



**BOARD OVERSIGHT NEEDS TO BE STRENGTHENED TO IMPROVE THE  
GOVERNANCE AND PERFORMANCE OF THE NATIONAL FISHERIES  
CORPORATION**

**Report No. 2023-07**





# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863 Fax: (691) 320-5482

CID Hotline: (691) 320-6768; Website: [www.fsmopa.fm](http://www.fsmopa.fm)

Facebook: FSM Office of the National Public Auditor; E-mail: [info@fsmopa.fm](mailto:info@fsmopa.fm)

Friday, August 04, 2023

His Excellency President Wesley W. Simina  
Honorable Members of the 23<sup>rd</sup> Congress  
Members of the Board of Directors, National Fisheries Corporation  
Chief Executive Officer, National Fisheries Corporation  
Federated States of Micronesia

### **RE: PERFORMANCE AUDIT ON THE NATIONAL FISHERIES CORPORATION (NFC)**

This report contains the results of the performance audit on the National Fisheries Corporation (NFC or the Corporation) which was initiated based on our FY2023 Annual Audit Plan that was developed based on our internal risk assessments and environment scanning.

We conducted this performance audit in accordance with *generally accepted government auditing standards (GAGAS)*.

The audit covered the period Fiscal Years 2021-2022 up to February 28, 2023, and the audit objectives were to determine compliance to the legislative requirements, the effectiveness and efficiency of internal controls and the extent of implementation of prior audit findings and recommendations on our prior Audit Report No. 20212-05.

We concluded that the Corporation was not in compliance with certain legislative requirements and the NFC Personnel, Finance and Administration Policy and Procedure Manual 2015. We also found poor internal controls as well as incomplete implementation of the recommendations on our prior Audit Report No. 2012-05.

The details of the findings and recommendations which are presented on Section 10 of this report were discussed with the Chairman of the Board of Directors and the Chief Executive Officer. Their formal management response was obtained which is presented on Section 11.

We acknowledge and commend the cooperation of the Board of Directors, the management and staff of the Corporation during our audit engagement and their commitment to address the audit findings and recommendations.

Sincerely,

Haser H. Hainrick  
National Public Auditor

**CC:** Vice President of the FSM

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**Abbreviations**

<b>Abbreviation</b>	<b>Meaning</b>
Board	refers to the 'Board of Directors' for the Corporation
CEO	Chief Executive Officer of the NFC
Corporation	refers to the 'National Fisheries Corporation' or NFC
FSM	Federated States of Micronesia
FY	Fiscal Years
GAGAS	Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States
KFC	Kasar Fishing Corporation (one of the two joint venture corporations)
NFC	National Fisheries Corporation
PL	Public Law
TMC	Taiyo Micronesia Corporation (one of the two joint venture corporations)

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## **1. INTRODUCTION**

### **1.1. Reason for the Audit**

This engagement was initiated based on our audit planning process for fiscal year 2023. During our internal strategic audit planning and risk assessment activities, the ONPA identified the need to conduct a performance audit on the National Fisheries Corporation (NFC) based on the following reasons:

- It is operating within a strategic area of the Federated States of Micronesia national government through earnings of management fees from fishing vessels operated with the joint ventures;
- It is subject to the annual single audits (financial statement audits) with qualified opinions in the past two fiscal years 2021 & 2022;
- It has not been subject to any performance or follow-up audits since 2012.
- The entity has undergone structural changes with the inclusion of a North Star operation in Chuuk state.
- The entity has lost \$100,000 due to an online fraud.

### **1.2. Background**

The National Fisheries Corporations (NFC or the Corporation) was established in 1983 by the FSM 3<sup>rd</sup> Congress and enacted through Public Law No. 3- 14 which is cited as the “Federated States of Micronesia National Fisheries Corporation Act of 1983” Its primary purpose is to promote the development of pelagic fisheries and related industries for the benefits of the people of FSM. It is a public corporation owned by the Government. Its affairs are managed, and powers were exercised by its Board of Directors.

NFC had evolved over nearly three decades. The early stage of developing the fisheries industry in FSM had not yielded the return anticipated. However, recent initiatives and joint ventures with foreign partners have markedly improved the sustainable development footprint of NFC in the fisheries sector of FSM. (Source: NFC Strategic Plan 2020-2025)

Other activities the Corporation is mandated to do is to involve, engage and participate as owner, partner, shareholder or other interest holders in commercial ventures related to the fisheries industry, manage or operate commercial projects, enterprises, and ventures related to the industry; secure both from within and from outside FSM financial resources to achieve the purpose of the act; provide technical assistance and services for the project identification, formulation and pre-investment studies relating to the same industry. (Source: NFC Annual Report 2017-2018)



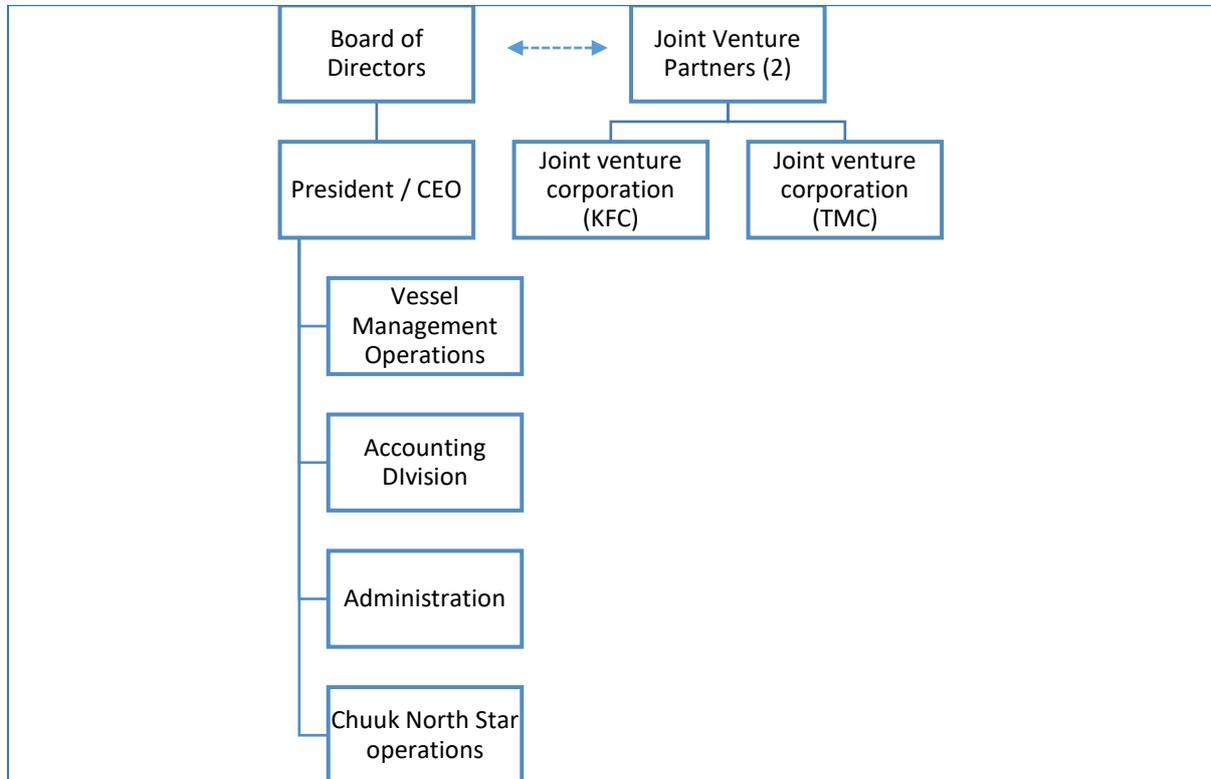
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Current joint venture (JV) partners and companies are presented below that are both engaged in purse seine fishing in the FSM Exclusive Economic Zone (EEZ) and areas under the FSM Access regional agreement:

