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



**DISCREPANCIES FOUND IN DAILY COLLECTIONS FROM OCTOBER 2020  
TO JANUARY 2021 AT THE KOSRAE POST OFFICE CALL FOR ROBUST  
CONTROLS AND EFFECTIVE OVERSIGHT BY THE HEADQUARTERS**

**Inspection Report No. 2021-04**



## FEDERATED STATES OF MICRONESIA

### Office of The National Public Auditor

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September 21, 2021

His Excellency David W. Panuelo, President  
Honorable Members of the FSM 22<sup>nd</sup> Congress  
The Postmaster General  
Federated States of Micronesia

**RE: Inspection of the Kosrae Post Office Collections - months of October 2020 to January 2021**

We have completed our inspection of the Kosrae Post Office specifically on the daily revenue deposits for the months of October 2020 to January 2021.

This inspection was conducted based on a request by the Acting Postmaster General to review daily deposits for certain months, due to concerns of potential violations of the Financial Management Regulations (FMR 2019 version) requiring deposit of collections no later than the next business day.

Based on our inspection, we concluded that the collections of the Kosrae Post Office were not deposited on time as required by the FSM FMR and there were instances of missing records of collection within our inspection scope under the management of the former Acting State Postmaster who had resigned prior to the start of this inspection. Our review also revealed the need to strengthen and improve the monitoring and oversight function of the Headquarters.

Below is the summary of our findings:

1. Kosrae Post Office did not comply with the FMR pertaining to the requirement for depositing the daily collections on the next business day.
2. Effective oversight is necessary to ensure compliance to laws and regulations and to prevent financial loss to the National Postal Services.

We had discussed the findings and recommendations with management and requested for management response, which is included in this final report. We appreciate the opportunity to perform this inspection as requested.

Respectfully submitted,

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

Haser H. Hainrick  
National Public Auditor

Xc: Governor, Kosrae State  
Members, Kosrae State Legislature  
All FSM States Postmasters  
Secretary, FSM Department of Finance and Administration  
Acting Public Auditor, Kosrae State

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## **1.0 INTRODUCTION**

### **1.1 Reason for the Assignment**

The Acting Postmaster General had requested for a review of the Kosrae Post Office operations, specifically on the daily collections for the months of November 2020 to January 2021, due to concerns of violations of the Financial Management Regulations (FMR 2019 version) requiring deposit of collection no later than the next business day.

### **1.2 Background of the Kosrae Post Office**

Kosrae State Post Office as a branch of the National Postal Services of the Federated States of Micronesia (FSM), an independent agency of the FSM National Government, is governed by Title 39 of the FSM Code (cited as the National Postal Service Act). Similar to the Headquarters (HQ) that is located in Pohnpei, the Kosrae Post Office also uses the Financial Management Regulation (FMR) to guide its daily revenue collection processes and others.

The Post Office is under the supervision of a State Postmaster who serves under the authority of the Postmaster General and is responsible for managing the daily operations. There are currently four employees manning the Kosrae Post Office; the State Postmaster, two (2) Postal Clerks and a Clerk Aide. Recently, a new Postmaster was appointed in February 2021 following the resignation of the former Acting Postmaster.

The Kosrae Post Office is located in Tofol. Opening hours are from 8:00a.m. to 5:00p.m. on Monday to Wednesday and on Friday, with customer window servicing from 9am to 4pm. Thursday mornings are dedicated for picking up packages at the airport and sorting of mails at the Post Office before they open for customer service at 1:00pm. The Post Office currently serves an estimated population of 6,744<sup>1</sup> (Note: Kosrae state had recorded a population of 6,610<sup>2</sup> during the last census in 2010).

### **1.3 Sources of Revenue:**

Revenue sources for the Kosrae Postal Office include sales from postal stamps and miscellaneous sales which include vacuum packing (vacuum machine was out of order during our review), box rentals, empty cardboard boxes, and key replacements.

Sales from postal stamps are deposited into the Revolving Fund account and the other type of revenues are deposited into the FSM General Fund account. Both of these accounts are located at the FSM Department of Finance & Administration.

