeted fighting corruption across the Pacific Island Region.

DOI On-the-Job Training

Ms Yolanda Leben, Auditor II, completed a 60-day OJT training project with the US Department of the Interior in New Mexico. The project involved determining if employees and staff who had obtained positions at a Native American boarding school had the required background beforehand.

Fraud Training



Photo 12. ONPA Staff at Procurement and Financial Assistance Fraud training on Guam

Public Auditor Hainrick along with nine ONPA staff completed a Procurement and Financial Assistance Fraud training class on Guam, in November, 2007. The costs for attending the course were paid for by a technical training grant awarded to ONPA earlier this year from the DOI Office of Insular Affairs.

Joint Professional Training

Public Auditor Hainrick and Michael Henry, Auditor III participated in a Joint Professional Training Course sponsored by the AGA Guam Chapter and the Guam Society of CPAs, in January. Among the topics covered were Service Efforts and Accomplishments with a focus on Performance-Based Management Reporting.

Graduate Certificate Course in Fraud and Financial Investigation

Investigator Fletcher Poll completed a course in Fraud and Financial Investigation and received a Graduate Certificate from Charles Sturt University in Australia. Chief Investigator Sophia Pretrick is also enrolled in the Graduate Program and both she and Mr. Poll are undertaking a second year of training aiming for a Graduate Diploma.

Third Year Degree Program in Accounting at COM-FSM



Photo 13. Auditor I, Julinida Weital received Accounting Third Year Achievement Certificate at COM-FSM graduation

Auditor I, Ms Julinida Weital completed her part-time courses in Third Year Accounting and was awarded a Third Year Achievement Certificate during her graduation at the College of Micronesia-FSM on December 20, 2007. Ms Weital successfully completed her program as part of her Individual Development Plan (IDP) as required under the ONPA Strategic Plan.

DOI On-the-Job Investigation Training



Photo 14. ONPA Chief Investigator Sophia Pretrick with the Inspector General Earl Devaney

CID Chief Investigator Sophia Pretrick attended a 60-day OJT training program at the Department of the Interior, Office of the Inspector General in Washington D.C. and Virginia, from March to May, 2008. The training presented the latest techniques and procedures of audits and investigations and covered topics including witness interviews, gathering and analyzing documents, managing cases, and investigation procedures and methodologies. During her OJT, Ms Pretrick began developing two projects, one, a Fraud Awareness Program and the other, a Contractor's Database. Completion of these projects and full implementation of the programs is scheduled to take place in FY 2009.

Orientation Training

Ms Evelyn Paul, recently hired Chuuk Field Office Auditor III, completed a four-week orientation in Palikir, in May. The training provided Ms Paul the opportunity to learn about job procedures, instructions, regulations and policies, as well as becoming familiar with manuals pertinent to her job as an auditor.

DOI On-the-Job Audit Training

On September 11, 2008, Ms Erwihne David, Auditor II, also completed her 60-day OJT at the DOI/OIG, in Denver, Colorado. She participated in an audit engagement on Management and Preservation of Arts & Artifacts. As part of her OJT, she conducted audit survey and field work at three different agencies within the DOI.

Audit Training Course in Palikir



Photo15. FSM National and Pohnpei State auditors attending audit training courses at COM-FSM MITC Conference Room

USDA Graduate School and Pacific Island Training Initiative (PITI) funded a week-long audit training for the ONPA staff. It was held at the COM-FSM National Campus in Palikir from September 1 to 5, 2008. There were two audit courses presented during the training week, Audit Evidence & Working Papers and Writing Value-added Audit Reports. Ms. Betsy Cohn from USDA Graduate School was the instructor.



Photo 16. Participants at the USDA Graduate School sponsored audit training courses coordinated by Ms. Betsy Cohn

Compliance Division Initiates Physical Training Program



Photo 17. ONPA staff on the walk during the physical exercise at the back road behind the National Capitol Complex

The Public Auditor approved a six-week exercise training program initiated by CID. The two-days a week program began September 30. The primary objective of the program is to improve exercise motivation and the well-being of staff and to reduce stress and anxiety. Program results and incentives will be reported in our FY 2009 annual report.

Conferences and Peer Reviews

PRAI Consultant Visits ONPA

ONPA Staff met with Pacific Regional Audit Initiative (PRAI) Consultant, Ms Kerry McGovern, Public Audit Expert and consultant from the Asian Development Bank. Ms McGovern visited the ONPA in November 2007. Her one-week long visit is part of the PRAI's initiative program to further assist the Supreme Audit Institutions (SAIs) member countries. She discussed and obtained data pertinent to identify specific areas where regional support could be helpful to SAIs members.



