

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**OMNIBUS INFRASTRUCTURE
DEVELOPMENT PROJECT
FUNDED BY
ASIAN DEVELOPMENT BANK LOANS
2099-FSM (SF) AND 2100-FSM (OCR)
AND
FEDERATED STATES OF MICRONESIA**

**STATEMENT OF PROJECT ACCOUNT
AND
INDEPENDENT AUDITOR'S REPORT
REPORT NO. 2016 - 07**

YEAR ENDED SEPTEMBER 30, 2014



Haser H. Hainrick
National Public Auditor

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

Statement of Project Account
Year Ended September 30, 2014

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INDEPENDENT AUDITORS' REPORT

His Excellency Peter M. Christian, President
Honorable Members of the FSM 19th Congress

Report on the Financial Statement

We have audited the accompanying statement of project account (financial statement) of the Federated States of Micronesia (FSM) Omnibus Infrastructure Development Project (the "Project") financed by Asian Development Bank (ADB) Loan No.'s 2099-FSM (SF) and 2100-FSM (OCR) for the year ended September 30, 2014, and the related notes to the financial statement, which collectively comprises of schedule of sources and uses of funds. The Project is executed by the Department of Transportation, Communication and Infrastructure (TC&I).

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note (1) B to the financial statement; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the management's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

Because of the matter described in the Basis for Qualified Opinion paragraph, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Basis for Qualified Opinion

As described in Note 7 to the financial statement, we found material amounts of paid disbursements either without proper supporting documentation or without underlying source documentation on file (invoices, contracts, etc.). Thus, the accuracy, validity and propriety of those disbursements could not be ascertained. As a result, we were unable to obtain sufficient and appropriate evidence supporting disbursements pertaining to FY 2014 and to cumulative disbursements as of the end of FY 2014 totaling \$1,331,441 and \$2,249,377, respectively. We consider the amounts material considering that such represent 42% of the total disbursements in FY 2014 and 13% of the total cumulative disbursements as of the end of FY 2014, respectively.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statement referred to above present fairly, in all material respects, the financial position as of September 30, 2104 and for the year then ended in accordance with the cash basis of accounting.

Basis of Accounting

We draw attention to Note (1) B of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the loan proceeds and disbursements of the Project and is not intended to present fairly the financial position and results of operation of the Project in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016, on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and loan 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 an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal controls over financial reporting and compliance.



Haser Hainrick
National Public Auditor

September 22, 2016

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

Statement of Project Account
 Year Ended September 30, 2014

	Fiscal Year 2014				Cumulative (Audited – Note 6)			
	ADB Share		FSM	Total	ADB Share		FSM	Total
	Loan 2099	Loan 2100	Share		Loan 2099	Loan 2100	Share	
Cash receipts:								
Loan proceeds - Direct	\$1,584,949	\$ 533,226	\$ -	\$2,118,175	\$10,781,736	\$3,930,478	\$-	\$14,712,214
Loan proceeds -Imprest	221,563	39,212	-	260,775	972,964	50,000	-	1,022,964
Contributions from FSM	-	-	669,076	669,076	-	-	1,362,911	1,362,911
Total cash receipts	1,806,512	572,438	669,076	3,048,026	11,754,700	3,980,478	1,362,911	17,098,089
Cash disbursements:								
Civil Works, Consultant Services, Equipment & Material	1,994,832	533,225	669,076	3,197,133	11,726,048	3,933,192	1,317,820	16,977,060
Total Disbursement	1,994,832	533,225	669,076	3,197,133	11,726,048	3,933,192	1,317,820	16,977,060
Net change in cash	(188,320)	39,213	-	(149,107)	28,652	47,286	45,091	121,029
Cash at beginning of year	216,972	8,071	45,091	270,134	-	-	-	-
Cash at end of year	\$ 28,652	\$ 47,284	\$ 45,091	\$ 121,027	\$ 28,652	\$ 47,286	\$45,091	\$ 121,029

See accompanying notes to statement of project account. \$1 to \$2 difference was due to rounding.

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

Notes to Statement of Project Account
 September 30, 2014

(1) Organization and Summary of Significant Accounting Policies

A. 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 (OCR) 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 partly funding the Omnibus Infrastructure Development Project. The original allocation of the loans to different states is shown in table 1 below. 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 \$11,754,700 and \$3,980,478, respectively, or a total amount of \$15,735,178 as of September 30, 2014.