Joint venture partner (Equity share)	Name of the joint venture company formed with NFC	Type of Agreement in place	Year the JV was established	Amount invested by NFC into the JV	Management Fees due to NFC per year (USD)
<b>Koo Fishing Company Limited (75%)</b>	Kasar Fishing Corporation (KFC)	Management Operation Agreement	2009		\$120,000
<b>Taiyo A &amp; F, company Ltd (75%)</b>	Taiyo Micronesia Corporation (TMC)	Management Services Agreement	2012	\$75,000	\$300,000

1.3. Organization Structure:

A graphical representation of the Corporation’s organization structure for the Board and Senior Management is provided below that includes the President/Chief Executive Officer who was appointed by the Board in November 2020, three (3) headquarter divisions based in Pohnpei state and a branch office in Chuuk state (North star vessel operations) .



Source: NFC Organizational Chart as of January 30, 2023

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1.4. Corporation's Milestones:

The following table shows the Corporation's milestone of achievement:

**Table 1: Milestones**

<b>Dates</b>	<b>Milestone</b>
<b>October 18, 1983</b>	Enabling legislation that created NFC was enacted by FSM Congress
<b>1988</b>	NFC Operation commenced
<b>1989</b>	NFC Internal Planning for indigenous stewardship of pelagic fisheries commenced
<b>1990 to 1995</b>	Major investment in shore base transshipment facilities and fishing operations was made through direct grant and soft loan from the FSM National Government
<b>May 1990</b>	Joint Venture amongst NFC, Pohnpei State Government, and Australian Private Company was formed and the first FSM purse seine company, Caroline Fisheries Company (CFC) with equal ownership by Parties was established
<b>1990</b>	Yap Fishing Company (YFC) was incorporated with a 22% and 78% ownership by NFC and Yap State Government respectively. Its purpose is to operate purse seiner(s)
<b>1992</b>	NFC procured its first two small longline fishing vessels financed by Japanese grant
<b>1992</b>	NFC established separate joint venture partnership with the State Governments of Chuuk, Yap, and Kosrae, and established longline shore base transshipment facilities. NFC managed the facilities and joint ventures
<b>1995</b>	NFC entered into joint venture with Okinawa Fisheries Association to operate a 727-cargo class jet for tuna air transport
<b>1995</b>	Micronesian Longline Fishing Company (MLFC) was established through debt financing from Asian Development Bank
<b>2009</b>	NFC and a Private Japanese Company entered into a joint venture and established Kasar Fishing Company (KFC) with 75% and 25% equity share respectively
<b>2012</b>	NFC and Taiyo (TMC) of Japan entered into joint venture with 75% and 25% equity stake respectively and established Taiyo Micronesia. NFC invested \$75,000 in TMC.
<b>2017</b>	Join Ventures declared and paid out dividends
<b>2018</b>	NFC invested \$75,000 in Kasar Fishing Corporation. NFC earned \$980,000 from management fees from the Joint venture companies.
<b>2019</b>	NFC leased the North star passenger vessel from Kasar Fishing Corporation
<b>2020</b>	NFC earned \$980,000 from management fees from the Joint venture companies. Other income earned was \$70,000.
<b>2021</b>	NFC earned \$888,000 from management fees from the Joint venture companies. Other income earned was \$853,000 reflecting the revenue from the Chuuk operations (North star passenger vessel)

Source: NFC Strategic Plan 2020-2025, Single Audit reports

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## **2. REGULATORY REQUIREMENT**

### 2.1. Audit Mandate

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 in part as the following:

*“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.”*

### 2.2. Regulatory Requirement under the FSM National Fisheries Corporation Act of 1983

#### NFC Act of 1983 Section 22: Audit

The Board shall have the books of account audited by the National Public Auditor no less frequently than annually.

## **3. OBJECTIVES**

Following a thorough study of key operations and documents of the NFC (during the survey or pre-study activity), the team identified the need to focus on compliance and internal controls within key identified areas of the Corporation. These include the core fisheries operations (based on which the NFC was established) and the operation of a passenger vessel named “North Star” in Chuuk state. Therefore, the objectives of this performance audit were to determine;

1. Compliance to the legislative requirements;
2. Whether internal controls were established and implemented to ensure effective and efficient operations; and,
3. The extent of implementation of prior audit findings and recommendations on ONPA’s prior Audit Report No. 20212-05.

## **4. SCOPE**

This performance audit of NFC covered the period FY2021 to FY2022 and up to February 28, 2023. The focus was on compliance with the laws, internal controls on selected key processes, and the implementation of prior audit recommendations.

We did not plan to verify the financial performance of the joint venture corporations of the NFC as we intended to understand and assess the contract agreements first in this audit. A future audit will perform the verification of the financial performance of the joint ventures.

## **5. METHODOLOGY**

We conducted this performance audit in accordance with 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.

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The audit was primarily conducted at the NFC head office and the warehouses in Kolonia, Pohnpei state and at the NFC field office in Chuuk State.

