

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**FISHERIES OBSERVER AND PORT SAMPLER REVOLVING FUND :
IMPROVEMENT IN INTERNAL CONTROLS IS NEEDED TO ENSURE
COMPLIANCE OF THE FINANCIAL ACTIVITIES WITH THE LAW
(FISCAL YEAR 2012-2014)**

AUDIT REPORT NO. 2015-05



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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July 6, 2015

His Excellency Peter M. Christian, President
Honorable Members of the FSM Congress
Federated States of Micronesia

RE: The Audit on the Observer and Port Sampler Revolving Fund

We have completed a ***Performance Audit on the Observer and Port Sampler Revolving Fund for Fiscal Years 2012 – 2014***. The audit was conducted upon the request of the Chairman, Committee on Resource and Development to perform an audit on the use and management of the “Fisheries Observer and Port Sampler Revolving Fund.”

We performed an audit survey that led to the identification of the focus area: To determine compliance of the financial and operational activities of the “Fisheries Observer and Port Sampling Revolving Fund” with laws, regulations, policies and procedures.

The *Observer and Port Sampler Revolving Fund* is a special fund established by FSM Congress at FSM Finance mainly for the Fisheries Observer and Port Sampler Program. The Observer and Port Sampler Revolving Fund account was set to be administered by the President or his designee. According to section 631 of Title 55 of the FSM Code, as enacted by Public Law 7-76 amended by Public Law 16-14, the purpose of the fund is to provide an ongoing revolving fund for the receipts and disbursement of funds associated with fisheries observer and port sampler program. The law further states that any unexpended moneys in this fund shall not revert to the General Fund nor lapse at the end of the fiscal year, provided, however, that any amount in excess of \$200,000 shall be paid into the General Fund.

The Observers program is set up for the observers to board fishing vessels to observe all the related fishing activities on the vessels and then report to National Oceanic Resource Management Authority (NORMA) afterward. The observers, who are required to report to NORMA within five working days after the completion of their voyage to begin the de-briefing process. After the completion of the de-briefing, NORMA is the authorized agency to process payments for the observers using the Observers and Port Sampling Revolving Fund by requesting payments through FSM finance.

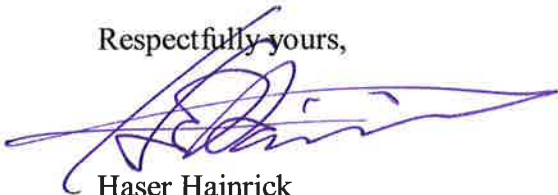
Based on our audit, we conclude that the management needs improvements in certain areas in terms of managing the fund.

We found the following weakness during our audit:

- \$80,000 of Fishing Licensing Fees Was Deposited to Fisheries Observer and Port Sampler Revolving Fund
- \$12,000 of the Fisheries Observer and Port Sampler Revolving Fund Used for Disallowed Purposes
- Amount of Revolving Fund Balance, in Excess of the \$200,000 Threshold, For Transfer to the General Fund Not Properly Determined At the End of Each Fiscal Year
- Year-End Encumbrances Not Reviewed Or Reconciled
- The Required Annual Status Report for the Revolving Fund Not Submitted to Congress as Required By Law
- The Amounts Paid for the Services of the Observers and Port Samplers Were not Subject to Income Tax Withholding and Social Security Taxes

The audit report discusses the detail findings along with the recommendations made to facilitate corrective improvement. The Management responses combined in one is included in the report.

Respectfully yours,



Haser Hainrick
National Public Auditor

XC: Vice President
Chairman, Board of Directors for NORMA
Acting Executive Director, NORMA
Secretary, Department of Resource and Development

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INTRODUCTION

We conducted this audit upon the request of the Chairman, Committee on Resource and Development to perform an audit on the use and management of the “Fisheries Observer and Port Sampler Revolving Fund.”