Table 1
Allocation of ADB Loans

Name of States	2099-ADF		2100-OCR	Totals
	(SDR)	US (\$)		
Chuuk	1,773,000	\$ 2,599,277	\$2,800,000	\$ 5,399,277
Kosrae	2,183,000	3,200,351	0	3,200,351
Pohnpei	3,752,000	5,500,558	2,000,000	7,500,558
Yap	1,978,000	2,899,814	0	2,899,814
Totals	9,686,000	\$14,200,000	\$4,800,000	\$19,000,000

The FSM Department of Transportation, Communication & 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 for the Project 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, 2014, and solely incorporates the activities of the Project.

B. 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.

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

Notes to Statement of Project Account
 September 30, 2014

(1) Organization and Summary of Significant Accounting Policies, Continued

B. Basis of Accounting, Continued

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. Commitments are recorded separately from accounting records and are not recorded in the financial statement. Payments for project expenditures have been made using either Direct Payments or the Imprest Account method following ADB payment procedures.

C. Cash

Custodial credit risk is the possibility that in the event of a bank failure, the Project's deposits may not be returned. 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 bank accounts. As of September 30, 2014, the carrying amount of the Project's total cash was \$121,026, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, the Project's total deposit balance of \$121,026 is fully insured by the FDIC.

(2) ADB Imprest Fund Account

During the year ended September 30, 2014, the FSM National Government made available ADB loan proceeds in the amount of \$260,775 for expenditures incurred under certain Project categories.

A reconciliation of the ADB Imprest Account maintained for each loan account as of September 30, 2014, is as follows:

Description	Loan 2099	Loan 2100	Total
Per Bank	\$ 73,743	\$ 47,283	\$ 121,026
Reconciled Balance:			
Bank balance for each loan	\$ 28,652	\$ 47,283	\$75,935
FSM Share of overpayment by a contractor deposited to the Imprest Acct	45,091	-	45,091
Total	\$ 73,743	\$ 47,283	\$ 121,026

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

Notes to Statement of Project Account
September 30, 2014

(3) ADB Imprest Fund Account, Continued

In FY12, a closed contract was found to have an overpayment of \$225,454 which the contractor agreed to return. In the Statement of Project Account for the same year, such overpayment was proportionately deducted from expenditures recorded per the ADB Loan 2099 and the FSM share in the amount of \$180,363 and \$45,091, respectively. However, the refunded amount, including the FSM share of refund, was deposited in January 2013 to the Imprest Fund account maintained for ADB Loan # 2099. Thus, the amount of \$45,091 should be refunded to FSM for its share of the refund. As of September 22, 2016, the date of this report, the transfer of this amount to the FSM has not been affected.

(4) FSM Contributions

Under the provisions of the loan agreement, the FSM National Government is required to provide counterpart funding (FSM Share) for expenditures incurred under certain categories of the Project. As of the year ended September 30, 2014, the FSM National Government made available a total of \$1,362,911 in counterpart funding.

Description	Amount
Contribution from FSM in FY2014	\$ 669,076
Cumulative FSM Share as of 9/30/13	693,835
Total FSM Share as of September 30, 2014	\$ 1,362,911

(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 and cash disbursement sub-categories were calculated using:

- Delloite & Touche LLP audited Financial Statements for the Fiscal Year ended 2011 dated February 13, 2012 with an unqualified opinion on the said financial statement.
- ONPA audited Financial Statements for Fiscal Years 2008, 2009, 2010, 2012 and 2013, dated January 6, 2009, March 3, 2010, March 25, 2011, October 21, 2013, and September 29, 2014, respectively.
- This report is for Fiscal Year 2014.

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

Notes to Statement of Project Account
 September 30, 2014

(7) Supporting Documents

During previous audits, we found paid disbursements in which the accuracy, validity and propriety could not be ascertained because either they were without proper supporting documentation or the TC&I's copies of documentation were not on file, missing and were not available for examination. This caused the audit opinion on previous audit report/s to be qualified because related payments were material. We requested the availability of these documents for examination this fiscal year but they were not made available. In addition, we again noted the same conditions during the review of disbursements supporting transactions for the current fiscal year 2014.

