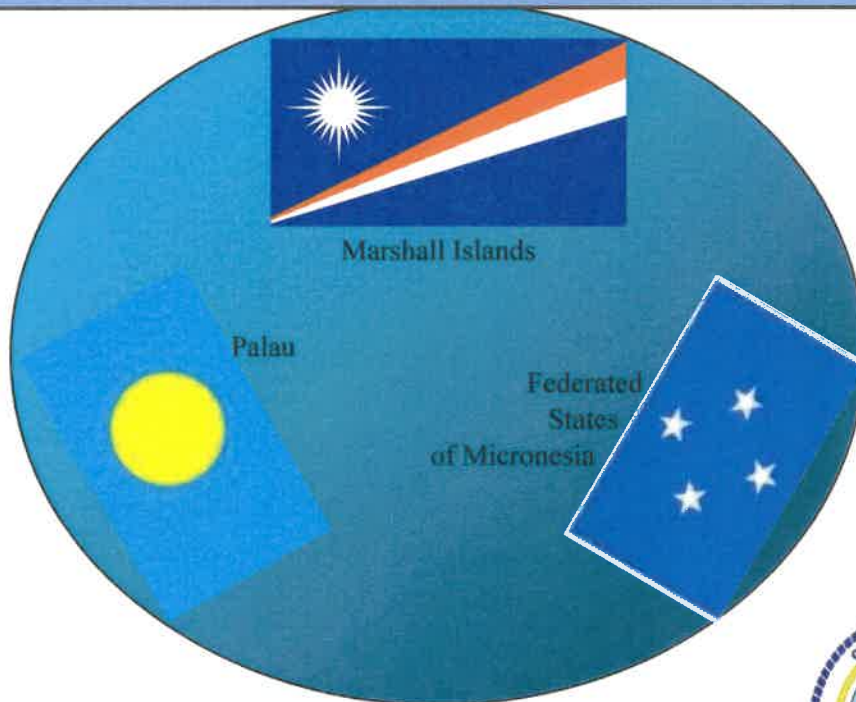


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**PERFORMANCE AUDIT ON IMPLEMENTATION OF RECOMMENDATIONS**  
**of Audit Report No. 2016-02**  
**Micronesian Trade and Economic Community (MTEC)**  
**Audit Report No. 2020-08**



**Haser H. Hainrick**  
**National Public Auditor**



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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Friday, July 17, 2020

His Excellency David W. Panuelo, President  
Honorable Members of the 21<sup>st</sup> FSM Congress  
Micronesia Trade and Economic Community Ministers

**RE: Performance Audit on Implementation of Recommendations of Audit Report No. 2016-02: Micronesian Trade and Economic Community (MTEC).**

We have completed a Performance Audit on the implementation of our Audit Findings and Recommendations given in our Audit Report No. 2016-02: Micronesian Trade and Economic Community.

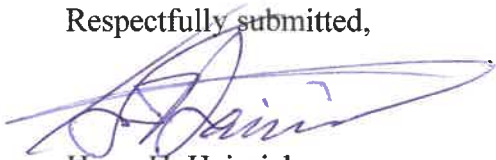
The objective and scope of the Performance Audit were to review the implementation status as per our audit recommendations given in the Audit Report No. 2016-02 or any other alternative management actions to address the Audit Findings.

Based on our Performance Audit review and assessment on implementation of recommendations in our Audit Report No. 2016-02, we concluded that of the five audit recommendations, MTEC Interim Secretariat: (a) substantially implemented one (1); (b) is in the planning stage of implementing two (2); and (c) the other three (3) have not been implemented yet. The status of implementation is defined **Appendix A** The summaries of recommendations with their status of implementation are as reflected below:

Recommendations	Status
On Finding No. 01: Proper books of accounts not maintained	
(i) Prepare an annual budget to provide control, management and monitoring of the use of funds;	Planning Stage
(i) Implement the necessary bookkeeping procedures to properly record and account the MTEC's financial transactions;	Not yet Implemented
(ii) Require the periodic reporting of the basic financial statements such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow;	Not yet Implemented
(iii) Require periodic reconciliation of MTEC bank account	Not yet Implemented
(iv) Ensure that annual contribution by State Members are clearly established in the MTEC Financial Management Regulation and Treaty.	Substantial Implementation

We also noted that MTEC Interim Secretariat is optimistic with respect to fully implementing the rest of the audit recommendations after the arrival of new Advisor by early 2020 which is expected soon after the approval of the European Union's budget.

Respectfully submitted,



Haser H. Hainrick,  
National Public Auditor

Cc: Interim Chair, MTEC Interim Secretariat  
Secretary, Department of Resource and Development  
Secretary, Department of Finance and Administration  
Assistant Secretary, Division of Trade and Investment

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## **1.0 INTRODUCTION**

### **1.1 BACKGROUND**

The Office of the National Public Auditor issued Audit Report No. 2016-02 on October 5, 2015 after conducting an audit of financial statements for Micronesian Trade and Economic Community (MTEC). MTEC is a nonprofit organization of the Government of Federated States of Micronesia, Republic of Marshall Islands and Republic of Palau. The Audit Report No. 2016-02 concluded that MTEC does not maintain proper books of account.