BACKGROUND

Fisheries Observer and Port Sampler Revolving Fund

The *Fisheries Observer and Port Sampler Revolving Fund* is a special fund established by FSM Congress mainly for the fisheries observer and port sampler programs. The President or his designee should administer the fund. According to Title 55 section 631¹ of the FSM Code, the purpose of the fund is to provide an ongoing revolving fund for the receipt and disbursement of funds associated with fisheries observer and port sampler program. The need for this law arose from the fact that the FSM does not have enough Port Samplers to handle the volume of catches unloaded by foreign and domestic fishing vessels on the port of Pohnpei. Meanwhile, with the cross training of many new Fisheries Observers, they can now be used to handle these duties, which are less technical than those that they perform as Fisheries Observers, and be paid out of this fund for port sampling duties.

The law further states that any unexpended moneys in the fund shall not revert to the General Fund nor lapse at the end of the fiscal year, provided, however, that any amount in excess of \$200,000 shall be paid into the General Fund.

The contribution by foreign vessel under Foreign Fishing Vessel Agreement has been funding the FSM’s observer program. Under the law, the receipt of this contribution is to be mainly deposited in the *Fisheries Observer and Port Sampler Revolving Fund*.

The FSM’s “*National Fisheries Observer Program*” has been operating since 1979. It was set up for the observers to board fishing vessels to observe all the related fishing activities on the vessels and then report to National Oceanic Resource Management Authority (NORMA) afterward. The observers are required to report to NORMA within five working days after the completion of their voyage to begin the de-briefing process. After the completion of the debriefing, NORMA is the authorized agency to process payments for the observers using the fund by requesting payments through the FSM Department of Finance & Administration.

The program operates with a pool of 84 contractual observers². The observer covered 100% of the purse seine fleets while 5% coverage for long-line fleets began in early 2012. In the same year, the program provided observers to cover five distant-water fishing countries e.g.; Chinese Taipei, USA, China, Japan and the FSM Association fleet. NORMA continues to use its observer program to assist in conducting the port sampling activities

¹ Enacted by Public Law 7-76 and amended by Public Law 16-14.

² Annual Report to the Western and Central Pacific Fisheries Commission (6-14 August 2013)

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The “*Port Sampler Program*” collects information on catches, particularly length frequency data, from vessels fishing in or landing their catches in the FSM. The program also records and compiles transshipment information from long line and purse seine vessels used in economic analysis to identify fishing or marketing patterns. All information gathered are reported to NORMA.

OBJECTIVE, SCOPE AND METHODOLOGY

Objective – The objective of this audit was to determine compliance of the financial and operational activities of the “Fisheries Observer and Port Sampling Revolving Fund” with laws, regulations, policies and procedures.

Scope – Our audit covered the financial and operational activities of the Observer and Port Sampling Revolving Fund for Fiscal Year 2012 – 2014. The expenditure reports are from FY2012-2014.

We conducted this audit, pursuant to the authority vested in the Public Auditor as codified under Chapter 5, Title 55 of the FSM Code, which states in part:

“The Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”

Methodology – To satisfy our objective we performed the following:

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We obtained and reviewed the Title 55 Section 6 of the FSM Code to understand the law setting up the revolving fund for the receipt and disbursement of the fisheries observer and port sampler programs.

We also obtained and reviewed the revenue and expenditure report for the fund for Fiscal Year 2012-2014. We judgmentally selected a sample of revenue and expenditure transactions to test the propriety of transactions.

Furthermore, we reviewed NORMA’s booklet on the Observers pay rates and their categories from freshmen to senior observers. Then we obtained an understanding regarding how NORMA is paying each Observer.

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Lastly, we interviewed NORMA's key officials and staff to confirm our understanding of the fisheries observer and port sampler programs and the usage of the revolving fund.

PRIOR AUDIT COVERAGE

This is the first audit conducted for the Observer and Port Sampler Revolving Fund.

CONCLUSION

Based on the results of our audit, we conclude that the management needs to improve the internal controls in managing the fund in order to ensure compliance of the financial activities with the enabling legislation that established the fund.