We have analyzed the aggregate impact of these disbursements on the current financial statement and on the cumulative statement and found that they have a material impact on the financial statement as follows:

Table 2
No Supporting Documentations

Description	Impact	
	FY 2014	Cumulative Amount
Previous fiscal year findings not yet closed		
FY 2010 - No files available		\$ 32,358.72
FY2012 - Lack of supporting documents		417,579.50
FY2012 - No supporting documents on Change Orders as to check correctness of overpayment		225,454.00
FY2013 - Lack of supporting documents		242,543.49
Sub-total		917,935.71
Current fiscal year finding		
FY 2014 - Lack of Supporting Documents	540,018.77	540,018.77
FY 2014 - No files available	791,422.25	791,422.25
Sub-total	1,331,441.02	1,331,441.02
Total	\$ 1,331,441.02	\$ 2,249,376.73
Total Disbursements	3,197,133.00	16,977,060.00
% of Disbursement not examined	42%	13%
Impact on Financial Statement	Material	Material



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

RE: Audit of ADB Loans 2099-FSM (SF) and 2100-FSM (OCR): 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, 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, the statement of project account (financial statement) of the Federated States of Micronesia Omnibus Infrastructure Development Project ("the project") financed by Asian Development Bank Loans 2099-FSM (SF) and 2100-FSM (OCR) as of and for the year ended September 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated September 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Project's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, we described in the accompanying Schedule of Findings and Responses the deficiencies that we consider to be material weaknesses and 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 statement 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 items 2014-01 through 2014-03 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 and Responses as items 2014-04 through 2014-09 to be significant deficiencies.

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

September 22, 2016

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 (OCR)
(Omnibus Infrastructure Development Project)

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-01 – 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 payments against the ADB's subsidiary ledger maintained at Loan Financial Information System (LFIS) disclosed transactions either paid or debited by ADB but not recorded by the Project Accountant. We also noted that no documents were filed at TC&I for those transactions.

Date	Ref	Description	Amount	
			ADB 2099	ADB 2100
10/03/13	PD09D	Unknown, no documents on file	9,781.00	
10/15/13	DP084	Unknown, no documents on file	58,626.53	
12/19/13	PD024	Unknown, no documents on file	15,870.44	
01/15/14	CAP	Capitalization of Interest	68,658.90	
01/15/14	CAP	Capitalization of Interest		15,464.66
02/06/14	IA08B	Unknown, no documents on file		39,211.64
07/15/14	CAP	Capitalization of Interest	72,443.74	
07/15/14	CAP	Capitalization of Interest		17,806.48
08/01/14	IA011	Unknown, no documents on file	45,344.51	
08/05/14	DP098	Unknown, no documents on file		167,732.00
Sub-Total			270,725.12	240,214.78
Total				<u>\$510,939.90</u>

Source: ADB LFIS Website

Cause: The Project Accountant has not been reconciling the Project's records with the ADB's LFIS.

Effect: Failure to perform account reconciliation and review resulted in some disbursement transactions in the amount of \$510,940 not being recognized by the Project Accountant in her records.

Prior Year Status: The same condition was cited in the fiscal years 2011, 2012 and 2013 financial audits.

Recommendation: The Project Accountant should regularly (e.g. monthly) reconcile her records with the ADB's subsidiary ledger maintained at LFIS to ensure that all transactions are recorded in the books.

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

Management Response and Action Plan: *Recommendation noted.*

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

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-02 – Gaps In Sequential Numbering of Withdrawal Applications

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 several gaps in the numbering sequence for Withdrawal Applications prepared by the Project Accountant and Chuuk Public Utility Corporation (CPUC).

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

Effect: The completeness of Withdrawal Applications for Direct Payment requests could not be ascertained. The gaps in numbering sequence also increased the risk that withdrawal applications maybe missing and may not be monitored for payment and recording purposes.

