

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA



**Effective Management and Internal Controls Will Greatly Assist
the FSM National Postal Services Improve Its Service Delivery**

AUDIT REPORT NO. 2021-03



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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February 11, 2021

His Excellency President David W. Panuelo
Honorable Members of the 21st Congress
Federated States of Micronesia

RE: PERFORMANCE AUDIT ON THE FSM NATIONAL POSTAL SERVICES (NPS)

We have completed the performance audit on the FSM Postal Services covering fiscal years 2017-2019. The audit primarily focused on processes of governance, internal controls, risk management and operations of the postal services.

This performance audit was conducted as part of implementing our Strategic Plan and Risk Based Audit Plan for fiscal years 2019-2021, and as part of our duties and responsibilities delineated under Public Auditor's Act, Chapter 5 of Title 55 of FSM Code.

The audit objectives were to determine whether the National Postal Services (NPS) has (a) an effective governance structure; (b) policies and procedures in place to guide the operations and ensure safeguarding of assets; (c) an existing risk management framework to provide the assurance of meeting its goals and objectives; and (d) an effective operation to serve all customers and carry out its functions.

Our audit revealed the following issues that Management should address:

1. Customers are not provided with a copy of the cash receipts for payments when mailing their packages.
2. Lack of segregation of duties over the stamps and philatelic products that carry significant values;
3. Customer complaints continue to rise without any effective internal control mechanism in place to manage and use them for improvement;
4. The establishing Act is outdated and does not reflect current and leading practices that are relevant such as having an oversight body to monitor management's performance regularly.
5. Absence of a strategic plan and an operational plan to guide the NPS towards achieving its goals and objectives;
6. Performance reports, activity reports, etc. are neither required nor prepared;
7. Absence of divisional policies and procedures;
8. NPS did not comply with the reporting requirements of the FMR for Fiscal Year 2019;
9. There is no assurance that all fees for box rental were collected;
10. Absence of a risk management process leaves NPS unprepared for the future and increases the impact of uncertain events that may disrupt postal services; and

11. Prior audit recommendations from 2013 were not fully implemented.

Based on our findings, we concluded that NPS needs to:

1. Improve the effectiveness of its governance structure by having an establishing law that addresses best practices and the current needs of the organization; and having an oversight function to monitor and oversee the performance of management;
2. Develop and implement policies and procedures to guide the operations and safeguard the resources of the NPS;
3. Utilize risk management tools for effective management of the impact of uncertain events; and
4. Strengthen its internal control environment to ensure that it effectively meets its goals and objectives;

We discussed the findings and recommendations with management of the NPS and requested for a formal management response, which is included in this final report.

Respectfully submitted,



Haser H. Hainrick
National Public Auditor

Xc: Vice President
Postmaster General

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Abbreviations

Abbreviation	Meaning
\$	United States Dollar
DoFA	Department of Finance and Administration
FMR	Financial Management Regulation
FSM	Federated States of Micronesia
FY	Fiscal Year
NPS	National Postal Services (FSM)
PL	Public Law
PMG	Postmaster General
SP	State Postmaster

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1. INTRODUCTION

This performance audit was conducted as part of implementing our Strategic Plan and Risk Based Audit Plan for fiscal years 2019-2021, and as part of our duties and responsibilities delineated under the Public Auditor's Act, Chapter 5 of Title 55 of the FSM Code.

2. BACKGROUND

The FSM National Postal Services (NPS) was established in 1983 by Public Law No. 3-13 (referred to as the National Postal Service Act) which is codified as Title 39 of the FSM Code. The establishing Act created the NPS as an independent agency of the FSM National Government. Its primary purpose is to provide and deliver the postal operations and services as well as to sell stamps and other philatelic products within the FSM and throughout the world. It is headed by the Postmaster General (PMG). The main office is located in Kolonia, Pohnpei and there are post offices in the four (4) FSM States each under the supervision of a State Postmaster (SP) who serves under the authority of the PMG.

The NPS consists of various divisions including the Postmaster General Office, Postal Inspection, Finance, Philatelic, and the four FSM States Post Offices with sub branches except for Kosrae State.

2.1. Federal Programs and Services Agreement Between the Government of the United States and FSM

As part of the Compact of the Free Association between the United States and the FSM Government, a subsidiary agreement (titled above) was established which sets forth the respective authority and responsibility for the provision of related services and programs. Article VI of this Agreement covers the provision of Postal Services and Related Programs which includes the responsibilities of both parties. The FSM Government is responsible for the entire operations of the Postal Services within the FSM. The United State is responsible for other assistance including among others; technical assistance, fees and handling of inbound and outbound mail services through air and sea carriers. All revenues collected from the NPS are deposited into the General Fund of the FSM National Government.

2.2. Duties and Responsibilities of Management

The PMG is responsible for the following:

- Supervise the operations of the National Postal System;
- Adopt postal rates and regulations pursuant to Title 17 of the FSM Code and in accordance to Section 108 of the Act; and

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- Hire staff and perform such other duties and functions as may be necessary to carry out the provisions of the National Postal Act.

The responsibilities of the divisions within the NPS are listed below:

- Finance Division - responsible for maintaining financial operations of the agency which include verifying, receiving, and recording of revenue collection for the Philatelic Division and the four FSM States Post Offices. The Finance Division is also responsible for preparing payments and other disbursements on the operation budget of the agency.
- Philatelic Division - responsible for maintaining and controlling the daily operations for the bureau, and to promote sales of FSM postage stamps and postal products in the world-wide market. In addition, the division is also responsible for the request of philatelic/postage stamps to its contractors with the approval of the Postmaster General.
- Postal Inspection Division - responsible for the overall activities of the FSM Postal Inspection Services.
- The postal offices in all the four FSM states and its sub branches carry out postal services at the state level under the authority of the PMG.

2.3. Revolving Account

A revolving fund was created in January 2014 under Public Law 18-39 in order to fund maintenance projects that would improve the operations of the NPS throughout the nation and for other purposes.