### **1.4 Revenue Collection and Depositing Process**

The Postal clerks are responsible for collecting all revenues and manually logging all services that are provided to each customer on a daily basis. At the end of each business day, the clerks record their end sale collections using the 1412B (form used by the clerks to record the amount collected for each type of revenue source and the worth of stamps remaining in the cashbox for the next business day) and submit to the State Postmaster.

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<sup>1</sup> <https://www.fsmstatistics.fm/wp-content/uploads/2020/10/Population-Projections-2020-2025-1.xlsx>

<sup>2</sup> [https://www.fsmstatistics.fm/wp-content/uploads/2019/02/PopHseK\\_details.xlsx](https://www.fsmstatistics.fm/wp-content/uploads/2019/02/PopHseK_details.xlsx)

Based on the 1412B prepared by the two (2) Postal Clerks, the Postmaster reviews and prepares the consolidated deposit for that day. The Postmaster then consolidates the end sales records in the 1412B form and fills the 1412A form (form used by the Postmaster when recording the total sales of the state Post Office for the day and total worth of stamps remaining in the Clerk's Cash box). Postmaster then prepares the Cash Summary Report. The cash collected on a particular day should be deposited at the FSM Treasury field office (in Kosrae) on the next business day.

## **2.0 OBJECTIVES, SCOPE, METHODOLOGY**

### **2.1 Objective**

The primary objective of this inspection was to confirm and identify the contributing factors to the delays in the deposits of daily collections by the Kosrae Post Office to the FSM Treasury field office from October 2020 to January 2021.

### **2.2 Scope**

The inspection scope covered the months of October 1, 2020 to January 31, 2021 at the Kosrae Post Office.

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

*"The Public Auditor shall inspect and audit transactions, accounts, books and other financial records of very 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 non-profit organizations receiving public funds from the National Government".*

### **2.3 Methodology**

We conducted this inspection in accordance with the quality standards for inspections and evaluations issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our inspection objective.

The following were carried out to confirm and identify the contributing factors to the delay of the deposits of daily collections by the Kosrae Post Office to the FSM Treasury field office in Kosrae for the months of October 2020 to January 2021:

1. reviewed and assessed all information and records (Appropriation laws and other relevant laws, regulations, revenue collections, deposits and support documents) pertaining to the scope of the inspection.
2. communicated with the key personnel at the Headquarters (HQ) and the Kosrae Post Office.
3. carried out a walkthrough to understand the collection process from receiving to depositing and identified the cause of the delay in the deposits.

### **3.0 PRIOR AUDIT OR INSPECTION COVERAGE**

This is the first inspection of the Kosrae Post Office conducted by the Office of the National Public Auditor.

### **4.0 CONCLUSION**

Based on our inspection, we concluded that the Kosrae Post Office did not deposit their daily collections on a timely basis as required by the FSM FMR and there were instances of missing collection records within our review scope under the management of the former Acting State Postmaster who had resigned prior to the start of this inspection.

Our review also revealed the need to strengthen and improve the monitoring and oversight function of the Headquarters, not only to Kosrae post office but to all FSM States post offices.

Below is the summary of our findings:

1. Kosrae Post Office did not comply with the FMR pertaining to the requirement for depositing the daily collections on the next business day.
2. Effective oversight is necessary to ensure compliance to laws and regulations and to prevent financial loss to the National Postal Services.

The findings and recommendations are discussed in detail in the following pages.

## 5.0 FINDINGS AND RECOMMENDATIONS

### 5.1 Finding No. 1: Kosrae Post Office did not comply with the FMR pertaining to the requirement for depositing daily collections on the next business day

According to Section 4.1 of the FSM Financial Management Regulation (FMR) on revenue collection and receipting by any Government agency, it states: “

*1) Unless otherwise specified by FSM law, all public monies raised or received by any FSM Government Agency shall:*

- a) be tendered to the FSM Treasurer or only upon the prior approval of the Secretary, deposited in an Approved Depository Account:
 
  - i) not later than the close of business on the day said moneys are received;*
  - ii) provided, however, that if said moneys are received by an FSM Government Agency after the close of business, or*
  - iii) on a non-business day, they shall be so tendered to the FSM Treasurer or so deposited in an Approved Depository Account not later than the close business on the next business day. “**

Based on our review of revenue collections for the months of October 2020 to January 2021, we noted that daily sales for the Kosrae Post Office were not deposited in accordance to the requirement of the FMR as illustrated in [Table 1](#). Daily deposits are normally made at the FSM Treasury field office.

