

**AUDIT OF THE ADB LOANS 2099-FSM(SF) AND 2100-FSM: OMNIBUS  
INFRASTRUCTURE DEVELOPMENT PROJECT  
REPORT NO. 2010-07**



**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 ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project**

We have audited the accompanying statement of project account of the Federated States of Micronesia Asian Development Bank Loans 2099-FSM (SF) and 2100 FSM (the Project) as of and for the years ended September 30, 2009 and 2008. 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 as of and for the years ended September 30, 2009 and 2008, 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, Communication & Infrastructure

FEDERATED STATES OF MICRONESIA  
 ASIAN DEVELOPMENT BANK LOANS 2099-FSM(SF) AND 2100 FSM  
 Statement of Project Account  
 Year Ended September 30, 2009 and Cumulative

	Fiscal Year 2009			Cumulative		
	ADB SHARE			ADB SHARE		
	Loan 2099 FSM	Loan 2100 FSM	Total	Loan 2099 FSM	Loan 2100 FSM	Total
Cash receipts						
Loan proceeds - Direct	\$ 152,861	\$ -	\$152,861	\$326,957	\$ -	\$326,957
Loan proceeds - Imprest Account	-	-	-	470,758	50,000	520,758
Contributions from FSM	-	-	-	-	-	-
Total Cash Receipts	<u>152,861</u>	<u>-</u>	<u>152,861</u>	<u>797,715</u>	<u>50,000</u>	<u>847,715</u>
Cash disbursements						
Consultant Services	171,798	-	171,798	551,852	-	551,852
Operating cost	<u>18,641</u>	<u>62</u>	<u>18,703</u>	<u>20,466</u>	<u>312</u>	<u>20,778</u>
Total Cash Disbursements	<u>190,439</u>	<u>62</u>	<u>190,501</u>	<u>572,318</u>	<u>312</u>	<u>572,630</u>
Net Change in Cash	(37,578)	(62)	(37,640)	225,397	49,688	275,085
Cash at Beginning of Period	<u>262,975</u>	<u>49,750</u>	<u>312,725</u>	-	-	-
Cash at End of Period	<u><u>\$225,397</u></u>	<u><u>\$49,688</u></u>	<u><u>\$275,085</u></u>	<u><u>\$225,397</u></u>	<u><u>\$49,688</u></u>	<u><u>\$275,085</u></u>

See accompanying notes to this financial statement.

FEDERATED STATES OF MICRONESIA  
ASIAN DEVELOPMENT BANK LOANS 2099-FSM(SF) AND 2100 FSM  
Notes to Statement of Project Account  
September 30, 2009

(1) Organization

On November 4, 2004 the Federated States of Micronesia (FSM) National Government entered into loan agreements 2099 FSM (SF) and 2100 FSM (the Project) with the Asian Development Bank (ADB) in the amounts equivalent to Special Drawing Rights (SDR) 9,686,000 and \$4,800,000, respectively, for the purpose of developing the Omnibus Infrastructure Development Project to enhance the public health and the environment, and to support economic growth and poverty reduction in the Federated States of Micronesia. The accumulated drawn amount for these loans is \$847,715 as of September 30, 2009. The FSM National Government Department of Finance and Administration is the Executing Agency and is responsible for the timely release of funds. The FSM National Government Department of Transportation, Communication and Infrastructure is the Implementing Agency and is responsible for carrying out of the Project, including authorization of payments to be made from the Imprest Account. 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 years ended September 30, 2009 and 2008, 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 \$275,085, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009, the Project's deposit balances of \$250,000 are insured by the FDIC. The remaining balance consists of uninsured cash deposit.

FEDERATED STATES OF MICRONESIA  
ASIAN DEVELOPMENT BANK LOANS 2099-FSM(SF) AND 2100 FSM  
Notes to Statement of Project Account  
September 30, 2009

(3) ADB Imprest Fund Account

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

ADB Loan 2099 FSM (FS) Imprest Account Bank Balance	\$ 225,397
ADB Loan 2100 FSM Imprest Account Bank Balance	49,688
Total	<u>275,085</u>
Outstanding Checks	-
	<u>\$ 275,085</u>

(4) FSM Contributions

Under the provisions of the loan agreement, FSM is required to provide counterpart funding for expenditures incurred under certain categories of the Project. During the years ended September 30, 2009 and 2008, FSM has not made any counterpart funding for the Project.

Additional in-kind assistance was provided in terms of an office for the Project Implementation Unit, staff assistance in both the National and State governments. A monetary value for this assistance has not been computed and is therefore not included in the accompanying statement of project account.

(5) Compliance with the Debt Covenants

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



# FEDERATED STATES OF MICRONESIA

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March 23, 2010

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

**RE: Audit of ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development 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 financial statement of project account of Federated States of Micronesia Asian Development Bank Loans 2099-FSM (SF) and 2100 FSM (the Project) as of and for the years ended September 30, 2009 and 2008, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management of project account of Federated States of Micronesia Asian Development Bank Loans 2099-FSM (SF) and 2100- FSM.



Haser Hainrick  
National Public Auditor

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



FEDERATED STATES OF MICRONESIA  
ASIAN DEVELOPMENT BANK LOANS 2099-FSM(SF) AND 2100 FSM  
Report No. 2010-07

**ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

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**Acknowledgement**

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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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