

**AUDIT OF THE ADB GRANT ASSISTANCE FSM: WENO WATER SUPPLY WELL
REMEDIATION PROJECT
REPORT NO. 2010-06**



**Haser H. Hainrick
National Public Auditor**



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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March 23, 2010

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

**RE: Audit of the ADB Grant Assistance FSM: Weno Water Supply Well
Remediation Project**

We have audited the accompanying statement of project account of the Asian Development Bank Grant Assistance Federated States of Micronesia financed by Japan Fund for Poverty Reduction (the Project) as of and for the year ended September 30, 2009. This financial statement is the responsibility of the Project's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2009, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2010, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Haser Hainrick
National Public Auditor

Cc: Mr. Francis Itimai, Secretary, Department of Transportation, Communications & Infrastructure

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Statement of Project Account
Year Ended September 30, 2009

Cash Receipts	
Grant Proceeds – Imprest Account	\$ <u>89,872</u>
Cash Disbursements	
Consultant Services	56,604
Bank charges	<u>21</u>
Total Cash Disbursements	<u>56,625</u>
Cash at end of year	<u>\$ 33,247</u>

See accompanying notes to this financial statement.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Notes to Statement of Project Account
September 30, 2009

(1) Organization

On July 17, 2008, the Asian Development Bank (ADB) has approved \$980,000 grant assistance as financed by the Japan Fund for Poverty Reduction (JFPR) to Federated States of Micronesia (FSM) National Government for the purpose of providing secure and safe water supply to the residents of Weno Island in Chuuk State. The accumulated drawn amount for this grant is \$89,872 as of September 30, 2009. The FSM National Government Department of Transportation, Communication and Infrastructure is the Executing Agency, and the Chuuk Public Utilities Corporation (CPUC) is to serve as the Implementing Agency and is responsible for carrying out of the Project, including authorization of payments to be made from the Imprest Account. The FSM National Government Department of Finance and Administration is responsible for the timely release of funds. The Imprest Account is required to be operated and liquidated in accordance with ADB Regulations. The accompanying statement of project account is prepared for the year ended September 30, 2009, and solely incorporates the activities of the Project.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements. Noncash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

As described above, this financial statement was prepared on the basis of cash receipt and disbursement, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cash

For the purpose of the statement of project account, the Project considers cash to be cash in deposit accounts. As of September 30, 2009, the carrying amount of the Project's total cash was \$32,247 which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009, the Project's deposit balance is insured by the FDIC.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Notes to Statement of Project Account
September 30, 2009

(3) JFPR Project Imprest Fund Account

A reconciliation of the JFPR Imprest Account to cash as of September 30, 2009, is as follows:

JFPR Imprest Account Bank Balance	\$	33,247
Outstanding Checks		<u>-</u>
TOTAL	\$	<u>33,247</u>

(4) Compliance with the Grant Covenants

Management is of the opinion that compliance with applicable grant covenants has occurred.



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March 23, 2010

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

RE: Audit of the ADB Grant Assistance FSM: Weno Water Supply Well Remediation Project

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying statement of project account of the Asian Development Bank Grant Assistance Federated States of Micronesia financed by Japan Fund for Poverty Reduction (the Project) for the year ended September 30, 2009, and have issued our report thereon dated March 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Project's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance with those requirements, which is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2009-01.

This report is intended for the information of the management of project account of the Asian Development Bank Grant Assistance Federated States of Micronesia financed by Japan Fund for Poverty Reduction.



Haser Hainrick
National Public Auditor

Cc: Mr. Francis Itimai, Secretary, Department of Transportation, Communications & Infrastructure

**FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)**

Schedule of Findings
September 30, 2009

Finding No. 2009-01 – No competitive bidding

Criteria:

In accordance with applicable procurement guidelines for contract with less than \$200,000, the borrower or ADB shall, among others, establish a shortlist of at least three firms and select the firm with the most appropriate qualifications and references based on the expression of interest.

Condition:

There was no competitive bidding conducted to hire a consultant for a period of 18 months. Total amount awarded was \$185,000.

Cause:

Misapplication of procurement criteria resulted in a single source procurement rather than competitive bidding. The Executing Agency allowed ADB to negotiate with the consultant and concurred with the contract without the bidding requirements.

Effect:

The Project is in noncompliance with applicable laws and regulation. No questioned cost occurs because the grantor agency has accepted the use of the project manager/specialist based on the letter of the ADB Senior Water and Sanitation Specialist, dated March 11, 2010.

Recommendation:

The Executing Agency should strengthen controls relating to compliance with relevant procurement procedures.

Auditee response and corrective action plan:

We were advised by the Asian Development Bank that direct hiring of the Project Manager was acceptable due to the urgent need to commence the Project in order to put water in the system on Weno. However, we will strengthen our controls in complying with relevant procurement procedures in the future as recommended.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Report No. 2010-06

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA Contact

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Acknowledgement

In addition to the contact named above, the following staff made key contributions to this report:

Eric Spivak, CIA, CGAP, Audit Manager
Edwin Barnuevo, CPA, CGAP, Audit Supervisor
Christina Elnei, Auditor Staff

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