

FEDERATED STATES OF MICRONESIA

OFFICE OF THE NATIONAL PUBLIC AUDITOR

ANNUAL REPORT
Fiscal Year 2010



Haser Hainrick
National Public Auditor

December 29, 2010

The KASEI EHLIE Press

P.O. Box 2222 Kolonia, Pohnpei 96941

Chuuk students marginalized by Chuuk Department of Education

Written by Bill Jaynes
Thursday, 18 March 2010

Auditors say that many schools have no textbooks or planned curriculum

Medical inventory practices endanger the lives of Chuukese people

Written by Bill Jaynes

Marianas Variety

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FSM auditor looks into Telecom credit card usage

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A Coalition of Chuukese Citizens For Change

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Chuuk Audit Shows Project Irregularities

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Audit report on Pohnpei education department released

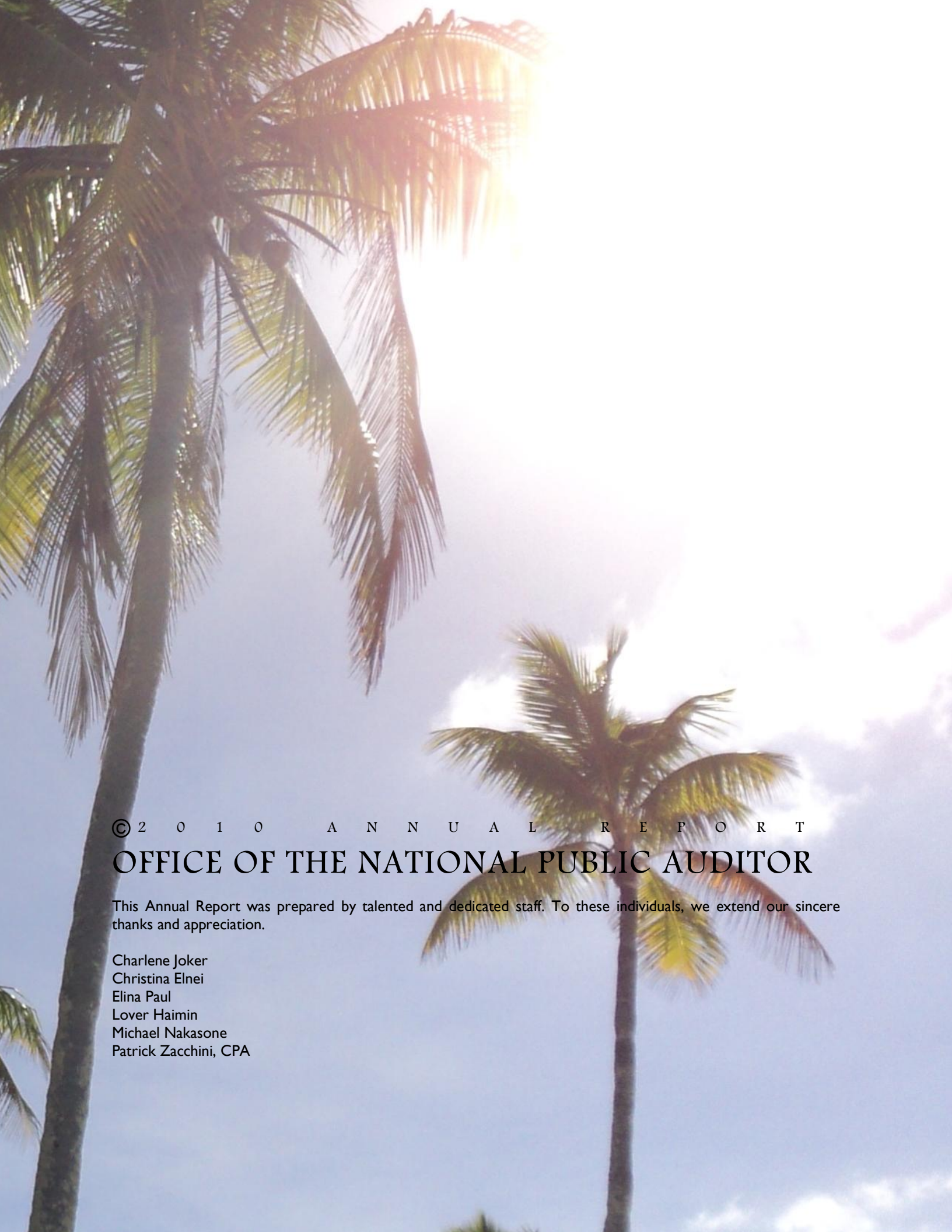
FRIDAY, JUNE 11, 2010 12:00AM

PALIKIR, Pohnpei (FSMOPA) — The Office of the National Public Auditor has released its "Audit of Pohnpei State Department of Education Public Account Activities (Audit Report No. 2010-05)."    

Government of the Federated States of Micronesia

ONPA Releases Audit Report on FSM Department of Education Supplemental Education Grant

Palikir, Pohnpei (Office of the National Public Auditor): October 3, 2010 - The Office of the National Public Auditor announces the release of report No. 2010-10, Audit of FSM Department of Education Supplemental Education Grant. The report is available for public review online at the Auditor's website at www.fsmopa.fm and copies are available at the Auditor's office. The audit was conducted in accordance with the Office of the National Public Auditor's audit standards.



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OFFICE OF THE NATIONAL PUBLIC AUDITOR


This Annual Report was prepared by talented and dedicated staff. To these individuals, we extend our sincere thanks and appreciation.