This revolving fund is sourced from earnings from sales of postal stamps and is used for repair and maintenance of the NPS facilities throughout the FSM. During every fiscal year on April 30 and September 30, any amount in the revolving fund in excess of \$20,000 is automatically deposited into the General Fund of the FSM National Government. Public Law 18-39 also requires the PMG to submit to President and Congress an annual report on the status of the revolving fund by January 30.

2.4. Budget

The NPS receives its operational budgets from the FSM Congress annually.

Table 01: The amount (\$) appropriated by FSM Congress for FY2017 to FY2019

	FY2017 (\$)	FY2018 (\$)	FY2019 (\$)	Total (\$)
Personnel	511,810	513,771	533,861	1,559,442
Travel	50,165	65,117	70,542	185,824
Contractual Services		151,320	207,119	358,439
Consumable Goods	161,867	126,657	151,657	440,181
Fixed Assets	112,050	-	21,000	133,050

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Total	835,892	856,865	984,179	2,676,936
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3. OBJECTIVES, SCOPE, METHODOLOGY

3.1 Objectives

The audit objectives were to determine:

1. The effectiveness of the Governance structure for the NPS.
2. Whether there are policies and procedures in place to guide the daily operation and safeguarding of assets.
3. The existence of a risk management framework to provide assurance in meeting the goals and objectives of the NPS.
4. The effectiveness of the operation to carry out the function of the NPS to serve the need of its customers.

3.2 Scope

The audit covered fiscal years 2017-2019 for the NPS including the Post Offices located in the FSM States.

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.*"

3.3 Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. The 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.

To determine whether NPS has an effective governance structure, adequate internal control, an existing risk management plan to manage and mitigate risks, and an effective operations to properly manage and carry out the duties and responsibilities of the FSM Postal Services, we obtained and reviewed documents, conducted physical inspections, carried out a walkthrough of processes and interviewed key personnel.

Due to travel restrictions related to the covid-19 pandemic, the audit team was not able to visit the post offices in the other three (3) FSM states, however, documents were

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obtained and audit queries were made through electronic means for our review and verification.

4. PRIOR AUDIT COVERAGE

This is the second performance audit conducted on the NPS by the Office of the National Public Auditor. The last audit was conducted in 2013 which focused mainly on the review of controls on postage inventory and revenue collection transactions from Fiscal Years 2009 to 2012, up to May 2012 only.

5. COMMENDATION

In most cases government departments, agencies and units have negative perspectives whenever it comes to being audited, but this was not the case with the management of the NPS. Through our various meetings with the Acting PMG, we observed a true desire for improvements. The management was positive in their facilitation and stated that they looked forward to more audits and recommendations for improvement in the future. The Office of the National Public Auditor commends this as the right practice that need to be emulated by other public institutions, practically, since the public auditors are partners in improving public sector for effective and efficient service delivery. Among others, the ONPA focus is to assist the government and its institutions in improving governance processes, performance, internal controls and the risk management.

6. CONCLUSION

Based on the results of our audit, we concluded that the NPS needs to:

1. Have a more effective governance structure, including having an establishing law that addresses best practices and the current needs of the organization; and having an oversight function to monitor and oversee the performance of management;
2. Develop and implement policies and procedures to guide the operations and safeguard the resources of the NPS.
3. Utilize risk management tools for effective management of the impact of uncertain events.
4. Strengthen its internal control environment to ensure that it effectively meets its goals and objectives;

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

7. FINDINGS AND RECOMMENDATIONS

7.1.Finding No.1: National Postal Services did not comply with the reporting requirements of the FMR

Section 11.3 (1) of the FSM Financial Management Regulation (FMR) was amended in 2019 and required from the departments and agencies of the National Government:

1. Within 30 days of the completion of each quarter of each fiscal year, each department of the executive branch and each agency of the National Government shall transmit to Congress and to the President a report on its activities during the quarter just completed, including:
 - A comparison of its actual accomplishments for the quarter, and the year to date, with the planned accomplishments set forth in the plan describe in subpart 10.9 of these regulations; and
 - A description of any factors that may have caused actual performance to vary from the plan.

Based on our inquiries with management and review of performance reports, it is evident that the NPS had neither reported its performance activities for FY2019 to the Congress nor the President as required by the FMR.

7.1.1. Cause(s):

- i. Lack of awareness of the reporting requirements of the FMR;
- ii. Absence of internal mechanisms in place to enable and support effective reporting of performance;
- iii. The establishing Act did not require reporting of activities to the executive and legislative branches.

7.1.2. Potential Effect(s):

- i. Non-compliance to the FMR.
- ii. The actual performance and value for money of the Congress appropriations that are made towards the NPS annual budgets are not measured and may not be realized.
- iii. Improvements cannot be identified.
- iv. Mis-use of resources.

7.1.3. Recommendation(s):

The PMG should:

- (i) Comply with the reporting requirements of the FMR.
- (ii) Initiate actions for the review of the establishing Act (FSM Code Title 39) to ensure that the governance structure reflects the FMR reporting requirements, preparation of Annual Reports, and other leading practices

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for improved performance that leads to and sustains excellent customer service.

7.2.Finding No. 2: No oversight function over the operations of the NPS

According to leading practices, oversight is a critical governance function performed by boards of directors, committee, councils or external bodies to ensure the following:

- i. Due diligence takes place before key decisions are made.
- ii. Policies and strategies are being implemented as intended.
- iii. Key risks are identified, monitored, and mitigated.
- iv. Business processes and systems are working well.
- v. Expected results are being achieved.
- vi. Value for money is obtained.
- vii. Activities comply with policies, laws, regulations, and ethical standards.
- viii. Developing areas of concerns to being dealt with.
- ix. Assets are safeguarded.
- x. Continuous improvement is taking place.