Prior Year Status: This condition was also cited in the fiscal year 2013 financial audit

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

Management Response and Action Plan: *Recommendation noted*

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

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-03 – Unallowable Cost

Criteria: For the related project at Chuuk State, Part B of ADB Loan 2099 for funding the *Electrical Power Rehabilitation* provides that the fund shall be used for:

- (i) *Design, construction and operation of a replacement power generation station for Weno Island (approximately 7 megawatts), with modularized diesel engine-generator units;*
- (ii) *Power distribution upgrades, including installation of approximately 1,260 pre-payment meters;*
- (iii) *Decommissioning and environmental remediation of the existing power station; and*
- (iv) *Institutional strengthening utilizing external private sector support for operation, maintenance and management functions.*

Condition: We noted that the Chuuk Public Utilities Corporation (CPUC) used the ADB loan proceeds to purchase vehicles as follows:

ADB Ledger					
	Date	Description	Ref	Date Posted	Amount Paid
1	5-Jun-14	Pick- up Vehicle	IA011	07/31/2014	\$22,462.08
2	5-Jun-14	Pick- up Vehicle	IA011	07/31/2014	\$5,609.35
3	5-Jun-14	Pick- up Vehicle	IA011	07/31/2014	\$2,706.40
Total					\$30,777.83

Cause: There was weak control regarding compliance with the requirements of the loan covenants.

Effect: An unallowable cost of \$30,777.83 was disbursed from the ADB Loan 2099.

Recommendation: We recommend that the project Administration strengthen the controls to ensure strict compliance with the requirements of the contract. We also recommend that the un-allowed cost be returned to the Imprest account.

Management Response and Action Plan: *Recommendation noted. This cost was incurred for operation, maintenance and management functions in accordance with item (iv) of fund utilization hence not "unallowable".*

ONPA's Evaluation of Management Response: We believe that the purchases were not allowable uses of loans. We further believe that the proceeds these long-term loans (25 years) should not be used to purchase assets with short-term life (e.g., 5 years). Hence, we retain the audit recommendation.

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

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-04 – 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 management based on the underlying records. Furthermore, the Project Accountant should maintain adequate records and bookkeeping procedures that would allow the preparation of the statement of project account and fast retrieval of documents supporting transactions.

Condition:

- The auditor has been preparing the Statement of Project Account based on client records and obtaining accountants/management signature of the statement.
- Files 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 the cash basis method of accounting; and monitoring of construction contract, advances to contractors and retention payables.

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

Prior Year Status: This condition was also cited in the previous fiscal years, 2012, and 2013 financial audits.

Recommendation: We recommend the following:

- The Project Accountant prepares the Statement of Project Account under the supervision of the Department of Finance and Administration.
- The Department of TC&I and Department of Finance and Administration jointly evaluate the qualifications of the current Project Accountant in terms of accounting and bookkeeping abilities.

Management Response and Action Plan: *Recommendation noted. It should also be noted that the recommendation would be applicable for the Project Accountant who was in charge during 2013-14 and is no longer with DTC&I and not the present Project Accountant.*

ONPA's Evaluation Management Response: To avoid the recurrence of the same nature of finding, the recommendation is also applicable to current Project Accountant.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100-FSM (OCR)
(Omnibus Infrastructure Development Project)
Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-05 – Unrecorded FSM Shares

Criteria: The Project Accountant should keep complete records and files supporting payment requests and/or actual payments related to FSM Share.

Condition: The Project Accountant did not have complete records, files, and documents supporting payments made by FSM for its share (e.g.; 20%) on the project costs.

Cause: The Project Accountant did not maintain records and files to properly account for the FSM share of the project costs.

Effect: As a result, \$596,443.52 was disbursed but records and supporting documents were not maintained by the Project Accountant (See Attachment I, Page 22). In addition, these transactions were not fully recorded in the financial statement. However, the management approved that the amount be taken up as an audit adjustment in the project account.

Recommendation: We recommend the Project Accountant should;

- File and maintain all documents supporting the transactions for the FSM Share;
- Update, reconcile records and payments for the FSM share of the project to accurately reflect them in the project account record; and
- Maintain and file clear copies of the original documents.

Management Response and Action Plan: *Recommendation noted. However, an audit of the Compact Ledgers and supporting documents available with Finance would have substantiated the disbursements.*

ONPA's Evaluation Management Response: It is the responsibility of the Project Accountant to ensure that all the project costs, including the FSM's share, are accounted for as part of the financial statement of the Project.

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

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-06 – Supporting Documentations Not Properly Filed

Criteria: Section 7.5 of the ADB Disbursement Handbook states: “...supporting documents should be retained by the borrower for annual audit of project financial statements and/or ADB’s review. ADB reserves the right to request submission of such documents if deemed necessary...”

