

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

Independent Auditor's Report on Applying Agreed Upon Procedure

**“Project for Prevention of Non-Communicable Diseases in Sokehs
Municipality, Pohnpei State”**

Report No. 2016-03



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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December 22, 2015

His Excellency Peter M. Christian
Honorable Members of the 19th FSM Congress
Federated States of Micronesia

RE: Independent Auditor's Report On Applying Agreed Upon Procedures: "Project For Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State"

We have completed our Agreed-Upon Procedures engagement for the project for "Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State". The project was funded by the Embassy of Japan to the FSM through a grant of \$120,569 and was awarded to the College of Micronesia-FSM as the recipient. The conditions of the grant required an audit, thus, the College of Micronesia requested the ONPA to conduct one. Based on the request, we conducted an agreed upon procedures engagement to report findings based on specific procedures on the subject matter.

In this type of engagement, the clients are responsible for the sufficiency of the agreed-upon procedures and we make no representation in that respect. Our responsibility is to perform the agreed-upon procedures and report the results.

The procedures that we performed consist of (1) confirming that the grant was used properly for the purchase of goods and services for the project and that all expenses were valid and properly supported, (2) identifying existence of the project, (3) ensuring that applicable laws and regulations regarding procurement and competitive bidding were adhered to during the selection and acquisition of products and/or services, and (4) verifying the execution of plans for maintenance and public awareness.

Based on the procedures performed, we identified issues relating to the implementation of the project as follows;

- proper documentation supporting deliveries was not prepared at the time of delivery,
- procurement of goods did not comply with the College's procurement policies,
- request for financial reports was not provided, and
- targeted goals of the project have not yet been achieved.

Nonetheless, we commend the College of Micronesia-FSM for their continuous efforts in making the campus facilities meet the needs of the students, faculty, and community.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Haser Hainrick".

Haser Hainrick
National Public Auditor

XC: President, College of Micronesia-FSM
Ambassador, Embassy of Japan to the FSM
Secretary, Department of Education

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December 22, 2015

Dr. Joseph M. Daisy
President
College of Micronesia-FSM
Palikir, Pohnpei FM 96941

Agreed Upon Procedures Engagement Report

Dear Dr. Daisy;

We have performed the procedures described in the enclosure to this letter, which we agreed to perform and were concurred to by the Embassy of Japan and the College of Micronesia-FSM, solely to assist both parties in ascertaining whether the implementation of the project for Prevention of Non-Communicable Diseases in Sokehs municipality, Pohnpei State complied with the terms and conditions of the grant agreement.

We conducted this engagement in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, which incorporates certain attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on the procedures as agreed upon.

The management of both the Embassy of Japan and the College of Micronesia-FSM are responsible for the sufficiency of the agreed upon procedures and we make no representation in that respect. Our responsibility is to perform the agreed upon procedures and report the results. The parties have to draw their own conclusion. These procedures consist of (1) confirming that the grant was used properly for the purchase of goods and services for the project and that all expenses were valid and properly supported, (2) identifying existence of the project, (3) ensuring that applicable laws and regulations regarding procurement and competitive bidding were adhered to during the selection and acquisition of products and/or services, and (4) verifying the execution of plans for maintenance and public awareness. The enclosure provides details on the agreed upon procedures and our results.

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We were not engaged to perform, and did not perform an audit, the objective of which would have been to provide a conclusion on the subject matter. Accordingly, we do not provide such conclusion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you.

This report is intended solely for the use of the College of Micronesia-FSM and the Embassy of Japan to the FSM and should not be used by those who did not agree to the procedures or did not take responsibility for the sufficiency of the procedures for their purposes. However, the final report is a matter of public record, and its distribution is not limited in accordance with the FSM Public Auditor's Act. The report is also available at our website at www.fsmopa.fm. If you have any questions concerning this report, please contact me at 320-2862.



Haser Hainrick
National Public Auditor

XC: FSM President
Members of the 19th FSM Congress
Ambassador, Embassy of Japan to the FSM
Secretary, Department of Education

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Background

The College of Micronesia-FSM submitted an application proposal for a project for the development of a soccer field at the College's national campus in Palikir, Pohnpei FSM. The field was to be built within the premises owned by the College of Micronesia-FSM. The objective of the project as proposed, was to build a quality size field for conducting field sports and other health promoting activities. The intended beneficiaries of the project were students as well as local residents residing in Sokehs Municipality. College of Micronesia shall be responsible for the implementation of the project, and shall provide maintenance and operation of the facility once completed.