In addition, oversight can be conducted through various functions such as planning, defining information needs, challenging, advising, approving, deciding, monitoring, reviewing, and taking corrective actions.

Based on our audit, we noted the following issues that need to be addressed as they will lead to valuable improvement on the performance and delivery of postal services:

- i. Absence of an oversight function that should provide the watchful care over the management and operations of the NPS.
- ii. There is no external reporting to the President nor the Congress on performance activities except for the annual reporting of the status of the revolving fund.

7.2.1. Cause(s):

There is no oversight function because the establishing Act does not require monitoring of the organization or the establishment of an oversight committee to provide high level monitoring and direction to the NPS.

7.2.2. Potential Effect(s):

- i. Poor performance of the NPS without an oversight body to instigate improvement in performance;
- ii. Value for money (of annual appropriations made by the Congress) is not achieved;
- iii. Failure to meet goals and objectives;
- iv. Mis-use of resources and budget;

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- v. Policies and strategies are not in place;
- vi. Non-compliance with the relevant laws and regulations;
- vii. Continuous improvement may not be identified and achieved; and
- viii. Key decisions are made without due diligence or risk considerations.

7.2.3. Suggestion(s):

We suggest that the President:

- i. Take necessary actions to recommend changes to the establishing Act of the NPS so that the law itself requires the appointment of an oversight body;
- ii. Identify and appoint suitable individuals to be members of an oversight body and to carry out the role of monitoring and advising on all key aspects of the NPS including, among others, governance, risk management, compliance, internal controls, management and performance.

7.3. Finding No. 3: Absence of a strategic plan and operational plan to guide the NPS in setting and achieving its goals and objectives.

Leading practices define strategic planning as *“a management tool to help an organization to improve its performance by ensuring that its members are working to the same goals and by continuously adjusting the direction of the organization to the changing environment on the basis of results obtained”*. A strategic plan should contain an explicit policy presentation which clearly spells out the overall long-term goals and the broad strategies proposed for reaching these goals. The strategic plan is not prepared once and for all but has to be translated annually into an operational plan and regularly updated. An annual operational plan is a practical work plan, which spells out in detail the activities to be undertaken during the year in order to progress as effectively as possible towards achieving the goals and objectives of the medium-term plan. In order to be fully useful, annual operational plans have to be closely linked to annual budgets, because any distortion between plan and budget is going to negatively affect plan implementation.

¹Further research also reveals that the US Postal Services has in place a 5-year strategic plan (for FY2020 to FY2024) which is intended to provide stakeholders with (i) *“A comprehensive mission statement covering the major operations of the Postal Service”*. (ii) *“An identification of the key factors external to the Postal Service and beyond our control that could significantly affect the achievement of our overall goals and objectives”*. (iii) *“A description of the Postal Service’s overall goals and objectives, aligned with National Performance Assessment (NPA) goals and annual performance targets”*. (iv) *“A description of the program evaluations used in establishing or revising overall goals and NPA system objectives”*.

¹ Source: <https://about.usps.com/strategic-planning/five-year-strategic-plan-2020-2024.pdf>

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Based on interviews conducted, we found that there is no strategic plan and operational plan in place to guide the NPS towards effectively achieving its goals and objectives through its operational activities and budgets. According to management, their annual budget is based on historical data from previous financial years and new developments were identified based on what management think they should be carrying out within a fiscal year for the benefit of citizens and customers of the NPS.

7.3.1. Cause(s):

- i. The establishing Act is outdated and does not reflect current and leading practices that are relevant and important such as having a strategic plan and an operational plan.
- ii. Limited capacity within the existing management team to develop the needed strategic and operational plans for the NPS.
- iii. Absence of an oversight body to monitor and provide the necessary strategic direction to the management team such as identifying the need to develop a medium to long-term strategic plan and the annual operational plan.

7.3.2. Potential Effect(s):

- i. Operational activities are not aligned to certain short- and long-term strategies that should have been established based on the legal mandate of the NPS.
- ii. Lack of future direction for the organization.
- iii. Poor postal services and possible collapse or lack of sustained quality services as the entity is managed based solely on what the head of the organization thinks and not based on an established long-term strategic direction that integrates inputs of the entire organization, actual results, potential risks, required improvements, stakeholders, and the surrounding environment within which the NPS operates.

7.3.3. Recommendation(s):

The PMG should:

- i. Develop and operationalize a policy for the annual documentation and revision of the organization's strategic and annual operational plans.
- ii. Develop and operationalize strategic and operational plans to help guide and direct the management, staff and operations of the NPS.
- iii. Conduct awareness through capacity building to all employees and management on the above-mentioned plans to ensure that everyone in the organization understand and take ownership of its implementation.
- iv. Ensure that all plans are continually monitored for implementation and that the strategic planning process is sustained for the future.

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7.4.Finding No. 4: Poor internal controls, including lack of policies and procedures, pose a threat to efficient postal services

According to leading practices (COSO Framework ²), control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews.

Based on our audit and inquiry with management, we found that the organization is yet to finalize and operationalize policies and procedures. Management had developed a number of Standard of Procedures (SOPs) during the course of this audit which were still in draft form and were awaiting management review and approval. These draft SOPs included procedures for disposal of expired commemorative stamps, procedures for disposal of definitive stamps, procedures for cash overages and shortages, and procedures for stamps stock shipments.

7.4.1. Cause(s):

- i. Absence of an oversight body to guide and monitor the effectiveness of the control environment of the NPS.
- ii. Limited in-house capacity to create policies and procedures that are needed for effective achievement of the organizations goals and objectives.

7.4.2. Potential Effect(s):

Absence of sufficient operational policies and procedures may lead to:

- i. Low quality performance of employees and the organization leading to unsatisfactory customer service and increased customer complaints.
- ii. Undetected fraudulent and unethical activities (such as theft) committed by dishonest employees.
- iii. Inconsistent practices by employees could result in undetected errors and customer complaints.

