

**OFFICE OF THE NATIONAL PUBLIC AUDITOR**  
**FEDERATED STATES OF MICRONESIA**

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**PERFORMANCE AUDIT ON IMPLEMENTATION OF RECOMMENDATIONS OF AUDIT  
REPORT NO. 2016-05: FSM PREPAID TEL-CARD PURCHASES: HIGHLY SUSCEPTIBLE  
TO ABUSE AND MISUSE DUE TO LACK OF EFFECTIVE CONTROLS**

**The Former Secretary of the Department of Finance & Administration  
Took Appropriate Actions to Address All Findings and Recommendations**

**Audit Report No. 2020 – 01**



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



**FEDERATED STATES OF MICRONESIA**  
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January 14, 2020

His Excellency David W. Panuelo, President  
Honorable Members of the FSM 21<sup>st</sup> Congress  
Federated States of Micronesia

**RE: PERFORMANCE AUDIT ON IMPLEMENTATION OF RECOMMENDATIONS ISSUED  
ON AUDIT REPORT NO. 2016-05**

We have completed this performance audit on the implementation of the Audit Findings and Recommendations given in our Audit Report No. 2016-05: **"FSM PREPAID TEL-CARD PURCHASES: HIGHLY SUSCEPTIBLE TO ABUSE AND MISUSE DUE TO LACK OF EFFECTIVE CONTROLS"**.

The objective of this performance audit was to determine whether the Secretary of the FSM Department of Finance and Administration has implemented appropriate corrective actions to address all of the findings and recommendations in Audit Report No. 2016-05.

Based on our audit, we found that all the recommendations given in Audit Report No. 2016-05 have been fully implemented. The following audit recommendations listed below were given in Audit Report No. 2016-05 addressing the Secretary of Finance & Administration to develop and implement controls to help improve the use of Prepaid Tel-Cards:

- (i) We recommended that the Secretary of the Department of Finance and Administration should develop and implement policies and procedures to control the purchase and use of prepaid calling cards. Such policies and procedures, among others, should include the following:
- Type of cards that can be purchased;
  - Authorized uses of calling cards;
  - Personnel lists of those authorized to approve specific usage;
  - Card issuance, and/or distribution;
  - Storing unissued cards in a locked cabinet or safe;
  - Card returns, and collection;
  - Monthly detailed calls report (per calling card) to be obtained from the service provider (FSM Telecom Corporation);
  - Monthly usage monitors and reviews guideline including monthly supervisory review of usage by a designated person in each department;
  - Card tracking, inventory count and reconciliation;

- Maintenance of complete records of purchases, given away, and issued to employees.
- (ii) We recommended that the policies and procedures to be developed for the use of calling cards should establish a limit of the amount for the approval of prepaid calling cards considering that there are other cost-effective calling options as discussed in Finding 1.
- (iii) We further recommended that the Secretary of the Department of Finance and Administration should develop and implement policies and procedures to control the purchase and use of prepaid calling cards. These controls should include management authorization and review of reports on actual use of prepaid calling cards.

Our review also revealed that though corrective actions to address our recommendations given in Audit Report No. 2016-05, had been carried out, **but it was three-years after the issuance of the Audit Report, thus continuing to expose public funds to risk of misuse and abuse during that period.**

We therefore recommend that the Secretary, Department of Finance and Administration should ensure that Audit Findings and Recommendations are fully addressed within a window of six-months after the receipt of an audit report.

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

Respectfully yours,



Haser Hainrick  
National Public Auditor

Xc:    - FSM Vice President  
       - Secretary, Department of Finance & Administration

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## **1. INTRODUCTION**

### **1.1. Background**

On August 23, 2016, the Office of the National Public Auditor conducted a performance audit (Audit Report No. 2016-05) on the FSM Prepaid Tel-Card Purchases at the FSM Department of Finance and Administration and concluded that the Department and the other concerned departments and offices did not establish and implement an effective system to provide controls on the purchase and use of prepaid calling cards and to safeguard them from loss and abuse. Records were not maintained to provide accountability for the prepaid calling cards, and related calls were not reviewed to ensure that calling cards were not used for personal purposes.