Based on the Audit Report No. 2016-02, only one (1) finding was reported and five (5) recommendations were given as a result and reflected below.

**Finding:** Proper books of account not maintained.

In the Management Response dated December 07, 2015, which was attached to Audit Report 2016-02, MTEC Interim Secretariat noted the findings and acknowledged recommendations to help improve the management of the financial affairs of the organization. Interim Secretariat also identified some priority actions that were to be implemented to further improve management of MTEC financial affairs.

### **1.2 OBJECTIVES**

The objective of this Performance Audit was to assess and provide assurance to the MTEC Interim Secretariat on the progress that has been made on implementation of the recommendations included in the MTEC Audit Report 2016-02.

### **1.3 SCOPE**

The scope of this Performance audit was to assess the extent to which management had made satisfactory progress in implementing the recommendations in the MTEC Audit Report 2016-02 by the end of the 2019 fiscal year.

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

*"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."*

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**1.4 METHODOLOGY**

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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. Under GAGAS, performance audit is inclusive of internal controls, compliance, prospective analysis audit objectives, as delineated in paragraph 1.22, Government Audit Standards 2018.

The audit sought evidence on the degree of implementation of the recommendations included in the Audit Report 2016-02. This performance audit approach covered:

- (a) Interviewing auditee senior and operational management personnel to understand the process and clarity issues;
- (b) Reviewing and analysing supporting documents demonstrating progress in implementing the recommendations and assessing the degree to which the proposed actions were implemented (*see Appendix A*); and
- (c) Debriefing auditee management personnel on the results of the follow-up audit.

**1.5 PRIOR AUDIT COVERAGE**

This is the second performance audit on the MTEC Interim Secretariat. The objective of this second performance audit was to assess the extent to which MTEC Management had implemented the recommendations reflected in the Audit Report No. 2016-02.

**1.6 CONCLUSION**

Based on our performance audit, we concluded that the MTEC Management has not yet fully implemented all audit recommendations and needs to take appropriate action in order to address the audit finding and the five audit recommendations as per Audit Report No. 2016-02; and also ensure that the financial records are appropriately updated in order to safeguard MTEC assets.

The results of this performance audit are discussed in detail in the following pages.

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## **2.0 STATUS OF IMPLEMENTATION OF AUDIT RECOMMENDATIONS**

### **2.1 On Finding No. 1 of Audit Report 2016-02: Proper books of accounts not maintained**

#### **2.1.1 Audit Report 2016-02: Recommendation 1**

- (i) **We recommended** that MTEC should prepare an annual budget to provide control, management and monitoring of the use of funds.
- (ii) **Prior Management Response was:** 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.
- (iii) **Current Implementation Status:** Based on our review and assessment, the implementation of the recommendation was at Planning Stage.
- (iv) **Effect of Non-Implementation:** Budget is one of the most important administrative tools, it serves as a plan of action for achieving quantified objectives; standard for measuring performance; and device for coping with foreseeable adverse situations. The absence of an annual budget, will create an environment infested with uncertainty thus exposing the MTEC to high risk, especially lack of clear direction, unplanned expenditures, etc.
- (v) **Cause of Delay in Implementation:** The Advisor assisted the Interim Secretariat of MTEC in preparing the annual budget. Since the departure of the Advisor in 2016, there has not been any actions taken to move forward.

#### **2.1.2 Audit Report 2016-02: Recommendation 2**

- (i) **We recommended** that MTEC should implement the necessary bookkeeping procedures to properly record the MTEC's financial transactions.
- (ii) **Prior Management Response:** MTEC receives limited financial contributions from the MTEC Member States causing MTEC to rely on staff of FSM Department of Resources and Development for the management of MTEC financial affairs who lacks knowledge of accounting and book-keeping practices.
- (iii) **Current Implementation Status:** Based on our review and assessment, it was concluded that this recommendation was ***Not Yet Implemented***.
- (iv) **Effect of Non-Implementation:** The funds and contributions received from member-states will not be properly recorded as required by the MTEC Treaty and Financial Management Regulations, which may lead to potential misuse or abuse of funds.

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- (v) **Cause of Delay in Implementation:** MTEC claims they need more funding to hire qualified individual to develop bookkeeping procedures and currently there is US\$ 166,493.61 in MTEC bank account; and yet the Interim Secretariat could not hire a qualified individual on a temporary basis to develop the necessary bookkeeping procedures so MTEC can properly record its financial transactions.