We found the following weakness:

- \$80,000 of Fishing Licensing Fees Was Deposited to Fisheries Observer and Port Sampler Revolving Fund
- \$12,000 of the Fisheries Observer and Port Sampler Revolving Fund Used for Disallowed Purposes
- Amount of Revolving Fund Balance, in Excess of the \$200,000 Threshold, For Transfer to the General Fund Not Properly Determined At the End of Each Fiscal Year
- Year-End Encumbrances Not Reviewed Or Reconciled
- The Required Annual Status Report for the Revolving Fund Not Submitted to Congress as Required By Law
- The Amounts Paid for the Services of the Observers and Port Samplers Were not Subject to Income Tax Withholding and Social Security Taxes

The findings and recommendations are discussed in detail in the following pages.

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FINDINGS AND RECOMMENDATIONS

Finding No. 1: \$80,000 of Fishing Licensing Fees Was Deposited to Fisheries Observer and Port Sampler Revolving Fund

FSMC Title 55, Chapter 2, Section 209 requires that all public monies raised or received (including the fishing licensing fees) by the FSM National Government shall be deposited into the General Fund unless otherwise provided by this chapter or other laws.

We reviewed the Fisheries Observer and Port Sampler Revolving Fund (Revolving Fund) receipts and disbursements for fiscal years 2012 through 2014 and found that a receipt for fishing licensing fee was deposited to the Revolving Fund instead of General Fund as required. Based on documentary evidence obtained during our audit, \$80,000 in fishing licensing fees was allocated to the Revolving Fund based upon the verbal instruction by the Executive Director (ED) of NORMA. The ED did not sign the payment advice that was sent to the Department of Finance & Administration but a written notation about the ED's verbal instruction was recorded on the payment advice by the preparer of the form. The \$80,000 allocation in fishing licensing fees to the Revolving Fund was made without any authorization (appropriation) by the Congress as required by law. We also found no evidence that the Board of Directors for NORMA was aware of this transaction.

As a result, the Executive Director's action appeared to violate the existing laws and procedures.

We referred this finding to CID for further investigation.

Cause and Recommendation

The Executive Director explained that they needed more funds to pay for bills and accounts during the year. However, with the \$80,000 deposit, the ED bypassed the higher authorities and took action that resulted in violation of the law.

We recommend that the Executive Director should refrain from ignoring the existing budgetary requirements and from bypassing the authority vested in the Board of Directors and the Congress regarding NORMA funding and budget. We further recommend that the Board of Directors should institute effective oversight of the Management's actions and enforce appropriate remedies in the event of any violations.

Finding No. 2: \$12,000 of the Fisheries Observer and Port Sampler Revolving Fund Used for Disallowed Purposes

The Foreign Fishing Vessel Agreement requires the foreign fishing vessels to contribute to the observers program, and that such contributions are to be deposited in the Revolving Fund and used only for allowable purposes. The FSMC, Title 55, Section 631 also require this, which specify that *"the purpose of the Fisheries Observer and Port Sampler Revolving Fund is to*

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provide an ongoing revolving fund for the receipt and disbursement of funds associated with fisheries observer and port sampler programs.”

We reviewed the Revolving Fund receipts and disbursements for fiscal years 2012 through 2014 and found that at least \$12,000 paid for activities and expenditures which were unallowable under the fisheries observer and port sampler programs. For example,

- \$3,123 paid for import tax on donated items from Korea. The donated items include vehicle, laptop, scanner, VHF walkie talkie and solar panel;
- \$304 paid for freight to ship the donated goods listed above from Korea;
- \$3,748 paid to a local vendor to install a manual transfer switch to connect NORMA office to its power generator; and,
- \$4,824 paid to a local vendor for desktop computers.

As a result, approximately \$12,000 from the Revolving Fund was used for unrelated observer activities.

Cause and Recommendation

NORMA’s Management treated the Fisheries Observer Revolving Fund as an additional source of funds to augment the payment of the expenditures for NORMA’s general operations rather than restricting its use only to activities allowed under the fisheries observer and port sampler programs.

In addition, there were no internal policies and procedures to guide and govern the administration of the Fisheries Observer Revolving Fund.