On March 18, 2014, the Embassy of Japan to the Federated States of Micronesia and College of Micronesia-FSM executed a Grant Contract in the amount of \$120,569 for the proposed project but amended the project title to "Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State". The project once completed shall be open to the public to promote proper exercise to local residents for prevention of non-communicable diseases. The terms of the contract specified the required activities in implementing the project and how the grant was to be spent.

We performed an "Agreed Upon Procedures" approach, an attestation engagement that is substantially less in scope than audits and reports in the form of procedures and results. Our procedures and results are discussed in the subsequent section.

Procedures and Results

1. To confirm that the Grant was used properly for the purchase of goods and/or services strictly for the project and that all expenses were valid and properly supported.

1. A Procedure: To verify that the Recipient provided to the Grantor an official receipt of the Grant and other relevant documents such as procurement contracts for good/services.

Result: In a memo dated March 20, 2014, the College of Micronesia-FSM (recipient) provided receipt number 43411 to the Embassy of Japan (grantor) acknowledging the receipt of \$120,569.

1. B Procedure: To verify that the Recipient set up a distinct sub-ledger account to record the receipt of the Grant and to account for all related expenses.

Result: The grant award was assigned to general ledger account number 101.854.10.8996 where the grant was recorded with all related expenses of the project. The ledger account recorded the expenditures for the project amounting to \$120,569.

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1. C Procedure: To confirm that the expenses of the project were for the purpose of implementing the project and that all accounting documents supporting how the Grant was spent were produced and/or maintained.

Result: We have verified that the Grant was actually expended for products and services to implement the project. The details of the costs are as follows;

Table 1

Description	Amount	Percentage
Equipment Rental	\$ 55,829.50	46%
Corals	\$ 32,060.00	27%
Sand	\$ 32,500.00	27%
Others (fuel)	\$ 179.50	0.15%
Total	\$120,569.00	100%

Additionally, Section 4.1.3 of the College of Micronesia’s fiscal policies and procedures stipulates that *“It is a standard accounting procedure to support disbursements with proper invoices, purchase orders, and shipping/receiving reports. Further, this policy required in part that, “...the requisition unit shall prepare the Receiving Report (RR) upon receipt of goods ordered. The receiving report (RR) shall be prepared in at least (2) copies, the original of which shall be submitted to the Business Office and the other copy to be retained by the requisition department for future reference. The receiving report shall have all of the required information completed prior to being submitted to the Business Office..... Together with the RR, the corresponding invoice and PO shall be submitted to the Business office”*. These are the prerequisites for processing a payment.

We were unable to verify the delivery of corals and sand worth \$39,910 as there were no receiving reports as part of the documentation to support payments.

However, according to COM officials, all materials (corals and sand) that were paid for were received by the College. Further, when corals or sand are delivered, only invoices or statements are signed off to confirm the receipts of these materials. These invoices and statements are then submitted to the Business Office to support payments.

Table 2 below provides details of all payments including total payments without receiving reports.

Table 2

Description	Quantity	Amount	Percentage
Total Corals/Sand purchased	3,290 Yards	\$64,560	100%
Less: Total Corals/Sand with delivery Reports	1,100 Yards	\$24,650	38%

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Total Corals/Sand without delivery reports	<u>2,190 Yards</u>	<u>\$39,910</u>	<u>62%</u>
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1. D Procedure: To confirm that all original receipts from vendors and financial reports were submitted to the Grantor, and that all requests for procurement and disbursements were authorized by the grantor and supported before the obligation of funds.

Result: The grantor confirmed that all requests for disbursements were authorized prior to the obligation of funds. Further, all payment receipts were submitted to them except for one receipt in the amount of \$179.50.

Additionally, the terms of the contract as agreed upon (Item D.3) provides that *“the recipient agrees to provide the donor any other reports on the project upon request of the Donor, in accordance with the Donor’s instructions.* Furthermore, the recipient agreed (Item 4-Testimony) that *“...if the recipient loses receipts or the vendors don’t issue, the recipient shall submit copies of the bank statements instead. The recipient understood that any purchase orders, invoices, or quotations are not considered as evidence of purchase”.*

The grantor informed us that they requested from the recipient copies of bank statements reflecting payments for the grant but copies were not provided. According to COM officials, they could not provide bank statements to the grantor as they contain other confidential information not related to the project.