Photo 18. Administrative Officer Mr. MacKenzie Reynold and Ms. Kerry McGovern during her visit

Two Conferences - Joint APIPA/DOI-IG Conference and APIPA and Island Government Finance Officers Association

Public Auditor Hainrick attended two conferences December 4-6, 2007, in Hawaii. Staff auditor Eric Elias and Investigator Kelly Samuel accompanied Mr. Hainrick. In the first conference, a joint meeting with APIPA Principals and the DOI-IG, participants reported on the successes and problems experienced by each member country, and attended workshops on 'Effective Collaboration with Local IG's/Public Auditors' and 'Leadership Development'.

In the second conference, a joint meeting between APIPA members and the Island Government Finance Officers' Association, participants shared information about strategic goals of the Office of Insular Affairs and the roles of the Finance Offices and Public Auditors in achieving these goals. ONPA expenses were paid for by the DOI-IG as the host and organizer for this annual event.

SPASAI Auditors General Congress



Photo 19. The 11th SPASAI Auditors General Congress in Cook Islands

Public Auditor Haser Hainrick attended the 11th SPASAI Auditors General Congress held in Raratonga, Cook Islands April 14-18, 2008. This year's theme was Improving Accountability and Transparency in Public Sector Auditing which included a series of presentations on the Role of a Public Accountants Committee, Ensuring Audit Recommendations from Audit Reports are Implemented, and, Strengthening Pacific Accountability: Regional Responses to National Challenges. Public Auditor Hainrick's attendance was funded by the Asian Development Bank.

Peer Review Participation

Michael Henry, Auditor III, participated in a the APIPA's external quality control peer review of the CNMI Office of the Public Auditor, March 31, to April 4, 2008. As part of the team, Mr. Henry reviewed CNMI OPA's quality control system over the development of its audits,

and analyzed procedures, methodology and evidences used in its conclusions and recommendations.

Fourth Asia Pacific Audit & Governance Summit



Photo 20. Michael Henry attended 4th Asia Pacific Audit & Governance Summit in Kuala Lumpur

Public Auditor Hainrick and Auditor III Michael Henry attended the Fourth Asia Pacific Audit & Governance Summit in Kuala Lumpur, June 15-18, 2008. The Summit, designed for independent top-level directors and chief auditors from across the Asia Pacific Region, covered topics such as Risk, Audit, Control & Governance Role in Strategic Planning, The Risks & Control Challenges of Overseas Expansion, Enterprises Risk Management-How we did it & the Payback we are Getting and Live Audit Committee Simulation: Improving the Audit Committee and Internal Audit Partnership. Co-funding for ONPA was received from the Columbus Circle Group, Chairman Navin Pasrich.

Pacific Emerging Issues Conference

Investigators Kelly Samuel and William Billimon attended the Pacific Emerging Issues Conference in Guam, July 7-11, 2008. The conference focused on management, accountability and strategic planning issues underlining the financial hardships and challenges in our island region.

Promotions, New Hires, and Departures

Sophia Pretrick was promoted to CID Chief Investigator in June. She is the first FSM citizen to be elevated to the position of the Chief Investigator. Ms Pretrick served as Acting Chief Investigator for six months supervising three investigative auditors while handling a full caseload. Her performance has been highly recognized among her colleagues and the ONPA staff. In 2005 she was presented with the Superior Public Service Employee Award for her exemplary performance. In addition, she is the first FSM citizen to ever successfully pass, at first sitting, the Uniform Examination for Certified Fraud Examiner. This in-house promotion

demonstrates an achievement in ONPA's strategic move in capacity building. Providing development opportunities and localizing key positions are critical elements in the ONPA Strategic Plan.



Photo 21. Newly hired Auditor III, Evelyn Paul

Ms Evelyn Paul was recruited by ONPA as Auditor III for the Chuuk Field Office. Ms Paul, a citizen of Chuuk State, earned a four-year degree in Business Administration from Chaminade University of Honolulu. Ms Paul served as a Loan Officer at the FSM Development Bank in the Chuuk Office, Director of Budget, and Acting Director of Finance. She also served as the Vice-chairwoman for Chuuk State Financial Control Commission and represented Chuuk on the FSM Compact Management Board.

Mr. Gillian Doone resigned as Auditor III at the ONPA Chuuk Field Office to assume the position of Chuuk State Government Director of the Department of Administrative Services. Mr. Doone's strong desire to help Chuuk recover from its financial challenges was one of the factors in his decision to work at the ONPA Chuuk Field Office. While at ONPA, Mr. Doone was zealous and courageous in finding and reporting inefficiencies and in recommending steps for improvement.