**2.1.3 Audit Report 2016-02: Recommendation 3:**

- (i) **We recommended** that MTEC should require periodic reporting of the basic financial statements such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow;
- (ii) **Prior Management Response:** MTEC Interim Secretariat receives limited financial contributions from MTEC Member States, MTEC Interim Secretariat relies on FSM R&D staff in managing its financial affairs. FSM R&D staff lacks knowledge of accounting.
- (iii) **Current Implementation Status:** Based on our review and assessment, it was concluded that the recommendation was ***Not Yet Implemented***.
- (iv) **Effect of NON-Implementation:** The absence of staff with accounting knowledge will negatively impact MTEC Interim Secretariat where it will not be able to prepare balance sheets, income/expense statements, and statement of cash flow. This may lead to account funds contributed by member states and other stakeholders for MTEC operations.
- (v) **Cause of Delay in Implementation:** MTEC claims they need more funding to hire qualified individual to develop bookkeeping procedures and currently there is US\$ 166,493.61 in MTEC bank account; and yet the Interim Secretariat could not hire a qualified individual with knowledge and skills in accounting to prepare periodic reporting such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow.

**2.1.4 Audit Report 2016-02: Recommendation 4:**

- (i) **We recommended** that MTEC should require periodic reconciliation of MTEC bank account.
- (ii) **Prior Management Response:** MTEC current staff lack the appropriate skills and training or knowledge for accounting practices.



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- (iii) **Current Implementation Status:** Based on our review and assessment, it was concluded that the recommendation was ***Not Yet Implemented.***
- (iv) **Effect of NON-Implementation:** MTEC Interim Secretariat will not be able to identify and take timely corrective actions on any differences between balances in their account's records vis-à-vis balances indicated by the bank if there is no timely periodic reconciliation. This may expose the funds at their bank vulnerable to abuse, misuse or mishandling.
- (v) **Cause of Delay in Implementation:** While MTEC claims that they still needs more funding to hire qualified individuals with knowledge and skills in preparing periodic bank accounts reconciling and other accounting related matters but currently there is US\$ 166,493.61 in MTEC bank accounts and yet the Interim Secretariat could not hire even on temporary basis an accountant to record financial transactions and reconcile bank statements, at least once in three months.

**2.1.5 Audit Report 2016-02: Recommendation 5:**

- (i) **We recommended** that MTEC should ensure that annual contribution by State-Members are clearly established in the MTEC Financial Regulation and Treaty.
- (ii) **Prior Management Response:** 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. MTEC Interim Secretariat will also prepare an Issue Paper to guide the discussion on MTEC annual membership contribution at the 8<sup>th</sup> MTEC Minister's meeting.
- (iii) **Current Implementation Status:** Based on our review and assessment, it was concluded that the implementation of the recommendation was ***Substantial Implementation.***
- (iv) **Effect of Substantial Implementation:** Without the full commitment of all three member-states, MTEC projected budget will be insufficient to carry out activities.
- (v) **Cause of Substantial Implementation:** The Government of Republic of Palau still awaits necessary documents from MTEC (Headed by FSM Department of Resources and Development) Interim Secretariat to support a request for approval of funding of annual contributions to MTEC by Palau Legislature.

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### **3.0 RECOMMENDATIONS**

After evaluating the results of this performance audit, we recommend that:

- (i) MTEC Interim Secretariat should fully address and implement all five (5) audit recommendations reflected in the Audit Report No. 2016-02.
- (ii) METC Interim Secretariat should seek assistance from the Department of Finance and Administration to ensure that the financial activities are handled appropriately rather than banking on excuses of having no internal capacity.

### **4.0 FINDING (NEW): LACK OF CAPACITY TO MANAGE THE FUNDS FOR MTEC**

During our review on the implementation of our recommendations issued through Audit Report no. 2016-02, we observed that MTEC Interim Secretariat has not yet prepared and maintained appropriate and sufficient financial record of MTEC activities in terms of revenue and expenditure. Based on our interview with the management, we were informed that the Secretariat could not prepare and maintain books of accounts or prepare financial statements due to the fact that there was no qualified accountant within the Department of Resources and Development.

The Interim Secretariat further explained that, it does not have any approved budget to enable it to employ an accountant. On the other hand, the MTEC Interim Secretariat also could not provide ONPA with any evidence that they requested and failed to get assistance from the office of the Secretary, FSM Department of Finance and Administration, nor was there any evidence to indicate that there was any circular resolution initiated to request approval of funds for hiring an accountant on temporary basis in order to prepare books of accounts and financial statements of MTEC.

The audit team requested for bank statements from the MTEC Secretariat, and instead of providing bank statements to the team, the Secretariat provided a Bank Passbook, which only showed figures in respect of deposit, withdrawal, balance, initial of the teller, date of transaction but no details of cheque number, description of transaction, etc. After several requests from ONPA's audit team, the Secretariat (R&D) responded through e-mail to inform the audit team that the Bank of Guam system cannot generate bank statements for bank account that uses passbook.

The ONPA audit team made follow-up with the Bank of Guam on the assertion given by the Secretariat, and was informed that, the assertion given was true as there are Saving Accounts that only use passbook and these do not get monthly statements. However, it was not true that bank statements cannot be produced on request from the signatories of the account.

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It is obvious from responses given by the management of R&D, the MTEC Interim Secretariat currently the Secretariat cannot manage the finances of MTEC.

On May 08, 2020 after persistent communication between the ONPA audit team, FSM R&D and the Bank of Guam, the Bank Statement was released by the bank. Based on our review, as of April 28, 2020, there was a total amount of US\$ 30,157.09 which were yet to be recorded in the MTEC's Passbook. This was an indication that financial records were not appropriately updated.