In addition, we could not determine that all deposits were made because of missing records/documentation on certain business days (Refer to [Table 2](#) for details). There were also daily sales reported by the Kosrae Post Office to the National Postal Service Headquarters (HQ); however, we could not find any supporting documents for the amount reported.

**Table 1: Delay in Deposits of Daily Collection to the FSM Treasury Field Office.**

No.	Date of Sale	Total Collection Reported to HQ	FSM Treasury Field Office - Cash Receipt Date	Cash Receipt No.	Deposited Amount per the Cash Receipt	Number of Days of Delay of Deposit
1.	Monday, 12 Oct. 2020	\$621, 61	Friday, 16 Oct. 2020	22772	\$621.61	4 days
2.	Tuesday, 13 Oct. 2020	\$242.85	Friday, 16 Oct. 2020	22772	\$242.85	3 days
3.	Wednesday, 14 Oct. 2020	\$80.55	Friday, 16 Oct. 2020	22772	\$80.55	2 days
4.	Wednesday, 21 Oct. 2020	\$469.10	Monday, 26 Oct. 2020	22788	\$469.10	3 days
5.	Monday, 26 Oct. 2020	\$198.40	Wednesday, 28 Oct. 2020	22798	\$198. 40	2 days
6.	Wednesday, 4 Nov. 2020	\$1,062.71	Wednesday, 28 Oct. 2020	22815	\$1,062.71	3 days
7.	Thursday, 5 Nov. 2020	\$218.25	Monday, 9 Nov. 2020	22815	\$218.25	2 days
8.	Tuesday, 10 Nov. 2020	\$466.75	Monday, 16 Nov. 2020	22827	\$1, 713.05	4 days

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No.	Date of Sale	Total Collection Reported to HQ	FSM Treasury Field Office - Cash Receipt Date	Cash Receipt No.	Deposited Amount per the Cash Receipt	Number of Days of Delay of Deposit
9.	Tuesday, 17 Nov. 2020	\$874.98	Friday, 20 Nov. 2020	22834	\$1,220.24	3 days
10.	Wednesday, 9 Dec. 2020	\$1,140.00	Friday, 11 Dec. 2020	22865	\$1,140.00	2 days
11.	Wednesday, 16 Dec. 2020	\$376.56	Tuesday, 5 Jan. 2021	22918	\$376.56	11 days
12.	Friday, 18 Dec. 2020	\$654.01	Tuesday, 5 Jan. 2021	22918	\$654.01	10 days
13.	Wednesday, 23 Dec. 2020	\$385.77	Tuesday, 5 Jan. 2021	22918	\$385.77	7 days
14.	Tuesday, 19, Jan. 2021	\$999.07	Friday, 29 Jan. 2021	23006	\$999.07	8 days
15.	Wednesday, 20 Jan. 2021	\$183.71	Friday, 29 Jan. 2021	23006	\$183.71	7 days
16.	Friday, 22 Jan. 2021	\$1,650.15	Friday, 29 Jan. 2021	23006	\$1,650.15	5 days
17.	Monday, 25 Jan. 2021	\$700.35	Friday, 29 Jan. 2021	23006	\$700.35	4 days
18.	Tuesday, 26 Jan. 2021	\$212.54	Friday, 29 Jan. 2021	23006	\$212.55	3 days

**Table 2: Business days with no record of sales revenue and those with recorded sales did not have any supporting documents to support the amount reported to HQ**