The audit team reviewed and assessed information such as the relevant public laws and its amendments, policies and procedures, the strategic plan, annual budgets, annual report, quarterly reports, the organization chart, job descriptions of relevant officials, contract agreements, receipt books, banking records and other information. We also conducted a number of interviews including the interview of the Chairman of the Board of Directors, the Chief Executive Officer (CEO) and key officials in the management team. Physical verification was also carried out of the warehouses operated by the joint venture corporations in Pohnpei and the North Star passenger vessel in Chuuk state.

## **6. PRIOR AUDIT COVERAGE**

The first performance audit of the Corporation covered the period from FY2010 to FY2011 on [Report No. 2012-05](#) and disclosed issues on lack of strategic development plans and budget, absence of performance measures and insufficient internal controls on payroll and fixed assets.

This is the second audit undertaken by the Office of the National Public Auditor (ONPA) and it covers fiscal years 2021 to 2023 up to February 28, 2023. This audit also verified the extent of implementation of the prior audit recommendations.

In addition, annual financial audits are performed on the Corporation as a component unit of the National Government whose financial accounts are audited by an independent CPA firm as a part of the requirements of the Compact Agreement between the FSM and the United States.

## **7. LIMITATIONS**

The team faced delays in accessing information from the Corporation including our access to the contract agreements. The absence of documented procedures on the core operations as well as the added operation in Chuuk state contributed to delays as more time had to be spent on interviews.

We could not verify all collections of the North star passenger vessel because the receipt books for fiscal year 2021 were not provided. Similarly, not all summary reports on the voyages taken by the North Star were provided.

Additionally, the review of the process of financial statement preparation was not performed due to absence of an agreed reconciliation procedures between the Corporation and its joint venture partners.

## **8. COMMENDATION**

We extend our sincere appreciation to the Board, management and staff of the Corporation for their cooperation and assistance during the audit engagement. The current management is new to performance audits; however, they did their best to provide the needed information and discussions on missing information.

We hope to continue to strengthen these good relations in the future to ensure value-adding audit services to the Corporation.

## **9. CONCLUSION**

Based on our audit, we concluded that the Corporation was not in compliance with the legislative requirements and the NFC Personnel, Finance and Administration Policy and Procedure Manual 2015. We also found poor internal controls as well as incomplete implementation of the prior recommendations on audit report 2012-05.

Our audit disclosed the summary of findings below:

- The current composition of the Board of Directors is not aligned with the legislative requirements.
- Process for budget preparation is not aligned with the required procedures.
- Passenger vessel operation in Chuuk state is non-compliant to the establishing law.
- Inadequate internal controls in the fishing vessel management and Chuuk branch operations
- Administration of contract agreements was not effective.
- Four out of seven prior findings and recommendations remain outstanding for implementation.

The details of the above findings together with the relevant recommendations are discussed in the following pages.

## **10. FINDINGS AND RECOMMENDATIONS**

### **10.1 Finding No. 1: The Current Composition of the Board of Directors is Not Aligned with the Legislative Requirements**

Criteria:

Pursuant to Section 9 of the establishing Public Law (PL) 3-14, *the Board shall be composed of the following:*

- (1) One member appointed by the President of the Federated States of Micronesia;*
- (2) One member appointed by each of the Governors of the States of the Federated States of Micronesia;*
- (3) The Executive Director of the Micronesian Maritime Authority; and*
- (4) The Secretary of the Department of Resources and Development who shall serve as an ex officio and who shall have no power to vote except in the event of a tie.*

Additionally, Section 11 of the PL 3-14, “*Terms of office of Board Members*”, states “*those members of the Board appointed pursuant to section 9(3) and (4) shall serve on the Board for the duration of their appointments to their respective agencies. Those members serving on the Board pursuant to Section 9(1) and (2) shall serve on the Board at the pleasure of the appointing officials and may be changed from time to time at the election of the officials. A board member may be removed for cause by a two-thirds majority vote of the members.*”

Condition:

From our reviews and assessment of the minutes of meetings of the Board of Directors (the Board), we noted that there has been a vacant seat on the Board for the FSM National Government representative since February 2021.

The former Board member representing the FSM National government had resigned from the Board on February 23, 2021; however, there has not been any replacement for him since then.

Cause:

Our interviews confirmed that the former and last FSM President did not make any new appointment after the resignation of the former board member from the FSM National Government. We also noted that no follow-up was initiated by the Board to remind the President of the vacant seat on the Board.

Effects:

Non-compliance to the establishing Public Law 3-14 and possible impact on the effectiveness of the Board’s oversight role on the management of NFC.

Recommendation:

To ensure compliance to the law, and to strengthen the governance of the Corporation and partnership with the National Government administration, the Chairman of the Board to consider initiating and presenting a formal request to the FSM President for the appointment of a suitable candidate to be a member of the Board of Directors as a representative of the FSM National Government.

## **10.2 Finding No. 2: Process for Budget Preparation is Not Aligned with the Required Procedures**

### Criteria:

The NFC Personnel, Finance & Administration Policy & Procedures Manual 2015 Section 22.2 on the budget process requires the following:

*22.2.1 The key to the preparation of an accurate and meaningful budget lies in the recognition that the budget is simply a numeric statement of management's operational plan for the forthcoming period. It is not a forecast of anticipated results prepared by the finance department, but the financial restatement of the intentions of Corporation management. To this end, it is essential that all concerned in the operational policy of the Corporation including the Board, participate at the earliest possible stage of budget formulation.*

*22.2.2 The budget process should also include input from the line managers who will subsequently be responsible for the achieving the budget figures. By gaining their acceptance of the figures prior to implementing the budget/plan, the managers can be made to accept responsibility for any variance that might occur.*

### Condition:

From interview of the management team, it was confirmed that the divisional heads (CFO, I.T, Manager Operations, Manning Manager and Manager Chuuk Office) were not involved in the budget preparation process as required in the Personnel, Finance and Administration Policy and Procedure Manual 2015.

### Cause:

The required process for budget preparation as required in the above manual was never enforced for implementation by the CEO. This includes the involvement of divisional managers in the budget preparation process which has not been the practice for the Corporation.

### Effect

This resulted in non-compliance with the NFC Personnel, Finance and Administration Policy and Procedure Manual 2015. Additionally budget components from the various divisions may be missed out resulting in unplanned expenditures that could affect operations.

### Recommendation

The CEO should involve the managers or the divisional heads in the preparation of the annual budgets especially the Chief Financial Officer who should be directly responsible for the process. CEO may consider conducting an annual workshop for this purpose. Evidence of this process should always be documented for reference and evaluations.

