OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

AUDIT OF ADB LOANS 2099-FSM (SF) AND 2100-FSM OMNIBUS INFRASTRUCTURE DEVELOPMENT PROJECT FOR FISCAL YEAR ENDED SEPTEMBER 30, 2013

REPORT NO. 2014 - 08

Haser H. Hainrick
National Public Auditor

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100 FSM
(Omnibus Infrastructure Development Project)

Table of Contents

FEDERATED STATES OF MICRONESIA
Office of The National Public Auditor
P.O. Box PS-05, Palikir, Pohnpei FSM 96941
Tel: (691) 320-2862/2863; Fax: (691) 320-5482;
CID Hotline: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

September 29, 2014

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

RE: Audit of Asian Development Bank (ADB) Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project

We have audited the accompanying statement of project account (financial statement) of the Federated States of Micronesia Omnibus Infrastructure Development Project, Asian Development Bank (ADB) Loans 2099-FSM (SF) and 2100 FSM (the Project) as of and for the year ended September 30, 2013. 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.

Except as discussed in the following paragraph, 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 statement, 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.

The Statement of Project Account for the prior year ended 2012 received a modified opinion because of the absence of clear copies of documents supporting the transactions and computations of an overpayment to a contractor. The said transactions formed part of the cumulative disbursements in this report for the project under Loan Number 2099. We were neither provided with clear copies to remove the modified opinion nor able to satisfy ourselves by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the overpayment to a contractor, this financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project as of and for the year ended September 30, 2013, on the basis of accounting described in note 2.

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 accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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 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: Secretary, Department of Transportation, Communication & Infrastructure (TC&I)
Secretary, Department of Finance & Administration

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100 FSM
(Omnibus Infrastructure Development Project)
Statement of Project Account
Fiscal Year Ended September 30, 2013

	Fiscal Year 2012				Cumulative (Audited – Note 6)			
	ADB Share		FSM		ADB Share		FSM	
	Loan 2099	Loan 2100	Share	Total	Loan 2099	Loan 2100	Share	Total
Cash receipts:								
Loan proceeds – Direct	$ 2,666,957	$ 456,906	$ -	$ 3,123,863	$ 9,196,787	$ 3,397,252	$	$ 12,594,039
Loan proceeds – Imprest	39,212	(39,212)	-	-	751,401	10,788		762,189
Contributions from FSM	-	-	80,183	80,183	-	-	693,835	693,835
Total Cash Receipts	2,706,169	417,694	80,183	3,204,046	9,948,188	3,408,040	693,835	14,050,063
Cash Disbursements:								
Civil Work, Consultant Services, Equipment & Materials	2,925,969	456,903	80,183	3,463,055	9,731,216	3,399,967	648,744	13,799,927
Total Cash Disbursements	2,925,969	456,903	80,183	3,463,055	9,731,216	3,399,967	648,744	13,799,927
Net Change in Cash	(219,800)	(39,209)		(259,009)	216,972	8,073	45,091	270,136
Beginning Fund Balance	436,772	47,281	45,091	529,144				-
Ending Fund Balance	$ 216,972	$ 8,072	$ 45,091	$ 270,136	$ 216,972	$ 8,072	$ 45,091	$ 270,136

See accompanying notes to statement of project account.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100 FSM
(Omnibus Infrastructure Development Project)
Notes to Statement of Project Account
September 30, 2013

(1) Organization

On June 28, 2005, the Federated States of Micronesia (FSM) National Government entered into two loan agreements (Loan Numbers 2099-FSM (SF) and 2100-FSM) with the Asian Development Bank (ADB) in amounts equivalent to Special Drawing Rights (SDR) $9,686,000 (approximately $14,200,000) and $4,800,000, respectively, for the purpose of funding the Omnibus Infrastructure Development Project (the Project). The project was undertaken to enhance public health and environmental quality through improved water supply wastewater infrastructure, and power generation in the FSM. The accumulated drawn amounts for loan numbers 2099 and 2100 are $9,948,188 and $3,408,040, respectively, or a total amount of $13,356,228 as of September 30, 2013.

The FSM Department of Transportation, Communications, and Infrastructure (TC&I) serves as the Executing Agency and is responsible for carrying out the Project, including authorization of payments made from the Imprest Fund. The Imprest Fund is required to be operated and liquidated in accordance with ADB Regulations. There are six implementing agencies consisting of the public utilities corporations from each of the states of Pohnpei, Chuuk, and Kosrae, and jointly the Department of Public Works and Transport (DPWT) and the Gagil-Tomil Water Authority (GTWA) in Yap. The accompanying statement of project account is prepared for the year ended September 30, 2013, and solely incorporates the activities of the Project.

(2) Summary of Significant Accounting Principles

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 the 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 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.

