OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

AUDIT OF ADB GRANT ASSISTANCE

WENO WATER SUPPLY WELL REMEDIATION PROJECT

For Fiscal Years 2012 and 2013

REPORT NO. 2014-05

Haser H. Hainrick
National Public Auditor

FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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February 28, 2014

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 Federated States of Micronesia (FSM) Weno Water Supply Well Remediation Project (the project) as of and for the fiscal years ended September 30, 2012 and September 30, 2013. The project was funded by a grant from the Japan Fund for Poverty Reduction (JFPR). The ADB administered the project pursuant to an agreement ADB entered into with the government of Japan. The statement of project account is the responsibility of the Project's management. Our responsibility is to express an opinion on this statement of project account based on our audit. The statement of project account as of September 30, 2011, which was in part the basis to calculate the cumulative cash receipts and disbursements, was audited by other auditors whose report dated February 22, 2013, expressed an unqualified opinion on the statement of project account.

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 statement of project account 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 statement of project account, 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 statement of project account 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.

The total funds to be accounted for the project consisted of payments by FSM from imprest account and those directly paid by ADB to the suppliers. As described in note 4, the management did not include the direct payments in the statement of project account until FY2012 because the management thought that only the transactions under the imprest account are to be subjected to audit. As a result, the project's cumulative revenues and expenditures in the statement of account for prior periods were understated. To correct the understatement, the management adjusted and restated the cumulative amounts for the sub-categories under the revenues and expenditures beginning FY 2012 to include the direct payment transactions amounting to $433,739. We reviewed the adjustments described in note 4 that were applied to restate the beginning cumulative totals. In our opinion, such adjustments were appropriate and properly applied.

In our opinion, this statement of project account presents fairly, in all material respect, the cash receipts and disbursements of the Project as of and for the fiscal periods ended September 30, 2012 and September 30, 2013, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, 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 the 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: Secretary, Department of TC&I
Secretary, Department of Finance & Administration
General Manager, CPUC

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Statement of Project Account
Years Ended September 30, 2012 and September 30, 2013

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	2012	Cumulative	2013	Cumulative
Cash Receipts				
Grant proceeds – Direct	$224,912	$658,651	$73,046	$731,697
Grant proceeds – Imprest		198,016		198,016
Total cash receipts	$224,912	$856,667	$73,046	$929,713
Cash Disbursements				
Consultant services	$ 27,000	$191,524	$27,000	$218,524
Equipment and supplies	40,727	385,814	12,754	398,568
Civil works	184,186	234,796	46,046	280,842
Service charges	72	400	63	463
Other operating costs		13,666	2,975	16,641
Total cash disbursements	$251,985	$826,199	$88,838	$915,038
Net change in cash	($ 27,072)	$ 30,469	($15,792)	$ 14,676
Cash at beginning of period	$ 57,540		$30,469	
Cash at end of period	$ 30,469	$ 30,469	$14,676	$ 14,676

See accompanying notes to statement of project account

Note: Figures might not be exact due to rounding

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Notes to Statement of Project Account
Years Ended September 30, 2012 and September 30, 2013

(1) Organization

Grant assistance to improve the delivery of safe and secure water supply to the residents of Weno Island in Chuuk state was provided to the Federated States of Micronesia (FSM) from the Japan Fund for Poverty Reduction (JFPR). Through an agreement with the government of Japan, the ADB administered the grant, which on July 17, 2008 was approved for funding up to $980,000. As administrator of the grant, ADB partly control the disbursements of the fund. This was effected thru reviewing of all the replenishments to the imprest account and directly paying some of the suppliers' bills.

In 2009, the FSM started the implementation of 'Weno Water Supply Well Remediation Project' (The Project) to be funded by the grant. It was completed on July 9, 2012. The accumulated drawn amount from ADB for this project was $856,667 as of September 30, 2012 and $929,713 as of September 30, 2013.

The 'Department of Transportation, Communications, and Infrastructure' (TC&I), the Executing Agency, is responsible for carrying out the Project. A provision in the grant agreement requires the establishment and maintenance of an imprest account. TC&I authorizes the payments from the imprest account. These payments are subject to review by ADB upon liquidation from the JFPR Funds.

The Chuuk Public Utilities Corporation (CPUC) is the implementing agency for the project. The accompanying statement of project account that incorporated the activities of the Project was prepared for the fiscal years ended September 30, 2012 and September 30, 2013, respectively.

(2) Summary of Significant Accounting Policies

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Project uses cash basis of accounting. Transactions are recognized as receipts or disbursements, and 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 statement of project account 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.