Condition: The Project Accountant has not been properly filing the documents supporting the financial statement transactions.

During the fiscal year 2014, we found 7 transactions totaling \$540,018.77 and 20 transactions totaling \$791,422.25 that were not properly supported with necessary documents or files properly maintained (See Attachment II & III, Page 23 & 24).

During the previous audits (FY2010 – FY2013), some requests for direct payments were not properly supported, certified, and other supporting documents were not clear. These accumulated to a total of \$917,935.71 (See Attachment IV, Page 25).

Description	Impact	
	FY 2014	Cumulative Amount
Previous fiscal year findings not yet closed		
FY 2010 - No files available		\$ 32,358.72
FY2012 - Lack of supporting documents		417,579.50
FY2012 - No supporting documents on Change Orders as to check correctness of overpayment		225,454.00
FY2013 - Lack of supporting documents		242,543.49
Sub-total		<u>\$ 917,935.71</u>
Current fiscal year finding		
FY 2014 - Lack of Supporting Documents	540,018.77	540,018.77
FY 2014 - No files available	791,422.25	791,422.25
Sub-total		<u>1,331,441.02</u>
Total	\$ 1,331,441.02	\$ 2,249,376.73
Total Disbursement per Audited FS	3,197,133.00	16,977,060.00
% of Disbursement not examined	42%	13%
Impact on Financial Statement	Material	Material

Cause: The Project Accountant did not maintain adequate filing system so that documents supporting the disbursements could easily be located and accounted for. Furthermore, there was a lack of control over compliance regarding proper retention of supporting documentations for verification purposes.

FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOANS 2099-FSM (SF) AND 2100-FSM (OCR)
(Omnibus Infrastructure Development Project)
Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-06 – Supporting Documentations Not Properly Filed, Continued

Effect: As a result, a cumulative amount of \$2,249,377 was disbursed and could be vulnerable to question costs.

Recommendation: We recommend that the Project Accountant should comply with the requirements of the ADB Disbursement Handbook with regard to filing system and maintenance of other required documents in file.

Management Response and Action Plan: *Recommendation noted. However, the accumulated payments for \$517,327 were properly supported and, not otherwise as audit reported.*

ONPA's Evaluation of Management Response – We have verified and were satisfied with the supporting documents that were presented after discussing this finding with the auditee. Hence, we removed the reference to the findings on \$517,327 retention payments in this final audit report.

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

Schedule of Findings and Responses
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Finding No. 2014-07 – 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: The Department of Finance and Administration 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.

Prior Year Status: This condition was also cited in the fiscal years 2010, 2011, 2012, and 2013 financial audits.

Recommendation: We recommend the consideration of 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: *FSM is not supposed to earn revenue or interest on the loan. Precisely the reason no withdrawals from the Loan Account are allowed to be made in respect of any local taxes (p16. Schedule 3. Loan Agreement L2099). Hence this recommendation cannot be followed.*

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

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-08 – Maintenance of Imprest Fund

Criteria: Section 10.15 of the ADB Loan Disbursement Handbook requires that after eligible expenditures are incurred and paid from the imprest account, the borrower requests liquidation and replenishment of the imprest account by submitting a withdrawal application and summary sheet of full documentation is required, or statement of expenditures (SOE) if SOE procedure is approved.

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

Condition: During the fiscal year 2014, twenty eight requests in the amount of \$312,972 were prepared and submitted to ADB by the Project Accountant but have remained un-liquidated/un-replenished.