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, the carrying amount of the Project's total cash was $270,133, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, the Project's deposit balances of $250,000 are insured by FDIC. The remaining balance consists of uninsured cash deposit.

(3) ADB Imprest Fund Account

During the year ended September 30, 2013, the FSM National Government made available the ADB's loan proceeds in the amount of $ 3,123,863.00 for expenditures incurred under certain categories of the Project.

A reconciliation of the ADB Imprest Account maintained for each loan account as of September 30, 2013, is as follows:

Descriptions	Loan 2099	Loan 2100	Total
Per Bank	$ 262,062	$ 8,071	$ 270,133
Add: Deposit in Transit	0	0	0
Less: FSM Share in overpayment to supplier but was deposited to Imprest Account	45,091		45,091
Adjusted Bank Balances	$ 216,971	$ 8,071	$ 225,042

A contract that was closed out in FY 2012 was determined to have an overpayment of $225,454 which the contractor agreed to return. Such overpayment was adjusted as proportionate deduction from the expenditures recorded under the ADB Loan 2099 ($180,363) and FSM's respective shares ($45,091) in the Statement of Project Account for fiscal year 2012. However, the total refunded amount, including the FSM share of refund, was totally deposited in January 2013 to the Imprest Fund account maintained for ADB Loan # 2099. Thus, the amount of $45,091 in the Imprest Fund Account maintained for the ADB Loan 2099 should be made available for use in payment of FSM share of the project costs.

(4) FSM Contributions

Under the provisions of the loan agreement, the FSM National Government is required to provide counterpart funding for expenditures incurred under certain categories of the Project. For the year ended September 30, 2013, the FSM National Government made available $80,183 in counterpart funding.

Additional in-kind assistance was provided in terms of an office for the Project Implementation Unit and staff assistance by both the FSM 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.

6) Cumulative Amounts

The amounts in the cumulative cash receipt were calculated using:

- Delloite & Touche LLP audited Financial Statements for the Fiscal Year ended 2011 dated February 13, 2012 with unqualified opinion on the said financial statement.
- ONPA audited Financial Statements for Fiscal Years 2008, 2009, 2010, and 2012, dated January 6, 2009, March 3, 2010, March 25, 2011, and October 21, 2013, respectively.
- This report is for Fiscal Year 2013.

The amounts in the cumulative cash disbursement subcategories were calculated using audited reports from the loan project manager for Fiscal Years 2008, 2009, 2010, 2011, 2012 and this report for Fiscal Year 2013. The total cash disbursements in the cumulative columns agree with the calculation of the total cash disbursements using the predecessor auditor's Financial Statements for Fiscal Years 2008, 2009, 2010, 2011, 2012 and this report for Fiscal Year 2013.

FEDERATED STATES OF MICRONESIA
Office of The National Public Auditor
P.O. Box PS-05, Palikir, Pohnpei FSM 96941
Tel: (691) 320-2862/2863; Fax: (691) 320-5482;
CID Hotline: (691) 320-6768; E-mail: hhainrick.fsmopa.fm

September 29, 2014

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

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

We have audited the financial statement of project account (financial statement) of the Federated States of Micronesia's Asian Development Bank Loans 2099-FSM (SF) and 2100 FSM (the Project) as of and for the year ended September 30, 2013, and have issued our report thereon dated September 29, 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

Management of the Project is responsible for establishing and maintaining effective 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 statement, 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 (pages 10 through 18), 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 entity'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 and Responses as item 2013-01 through 2013-04 to be a material weakness.

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 and Responses as items 2013-05 through 2013-08 to be significant deficiencies.

Compliance and Other Matters

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 and Responses* as item 2013-09.

This report is intended for the information and use of the management of the Project, the Federated States of Micronesia and of the Asian Development Bank 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 Transportation, Communication & Infrastructure TC&I)

Secretary, Department of Finance & Administration

Finding No. 2013-01 – 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 in bank.

Cause: The checks are returned to the Project Accountant, usually to enable that individual to present the check to the bank and facilitate the wire transfer of funds to the payee.

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

Prior Year Status: This condition was cited in the Fiscal Year 2012 financial audit.

Recommendation: To reduce the risk of errors and ensure adequate custody and control over disbursements, we suggest that DFA should 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.

We understand that, sometime during the beginning of the fiscal year, an individual in DFA began performing reconciliations of the Project's bank accounts. Project disbursements typically processed by DFA contain payment data that is available for reconciliation purposes. However, project transactions also include ADB direct payment of expenditures and deposits from ADB replenishment of imprest funds, information about which can be obtained by persons not directly involved in accounting for the project only from the bank statements. Bank statements and information concerning most reconciling items is obtained from the project accountant. Accordingly, these "after-the-fact" reconciliations performed by DFA may not provide the desired level of independent verification, and we believe there is a more than remote likelihood that a material misstatement of the financial statement will not be prevented or detected.