Charlene Joker
Christina Elnei
Elina Paul
Lover Haimin
Michael Nakasone
Patrick Zacchini, CPA

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Acronyms



| | |
|---------|--|
| ADB | Asian Development Bank |
| AG | Attorney General |
| AGA | Association of Government Accountants |
| APIPA | Association of Pacific Island Public Auditors |
| AusAID | Australian Agency for International Development |
| CFE | Certified Fraud Examiner |
| CFPA | Compact Fiscal Procedures Agreements |
| CFMR | Chuuk Financial Management Regulations |
| CFSM | Congress of the Federated States of Micronesia |
| CGAP | Certified Government Auditing Professional |
| CID | Compliance Investigation Division |
| CMS | Case Management System |
| CNMI | Commonwealth of the Northern Mariana Islands |
| CDHS | Chuuk State Department of Health Services |
| CDOE | Chuuk State Department of Education |
| CPA | Certified Public Accountant |
| CTA | Customs and Tax Administration |
| DOI | US Department of Interior |
| DOJ FSM | Department of Justice |
| FAP | Fraud Awareness Prevention |
| FMR | Financial Management Regulation |
| FSM | Federated States of Micronesia |
| FY | Fiscal Year |
| HOLEA | Head of Law Enforcement Association |
| IDP | Staff Individual Development Plan |
| IEP | Individual Education Plan for Students |
| MOU | Memorandum of Understanding |
| NDOE | FSM National Department of Education |
| OCE | Other Consumable Expenses |
| OIA | US Department of Interior, 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 |
| PDOE | Pohnpei State Department of Education |
| SEG | Supplemental Education Grant |
| TC&I | Department of Transportation, Communication & Infrastructure |
| UOG | University of Guam |
| WIAF | Western Intergovernmental Audit Forum |



FEDERATED STATES OF MICRONESIA

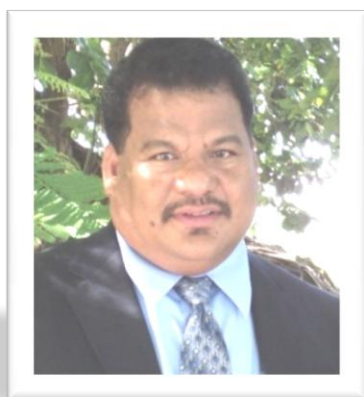
Office of the National Public Auditor

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

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

CID Hot Line: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

Public Auditor's Message



His Excellency Manny Mori, President
The Honorable Members of the FSM Congress

Happy Holidays! As your Public Auditor, I am very pleased and honored to submit the *Fiscal Year 2010 Annual Report* as required by law. It is my duty and responsibility to report annually to the Congress on the Office of 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.

Our Audit Division continues to produce quality and timely audits, conduct performance audits and inspections and, using the audit selection process described in our Strategic Plan 2008-2010, target critical areas for audit. We issued ten audits this year including: Audit of Chuuk State Department of Education (CDOE) Textbooks and Instructional Materials; Inspection of Kitti Council Allegations Election District # 2 in Pohnpei; Audit of Chuuk State Department of Health Services (CDHS) Procurement & Inventory Management System (FY06-08); Audit of FSM Telecommunication Credit Cards Usage; Audit of Pohnpei State Department of Education (PDOE) Procurement Activities; Audit of ADB Grant Assistance: Weno Water Supply Remediation Project; Audit of ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project; Audit of Solid Waste Management System FY2007-2009; Audit of CDOE Teachers Reclassifications and Audit of FSM DOE SEG Grant for FY09-March 2010.

We strive for transparency in government by quickly posting all audit reports to our website upon completion and transmission to the audited entity.

Our Compliance Investigation Division (CID) continues to use its internally developed two-tier system, a system that maximizes the resources of CID, to screen all complaints received and determine which meet criteria for investigation. During Fiscal Year 2010, CID handled 41 cases, 19 of which were new cases.

In the area of FSM Single Audits, we continue in our responsibility of oversight and are extremely satisfied to report that all audits for the FSM National and State governments were completed on time.

Office of the National Public Auditor

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

An increasing number of audited entities are receiving an Unqualified Opinion, the highest ranking that a government or entity can receive. This year, 23 of the 25 entities under audit received an Unqualified Opinion. In addition, the results of more and more audits are without any questioned costs. We took a proactive stance in monitoring and encouraging actions to resolve questioned costs throughout FSM.

During this fiscal year, we worked in other areas designed to improve our overall performance. We developed Annual Performance Plans for our main office in Palikir and the Chuuk Field Office. These Plans broaden the focus of information currently being reported moving from performance activities and into the areas of plans and results. Our budget expenditures for fiscal year 2010 totaled \$729,108 with \$635,584 expended in our main office in Palikir and \$93,524 in our field office in Chuuk. Personnel costs continue to represent our largest budget expenditure.

The continuing effort to implement our capacity building programs to support our local staff remains a top priority, realizing that the future of ONPA rests in their hands as leadership transfers from the expatriates. Some staff are pursuing their four year degrees, graduate certificates through distance education, and certification in anti-fraud and audit professional organizations. OJT at selected OIG offices in the US mainland and the receipt of technical training grants were also realized during the year.

I want to extend my thanks to our expatriate staff that helped prioritize training, shared their knowledge, and contributed in capacity building, conducting audits, in-house OJT, and holding classes and conferences. I want to highlight the assistance from the DOI Inspector General particularly his Insular Liaison on Guam.