7.4.3. Recommendation(s):

The PMG should:

² <https://www.coso.org/Pages/default.aspx> The COSO (Committee of Sponsoring Organizations of the Treadway Commission) is a joint initiative of five private sector organizations ... and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

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- i. Finalize, approve and operationalize appropriate policies and procedures to guide the overall operations of the postal services;
- ii. Conduct awareness through capacity building to all employees and management on the policies and procedures that have been approved; and
- iii. Ensure such policies and procedures are followed and maintained.

7.5. Finding No. 5: No segregation of duties exists for managing the stockroom for philatelic stamps and products

Leading practices define “segregation of duties” as a primary concept in the internal control environment. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The basic idea underlying segregation of duties is that no employee or group should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. One person should not be able to initiate, record, authorize execute, and review a transaction.

Based on inquiries with the Philatelic Manager and staff, we found that there is inadequate segregation of duties in managing the stockroom for stamps. For instance, the Philatelic Manager who is managing the whole philatelic bureau is also acting as the Custodian Officer and is also responsible for the entire inventory management (purchasing, receiving, log book, inventory counts and distribution of stamps). These activities, in our view, should be segregated and carried out by at least 2 different people.

6.5.1 Cause(s):

- i. The Custodian Officer position no longer exists and the responsibilities were taken up by the Philatelic Manager.
- ii. No policies and procedures in place to guide and manage the stock room for stamps.

6.5.2 Potential Effect(s):

In-appropriate segregation of duties may possibly lead to:

- i. Undetected error and fraud;
- ii. Financial loss due to misuse and abuse; and
- iii. Overloading one employee with too many tasks can pose health and productivity risks.

6.5.3 Recommendation(s):

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Management should implement proper segregation of duties to avoid the possibility or reduce the likelihood of error and possible fraud occurring.

7.6.Finding No. 6: Weak internal controls in the process of receipting customer payments

Leading practice suggests that all types of payments should be input into an electronic device, such as a cash register or computer terminal, or tracked manually with pre-numbered receipts, to ensure that all payments are documented.”

Based on our observation of cash collection at the counter for mailing packages we noted the following internal control weaknesses in the cash receipting process:

- i. Customers are not provided with a copy of the cash receipts for payments when mailing their packages.
- ii. Customers are only provided with a copy of the custom declaration form and the USPS tracking number.
- iii. No computer-based system in place to reconcile against the cash collected at the end of the business day. Out of the four (4) states, only Yap Postal has a computer-based system in place for receipting of payments.
- iv. No review of sales report by management at the end of the business day.
- v. No cash register for safe keeping of cash collected. Cash is placed in a cash box during the business day and transferred to the safe at the end of the business day.
- vi. Amount charged to customers for sending mail is manually calculated by the sales clerks based on the fee schedule and the weight of the mail.

7.6.1 Cause(s):

- i. Lack of policies and procedures in place for receiving, monitoring, reconciling and documentation of payments received from customers.
- ii. Absence of a computer-based system for receipting of customers’ payments. (Note: there are currently ongoing plans to implement a computer-based system).

7.6.2 Potential Effect(s):

- i. Undetected fraud (cash theft / skimming) as records for payments received from customers could be understated in the accounting books.

7.6.3 Recommendations:

Management should:

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- i. Develop and implement proper policies and procedures (that contain adequate internal controls) to ensure that all transactions are completely and accurately recorded and accounted for and that documentation provides evidence to the underlying transactions; Start issuing cash receipts to customers reflecting the actual amounts they had paid;
- ii. Ensure that all four (4) Post Offices located in the FSM States use the same financial system for proper recording of financial transactions including cash receipting; and
- iii. Standardize documentation procedures that could effectively seal any loophole for fraud to incur, especially in the area of receipting of customer payments.

7.7.Finding No. 7: There is no assurance that all fees for box rental were collected

According to current practice at the NPS, the Postal Office (P.O.) box rental fees are due on an annual basis. Customers are required to pay the annual rental fees in order to continue using the mailboxes. The cost of the mailbox rentals depends on the size. Customers are normally notified/reminded about their rental fees one month prior to the due date.

Based on our review of the collection of P.O. Box rentals, we could not determine whether all collections for FY17-FY19 were collected. Prior to 2019, payments were due within 12 months (from the anniversary date since applying for a postal box) but not by calendar year (every December). Recently in 2019, payments due dates were amended from the 12-month due date to calendar-year basis. We found that billing of the fees was not timely. In addition, penalty fees were not imposed for overdues or late payments.

The table below illustrates the total amount billed and total amount collected by each FSM state for FY 2019.

Table 02. FY2019 Fees Collection for P.O Box Rentals

Post Office	Total Amount Billed	Total Amount Collected	Total Variance
Pohnpei	\$27,030.00	\$25,480.00	\$1,550.00
Chuuk	\$ 65,274.00	\$ 62,806.46	\$2,468.00
Kosrae	\$ 27,030.00	\$ 25,480.00	\$1,550.00
Yap	No information received	No information received	No information received

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7.7.1 Cause(s):

- i. The establishing Act had never been amended since its inception to address current and existing processes which are currently being implemented such as for the collection of all revenues including the P.O. Box rental fees;
- ii. Absence of policies and procedures in place for the administration of postal box rental collections, documentation, monitoring and reporting.

7.7.2 Potential Effect(s):

- i. Misalignment between the legal framework (establishing Act) and the actual operational processes (current implementation & practices) posing legal threats in case of legal actions taken against the NPS;
- ii. Inconsistent procedures in the handling of rental of postal boxes that can result in financial losses (P.O Boxes may remain open without payments);
- iii. Customer complaints and undetected fraud (intentional waving of mailbox rental fees for friends and relatives).

7.7.3 Recommendation(s):

Management should:

- i. Revisit the establishing Act to identify the needed amendments to ensure that the law reflects current and leading practices and processes that also address the current needs of the NPS;
- ii. Carefully study the existing processes on box rental and identify areas of improvement;
- iii. Develop and implement proper policies and procedures (with adequate controls) to ensure that all fees for box rentals are collected and correctly recorded on a timely basis.