### **10.3 Finding No. 3: Passenger Vessel Operation in Chuuk State is Non-Compliant to the Establishing Law**

Criteria:

Pursuant to the FSM *Public Law 3-14 Section 6 (Corporation Charter; Authority)*:

- (1) *Subject to any existing limitation or limitations hereafter enacted, the Corporation, through its officers and agents, is authorized to engage in all commercial activities which will further the development of the fishing and fisheries industry in the Federated States of Micronesia.*
  
- (2) *The Corporation's authority shall include, but not limited to the following:*
  - (a) *To enter into joint venture, partnership, and other agreements related to the fishing and fisheries industry with other persons including, but not limited to , foreign persons and governments;*
  - (b) *To otherwise engage or participate as owner, partner, shareholder, or other interest holder in commercial ventures related to the fishing and fisheries industry;*
  - (c) *To manage or operate commercial projects, enterprises, and ventures related to the fishing and fisheries industry;*
  - (d) *To secure both from within and from without the Federated States of Micronesia financial resources to achieve the purpose of the act and the Corporation's charter;*
  - (e) *To provide technical assistance and services for project identification, project formulation, and pre-investment studies relating to the fishing and fisheries industry;*
  - (f) *To foster economic activities and to cooperate with other institutions within and without the Federated States of Micronesia in supporting activities for fishing and fisheries development;*
  - (g) *To promote the training of Micronesian citizens in matters related to the fishing and fisheries industry; and*
  - (h) *To invest in the expansion and improvement of the fishing and fisheries industry in the Federated States of Micronesia.*

Condition:

We found that the Corporation operates a passenger vessel which is not part of its mandated operations by law. The passenger vessel named the North Star is operated by a branch office that was set up in Chuuk state and commenced operations in 2020. According to management, the vessel was also intended to bring in pelagic fish from the outer islands; however, this did not work out due to storage issues (ice to sustain the fish) during the journeys.

Our interviews revealed that the Board had approved the proposal to operate the North Star vessel based on the knowledge that the former CEO had in terms of shipping and operating passenger vessel and with the knowledge of transportation needs for the outer islands of Chuuk state. From the team's review of the Board meeting minutes, we found that the Board had approved this operation with caution in response to the need to generate income to sustain the operations of the Corporation.

Even though the passenger vessel is generating good income (contribution to the Corporations overall earnings from operations is shown on Figure 1 below), the audit assessment of the establishing law (PL 3-14) revealed there is no legislative authority for the Corporation to operate any passenger vessel.

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The Chuuk branch currently has a total of 10 staff – an Assistant Manager (Currently Acting Manager after the departure of the Manager in 2022), Collector, Office Clerk, Captain, and 6 crew members.

The North Star vessel is operating on a lease/purchase arrangement between the Corporation (lessee) and one of the joint venture corporations (lessor) that entered into a Vessel Lease Agreement on October 5, 2019, for a term of 10 years from November 1, 2019, to October 31, 2029. The initial plan was to sublease the vessel to a 3rd party to operate it. The implementation of this initial plan to sublease the vessel has been delayed as NFC plans to clear the balance payments first while KFC has a mandate to have an offshore investment.



**Cause:**

The financial instability of the Corporation led the Board to explore other sources of income. This included substantial losses from its regular fishing operations in FY 2016 - 2017 including investments with other companies that are now no longer in operation (Source: Economic Outlook in the audited financial statement for the period ending September 30, 2017, and 2016).

**Effects:**

The Corporation is not complying with the legislative authority of the Corporation. The operation may be generating income; however, it could also pose legal and safety risks to the Corporation due to the absence of legal mandate and necessary management knowledge and skills to operate passenger vessels.

The introduction of the North Star has led to a gradual increase in earnings from operations for the entire Corporation of over \$320,000 from fiscal year 2019 to 2020 when the vessel commenced operations. [Figure 1](#) below is a graphical presentation of NFC's overall earnings from operations.

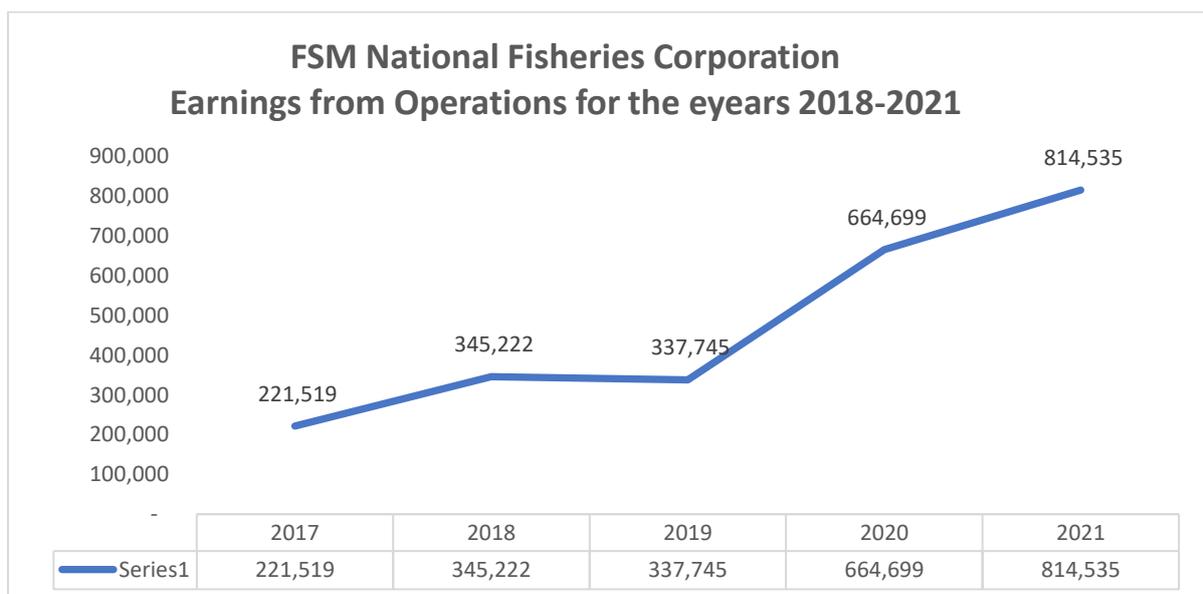


Figure 1: Source: Audited financial statements for NFC 2017-2021  
[http://www.fsmopa.fm/FSM\\_SA\\_2011.htm](http://www.fsmopa.fm/FSM_SA_2011.htm)

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Recommendations:

To ensure compliance to the establishing law of the Corporation and increase its financial performance, the Board of Directors and Management should:

- 1) Seek legal advice on the operation of the North Star passenger vessel in line with the mandated authority of the Corporation and take appropriate actions to ensure compliance to the establishing law; and
- 2) Strengthen the Corporation's core operations to improve and maximize financial performance on fishing and fisheries development as mandated by law.