Cash

Custodial credit risk is the possibility that in the event of a bank failure the Project's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the depositor's name. The Project does not have a deposit policy for custodial credit risk.

For the purpose of the statement of project account, cash is defined as cash in checking accounts. As of September 30, 2013, $14,676 of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

(3) The Imprest Fund Account

The results of the reconciliation of the JFPR Imprest Account as of September 30, 2012 and September 30, 2013, respectively, are as follows:

		2012		2013
JFPR Imprest Account Balance	$	30,469	$	14,676
Un-liquidated Expenditures:				
Consultant Services		59,003		71,758
Bank Charges & Others		400		3,438
Total Un-liquidated Expenditures	$	59,403	$	75,196
TOTAL	$	89,872	$	89,872

The un-liquidated expenditures amounting to $75,196 was determined by the management with the consent of ADB as eligible expenditures for the JFPR project. Thus, the un-liquidated expenditures for each year were reflected in the statement of account to provide full accounting of revenues and expenditures for the project.

(4) Cumulative Totals

Although the management is aware that the JFPR Fund is also used for direct payments to contractors and suppliers aside from maintaining the imprest account, the management thought that the transactions required to be audited are only those transacted using the JFPR imprest account. Hence, the transactions directly paid by ADB to suppliers (direct payments) were inadvertently not presented for audit and, therefore, not included as part of the prior periods' audited statement of project account for FY 2009, FY 2010 and FY 2011.

In FY 2012, a total of $433,739 direct payments since the start of the project was reflected and fully accounted for in the cumulative totals reported in the statement of project account.

(5) Compliance with the Grant Covenants

Management is of the opinion that they complied with applicable grant covenants.

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February 28, 2014

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statement of project account of Federated States of Micronesia Weno Water Supply Well Remediation Project, Asian Development Bank (ADB) Grant Assistance financed by Japan Fund for Poverty Reduction (JFPR) (the Project) as of and for the years ended September 30, 2012 and September 30, 213 and have issued our report thereon dated February 28, 2014. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Responses,* we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct material misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Project's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings* as items 2013-1 through 2013-3 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings* as items 2013-4 through 2013-7 to be significant deficiencies.

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 grant agreements, 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which is described in the accompanying *Schedule of Findings* as item 2013-8.

While this audit was the last to be conducted for this particular project due to its completion, this report on internal control was still issued in fulfillment of the requirement of our auditing standard. Furthermore, the recommendations in this report to improve the internal control deficiencies over financial reporting could be applicable and relevant to the operations of other grant assisted projects, which are also currently implemented by the project management team.

This report is intended for the information and use of the management of The Project and is not intended to be and should not be used by anyone other than these specified parties.

Haser Hainrick
National Public Auditor

Cc: Secretary, Department of TC&I
Secretary, Department of Finance & Administration
General Manager, CPUC

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK GRANT ASSISTANCE
(Financed by Japan Fund for Poverty Reduction)
Schedule of Findings and Responses
Years Ended September 30, 2012 and September 30, 2013

MATERIAL DEFICIENCY

Finding No. 2013-01 – Recording of JFPR Grant Transactions in the Books of Accounts of the National Government

Criteria: The generally accepted practice in government accounting requires that a grant is to be recorded and recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Condition: We noted that only the transactions from the imprest account, maintained for the JFPR grant, were recorded in the books of the national government and not including direct payments made to suppliers by ADB.

Cause: There was no control procedure to ensure the proper accounting and recording of complete JFPR grant assistance transactions at the books of accounts maintained by the Department of Finance and Administration. The FSM National Accounting was not aware of payments disbursed directly from the JFPR grant funds. Furthermore, the Project Accountant has not been reconciling his records with the related general ledger accounts maintained in the national government books of accounts.

Effect: This resulted in a portion of JFPR grant assistance amounts (direct payments) from fiscal years 2010 to 2013 not recorded in the books of accounts of the national government as follows:

	FY2010	FY2011	FY2012	FY2013	Total
Receipts	$ 102,319	$ 331,420	$ 224,913	$ 73,046	$ 731,698
Disbursements	$ 102,319	$ 331,420	$ 224,913	$ 73,046	$ 731,698

Recommendation: We recommend that the Secretary of Department of Finance and Administration to ensure that the transactions for the JFPR direct payments be reflected in the national books of accounts so that the corresponding revenues and disbursements would be shown in the financial statements of the national government. We also suggest that the Project Accountant should regularly reconcile his records with the national general ledger accounts to ensure the timely disposition of any discrepancy.

Management Response: The Department to proceed and acquire copies of withdrawal applications (WA) to post to the general ledger of the FMIS for reconciliation and updating purposes.