7.8. Finding No. 8: Inadequate internal control mechanisms in place to handle customer complaints

Leading practice recommends that “effective complaint mechanisms are a key tool to identify and prevent corruption and other malpractice. By providing citizens with channels to report any incidence or suspicion of corruption or other malpractice, complaint mechanisms allow for the identification of problems which might otherwise not surface, and for subsequent corrective action to be taken. Therefore, credible and functioning complaint mechanisms constitute a key tool for public institutions, companies and not-for-profit organizations to manage corruption risk and potential reputational damage.”

Based on our inquiry with management, there is no guidelines or procedures in place for handling customer complaints pertaining to matters such as missing, returned, damaged and delayed mails. Customer complaints are logged/recorded in a Microsoft

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excel register by the Postal Inspector, however, some cases were still filed (pending), unresolved and few others were closed while some have no status of activities taken to address them. On the improvement side, a draft customer complaint form was recently developed during the course of the audit and was pending management approval.

Table 03: Number of cases logged for the fiscal years 2017-2019

Cases	Filed (Pending Cases)	Unsolved	On-going	No status on Action Taken	Closed (Completed)	Total
2017	3	0	0	2	0	5
2018	21	0	1	6	6	34
2019	9	4	0	4	1	18
Total	33	4	1	12	7	57

Source: Customer complaints log

7.8.1 Cause(s):

- i. The establishing Act did not have any provisions on handling customer complaints at the Postal Services;
- ii. Lack of management initiatives and capacity to create policies and procedures in the past years to ensure that both employees and customers of NPS are aware of the complaints process and that the complaints received are fully addressed.

7.8.2 Effect(s):

- i. Customers are expressing their dissatisfaction and complaints on social media; jeopardizing the reputation of the NPS including the employees; (Refer to [Appendix 1](#) for examples of customer complaints expressed against NPS on social media)
- ii. Difficult to determine whether management is addressing and resolving customer complaints in a timely manner.

7.8.3 Recommendation(s):

Management should:

- i. Establish and operationalize appropriate policies and procedures (including finalizing the draft “customer complaint form”) to address all customer complaints received;
- ii. Carry out internal awareness sessions to employees to help them understand and value customer feedback and complaints; and

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- iii. Create awareness using various methods including online platforms (website, social media etc.) to ensure that customers understand what to do when faced with issues regarding mail services.

7.9.Finding No. 9: Lack of Risk Management Framework to provide reasonable assurance that there is a process of managing risk to manage uncertain events that may affect or disrupt postal services

Leading practice states that “risk management encompasses the identification, analysis, and response to risk factors that form part of the life of a business. Effective risk management means attempting to control, as much as possible, future outcomes by acting proactively rather than reactively. Therefore, effective risk management offers the potential to reduce both the possibility of a risk occurring and its potential impact.”

Based on our interviews conducted at the NPS, there is no risk management policy or risk register in place to provide reasonable assurance that there is a process of managing risks to reduce the impact of uncertain events that may occur and disrupt the services and also prevent the NPS from meeting its goals and objectives.

7.9.1 Cause(s):

- i. The establishing Act does not have any guidance on management responsibilities for developing and operationalizing a risk management policy and register;
- ii. Limited knowledge of the value of risk management tools in the organization.

7.9.2 Possible Effect(s):

- i. Inability for the NPS to manage uncertain events when they arise as there are no existing processes for and resources to carry out the proactive identification of risks; timely documentation as well as managing the risk to reduce negative impacts to the organization;
- ii. Unexpected losses to the NPS;
- iii. Goals and objectives of the organization may not be fully achieved.

7.9.3 Recommendation(s):

Management should:

- i. Develop and operationalize appropriate and sufficient risk management policy and procedures and risk register (to identify, monitor and mitigate key risks);
- ii. Carry out awareness on the value of risk management policies and procedures; and

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- iii. Sustain the risk management processes for the future to help the organization stay abreast with emerging issues, leading practices and continuous improvement.

7.10 . Finding No. 10: The NPS did not Implement all Audit Recommendations Issued in the prior Audit Report No. 2013-03

Chapter 8.30 of the Government Auditing Standards States:

“Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented...”

The Postmaster General in her response to the five (5) findings and fourteen (14) recommendations issued in our prior Audit Report No. 2013-03, concurred with all the findings and would implement the recommendations to remedy the weaknesses in the operation of the FSM National Postal Office. However, based on our inquiry and verification of the implementation status of the prior audit recommendations, we noted that not all recommendations were implemented.

The implementation matrix below shows the implementation status of all audit recommendations that were issued in our prior Audit Report No. 2013-03:

Table 04. Implementation Status Matrix as of January 2020

#	Finding	Recommendation	Status of Implementation
(i)	\$5.9 Million worth of Postage Inventory as of Fiscal Year Ending 2011 equivalent to 16 years sales was excessive	The Postmaster General Should:	Partially Implemented
		1.Develop and implement policies and control procedures governing ordering of stocks and maintaining stock level at the national stock room, philatelic manager’s custody, post office and at sales agent’s custody to avoid the costs normally associated with overstocking and under stocking of postage and philatelic products inventories;	
		2.Develop and implement an inventory system to adequately control, manage and protect postage inventory at the stock room and facilitate tracing, count, reconciliation, and accounting;	Not Implemented