#### **4.1 Causes**

- (i) Failure to implement the requirement of MTEC financial policies and regulations; and
- (ii) Lack of commitment and capacity within current MTEC Secretariat

#### **4.2 Potential Effects**

- (i) Misappropriation or loss of MTEC funds; and
- (ii) Loss of reputation (FSM National Government) to other MTEC member states.

#### **4.3 Recommendations**

We recommend that, the President, FSM National Government should direct the Secretary, Department of Resources and Development to:

- (i) Ensure that the MTEC financial management processes are conducted based on the approved financial policies and procedures of MTEC;
- (ii) Prepare and maintain books of accounts and periodic and annual financial reports; and
- (iii) Change the MTEC Saving Account from Saving Account with Passbook only to Saving Account with bank statement.

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**5.0 APPENDIX A – Implementation status matrix of recommendations given under audit report no. 2016-02**

Audit Report: 2016-02: Micronesia Trade and Economic Community	
Date of Issue: October 5, 2015	
Name of Agency(s): MTEC Interim Secretariat	

Serial No.	Finding	Recommendations	Action Taken (as per the detailed action plan/report submitted)	Status/ progress	Reasons for noncompletion of action on any recommendations	Impact (if any)	Comments
1.	Finding: Proper books of accounts not maintained	Following are 5 recommendations:					
		<ul style="list-style-type: none"> <li>Prepare an annual budget to provide control, management and monitoring of the use of funds;</li> </ul>	An annual budget was prepared for fiscal 2016, by the advisor when he was still working for the Interim Secretariat of MTEC (headed by Secretary of Department of Resource and Development/Management). Activities and plans were laid out for the year.	Planning Stage.	Since the departure of the previous Advisor in 2016, there has not been any actions taken to move forward. The advisor assisted the Interim Secretariat (Management) of MTEC, who holds the responsibilities to handle MTEC operations, as established in the MTEC Treaty and Financial Regulations.	Budget is one of the most important administrative tools, it serves as a plan of action for achieving quantified objectives; standard measuring performance; and device for coping with foreseeable adverse situations.  The absence of an annual budget, will create an environment infested with uncertainty thus exposing the MTEC to high risk,	MTEC Advisor prepared an annual budget but was never approved by FSM Congress.  Advisor left in 2016 and there has not been any plan of action to go forward.

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						especially lack of clear direction.	
	<ul style="list-style-type: none"> <li>Implement the necessary bookkeeping procedures to properly record and account the MTEC's financial transactions;</li> </ul>	MTEC does not have an accountant/person with bookkeeping skills; No actions taken to improve proper recording of financial transactions.	Not yet implemented.	MTEC Interim Secretariat lacks the budget to hire an individual with extensive knowledge and skills to develop and operationalize the bookkeeping procedures.	The funds and contributions received from member-states will not be properly recorded as required by the MTEC Treaty and Financial Management Regulations, which may lead to potential abuse and misuse of MTEC funds.	MTEC Interim Secretariat lacks budget to hire someone with knowledge and skills to develop bookkeeping procedures.	
	<ul style="list-style-type: none"> <li>Require the periodic reporting of the basic financial statements such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow;</li> </ul>	No actions taken to properly and accurately account periodic financial statements.	Not yet implemented.	MTEC Interim Secretariat lacks sufficient funding to hire qualified individuals with specialties and skills to do periodic reporting of such financial activities.	The absence of staff with accounting knowledge will negatively impact MTEC Secretariat, where it will not be able to prepare balance sheets, income/expense statements, and statement of cash flow. This may lead to potential misuse or abuse of MTEC funds.	MTEC Interim Secretariat does not have budget to hire a staff with skills and knowledge to prepare periodic reporting.	
	<ul style="list-style-type: none"> <li>Require periodic reconciliation of MTEC bank account;</li> </ul>	No actions taken to improve reconciliation of MTEC account	Not yet implemented.	MTEC needs funding to hire qualified individuals with specialties and skills to do periodic	MTEC will not follow the difference between their records of balance versus their real balance at	Reconciliation of MTEC account is lacking; Funding is lacking as well. MTEC needs	

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				reconciling of MTEC account.	the bank if there is no periodic reconciliation. This can leave the bank account vulnerable resulting in potential misuse or mishandling of MTEC accounts.	budget to hire a skilled staff to reconcile MTEC account.
	<ul style="list-style-type: none"> <li>Ensure that annual contribution by State Members are clearly established in the MTEC Financial Management Regulation and Treaty.</li> </ul>	<p>MTEC has been receiving consistent contributions as agreed and established in the MTEC Treaty and their Financial Management Regulations. However, only FSM and RMI have made contributions, Palau has not yet contributed.</p>	Substantial Implementation	<p>Republic of Palau still awaits legal basis from MTEC Interim Secretariat to present to their legislature to justify the annual contribution to MTEC account.</p>	<p>Without the full commitment of all three member-states, MTEC projected budget will be insufficient to carry out activities.</p>	<p>Of the three (3) member-states, two (2) are providing their annual membership contribution.</p> <p>The MTEC Interim Secretariat will use the funds available to support the ratification process of MTEC Treaty to address the legal issue pertaining to Member States annual membership contribution.</p>