We recommend that the Executive Director should develop and implement internal policies and procedures for the operation of Fisheries Observer Revolving Fund. We also recommend that the Executive Director should use the fund monies to pay only the expenditures directly related to the fisheries and port samplers programs and as allowed by the law.

Finding Number 3: Amount of Revolving Fund Balance, in Excess of the \$200,000 Threshold, For Transfer to the General Fund Not Properly Determined At the End of Each Fiscal Year

FSMC Title 55 Section 632 states that *any unexpended moneys in the fund shall not revert to the General Fund nor lapse at the end of the fiscal year, provided, however, that any amount in excess of \$200,000 shall be paid into the General Fund.*

Our review of revenue and expenditures for fiscal years 2012 through 2014 found that NORMA Management was not transferring the correct amount of excess funds in the Revolving Fund into the General Fund as required by law. There was either under or over transfer of funds to the General Fund during 2012, 2013 and 2014 fiscal years as shown in the table below (also refer to Appendix A for details).

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<u>Computation of required fund balance at end of fiscal year</u>	FY2012	FY2103	FY2014
Encumbered Fund (expended) thru signed Purchase Order/Contract which were undelivered/unperformed or opened as of fiscal year end.	465,247.00	616,627.00	306,861.00
Threshold of unobligated amount in the fund (PL 16-14)	200,000.00	200,000.00	200,000.00
Computed fund balances at the end of fiscal year	665,247.00	816,627.00	506,861.00
Actual Fund balances at the end of fiscal year	664,859.00	821,053.00	106,331.00
Over/(Under) Transfer of Fund to General Fund	388.00	(4,426.00)	400,530.00

As a result, a net total of \$400,530.00 for the three fiscal years was over remitted to the General Fund. (Refer to Appendix A for more details)

Cause and Recommendation

The Management did not periodically monitor nor reconcile the fund balance of the Revolving Fund each fiscal year from 2012 to 2014. Thus, Management did not know whether there was any excess funds that should be transferred to the General Fund as required.

In addition, there was misunderstanding (by NORMA Director) on two legal opinions provided by the Attorney General's office regarding the implementation of the statutory provision on the excess money that should be transferred from the Observer and Port Sampler Revolving Fund to the General Fund. The NORMA Executive Director thought that according to the legal opinions there should be no transfer of funds. When we clarified the two legal opinions however, the AG said that the funds that they were referring to were the funds received which were subject to rebate. The AG further clarified that the legal opinions stated that this should be accounted for in a sperate trust account and should not be transferred to the General Fund.

We recommend that the NORMA Executive Director should ensure that the Revolving Fund is reconciled at the end of each fiscal year, and to transfer any amount in excess of the \$200,000 threshold from the Revolving Fund into the General Fund as required by law. In addition, if there are funds that are subject to rebate, they should be accounted for and deposited in a sperate trust Fund.

Finding No. 4: Year-End Encumbrances Not Reviewed Or Reconciled

Proper internal and accounting controls require that encumbranes should be regularly reviewed and reconciled to ensure the accuracy of account balances, recordation of necessary adjustments, and for the timely correction of errors including any illegitimate activities.

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During our audit, we found that a number of encumbrances involving Purchase Orders, Contracts and Travel Authorizations (TA) of significant amounts have remained open with no activities (receiving or vouchering) for a long period of time.

For example, out of the \$465,247 total encumbrance at the end of fiscal year 2012, we found that \$143,478 (31%) had no activity since fiscal year 2011. The latter amount included some open encumbrances for TA amounting to \$68,812 with no activity since FY 2008. Furthermore, the \$306,861 open encumbrance at the end of fiscal year 2014 included \$68,479.86 (22%) with no activity since fiscal year 2012. Of this amount, \$57,000 was attributed to open TAs with no activity since fiscal year 2008.

As a result, the fund is not properly adjusted to provide a more realistic amount of the fund balance.

We referred this finding to CID for further investigation.

Cause and Recommendation

The Management did not require a periodic review of open encumbrances to ensure that the proper expenditure accounts for the encumbrances are charged timely in the accounting books. Thus, allowing to provide a clean fund balance and properly reporting the revenues and expenditures of the operations at every end of the fiscal year.