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#	Finding	Recommendation	Status of Implementation
		3. Implement a program on how to market/dispose the excess postage and philatelic products and thus, achieve the desired inventory level.	Being Implemented
(ii)	\$467,550 Expired and Damaged Postage Stamps and Stamp Papers equivalent to a little over one-year sales accumulated in the Inventory	The Postmaster General Should:	Not Implemented
		1.Develop and implement policies and procedures that would require all stamp stock custodians to identify and report expired and damaged stamp stocks and philatelic products on regular basis. As a means of monitoring, the Postmaster General should ask for regular report of expired and damaged stamps and philatelic products from the main stockroom custodians;	
		2.Activate the Destruction Committee that would supervise the effective disposition or destruction of damage and expired stamps to avoid unauthorized uses.	Being implemented
		National Stock Controller should:	Currently not applicable as the Position of National Stock Controller no longer exist.
1. Perform his responsibility to receive old stamps from the postmasters and respective custodians and to continuously monitor and immediately remove defective stamps from the inventory for reporting and destruction to prevent further uses.			
(iii)	Lack of Internal Control Procedures in the Stock Room and Sales Agent's Operations caused unexplained large amount of Stock Count Discrepancies	The Postmaster General Should:	Partially Implemented
		1. Ensure that immediate action to settle or investigate reported discrepancies both in cash and in stock accountabilities are implemented.	
		Sales Agent Should:	Partially Implemented
		2.Should account their daily stamp/philatelic product inventories (beginning and ending), withdrawals and sales in a detailed manner. All of the stamp withdrawals, sales, and inventories in the daily report should provide details uniquely identifying stamps as to type/image name, face value quantity and	

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#	Finding	Recommendation	Status of Implementation
		total value to facilitate count, reconciliation and accounting. Postmaster and Finance Officer	
		3. Should sign the daily sales and stock accountability reports (PS Form 1412-A & 1214-B) of the sales agents to check the accuracy of daily reporting and to ensure that discrepancies are immediately identified and appropriate decisions made.	Not Implemented
(iv)	Inadequate Segregation of Duties increased the Risk of Fraud and Undetected Errors	Postmaster (i) Should implement proper segregation of duties when delegating responsibility to deter, prevent and reduce the risk of employee fraud and error, which are normally associated with a single person performing incompatible duties.	Not Implemented
(v)	Inadequate Contract Monitoring caused failures to collect Postal Revenue Amounting to \$76,482 and Check the Accuracy of Income and Financial Reporting	The Postmaster General Should: 1. Collect all outstanding share of income due from Inter-Governmental Philatelic Corporation (IGPC) in a timely manner. 2. Remove the provision in the contract allowing IGPC to reimburse the travel expenses of Postal Service employees and deduct the same from the minimum income. For better control and avoid the additional monitoring activity to ensure reimbursement, the processing of employee travels to IGPC should only be processed by the FSM National Government's Department of Finance and Administration and without reimbursement from IGPC so that the minimum income could be collected in full amount. 3. Along with the Manager of Philatelic Bureau and Finance Officer, implement the control procedures to ensure that all the terms and conditions of the agreement are complied. 4. Study the contract with IGPC considering benefits/costs and determine the need for its renewal since it has already expired.	Currently not applicable as the contract had expired

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7.10.1 Cause(s)

- 7.10.1.1 Expired agreement with the stamp sales agent back in 2016.
- 7.10.1.2 National Stock Controller position no longer exist in the NPS.
- 7.10.1.3 Lack of coordination between philatelic, finance, and post offices for reconciliation.
- 7.10.1.4 Management decided not to renew the contract with IGPC.

7.10.2 Potential Effect(s)

Absence of policies and procedures to manage the stamps section of the Post Office could results in the following:

- i. Financial loss due to possibility of fraud, misuse, abuse;
- ii. Overstocking and understocking of postage and philatelic products inventories;
- iii. Expired stamps have not been disposed for more than four years and still sitting the stock room.

7.10.3 Recommendation(s)

The Postmaster General and Philatelic Manager should implement all audit recommendations identified in our prior Audit Report No. 2013-03 that was issued back in 2013 and where it is impossible, alternative methods should be used to correct the identified internal control weaknesses.

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8. APPENDIX 1: SOME EXAMPLES OF CUSTOMER COMPLAINTS AGAINST NPS ON SOCIAL MEDIA

Table 05 (Source: www.facebook.com): A few of the complaints posted on social media regarding the service delivery of the FSM National Postal Services.

<p>Example 1: Kalio Edwin (Date of post: December 24, 2020 at 1:05pm)</p> <p><i>“The Post Office Issue with flat rate changes is triggering a lot of frustration here in Pohnpei. Our FSM Post Office is not accepting Flat Rate Charges any longer as indicated by Postal Clerks. Whatever is worth \$16.00 dollars worth of flat rate shipping cost can now be charged up to \$50.00 dollars. The FSM Postal Services obviously is changing call signs from Flat Rate to Rip Rate. They are literally ripping the citizens of this Federation's hard-earned money. When asked why they don't accept flat rate anymore, the response was there is already an established agreement between USPS and FSM Government that FSM Postal Services will apply their service fees + charges on shipment at their own calculations. This needs to be dealt with as soon as possible. We honestly need to change management at the Postal Services. Members of Congress, this is too much and it needs to be changed before the election in March. I will make another post after Christmas on this Issue.”</i></p>
<p>Example 2: Strick Richardo (Date of post: September 9, 2020 at 12:33pm)</p> <p><i>“Postal services once again: Got one of those slips in my box indicating there is a larger parcel that won't fit the box. Therefore, I have to claim it by submitting the slip at the front counter. Well, they couldn't find it, the lady said it's because it has been there for a while. For a while is last month or last week for me. Do they get rid of old mails/parcels? This is ridiculous. They couldn't locate my mail and now blaming it on the recipient. Need advice on what would be the best approach on resolving this issue.”</i></p>
<p>Example 3: Candido Kilicho (Date of post: September 11, 2020 at 9:43am)</p> <p><i>“Dear FSM Post Master General.</i> <i>Are you even aware of what's going on in the FSM Post Offices, especially our Chuuk Post Office, who is to be blame? Is it you because you keep the bad apples or the FSM Congress?</i> <i>People don't trust the government 100% because of the people in the government entrusted with power and authority. Our trust (the people's) is being abused by the gov't officials both in the national and state government. I am not pointing fingers only stating my concern.”</i></p>

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Example 4:

(Date of post: December 12, 2020 at 11:31am)

Akosita Bokoi is 😡 feeling annoyed with in Pohnpei, Federated States of Micronesia

"Came to the post office this morning to inquire about my items which according to tracking was delivered on Thursday 10th December 1245. I was wondering why delivered when i haven't picked it up... after waiting for 30minutes in line to my annoyance came to find out that it was given to someone else...seriously Pohnpei Mail Service, how could u deliver or give someone's item to a wrong person, and not one package its 2 packages.... response from customer service come back on Monday. We only accepting yellow tickets today..😡😡😡 And to the person that accepted the package, obviously u have find out by now that the package is not urs..please return items, they are not meant for u". #poormailservices

USPS Business Mail .