## **6.0 APPENDIX B - Stages of Implementation**

### **6.1 Summary**

There are five stages used to assess the status of implementation of the recommendations. The stages are as listed below:

- (i) **Not yet implemented - No progress or insignificant progress**  
Actions such as having meetings and generating informal plans.
- (ii) **Planning stage**  
When formal plans for organizational changes have been created and approved by the appropriate level of management with appropriate resources and a reasonable timetable.
- (iii) **Preparation for implementation**  
If the entity made preparations for implementing a recommendation by hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
- (iv) **Substantial implementation**  
If the structures or processes are in place and integrated within at least some parts of the organization, and some achieved results have been identified.
- (v) **Full implementation**  
If the structure and processes are operating as intended and are fully implemented.

### **Obsolete**

The recommendation is obsolete if it is no longer applicable because the issue has become outdated as a result of having been superseded by something newer.

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## 7.0 APPENDIX C – MTEC 2017 Annual Budget

The Interim Secretariat also plans to conduct several studies to help MTEC Member States move forward in the areas labor and immigration and make strategic decisions with respect to a future Micronesian Trade Agreement.

Summary FY 2017 MTEC Annual Budget			
Income		Expenditures	
Origin	Amount	Items	Amount
Member States' contribution FY2017	\$70,000	Regular Budgets	\$64,274
Carry Over 2016	\$26,143	Work Program Budget	\$112,032
AfT Partner (committed-Hub & Spokes II Programme)	\$6,000		\$176,306
Total available	\$102,143	Miscellaneous (7%)	\$12,341
AfT to be mobilized	\$86,504		
Total Income			\$188,647
Balance	\$0		

### Adoption of the budget

As required by the FR, MTEC Ministers shall approve the budget, which shall constitute expenditure authorization to the Director General to make the necessary allocations for the functioning of the Secretariat and the carrying out of its work program, subject to availability of funding.

### Action needed

In this regard, we kindly request that you review the proposed budget and provide us with your feedback no later than March 15, 2017 so that we can finalize the document and have it ready for approval by MTEC Ministers.



## 8.0 APPENDIX D – MTEC Accounting Spreadsheet

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## 9.0 MANAGEMENT RESPONSE



**DEPARTMENT OF RESOURCES & DEVELOPMENT**

Federated States of Micronesia  
P.O. Box PS-12  
Palikir, Pohnpei FM 96941  
Phone: (691) 320-2620/2646/5133; Fax: (691) 320-5854/2079  
E-mail: [fsmrd@fsmrd.fm](mailto:fsmrd@fsmrd.fm)

July 8, 2020

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



**Re: Comments on the Draft Performance Audit on Implementation of Recommendations of Audit Report No. 2016-2: Micronesian Trade and Economic Community (MTEC).**

Dear Mr. Hainrick:

On behalf of the MTEC Secretariat and its Member States, I wish to extend our sincere appreciation for the follow-up audit conducted by the Office of the National Public Auditor. I would like to take this opportunity to thank you and your team for allowing the MTEC Secretariat to comment on the Draft Performance Audit Report. We take note of the findings which will help us to further improve the management of the financial affairs of this newly established intergovernmental organization.

As requested in your letter of July 2, 2020, I have attached our formal comments on the said Performance Audit. The comments are mainly intended to provide clarity on areas that may have been misunderstood during the audit process. The comments also identify some priority actions that has been implemented and actions that will be implemented in the short and medium term to address the shortfalls highlighted in this draft Report.

Should you have any questions, please contact Mr. Florian J. Yatilman, Assistant Secretary, Division of Trade and Investment, at email: [florian.yatilman@gmail.com](mailto:florian.yatilman@gmail.com) or Ms. Masako Johnnyboy, Deputy Assistant Secretary for Trade, at telephone 3205133.

Sincerely,

A handwritten signature in dark ink, appearing to read "Marion Henry".

Marion Henry  
Secretary FSM Department of Resources and Development  
MTEC Interim Secretariat

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**MTEC Interim Secretariat's formal comments**  
**to the Performance Audit on Implementation of Recommendation of Audit Report No.**  
**2016-02: Micronesian Trade and Economic Community (MTEC)**

1. The comments are in response to a request from the Office of the National Public Auditor following the release of the draft Performance Audit on implementation of the recommendations of Audit Report No. 2016-02: Micronesian Trade and Economic Community (MTEC). The comments are mainly intended to provide clarity on areas that may be misunderstood during the audit process. The comments also identify some priority actions that has been implemented and actions that will be implemented in the short and medium term to address the shortfalls highlighted in this draft report to further improve the management of MTEC financial affairs.

2. 1.5 Prior Audit Coverage: This is the second performance audit on the MTEC Interim Secretariat. The objective of this second performance audit was to assess the extent to which MTEC Management had implemented the recommendations reflected in the Audit Report No. 2016-2.