	Date	Description	ADB 2100-OCR		ADB 2099-ADF	
			Ref	Amount	Ref	Amount
1	10/14/13	Various Purchase Orders			IA0161	5,340.45
2	01/13/14	Consultancy Fee	IA0215	3,450.00		
3	08/04/14	Replenishment			IA013	134,747.79
4	08/07/14	Consultancy Fee	IA0197	24,914.29		
5	08/07/14	Office Supplies & Entry Permit	IA0198	2,164.50		
6	09/22/14	Minor Project - Supply of HT Cables			IA012	21,010.69
7	09/23/14	Minor Project - Supply of HT Cables			IA012	5,319.00
8	09/24/14	Minor Project - Supply of HT Cables			IA012	20,207.01
9	09/25/14	Minor Project - Supply of HT Cables			IA012	19,985.38
10	09/26/14	Supply of 3 Phase meters			IA012	221.63
11	09/27/14	Supply of 3 Phase meters			IA012	13,715.69
12	10/12/14	Salary			IA012	653.85
13	10/19/14	Salary			IA012	653.85
14	07/04/14	Salary			IA012	653.85
15	07/04/14	Salary			IA012	653.85
16	07/04/14	Salary			IA012	653.85
17	07/04/14	Salary			IA012	653.85
18	07/04/14	Salary			IA012	653.85
19	07/04/14	Salary			IA012	653.85
20	07/04/14	Salary			IA012	653.85
21	07/04/14	Salary			IA012	6,129.00
22	07/04/14	Salary			IA012	10,000.00
23	07/04/14	Salary			IA012	10,000.00
24	07/04/14	Salary			IA012	10,000.00
25	07/04/14	Unidentified Imprest Account			IA012	720.00
26	07/04/14	Unidentified Imprest Account			IA012	3,849.60

Schedule of Findings and Responses

Year Ended September 30, 2014

			ADB 2100-OCR		ADB 2099-ADF	
	Date	Description	Ref	Amount	Ref	Amount
27	07/04/14	Unidentified Imprest Account			IA012	4,272.36
28	07/04/14	Unidentified Imprest Account			IA012	11,040.00
			Totals	\$ 30,528.79		\$ 282,443.25
					\$312,972.04	

ONPA's Evaluation of Management Response: The ADB procedures for the Imprest System require that the TC&I should request for replenishments. The Department of TC&I should provide for justification if the procedures would not anymore be implemented.

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

Schedule of Findings and Responses
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Finding No. 2014-09 – Unpaid Withdrawal Applications

Criteria: Section 7.2 of the ADB Loan Disbursement Handbook requires that a signed withdrawal application (WA) must be submitted to ADB together with a summary sheet and the required supporting documents.

Condition: During the fiscal year 2014, eight Withdrawal Applications in the amount of \$853,966 were prepared and submitted to ADB by the Project Accountant for direct payments but have remained unpaid.

	Date	Description	ADB 2100-OCR		ADB 2099-ADF		Payment	Bill
			Ref	Amount	Ref	Amount		
1	10-Jan-14	Consultancy.			PD090	\$54,398.00	-	\$ 54,398.00
2	14-Feb-14	Cables			DP21A	32,378.87	-	32,378.87
3	17-Feb-14	Water Supply Rehabilitation & Augmentation			DP093	97,311.20	-	97,311.20
4		Water Supply Rehabilitation & Augmentation			DP095	101,277.72	-	101,277.72
5	14-Aug 14	Consultancy			DP101	220,809.00	-	220,809.00
6	2-Sep-14	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	DP102	\$240,477.00			-	240,477.00
7	19-Sep-14	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	DP103	2,766.00			-	2,766.00
8	20-Sep-14	Rehabilitation of the Utwe Water Supply System			DP107	104,548.13	-	104,548.13
Totals				<u>\$243,243.00</u>		<u>\$610,722.92</u>	-	<u>\$853,965.92</u>

Cause: The Project Accountant was not aware that Withdrawal Applications sent to ADB for Direct Payments were not processed and paid. Thus, the Project Accountant did not follow up with ADB on the unpaid Withdrawal Applications.

Effect: The unpaid Withdrawal Applications would accumulate, not paid on a timely basis, and not recorded in the financial statement.

Recommendation: We recommend that the Project Accountant should regularly follow up with ADB the status of unpaid Withdrawal Applications for direct payment to ensure timely recording in the project account or timely disposition of problems if there is any.