We extend our appreciation to our regional and international partners whose assistance has been essential in building good governance and stronger accountability in FSM. US DOI Office of the Inspector General, Office of Insular Affairs, USDA Graduate School/Pacific Island Training Initiative, PASAI, APIPA, the Australian Government and AusAID are some of the agencies deserving our acknowledgment.

Finally, I am indebted to the Members of Congress and the President for their cooperation and support. My hard working staffs at the main office in Palikir and at the field office in Chuuk are the real heroes whose commitment and contributions have helped continue to push the office forward.



Haser Hainrick
National Public Auditor

December 29, 2010

FY2010 Highlighted Accomplishments

Results of the Fraud Awareness Program



Chief Investigator Sophia Pretrick, Certified Fraud Examiner (CFE), presented the results of the Fraud Awareness Prevention (FAP) program in the Federated States of Micronesia (FSM) during the three-day joint US Department of the Interior (DOI), Office of the Inspector General (OIG) and Association of the Pacific Islands Public Auditors (APIPA) Principals Annual Conference in Honolulu held from February 2-4, 2010. The program was funded under a \$22,000 Technical Assistance Grant provided to the Office of the National Public Auditor (ONPA)

from the DOI, OIG.

Overall, seven hundred sixteen (716) people attended a total of 29 sessions in the entire FSM. Participants included governors, legislators, government employees, teachers, students and other prominent individuals from the public and private sectors. These distinct groups have provided feedback on how the presentation was received and 76% commented favorably as very beneficial to the nation.

FSM Meets the June 30th Single Audit Deadline Again

The ONPA announced that FSM met the June 30th Single Audit deadline again for the fiscal year 2009 due June 30, 2010.

The ONPA extended its congratulations to the 5 Primary Governments, all Component Units and everyone involved with the audits for making it possible to meet the audit deadline for the fiscal year 2009. Fiscal year 2009 audits marked the first time the entire FSM receive better audit opinions on the annual audits since the inception of single audits in 1987 for the 5 governments.

ONPA Completes 10 Audits during the FY 2010

In fiscal year 2010, ten audits were completed and distributed to the President, Congress of the FSM and interested citizens all over the entire FSM. All the audits were conducted by staff members by request as required by the Public Auditor's Act in accordance with the audit selection standard.

The ten completed audits include: Audit of Chuuk State Department of Education (CDOE), Textbooks and Instructional Materials; Inspection of Kitti Council Allegations Election District # 2 in Pohnpei; Audit of Chuuk State Department of Health Services (CDHS), Procurement & Inventory Management System Fiscal Year 2006-08; Audit of FSM Telecommunication Credit Cards Usage; Audit of Pohnpei State Department of Education (PDOE) Procurement Activities; Audit of ADB Grant Assistance: Weno Water Supply Remediation Project; Audit of ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project; Audit of Solid Waste Management System FY2007-2009; Audit of Chuuk State Department of Education (CDOE) Teachers Reclassifications; and Audit of FSM Department of Education (NDOE) Supplement Education Grant (SEG) for FY09-March 2010.



About this Annual Report

This Fiscal Year 2010 Annual Report by the Public Auditor, as required by law, serves to inform the Congress on the Office of 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.

When information about government operations is open and readily accessible to the public, governing is considered transparent. Transparency in government makes it more representative because it equips citizens with knowledge about their government's operations. ONPA's Annual Reports provide easy access to aspects of the finances and operations of government and contribute to transparency.

Mission, Values, Vision

Mission

We conduct audits and investigations to recommend improvements in government operations, efficiency and accountability for the public's benefit.

Vision

We create a high performing, transparent, and accountable government through the performance of high quality, independent audits and investigations.

Values

The ONPA values reflect the way in which staff conducts the business of auditing and investigating—adhering to confidentiality, and operating with accuracy and efficiency. ONPA values:

- ❖ Independence – we maintain our independence at all times.
- ❖ Professionalism – we are a highly skilled, dedicated and hardworking team adhering to the highest ethical and professional standards.
- ❖ Public Service – we serve to protect and improve public services for the public's benefits.
- ❖ Honesty – we conduct our work with honesty, diligence and responsibility.

Performance Measures

Performance measures relate to the desired results of publishing reports that are read and used and that lead to positive changes in governmental practices and operations. ONPA performance measures:

- ❖ Understandable, Timely and Useful Reports
- ❖ Accepted and Implemented Recommendations
- ❖ Improvement in Governmental Practice and Operation
- ❖ Fiscal Impact

Duties of the National Public Auditor

The Public Auditor is the Nation's premier watchdog, ensuring that National funds are properly managed and are expended in an appropriate, transparent and accountable manner. The Public Auditor plays a key role in combating financial crime and financial corruption involving the use of National and Compact 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 to direct its activities toward the accomplishment of its objectives in accordance with National Government policies, plans and directives. The President, with the advice and consent of the Congress, appoints the Public Auditor. (Refer to Appendix I, for additional information regarding the powers, duties and responsibilities of the Public Auditor.)

Organization and Responsibilities of the ONPA



ONPA has an administrative and secretarial team to handle office operations, and the Public Auditor has established two divisions to handle the legislative requirements of reviews and investigations. The Audit Division conducts the reviews and examinations of National Government, agencies, and national funds. The Compliance Investigation Division (CID) investigates criminal and

civil misconduct, allegations regarding financial mismanagement and abuse involving national funds and maintains a working arrangement between the ONPA and the Department of Justice (DOJ) on cases that CID refers.

Annual Single Audits of the FSM National and State Governments' general purpose financial statements are also required. Although this work is done by an outside contractor, the ONPA has full oversight responsibility for monitoring and coordinating all matters pertaining to these audits of the five governments—FSM National Government, Pohnpei, Chuuk, Kosrae, and Yap and their respective component units. (Refer to Appendix II, for the ONPA Organization Chart as of September 30, 2010.)

