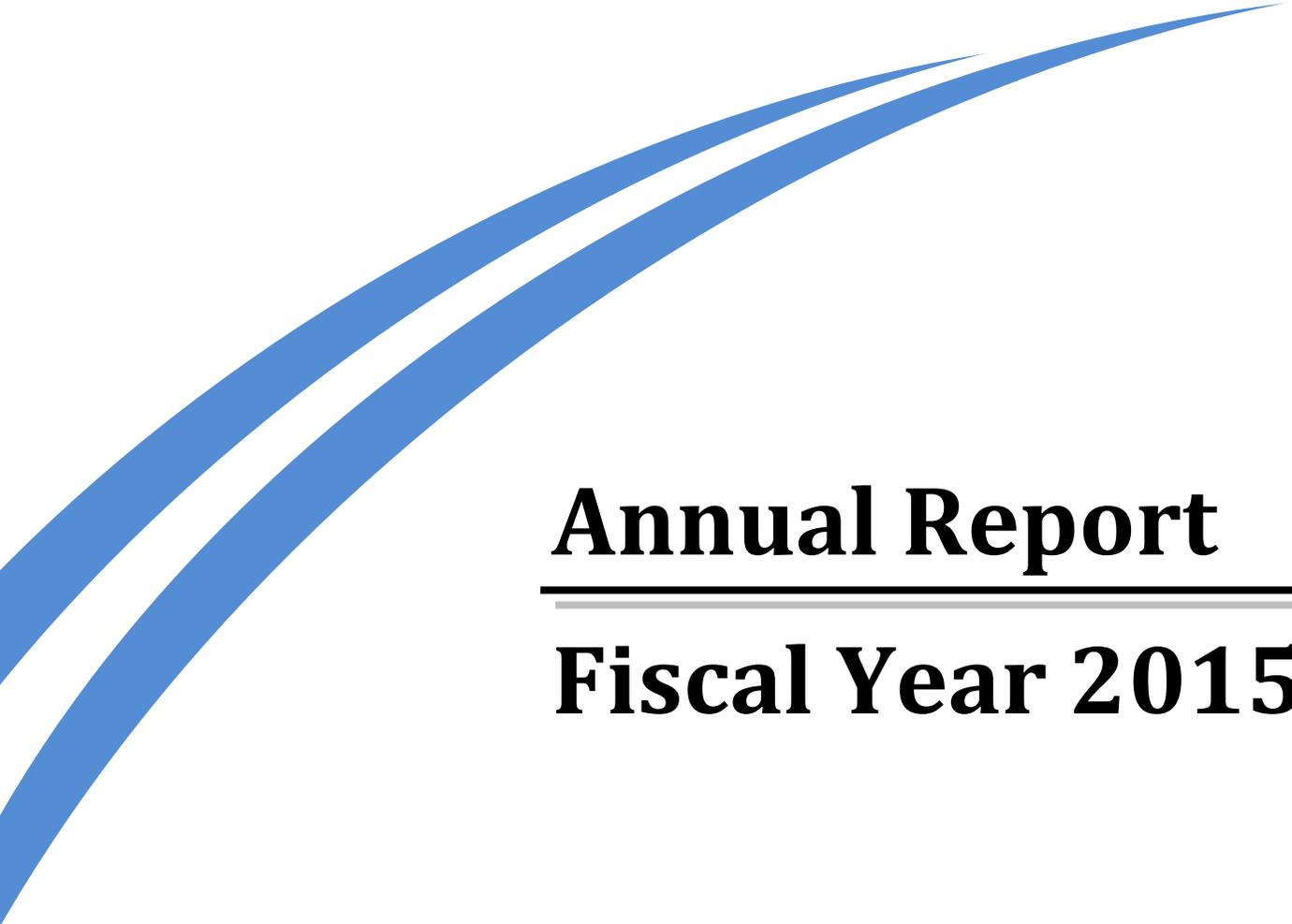




NPA

Office of the National Public Auditor

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Annual Report

Fiscal Year 2015

Acronyms

ADB	Asian Development Bank
AGA	Association of Government Accountants
AG	Attorney General
ACFE	Association of Certified Fraud Examiners
APIPA	Association of Pacific Island Public Auditors
ASMC	American Society of Military Comptrollers
AusAID	Australian Agency for International Development
CFE	Certified Fraud Examiner
CDHS	Chuuk State Department of Health Services
CDOE	Chuuk State Department of Education
CGAP	Certified Government Auditing Professional
CID	Compliance Investigation Division
CIP	Capital Improvement Project
CPA	Certified Public Accountant
CPE	Continuing Professional Education
CSCIP	Chuuk State Capital Improvement Project
DFA	Department of Finance and Administration
DOI	Department of Interior
DOJ	Department of Justice
EEZ	Exclusive Economic Zone
FAP	Fraud Awareness Prevention
FMR	Financial Management Regulations
FSM	Federated States of Micronesia
FY	Fiscal Year
GAAP	General Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
HRM	Human Resource Management
IIA	Institute of Internal Auditors
IAACA	International Association of Anti-Corruption Authorities
IDI	INTOSAI Development Initiative
IGPC	Inter Governmental Philatelic Corporation
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
JFPR	Japan Fund for Poverty Reduction
MOU	Memorandum of Understanding
MICR	Magnetic Ink Character Recognition
MTCU	Micronesia Transnational Crime Unit
NOC	National Olympic Committee
OCE	Other Consumable Expenses
OIA	Office of Insular Affairs
OIG	Office of the Inspector General
OJT	On-the-Job Training
OMB	US Office of Management and Budget
ONPA	Office of the National Public Auditor
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PITI	Pacific Island Training Initiative
PRAI	Pacific Regional Audit Initiative
SAI	Supreme Audit Institutions
SDP	Strategic Development Plan
SEG	Supplemental Education Grant
TPA	Third Party Administrator
UNDESA	United Nations Department of Economic and Social Affairs
UNCAC	United Nations Convention Against Corruption

Table of Contents

Executive Summary.....	1
ONPA’s Vision, Mission and Core Values	2
Duties of the National Public Auditor	2
ONPA Organization.....	3
Administration Division.....	3
Budget	3
Audit Division.....	3
Compliance Investigation Division.....	3
Single Audit Division	4
Information Technology Division.....	4
Core Objectives	5
Audit Division FY 2015 Accomplishments.....	6
Compliance Investigation Division FY 2015 Accomplishments.....	12
Cases	13
CID Hotline	14
Trainings • Conferences • Workshops	14
Transparency Continues.....	14
Other Matters of Interest.....	14
New Hires • Promotions • Departures	15
Appendix I—National Public Auditor’s Powers, Duties and Responsibilities.....	16
Appendix II—Organizational Chart	17
Appendix III—Audit and Compliance Investigation Division Operations	18
Audit Division.....	18
Compliance Investigation Division.....	19
Appendix IV—Single Audits FY 2014.....	20



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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Excellency Peter M. Christian, President
Honorable Members, 19th Congress of the FSM

As required by law, I am pleased to submit to you the annual report for the Office of the National Public Auditor for fiscal year 2015.

Respectfully,

A handwritten signature in blue ink, appearing to read "Haser Hainrick", is written over a faint, light blue horizontal line.

Haser Hainrick
National Public Auditor

November 30, 2015

Executive Summary

As required by law, this annual report serves to inform the Congress and President about the National Public Auditor's progress and performance in safeguarding the Nation's assets through audits and investigations that lead to improving government operations, efficiency and accountability.

During the fiscal year FY 2015, we completed nine performance audits and twenty-four single audits; referred one case to DOJ for legal review and action and closed one case (i.e. issued an advisory management) and implemented decisive activities required by our strategic plan.