Management Response and Action Plan: The Department of Finance and Administration (DFA) is to be responded to this particular finding.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100 FSM
(Omnibus Infrastructure Development Project)
Schedule of Findings and Responses
Year Ended September 30, 2013

Finding No. 2013 – 02 Lack of Reconciliation and Review

Criteria: Best practices require a regular review and reconciliation of account and records to ensure that the information is accurate, complete and consistent.

Condition: Our verification of the Project Accountant's records for direct payments against the ADB's Loan Data disclosed reconciling items not known by the Project Accountant. We noted that there were neither documents filed nor transactions were recorded in the Project Accountant's record:

Date	Ref	Description	Amount	
			ADB 2099	ADB 2100
10/11/12	DP056	Unknown	$ 48,748.00	
10/11/12	DP057	Unknown	3,644.00	
01/15/13	CAP	Capitalization of Interest	35,703.64	
07/15/13	CAP	Capitalization of Interest		20,236
07/15/13	CAP	Capitalization of Interest	52,424.60	
07/16/13	CAP	Capitalization of Interest		23,888
07/30/13	PD08A	Unknown	22,480.00	
04/01/13	PG001	Unknown		100,691.35

Cause: From inquiry, we learned the Project Accountant has not been reconciling his records with the ADB Loan Data.

Effect: Failure to perform account reconciliation and review resulted in some disbursement transactions not recognized by the Project Accountant in his financial statement.

Prior Year Status: This condition was cited in the Fiscal Years 2011 and 2012 financial audit

Recommendation: The Project Accountant should reconcile his records with the ADB Loan Data to ensure that all transactions are recorded in the books.

We further recommend that the Project Accountant should reconcile and review records on a monthly basis

Management Response and Action Plan: The documentation for DP056, DP057, PD008A and PG001 are attached for ease reference. However, DP056 and DP057 were made to be disbursed during FY2012. The CAP portion of your table will be provided by ADB as supporting document.

Finding No. 2013-03 – Manual Checks

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

Condition: Manual checks, prepared using a typewriter, were used for project disbursements instead of the MICR encoded checks routinely used for most payments processed through DFA. MICR encoding consists of blank stock containing no bank or account information. All data, including check number, amount, and bank account and routing numbers, bank and company names and addresses, etc., 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. Using already existing and available MICR check stock would have been less expensive than ordering new checks and would only require 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. MICR check printing reduces the likelihood that funds may be misappropriated.

Prior Year Status: This condition was cited in the Fiscal Years 2011 and 2012 financial audit.

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 and Action Plan: The DFA is to be responded to this particular finding.

Finding No. 2013-04 – Gaps In Sequential Numbering

Criteria: Sequential numbering of records in a database can be very important. People often want to use some identifier for their records that involves information about the record and a sequential number.

Condition: We found that there were gaps in the numbering sequence for Withdrawal Applications prepared by the Project Accountant and CPUC. For example, the following direct payment numbers are missing:

W/A No.	Prepared By
DP058	Department of TC&I
DP067	Department of TC&I
PD001	CPUC
PD003	CPUC
PD005	CPUC
PD011 – 014	CPUC
PD017	CPUC
PD019	CPUC
PG003	CPUC

Cause: Project Accountant was not monitoring the numbering sequence when preparing the Withdrawal Applications. Furthermore, some of the Withdrawal Applications were prepared by the CPUC with different numbering sequence.

Effect: Withdrawal Applications for Direct Payment requests not sequentially numbered might end up not recorded in financial records and may result in incomplete financial statements or financial statements not giving true and fair view.

Recommendation: We recommend that the Project Accountant monitor and account the numbering sequence when preparing Withdrawal Applications requesting for Direct Payments.

Management Response and Action Plan: We totally support of this recommendation as to enable TC&I to have a more uniform, comprehensive and accessible filing system at all times.

Finding No. 2013-05 – Payment on Unrelated Project

Criteria: Funds may only be used for payments related to the project.

Condition: A payment amounting to $60,954 was disbursed from the imprest account under loan number 2099 for payment of supplies not related to the OIDP projects.

Cause: Payment should have been disbursed in another project fund administered by ADB but was presented late for processing. ADB authorized the payment to be made from the imprest account under loan number 2099.

Effect: Project funds not appropriately used for the intended purpose.

Recommendation: Disbursements be made in a timely manner and that expenditures are properly and accurately reimbursed.

Management Response and Action Plan: The payments were made from the loan funds to accommodate payment obligations under the Grant 9122 JFPR, which was allocated for Chuuk. The claims were submitted after the closing date of the grant. Hence, ADB has approved for payment to be made from the loan funds allocated for Chuuk.

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 with the Bank of Guam. It also has incurred bank service charges in connection therewith. At the time the bank account was established by DFA the bank offered, and still does offer, 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. The account was opened as non-interest bearing by DFA.