Finding No. 2013-02 – Segregation of Duties

Criteria: Proper separation of responsibilities ensures that the work of one individual acts as a check on the work of another in the performance of incompatible functions. Persons who handle cash or other forms of payment, such as signed checks, should have no incompatible duties with respect to the recording of payables or reconciliation of cash.

Condition: Segregation of duties is lacking over the control of cash disbursements. Presently, checks issued by the Department of Finance & Administration (DFA) in payment of project expenditures are returned to the Project Accountant. This individual also prepares payment requests, maintains vendor and invoice files, records all project transactions, and reconciles cash.

Cause: We understand the checks are returned to the Project Accountant, usually to enable that individual to present the check to the bank and facilitate the wire of funds to the payee. The management did not implement proper segregation of duties over the control of disbursements.

Effect: Failure to maintain adequate segregation of duties over payments could result in misappropriation of assets or errors that go undetected or are not timely detected.

Prior Year Status: This condition was reported in the Statement of Project Account audits for fiscal years 2009, 2010, and 2011

Recommendation: To reduce the risk of error and ensure adequate custody and control over disbursements, require DFA distribute checks in payment of project expenditures directly to payees. Ordinarily, the close supervision of management helps compensate for the lack of proper segregation of duties. However, at a minimum, require that checks not be returned to project personnel for handling. Additionally, where economical, the preference should be for DFA to facilitate payments via wire transfer.

Management Response: The management wants to ensure that checks are received by the vendors. However, we will work with DFA to resolve the issue.

Finding No. 2010-03 – Reconciliations Monitoring

Criteria: Provisions of the grant require the maintenance of an imprest account to facilitate the day-to-day expenditures and to be managed, replenished, and liquidated in conformity with ADB policies and procedures. Periodic reconciliations of accounts ensure the completeness and accuracy of accumulated data.

Condition: Monitoring of reconciliations was not consistently performed. Our review of reconciliations of the imprest account revealed the following:

- A copy of the year end September 30, 2013 bank reconciliation was not available for our review at the start of our audit in December 2013.
- Bank reconciliations were not timely performed.
- Reconciling items were not cleared on a timely basis, with some items remaining outstanding for more than one year.

Cause: The practice has been for the project accountant to forward completed reconciliation to an official in DFA for review and approval. However, there has been no follow up whenever no or late monthly reconciliation was prepared.

Effect: Failure to reconcile accounts and properly dispose of reconciling items on a timely basis could result in errors leading to the misstatement of financial information, misappropriation of assets, and non-compliance with grant covenants. Since the imprest fund reconciliation also serves to reconcile cash on deposit at the bank, errors that go undetected or are not detected timely may result in losses. Banks require notification of errors within a reasonable time, without which the bank may not be held liable.

Prior Year Status: This condition was reported in the Statement of Project Account audits for fiscal years 2009, 2010, and 2011

Recommendation: We recommend that the Project Accountant should perform timely preparation of reconciliation statements.

Management Response: We will improve our reconciliation of imprest account to be on a regular basis.

SIGNIFICANT DEFICIENCY

Finding No. 2013-04 – Manual Checks

Criteria: Checks that are more secure should be used to disburse project funds.

Condition: Manual checks are used for project disbursements instead of the MICR encoded checks routinely used for most payments processed through DFA. The project checks are prepared using a typewriter. MICR encoding consists of blank stock containing no bank or account information. All data, including check number, amount, bank account number, bank name, company names and addresses, and others are imprinted on the blank stock when checks are printed.

Cause: We understand DFA elected to utilize manual checks because it was easier and the project was not expected to last very long. However, using already existing and available MICR check stock would have been less expensive than ordering new checks and would only have required a minimum of effort to set up and configure in the accounting system.

Effect: Manual checks are more prone to error and have a greater risk of check fraud. The use of MICR checks increases the information and resources required to commit check fraud. MICR check stock also typically includes security features which make it difficult to reproduce. Accordingly, MICR check printing reduces the likelihood that funds may be misappropriated. Additionally, preparing typewriter produced manual checks interrupts normal business routines and as such may require more time and effort. Utilizing computer generated checks, whether or not MICR encoded, may result in greater scrutiny and control over transactions and thus a reduced risk of error.

Prior Year Status: This condition was reported in the Statement of Project Account audits for fiscal years 2009, 2010, and 2011

Recommendation: To ensure proper control over disbursements and reduce the likelihood of fraud and misappropriation of assets, consider scrapping the manual checks and utilizing the same MICR encoded printing of checks that is the standard for check payments in DFA.