**10.4 Finding No. 4: Inadequate Internal Controls in the Fishing Vessel Management and Chuuk Branch Operations**

Criteria:

As a leading practice, the Standards for Internal Control in the Federal Government, known as the Green Book, sets internal control standards for federal entities.<sup>1</sup>

Overview

*Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.*

Principle 3 - Establish Structure, Responsibility, and Authority

*3.09 Management develops and maintains documentation of its internal control system.*

*3.10 Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.*

*3.11 Management documents internal control to meet operational needs.*

*Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.*

Principle 12: Implement Control Activities

*12.01 Management should implement control activities through policies.*

*12.02 Management documents in policies the internal control responsibilities of the organization.*

*12.03 Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness.*

*12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Each unit, with guidance from management, determines the policies necessary to operate the process based on*

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<sup>1</sup> Source: <https://www.gao.gov/products/gao-14-704g>

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*the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.*

**Condition:**

From our verification we found that the NFC has an approved Personnel, Finance and Administration Policy and Procedure Manual 2015; however, there were no documented policies and procedures for the following key operational processes of NFC which should provide guidelines to employees that are responsible for the related activities:

- Vessel Management including key engagements and reconciliations with the joint venture companies.
- Manning agency (recruitment process between the Agent (NFC) and Principal (JV partner))
- Monitoring of Vessel Days Scheme (tracking fishing days used by NFC's joint venture fishing vessels)
- Permits and Licensing (for the vessels, ship station etc.)



There were also no Board approved procedures specifically for the processes of the North star office in Chuuk which includes for:

- cargo and passengers handling (an interim procedure was provided for this; however, it was not approved by the Board)
- receipting of passenger and cargo fees
- processing of refunds
- banking and reconciliation procedures
- recovery of receivables (from organizations/individuals that chartered the North Star)
- payroll processing

We conducted interviews of certain managers and staff who confirmed that they refer to their contracts for their duties and responsibilities.

**Cause:**

None of the current management and staff has the knowledge and experience in drafting of policies and procedures. According to management, this will require consultancies that also require additional funds to be obtained and budgeted for.

There is currently no manager in the Chuuk branch who should be ensuring proper documentation and implementation of procedures specifically for the North Star operations.

The Personnel, Finance and Administration policy and procedure manual 2015 is outdated.

**Effects:**

Lack of documented policies and procedures (key component of control activities for management of any organization) affects day-to-day operations resulting in inconsistencies, inefficient training, little accountability, and wasted resources (time and money).

The following examples were uncovered during the audit as a result of the absence of documented policies and procedures:

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- The license for the ship station for the North Star had expired in September 2020 and the new license was not obtained from the FSM Department of Transport, Communication and Infrastructure (TC&I) until the audit enquired in May 2023 which is valid from September 2020 and to expire in September 2023;
- Decrease in the number of local crew in the fishing vessels as compared to the past (a challenge for the Manning agency);
- Discrepancies in the recording, reconciling, banking, and monitoring and reporting of collections and revenue. This includes the following:
  - Receipt books for FY2021 were not provided at all;
  - Retrieving documents for audit took time – not all voyage summary reports, receipt books were collected, and we could not verify all transactions within our scope.
  - We could not fully reconcile the cash collected from service trips to the bank statements due to missing summary reports and absence of reconciliation records to confirm the banking of collections . Table 2 below summarizes the result of our audit assessment based on (i) total voyage recorded and filed per summary reports that were provided and the (ii) total deposited in the designated bank account for Chuuk branch within the audit scope:

**Table 2: Summary of audit verification performed on the banking of revenue collection from passenger fees.**

<b>Fiscal Year</b>	<b>Total Recorded &amp; Filed from Voyage Summary Reports Provided</b>	<b>Total Deposited in the Bank</b>	<b>Amount Audit could not verify/reconcile<sup>2</sup></b>
<b>2021</b>	\$672,260.99	\$579,652.31	(\$92,608.68)
<b>2022</b>	\$440,261.50	\$911,743.93	\$471,482.43
<b>1 Oct 2022 to 28 Feb 2023</b>	\$339,051.00	\$304,331.41	(\$34,719.59)

- Lack of controls in the processing of refunds to passengers due to no supporting documents being filed, and refunds were requested to Head office via email which were never filed.
- A lot of “voids” in the receipt books (FY2022 – \$11,582) and we could not confirm and verify the reason for the void due to absence of supporting documents. There was no log to justify if this was the right amount collected and deposited.
- Accounts receivables (aging report) for the Chuuk office provided below with total of over \$300,000 owed to NFC through the Chuuk North Start operations for the Fiscal Year 2022:

**Table 3: FY2022 Accounts Receivable Aging report for the Chuuk North Star vessel operations.**

<b>Account</b>	<b>Current</b>	<b>1 – 30 days</b>	<b>31 – 60 days</b>	<b>61 – 90 days</b>	<b>&gt; 90 days</b>	<b>TOTAL</b>
Account A	0.00	25,000.00	25,000.00	0.00	39,000.00	89,000.00
Account B	0.00	0.00	0.00	0.00	569.00	569.00
Account C	0.00	61,000.00	0.00	0.00	92,530.00	153,530.00
Account D	0.00	2,398.50	0.00	0.00	0.00	2,398.50
Account E	0.00	0.00	0.00	0.00	7,253.95	7,253.95
Account F	0.00	0.00	0.00	0.00	11,815.50	11,815.50

<sup>2</sup> This was an issue of scope limitation for the audit as both the Chuuk branch and the NFC head office do not maintain logs of service trips with their deposit dates for ease of reconciliations to confirm that all collections have been banked.

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Account	Current	1 - 30 days	31 - 60 days	61 - 90 days	> 90 days	TOTAL
Account G	0.00	23,000.00	0.00	0.00	4,871.00	27,871.00
Account H	5,000.00	0.00	0.00	0.00	26.00	5,026.00
Account I	0.00	0.00	0.00	0.00	327.00	327.00
Account J	0.00	0.00	0.00	0.00	6,850.00	6,850.00
Account K	0.00	0.00	0.00	0.00	395.00	395.00
<b>TOTAL</b>	<b>\$5,000.00</b>	<b>\$111,398.50</b>	<b>\$25,000.00</b>	<b>\$0.00</b>	<b>\$163,637.45</b>	<b>\$305,035.95</b>

- Discrepancies in the processing of payments such as:
  - Payment checks not properly supported for both the head office and Chuuk branch (FY2021 for head office: \$51,249.18; FY2022 for Chuuk office: \$46,478.01)
  - Timesheet for employees at the Chuuk field office not reviewed and approved (FY2021: \$9,819.22)
  - Check amount did not match supporting invoice for certain payments made at the head office (FY2021: \$8,030.20)
  - Some expenditures could not be reviewed and tested due to lack of information.
  - Invoices & other payment documents were not properly filed in the Chuuk office.