### **1.2. Objective**

The objective of this performance audit was to follow-up on whether the Secretary of the FSM Department of Finance and Administration has taken appropriate corrective actions to address the prior findings and recommendations reported in Audit Report No. 2016-05.

### **1.3. Scope**

This performance audit covered Audit Report No. 2016-05. The focus of the audit was to assess whether the management of the Department of Finance & Administration and the concerned departments and offices had implemented the recommendations, as agreed, in Audit Report No. 2016-05 by the end of the fiscal year 2019.

We conducted this performance 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."*

### **1.4. Methodology**

We conducted this performance audit in accordance with the generally accepted government auditing standards. 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 para 1.22, Government Audit Standards 2018.

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To determine whether the Secretary of the Department of Finance and Administration has taken appropriate corrective actions on our prior audit findings and recommendations, the audit team developed an Audit Implementation Status Matrix of Recommendations for the Department to fill out. Unfortunately, the Secretary of the Department of Finance and Administration was unable to complete the Matrix that we had provided. However, a memo attached with an Accounting Policies and Procedures Manual was submitted by the Secretary instead in addressing the prior audit findings and recommendations. It should be noted that we also interviewed the Secretary regarding the implementation status of the prior audit recommendations.

The audit approach covered the following:

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

This performance audit is carried out in accordance with our Audit Manual guidance on planning, conducting fieldwork, and reporting on performance audit. The audit sought evidence on the degree of implementation of the recommendations included in the FSM Prepaid Tel-Card Purchases, Audit Report No. 2016-05.

### **1.5. Prior Audit Coverage**

This is our second performance audit on the FSM Prepaid Tel-Card Purchases. The objective for this second performance audit was to follow-up on the findings and recommendations of the first audit per Audit Report No. 2016-05.

### **1.6. Conclusion**

Based on the results of our audit, we concluded that the Secretary of the FSM Department of Finance and Administration has fully addressed all the audit findings and recommendations as per our Audit Report No. 2016-05. However, the Secretary implemented these corrective actions during the Fiscal Year 2019 while Audit Report No. 2016-05 was issued on August 23, 2016, or more than three years ago.

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

## **2. IMPLEMENTATION STATUS OF OUR RECOMMENDATIONS, AUDIT REPORT No. 2016-05**

During our audit, we found that the Secretary has developed and operationalized an Accounting Policies and Procedures Manual on Pre-paid Calling Cards in addressing the recommendations in Audit Report No. 2016-05. The Manual fully addresses all the audit recommendations for the three prior audit findings as follows:

### **2.1. On Finding 1 of Audit Report No. 2016-05: Absence of Written Policies and Procedures Governing the Purchase and Use of Prepaid Tel-Cards**

(i) **Audit Report No. 2016-05 Recommendation 1:** We recommended that the Secretary of the Department of Finance and Administration should develop and implement policies and procedures to control the purchase and use of prepaid calling cards. Such policies and procedures, among others, should include the following:

- Type of cards that can be purchased;
- Authorized uses of calling cards;
- Personnel lists of those authorized to approve specific usage;
- Card issuance, and/or distribution;
- Storing unissued cards in a locked cabinet or safe;
- Card returns, and collection;
- Monthly detailed calls report (per calling card) to be obtained from the service provider (FSM Telecom Corporation);
- Monthly usage monitors and reviews guideline including monthly supervisory review of usage by a designated person in each department;
- Card tracking, inventory count and reconciliation;
- Maintenance of complete records of purchases, given away, and issued to employees.

(ii) **Prior Management Audit Response was:** Management concurred with the finding and that they are working on one that will be distributed soon.

#### **(iii) Status of Implementation for Recommendation 1**

The Secretary has fully addressed the recommendation by developing and operationalizing an Accounting Policies and Procedures Manual for Prepaid Tel-Card Purchases, as per Section 1.0 of the Manual, which is termed 'General'. The Manual was formally adopted on August 02, 2019.