Photo 22. ONPA staff bidding farewell to Ann Walker on Nahlap Island

Ms Ann Walker, ONPA Audit Manager, returned to San Francisco in October 2007, after completing her two-year contract. ONPA produced the highest number of audits ever during Ann's tenure as Audit Manager. Ms Walker integrated the story conference approach as an integral component of the audit thus improving the audit process. She also performed superbly in the area of on-the-job training, sharing her audit and management skills with ONPA staff.



Photo 23. ONPA staff bidding farewell to Donald Yamada at Niho Marine Park

Don Yamada, Audit Supervisor, completed his two-year contract in August 2008, and returned home to California. Don's audit skills were exemplified in our Review of the FSM Permanent Mission to the United Nations, and the Inspection of the FSM Embassy in Tokyo.

APPENDICES

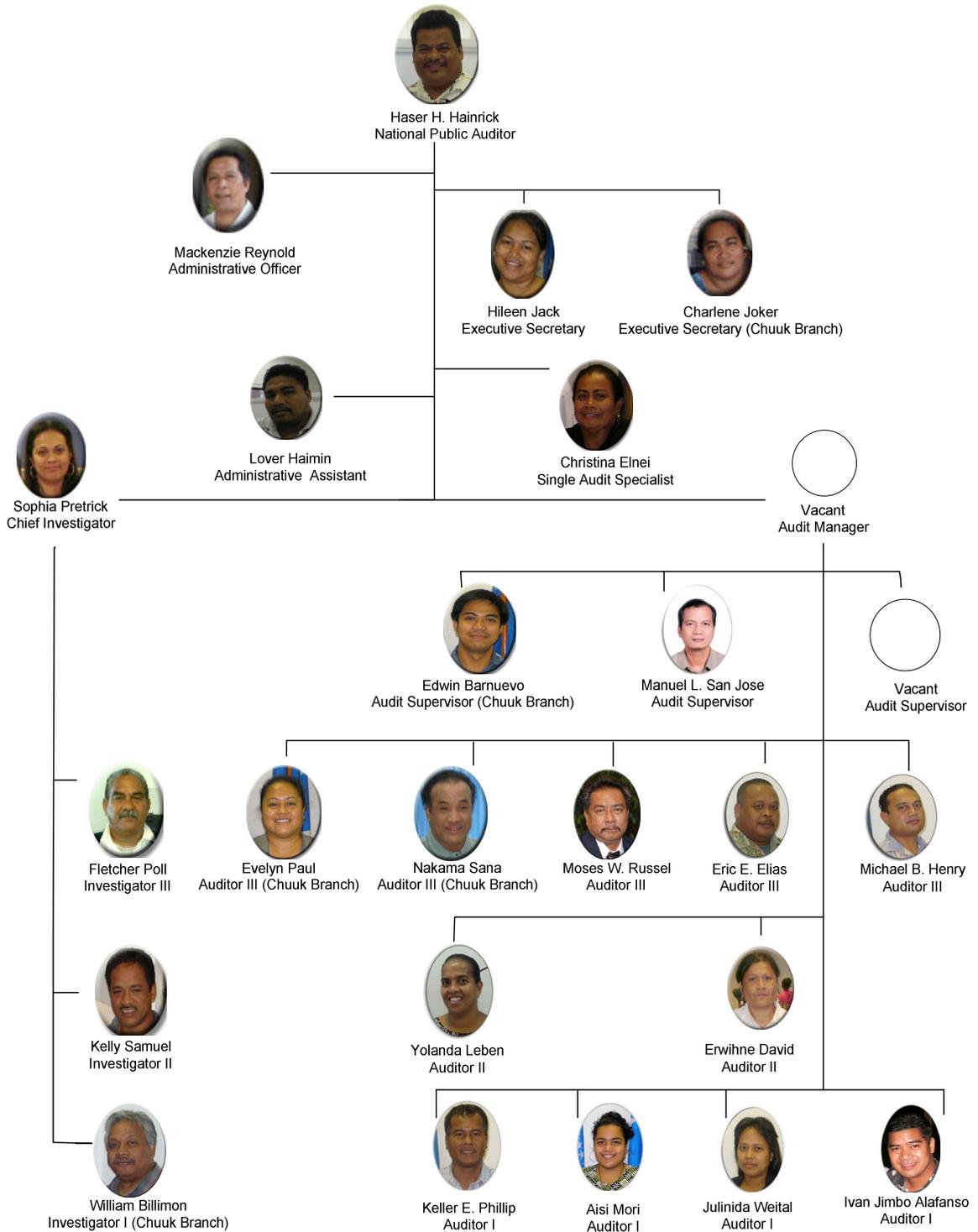
Appendix I: Powers of the Office of the Public Auditor and Duties and Responsibilities