The results of the audits and investigations disclosed weaknesses and opportunities for improvements and promoted transparency and accountability in government. However, we've identified the need for an effective audit follow-up process of audit issues and resolution of investigated cases.

The nine completed performance audits are: (1) Audit of Chuuk Department of Health Services: Poor Procurement Practices & Inventory Management System Led to Excessive Costs; (2) SBOC's Allotment of Vetoed Appropriation Not Authorized by Law; (3) The Office of SBOC Violated the FPA and FSM Budget Law; (4) CFSM Public Projects and Social Programs: \$1.6 Million Approved Without Clear Criteria; (5) Fisheries Observer and Port Sampler Revolving Fund: Improvement in Internal Controls is Needed to Ensure Compliance of the Financial Activities with the Law; (6) FSM Customs & Tax Administration Not Fully Implementing Prior Audit Findings and Recommendations (7) National Government FMIS: Full Capabilities Not Utilized to Provide Efficient Financial Management and Reporting Services; (8) The FSM Trust Fund: Lack of Board's Oversight Contributed to Non-Compliance & Accountability Issues; and (9) NORMA's Use & Management of the Project Development Fund: Characterized by Poor Controls, Accountability and Transparency Issues.

The twenty four Single Audits include FSM National Government and its nine component units, Pohnpei State Government and its three component units, Chuuk State Government and its two component units, Yap State Government and its three component units and Kosrae State Government and its two component units.

The Compliance Investigation Division received 27 complaints, which is about 68% of all open cases as of year-end.

The audit and investigative trainings, conferences and workshops were to strengthen the staff's professional capacity. These were funded by PASAI, APIPA, PITI, DOI/OIG, ONPA Budget, Road Map¹ and technical grants.

We continue to promote transparency through this required annual report, our office website and the local media, Kaselehlie Press. Audit reports issued since 2000, trainings and other articles can be found on our website: www.fsmopa.fm. Some press releases can be found on the KPress website: www.kpress.fm and also on the PASAI website: www.pasai.org. Copies of our audit reports are also available at our office lobby in Palikir.

¹ Road map is a training fund source for the FSM National Government

ONPA's Vision, Mission and Core Values

Vision

High performance, transparent and accountable government

Mission

We conduct audits and investigations to improve good governance and prevent fraud, waste and abuse for the public's benefit.

Core values

Independence—we remain independent in mind and in appearance to be able to act with integrity and exercise objectivity and professional skepticism in our professional responsibilities. We do not allow any form of interference, conflict, threat or impairment in determining the scope, performing the work and in communicating the results of our work.

Professionalism—we conduct ourselves in a competent and professional manner while upholding our code of ethics and professional standard behavior.

Public Service—we place priority on our responsibilities to the public's interest and to honor the public trust. To meet this, we observe integrity and objectivity in discharging our professional responsibilities.

Integrity—to maintain the public's confidence, we conduct our work with an attitude that is objective, fact-based, nonpartisan and non-ideological and we report our findings without fear or favor.

Performance Measures

Performance measures relate to the desired results of our audits and investigations and the ability to monitor and assess the progress of our work. We measure our performance through understandable, timely and useful reports, accepted and implemented recommendations, improvement in governmental practices and operations, and fiscal impact.

Duties of the National Public Auditor

The Public Auditor is the nation's premier watchdog against government waste, fraud and abuse and helps in providing assurance that funds are properly managed and expended in an appropriate, transparent and accountable manner. The Public Auditor plays a key role in combating financial crime and corruption involving the use of the National Compact funds and local funds. The Public Auditor's office is authorized by statute to examine and evaluate the adequacy and effectiveness of systems of management control provided by the National Government policies, plans and directives. The FSM President, with the advice of the FSM Congress, appoints the Public Auditor. ([Refer to Appendix I for more information on powers, duties and responsibilities of the Public Auditor.](#))

ONPA Organization

The ONPA organization consists of five divisions – Administration, Audit, Investigation, Single Audits, Information Technology. The Public Auditor is the director of the office with a total of 20 permanent employees. ([Refer to Appendix II for the organizational chart](#))

Administration Division

The personnel under Administration Division consists of the Public Auditor, Administrative Officer, Administrative Clerk and the Executive Secretary. This division handles all support activities for the core operations of the office.

Budget

A total of \$748,398 was appropriated by Congress for the operation of ONPA for fiscal year 2015. \$631,835 was expended with a remaining balance of \$116,563. Below is a breakdown of the budget.

MAIN OFFICE					
Budget Category	Approved Budget	Allotted Budget	Reprogrammed	Expended	Available
Personnel	\$ 441,946.00	\$ 441,946.00		\$ 361,277.05	\$ 80,668.95
Travel	\$ 135,952.00	\$ 135,952.00		\$ 129,520.58	\$ 6,431.42
Contractual Services	\$ 86,000.00	\$ 86,000.00	\$ (27,900.00)	\$ 31,612.96	\$ 26,487.04
OCE	\$ 55,500.00	\$ 55,500.00	\$ 10,000.00	\$ 63,916.82	\$ 1,583.18
Fixed Assets	\$ 29,000.00	\$ 29,000.00	\$ 17,900.00)	\$ 45,508.00	\$ 1,392.00
Sub-total	\$ 748,398.00	\$ 748,398.00		\$ 631,835.41	\$ 116,562.59

Audit Division

The Audit Division provides the audit services. The types of audits conducted by this division are performance audits, financial audits, compliance audits, attestation engagements, and inspections. Inspection is an alternate type of study that may be conducted by the ONPA and is defined as a process that evaluates, reviews, studies, and/or analyzes the programs and activities of a Department/Agency for the purpose of providing information to managers for decision making. Regardless of the variation in the audits, all works are performed in conformity with either Generally Accepted Government Auditing Standards (GAGAS), known widely as the “Yellow book”, issued by the U.S. Government Accountability Office or the Quality Standards for Inspections (QSI) issued by the U.S. Council of the Inspectors General on Integrity and Ethics (CIGIE). Our audit selection method is also based on risk. ([Refer to Appendix III under Audit, Inspection and Investigative Standards](#))

Compliance Investigation Division

The Compliance Investigation Division (CID) provides the investigation services. The CID has two primary investigation functions: administrative and criminal functions. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice (DOJ).

CID’s professional responsibilities are to identify systems and accountability weaknesses in the Nation’s financial administration and gathers evidence of criminal activity for appropriate legal

review and action. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. ([Refer to Appendix III under Compliance Investigation Division for the general and qualitative standards for investigations](#))

Single Audit Division

FY14 FSM Single Audits

FSM National and State Governments are required to have their general purpose financial statements audited annually. This work is done by independent CPA firms under the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133², audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position of the respective entities. Achieving the Compact's requirement regarding single audits is very critical as the fund donors must know how their financial assistance was spent and what it was used for in the FSM. Also, decision-makers within the FSM Governments need current financial data in order to make sound decisions.

Under the annual Memorandum of Understanding (MOU) for Single Audits between the FSM and the US, the single audits are to be equally funded by both the FSM and the US. The US Department of Interior's Office of the Insular Affairs is the cognizant agency for the single audits and provides the US portion of the funds.

The Office of the National Public Auditor (ONPA) has full management and oversight responsibilities for the single audits. For fiscal years 2012, 2013 and 2014, ONPA contracted DELOITTE & TOUCHE to perform the single audits for the entire FSM Governments and their respective component units. At the end of each month until the June 30th deadline, updates are received from Deloitte & Touche on the status of the Single Audits. These updates are then compiled into monthly status reports and distributed to senior officials at the National and State Governments, along with the management of each component unit. The monthly reports are then uploaded on our website.

Information Technology Division

The Information Technology Division supports and maintains the existing computer network. The responsibilities of the IT Specialist include procurement of computer and all computer related items, monitoring the office computer network, installing and reporting of computers and network components, troubleshooting and maintaining the office website.

