

OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

FINANCIAL AUDIT

MICRONESIAN TRADE AND ECONOMIC COMMUNITY

FISCAL YEAR 2014

REPORT NO . 2016-02



**Haser H. Hainrick
National Public Auditor**

Office of the National Public Auditor
Micronesia Trade and Economic Community
Fiscal Year 2014
Audit Report No. 2016-02

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INDEPENDENT AUDITORS' REPORT

MTEC Ministers
Micronesian Trade and Economic Community Interim Secretariat
P.O. Box PS-12 Palikir, Pohnpei FM 96941

Report on the Financial Statement

We have audited the accompanying financial statement of the Micronesian Trade and Economic Community which comprises the schedule of sources and uses of funds and changes of cash position for the year ended September 30, 2014, and the related notes to the financial statement.

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 determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Micronesian Trade and Economic Community'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 Micronesian Trade and Economic Community's 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash collected and expenses paid of Micronesian Trade and Economic Community for the year ended September 30, 2014, in accordance with the cash basis of accounting described in Note 1 B to the financial statement.

Basis of Accounting

We draw attention to Note 1 B to 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.

Other Matters

As discussed in Note 1 B to the financial statement referred to above presents only the Micronesian Trade and Economic Community funds administered by the FSM Department of Resources and Development (R&D) and not intended to present fairly the results of other operations of the Department of R&D in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink, appearing to be 'H. Hainrick', written over a faint dotted line.

Haser Hainrick
National Public Auditor

October 5, 2015

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Schedule of Sources and Uses of Funds and Changes of Cash Position
Year Ended September 30, 2014

Cash at beginning of the year	<u>2014</u> \$0
Sources:	
FSM Government – Contribution	30,000
Republic of the Marshall Island – Contribution	20,000
Interest	<u> 9</u>
Total Sources	<u>50,009</u>
Uses:	
Travel	34,942
Consumables	<u>4,710</u>
Total uses	<u>39,652</u>
Operating income	10,357
Cash at end of year	<u>\$10,357</u>

See accompanying notes to the financial statement.

Notes to Financial Statement
September 30, 2014

1) Organization and Summary of Significant Accounting Policies

A. Organization

The MTEC is an organization established by a Treaty in 2014 among the Governments of the Federated States of Micronesia (FSM), Republic of Marshall Islands (RMI) and the Republic of Palau. Through this Treaty, Member States shall endeavor towards the creation of a “*community*” of *shared prosperity* through the promotion of sub-regional trade and economic cooperation and integration to support the achievement of sustainable and equitable socio-economic development of its Member States and improve standard and quality of life of their people, thus contributing to the progress and development of Asia and Pacific Region.

The FSM Department of Resources and Development (R&D) is the Interim Secretariat or the administrative department for the Organization, headed by the Secretary who is responsible for the day-to-day operations of the Secretariat financial affairs.

B. Basis of Accounting

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America as applicable to governmental funds. However, the accompanying financial statement is presented in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, whereby, revenue is recognized when received rather than earned and expenses are recognized when paid rather than when the obligation is incurred. Noncash transactions are not recognized.

C. Cash

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

As of September 30, 2014, cash was \$10,357 which approximated the corresponding bank balance maintained in the financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. There was no significant difference between cash balances per book and per bank.

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D. Government contributions

Under the 2014 Treaty, the Secretariat's income budget for a given financial period comprises of contributions and other income supporting the annual regular budget; and development partner's funding (donations) supporting the work program budget. The Organization recognized revenue for contributions received from the Member States. For the year ending September 30, 2014 total contribution by the Member States was \$50,000: \$30,000 received from the Government of the FSM and \$20,000 from the Government of RMI.



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

MTEC Ministers

Micronesian Trade and Economic Community Interim Secretariat

P.O. Box PS-12 Palikir, Pohnpei FM 96941

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 financial statement of Micronesian Trade and Economic Community (MTEC), a nonprofit organization of the Government of Federated States of Micronesia, Republic of Marshall Island and Republic of Palau, for the year ended September 30, 2014, and have issued our report thereon dated October 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Haser Hainrick
National Public Auditor

October 5, 2015

Schedule of Findings and Responses

Finding No. 2014-01 Proper books of accounts not maintained

Criteria: The Standard accounting practices require that books of accounts should be maintained to meet the accountability requirements and preparation of financial statements for each financial period.

Best practice requires that member's contributions should be collected yearly.

Condition: Our verification of MTEC records indicated the following matters:

- Annual budget was not prepared to provide comparison with actual expenditure.
- The books of accounts for the purpose of funds accountability and preparation of financial statements were not maintained. There were no set of books e.g., disbursement book, cash receipt book, general journal and general ledger books.
- There was no periodic preparation of the financial statements for information and decision making purposes.
- There was no periodic reconciliation of bank accounts and financial records to ensure that financial records are accurate, complete and consistent.
- Only two out of the three Member States paid for their annual contribution.

Cause: The Director General did not ensure that the Secretariat performs and accounts the financial activities of MTEC in accordance with best practices. In addition, there was no available staff at MTEC who is knowledgeable in keeping the accounting records and in preparing the basic financial statements.

The obligation to pay annual membership dues was not properly established in the MTEC Financial Management Regulation.

Effect: The financial statements of MTEC are not regularly prepared for information and decision making purposes. We noted a discrepancy of \$1,061 in the cash accountability but this was not detected timely.

Recommendation: We recommend that the General Director or designee should:

- Prepare an annual budget to provide control, management and monitoring of the use of funds.
- Implement the necessary bookkeeping procedures to properly record and account the MTEC's financial transactions.
- Require the periodic reporting of the basic financial statements such as Statement of financial position (also called a balance sheet), Statement of Activity (also called an income and expense statement), and the Statement of Cash Flow. Period reconciliation of MTEC bank account
- Require the periodic reconciliation of MTEC bank account.
- Ensure that annual contribution by State Members be clearly established in the MTEC Financial Management Regulation.

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Management Response: *Annual contribution* - The MTEC Interim Secretariat will assist the Member States to obtain ratification of the MTEC Treaty and the Protocol to the Treaty with a view to address the legal issues pertaining to Member State's annual membership contribution. In addition, the Interim Secretariat will also prepare an Issues Paper to guide the discussion on MTEC annual membership contribution at the 8th MTEC Ministers' meeting.

Book keepers and Reporting - Given the limited financial contributions from the MTEC Member States, the MTEC Secretariat relies exclusively on Staff of the FSM Department of Resources and Development for the management of the MTEC financial affairs who have no extensive knowledge of accounting and book keeping practices. The MTEC Secretariat will conduct a basic training in accounting for all staff currently involved in the management of the MTEC financial affairs.

Annual Budget – The MTEC Interim Secretariat will prepare a proposed fiscal year 2016 budget for adoption by the MTEC Ministers in accordance with the MTEC Financial Regulations.

ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

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

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Clayton Eliam, Staff Auditor

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