FSM FORUM

FSM OPEN FORUM

#FSMPostalservices"

Example 5:

Pohnpei Environment (Date of post: June 24, 2020 at 9:06am)

"A worker at FSM Post Office forgot to send out the usual annual notice to pay P.O. box rentals in December, apparently. The Post Office is only now, in June, six months late, starting to "lock" boxes, without any notice to customers of the reason the box is "locked". Delivery of your mail ceases, again without any notice, and then, when you ask about the cellophane tape you might see across the back of your box in late June, you are told that YOU "forgot" to pay in December. Wouldn't it be better for the Post Office to send out the usual annual notice, instead of telling people that it is their own forgetful fault? Why should WE be talked to like we're just stupid, old, demented or forgetful? How can anyone remember payment is due in December, if we don't get the usual annual notice to which we are accustomed? In my case, the Post Office employee said "You're the only person who is complaining about this!!!" I pressed him to tell me how MANY people "forgot" to pay in December, and after he refused to answer several times on the grounds that it's none of my business, he finally admitted "PLENTY of people 'forgot' to pay!" Why can't this employee just graciously admit he forgot to send everybody their annual notice? We should not be made to feel like we're at fault. Where is the spirit of "public service" here? I'm not a deadbeat or a criminal. Remember, "THE CUSTOMER IS ALWAYS RIGHT!!!" I believe the governments, local, state and national, ALL need some public relations training and instruction on public service!!! WHY DO PEOPLE IN POHNPEI TOLERATE GOVERNMENT EMPLOYEES WHO ACT LIKE THEY ARE OUR MASTERS???"

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9. MANAGEMENT RESPONSE



Ginger Porter Mida
Postmaster General

Postal Service

FEDERATED STATES OF MICRONEIA
P.O. Box 1376
Pohnpei, FM 96941-1376
Tel: (691) 320-2614/5614 Fax: (691) 320 2612

February 03, 2021

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

Dear Mr. Hainrick,

Thank you for the opportunity to respond to the National Postal Service audit titled Effective Management and Internal Controls will greatly assist the FSM National Postal Services Improve its Service Delivery. Attached is management response to the audit findings indicated in the report.

I look forward to working with your office in future audits to assist the National Postal Service in improving its procedures and processes and identifying areas of improvement to promote better accountability, efficiency and better customer service.

Thank you


Ginger Porter Mida
Postmaster General

Attach.

Cc: file

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Managements Response to the audit findings and recommendations:

6.1 National PS did not comply with the reporting requirement of the FMR

Management concurs with the finding. The Postmaster General shall ensure compliance with the Financial Management Reporting requirement and submit quarterly reports to President and Congress starting the second quarter of fiscal year 2021

6.2 No oversight function over the operations of the NPS

The Postmaster General will consult with the president and the department of justice for a review of title 39 of the FSM Code to reflect the new reporting requirements set forth in the amended financial management regulations of February 2019 as well as explore proposal to amend title 39 to include oversight function.

6.3 Absence of a Strategic Plan and operational plan to guide the NPS in setting and achieving its goals and objectives

Management concurs with the finding and will work on establishing a three-year strategic plan covering fiscal year 2021 to 2023. A draft plan will be ready for review by July 31, 2021 and finalized no later than September 30, 2021.

6.4 Poor internal controls including lack of policies and procedures poses threat to efficient postal services

Management concurs with the finding and will assess and identify areas within post office that require policies and procedures and establish written procedures as needed. Management will review the draft policies and procedures submitted and finalize for implementation no later than the end of fiscal year 2021.

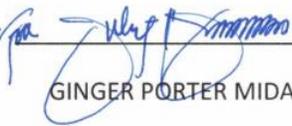
6.5 No segregation of duties exists for managing the stockroom for philatelic stamps and products

Management concurs with the finding and will establish guidelines and procedures to ensure segregation of duties exist for the management of the stockroom and philatelic products.

(Note by ONPA: Guideline was developed during the audit and is provided in **Figure 1** below)

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Figure 1: Guidelines & Procedures for management of stock room and philatelic products

	<h2 style="margin: 0;">Postal Service</h2> <p style="margin: 0;">FEDERATED STATES OF MICRONEIA P.O. Box 1376 Pohnpei, FM 96941-1376 Tel: (691) 320-2614/5614 Fax: (691) 320 2612</p>
<p><i>Ginger Porter Mida</i> Postmaster General</p>	
<p><u>Guidelines and Procedures for management of stock room and philatelic products</u></p>	
<p>The philatelic manager is tasked with the management of the stock room and philatelic products. In order to ensure that a process of balance and check exists, the following procedures shall be put in effect.</p>	
<ol style="list-style-type: none">1. In the procurement of both stamp and philatelic products, the philatelic manager shall determine the need for additional stamp stock and philatelic products and inform the postmaster general.2. Once approval is granted by the postmaster general and once determined funding is available, the philatelic manager shall procure stamp stock and/or philatelic products.3. When stamp stock/philatelic product is received, the philatelic manager along with a representative from the finance division within the post office shall count and verify stamp/philatelic products received and provide an inventory listing signed and dated to the finance division of the fsm postal service.4. The finance division shall enter the stamp stock/philatelic product received into the fsm's financial system, indicating quantity and price.5. After entry into the system, a copy is printed and signed by both the philatelic manager and the finance officer attesting to the correctness of quantity and price prior to updating the system.6. Once updated on the system, two copies are printed, signed and dated by both the philatelic manager and finance officer and filed in the respective divisions	
<p>Reviewed and signed on this day <u>03rd</u> of <u>FEBRUARY</u>, 2021</p>	
<p>By:  GINGER PORTER MIDA POSTMASTER GENERAL</p>	
<p>FSM NATIONAL POSTAL SERVICE</p>	