Audit Division



The Audit Division conducts three types of comprehensive audits—program results, economy and efficiency, and financial. These three types of audits are not mutually exclusive and any audit or review may include more than one type of audit. In addition, audit inspections are performed. These inspections follow established Quality Standards for Inspections. Inspections have the same quality and integrity as comprehensive performance audits, but have a more narrowly defined focus which decreases the time frame for completing an

examination and issuing a report. All audit work, the three types of performance audits and audit inspections, conforms to generally accepted audit standards. Refer to Appendix III, for additional information on audit operations and Quality Standards for Inspections.

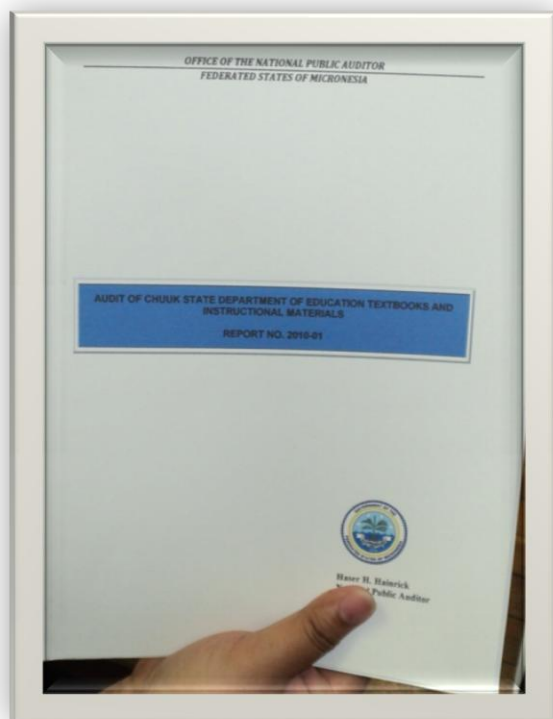


The ONPA prepares written reports communicating the results of each audit or inspection performed and issues these reports to the agency under audit for resolution of the recommendations presented in the report. Reports generally include a description of the scope, objectives and methodology of the audit, the audit findings, and recommendations for corrective action. In FY 2010, the Audit Division issued ten (10) reports. Reports issued since 2000 are posted on the FSM ONPA web,

www.fsmopa.fm, except when there are reasons of security or privacy.

Audit Reports Issued in FY 2010

| ONPA Report Number | Audit Report Title |
|---------------------------|---|
| Report No. 2010-01 | Audit of Chuuk State Department of Education, Textbooks and Instructional Materials |
| Report No. 2010-02 | Inspection of Kitti Council Allegations Election District No. 2 in Pohnpei |
| Report No. 2010-03 | Audit of Chuuk State Department of Health Services' Procurement & Inventory Management System (FY2006-2008) |
| Report No. 2010-04 | Audit of FSM Telecom Credit Card Usage |
| Report No. 2010-05 | Audit of Pohnpei State Department of Education Procurement Activities |
| Report No. 2010-06 | Audit of the ADB Grant Assistance FSM: Weno Water Supply Well Remediation Project |
| Report No. 2010-07 | Audit of the ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project |
| Report No. 2010-08 | Performance Audit of Solid Waste Management FY 2007-2009 |
| Report No. 2010-09 | Audit of Chuuk State Department of Education Teachers Reclassification |
| Report No. 2010-10 | Audit of FSM Department of Education Supplemental Education Grant FY2009 – March 2010 |

Audit of Chuuk DOE, Textbooks and Instructional Materials

The main objectives of CDOE Textbook and Instructional Materials audit were to determine whether CDOE adhered to the following: provided the needed textbooks and instructional materials to students, safeguarded textbooks and instructional materials and, ensured that the approved curriculums were taught. As a result, the CDOE failed to provide many students with textbooks, to hold schools and students accountable for lost books (when books were received), or to ensure that classroom lessons followed the approved state curriculum. Audit site visits to thirteen schools and self-reports provided by other schools revealed that many classrooms lacked textbooks and, in some instances, a whole grade was without any books. Moreover, schools and their students were not held accountable for the books they had received. Fines are not consistently levied when books are lost and schools are not required to submit quarterly

inventories, though it is required per CDOE policy.

In addition to concerns regarding the distribution and accountability for book inventory, the audit revealed that there is no assurance that teachers are following the approved curriculum.

Inspection of Kitti Council Allegations Election District No. 2 in Pohnpei

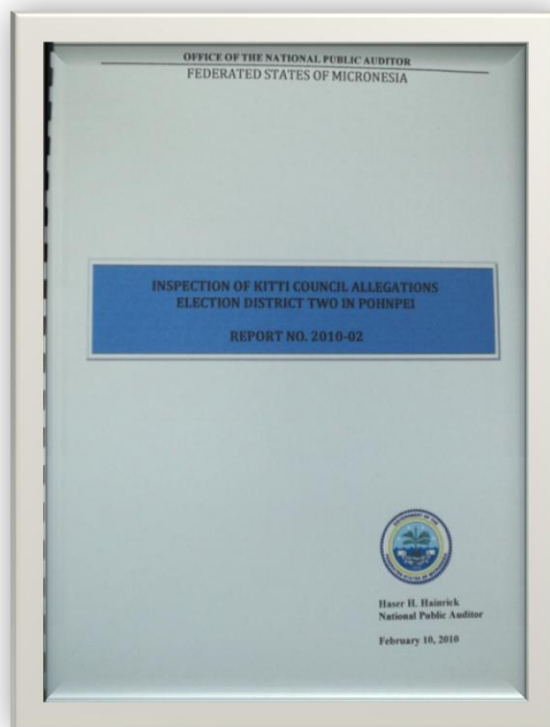
The objective of this inspection was to validate whether the Kitti Council allegations have merit to warrant further investigation.