² OMB Circular A-133 was issued pursuant to the Single Audit Act of 1984 as amended, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. This sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. Subject B of A-133 sets a threshold amount of \$500,000 for federal monies that are expended during a year to be audited. The new "Super Circular", which will take effect for single audits beginning on or after January 1, 2015, will increase the threshold amount from \$500,000 to \$750,000.

Core Objectives

Our 2014-2016 Strategic Plan Goals and Objectives:

Goals			
1. To continuously provide high quality and high impact products and services through audits and investigations.	2. To continue enhancing auditing and investigating capabilities to attain high standard of staff competencies.	3. To strengthen and protect ONPA independence and credibility and enhance its operation.	4. To increase the public knowledge of ONPA mission, work, and impact
Objectives			
1.1 To continuously improve and update the processes, methodologies, standards and manuals. 1.2 To ensure corrective actions are implemented based on audit findings and recommendations and cases under investigations are resolved 1.3 To select, audit and investigate high impact subjects and topics 1.4 To enhance the timeliness, quality and accessibility of audit and investigation reports. 1.5 To manage and monitor the	2.1 To strengthen the staff's technical knowledge, skills and expertise through training and development. 2.2 To evaluate employees' performance and identify training needs 2.3 To enhance the professional capacity of the staff	3.1 To strengthen the ONPA's independence and effectiveness. 3.2 To implement a risk-based and results-oriented long range ONPA Strategic Plan 3.3 To implement an annual operational budget and performance plan 3.4 To continue or increase cooperation with academic institutions, regional and international multilateral organizations	4.1 To increase public awareness and outreach efforts

outsourcing of financial audit			
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Audit Division FY 2015 Accomplishments

ONPA prepares written audit reports which communicate the results of each audit and inspection to the agencies under audit, stakeholders, and the general public. These reports identify areas of weaknesses followed by recommendations for corrective actions and improvements. To ensure full disclosure and transparency of government financial activities, digital copies are also available at the ONPA website at www.fsmopa.fm or at the office lobby for public review. Press and media releases are also issued. The reports generally include the objective, scope, methodology, findings and recommendations.

During fiscal year 2015, ONPA issued the following performance audit reports:

Report No. 2015-01 – CHUUK DEPARTMENT OF HEALTH SERVICES: POOR PROCUREMENT PRACTICES & INVENTORY MANAGEMENT SYSTEM LED TO EXCESSIVE COSTS

The objective of the audit was to determine whether the procurement process allows the receipt of quality pharmaceutical and medical supplies in a timely manner and at the lowest cost. It covered the fiscal years 2011 to 2013.

Based on the audit, we found that the DHS procurement process did not allow the receipt of quality pharmaceuticals and medical supplies in a timely manner at the lowest cost.

The DHS had been buying its pharmaceuticals and medical supplies at a very high cost. With the same amount of budget, it could increase the qualities of procured pharmaceutical and medical supplies more than twofold during 2011, 2012 and 2013 had the procurement process been efficient. By not considering all the factors that could achieve the lowest costs for its purchases, DHS had lost the opportunity to save significant amount of money paid for the awarded bids. In addition, DHS did not conduct all the procurement transactions in a manner that would provide for full and open competition. For example, it awarded the bid for narcotics to a single source (single bidder) in FYs 2011-2012 that resulted in a very high cost of medicines due to very unreasonable prices charged by the single source. In addition, DHS did not have a purchase plan in place to ensure that inventories of pharmaceuticals and medical supplies were available at all times. Thus, it purchased a significant number of items thru high-priced regular and emergency purchases that further increased the costs of procuring pharmaceuticals and medical supplies.

Furthermore, the audit found that DHS did not strictly require the delivery of bid items to comply with the contract terms and conditions. For instance, it did not impose the penalties required by the terms and conditions of the contract for delayed deliveries. As a result, the vendors became accustomed to violating the delivery terms and conditions due to DHS's inaction to enforce them.

The audit also found that internal controls on the inventory of pharmaceuticals and medical supplies were weak. For example, the system failed to establish the accuracy of the custodian's accountability of the inventories. The custodians were not held accountable for any missing inventory and there was no inventory reconciliation done to verify the existence of recorded inventory and regular reporting of expired medicines, which could lead to loss of inventories thru theft, misuse, waste and abuse.

The audit identified the following specific weaknesses;

- Non-competitive procurement/lone-bidder increased the costs of procuring pharmaceutical and medical supplies by about \$379,000;
- Potential savings of over \$300,000 not realized in fiscal years 2012-13;
- Over \$324,000 worth of paid pharmaceutical and medical supplies not timely delivered;
- Frequent emergency/regular purchases had significantly increased the costs of procuring pharmaceutical and medical supplies by an average of 76%;
- Lack of accountability on pharmaceutical and medical supplies inventory increased the risks of inventory theft, loss, misuse and abuse; and,
- Many pharmaceutical and medical supplies with short-shelf life were bought. We provided the copies of the report to the Chuuk State Governor as the Contracting Officer, the Director of DHS, members of the Chuuk State Bidding Committee, and the Chief of the Office of Planning & Statistics for their management responses. Only the DHS Director submitted a management response, which we included as an appendix in the final audit report.

Report No. 2015-02 - SBOC's ALLOTMENT OF VETOED APPROPRIATION NOT AUTHORIZED BY LAW

The objectives of the audit were to determine whether the allotment of funds to Pohnpei State under Public Law 18-11 was in accordance with the related laws and regulations; and to determine the status of the allotted funds.

Based on the audit, we concluded that;

The allotment of funds by the Office of SBOC to Pohnpei State did not comply with the related laws and regulations. The President line item vetoed the \$895,000 apportionment to cover the principal amount owed by Pohnpei employers to the Social Security Administration. When the Director of SBOC allotted \$1 Million to Pohnpei State, the allotment included the \$895,000 that the President had vetoed. Consequently, the \$895,000 was improperly allotted.

As of the date of the final audit, the National Government had not collected or set up any arrangement to collect the allotment balance of \$521,708 that was disbursed to Pohnpei State.

The audit identified the following specific weaknesses.

- \$895,000 allotment of funds appeared illegal.
- Over \$521,000 of the improperly disbursed funds not collected yet at the time our audit was finalized.

Report No. 2015-03 - THE OFFICE OF SBOC VIOLATED THE FPA AND THE FSM BUDGET LAW

The objective of the inspection was to determine whether the PMU's operational budget for FY-2014 complied with the Fiscal Procedures Agreement (FPA) and the FSM budget laws and regulations.

Based on the inspection, we found that the use of the Compact carry-over funds from FY-2013 for PMU's operations for the second and the third quarters of FY-2014 did not comply with the Fiscal Procedures Agreement and the related FSM budget laws and regulations.

The inspection identified the following specific weakness;

- SBOC's allotment of PMU's FY-2013 carry-over funds to supplement its FY-2014 operational budget did not comply with the FPA and the FSM Budget Law.

Report No. 2015-04 - CFSM PUBLIC PROJECTS AND SOCIAL PROGRAMS: \$1.6 MILLION
APPROVED WITHOUT CLEAR CRITERIA

The objectives of this inspection³ were to determine whether: (a) the process of spending the funds on CFSM funded public projects were sufficient to establish transparency and accountability, and (b) the public project funds were disbursed consistent with the intent for which they were appropriated and/or allotted and in compliance with the applicable laws and regulations.

Based on our inspection, we concluded that the processes for appropriation, allotment and spending of funds for public projects were not sufficient to establish transparency and accountability. In addition, we concluded that certain projects were disbursed without following the intent of the appropriations or projects and issues of non-compliance with applicable laws and regulations.