**Recommendations:**

The Chief Executive Officer (CEO) through the approval of the Board of Directors should:

- 1) Develop the appropriate budget or seek financial assistance to fund the appointment of a consultant to develop written policies and procedures for the Corporation;
- 2) Identify relevant courses for the management team to attend in relation to their role in ensuring effective controls including the documentation of policies;
- 3) Recruit an experienced and capable person to manage the Chuuk North Star operations with an attractive salary package; and
- 4) Review and update the Personnel, Finance and Administration policy and procedure manual 2015 to include relevant procedures relating to the operations of the Chuuk branch which should include effective oversight and monitoring mechanisms of the Accounting Division in the head office.

**10.5 Finding No. 5: Administration of Contract Agreements was not Effective**

**Criteria:**

Pursuant to the FSM Financial Management Regulation (FMR) Section 5.1.6. Executing the contract

- 1) *The contract is executed (as indicated by signature) by the appropriate Allottee on behalf of the FSM Government or the contracting FSM Government Agency. The following will be the routing order of approvals required to execute a contract:*

*c) Legal Sufficiency – Is approved by dated signature as to legal sufficiency with FSM laws and regulations:*

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- (i) Executive Branch – With respect to contracts entered into by the Executive Branch, by the Attorney General;*
- ii. Legislative Branch – With respect to contracts entered into by the Legislative Branch, by the Legislative Counsel;*
- iii. Judicial Branch – With respect to contracts entered into by the Judicial Branch, by the designee of the Chief Justice;*
- iv. Other FSM Government Agencies – With respect to contracts entered into by FSM Government Agencies other than the Executive, Legislative or Judicial Branches (i.e. where the allottee is a non-national government allottee), by the Attorney General;*
- v. State contracts – With respect to contracts entered into by the State Governments for projects funded by congressional appropriation, or by foreign grants approved by the FSM Congress, it is required that such contracts must be cleared with the FSM Attorney General and the FSM Department of Finance & Administration, in addition to any approval that might be required by the State Attorney General.*

Condition:

During our review of the Contract Agreements between the NFC and the external parties, we found issues pertaining to the administration of the contract agreements as follows:

- There was inconsistency in the execution of the contracts. For example, certain contracts were signed for legal sufficiency by an attorney; however this was not the case for the rest of the contracts with the joint ventures and with other partners;
- No proper filing of contracts and it took time for management to locate them during the audit;
- Absence of agreed procedures on timely reconciliation of relevant records such as receivables of the joint venture companies.

Causes:

- No documented procedure for the execution and administration of all contract agreements entered by the NFC with the joint ventures and other external parties;
- No clear accountability on who should be monitoring the validity and filing of the contract agreements;
- Processes relating to reconciliation of relevant records such as receivables were not documented in the JV agreements.

Effects:

- Lack of proper administration and legal sufficiency review of contracts puts the NFC in a risky position that could impact operations;
- We were not provided with the updated joint venture contract between the NFC and Koos Fishing Corporation Limited, and a lot of time was taken to locate all the current contracts agreements;
- The lack of reconciliations of accounts receivables with the joint ventures was always reported as a finding in the single audit reports.

Recommendations:

The CEO should:

- 3) Seek legal advice for the execution (including the legal sufficiency) and administration (includes the filing) of all contract agreements to ensure consistent and approved practice. The FSM FMR Section 5.1.6 (used as criteria above) can be used as a reference;

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- 4) Appoint the appropriate staff member to be responsible for administering and maintaining records of all contracts between NFC and other parties. The relevant job description should be updated; and
- 5) Dialogue with the joint venture partners and initiate the discussions to have agreed procedures for timely reconciliation of records such as receivables.

**10.6 Finding No. 6: Four Out of Seven Prior Findings and Recommendations Remain Outstanding for Implementation**

Criteria:

Generally Accepted Government Auditing Standards (GAGAS/Yellow Book)  
 Application Guidance:

*Report Format 9.08: The purposes of audit reports are to:*

- (1) clearly communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; and*
- (2) facilitate follow-up to determine whether appropriate corrective actions have been taken.*

Condition:

The following table shows the stage of implementation of prior audit recommendations that were issued on prior [Audit Report No. 2012-05](#):

**Table 4: Stage of implementation of prior audit recommendations**

Prior Findings & Recommendations/Suggestions	Stage of Implementation
<b>Prior Finding No. 1: Lack of strategic plan.</b>	
1. The Board should use strategic development planning process and to require the development and implementation of a Strategic Plan specific to NFC mandates and needs.  2. The President and Congress to review NFC's strategic plan and to set general corporate direction for NFC to pursue.	Fully Implemented
<b>Prior Finding No. 2: Inadequate annual budget plan that failed to implement strategies on how to achieve goals and objectives.</b>	
1. Use an annual budgeting system that is more appropriate to the operational needs of the corporation. In addition, the budget process should have all the requirements needed for a budget.  2. Segregate the profit and non-profit activities in the annual budget so that appropriate performance measures and accountability for each classification of activity (for-profit and not-for-profit) could be set up and implemented.	Fully Implemented
<b>Prior Finding No. 3: Absence of performance measures to implement and monitor the achievement of goals and objectives.</b>	