The allegations are as follow:

- ❖ Coral and PVC pipes were given to individuals, households, and churches by the Senator in exchange for votes;
- ❖ Public funds designated for projects located were used for purposes of campaign travel to Guam in the month of January, 2009;
- ❖ Wone Elementary School Road project was suspended prior to completion, hours after the election because the Senator was upset at the low number of votes he received in the area and, as a result, the Senator relocated the equipment to Nan Mand;
- ❖ A mini truck (flatbed) purchased in 2005 or 2006 with public funds designated for Kitti Municipal Government was never delivered to date;
- ❖ No line item in any appropriation law existed for the purchase of a 30 hp outboard engine;
- ❖ Funds were allotted to selected churches to refurbish synagogues under the disguise of civic centers; and,
- ❖ Funding for Kitti Fish Market may have been used for other purposes.

Of the seven allegations made by the Kitti Council, ONPA established that three allegations warrant further investigation, as follows:

- ❖ Coral and PVC pipes were given to individuals, households and churches by the Senator as gifts in exchange for votes.
- ❖ Wone Elementary School Road project was suspended prior to completion hours after the election because the Senator was not satisfied with the number of votes he received in the area.
- ❖ Public funds designated for projects located in ED #2 were used for purposes of campaign travel to Guam in the month of January, 2009.



Office of the National Public Auditor

Audit of Chuuk DHS Procurement & Inventory Management System (FY2006 – 2008)



The main objectives of this audit were to determine the following: whether the CDHS implemented an effective procurement and inventory control system, efficiently used procurement funds and, ensured medications were available on the outer islands. It was concluded that the CDHS did not implement an effective procurement and inventory control system that would help ensure the efficient

use of procurement funds and the timely distribution of medications to intended recipients. Medications and supplies were not readily available. The non-availability of essential medications at the island dispensaries resulted in denial of treatments and may have contributed in unnecessary deaths. The procurement functions were not performed efficiently, effectively, and in compliance with regulations. In addition, approximately \$700,000¹ worth of purchased medications paid in advance were never received by CDHS. The inventory management practices did not ensure that resources were safeguarded against theft, waste and abuse. And the lack of controls resulted in unnecessary increase in fuel spending and the absence of transparency and accountability led to questionable use of the income earned from revenue generating activities of CDHS.

Audit of FSM Telecom Credit Card Usage



The main objectives of the audit were to determine the following: whether Telecom had developed appropriate policies and procedures regarding credit card use, whether Telecom practices adhered to its written policies and procedures and, to know the extent to which cards were used for personal use and, whether Telecom incurred any expenses as a result. The audit team found that Telecom lacked

¹ \$500,000 had been recently cleared leaving a balance of \$200,000 of undelivered medical supplies under questions.

proper oversight of operational activities related to credit card use. Additionally, though the Board is responsible for setting policy, management engaged in and approved practices that did not conform to the established credit card policy. Moreover, standard business practices (control activities) designed to prevent and detect fraud, waste, and abuse of corporate credit cards were not in place. Due to the lax control environment, Telecom incurred unwarranted expenses related to unnecessary credit card interest charges.

Audit of Pohnpei State DOE Procurement Activities



The main objectives of this audit were to determine whether PDOE adhered to the following:

Adequately safeguarded its assets, provided a sufficient number of textbooks to the schools in a timely manner and, expended funds designated for Other Consumable Expenses (OCE) and fixed assets equitably to schools. As a result, continued improvement in the areas of

centralized management and oversight are needed to ensure assets are safeguarded, textbooks are provided, and the funds are distributed equitably among schools. Existing controls do not provide the needed assurance that fixed assets will be safeguarded or that the Department's Inventory Listing is correct. Monitoring of the textbook procurement and distribution function has not been occurring and as a result textbooks were not provided in accordance with the procurement plan. The lack of a formalized school budgeting and tracking system makes it difficult for all parties to prioritize and plan for the purchase of supplies.

Audit of the ADB Grant Assistance FSM: Weno Water Supply Well Remediation Project