The inspection identified the following specific weaknesses;

- Lack of definitive parameters led Congress to appropriate \$1.6million for all sorts of activities and programs under "public projects" which did not yield any meaningful and lasting public benefits;
- \$685,650 public projects lacked transparency and accountability;
- At least \$93,381 of CFSM Project Funds were spent for badly constructed and unimplemented projects, unused materials and equipment, and for unaccounted expenditures; and,
- About \$250,000 expenditures appeared not in compliance with laws and regulations.

Report No. 2015-05 - FISHERIES OBSERVER AND PORT SAMPLER REVOLVING FUND:
IMPROVEMENT IN INTERNAL CONTROL IS NEEDED TO ENSURE COMPLIANCE OF THE FINANCIAL
ACTIVITIES WITH THE LAW

The objective of the audit was to determine compliance of the financial and operational activities of the "Fisheries Observer and Port Sampling Revolving Fund" with laws, regulations, policies and procedures.

Based on the results of our audit, we found that the NORMA management needed to improve the internal controls in managing the Fund in order to ensure compliance of the financial activities with the enabling legislation that established the Fund.

³Inspection is an alternative type of study conducted by ONPA. The primary difference between an inspection and a GAGAS audit or attestation is that the standards established for conducting inspection are not overly prescriptive (Page4 ONPA Audit Manual 2012).

We found the following weakness;

- \$80,000 of fishing licensing fees was deposited to the Fisheries Observer and Port Sampler Revolving Fund without Congress appropriation, thus a violation of the law.
- \$12,000 of the Fisheries Observer and Port Sampler Revolving Fund were used for disallowed purposes.
- The amount of Revolving Fund balance, in excess of the \$200,000 threshold, for transfer to the General Fund, was not properly determined at the end of each fiscal year.
- Year-end encumbrances were not reviewed or reconciled.
- The required annual status report for the Revolving Fund was not submitted to Congress as required by law.
- The amounts paid for the services of the observers and port samplers were not subject to income tax withholding and social security taxes.

Report No. 2015-06 - FSM CUSTOMS & TAX ADMINISTRATION NOT FULLY IMPLEMENTING PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The objective of this follow-up audit was to determine whether the CTA management has taken appropriate corrective actions to address the audit findings and recommendations reported in the audit of Customs and Tax Administration (Audit Report No. 2012-01) issued on December 9, 2011.

Based on the follow-up audit, it was found that the CTA management had not taken appropriate corrective actions to address all the findings and recommendations reported per Audit Report No. 2012-01. Specifically, we found that of the five audit recommendations, one was implemented, two were partially implemented, and the other two were not implemented.

Report No. 2015-07 - NATIONAL GOVERNMENT FMIS: FULL CAPABILITIES NOT UTILIZED TO PROVIDE EFFICIENT FINANCIAL MANAGEMENT AND REPORTING SERVICES

The audit objectives were to: (1) determine whether all the needed features of the existing financial management information system (FMIS) were fully implemented and if yes, whether the functional, information and reporting needs of the users were satisfied; and (2) determine whether the operation of the FMIS provided adequate access control and contingency planning.

Based on the audit, we concluded that the needed modules and features of the existing financial management information system were yet to be fully implemented. The models that were considered "on live" or operational (e.g. Accounts Payable, Accounts Receivable, General Ledger, Payroll and others) have not been fully satisfying the functional, information and reporting needs of the users. Adequate controls were not in place to provide reasonable assurance that the control objectives would be met regarding the integrity, security, and availability of information systems processing and data management. For instance, it was found that;

- The contingency plan in place was incomplete and not in a ready state that accurately reflects the systems requirements, procedures, organizational structure and policies in case of emergency.
- Conflicted users access rights exist with significant control issues as users were granted access rights without consistently observing the principle of proper segregation of functions or were granted excessive rights than needed to perform the official job duties and assigned roles.

The audit identified the following specific weaknesses.

- Needed modules and features were yet to be fully implemented.
- User's requirements were yet to be satisfied by the implemented modules.
- Incomplete contingency planning provided no assurance of quick recovery and business continuity in times of disaster.
- User rights granted to access the system could lead to potential problems like undetected fraud and financial misstatements.

Report No. 2015-08 - THE FSM TRUST FUND: LACK OF BOARD'S OVERSIGHT CONTRIBUTED TO NON-COMPLIANCE & ACCOUNTABILITY ISSUES

Our audit objectives were to determine whether: (1) the management and administration of the FSM Trust Fund were performed in accordance with applicable FSM laws; and (2) all appropriations, donations, transfers, and investment earnings (losses) for the FSM Trust Fund were accurately accounted for and reported.

Based on the audit, we concluded that the FSM Trust Fund was not administered in compliance with the requirements of the FSM Trust Fund Act. For example, a Board of Trustees was not created. Corporate powers and privileges were not established. The books of accounts were not properly maintained. Annual audits and annual reports were not prepared. The Trust Fund objectives and operational targets were not set. \$10 million was transferred from the General Fund to the Trust Fund without allotment as required by law.

Additionally, we concluded that the Trust Fund was not properly accounted for. For instance, the Trust Fund funds were comingled with other funds. Reconciliation was lacking. Accounting entries were recorded yearly instead of when transactions were consummated.

Consequently, the Trust Fund had no governance system and lacked strategic direction. Goals and objectives were not developed. The necessary oversight roles to monitor and control its operations were lacking. Growth targets were not defined so there was no bench-mark against which to evaluate its financial performance. Without any reconciliation, the required reporting was not provided. Furthermore, the Trust Fund was not provided with a management focus. Ultimately, these issues affected the decision making and the management of the Trust Fund, and thus limited its earnings potential.

The following specific weaknesses were uncovered;

- The Trust Fund lacks a Board of Trustees as required by law.
- Lack of timely reporting on the Trust Fund status and operating results.
- The Trust Fund lacks reconciliations.
- The Trust Fund books of accounts were not properly maintained.
- \$10 million transferred from the General Fund to the Trust Fund without allotment as required by law.

Report No. 2015-09 - NORMA'S USE & MANAGEMENT OF THE PROJECT DEVELOPMENT FUND: CHARACTERIZED BY POOR CONTROLS, ACCOUNTABILITY AND TRANSPARENCY ISSUES

The audit objectives were to determine whether the PDF was used by NORMA for its intended purposes and, if management of it was consistent with the FSM's laws, financial regulations, policies and procedures.

Based on the audit, we conclude that the PDF was not used for its intended purposes. For example, we found that numerous payments were made for travels, daily subsistence allowance (per diem) and for other operational expenses for NORMA such as equipment purchases, office lease rental payments, representation funds, purchase of a computer server, etc., which did not fit the economic development purposes of the PDF.

For the travel expenses, we noted that supporting documents such as travel vouchers, plane tickets, car rental receipts, airline boarding passes, and other commonly used travel documentations were not provided after a traveler returns from a trip. Further, the per diem rates used were not in accordance with the FSM Financial Management Regulations. Amounts paid were often more than the FSM travel per diem rates ranging from 8% to 61% higher than the FSM established rates based on the destinations.

None of the entertainment and representation fund expenses was supported by receipts or whatsoever necessary to evaluate the purpose and the nature of the actual representation/entertainment expenses.

Additionally, we noted non-compliance deficiencies against the financial regulations and procedures, which resulted in weak internal controls and lack of reporting, disclosures and transparency for the PDF. Consequently, the accountability for the use and management of the PDF funds was a significant audit concern.

The audit identified the following specific weaknesses,

- The Project Development Fund was not used for worthy projects due to lack of clear definition of allowable uses of the Fund.
- The spending of the Project Development Fund did not follow the FSM Financial Regulations nor provided transparency and accountability.
- Use of the PDF for representation purposes did not follow the FSM Financial Regulations.