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<b>Prior Findings &amp; Recommendations/Suggestions</b>	<b>Stage of Implementation</b>
<p>The Board (a) to set up appropriate performance indicators and measures and (b) to implement adequate monitoring activities to ensure the achievement of corporate goals and objectives and compliance with the requirements of the laws, regulations and agreements.</p> <p>The FSM Congress to revisit the enabling legislation that created NFC and clearly define the mandated roles and responsibilities of the Board related to management and oversight functions.</p>	Partial Implementation
<b>Prior Finding No. 4: No negotiation process manual in place to promote sound and justifiable decision-making on joint ventures and other business undertakings</b>	
<u>Prior Recommendation 1 of 1:</u> 1. The Board to create a negotiation manual as guidance to acquire the best deal with joint venture companies	Not implemented
<b>Prior Finding No. 5: Inadequate segregation of duties led to undetected errors.</b>	
The Board should assess and implement strong internal or compensating controls through proper segregation of duties especially at the accounting/finance division. Being a small entity, the chief executive officer (CEO) should increase his/her role to monitor and review the Comptroller's work performance.	Partial Implementation
<b>Prior Finding No. 6: Insufficient controls for payroll processing increased the risk of abuse and violation of law.</b>	
Management should review and update the policies and procedures in the payroll section of the Administration Manual to implement adequate control in payroll procession.	Fully implemented
<b>Prior Finding No. 7: Insufficient controls and safeguarding led to missing unaccounted fixed assets</b>	
<p>Management should enhance fixed asset policy to implement fixed asset controls. For example:</p> <ol style="list-style-type: none"> <li>1. Periodic inspection and reconciliation of fixed assets against fixed assets register</li> <li>2. Implement identification number for equipment, furniture, and fixtures to protect against loss. Such number be included as part of the information in the fixed asset register.</li> <li>3. Formal board approval for purchases, sales and deletion (from listing) of fixed assets</li> <li>4. Protection of fixed assets from fire thru adequate insurance coverage</li> <li>5. Establishing accountability for valuable assets but below the threshold amount for capitalization</li> </ol>	Partial Implementation

In summary, our verification revealed the following have not been addressed by management:

- Performance evaluation form exists, and the process was in the Personnel, Finance and Administration Policy and Procedure Manual 2015; however, it is neither implemented nor

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enforced by Management and the Board. The Board approved annual bonus payouts; however, these were not tied to any structured performance measurement mechanism.

- No negotiation process manual was developed for the NFC and its joint ventures.
- There is still no performance evaluation performed for the CFO by the CEO to ensure the designing of proper controls in the accounting division. This is also evident as highlighted in the audit findings in the single audit reports (FY2021, FY2020). The
- The Personnel, Finance and Administration Policy and Procedure Manual 2015 did not have any procedure for or mention of the following which are not implemented too:
  - Tagging fixed assets,
  - Threshold for capitalizing fixed assets.
  - Periodic inspection and reconciliation of fixed assets
  - Fixed Asset register is currently being compiled.

Cause:

The CEO was not aware of the previous audit findings. The cause for each of the prior recommendations that were pending full implementation is provided below:

- The Board and CEO did not implement and enforce performance evaluation for staff and management. This is an area that the CEO aims to strengthen in order to support the award system such as promotions, and the annual bonus payout to staff which were based on certain calculation of the staff's salary.
- The CEO's monitoring of the Chief Financial Officer's (CFO) performance was still pending as the performance evaluation has neither been conducted in a structured manner nor enforced by the Board.
- There was no one available in-house to draft procedure manuals. The Corporation had attempted to hire a consultant to assist and create policies and procedures, but the person departed unexpectedly without any output.
- There was currently no Fixed Asset register. It was being developed by the CFO and CEO. Once developed, it would then be possible to tag, inspect and reconcile fixed assets.

Effects:

- Lack of performance evaluations to support current awards such as the annual bonus payout pose risk of awarding bonus to non-performing employees and create a culture of complacency in employees.
- Lack of effective monitoring of the CFO's performance will continue to result in audit findings in the single audit reports relating to controls which is directly under the direct supervision of the CFO. The FY2021 single audit report highlighted issues in the bank reconciliations and reconciliations of accounts receivables. There are discrepancies as well in filing of accounting records.
- Absence of manuals for the operations and for the negotiation process with joint ventures poses the risk of inconsistent practices, undetected errors and the possibility of NFC losing out on these joint ventures.
- Absence of a fixed asset register, tagging, inspection and reconciliation of fixed assets pose the risk of financial loss due to unaccounted assets and undetected theft.

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Recommendations:

The Board of Directors should strengthen its oversight role and hold the Management accountable for the implementation of the remaining prior audit recommendations below.

- 1) Develop an effective performance evaluation process for the Corporation which will improve productivity, provide the basis for promotions and incentive programs and drive a high performing workforce;
- 2) Dialogue with the joint venture partners and agree on a negotiation process that needs to be documented to provide guidance to the employees;
- 3) Ensure effective supervision and setting of performance measures indicators for the CFO in direct relation to internal controls for the accounting division which has been highlighted in the single audit reports; and
- 4) Update the Personnel, Finance and Administration Policy and Procedure Manual 2015 to include the recording (in a fixed assets register) and tagging, annual inspection and reconciling of fixed assets.

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**11. MANAGEMENT RESPONSE**



**NATIONAL FISHERIES CORPORATION**  
AN AGENCY OF THE GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA  
P.O. BOX R, KOLONIA, POHNPEI, FSM 96941  
TEL. NO. (691) 320-2529 FAX NO. (691) 320-2239

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2 August 2023

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

**Re: NFC Management Response to Findings of 2023 Performance Audit**

Kaselehlie Mr. Hainrick,

On behalf of the Board and the staff members of the Corporation, I thank you for the initiative you and your staff took to conduct a performance audit on the Corporation based on the risks highlighted since the last performance audit on the Corporation that took place in 2012.

Given that NFC's Management is fairly new, the audit conducted was timely and necessary to assist identify the needed improvements and take stock of what has been done and what needs to be done. Management shares the "view that the Audit was an absolute necessity as it identified the weaknesses of NFC's management practices and compliance with normal corporate practices in operating a business" (Sitan, Audit, 2012).

We, generally, agree with the findings and the following are Management's comments on the findings:

**1. Finding No. 1: The current composition of the Board of Directors is not aligned with the legislative requirements**

We agree with the cause reported particularly on the "no follow-up was initiated" because we assumed that an appointment would have been forthcoming from the President's office given the resignation of the last National Government Board appointee was addressed to H.E. President Panuelo.

Nevertheless, we will take the necessary steps to follow through on the recommendation and a follow-up on our response<sup>1</sup> to the President's Memo concerning Boards.

**2. Finding No. 2: Process for Budget Preparation is Not Aligned with the Required Procedures**

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<sup>1</sup> Simina-Palik Admin Comm Memo \_BOARDS\_NFC 30Jun23, shared with Audit team via email Wed, Jul 26, 8:06 AM

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We acknowledge our shortcomings, noting that this omission in past practices shall not be continued. The budget preparation shall be an all-inclusive process where CEO works closely with the Managers to incorporate divisional needs and possibly avoid “unplanned expenditures that could affect operations”.

We were taking steps to include key personnel in the budget development. We will take heed of the recommendation, starting with FY2024 planning and preparation.