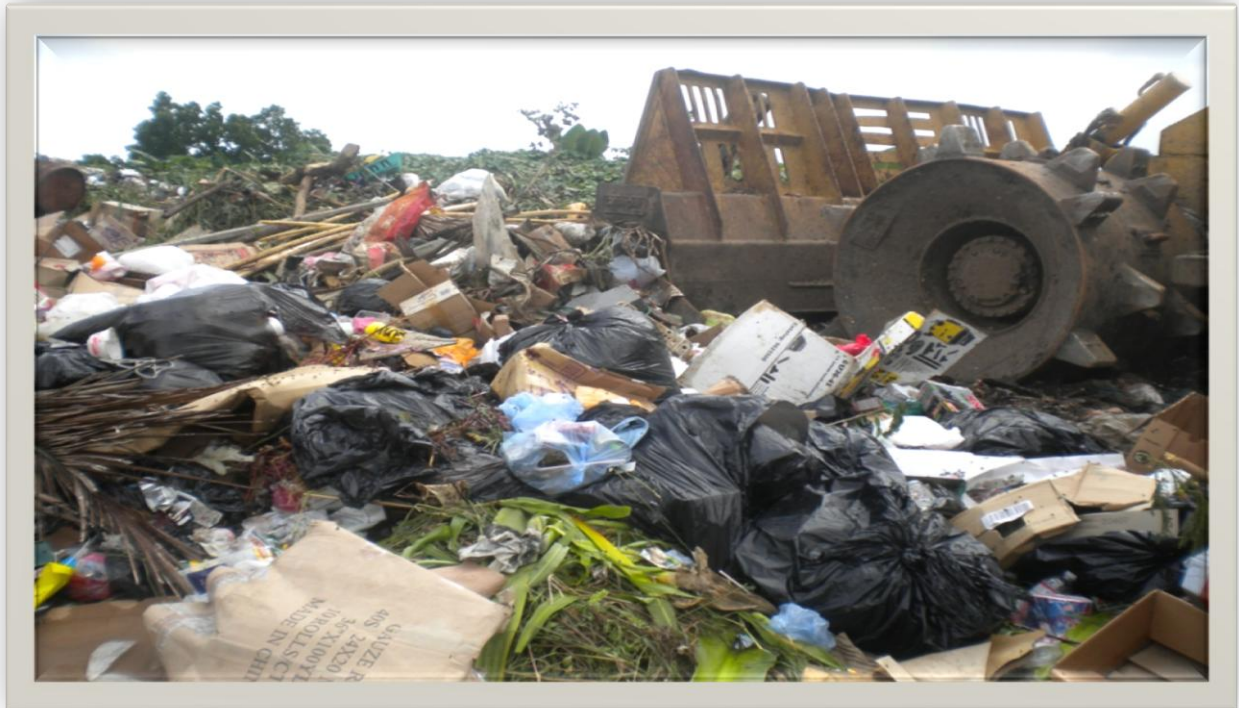
Audit of the ADB Grant Assistance FSM: Weno Water Supply Remediation Project - This is a financial audit requested by the Department of TC&I. The result of the audit indicated the financial statements of the project presents fairly in all material respects, the cash receipts and disbursements of the Project as of and for the year ended September 30, 2009

Audit of the ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project

Audit of the ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project - The result of this financial audit revealed the financial statements of the loans present fairly, in all material respects, the cash receipts and disbursements for projects under the loans as of and for the year ended September 30, 2009. The only internal control finding reported on

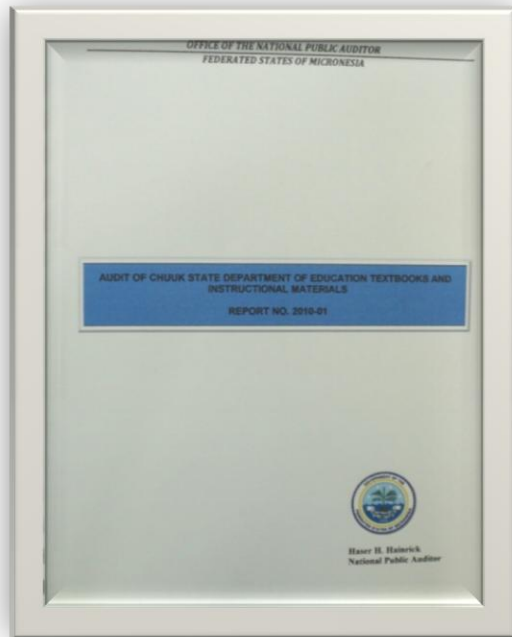
this audit was for Non-Competitive Bidding requirements for the loans. No competitive bidding was done for a hired consultant for one of the projects. The contract amount awarded for the consultant was \$185,000.00 for 18 months.

Performance Audit of Solid Waste Management FY 2007-2009



The purpose of the audit was to assess solid waste management practices in the State of Pohnpei. Solid waste management includes all policies and practices related to solid waste and not just the operations of a dump or landfill. As such, issues and activities related to prevention, generation, collection, transport/export, and the treatment/disposal of solid waste were included in the audit scope. The specific objectives were to assess the effectiveness of solid waste management by determining the following: Existence of a legal and policy framework, process by which the legal and policy framework is implemented and, compliance with the legal and policy framework including monitoring arrangements. As a result, strong political leadership and prioritization of the landfill plan is needed in order to achieve replacement of the existing dump site at Dekehtik with a new environmentally-friendly landfill site. No singular agency has taken the lead in ensuring that progress continues in a timely manner. Other priorities compete for staff and agency attention, involvement of agencies at both the national and state levels creates confusion over jurisdictional authority and project responsibility, and the fact that waste management involves both environmental and land use policy have hindered progress. Therefore, although the Landfill Plan was initially established in 2004 with the goal of opening a landfill in 2011, progress is years behind schedule.