Please refer to **page 6 of Appendix A**, for further details on Section 1.0 of the Manual.

**2.2. On Finding 2 of Audit Report No. 2016-05: Excessive Purchases of Prepaid Calling Cards**

**(i) Audit Report No. 2016-05 Recommendation 2:** We recommended that the policies and procedures to be developed for the use of calling cards should establish a limit of the amount for the approval of prepaid calling cards considering that there are other cost-effective calling options as discussed in Finding 1.

**(ii) Prior Management Audit Response was:** Management, again concurred with the finding. However, with the issuance of the written policies and procedures, management believes there will be control over that. Management will also request the assistance from the Division head to manage their expenses and monitor such expenses.

**(iii) Status of Implementation for Recommendation 2**

The Secretary has developed and operationalized an accounting policies and procedures manual for Prepaid Tel-Card Purchases as per Section 2.0 of the Manual which was termed “**Security and Issuance of Prepaid Calling Cards**”.

Please refer to **page 7 of Appendix A**, for further details on Section 2.0 of the Manual over the purchase and use of Prepaid Tel-Cards.

**2.3. On Finding 3 of Audit Report No. 2016-05: Prepaid Calling Cards Were Used to Share Loads.**

**(i) Audit Report No. 2016-05, Recommendation 3:** We recommended that the Secretary should develop and implement policies and procedures to control the purchase and use of prepaid calling cards. These controls should include management authorization and review of reports on actual use of prepaid calling cards.

**(ii) Prior Management Audit Response was:** Management, again concurred with the finding. However, the written policies and procedures that will soon be released will include such restrictions.

**(iii) Status of Implementation for Recommendation 3**

The Audit Recommendation has been fully implemented whereas an accounting policies and procedures manual for Prepaid Tel-Card Purchases had been drafted and formally adopted on August 02, 2019, as per Sections 3.0 and 4.0, which were termed Maintenance of the Master Control List and Timing and Workflow”, respectively.

Please refer to **page 8 to 11 of Appendix A** for further details Section 3.0 and 4.0 of the Manual for Prepaid Tel-Card Purchases.



### **3. NEW RECOMMENDATION**

We observed that **actions to** implement our recommendations given in Audit Report No. 2016-05 were **taken** three-years after the issuance of the report, **thus continuing to expose public funds to risk of misuse and abuse.**

Therefore, we recommend that the Secretary should ensure that audit findings and recommendations are fully addressed within a window of six-months after the receipt of an audit report.

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**4. Appendix A: Accounting Policies and Procedures Manual for FSM Prepaid Tel-Card Purchases**



**DEPARTMENT OF FINANCE & ADMINISTRATION**

**Accounting Policies and Procedures Manual  
PREPAID CALLING CARDS**

Document ID	Title <b>PREPAID CALLING CARDS</b>	Print Date <b>08/02/2019</b>
Revision <b>1.0</b>	Prepared By <i>Beulah Daunakamakama</i> <b>Beulah Daunakamakama (Consultant)</b>	Date Prepared <b>07/15/2019</b>
Effective Date <b>08/02/2019</b>	Reviewed By <i>Sihna Lawrence</i> <b>Sihna Lawrence (Secretary of Finance)</b>	Date Reviewed <b>08/02/2019</b>

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**Accounting Policies and Procedures Manual**  
**Prepaid Calling Cards**

**General Matters**

**Mandate:** This policy and procedures is issued in accordance with the authority of the Secretary of Finance (the 'Secretary') under section 228 of the Financial Management Act 1979.

**Policy:** To ensure the security and appropriate government usage of "Prepaid Calling Cards". Prepaid calling cards can only be used for official government business, as determined by the Department/Agency Head and it is the Department/Agency Head's responsibility for monitoring their staff's usage of prepaid Tel-cards.