We recommend that the Executive Director should require a periodic review (e.g monthly) of the open encumbrances to ensure the accuracy of the reserved amounts against the fund balance at the end of every fiscal year.

Finding No. 5: The Required Annual Status Report for the Revolving Fund Not Submitted to Congress as Required By Law

FSMC Title 55 Section 631 states that *the President or his designee shall report to the Congress of the Federated States of Micronesia on the status of the (Revolving) Fund at the close of each fiscal year.*

We found that NORMA was not submitting the status of the Fund to congress.

As a result, the Congress and other oversight bodies may be left in the dark. Consequently, transparency over the affairs and the administration of the Revolving Fund is diminished due to the absent of annual reporting as mandated by law.

Cause and Recommendation

This condition occurred because Management was not aware that there is another provision that requires them to prepare a separate report to Congress on the Revolving Fund end of each fiscal

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year. In addition, the Board did not enforce the preparation of the annual reports by Management as required.

We recommended that the Executive Director should prepare the annual report and submit it to the Board of Directors and to the Congress as required by law. We also recommend that the Board should improve its oversight of Management.

Finding No. 6: The Amounts Paid for the Services of the Observers and Port Samplers Were not Subject to Income Tax Withholding and Social Security Taxes

According to best practice, the status of a worker as either an independent contractor or employee must be determined accurately to ensure that workers and businesses can anticipate and meet their tax responsibilities timely and accurately. In determining a worker's status, the primary inquiry is whether the worker is an independent contractor or an employee. For an employer-employee relationship to exist an employer should have control over the performance of services rendered by an employee.

Statutory law requires that an income received from employment should be subject to income withholding and social security taxes.

Based on our analysis the observers and port samplers at NORMA have an employer-employee relationship considering their day-to-day activities. Despite the observers being at sea on different vessels, upon arrival, all information gathered reports to NORMA. For port samplers, they also gather information and report to NORMA (Refer to background).

We found that the amounts received by the observers and port samplers as payment for their services from fiscal years 2012 to 2014 were not subjected to income and withholding taxes as required by statutory law. We were not able to get the amounts paid for Observer and Port Samplers because they were not segregated. However, payments were booked under the "General and Contractual Services" with the following amount:

Description	FY2012	FY2013	FY 20014
General and Contract Services	\$ 345,818	\$374,424	\$519,334
Source: FSM Finance Expenditure Report, unaudited			

As a result, NORMA did not comply with the statutory law regarding remittances of salary and social security taxes. We did not establish the amount of the amount due for salary withholding and social security taxes but the total amount could be material.

Cause and Recommendation

The NORMA management was not aware that the service income of the observers and the port samplers has to be subject to income tax withholding and social security tax. NORMA has been preparing an "Contract for Services by Independent Contractor" (non-employment status) for the

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services but there was no provision in the contract requiring the withholding of income tax and social security taxes or the observers and port samplers pay them directly to the government or to the social security administration.

We recommend that the NORMA Executive Director should implement the withholding of taxes and social security from the income of the observers and port samplers.

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APPENDIX A

Table 1 below indicates the total expenditure and revenue report for fiscal year 2012 – 2014.