2. To conduct an inspection of the Project to verify existence.

2. A Procedure: To conduct an ocular inspection of the project and confirm its existence.

Result: Based on our inspection of the project site on November 5, 2015, we verified that the project existed and that the proposed steps necessary to complete the project were performed and completed. These steps included clearing the land, adding fill material (coral, dirt, and sand), leveling the surface, and landscaping the surface with grass.

2. B Procedure: To verify that the project was completed as agreed upon, and supported by a completion report.

Result: A completion report indicated that the activities performed during the implementation of the project included tree cutting and clearing of the land, earthmoving/cutting and filling, coral topping and compaction, top soil preparation and spreading, and grass seed planting and nursing. These activities were completed as of March 18, 2015, exactly one year from the effective date of the contract and as agreed upon. Currently, the project is partially covered with grass and the ground is not yet ready for use as there is still time needed to allow the grass to grow and fully

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cover the ground in order to achieve its targeted goals. Additionally, we could not confirm when the benefit of the project will be realized due to the need to grow and provide maintenance for the grass.

3. To ensure that the applicable laws and regulations regarding procurement and competitive bidding were adhere to during the selection and acquisition of products and/or services.

3. A Procedure: To confirm that the procurement of products and/or services complied with applicable laws and regulations.

Result: The College of Micronesia-FSM fiscal policies and procedures require three modes of procurement which are a) formal bidding, b) direct contracting and c) informal bidding/canvassing. Since expenditures of the project were small, the applicable method was informal bidding/canvassing in which the requisition department requested for price quotations from at least three suppliers. Under this method, a Price Comparison and Analysis (PCA) is prepared listing at least three price quotations and the supplier offering the lowest price shall be chosen and a corresponding Purchase Order is prepared.

Accordingly, the Price Comparison and Analysis for all expenditures were prepared and submitted. However, we noticed that in four transactions involving \$29,067, the recipient requested for price quotations from three vendors but only one vendor provided a price quotation. We also noted that eight other transactions involving payments of \$69,161 listed either one or two vendors with a corresponding price quotation. The absence of the three required price quotations was due to the fact that products and services were not available with other vendors during their acquisition. Refer to table 3 for details of our analysis of Price Comparison and Analysis.

Table 3

Description	No. of Trans.	Amount
PCAs with 3 listed vendors but one price quotation submitted	4	\$ 29,067.80
PCAs with 2 listed vendors and 2 price quotations submitted	6	\$ 50,560.00
PCAs with 1 listed vendor and 1 price quotation submitted	2	\$ 18,601.70
Total	12	\$ 98,229.50

We further compared the timing of the quotations against actual purchase and service dates and noted that purchases of \$56,069 involving payments of products/services were quoted after the actual products or services were provided/delivered. This practice did not comply with the procurement policy which requires that quotations should first be obtained and evaluated before the goods/services are delivered/rendered.

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4. To verify the execution of plans for maintenance and public awareness.

4. A Procedure: To verify that the recipient will implement a proper maintenance plan in order to ascertain project's sustainability.

Result: The maintenance for the project was turned over to the College of Micronesia Department of Maintenance at the College. The department is responsible for maintaining all facilities and grounds of the college including the project. According to a cost maintenance report prepared on October 13, 2015, \$27,600 was allocated yearly from FY 2016 to FY 2020 to cover cost of cutting and replacing grass in and around the perimeter of the project site.

4. B Procedure: To confirm that the recipient has a plan to inform and give the public access to use the project after its completion.

Result: The College of Micronesia-FSM will inform the public use and access to the project, however, a public awareness plan has not been developed as of the date of the audit. According to key officials, the project is not completed yet, therefore a public awareness program is not appropriate at the moment.

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MANAGEMENT RESPONSE



COLLEGE OF MICRONESIA-FSM

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December 04, 2017

Mr. Haser Hainrick
Office of the National Public Auditor
FSM National Government
Palikir, Pohnpei FM 96941



Dear Mr. Hainrick:

In response to your letter dated December 02, 2015, we would like to clarify some audit findings on the Agreed upon Procedures on the Project for Prevention of Non-Communicable Diseases in Sokehs Municipality, Pohnpei State.