Single Audit Division FY 2015 Accomplishments

Single audit report is a financial audit report of an auditor's opinion on internal control over financial reporting of a department, office or entity. The opinion should identify whether the financial statements have or do not have material weaknesses/misstatements. There are four types of audit opinions: unmodified, modified, adverse and disclaimer.

An unmodified audit opinion assures the public that the auditor has examined the financial reports and is of the opinion that the financial information is presented fairly and in accordance with Generally Accepted Accounting Principle (GAAP). A modified audit opinion means the auditor found the financial reports essentially in conformance with Generally Accepted Accounting Principles, except for one or a few areas where the auditor, cannot, or does not want to, assert conformance. An adverse opinion means the auditor has concluded that the audited financial statements do not fairly represent the organization's financial position or financial performance, and that there are significant departures from GAAP. A disclaimer of opinion is when an auditor has publicly reported that he has chosen not to issue an opinion. This may occur when the auditor

decides he cannot be impartial or independent, when the auditor’s scope of coverage was substantially limited, or when the auditor has significant uncertainties regarding the appropriateness of parts or all of the financial reports.

FY14 Single Audit

	Entity	Opinion
1	FSM National Government	Unmodified
2	Caroline Islands Air	Unmodified
3	College of Micronesia-FSM	Unmodified
4	FSM Coconut Development Authority	Unmodified
5	FSM Development Bank	Unmodified
6	FSM MiCare Plan	Unmodified
7	FSM PetroCorp	Unmodified
8	FSM Social Security Administration	Unmodified
9	FSM Telecommunications	Unmodified
10	National Fisheries Corporation	Unmodified
11	Pohnpei State Government	Unmodified
12	Pohnpei Port Authority	Unmodified
13	Pohnpei State Housing Authority	Unmodified
14	Pohnpei Utilities Corporation	Unmodified
15	Chuuk State Government	Qualified & Unmodified
16	Chuuk Public Utilities Corporation	Unmodified
17	Chuuk State Health Care Plan	Unmodified
18	Yap State Government	Adversed & Unmodified
19	Diving Seagull, inc.	Unmodified
20	Yap State Public Services Corporation	Unmodified
21	Yap Visitors Bureau	Unmodified
22	Kosrae State Government	Unmodified
23	Kosrae Port Authority	Unmodified
24	Kosrae Utilities Authority	Unmodified

(Refer to Appendix IV for the single audit reports for FY 2014 completed in FY 2015)

Compliance Investigation Division (CID) FY 2015 Accomplishments

The Compliance Investigation Division (CID) is one of the five divisions established by the ONPA to conduct its work. CID’s two primary investigation functions include both administrative and criminal. CID works to identify systems and accountability weaknesses in the Nation’s financial administration and gathers evidence of criminal activity for prosecution in court. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the Department of Justice (DOJ).

CID Case Statistics

Description	Quantity
Carried over from FY '14	13
Opened	27
Cases refer to DOJ	1
Closed cases and/or referred for administrative action	1

CID Case Discussions

Case No.	Source	Status
CID 12-003	Municipal Government	Ongoing
CID 12-007	Municipal Government	Ongoing
CID 12-008	Audit Referral	Ongoing
CID 12-010	Concerned Citizen	Referred to DOJ
CID 13-006	Concerned Citizen	Ongoing
CID 13-007	Anonymous	Ongoing
CID 14-001	Municipal Government	Ongoing
CID 14-003	Concerned Citizen	Closed
CID 14-005	Concerned Citizen	Ongoing
CID 14-006	Concerned Citizen	Ongoing
CID 14-007	Concerned Citizen	Ongoing
CID 14-008	Concerned Citizen	Ongoing
CID 14-009	Audit Referral	Ongoing
CID 15-001	Pohnpei State OPA	Ongoing
CID 15-002	Audit Referral	Ongoing
CID 15-003	Audit Referral	Ongoing
CID 15-004	Audit referral	Ongoing
CID 15-005	Concerned Citizen	Ongoing
CID 15-006	Audit referral	Ongoing
CID 15-007	Audit referral	Ongoing
CID 15-008	Audit referral	Ongoing
CID 15-009	Audit referral	Ongoing
CID 15-010	Audit referral	Ongoing
CID 15-011	Audit referral	Ongoing
CID 15-012	Audit referral	Ongoing
CID 15-013	Audit referral	Ongoing
CID 15-014	Audit referral	Ongoing
CID 15-015	Audit referral	Ongoing

CID 15-016	Audit referral	Ongoing
CID 15-017	Audit referral	Ongoing
CID 15-018	Audit referral	Ongoing
CID 15-019	Audit referral	Ongoing
CID 15-020	Audit referral	Ongoing
CID 15-021	Audit referral	Ongoing
CID 15-022	Audit referral	Ongoing
CID 15-023	Audit referral	Ongoing
CID 15-024	Audit referral	Ongoing
CID 15-025	Audit referral	Ongoing
CID 15-026	Concerned Citizen	Ongoing
CID 15-027	Concerned Citizen	Ongoing

CID Hotline

The ONPA has a Hotline for use by concerned citizens to report misconduct and abuse in the government entities. Information from the public is a valuable part of the audit process and helps ONPA focus its resources. The Hotline number is (691)320-6768 and is available 24 hours a day by answering machine. All calls to the Hotline remain confidential. In addition, ONPA also offers an on-line complaint form. The form can be found at the ONPA website: <http://www.fsmopa.fm>.

Trainings • Conferences • Workshops

As part of ONPA's staff capacity building effort, the staff attended numerous audit and investigative trainings, conferences and workshops also to continuously enhance their skills and knowledge. These trainings, conferences and workshops were funded through several sources including PASAI, APIPA, PITI, DOI/OIG, ONPA Budget, Road Map and technical grants.

Transparency Continues

Transparency means providing citizens with information about their government's operations. It also promotes accountability and should be open and readily available to the public's use. Our strategic goal to improve transparency in the government is promoted through this required annual report, the use of the ONPA website at www.fsmopa.fm, and the local media, Kaselehlie Press, at www.kpress.info. Some of our audit reports can be accessed on PASAI's website at www.pasai.org. Hard copies of our audit reports are also available in our office lobby in Palikir.

Other Matters of Interest

- ONPA administers the technical grant for the APIPA Peer Reviews and the Peer Review manual revision and oversight on all administrative matters relating to the Peer Review project.
- The first conference for the FSM Public Auditors took place in Chuuk from February 17 to 19, 2015.

- ONPA passed its external quality peer review which was conducted in 2015 covering selected audits performed during the period from October 1, 2011 to September 30, 2014.
- ONPA hosted the Tier 3 PASAI training/workshop on supervisory roles in government auditing held in Pohnpei from May 11 to 15, 2015.
- A number of ONPA staff attended other relevant training/workshop by PASAI throughout the year.
- Implementation of the approved programs and activities required by the National OPA's Strategic Plan was continuing
- Hosted and received hands-on training from visiting expert audit and investigation practitioners from the Inspector General's Office, Department of the Interior.
- New hire included Brandon Rodriguez to fill an Auditor I position.
- Staff resignations included Tracy Ardos and JK Kaminanga, Investigator and Auditor, respectively.