*Management Response:*

*This draft report is not the second but rather the first follow-up or Performance Audit on Audit Report 2016-2 which was a Financial Audit.*

3. 2.1.1 Audit Report 2016-2: Recommendations 1

(i) Recommended MTEC to Prepare an Annual Budget to Provide Control, Management and Monitoring of the Use of Funds, and

(v) Cause of Delay in Implementation: The Advisor assisted the Interim Secretariat of MTEC in preparing the annual budget. Since the departure of the Advisor in 2016, there has not been any action taken to move forward.

*Management Response:*

*The departure of the Advisor may have delayed some activities of MTEC however the recommendation to prepare an annual budget was fulfilled. A 2017 MTEC Budget and Work Program were developed as a response to this recommendation. Copies of both the Budget and Work Program are attached herewith as supporting documents.*

4. 2.1.2 Audit Report 2016-2: Recommendations 2

(i) Recommended MTEC to Implement the Necessary Bookkeeping Procedures to Properly Record the MTEC's Financial Transactions, and

(v) Cause of Delay in Implementation: MTEC Claims they need more funding to hire qualified individuals to develop bookkeeping procedures and currently there is US\$ 166, 493.61 in MTEC bank account; and yet the Interim Secretariat could not hire a qualified individual on a temporary

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basis to develop the necessary bookkeeping so MTEC can properly record its financial transactions.

*Management Response:*

*(i) In response to this recommendation MTEC Secretariat developed a basic spreadsheet for record keeping. A copy is attached herewith as supporting document. Staffs from the Division of Trade and Investment as well as the Administrative Officer are responsible for recording MTEC transactions in the absence of a full time accountant.*

*(v) The priority of MTEC at this point is to hire a replacement of the National Trade Advisor or a Director General to carrying out MTEC's work plan. There is no urgent need to hire an account at this time given there are no activities of MTEC. Currently, the MTEC Interim Secretariat relies exclusively on Staff of the FSM Department of Resources and Development (Division of Trade and Investment, and Administrative Officer).*

**5. 2.1.3 Audit Report 2016-2: Recommendation 3**

**(i) Recommendation requiring MTEC to Periodically Report the Basic Financial Statement such as Financial Position or Balance Sheet, Statement of Activities or Income and Expense Statement, and the Statement of Cash Flow; and,**

**(v) Cause of Delay in Implementation: MTEC Claims they need more funding to hire qualified individuals to develop bookkeeping procedures and currently there is US\$166,493 in MTEC bank account; and yet the Interim Secretariat could not hire a qualified individual with knowledge and skills in accounting to prepare periodic reporting such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow.**

*Management Response:*

*(i) In response to this recommendation MTEC Secretariat developed a basic spreadsheet for record keeping with capability to produce basic financial reports. A copy is attached as supporting document.*

*(v) The priority of MTEC at this point is to hire a replacement of the National Trade Advisor or a Director General to progress MTEC's work plan. At this point there is no urgent need to hire an account given there are no activities of MTEC. The MTEC Interim Secretariat relies exclusively on Staff of the Division of Trade and Investment, and the department's Administrative Officer AO to manage its financial affairs. Management agreed to immediately seek assistance from the FSM Department of Finance and Administration in improving the current reporting system to one that will satisfy this recommendation.*

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**6. 2.1.4 Audit Report 2016-2: Recommendation 4**

(i) MTEC to require periodic reconciliation of MTEC bank account; and,

(v) Cause of Delay in Implementation: While MTEC claims that they still needs more funding to hire qualified individual with knowledge and skills in preparing periodic bank accounts reconciling and other accounting related matters but currently there is US\$ in MTEC bank account and yet the Interim Secretariat could not hire even on temporary basis an accountant to record financial transactions and reconcile bank statement, at least once in three months.

*Management Response:*

(i) *In response to this recommendation MTEC Secretariat agrees to implement periodic reconciliation of its bank account immediately.*

(v) *MTEC Secretariat is currently utilizing Division of Trade and Investment staff and the department's AO to update and reconcile its bank account. At the moment there are no activities of MTEC therefore there is no urgent need to hire an accountant. The MTEC Interim Secretariat agrees to implement periodic reconciliation of its bank account immediately.*

**7. 2.1.5 Audit Report 2016-2: Recommendation 5**

(v) Cause of Substantial Implementation: The Government of Republic of Palau still awaits necessary documents from MTEC (Headed by FSM Department of Resources and Development) Interim Secretariat to support a request for approval of funding of annual contributions to MTEC by Palau Legislature.