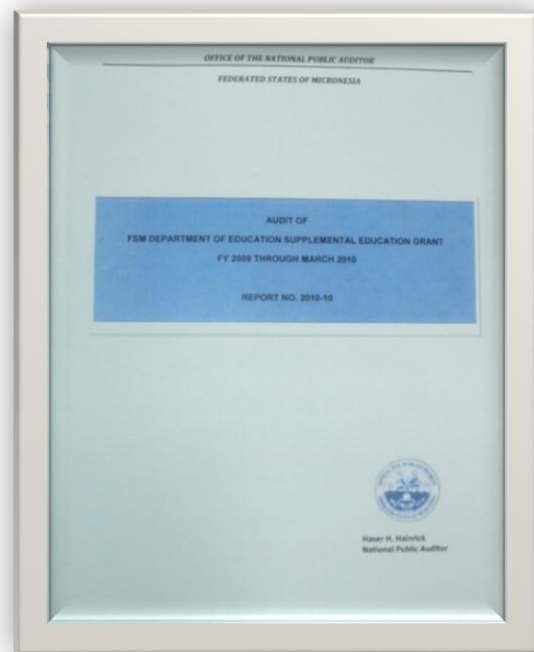
Audit of Chuuk State Department of Education Teachers Reclassifications



The main objective of this audit was to determine whether the classroom teacher reclassification policy is in compliance with relevant rules, regulations, and funding agreements. In addition, if the CDOE implemented adequate controls to ensure only those individuals meeting the qualifications were reclassified and given pay increases at the appropriate levels. And, to determine whether the reclassification policy helped achieve the goal of attracting more qualified teachers. The audit found that the Reclassification Policy and its implementation did not violate any rules, regulations, or funding agreements. Moreover, it appears that the increased salary offered to degreed teachers has helped to attract more degreed individuals to the profession. However, weaknesses in the controls used to process reclassifications were noted.

Audit of FSM Department of Education Supplemental Education Grant for FY2009 – March 2010

The main objective of this audit was to determine if the NDOE is in compliance with the requirements of the Integrated Plan for the SEG and the SEG Notification of Award. The audit team was able to trace/obtain the dollar amount, supporting documentation to the programs, activities, and amounts specified in the requirements from the Department of Finance and the NDOE expenditures funded by SEG. In addition the auditors interviewed staff regarding their responsibilities and reviewed Personnel Action Forms to determine if the functions performed were for the job functions, programs, activities and amounts specified in the requirements. Furthermore, the review of expenditures and supporting documentation funded by SEG enabled the auditors to determine if vehicles, disallowed by the SEG Notification of Award, had been purchased, if contractual and OCE (Other Consumable Expenditures) were for the programs and activities specified in the Integrated Plan and the SEG. And, if all travel



expenditures funded by SEG along with the associated supporting documentation for travel was in compliance with the requirements. The auditors concluded that NDOE did not fully comply with the Integrated Plan pertaining to SEG. While most of the expenditures were in accordance with the Integrated Plan, in some instances NDOE deviated without permission from the Grant Manager.

Compliance Investigation Division



CID is the second of the two Divisions established by the ONPA to conduct its work. CID has two primary investigation functions, administrative and criminal. CID works to identify systems and accountability weaknesses in the Nation's financial administration and gathers evidence of criminal activity for criminal prosecutions in the courts. 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 FSM Department of Justice (DOJ). Refer to

Appendix III, for the general and qualitative standards for investigations.

During FY 2010, CID handled 19 new cases along with 22 cases that were carried over from prior years. Ten cases were referred to DOJ for further review and appropriate legal action.

CID Case Statistics

| No. | Description | Quantity |
|-----|--|----------------------|
| 1. | Open cases | 19 |
| 2. | Opened and carried over | 41 (22 carried over) |
| 3. | Cases referred to DOJ | 10 |
| 4 | Closed cases and/or referred for administrative action | 12 |
| 5 | Active cases as of September 30, 2010 | 19 |

CID Case Discussions

| Case Number | Date Closed and/or Referred | Allegation | Source of Request | Summary Findings |
|--------------------|------------------------------------|--|--|---|
| CID-09-009 | 11/23/09 | Conflict of interest, conspiracy and false claim | anonymous | Government employees conspired to provide false information to purchase a laptop to get reimbursement (Referred to DOJ) |
| CID-08-012 | 11/23/09 | Abuse of telephone services | Deloitte & Touche Questioned Cost | Theft of Services, Personal use of government Telephone Services worth of \$5,000; employee paid back during the audit (Referred to DOJ & Management Advisory) |
| CID-08-010 | 1/8/10 | False Billing | Anonymous | Closed/unsubstantiated Management Advisory |
| CID-09-005 | 1/11/10 | Theft & Forgery of Social Benefit Checks | Concerned individual | Theft by unlawful taking and criminal mischief. Individual embezzled and forged Social Security Beneficiary Checks in the amount of \$3,708.76 for her/his personal benefit. (Referred to DOJ and now filed in court pending trial) |
| CID-09-011 | 2/12/10 | Contract & Loan Fraud | Concerned Borrower | Closed/Referred to Internal Audit |
| CID-08-011 | 2/19/10 | False Claims, Bribery, Conflict of Interest, | Anonymous | Findings showed indication of a false billing scheme, i.e. billings for procedures not covered under the plan, allowed non-members to receive services, product substitution, etc (Matter referred to DOJ) |
| CID-09-010 | 3/25/10 | Misappropriation of public funds | FSM Congress | \$16,000 may have been misused and misappropriated by a private business in procuring a vehicle (Matter referred to DOJ) |
| CID-09-013 | 5/25/10 | Collusion, conspiracy and false billing | FSM Department of Finance & Administration | Showed that a government employee conspired with a private business in Pohnpei to defraud the government |