Figure 1: First FSM Public Auditors' Conference held on Weno, Chuuk in May 2015

Appendices

Appendix I—National Public Auditor’s Powers, Duties and Responsibilities

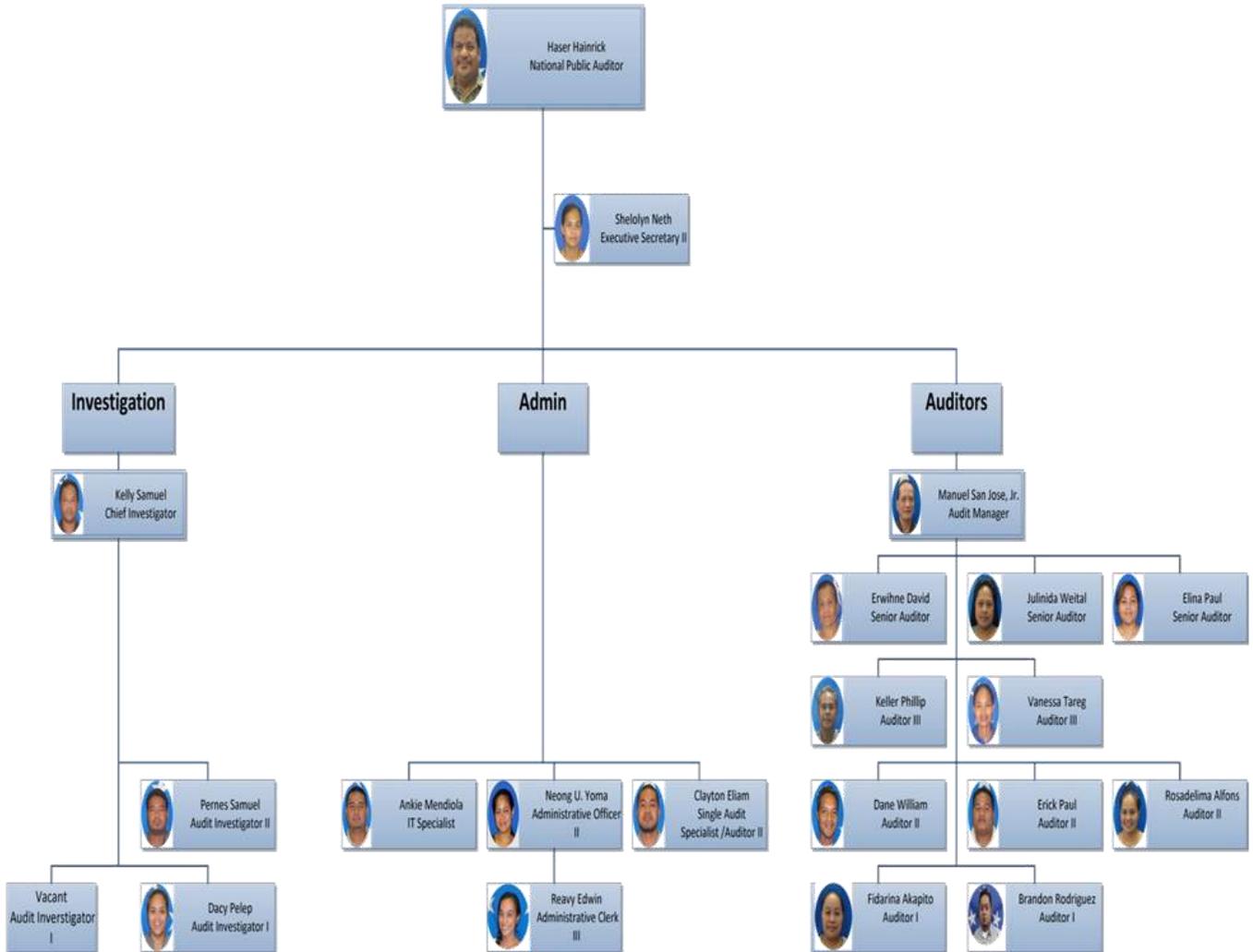
Powers: The Public Auditor has both general and specific audit powers for the National Government, including branches, departments, commissions, and bureaus and contractors performing public works. The Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities.

Duties and Responsibilities: The duties and responsibilities of the Public Auditor, as prescribed by the Congress, shall require inspections, audits, recommendations, and annual reporting on the Public Auditor’s progress and performance of these responsibilities. The specific responsibilities, which are designed to promote integrity and improve performance in government operations, are:

1. 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. Inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the National Government;
3. Perform audits as otherwise specifically required by the statutes;
4. Have the discretion to perform audits, or assist in the performance of audits, upon request by the states;
5. Have the exclusive audit jurisdiction over public funds of the National Government of the Federated States of Micronesia, but shall have the authority to contract for independent auditing services to be performed under his supervision in instances where specialized expertise is required, or where auditing requirements are beyond the capacity of the Public Auditor’s staff and separate funding is available;
6. File a report at least once a year with the Congress, and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the public;
7. Submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditures of public monies, and the need for amendments or new laws to secure the efficient expenditure of public funds; and
8. Keep a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

Appendix II—Organizational Chart

*Office of the National Public Auditor
Federated States of Micronesia*



Approved by: /s/ Haser Hainrick
Date: 11/16/2015

Appendix III—Audit, Inspection and Investigative Standards

Audit Division

The types of audits and applicable audit standards shall be as follows:

1. *Financial:* These audits determine whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principles and whether the entity has complied with the laws and regulations that may have a material effect upon the financial statements.
2. *Economy and efficiency:* This type of audit determines whether an entity is managing and utilizing its resources economically and efficiently, the cause of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning economy and efficiency.
3. *Program results:* This type of audit determines whether the desired results or benefits established by the Congress, or other authorizing body, are being achieved and whether the program administrator has considered alternatives that might yield desired results at a lower cost.

Any given audit or review may include one or more objectives in the reasonable exercise of the Public Auditor's discretion. The Public Auditor shall perform audits in accordance with generally accepted government auditing standards (GAGAS) and the quality standards for inspections issued by the U.S. President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

Quality Standards for Inspections

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1993 and revised in 2012. The 14 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at <http://www.ignet.gov/pande/standards/iestds12.pdf>.

- ❖ *Competency:* The staff assigned to perform inspection work should collectively possess adequate professional competency for the tasks required.
- ❖ *Independence:* In all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.
- ❖ *Professional Judgment:* Due professional judgment should be used in planning and performing inspections and in reporting the results.
- ❖ *Quality Control:* Each OIG organization that conducts inspections should have appropriate internal quality controls for that work.
- ❖ *Planning:* Inspections are to be adequately planned.
- ❖ *Data Collection and Analysis:* The collection of information and data will be focused on the organization, program, activity, or function being inspected, consistent with the inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions.
- ❖ *Evidence:* Evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations.

- ❖ *Records Maintenance:* All relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time.
- ❖ *Timeliness:* Inspections should strive to deliver significant information to appropriate management officials and other customers in a timely manner.
- ❖ *Fraud, Other Illegal Acts, and Abuse:* In conducting inspection work, inspectors should be alert to possible fraud, other illegal acts, and abuse and should appropriately follow up on any indicators of such activity and promptly present associated information to their supervisors for review and possible referral to the appropriate investigative office.
- ❖ *Reporting:* Inspection reporting shall present factual data accurately, fairly, and objectively and present findings, conclusions, and recommendations in a persuasive manner.
- ❖ *Follow-up:* Appropriate follow-up will be performed to assure that any inspection recommendations made to Department/Agency officials are adequately considered and appropriately addressed.
- ❖ *Performance Measurement:* Mechanisms should be in place to measure the effectiveness of inspection work.
- ❖ *Working Relationships and Communication:* Each inspection organization should seek to facilitate positive working relationships and effective communication with those entities being inspected and other interested parties.

Compliance Investigation Division

CID has adopted the Quality Standards for Investigation, prepared by the U.S. President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency. These are the standards that have been set for all U.S. Offices of Inspector General and provide a sound benchmark by which we can set our own standards. The General and Qualitative Standards are listed below. The complete guidelines for investigations are located on the internet at <http://www.ignet.gov/pande/standards/invstds2011.pdf>.

General Standards: General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.

1. **Qualifications** - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.
2. **Independence** - In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.
3. **Due Professional Care** - Use due professional care in conducting investigations and in preparing related reports.