No.	Date	Total Collection Reported to HQ
1.	Thursday, 12 Nov. 2020	\$0.00
2.	Monday, 16 Nov. 2020	\$0.00
3.	Wednesday, 18 Nov. 2020	\$0.00
4.	Friday, 20 November 2020	\$745.48
5.	Monday, 23, Nov.2020	\$195.92
6.	Tuesday, 24 Nov. 2020	\$553.15
7.	Wednesday, 25 Nov. 2020	\$0.00
8.	Friday, 27 Nov. 2020	\$0.00
9.	Monday, 30 Nov. 2020	\$899.84
10.	Tuesday, 1 Dec. 2020	\$0.00
11.	Wednesday, 2 Dec.2020	\$174.00
12.	Monday, 7 Dec.2020	\$0.00
13.	Tuesday, 8 Dec. 2020	\$0.00
14.	Thursday, 10 Dec. 2020	\$0.00
15.	Thursday, 17Dec.2020	\$0.00
16.	Monday, 21 Dec.2020	\$0.00
17.	Thursday, 24, Dec. 2020	\$0.00
18.	Monday, 28, Dec.2020	\$0.00
19.	Tuesday, 29 Dec. 2020	\$0.00
20.	Wednesday, 30 Dec.2020	\$0.00
21.	Thursday, 31 Dec.2020	\$0.00
22.	Tuesday, 5 Jan. 2021	\$0.00



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No.	Date	Total Collection Reported to HQ
23.	Thursday, 7 Jan. 2021	\$0.00
24.	Tuesday, 12 Jan. 2021	\$0.00
25.	Thursday, 14 Jan. 2021	\$0.00
26.	Friday, 15 Jan. 2021	\$0.00
27.	Thursday, 21 Jan. 2021	\$0.00
28.	Wednesday, 27 Jan. 2021	\$543.87
29.	Thursday, 28 Jan. 2021	\$0.00
<b>Total with no supporting documents</b>		<b>\$3,112.26</b>

**5.1.1 Causes**

1. Ineffective management oversight by the Headquarters;
2. Lack of commitment and high absenteeism of the former Acting Postmaster (Kosrae);
3. Absence of documented policies and procedures to provide controls and guide staff on daily operations;
4. Very poor filing system; and
5. Shortage of staff to effectively handle the services provided by the Post Office.

**5.1.2 Potential Effects**

1. Non-compliance to the laws and regulations;
2. Risk of collusion;
3. Undetected theft, misuse and abuse of resources;
4. Inconsistency in carrying out the work of the Postal Service;
5. Low customer satisfaction;
6. Unaccounted revenue collections;
7. Low staff morale and low productivity; and
8. Objectives and goals of the entity may not be accomplished.

**5.1.3 Recommendations**

Management at the HQ should:

1. Improve its oversight role to ensure it is effective and consistent;
2. Study the operations and identify the needs of each state Post Office and ensure that each is provided with adequate resources (manpower, office space, equipment etc.) to handle the operations and achieve expected results as required by law; and
3. Develop and operationalize policies and procedures to ensure consistency and compliance to the FMR.

The new and current Postmaster for Kosrae should:

4. Improve the processes and procedures to ensure that it is controlled and monitored effectively for an improved customer service and fully accounted transactions;
5. Ensure compliance to the FMR by making timely deposits of the daily revenue collection at the FSM Treasury Field Office; and

6. Improve the filing system for the Post Office to ensure proper organization, ease of access, storage and service to customers.

## **5.2 Finding No. 2: Effective oversight is necessary to ensure compliance to laws and regulations and to prevent financial loss to the National Postal Services**

Leading Practice states that *“Oversight is a matter of someone paying attention. It is meant to catch potential problems as they arise, and to make sure that nothing is being done that’s likely to cause problems later. For instance, good oversight can detect illegal or unethical practices on the part of a business or government agency, pinpoint and change bad financial practices in a non-profit organization, or make sure that the public’s health is protected.”*

*“Oversight ensures the following:*

1. *Accountability;*
2. *Control quality;*
3. *Adherence to laws and regulations;*
4. *Control unfair treatment, corruption, illegality, and unethical behavior;*
5. *Effectiveness of programs or efforts for which you have responsibility; and*
6. *Help improve the well-being of everyone.”*

Although there are monthly performance reports from the State Post Offices and the financial monitoring sheet that capture daily records of sales, we found that adequate internal controls and effective monitoring should be developed by the HQ due to the following issues discovered from our physical observations, review of documents and interview of staff at the Kosrae Post Office:

1. Non-compliance to the laws and regulations. Deposits are not made on a timely basis. (As discussed in finding 1);
2. No record of sales for deposits for certain business days. The inspection team could not determine whether there were cash collected for certain business day because of absence of records or documentation for the period reviewed. (As discussed in finding 1);
3. No proper filing system in place. Documents were scattered and it was difficult to locate supporting documents such as those for the daily collections;
4. Not all services provided to customers were recorded in the daily log sheets. The inspection team could not rely on the log sheet to support the actual transactions incurred on any given day due to missing documents to support the daily sales reports;
5. The office key for the Post Office is rotated among the clerks. This poses risk of lack of accountability when unexpected incidents occur especially if cash (kept overnight) or equipment go missing from the office;
6. The money safe box has not been in use for years because the combination had been forgotten. Therefore, the valuable stamps and cash collected were kept in the postal clerks’ drawer at the service area and the total cash to be deposited are placed in the Postmaster’s drawer for overnight safekeeping;
7. There are only two clerks responsible for customer service. If one clerk is absent, the other clerk will have to serve customers at the front service counter (for outgoing mails), and at the same time distribute pick-up mails at the back office. This scenario poses a risk of

- undetected theft as the cash drawer (containing the cash) at the service counter is left unattended;
8. Staff daily attendance records are unknown as there is neither a timecard machine nor a log book to reliably capture staff attendance during business days. A timesheet report is submitted to HQ for processing of payroll; however, the reports only indicated the number of hours during a business day which then accumulates to the total hours for that pay period;
  9. High absenteeism by the former Acting Postmaster affected operations as the daily collection (cash and checks) that had to be deposited had to be kept with the postal clerk until he (former Acting Postmaster) returns to work when he would then prepare and make the deposits;
  10. Input of daily sales revenue into the monitoring sheet that is accessible by the HQ is not consistent. There were days on which staff did not update the monitoring sheet for HQ's record; and
  11. Weak controls in the administration of the philatelic stamps received at the state Post Office as there were no evidence of audit report (showing the stock count and reconciliation) prior to the stamp requisition (ordering of stamps from the HQ).

#### **5.2.1 Causes**

1. Weak internal controls in place to ensure safeguarding of assets and effective monitoring by the HQ on Kosrae Post Office operations;
2. Monthly performance reporting did not capture the issues and needs of the Post Office that may warrant the attention of management;
3. Lack of appropriate training for staff on their duties and responsibilities;
4. Manual recording or logging of services provided to customers can be tedious and prone to error;
5. No filing system in place;
6. No reliable daily attendance records for staff;
7. Performance evaluation on State Postmasters could be ineffective;
8. Ineffective review of the daily sales reports by the former Postmaster; and
9. No documented procedures to lay out the step-by-step controls for handling the valuable stamps that are released from HQ to the state Post Offices and no effective monitoring and reconciliation of stamps by HQ.

#### **5.2.2 Potential Effects**

1. Undetected theft (of cash and stamps), abuse, and misuse of resources.
2. Issues and needs of the state Post Offices may be unknown to the HQ management and are therefore left unattended over the years;
3. Staff work under pressure in an environment that does not recognize their potentials, needs and therefore may force them to rationalize on committing unethical acts;
4. Disorganization of files/records leading to misplaced documents and frustration of staff and customers;
5. Skimming (stealing of cash before recoding it in the books);
6. Staff being paid for hours they did not work for; and

7. State postmaster may not be committed to their work as there is no effective monitoring from HQ and no effective evaluation of their performance that warrants rewards.

### **5.2.3 Recommendations**

The Postmaster General (at HQ) should:

1. Strengthen the internal controls for safeguarding of assets (such as daily cash collected, stamps and fixed assets):
  - a. Develop or structure an effective monitoring mechanism to ensure that Kosrae Post Office (and other state Post Offices) carry out its operations in accordance to laws and regulations;
  - b. Develop and operationalize procedures to guide staff daily;
  - c. Strengthen the internal controls for daily sales collection – receipting and deposits;
  - d. Implement strict measures for non-compliance to procedures.
2. Develop a reporting template that would be consistent across the state Post Offices that would capture both performance and their financial transactions;
3. Provide proper training for staffs to understand what is required of them and to carry out their work effectively;
4. Operationalize the software system for receipting of daily sales therefore minimizing manual receipting and achieving more efficiency in operations and safeguarding of assets;
5. Document and operationalize a procedure for proper filing of records daily;
6. Introduce the use of daily attendance register which should be scanned and sent to HQ to support payroll processing;
7. Improve and have an effective way of evaluating the performance of state Postmasters including incentive programs;
8. Introduce monitoring mechanisms to ensure that the state Postmasters are effectively verifying the daily sales reports and HQ to carry out enquiries on non-compliance to expected procedures; and
9. Properly monitor the movement of stamps and reconcile records prior to releasing stamps to the state Post Offices.