- We were unable to verify the delivery of corals and sand worth \$39,910 as there were no receiving reports and/or delivery receipts available during the course of the engagement.
 - Receiving reports / Delivery Reports is not the only way of verifying the delivery of corals and sand. We also conducted ocular inspections showing the actual corals and sand. The report said that 62% has no delivery reports which is very material in the completion of the project and we believe that ocular inspection could validate this delivery based on the materiality of volume.
 - During the ocular inspection, maintenance staff asked for the summary of invoices without receiving report so that they can check their files or ask for assistance from the suppliers. The auditor agreed to provide but until now we did not receive the said list.
 - The college is committed to continuous improvement and best practices. Even if the college received an unqualified opinion for the past five years, we still implement recommendation from external auditors in order to improve and achieve best practices.
- The grantor informed us that they requested from the recipient copies of bank statements reflecting payments for the grant but copies were not provided. According to COM officials, they could not provide bank statements to the grantor as they contain other confidential information not related to the project.

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Office of the Vice President for Administrative Services

Mr. Hainrick
12/7/15
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- COM-FSM official is not the one who said that bank statement could not be provided because of some confidential information. The comptroller said that she could not find the said request in the file and asked for a copy of the said request.
- The auditor recommended that they will talk first with the donor regarding this request since bank statement may contain information not related to the project.

Sincerely,

Joseph Habuchmai
Vice President, Admin Services

enc.

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ONPA'S EVALUATION OF MANAGEMENT RESPONSE

We requested for a management response from the College of Micronesia-FSM. The management response generally agreed with the results of the agreed upon procedures engagement. However, we would like to clarify some statements made in the management response as follows.

Management Response: *"Receiving report/delivery reports is not the only way of verifying the delivery of corals and sand. We also conducted ocular inspections showing the actual corals and sand. The report said that 62% has no delivery report which is very material in the completion of the project site and we believe that ocular inspection could validate this delivery based on the materiality of volume".*

ONPA Comment: The focus of the engagement was to evaluate the recipient's compliance with the terms and conditions of the grant award and its own policies. The College requires Receiving Reports (RR) and we found that they did not follow this policy. Our ocular inspection of the project site could not verify the quantity of goods delivered because it was done one year after the goods were delivered.

Management Response: *"During the ocular inspection, maintenance staff asked for the summary of invoices without receiving reports so that they can check their files or ask for assistance from the suppliers. They agreed to provide but until now we did not receive the said list".*

ONPA Comment: Though we agreed to provide the summary of invoices without receiving reports, representatives from the College admitted that they did not have delivery reports and that they would obtain copies from the suppliers. On December 14, 2015, the College subsequently informed us that they have the missing receiving reports which were obtained from suppliers. These documents were forms owned by suppliers and were provided to us on December 17, 2015, after the exit conference. These documents should not be maintained by suppliers for future references of the College of Micronesia. We would like to reiterate that receiving reports or delivery receipts should be attached to PO's and vendor's invoices prior to payments, which is a requirement of the College's policy.

Management Response: *"COM officials is not the one who said that bank statements could not be provided because of some confidential information. The comptroller said that she could not find the said request in the file and asked for a copy of the said request..... The auditor recommended that they will talk first with*

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the donor regarding this request since bank statement may contain information not related to the project".

ONPA Comment: During the exit conference on November 27, 2015, COM officials informed us that bank statements could not be provided to the grantor as they contained other information not related to the project which was confidential.

The two parties should have immediately discussed and identified option(s) to amicably resolve the issue. While the college wanted to safeguard other confidential information, the Grantor needed the bank statements for its verification purposes. This was in line with the approved conditions of the grant. Although the Grantor had previously approved the requests for payment, they still needed to verify that actual payments matched what they approved, thus their request for bank statements. An arrangement that satisfies both parties' need (i.e. for the Grantor to access the bank statements and for the Recipient to protect its confidential information) should had been identified immediately, not at this later stage when the project has already been certified complete.

Regarding the comment that the Grantor's request for bank statements cannot be found, the Grantor provided written evidence to us that the request was actually sent to the Vice President for Administrative Services of the College.

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NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff at the College of Micronesia-FSM for their assistance and cooperation during the course of the engagement.

In addition to providing copies of the final report to the FSM President and Members of the 19th FSM Congress, we will also send copies to the Japan Ambassador to the FSM. 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 the staff who made major contributions to this report.



Haser Hainrick
National Public Auditor

December 22, 2015

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
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ACKNOWLEDGEMENTS: In addition to the contact named above, the following staff made key contributions to this report:

Manuel San Jose CPA, CGAP, CIA, CISA, CRMA, Audit Manager
Dane William, Auditor-In-Charge
Clayton Eliam, Staff Auditor

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