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6.6 Weak Internal controls in the receipting process for customer payments

Management concurs with the finding. NPS recently procured a financial system to assist in accounting for its revenue collections for the different types of services it provides to the nation. Management will continue working with the system administrator for full implementation of the system, however, there is resistance from the clerks due to lack of time dedicated to training as a result of the CORONA virus. Once travel is possible, management will schedule training for Kosrae, Chuuk and Yap as well as continue training for the Pohnpei Post office and philatelic division.

6.7 There is no assurance that all fees for box rental were collected

Management concurs with this finding. Please see response to finding 6.6 for management plan of action to resolve this finding

6.8 Inadequate Internal Mechanisms to handle customer complaints

Management Response: Management concurs with the finding. Since the commencement of the audit, NPS has finalized the complaint form (provided below) and have distributed to the various post offices in the states for use. The Postal Inspector shall prepare and submit to the Postmaster General a draft procedure on handling complaints for review and finalization no later than the end of February 2021. Once procedures are finalized, the postal inspector shall conduct a workshop on the complaint process so all postmasters and clerks are aware of the procedure. Additionally, the postal inspector shall explore and recommend to the Postmaster General other avenues (i.e. Facebook, etc.) to promote ease of access for the public to NPS in launching complaints.

(Note by ONPA: A Complaint Form was developed during the audit and is provided in **Figure 2** below)

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Figure 2: Complaint form



Ginger Porter Mida
Postmaster General

Postal Service

FEDERATED STATES OF MICRONEIA
P.O. Box 1376
Pohnpei, FM 96941-1376
Tel: (691) 320-2614/5614 Fax: (691) 320 2612

COMPLAINT FORM

THE FSM POSTAL SERVICES WANT TO ENSURE YOU ARE SUBMITTING YOUR CONCERN OR INQUIRY TO THE RIGHT OFFICE SO IT CAN BE HANDLED IN A TIMELY MANNER. PLEASE TAKE A MINUTE AND READ THE FOLLOWING BEFORE FILING A COMPLAINT WITH OUR OFFICE.

IF YOU ARE HAVING A PROBLEM WITH THE DELIVERY OF YOUR MAIL (LATE ARRIVAL, TRACKING, ATTEMPTED DELIVERY, MISDELIVERY, ETC.) OR AN EMPLOYEE/CUSTOMER SERVICE ISSUE, PLEASE CONTACT YOUR LOCAL FSM POST OFFICE, (POHNPEI 320-2313, KOSRAE 370-3057, CHUUK 330-2737, YAP 350-2197) INSTEAD OF COMPLETING THIS FORM.

ONLY USE THE FORM TO REPORT THE FOLLOWING TO THE POSTAL INSPECTOR (320-2487 OR E-MAIL wraymond.fms@fmail.com)

MISSING

DAMAGED

OTHER (PLEASE SPECIFY/DETAIL)

○ _____

DATE : _____

NAME: _____

TEL#/E-MAIL: _____

TRACKING NUMBER:

DETAIL OF COMPLAINT/ISSUE

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6.9 Lack of Risk Management Framework to provide reasonable assurance that there is process of managing risk to manage uncertain events that may affect or disrupt postal services.

Management concurs with the finding and will look at existing risk management framework of other FSM National Government agencies as well as explore the possibility of working with an independent consultant in assessing, identifying and managing areas of risk within the national postal service by putting in place written risk management framework or plan to mitigate risk.

6.10 The NPs did not implement all recommendations issued in the prior audit report no. 2013-03.

Management concurs with the finding and will re-visit the recommendations made for implementation.

10. ONPA EVALUATION OF MANAGEMENT RESPONSE

We requested for management response from the Postmaster General, who generally agreed with our audit findings and recommendation and also shared a few updates and the way forward for the implementation of the audit recommendations.

We noted and commend Management for developing the following 2 documents which they had attached as part of their management response; however, the audit findings would remain as ONPA would need to verify its actual implementation and operationalization during the upcoming follow-up audit:

1. Guidelines and procedures for management of the stock room and philatelic products (Figure 1 above
2. Complaint form.

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11. NATIONAL PUBLIC AUDITOR COMMENTS

We would like to thank the management and staff of the National Postal Services for their assistance and cooperation during the course of the audit. The positive cooperation and management response are an overall indication of their commitment to make improvement to their existing processes and operations.

We have provided copies of the final audit report to the President and members of the 21st FSM Congress for their use and information. 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 made major contributions to this report.



Haser H. Hainrick
National Public Auditor

February 11, 2021

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12. ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

ACKNOWLEDGEMENTS In addition to the contact named above, the following staff made key contributions to this report during the period specified:

Miriama Naivalu, Acting Audit Manager (Aug 2020 to end)
Susana Saballe, Audit Supervisor (Sept 2019 to Mar 2020)
Rosadelima Alfons, Auditor in Charge (Sept 2019 to end)
Joey Iwo, Staff Auditor (Sept 2019 to end)
Neong U. Yoma, Staff Auditor (Sept 2019 to May 2020)
Christopher Delcampo, Staff Auditor (May 2020)

ONPA MISSION We conduct quality audits and investigations to improve good governance and to prevent and deter fraud, waste and abuse for the stakeholders' benefit.

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