**Purpose:** To outline the practices for processing of "Prepaid Calling Cards".

**Scope:** These procedures apply to all "Prepaid Calling Cards" purchased using public funds for the purpose of carrying out FSM National Government official business.

**Responsibilities:**

Secretary of Finance – provide statutory oversight over Treasury functions in accordance with the Financial Management Act and the Financial Management Regulations.

Allottee – has the statutory authority to execute spending against annual appropriations in accordance with the Financial Management Act and the Financial Management Regulations.

Administrative Officer (Department) – in relation to Prepaid Calling Cards, the AO is responsible for maintaining the master list and recording the name the Calling Card was issued to and the Government purpose the Calling Card was issued for.

**Background:**

Under Subpart 5.8.9 of the Financial Management Regulations "Prepaid Calling Cards" can be purchased for official Government use. Prepaid Calling Cards allow the user to 'load' their mobile phones to make phonecalls and text messages, purchase internet data to access emails, cloud files and internet calling. In the course of doing government business, Government Officials and other nominated persons may be allocated Prepaid Calling Cards for the purpose of being accessible and gaining access by phone, email when away from their normal work-station where landline and internet access is readily available.

**Key issues and risk areas:**

Prepaid Calling Cards provide convenience for users when away from their normal work stations. However, it is difficult to track whether the use of the Prepaid Calling Cards is for official Government Business. Due to this, there is an increased risk that Prepaid

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Calling Cards could be used inappropriately and perceived as a waste of public funds. Due to its widespread use, prepaid calling cards is an attractive item for theft and fraud. Hence it is important that there are adequate controls operating to minimize this risk. Ensuring that Prepaid Calling Cards are secured when not issued, recorded in a master control list and when issued to record the person it is issued to and the Government purpose it was issued for. Controls need to be put in place to ensure these interventions are completed.

**Definitions:**

Prepaid Calling Card – A card that can be purchased in different value denominations i.e. \$5, \$10, \$20 that requires the user to scratch a security number to enable the use of the value of the card.

Master Control List – A list maintained by the Administration Officer on behalf of the Allottee that will record: Prepaid Calling Card number, Prepaid Calling Card value denomination, date of purchase, purchase order/MS reference number, date of issue to user, government purpose for which card was used for, signature of the Allottee approving the issue and signature of the user.

Department Heads – Refers to all Cabinet members or Heads of Departments or Secretary's

Agency Heads – Refers to Heads of Agencies that may have different job titles like Director or Executive Director or similar. Such Agency Heads are appointed upon the 'advice and consent' of Congress.

**List of Acronyms:**

Acronym	Full description
AO	Administrative Office
MS	Miscellaneous Payment Request
PO	Purchase Order
PR	Purchase Requisition
SF	Secretary of Finance

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**Accounting Journal Entries**

Dr	Cr	Description	Procedures Reference
Xxx		Prepaid Calling Cards	
	xxx	Cash and bank	
<i>Cash is disbursed from FSM Government bank accounts.</i>			

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**PROCEDURES**

**1.0 GENERAL**

REF	DETAIL	ASSIGNED
1.1	A Department/Agency Head is charged with the responsibility to manage their budget prudently and to avoid excessive or wasted expenditure. Therefore, they hold ultimate responsibility for the use and monitoring of Prepaid Calling Cards in their department/organisation.	
1.2	Prepaid Calling Cards are for official use only.	
1.3	Prepaid Calling Cards will only be used when all other low cost alternative options have been deemed unavailable for the task. For example, the user must use the office landline or internet calling which are cheaper options when contacting individuals regionally or internationally via mobile phone.	
1.4	Prepaid Calling Cards are not to be used to share loads. Only the person issued with the card has the authority to use the card.	
1.5	Only 'Regular' Prepaid Calling Cards (not Premium Calling Cards) will be purchased. Departure from this policy will require specific approval from the Secretary of Finance.	
1.6	Each Department/Agency will follow the procedures for monitoring and reporting on Prepaid Calling Cards or they will forfeit the right to use this Telecom service.	