*Management Response:*

(v) *This claim that the Government of Palau still awaits necessary documents from MTEC to support a request for approval of funding of annual contribution to MTEC by Palau Legislature is inaccurate. Palau is a signatory to the treaty and the only signatory that has yet to ratify the treaty as well as putting up its annual contributions. MTEC Secretariat is still encouraging Palau to complete its ratification process as well as its annual dues.*

**8. 3.0 Recommendations (ii) MTEC Interim Secretariat should cooperate with the Department of Finance and Administration to ensure that the financial activities are handled appropriately rather than banking on excuses of having no internal capacity.**

*Management Response:*

*The statement is implying that MTEC is not cooperating which is not an accurate statement. MTEC Secretariat is recommending to replace "cooperate with" with "seek assistance from" so the sentence will read, MTEC Interim Secretariat should seek assistance from the Department of Finance and Administration to ensure that the financial activities are handled appropriately.*

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9. 4.0 Finding (NEW): Lack of Capacity to Manage the Funds for MTEC:

*Management Response:*

*MTEC Secretariat provided 2017 Annual Budget and Work Program, and MTEC's Asset spreadsheet for record keeping (Financials).*

10. 4.1 Causes

- (i) Failure to implement the requirement of MTEC financial policies and regulations; and
- (ii) Lack of commitment and capacity within current MTEC Secretariat

*Management Response:*

*MTEC Secretariat recommends rewording of the above causes so it reads as follows:*

- (i) Limited internal capacity to implement the requirement of MTEC financial policies and regulations.*

11. 4.3 Recommendations

We recommend that, the President, FSM National Government should direct the Secretary, Department of Resources and Development to:

- (ii) Prepare and maintain books of accounts and periodic and annual financial reports.

*Management Response:*

*MTEC Secretariat is recommending the report be addressed to Interim Chair and the Trade Ministers. The Secretariat also feels the recommendation below is repetitive of the Audit Report 2016-2.*

- (ii) Prepare and maintain books of accounts and periodic and annual financial reports.*

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## **10.0 ONPA EVALUATION OF MANAGEMENT RESPONSE**

We requested for a management response from Interim Secretariat of Micronesia Trade and Economic Community (MTEC). Interim Secretariat of MTEC provided their responses to the prior and new audit recommendations as reflected under Management Response section. We would like to clarify to the management responses as reflected below:

### **10.1 Prior Audit Coverage**

**10.1.1 Management Comment on Prior Audit Coverage:** Interim Secretariat of MTEC presents its response to the prior audit coverage as not the second but rather the first follow-up or performance audit on Audit Report No. 2016-02 which was a Financial Audit.

**10.1.2 ONPA Evaluation:** The Office of National Public Auditor would like to clarify that this audit only focused on recommendations given during the financial audit which focused on internal controls and compliance with other requirements. Generally Accepted Audit Standards' Performance Audit normally include internal controls objectives, compliance objectives and program effectiveness objectives. Our audit was not on financial part but on whether the MTEC Secretariat implemented recommendations issued in Audit Report no. 2016-02 which focused on effectiveness of internal controls and compliance with various requirements, thus the term Second Performance Audit.

### **10.2 Audit Report 2016-02: Recommendation 1**

**10.2.1 Management Response:** The departure of the Advisor may have delayed some activities of MTEC; however, the recommendation to prepare an annual budget was fulfilled. A 2017 MTEC Budget and Work Program were developed as a response to this recommendation. Copies of both the Budget and Work Program are attached herewith as supporting documents (*refer to Appendix C*).

**10.2.2 ONPA Evaluation:** We evaluated the management response; however, to maintain the current implementation status of the prior audit recommendation at "planning stage" because there was no approved budget and there is no control, management and monitoring of the use of funds.

Interim Secretariat did not provide action plan as to how they would fully implement this audit recommendation and work Program was not provided as claimed in the management response.

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**10.3 Audit Report 2016-02: Recommendation 2**

**10.3.1 Management Response:** MTEC Secretariat developed a basic spreadsheet for record keeping. A copy is attached as supporting document. Staffs from the Division of Trade and Investment as well as the Administrative Officer are responsible for recording MTEC transactions in the absence of a full-time accountant.

The priority of MTEC at this point is to hire a replacement of the National Trade Advisor or a Director General to carrying out MTEC's work plan. There is no urgent need to hire an accountant at this time given there are no activities of MTEC. Currently, the MTEC Interim Secretariat relies exclusively on staff of FSM Department of Resources and Development (Division of Trade and Investment and Administrative Officer).

**10.3.2 ONPA Evaluation:** We evaluated the management response and decided to retain the current implementation status of the prior audit recommendation at "not yet implemented" given the fact that the said bookkeeping procedures were not yet developed and operationalized during the audit. However, we commend the Interim Secretariat for the progress made. On the other hand, the Interim Secretariat did not provide plan of action as to how they would fully implement this audit recommendation.

**10.4 Audit Report 2016-02: Recommendation 3**

**10.4.1 Management Response:** MTEC Secretariat developed a basic bookkeeping spreadsheet for record keeping with capability to produce basic financial reports. A copy is attached as supporting document (*refer to Appendix D*).

The priority of MTEC at this point is to hire a replacement of the National Trade Advisor or a Director General to carrying out MTEC's work plan. At this point there is no urgent need to hire an accountant given there are no activities of MTEC. MTEC Interim Secretariat relies exclusively on staff of the Division of Trade and Investment and the department's Administrative Officer to manage its financial affairs. Management agreed to immediately seek assistance from the FSM Department of Finance and Administration in improving the current reporting system to one that will satisfy this recommendation.