Qualitative Standards: Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.

- ❖ *Planning* - Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.

- ❖ *Execution* - Conduct investigations in a timely, efficient, thorough, and legal manner.
- ❖ *Reporting* - Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.
- ❖ *Information Management* - Store investigative data in a manner allowing effective retrieval, referencing, and analysis.

Appendix IV—Single Audits FY 2014

The following are the results for the FY14 Single Audits conducted during fiscal year 2015, and they are taken directly out of reports submitted by Deloitte & Touche.

FSM National Government

Audit Opinion: The FSM National Government received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: For the fiscal year ended September 30, 2014, FSMNG has total net position of \$318M (FY13 \$292M). The increase is primarily due to the receipt of Compact Infrastructure Sector grants pertaining to infrastructure and construction in progress for airport improvement and infrastructure projects and increase in fishing access and corporate tax collections. Expenses for governmental activities were \$95M (FY13 \$86M) and were funded by program revenues of \$25M (FY13 \$47M) and further funded with taxes and other general revenues of \$95M (FY13 \$54M). The net change in governmental funds increased by \$50M (FY13 \$11M). Total revenues reported are \$121M with total expenditures of \$74M. Proceeds from ADB Loan amounted to \$2M. At September 30, 2014, the General Fund reported an unassigned surplus of \$52M (FY13 \$13M).

Caroline Islands Air (CIA)

Audit Opinion: Caroline Islands Air received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Revenue sources for FY14 operations are from \$225k of passenger airfare, \$135k of charter services, \$50k of baggage fees, and \$20k, net of freight and others. Total net position increased from \$105k in FY13 to \$220k in FY14. This increase is due primarily to the increase of \$120k in current assets.

College of Micronesia-FSM (COM-FSM)

Audit Opinion: College of Micronesia-FSM received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Comparison of the statement of net position for fiscal year 2014 with prior year indicates a decline in net position of \$144k or 0.6%. Total current assets also decreased from \$14.8M in FY13 to \$14.6M in FY14. Total cash and cash equivalents at year end amounted to \$5.54M, a decrease of \$1.03M compared to FY13 balance of \$6.57M.

FSM Coconut Development Authority (CDA)*

Audit Opinion: Coconut Development Authority received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total net position for CDA decreased from \$313k in FY13 to \$230k in FY14. Total current assets also decreased from \$207k in FY13 to \$167 in FY14. A decrease of \$57k in Copra inventory contributed to the decrease in total current assets. Gross loss for the year ended September 30, 2014 was \$34k, a decrease of \$16k compared to FY13 figures.

**Note: The Authority will no longer be a component unit of the FSM National Government as it has integrated into the operations of the FSM Petroleum Corporation.*

FSM Development Bank

Audit Opinion: FSM Development Bank received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total assets for the Bank increased 6%, which was mainly due to increase in the loan portfolio as well as in financial investment portfolio. Long term liabilities increased due to drawdown under the European Investment Bank (EIB) loan. In 2014, the Bank approved loans totaling \$10.3M for 449 borrowers compared to 2013's approval of \$9.9 million for 346 borrowers. The Bank was able to generate \$2.2 million in loan interest income in 2014 and was able to cover its operating expenses in full. Total net position for the fiscal year 2014 increased by nearly \$1.7M, all from internal resources. No government contributions were received in FY2014.

FSM MiCare Plan

Audit Opinion: FSM MiCare Plan received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total net position increased by \$65k or 10% from \$634k in 2013 to \$698k in 2014. Total liabilities increased by \$204k as compared to \$1.4M in 2013. Total operating revenues increased by 2%, while the operating expenses increased by \$83k. Total non-operating revenues decreased by less than 1% from \$108k in 2013 to \$107k in 2014.

FSM Petroleum Corporation (PetroCorp)

Audit Opinion: FSM PetroCorp received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Gross revenues for CY14 were \$56.1M, reflecting a decrease of \$2.6M from 2013. The decrease in revenue is attributed equally to both depressed sales volume as well as lower output prices for the second consecutive year. International oil price commenced at \$114/bbl and was dropped to around \$70/bbl at the end of 2014. Gross revenue contributions by State were Kosrae 10%, Yap 15%, Chuuk 25% and Pohnpei 50%. Non-fuel related revenues from power plant electricity sales, as well as coconut related products were approximately 4% of total revenues. A gross profit of \$12.9M was achieved, although the increase in operating expense led to the change in net position amount of \$3.8M in 2014, compared to \$4.5M in 2013.

FSM Social Security Administration

Audit Opinion: FSM Social Security Administration received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Contributions collected increased by 2.3% from \$17.2M in 2013 to \$17.6M in 2014. Total benefit payments to members or their beneficiaries increased by 3% from \$18.4M in 2013 to \$18.9M in 2014. The investment portfolio including marketable securities and money

market funds increased by 3.64% from \$43.7M in 2013 to \$45.3M in 2014. Net position totaled \$50.1M for 2014, compared to \$48.9M in 2013, which is an increase of 2.54%.

FSM Telecommunications Corporation (FSMTC)

Audit Opinion: FSM Telecom received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total liabilities of FSMTC increased by \$1.4M (or 4.65%) compared with prior year. This increase in total liabilities can be attributed to the remaining unpaid amount from cellular infrastructure upgrade. Such liability was incurred due to the cellular network upgrade with 3G capabilities. The net position of FSMTC was affected by the change in both assets and liabilities and decreased by a net loss from operations of \$856k. Total operating revenues in FY14 decreased by \$372k compared to FY13. The decrease is mainly due to continuous decline in mobile and international revenue. Operating expenses in FY14 decreased by \$121k compared to FY13 operating expenses. This decrease in operating expenses can be attributed to continuing cost control by the Corporation.

National Fisheries Corporation (NFC)

Audit Opinion: National Fisheries Corporation received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Company assets of \$1.6M comprised of \$702k current assets and \$918k noncurrent assets. The major portion of the \$702k current assets is cash, which accounts for \$631k or 90% and accounts receivable for \$71k or 10%. Noncurrent assets of \$918k comprised of \$890k of investment and \$28k of the Company's property and equipment, net of accumulated depreciation. Total liabilities of \$3.4M are all current, consisting of a \$3.35M loan from the National Government, which comprises 98% of total NFC liabilities, and other accounts payable, deferred revenue and accrued liabilities of \$76k.

Pohnpei State Government

Audit Opinion: Pohnpei State Government received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Pohnpei State's primary government total net position for FY14 amounted to \$49.1M. The net change in government fund balance is a decrease of \$1.3M. Total revenues reported are \$33.3M against total expenditures of \$34.6M. Actual revenues for the general fund were \$59k higher than budgeted revenues. Revenues decreased by \$774k or 7% compared to fiscal year 2013. The decrease was caused mainly by non-recurring adjustment of \$500,000 and a lower net change in the fair value of investments in prior year, while tax revenues increased by \$152k or 2% compared with prior year. The total expenditures-budgetary basis showed an unfavorable variance of \$917k. The general fund reported an unassigned fun balance drop by \$812k at the year end.

Pohnpei Port Authority (PPA)

Audit Opinion: Pohnpei Port Authority received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Operating revenues decreased by \$133k or 3.8% compared with prior year, while the total operating expenses increased by 32.7%, from \$2.6M in 2013 to \$3.5M in 2014. The

increase of expenses did have an impact to the revenue decrease of 15.69% including interest income resulting in a net income of \$252k.

Pohnpei State Housing Authority (PSHA)

Audit Opinion: Pohnpei State Housing Authority received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: For fiscal year ended September 30, 2014, the Authority's total operating revenues decreased by \$11k or 6% to \$193k from prior year. During the year, the Authority's total expenses increased by \$47k or 38% to \$169k from prior year. The Authority collected an aggregate amount of \$182k representing the actual interest and fees paid by customers on loans.