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

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

- 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,
- 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,
- perform audits as otherwise specifically required by the statutes,
- have the discretion to perform audits, or assist in the performance of audits, upon request by the states,
- 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,
- 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,
- 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,
- 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. Organizational Chart: Office of the National Public Auditor as of September 30, 2008.



Appendix III: Audit and Compliance Division Operations

Performance Audits

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

- a) Types of audits be performed:
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.
- b) 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.
- c) 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.

Any given audit or review may include one or more objectives in the reasonable exercise of the Public Auditor's discretion. The Public Auditor shall perform audits in conformity with generally accepted audit standards as established by the American Institute of Certified Public Accountants.

Quality Standards for Inspections within Performance Audits

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.

Compliance Investigation Division

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

General Standards

General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.

Qualifications - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.

Independence - In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.

Due Professional Care - Use due professional care in conducting investigations and in preparing related reports.

Qualitative Standards

Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.

Planning - Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.

Execution - Conduct investigations in a timely, efficient, thorough, and legal manner.

Reporting - Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.

Information Management - Store investigative data in a manner allowing effective retrieval, referencing, and analysis

ONPA Passport Security Measures Audit Shows Flaws

By **BILL JAYNES**
The Kaselehlie Press

Palikir, Pohnpei - The Office of the National Public Auditor in Palikir, Pohnpei has released an Audit of Passport Security Measures covering the fiscal year 2006 and 2007 through January 2008. The audit section quotes a

said in his audit response, "I wish to state on a reasonable manner that the 'Draft' represent (sic) the views of the and not a total mul-division of

More on the ONPA Audit on Passport Security

Dear Editor:

In my response to ONPA I expressed my equal disappointment in their failure to respond to our urgent need of an audit which I took over the new year 2008. My wish was that the audit report would be published in the September 2007 issue of the Kaselehlie Press. However, the audit report was not published until the home office. IFONPA want to cite laws that possibly has been violated it should address the specific issues on the fraudulent activities, tampering, falsification of travel document, theft of government property.

PACIFIC ISLANDS REPORT

Pacific Islands Development Program/ With Support From Center for Pacific Islands Studies Hawai'i

AUDIT SHOWS WIDELY ABUSED TRAVEL PER DIEM, EXPENSE PAYMENTS

By Bill Jaynes

POHNPEI - An audit issued by the National Public Auditor that the Travel Fund

The Travel

Island Times

Public auditor's office review expected to receive high marks

BY ISLAND TIMES STAFF

The very office tasked to ensure that the government is efficient must undergo a periodic review process to ensure it adheres to established government accounting standards in the course of doing its difficult job.

The office of the Public Auditor, like its counterparts in the region, is subjected to such a process every three years.

Public

Chuuk State Audit - Same Problems, Different Year

By **BILL JAYNES**
The Kaselehlie Press

Chuuk, FSM - The Chuuk State audit for Fiscal Year 2006 which ended on September 30, 2006 is out. As reported in the Kaselehlie Press, the audit

tioned costs in 2005. It could be that the 2006 audit was spaced out

...Travel voucher abuse

had not filed travel vouchers by the 115 days later. Part of the problem was the US

ONPA said that current regulations don't require attendance certificates for participation in conferences but that without them it is difficult to tell with certainty that the funded travel cost was actually attended the seminar or conference.

People listed as computer training at a cost of \$5,000 that people listed as computer training have first basic know

By **BILL JAYNES**
The Kaselehlie Press

Palikir, Pohnpei - When the National Public Auditor issued an opinion last year that the function of Chuuk State Personnel Office has been

The Personnel Office has inadvertently abandoned its fiduciary responsibilities as the administrator and protector of the CSPSS Act signed into law on April 29, 1984. This situation has cast serious doubt

...Chuuk Personnel

continued from Page 1

The ONPA found that CSPSS Act was not enforced by the Personnel Office. Though ONPA chose a random employee record the Chuuk Department of Public Assistance

...Audit

continued from Page 1

mentioned in response to the 2005 audit as a fix for problems the State incurred during that year.

personnel office and demanded a

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MISSION STATEMENT

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

VISION STATEMENT

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