Management Response and Action Plan: *Recommendation noted. However,*

- a. *None of the listed items have remained unpaid and hence the "condition" is incorrect and should be deleted. There is no mechanism of feedback from ADB on direct payment other than accessing their website;*
- b. *DP 101 (item 6) pertains to "PIA Consultancy" and not "Materials" and should be corrected; and*

- c. *Attachment II shows payments were released by ADB for DP21A, DP095 and DP101. Furthermore, it should be noted that without approval of Secretary of Finance or "Withdrawal Application" without relevant attachments would never be considered by ADB for processing payments. Fact that payments have been released by ADB implies that only approved Withdrawal Applications were sent to them*

ONPA's Evaluation of Management Response

1. On items "a" and "c", these withdrawals applications were actually paid in fiscal year 2015 and not in 2014. They have been long outstanding accounts before the payments were made. Hence, we reported them as findings.
2. On item "b", we reflected the correction on the report.
3. As additional note on item "c", any standard control system requires that copies of supporting documents be retained on file for verification and for protection purposes.

Unrecorded FSM Shares For FY2014

	Date	Description	FSM Share		
			Check #	Date Paid	Amount Paid Unrecorded
1	10/14/13	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	104931	11/22/13	26,474.20
2	10/14/13	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	104975	1/17/14	21,137.00
3	11/19/13	Contractor/Equipment & Materials	104975	1/17/14	14,584.00
4	1/10/14	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	105031	3/19/14	17,718.50
5	1/24/14	Kolonia Sewage Treatment Plant Rehabilitation & Augmentation	105031	3/19/14	19,840.40
6	3/18/14	Pohnpei Progress Glaim #15	105194	8/21/14	6,889.00
7	7/17/14	Water Supply Phase II	105197	8/21/14	90,431.10
8	10/9/13	Kolonia Sewage Treatment Plant Rehabilitation & Augmentation	104879	10/9/13	58,007.00
9	11/22/13	Change Order #4 – 20%	104930	11/22/13	14,656.63
10	11/22/13	PNI Sewerage Reticulation Project 20%	104930	11/22/13	22,262.53
11	11/22/13	Change Order #3 & 4 – 20%	104930	11/22/13	19,424.35

Sub-total \$ 311,424.71

Unrecorded FSM Shares – FY2011

	Date	Description	Check No.	Amount Paid Unrecorded
1	10/12/2010	Contractual Services	102255	115,359.02
2	12/3/2010	Contractual Services	102422	43,341.11
3	3/3/2011	Inflow & Infiltration Study	102633	18,579.52
4	3/30/2011	Contractual Services	102705	51,458.58
5	6/23/2011	Contractual Services	102882	5,014.99
6	7/20/2011	Contractual Services	102947	74,470.81
7	No Date	Contractual Services	102978	72,745.36
8	8/26/2011	Contractual Services	103049	28,546.79
9	8/26/2011	Contractual Services	103049	57,371.95

Total \$ 466,888.13

Per Audited Financial Statement for FY2011 278,769.00

Adjustment Amount \$ 188,119.13

Unrecorded FSM Shares – FY2013

	Date	Description	Check No.	Amount Paid Unrecorded
1	10/19/2012	Inflow & Infiltration Study	104052	22,669.68
2	4/23/2013	Contractual Services	104479	74,230.00

Total \$ 96,899.68

Grand Total Unrecorded FSM share Current and Prior Years \$ 596,443.52

Supporting Documents Not Properly Filed**Current Year FY2014**

	Date	Description	Ref	2100-OCR	2099-ADF	Date	ONPA Comment
FY2014 – No Supporting Documents and Others							
1	10/14/13	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	PD086A	\$ 26,421.00	\$ -	12/11/2013	-no summary sheet
2	11/18/13	Equipment & Supplies	PG003	62,258.10	-	12/11/2013	-Not supported -Not reviewed by project manager -Not approved by Secretary of TC&I -Unable to determine validity and propriety due to absence of supporting documents on file
3	11/21/13	Consultancy (4 States)	PD088	-	33,941.00	12/9/2013	-No Withdrawal Application
4	01/10/14	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	DP091B	-	53,155.50	2/19/2014	-No supporting documents on file -No Withdrawal Application -Unable to determine validity and propriety due to absence of supporting documents on file
5	08/08/14	Water Supply Phase II	DP100	-	81,413.87	9/4/2014	-Copies of supporting documents not clear
6	09/02/2014	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	DP102	240,477.60	-	12/22/2014	-No supporting documents evidencing retained amounts that require payments
7	09/10/14	ABE Mart Line Materials	DP291	-	42,351.70	7/18/2014	-Not supported with documents -No Withdrawal Application -Unable to determine validity and propriety due to absence of supporting documents on file.
Sub-total				329,156.70	210,862.07		
Grand total				\$540,018.77			