Management Response by the Department of Finance and Administration: The acting Secretary of Finance and Administration provided a formal response disagreeing with the findings and recommendations as follows:

> *Finance disagrees with this finding. The Department believes that automating the printing of checks does not necessarily minimize the likely hood of fraud and misappropriation of assets, rather, whether there is sufficient control in place to minimize the risk of fraud and misappropriation of assets and the Department believe that it has those controls in place.*

Although these are manual checks, these checks contain the same information as the automated checks being printed in the Division of National Treasury. As with all request of payments, once the request is submitted to the Department of Finance, the Division of National Treasury, the request goes through the same process of review as the automated checks. In fact, there is an additional layer of review given the requirement of two signatories on the check.

ONPA Evaluation of Management Response: The Department of Finance and Administration believes that it is not the automated printing of check that necessarily minimize the likelihood of fraud and misappropriation of assets but the implementation of sufficient internal controls. While the ONPA fully agree that implementation of sufficient internal controls would minimize (note: no security feature provides absolute protection) the likelihood of fraud and misappropriation of fraud, OPNA would like to emphasize that the existing (1) automated check issuance system with the use of (2) blank stock coupled with a (3) secure MICR laser printer (check printer) are themselves control mechanisms or techniques, greatly enhanced by the automation, that provide a more secure internal control in terms of eliminating check fraud such as theft, alteration, forgery and others. Although, ONPA did not evaluate the printer security feature capabilities which are out of the scope of this audit, ONPA would like to state though that the secure MICR laser printer normally prints the entire check which includes static as well as variable data found on preprinted check (company name, logo, payee name, amount, date, and others) making it harder to alter or reproduce check. In this sense, the automated check printing would minimize fraud associated with forgery of signature or alteration of vital information that includes payee and amount. On the other hand, the blank stock, with no preprinted information except for the background on the face and security screen with padlock security icon on back, and the check printing software would not only allow building of security controls and define check processing controls within the system but would also effectively restrict access to check printing as well.

Considering the above merits, ONPA is retaining the finding and recommendation about the manual preparation of check.

Finding No. 2013-05 – Certificates of Insurance

Criteria: Section 7 (General Conditions of Contract), of the ADB Procurement of Works-Small Contracts user's guide, requires the Contractor to maintain risk and liability insurance coverage in amounts established by each contract, and to provide policies and certificates for insurance to the Project Manager before the start date of the contract.

Condition: Certificates of insurance were not maintained on file for consulting and engineering contracts.

Cause: The contracts with the suppliers indicated the requirement for consultants and engineers to carry insurance at their own expense but the project management did not request submission of certificates of insurance.

Effect: There was no assurance that contracting parties have maintained the level of coverage indicated when the contract was executed. If insurance coverage lapses or is not maintained at adequate levels, third parties may seek to recover losses from the Project in the event of damage and destruction to property or injury or loss of life. In any event, should third parties not prevail, legal costs may still be incurred and considerable time and effort expended in defending possible claims or litigation.

Prior Year Status: This condition was reported in the Statement of Project Account audits for fiscal years 2009, 2010, and 2011

Recommendation: To reduce the likelihood of losses from third party claimants, the project management should ensure that current certificates of insurance are maintained for contracts. Furthermore, certificates should reflect that insurance is written on a per occurrence basis and include special instructions which stipulate that:

- The Project is named as an additional insured.
- Provide a minimum of 30 days written notice of cancellation or non-renewal of policies.

Management Response: This was an oversight. However, consultants and contractors had maintained the required insurance policies during the course of the project.

Finding No. 2013-06 – Interest income not earned

Criteria: Idle cash represents an unused resource. While it is important to ensure sufficient cash is available to meet obligations, effective cash management and planning ensures that idle cash is appropriately invested to maximize the return to the organization. Funds that do not earn a return represent a loss of potential income.

Condition: Idle cash is not properly managed. Since its inception, the project has maintained its funds in a non-interest bearing checking account. It also has incurred bank service charges in connection with the maintenance of the account. It should be noted that from the time the account was opened, the bank has been offering an interest bearing checking account.

Cause: DFA initially established the checking account at the beginning of the project. The Project Accountant represents that a request was made to utilize an interest-bearing checking account, but no action was taken.

Effect: The project has not only failed to take advantage of interest that could be earned on idle funds, but has also incurred bank charges in connection with the non-interest bearing checking account they presently maintain. Notwithstanding that interest rates have been very low for interest-bearing checking account, the potential interest earnings could either enable the project to avoid bank charges or earn enough interest to offset any bank fees it might incur.