**10.4.2 ONPA Evaluation:** We evaluated the management response and decided to retain the current implementation status of the prior audit recommendation at "not yet implemented" given there are no periodic reporting of the basic



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financial statements such as Statement of Financial Position or Balance Sheet, Statement of Activity or Income and Expense Statement, and the Statement of Cash Flow. There is no evidence showing that MTEC Interim Secretariat communicating with FSM Department of Finance and Administration to improve the current reporting system.

Interim Secretariat did not provide plan of action as to how they would fully implement this audit recommendation.

**10.5 Report 2016-02: Recommendation 4**

**10.5.1 Management Response:** MTEC Secretariat agrees to implement periodic reconciliation of its bank account immediately.

MTEC Secretariat is currently utilizing Division of Trade and Investment staff and the department's AO to update and reconcile bank account. At the moment there are no activities of MTEC therefore there is no urgent need to hire an accountant. The MTEC Interim Secretariat agrees to implement periodic reconciliation of its bank account immediately.

**10.5.2 ONPA Evaluation:** We evaluated the management response and concluded that the current implementation status of the prior audit recommendation at "not yet implemented" should be retained despite MTEC Secretariat currently utilizing Division of Trade and Investment staff and the department's AO for the reconciliation of bank accounts, as there was no evidence provided to indicate that periodic reconciliation has started and may potentially expose the funds at their bank to abuse, misuse or mishandling.

**10.6 Report 2016-02: Recommendation 5:**

**10.6.1 Management Response:** This claim that the Government of Palau still awaits necessary documents from MTEC to support a request for approval of funding of annual contribution to MTEC by Palau Legislature is inaccurate. Palau is a signatory to the treaty and the only signatory that has yet to ratify the treaty as well as putting up its annual contributions. MTEC Secretariat is still encouraging Palau to complete its ratification process as well as its annual dues.

**10.6.2 ONPA Evaluation:** We evaluated the management response and decided to retain the current implementation status of the prior audit recommendation at "substantial implementation" based on the facts that such information was

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provided by the Management of Department of R&D during the meeting with our audit team on December 12, 2019 and the Outcome Document of the 8<sup>th</sup> MTEC Trade Ministers' Meeting of October 14, 2016. However, we will update the cause based on evidence to be provided.

**10.7 Current Audit Report Recommendation under 3(ii)**

**10.7.1 Management Response:** The statement is implying that MTEC is not cooperating which is not an accurate statement. MTEC Secretariat is recommending to replace "cooperate" with "seeking assistance from" so the sentence will read, MTEC Interim Secretariat should seek assistance from the Department of Finance and Administration to ensure that the financial activities are handled appropriately.

**10.7.2 ONPA Evaluation:** We evaluated the management response and we decided to replace "cooperate" with "seeking assistance from" as indicated under Section 3(ii) of this audit report.

**10.8 New Finding: Lack of Capacity to Manage the Funds for MTEC**

**10.8.1 Management Response:** MTEC Secretariat provided 2017 Annual Budget and Work Program and MTEC basic spreadsheet for record keeping (financials).

**10.8.2 ONPA Evaluation:** We evaluated the management response and decided to retain the new finding based on fieldwork assessment as reflected from pages 6 to 7 of this audit report.

**10.9 On item 4.1(ii), Causes for the New Finding**

**10.9.1 Management Response:** MTEC Interim Secretariat recommends rewording of the above causes so it reads as follows:

'Limited internal capacity to implement the requirement of MTEC financial policies and regulations.

**10.9.2 ONPA Evaluation:** We evaluated the management response recommending rewording; however, we decided to retain the description of the cause as it is, based on the facts that issues such as updating bank passbook doesn't take more than one hour if it is monthly submitted to the bank. At the same time going through management responses to the current audit report, it was insisted that *"Staff from the division of trade and investment and administrative officer are responsible for recording MTEC transactions in the absence of full accountant"* and *"At the moment there are no activities of MTEC*

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*and therefore there is no urgent need to recruit accountant”, both of which support our identified cause. On the other hand, no evidence was provided to indicate that the team, which was responsible but failed has been issued with new directive to ensure that activities relating to MTEC will be continuously updated as required.*

**10.10 New Recommendation**

**10.10.1 Management Response:** MTEC Interim Secretariat is recommending that the report is addressed to Interim Chair and the Trade Ministers. The Secretariat also feels that the recommendation below is repetitive of the Audit Report 2016-02.

**10.10.2 ONPA Evaluation:** We evaluated the management response and agreed to include the MTEC Ministers and copied to the Interim Chairman. However, we will retain the recommendation given the fact that assessments were made in relation to subject matter of corrective actions taken by the MTEC Interim Secretariat on the prior audit recommendations (Audit Report no. 2016-02).

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## **11.0 NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the Management and Staff of Micronesian Trade and Economic Community (MTEC) and Department of Resource and Development, Division of Trade and Investment for their assistance and cooperation during the course of the performance audit.

We have provided copies of the final performance audit report to the President and Members of the 21<sup>st</sup> FSM Congress. 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 to contact 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 conducted the audit and prepared this report.



Haser H. Hainrick  
National Public Auditor

Friday, July 17, 2020

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## **12.0 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:

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