Effect: During the past few years, 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 accounts they presently maintain. The loan agreements permit the earning of interest on imprest funds held on deposit and further permit the project to use any interest earned for project expenditures. Notwithstanding interest rates have been very low, considering imprest fund balances have typically been in the $250,000 to $300,000 range, the Project could likely have earned $10,000 or more in interest over the past three years.

Prior Year Status: This condition was cited in the Fiscal Years 2011 and 2012 financial audit.

Recommendation: Consider opening and transferring balances into an interest bearing account. The Bank of Guam currently offers a business premium checking account which earns interest. In addition, the bank offers statement savings accounts that 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 and Action Plan: A MEMO has been sent from Secretary of TC&I to Secretary of Finance requesting establishment of an interest bearing account.

Finding No. 2013-07 – Maintenance of Records

Criteria: The Office of the National Treasury is responsible to keep complete records and files of requests for and actual payments made to suppliers/contractors and consultants regarding ADB loans

Condition: The National Treasury did not have on file some documents supporting the following payments made during the fiscal year 2013.

Date	Ref	Description	Amount
05/27/13	Ck#1110	Payment to Briner Sam	501.00
09/21/13	Ck#1128	Payment to Estephan Santiago	653.85
09/27/13	Ck#1129	Payment to Estephan Santiago	653.85
		Total	**$ 1,808/70**

Cause: The Treasurer at the National Treasury did not organize the filing system such that documents supporting the disbursements could easily be located.

Effect: Accounts maybe misstated and errors could not be detected timely.

Prior Year Status: This condition was cited in the Fiscal Year 2012 financial audit.

Recommendation: We recommend that the Treasurer should ensure that all the documents supporting transactions be completely filed. Furthermore, clear copies of the originals must be filed.

Management Response and Action Plan: The DFA is to be responded to this particular finding.

Finding No. 2013-08– Statement of Project Account and Record Keeping

Criteria: As a report which the management asserts and represents as complete and accurate, the Statement of Project Account for audit examination should first be prepared and signed by the Project Accountant and the Management based on records. Furthermore, the Project Accountant should maintain adequate records that would allow the preparation of the statement of project account including its supporting details.

Condition:

- The auditor has been preparing the Statement of Project Account based on client records and obtaining accountants/management signature of the statement.
- File of documents supporting transactions were incomplete, misfiled or missing.

Cause: The Project Accountant needs training on proper keeping of accounting records and preparation of standard accounting reports and reconciliation e.g. preparation of Statement of Project Account on cash basis method of accounting; and monitoring of construction contract, advances to contractors and retention payables.

Effect: The management is lax in its responsibility for preparing the statement of project account.

Prior Year Status: This condition was cited in the Fiscal Years 2011 and 2012 financial audit

Recommendation: We recommend that the Project Accountant should consider obtaining the necessary training to develop his competencies in keeping adequate accounting records and necessary reports.

Management Response and Action Plan: The project is ending in June 2015, payment requests and purchase orders have been increased in number as we approach toward the end of the project. It would be appropriate for Project Accountant to remain in office in order to continue prepares payment requests and assist facilitate requests to Finance and ADB.

Finding No. 2013-09 – Maintenance of Imprest Fund

Criteria: As eligible expenditures are incurred and paid from the imprest account, the borrower requests liquidation/replenishment of the account by submitting a withdrawal application and the applicable summary sheet using the required forms. The corresponding bank and reconciliation statements should also be submitted with the application.

The liquidation of the imprest fund done on regular basis would avoid accumulation and provide timely review of transactions in the imprest fund.

Condition: During the fiscal year 2013, one request among ten (10) requests prepared by the Project Accountant to liquidate or replenish the expenditures paid from the imprest fund.

Cause: The Project Accountant seems not aware that the expenditures incurred using the imprest fund be replenished on regular basis.

Effect: The unreplenished disbursements in the fund would accumulate and not reviewed timely.

Prior Year Status: This condition was cited in the Fiscal Years 2011 and 2012 financial audit

.
Recommendation: We recommend that the Project Accountant should consider requesting periodic liquidation of expenditures in the imprest fund.

Management Response and Action Plan: We have started to put in place a periodic request for replenishment of our imprest accounts to ensure availability of funds in the accounts.

ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT:	Haser H. Hainrick, National Public Auditor Email: hhainrick@fsmopa.fm
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 Erick Paul, Staff Assistant
ONPA MISSION	We conduct audits and investigations to improve government operations, efficiency, and accountability for the public's benefit.
Copies Available at:	www.fsmopa.fm
Copies by mail or phone:	Office of the National Public Auditor P.O. Box PS-05 Palikir, Pohnpei FM 96941 Phone: (691) 320-2862/3
CONTACT	Website: www.fsmopa.fm **Hotline: (691) 320-6768**