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**2.0 SECURITY AND ISSUANCE OF PREPAID CALLING CARDS**

REF	DETAIL	ASSIGNED
2.1	All Department/Agency Heads will be allocated Prepaid Calling Cards to the value of \$30 per month.	
2.2	President, Vice President, Speaker, Senators, Chief Justice and Public Auditor will be allocated Prepaid Calling Cards to the value of \$50 per month.	
2.3	Should the value of the calling cards prove to be excessive or insufficient, the users may request that this value be changed and it will be at the discretion of the Secretary of Finance to approve that request.	
2.4	There will be no requirement for the users identified in 2.1 and 2.2 to provide supporting documentation for the assigned value of the calling cards. However, should the users identified in 2.1 and 2.2 exceed the assigned value of the calling cards i.e. \$20 and \$50 respectively, then further documentation will be required to justify the usage of the calling card as being for official government business.	
2.5	The Department/Agency Head or designee (normally the AO) for each department will maintain a Master Control Sheet of all calling cards that have been purchased and issued.	
2.6	Any Prepaid Calling Cards not issued by the Department/Agency must kept together with the Master Control List and securely locked away in a safe or locked cupboard/drawer.	
2.7	Any Prepaid Calling Card that was issued and subsequently returned must be recorded on the Master Control List against the corresponding row relating to that Prepaid Calling Card.	



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**3.0 MAINTENANCE OF THE MASTER CONTROL LIST**

REF	DETAIL	ASSIGNED
	<b>At the beginning of the month</b>	
3.1	The Department/Agency will purchase the minimum value of Prepaid Calling Cards allowed as per 2.1 and 2.2 above.	
3.2	If the Department/Agency requires more Prepaid Calling Cards, then they must prepare a list of names, values of the Prepaid Calling Card per person (to a maximum of \$20) and the 'official government purpose' for which the additional Calling Cards will be required. This list will be approved by the Department/Agency Head and submitted to the Secretary of Finance for endorsement for compliance with this Policy.	
3.3	<p>Additional Prepaid Calling Cards are considered to be exceptions and not a 'normal' monthly expense. Acceptable reasons to request additional Prepaid Calling Cards could be for:</p> <ul style="list-style-type: none"> <li>- government activities that are held outside the person's normal office location e.g. census;</li> <li>- organizing a 'special' one-off occasion/event outside of the normal office location;</li> <li>- during a State of Emergency; or</li> <li>- other justifiable occasion/event.</li> </ul> <p>In all cases, the need for a person to be 'contactable' will determine the NEED for a Prepaid Calling Card to be issued.</p>	
3.4	Once the list is endorsed by the Secretary of Finance, Prepaid Calling Cards may be purchased in accordance with the FMR documentation requirements and logged on the Master Control List.	
	<b>During the month</b>	
3.5	As the Prepaid Calling Cards are issued to users, the Master Control List must be updated to record against the Prepaid Calling Card number.	
3.6	A separate Master Control Sheet will be required for each Month.	

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REF	DETAIL	ASSIGNED
	<p>3.7 The Master Control Sheet will contain the following information:</p> <ul style="list-style-type: none"> <li>• Department/Agency name;</li> <li>• Month and year the Master Control List relates to;</li> <li>• Separate rows dedicated to each Prepaid Calling Card that was purchased containing the following information: <ul style="list-style-type: none"> <li>○ date the card was purchased;</li> <li>○ account code the card was purchased under;</li> <li>○ Prepaid calling card identification number;</li> <li>○ Denomination value of the Prepaid Calling Card;</li> <li>○ Total of all of the Prepaid Calling Card rows; (PRINT AFTER THIS POINT)</li> <li>○ date the card was issued;</li> <li>○ officer's name;</li> <li>○ officer's title;</li> <li>○ purpose for issuing the calling card;</li> <li>○ signature of the person receiving the calling card</li> </ul> </li> </ul> <p>A copy of the template is attached below.</p>	
	<p>3.8 Also stapled together with the Master Control Sheet will be a copy of the MS/PO that was used to purchase the Prepaid Calling Cards and a copy of the list prepared under 3.2 and endorsed by the Secretary of Finance.</p>	
	<p>3.9 The total on the Master Control Sheet MUST match the MS/PO that was used to purchase the Prepaid Calling Cards.</p>	
	<p>3.10 Once the two amounts agree, the Master Control Sheet must be printed to start issuing cards.</p>	
	<p><b>At the end of each month</b></p> <p>3.11 Each user must obtain a monthly usage report from Telecom for their mobile phone number in cases where they are issued more than the maximum amount of Prepaid Calling Cards in one month i.e.</p>	