## 6.0 MANAGEMENT RESPONSE



*Ginger Porter Mida*  
*Postmaster General*

### Postal Service

FEDERATED STATES OF MICRONEIA  
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September 16, 2021

Mr. Haser Hainrick

Public Auditor

FSM National Government

Palikir Pohnpei 96941

RE: Inspection Report No. 2021-04

Dear Public Auditor Hainrick,

Thank you for entertaining the FSM Postal Services' request for an inspection of the Daily Revenue collections of the Kosrae Post Office covering October 2020 to January 2021. I have reviewed the findings and recommendations in the inspection report and below is FSM Postal Service's response.

**5.1 Finding No. 1: Kosrae Post Office did not comply with the FMR pertaining to the requirement for depositing daily collections on the next business day**

**5.2 Finding No. 2: Effective oversight is necessary to ensure compliance to laws and regulations and to prevent financial loss to the FSM Postal Services**

The FSM Postal Service does its monitoring of the stations collections through the maintenance of a online spreadsheet that is shared with all postmasters for entry of their daily collections monitored by headquarters. Additionally, the stations are also required to submit hard copies of the stations daily collections, for the kosae, chuuk and yap, via e-mail or mail. The supporting documentation is then reconciled with the online monitoring sheet and aged to determine accurateness and aging. Once a station is identified as being in violation of the financial management regulations, the station is contacted via e-mail or phone for justification of violation. Attempts made via e-mail and phone with kosrae post office for justification was unsuccessful. Given the restriction of travel, headquarters could not sent staff on site to look into the matter.

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In summary, FSM Postal Service concurs with the findings and as recommended in the inspection report will be re-assessing the needs and overall procedures of its operations and issuing procedures and guidelines to ensure compliance with rules, laws and regulations.

Thank you

  
Ginger Porter Mida  
Postmaster General

## **7.0 ONPA EVALUATION OF MANAGEMENT RESPONSE**

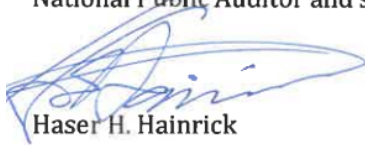
We requested for management response from the Management of the National Postal Services including the Postmaster at the Kosrae Post Office. A combined [response](#) was received where they generally agreed with the findings and recommendations in the report. Management also provided assurance that they will be assessing the needs and overall procedures of its operation and issuing procedures and guidelines to ensure compliance with rules, laws, and regulations.

## **8.0 NATIONAL PUBLIC AUDITOR COMMENTS**

We would like to thank the management from National Postal Services and staff of the Kosrae Post Office for their assistance and cooperation during the course of the inspection. We commend Management for reaching out to our office for assistance to independently review the collections and relevant processes at Kosrae post office.

We have provided copies of the final inspection report to the FSM President and Members of the FSM Congress, the Secretary of Finance and Administration and the Postmaster General for the National Postal Services 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 prepared this report.



Haser H. Hainrick  
National Public Auditor

September 21, 2021



## **8.0 ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS**

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<b>ONPA CONTACT</b>	Haser H. Hainrick, National Public Auditor Email: <a href="mailto:hhainrick@fsmopa.fm">hhainrick@fsmopa.fm</a>
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<b>ACKNOWLEDGEMENTS</b>	In addition to the contact named above, the following staff made key contributions to this report:
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Miriama Naivalu, Audit Manager  
Rosadelima Alfons, Team Leader  
Trifonovitch Sound, Assisting Staff  
Jane Gallen, Assisting Staff

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