**3. Finding No. 3: Passenger Vessel operation in Chuuk State is non-compliant to the establishing law**

While our mandates are clear for the Corporation to lead activities for fishing and fisheries development, we ventured, with one of our fishing partners, into unchartered waters with a passenger boat, which had operated mainly out of Chuuk State. We had initial plans to link it to pelagic fisheries development, which had not been formalized for implementation.

This is a venture resulting from research (researching many possible investment opportunities for our collective involvement in the FSM economic development) and response to national licensing conditions requiring onshore investments by domestic fleet, such as NFC’s fleet. The North Star in the State of Chuuk was one way NFC and one of its partners invested much resources to support our local economy although it is deemed outside of our mandate

We understand the finding had deemed the Corporation non-compliant with its established mandates. We will take heed of the recommendations and work towards being fully compliant with its established mandates and self-sufficient in financing its activities so as to avoid entering into arrangements and activities that would label the Corporation non-compliant.

**4. Finding No. 4: Inadequate internal controls in the Fishing Vessel Management and Chuuk Branch operations**

We agree with this finding of the audit and also agree that addressing this finding would require a major undertaking in its implementation of the recommendations. With enhanced oversight as highlighted by the audit, we will pride ourselves on taking charge of all that is required to address this finding.

We strive to develop policies and procedures for the Board’s consideration and approval for effective implementation. We had drafted the “Licensing & Operations Procedure” in response to the initial findings conveyed to the Corporation. This was submitted to the last Board meeting held in Kosrae (July 2023) but due to time constraints, it will be presented for Board’s consideration at the next meeting.

We will take similar action on all matters highlighted in this finding in the coming months and years.

**5. Finding No. 5: Administration of Contract Agreements was not Effective**

We note there are inconsistencies in our practices and safeguarding of our legal documents. However, we are a Corporation that has JV partnerships with international entities, whose clearance(s) were also warranted when asked to submit contracts involving the partnerships. Our delay is our report card and this falls on me, who is responsible and accountable for the day-to-day operations including monitoring the validity and filing of contracts.

The three (3) clear recommendations shall form part of CEO's Duties and Responsibilities, as amended.

**6. Finding No. 6: Four out of Seven Prior Findings and Recommendations Remain outstanding for implementation**

Attachment 1 presents our response to this Finding (in the far right column).

I can be reached anytime if there are any questions about the responses provided.

Sincerely,



Patricia Jack  
CEO/President

cc: Casiano Shoniber, Chairman, Board of Directors, NFC  
Members, Board of Directors, NFC

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Attachment 1 NFC Responses to Findings of 2012 Audit

<b>OFFICE OF THE NATIONAL PUBLIC AUDITOR</b> <b>Audit of the National Fisheries Corporation (NFC)</b> <b>Assignment No.: 2023-03</b> <b>For Fiscal Years FY2022 – FY2023</b> <b>Purpose:</b> To gather and document information pertaining to corrective actions being implemented to correct prior Findings for NFC <b>Source:</b> ONPA generated document			
Report 2012-05 Findings	Report 2012-05 Recommendations.	Progress Made	NFC Response (31Jul2023)
<b>Finding 3:</b> Absence of performance measures to implement and monitor the achievement of goals and objectives.	1. The Board (a) to set up appropriate performance indicators and measures and (b) to implement adequate monitoring activities to ensure the achievement of corporate goals and objectives and compliance with the requirements of the laws, regulations and agreements.  2. The FSM Congress to revisit the enabling legislation that created NFC and clearly define the mandated roles and responsibilities of the Board related to management and oversight functions.	Partial Implementation	1. a) and b) Revisiting the SP and budget formulation for our Corporate activities to be streamlined and be inline with goals and aspirations and most especially our legal mandates. These activities are to be guided and monitored through a proper evaluation process to be upheld.  2. Recognize the need to reinstate a stronger working relationship with FSM Congress, National and State leadership to ensure effective implementation of the clearly defined mandated roles
<b>Finding 4:</b> No negotiation process manual in place to promote sound and justifiable decision-making on joint ventures and other business undertakings.	The Board to create a negotiation manual as guidance to acquire the best deal with joint venture companies.	Not Implemented	We iterate NFC's past response on this finding that there needs to be "a Decision Process Manual" and commit to development of such a Manual.

<b>Finding 5:</b> Inadequate segregation of duties led to undetected errors.	The Board should assess and implement strong internal or compensating controls through proper segregation of duties especially at the accounting/finance division. Being a small entity, the chief executive officer (CEO) should increase his role to monitor and review the Comptroller's work performance.	Partial Implementation	The need to strengthen oversight and accountability is demanded from the Board to Management (CEO) and from CEO to her team (all divisions concerned, particularly accounting.) Management will work with her team to reassess this finding
<b>Finding 7:</b> Insufficient controls and safeguarding led to missing unaccounted fixed assets.	Management should enhance fixed asset policy to implement fixed asset controls. For example: 1. Periodic inspection and reconciliation of fixed assets against fixed assets register  2. Implement identification number for equipment, furniture, and fixtures to protect against loss. Such number be included as part of the information in the fixed asset register.  3. Formal board approval for purchases, sales and deletion (from listing) of fixed assets  4. Protection of fixed assets from fire thru adequate insurance coverage  5. Establishing accountability for valuable assets but below the threshold amount for capitalization	Partial Implementation	1. Management taking steps to update its fixed assets register and do periodic inspections and reconciliation  2. Management has tool in-house to affix ID number of any and all equipment, furniture, and fixtures for the Corporation, which will help Management update its fixed asset register.  3. Management started and will continue like it did in its recent purchase of vehicle. It was needed to support provisioning when fishing vessels are in port. Request was made to Board in its budget proposal and budget was approved in its entirety, including the purchase of the minivan.  4/5. Acknowledge the need and will address accordingly.

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

As part of our process we requested for a formal management response from the Corporation. The Chief Executive Officer responded and generally agreed with our findings and recommendations (provided in the previous Section 10 of this audit report).

It is commendable to note that both the Board of Directors and the management were consulted and involved in the development of the management response which is a positive reflection of their joint commitment to make the required improvements as recommended in this report.

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**13. NATIONAL PUBLIC AUDITOR COMMENTS**

We would like to thank the staff of the National Fisheries Corporation main office in Pohnpei and the Chuuk branch office, for their assistance and cooperation during the audit.

We have provided copies of the final inspection report to the President and Members of the 23<sup>rd</sup> FSM Congress and those charged with governance including the Board of Directors of the Corporation. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate to contact our office. Contact information for the office can be found on the last page of this report along with the National Public Auditor and staff that conducted the audit and prepared this report.



Haser H. Hainrick  
National Public Auditor

August 04, 2023