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REF	DETAIL	ASSIGNED
	greater than \$20 for government officers or approved users, greater than \$30 for users specified under 2.1 and greater than \$50 for users specified under paragraph 2.2.	
3.12	The usage reports will list all calls made from the users mobile number for that particular month. The user must highlight the official government calls and/or data that was purchased to make internet calls. The total value of the calls must match or could exceed the value of the Prepaid Calling Cards that have been issued.	
3.13	For each telephone/mobile number highlighted in the usage report, the user must legibly write against the number, the name of the person that was called and purpose.	
3.14	Once all usage reports have been completed and submitted, the Administration Officer sign the Master Control Sheet as fully reconciled and will submit the documentation to the Head of the Department/Agency for final review and sign-off.	
3.15	The final signed and reconciled Master Control Sheet must be photocopied and attached to the MS/PO request for the next month BEFORE the next month's Prepaid Calling Cards can be purchased.	

#### 4.0 TIMING AND WORKFLOW

REF	DETAIL	ASSIGNED
4.1	A full list of Prepaid Calling Cards must be approved by the Head of Department/Agency and endorsed by the Secretary of Finance each <u>month</u> (only in cases where additional Prepaid Calling Cards are required i.e. in addition to what is allowed under 2.1 and 2.2)	
4.2	MS/PO be submitted <u>monthly</u> for the current month's allocation of Prepaid Calling Cards together with the approval noted under 4.1 and the completed Master Control List from the previous month as detailed under 3.15.	
4.3	The Department Administration Officer or as designated by the Head of the Department/Agency, must maintain a current Master Control List each <u>month</u> .	

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REF	DETAIL	ASSIGNED
4.4	At the <u>end of each month</u> , the Master Control List must be fully reconciled and supported with Usage Reports for each user, with exception to those users specified under 2.1 and 2.2 who do not exceed the monthly value allocated to them. Otherwise those specified under 2.1 and 2.2 who exceed the monthly value allocated to them, must provide the documentation as specified under 3.12 to 3.14.	

## Annex A: Template of Master Control List

[illegible]

## **5. MANAGEMENT RESPONSE**

We did not receive a Management Response from the Department of Finance and Administration as requested by the audit team.

## **6. ONPA EVALUATION OF MANAGEMENT RESPONSE**

We requested for a Management Response from the Department of Finance and Administration after the audit team had conducted their exit conference meeting with the then Acting Secretary. However, after granting multiple extensions for submission and follow-ups, no management response was ever provided or submitted.

We have discussed all the findings and the recommendations with the Auditee and they concur to all of these as per Record of Discussion taken during the Exit Conference.

## **7. NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the Secretary of the Department of Finance and Administration and key staff for their facilitation and cooperation during the course of this performance audit.

We have provided copies of the final performance audit report to the President and Members of the FSM Congress. Furthermore, we will make copies available to other interested parties upon request.

If there 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

January 14, 2020



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**8. ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

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

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

Leonce Anthony, Audit Manager, MBA (Fin & Acctg), FCPA, CIA  
& CFE  
Susana Saballe, Audit Supervisor, CPA  
Brandon Rodriguez, Auditor-In-Charge  
Christopher Delcampo, Staff Auditor  
Joey Iwo, Staff Auditor

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