Prior Year Status: This condition was reported in the Statement of Project Account audits for fiscal years 2009, 2010, and 2011

Recommendation: Consider opening and transferring balances into an interest bearing account. The bank currently offers a business premium checking account which earns interest. In addition, the bank offers statement savings accounts, which while limiting the number of monthly withdrawals, earn a higher rate of interest and may be a suitable investment for project funds given the level of project activity.

Management Response: The requirement is that there should be a separate bank account established for the grant and there is one. However, the Department will look into the recommendation, analyze the affects and make its determination on what the best option will be, including maintaining the checking account.

Finding No. 2013-07 – Unreplenished/Unliquidated Disbursements

Criteria: Part 10.12 of the ADB Loan Disbursement Handbook under Liquidation/ Replenishment stated

> *"As eligible expenditures are incurred and paid from the account, a request liquidation/replenishment of the Account by submitting a withdrawal application duly supported by documents, as required under the reimbursement procedure and the corresponding bank statement and reconciliation statement".*

Condition: We found that $75,196 payments from the imprest account were not timely requested for liquidation and some withdrawal applications/requests representing direct payment to suppliers were not allowed payment by ADB due to various reasons.

Some of the expenditures paid from Imprest Account as far back as FY2009 to FY2011 were not timely requested for liquidation (refer also to note 3) as follows:

Date	Description	Amount
7/13/09	Consultancy Services- Project Manager	$ 15,304
10/2009	Consultancy Services- Project Manager	3,550
1/20/10	Consultancy Services- Project Manager	3,550
4/2010	Consultancy Services- Project Manager	7,100
5/31/11	Consultancy Services- Project Manager	2,500
11/18/11	Consultancy Services- Project Manager	27,000
6/24/13	Equipment	12,754
2009-2013	Bank Charges & Others	3,438
Total		$ 75,196

On the other hand, some requests for direct payments were not allowed by ADB due to various reasons:

Date	Ref	Description	Amount	ONPA Notes
2/13/12	DP015	Transformers and Supplies	$ 51,138	No supporting invoice and shipping documents. Only the quotation from the supplier was attached.
7/06/12	DP019	Supplies	25,760	Original copies of the applications and supporting documents were misplaced. ADB did not accept the reproduced (xerox) copies.
	DP021	Not on File	?	The project accountant was not able to locate the Withdrawal Application (WA#DP021). It was claimed though that this application was paid using existing Loan # 2099 OMNIBUS
9/12/12	DP022	Transformers and Supplies	60,954	The receipt of the items (10/4/12) was after the project closing date (9/9/12). The amount was

Date	Ref	Description	Amount	ONPA Notes
				later requested to be paid from the existing Loan # 2099 OMNIBUS Loan Account (with ADB) making the payments added to FSM loan rather than a grant from ADB.

Cause: The Project Accountant did not follow the procedures and/or requirements for the timely processing of direct payments or timely replenishment of the imprest account.

We were also informed that CPUC, the implementing agency, did not submit on time some of the requests for payments to Department of TC&I.

Effect: As a result, the charging of disbursements, with a total amount of $102,018, to the grant was not allowed by ADB. ($51,138+$25,760+$60,954)

Recommendation: We recommend that the Secretary of Department of TC&I to request for the extension of the liquidation so that the remaining grant funds could still be used to defray pay for the un-liquidated costs of the project. The final audited figures indicated that the JFPR funds for the project had unused amount of $64,962 after considering both the $980,000 approved grant and the $929,713 cumulative cash disbursements as of September 30, 2013 per the audited Statement of Project Account.

Management Response: ADB was reluctant to extend the grant beyond the closing date.

COMPLIANCE

Finding No. 2013-8 – Progress Reports

Criteria: Paragraph 14 (b) of the Grant Agreement Letter requires that quarterly progress reports and annual reports on the carrying out of the project be furnished to ADB.

Condition: The Project did not submit the required quarterly and annual progress reports in compliance with provisions of the grant.

Cause: The number of project personnel is limited and they have other responsibilities within the office and functions of the Executing Agency. These other responsibilities compete for time and effort with project requirements.

Effect: Failure to conform to the requirements established by ADB could result in violation of the loan covenants and cancellation of the loan agreement.

Recommendation: Reemphasize to project personnel the significance of progress reports and the importance of complying with the grant covenants and other ADB requirements.

Management Response: We were not asked to provide such reports. However, we do have progress reports on the project.

ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT:

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ACKNOWLEDGEMENTS

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

Manuel San Jose, CPA, CIA, CISA, CGAP, CRMA, Audit Manager
Keller Phillip, Auditor-In-Charge
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