	Description	Fiscal Years			
	Revenue	2012	2013	2014	Total
A	Contribution to Observer Program	779,525.00	645,549.00	712,924.00	2,137,998.00
B		-	-	-	-
C	Total Revenue (C=A + B)	779,525.00	645,549.00	712,924.00	2,137,998.00
D	Expenditures				
E	General Contractual Services	348,243.00	374,424.00	519,335.00	1,242,002.00
F	Salaries & benefitsi	29,011.00	29,535.00	63,702.00	122,248.00
G	Travel	17,286.00	37,512.00	17,672.00	72,470.00
H	Miscellaneous	15,982.00	47,884.00	33,616.00	97,482.00
I	Total Expenditures (I= E + F + G + H)	410,522.00	489,355.00	634,325.00	1,534,202.00
J	Excess Revenue over expenditures(J = C-I)	369,003.00	156,194.00	78,599.00	603,796.00
K	Fund balances at the beginning of the year (K = Previous N)	468,922.00	664,859.00	821,053.00	468,922.00
L	Total (L = J + K)	837,925.00	821,053.00	899,652.00	1,072,718.00
M	Transfer to General Fund	173,066.00	-	793,321.00	966,387.00
N	Fund balances at the end of year per system(N = L - M)	664,859.00	821,053.00	106,331.00	106,331.00
	<u>Computation of required Fund balance at end of Year</u>				
O	Obligated thru Purchase Order/Contract	465,247.00	616,627.00	306,861.00	
P	Emergency unobligated money required by law	200,000.00	200,000.00	200,000.00	
Q	Computed Fund balances at the end of year (Q=O+P)	665,247.00	816,627.00	506,861.00	
R	Actual fund balances at the end of year per system (R=N)	664,859.00	821,053.00	106,331.00	
S	Over/(Under) Transfer of Fund to General Fund (S = Q - R)	388.00	(4,426.00)	400,530.00	

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MANAGEMENT RESPONSE



National Oceanic Resource Management Authority

FSM NATIONAL GOVERNMENT

P.O. Box PS122

PALIKIR, POHNPEI, FEDERATED STATES OF MICRONESIA 96941

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July 01, 2015

Mr. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
FSM National Government
Palikir, Pohnpei



12:51pm

Re: Audit on the Observer and Port Sampler Revolving Fund

Dear Mr. Hainrick:

On behalf of the Board of Directors and the Authority, I would like to thank you and your staff for your effort in conducting the audit on the Observer and Port Sampler Revolving Fund. While there are key findings that were identified in the audit report, I would like very much to focus our attention on the recommendations. Accordingly, our responses are as follows:

Finding No. 1: "\$80,000 of Fishing Licensing Fees Was Deposited to Fisheries Observer and Port Sampler Revolving Fund". While we agree that an error in relations to the deposit of \$80,000 was made, the Authority wishes to focus on the recommendation and the need to put in place necessary internal policies and procedures on the use and administration of the referenced Fund. Accordingly, management is tasked to work closely with the Board on drafting and putting in place the needed procedures as soon as practicable. For the record, we would like to take issue on the statement that "the ED did not sign the payment advice that was sent to the Department of Finance & Administration". The statement is not accurate as it was not required then for the Executive Director to sign thus our proposal to remove it from the final draft. To remedy the matter, the Authority has taken the initiative to now require the Executive Director's appropriate signature.

Finding No. 2: "\$12,000 of the Fisheries Observer and Port Sampler Revolving Fund Used for Disallowed Purposes". The Authority is not disputing the findings but rather would like to offer its proposed solution to the matter which once again would require the adoption and subsequent implementation of internal policies and procedures to guide the administration of the said Fund. In this regard, the Authority agrees to the recommendations set out in the report.

Finding No. 3: "Amount of Revolving Fund Balance, in Excess of the \$200,000 Threshold, For Transfer to the General Fund Not Properly Determined At the End of Each Fiscal Year". We take note of the recommendation to ensure that the Revolving Fund is reconciled at the end of the fiscal year and to ensure transfer of any amount in excess of \$200,000 threshold from the Revolving Fund into the General

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Fund. There is a need for NORMA and the Department of Finance and Administration to work closely to improve accounting of the said Fund.

Finding No. 4: "Year-End Encumbrances Not Reviewed or Reconciled". The Authority is in agreement with the findings and recommendations for a periodic review of open encumbrances. NORMA has a lot of observers whose turn-over rate of employment is quite high, thus contributing to the significant amount in open encumbrances involving Travel Authorizations (TA) and open vouchers for a long period of time. The Authority will explore ways with the Department of Finance & Administration on how to appropriately and legally close out the pending TAs.

Finding No. 5: "The Required Annual Status Report for the Revolving Fund Not Submitted to Congress as Required by Law". The Authority is not disputing the findings but would like to emphasize the need to prepare the report and submit it to Congress as required by law. The Board will also improve its oversight of Management to ensure the required Annual Reports are done.