Pohnpei Utilities Corporation (PUC)

Audit Opinion: PUC received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: The overall changes in the statements of net position components from September 2013 to 2014 include a decrease of utility plant of \$1.3M, net increase of current and other noncurrent assets of \$784k, and an increase in total liabilities of \$218k. Decrease in utility plant is a result of loss on impairment of generators, recording of the extension of water line from Sekere to Nanpei Memorial School from the National Government, and current period depreciation. Increase in operating revenue before bad debts is mainly due to an increase in water sales and other sales.

Chuuk State Government

Audit Opinion: Chuuk State Government received a UNMODIFIED and QUALIFIED opinion on their FY14 Single Audit Report. The Qualified Opinion was on governmental activities and the General Fund cash and cash equivalent balances.

Financial Highlights: For fiscal year ended September 30, 2014, Chuuk State's total net position decreased by \$1.5M or 3.7% from \$40.7M in prior year to \$39.2M. This decrease was due primarily to an increase in expenses associated with claims and judgments. During FY14, Chuuk State's revenues of \$35M declined by \$1.7M from \$36.7M in FY13. This decline in revenue was attributable to decreases in local revenues and operating grants. Expenses in fiscal year 2014 of \$36.5M increased by \$1.3M, due primarily from expenses for education sector, health sector grants and general government. The General Fund deficit increased by \$440k, increasing from \$4.7M to \$5.2M.

Chuuk Public Utilities Corporation (CPUC)

Audit Opinion: Chuuk Public Utilities Corporation received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: CPUC's net position at the end of FY14 is \$5.2M compared to \$3.4M in FY13. Operating revenues in FY14 was slightly reduced by 3%. This reduction was due to a reduction in the price of fuel compared to prior year. Operating expenses in FY14 increased by \$429k. This increase is due to the inclusion of the cost of the professional management team in CPUC's statement of revenues, expenses and change in net position. Overall, the operating income before depreciation and the management support is \$248k and the income before capital contribution is \$576k.

Chuuk State Health Care Plan (CSHCP)

Audit Opinion: Chuuk State Health Care Plan received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: For fiscal year ended September 30, 2014, CSHCP's net position increased by 2.4%, from \$1.29M in prior year to \$1.32M. The increase comes from the other revenues and from 1% increase from the government sector, uncollected missing premium from government employees. Premium revenues of \$1.37M was decreased from prior year's amount of \$1.43M. During FY14, CSHCP had net income of \$0.03M compared with prior year's amount of \$0.08M. Net revenues also decreased from \$0.32M in prior year to \$0.26M in 2014.

Yap State Government

Audit Opinion: Yap State Government received an ADVERSED and UNMODIFIED opinion on their FY14 Single Audit Report. The adverse opinion was on the aggregate discretely presented component units.

Financial Highlights: For the fiscal year ended September 30, 2014, Yap State's total net position increased by \$4.1M or 4.4% from \$94.8M in prior year to \$98.9M. In comparison to fiscal year 2013, revenues decreased by \$0.7M or 2.9% from \$25.3M in 2013 to \$24.6M in 2014, and total expenses increased by \$2.4M from \$21.8M in 2013 to \$24.2M in 2014. The decrease in revenue was due mainly to a reduction in investment earnings, \$1.2M of which was attributed to the Yap State Investment Trust Fund. Fiscal year 2014 revenues available for appropriation were \$2.2M more than budgeted for the general fund. Actual expenditures were \$2.1M more than the final budgeted amount. At the end of fiscal year 2014, the Yap State Investment Trust Fund reported a balance of \$43M, which was an increase of \$3.0M from prior year, due to investment earnings. At the end of the fiscal year, unassigned balance of the general fund was \$11.8M.

Diving Seagull, Inc.

Audit Opinion: Diving Seagull received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total assets of \$13.6M at the end of fiscal year 2014 represent a 21% decrease from 2013. The decrease in total assets in 2014 is primarily the result of a 74% decrease in cash and equivalents from \$7.5M in 2013 to \$1.9M in 2014. Operating revenues generated from fish sales of \$5.9M represents a decline of 55% over 2013. The company ended fiscal year 2014 with a net loss of \$4.1M – a decline of 201% from 2013. Company's cash flows from operating activities was a negative \$3.6M in 2014 and a positive \$3.9M in 2013.

Yap State Public Services Corporation

Audit Opinion: Yap State Public Services Corporation received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Operating loss for fiscal year 2014 of \$673k was not as high as the loss in 2012, but it was 172% more than the loss in 2013, which was \$248k. Operating revenues fell by 5% in 2014 while operating expenses grew 2% compared to 2013. Ending cash at September 30, 2014 of \$1.02M was 17% less than prior year's amount of \$1.2M. \$1.3M of 2014 income was still tied up in accounts receivables at the end of the fiscal year. Therefore, cash available at year-end consisted primarily of restricted grant proceeds, primarily the EFII grant and Pre-payment Meter Grant.

Yap Visitors Bureau

Audit Opinion: Yap Visitors Bureau received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Total assets at year end was \$91k, compared to \$191k in 2013. Net position at end of year also decreased from \$183k in 2013 to \$84k in 2014. This decrease in net position was due to the increase in operating expenses and a decrease in non-operating revenues.

Kosrae State Government

Audit Opinion: Kosrae State Government received an UNMODIFIED OPINION on their F14 Single Audit Report.

Financial Highlights: Kosrae State's total net position for fiscal year ended September 30, 2014 increased by \$5.3M or 23.8%, from \$22.2M in prior year to \$27.5M in the current year. The increase is due mainly to the \$7.1M in non-cash contributions less depreciation. The State's General Fund unassigned fund deficit has increased from \$0.28M in prior year to \$0.58M in 2014. Total fund balance was reduced by \$0.32M, from \$1.7M in 2013 to \$1.4M in 2014. The decrease was due to the reduction of the total revenues for the year of 12% as compared to the prior year.

Kosrae Port Authority (KPA)

Audit Opinion: Kosrae Port Authority received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Current liabilities comprising of accounts payable, accrued liabilities and others, and due to primary government amounted to \$72k. There has been no formal discussion or negotiation on how to settle this debt. Operating revenues are mainly from airport landing fees, seaport charges and departure fees. Fiscal year 2014 revenues registered an increase of 59% compared to 2013. Depreciation expenses comprises of 80% of total operating expenses while salaries and benefits registered 9%. Other expenses such as utilities, fuel, communications, travel and others totaling \$137k comprised 11% of the total operating expenses.

Kosrae Utilities Authority (KUA)

Audit Opinion: Kosrae Utilities Authority received an UNMODIFIED opinion on their FY14 Single Audit Report.

Financial Highlights: Operating revenues derived from electricity sales increased slightly by about 3%. All power account categories contributed to the increase except industrial sales and service orders where the Authority experienced a slight drop against last year. KUA is selling electricity at an average rate of \$.60 per kilowatt as against production costs of \$.62; still operating at a loss of \$.02 per kilowatt hour sales. Operating expenses declined by approximately 8% compared to last year. The net increase in current assets can be attributed to the increase in cash and cash equivalents as well as a reduction in KUA's receivables as of the end of the fiscal year.

Although the event lasted only a week, the ONPA participants were able to acquire loads of information relating to Audit. The diversity of the ONPA participants was an advantage because they were able to send at least one staff to each of the sessions offered. In return the information obtained during the one week could now be shared across the ONPA ceiling. Ranging from management to entry level courses, the sessions offered many ways in which a government can



Acknowledgements

This annual report was prepared by the FY 2015 Annual Report Committee:
Chair, Neong U. Yoma and Members, Dane William, Dacy Pelep and Vanessa
Tareg