No Documents Filed

	Date	Description	Ref	2100-OCR	2099-ADF	Date	ONPA Comment
FY2014 – No Documents Filed							
1	10/14/13	Pohnpei Sewer - Refurbishment & Augmentation of Wastewater	PD086B	\$ -	\$ 58,126.00	12/11/2013	-No documents on file
2	12/07/13	Power supply feasibility study-Tonoas, Chuuk	DP028	-	25,750.00		-No documents on File
3	01/24/14	Kolonia Sewage Treatment Plant Rehabilitation & Augmentation	DP092A	19,840.00	-	3/20/2014	-No documents on File
4	02/10/14	Cables (2)	DP021	-	17,186.46	2/19/2014	-No documents on File
5	04/05/14	Transformer (2)	DP019	-	151,657.00	4/21/2014	-No documents on File
6	05/08/14	Cables (2)	DP022	-	103,079.44	5/5/2014	-No documents on File
7	06/14/14	Cables (2)	DP025	-	162,920.70	6/30/2014	-No documents on File
8	09/21/14	Minor Project - Supply of HT Cables	DP026B	-	57,559.65	8/18/2014	-No documents on File
9	09/22/14	Minor Project - Supply of HT Cables	IA012	-	21,010.69	10/16/2014	-No documents on File
10	09/23/14	Minor Project - Supply of HT Cables	IA012	-	5,319.00	10/16/2014	-No documents on File
11	09/24/14	Minor Project - Supply of HT Cables	IA012	-	20,207.01	10/16/2014	-No documents on File
12	09/25/14	Minor Project - Supply of HT Cables	IA012	-	19,985.38	10/16/2014	-No documents on File
13	09/26/14	Supply of 3 Phase meters	IA012	-	221.63	10/16/2014	-No documents on File
14	09/27/14	Supply of 3 Phase meters	IA012	-	13,715.69	10/16/2014	-No documents on File
15	07/04/14	Unidentified Imprest Account Expenditures	IA012	-	720.00	10/16/2014	-No documents on File
16	07/04/14	Unidentified Imprest Account Expenditures	IA012	-	3,849.60	10/16/2014	-No documents on File
17	07/04/14	Unidentified Imprest Account Expenditures	IA012	-	4,272.36	10/16/2014	-No documents on File
18	07/04/14	Unidentified Imprest Account Expenditures	IA012	-	11,040.00	10/16/2014	-No documents on File
19	08/04/14	Replenishment	IA013	-	55,750.00	2/17/2015	-No documents on File
20	09/16/14	1.2 MW Medium - Speed Diesel Generators	IA08B	39,211.64	-	2/6/2014	-No documents on File
Sub-total				59,051.64	732,370.61		
Grand total				\$791,422.25			

Prior Years

	Date	Description	Ref	2099	Date	ONPA Comment
FY2010						
1		10% of lumpsum amount, Month of April 2010	DP010	\$ 32,358.72	6/22/10	No Supporting Documents on file
Sub-total				\$ 32,358.72		
FY2012						
1	12/9/2011	Payment Application No. 9	DP035	\$ 122,021.55	1/18/2012	-Not certified by certification official -Not authorized by Secretary of DoF&A
2	4/27/2012	Payment for Month of October 2011	DP 045	137,480.58	6/20/2012	-Withdrawal Application was not properly supported
3	12/16/2011	20% Advance Payment	DP033	158,077.37	12/16/2011	-Withdrawal Application was not properly supported
Sub-total				\$417,579.50		
4	FY2012	No supporting documents to check correctness of overpayment		\$225,454.00		
Sub-total				\$643,033.50		
FY2013						
1	10/25/12	Consultancy (4 States)	DP 062	\$ 11,076.00	11/7/2012	-Supporting documents not clear
2	11/1/12	Equipment/Material (Chuuk)	DP 063	204,494.49	3/22/2013	-No supporting documents/Revision was made between CPUC and ADB.
3	11/15/12	Consultancy (4 States)	DP 066	26,973.00	12/5/2012	-No supporting documents (Escalation Claims on Remuneration and invoice)
Sub-total				\$242,543.49		

Grand Totals FY2010 – FY2013 \$917,935.71

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