Finding No. 6: "The Amount Paid for the Services of the Observers and Port Samplers were not Subject to Income Tax Withholding and Social Security". We welcome the findings and Management with guidance from the Board will explore options available to remedy the situation. This may encompass the options to include provisions in the Independent Contractor's contract requiring the Independent Contractor to be solely responsible for any amount due for salary withholdings and social security. Another option that can also be entertained would require discussions with all key stakeholders in the Government on how this can be remedied.

The above are our comments and responses to the various issues laid out in the audit. We once again thank you and your staff for your effort in conducting the audit and sharing these issues with NORMA.

Kind regards,



Jackson T. Soran
Acting Executive Director

Cc: Board of Directors, NORMA

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ONPA's EVALUATION OF MANAGEMENT RESPONSE

We requested for formal management response from both the Director of NORMA and the NORMA board and in response to our audit, we have received a collaborative effort from both in one management response.

Our comments on the management response follow:

1. Management Response – **“80,000 of Fishing Licensing Fees Was Deposited to Fisheries Observer and Port Sampler Revolving Fund”**. While we agree that an error in relations to the deposit of \$80,000 was made, the Authority wishes to focus on the recommendation and the need to put in place necessary internal policies and procedures on the use and administration of the referenced fund. Accordingly, management is tasked to work closely with the Board on drafting and putting in place the needed procedures as soon as practicable. For the record, we would like to take issue on the statement that “the ED did not sign the payment advice that was sent to the Department of Finance & Administration”. The statement is not accurate as it was not required then for the Executive Director to sign thus our proposal to remove it from the final draft. To remedy the matter, the Authority has taken the initiative to now require the Executive Director's appropriate signature.

ONPA Comments – We would like to thank NORMA Management and the Board for taking our recommendation for this finding into consideration.

Furthermore, in reference to the issue on the statement regarding the Executive Director's signature as being inaccurate, we would like to make some clarifications to that statement. To begin with, the report fully states the following: “The ED did not sign the payment advice that was sent to the Department of Finance & Administration but a written notation about the ED's verbal instruction was recorded on the payment advice by the preparer of the form”. In our statement, we simply stated that the payment advice sent to the Department of Finance & Administration was missing a signature; however, on that form a written notation indicated that the funds will be posted accordingly per the ED's verbal instruction. Further inquiry into the matter of a missing signature, again, we were told by the preparer of the payment advice that the ED instructed to post the funds accordingly. Although we did not indicate that the ED required a signature, we noted that the form had a space for signature and date. This is the same form that has been in use ever since.

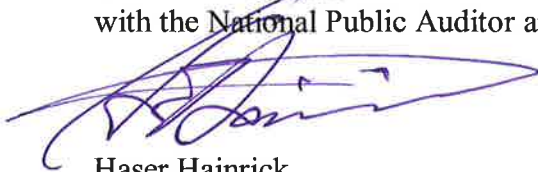
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NATIONAL PUBLIC AUDITOR'S COMMENT

We would like to thank the management and staff of NORMA and DFA and other departments for their assistance and cooperation during the course of the audit.

In addition to providing copies of the final report to the President and Members of the FSM Congress, we will also send copies to the Vice President, NORMA Board of Directors, Acting Executive Director and the Deputy Director of NORMA, and the Secretary of the Department of Resource and Development. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office can be found on the last page of this report along with the National Public Auditor and staff that made major contributions to this report.



Haser Hainrick
National Public Auditor

July 6, 2015

**Office of the National Public Auditor
Audit on the Observer and Port Sampler Revolving Fund
Audit Report No. 2015-05**

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

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ACKNOWLEDGEMENTS	<p>In addition to the contact named above, the following staff made key contributions to this report:</p> <p>Manuel San Jose CPA, CGAP, CIA, CISA, CRMA, Audit Manager Elina Paul, Auditor-In-Charge Erick Paul, Staff Auditor</p>
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