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

| | | | | |
|------------|---------|--|---------------------------------|---|
| | | | | (Referred to DOJ & Management Advisory) |
| CID-09-008 | 5/26/10 | Misuse and abuse of public project funds; | Municipal Council | Findings showed some constitutional violations, breach of the separation of powers and diversion of public funds (Referred to DOJ) |
| CID-10-004 | 5/31/10 | Conflict of Interest | Private Attorney | Closed/ insufficient letter communicated to complainant |
| CID-06-001 | 6/1/10 | Misuse & Abuse of Office | Speaker of Municipal Government | Closed for file |
| CID-09-002 | 6/29/10 | Tax evasion and unsworn falsification | Concerned citizen | Findings proved that a private business submitted a false invoice with a SAD (Self Assessment Declaration) to defraud Customs & Tax Administration (Referred to DOJ) |
| CID-09-007 | 7/8/10 | Missing Pharmaceuticals and Medical Supplies | Audit Referral | Findings showed about \$205,000 worth of missing medicines and medical supplies. Chuuk State AG (Attorney General) filed at the Chuuk Supreme Court/ Litigation & Prosecution |
| CID-10-003 | 8/17/10 | Misuse of Project Funds | Concerned Citizen | Closed for file |
| CID-09-004 | 8/18/10 | Diversion of Government Property for Personal use. | Anonymous | Closed/ Unsubstantiated |
| CID-10-005 | 8/19/10 | Soft-Landing Claim | Concerned citizen | Closed/Check found issued back in 2008 |
| CID-10-010 | 9/7/10 | Vehicle abuse | Concerned citizen | Closed/Management Advisory to FSM Department of Health Services |
| CID-10-007 | 9/7/10 | AS degree forgery | Audit Referral | Showed that a school teacher forged an AS (Associate of Science) degree to get reclassification on her/her salary (Referred to DOJ) |
| CID-10-002 | 9/22/10 | Unfair distribution of rental fees | Concerned citizen | Closed/lack of jurisdiction |
| CID-08-008 | 9/22/10 | Misuse of Funds | Anonymous | Closed for file |

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

| | | | | |
|------------|---------|------------------------------------|-------------------|------------------------|
| CID-10-015 | 9/23/10 | Theft of Property | Concerned Citizen | Closed/Unsubstantiated |
| CID-10-016 | 9/23/10 | Misuse of Election Office Property | Concerned Citizen | Closed |

Aging and Responses of Pending Cases at DOJ as of September 30, 2010

| Case Number | Allegation | Date Referred | Length of Time Since Referral | | | | Status/ Responses |
|-------------|---|---------------|-------------------------------|-------------|-------------|--------------|------------------------------|
| | | | Less than 1 year | 1 - 2 years | 2 - 3 years | 3 yrs & over | |
| CID-04-003 | Conspiracy and theft of fishing | 3/8/05 | | | | XX | Pending at DOJ |
| CID-05-007 | Theft and embezzlement from fishing corporation | 3/30/05 | | | | XX | Pending at DOJ |
| CID-03-016 | False damage and crops claim | 5/16/06 | | | | XX | Time barred |
| CID-04-001 | Conflict of interest and attempted fraud | 10/20/06 | | | | XX | Pending at DOJ |
| CID-05-001 | False travel claim | 5/02/07 | | | XX | | Pending at DOJ |
| CID-07-005 | Contract fraud Involving Marine Park | 3/10/08 | | XX | | | Pending at DOJ |
| CID-07-004 | Collusion and violating of bidding procedures involving school supplies | 3/10/08 | | XX | | | Time barred and insufficient |
| CID-07-012 | False claim | 2/27/08 | | XX | | | Pending at DOJ |
| CID-06-003 | Theft and misuse of the Secondary School Nutrition Program | 7/1/08 | | XX | | | Time barred |
| CID-04-005 | Misappropriation of fishing Project | 7/4/08 | | XX | | | Pending at DOJ |

Office of the National Public Auditor

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

| | Funds | | | | | | |
|------------|---|----------|----|----|--|--|--|
| CID-08-002 | Tax evasion and money laundering | 9/10/08 | | XX | | | Pending at DOJ |
| CID-06-009 | False claim, payroll fraud and forgery | 2/16/09 | | XX | | | Pending at DOJ |
| CID-08-006 | Misappropriation of Public Project funds | 5/7/09 | | XX | | | Pending at DOJ |
| CID-09-003 | Internet scam | 6/9/09 | | XX | | | Pending at DOJ |
| CID-08-003 | Payroll theft and forgery | 8/19/09 | | XX | | | Pending at DOJ |
| CID-09-009 | Conspiracy and conflict of Interest | 11/23/10 | XX | | | | Pending at DOJ |
| CID-08-012 | Theft of services | 11/23/10 | XX | | | | Pending at DOJ |
| CID-09-005 | Theft by unlawful taking | 11/23/10 | XX | | | | Filed in FSM Supreme Court |
| CID-08-011 | False medical claims | 2/19/10 | XX | | | | Pending at DOJ |
| CID-09-010 | Misappropriation of funds | 3/25/10 | XX | | | | Pending at DOJ |
| CID-09-013 | Collusion, conspiracy and false billing | 5/25/110 | XX | | | | Pending at DOJ |
| CID-09-008 | Misuse and abuse of public project funds | 5/26/10 | XX | | | | Insufficient to pursue prosecution |
| CID-09-002 | Tax evasion and unsworn falsification | 6/29/10 | XX | | | | Pending at DOJ |
| CID-09-007 | Chuuk Department of Health Services undelivered pharmaceuticals | 7/8/10 | XX | | | | Filed both civil and criminal at Chuuk State Court |
| CID-10-007 | AS degree forgery | 9/7/10 | XX | | | | Pending at DOJ |

Cases Pending in Court

Criminal Case No 2008-2500

CID-07-011-September 2008, this case was filed with the FSM Supreme Court in Kosrae involving two defendants. The case involved mismanagement of the FSM National Aquaculture Center in Kosrae. The result of the investigation and prosecution led to two counts of theft of government funds against each defendant involving a sum of \$31,815.00

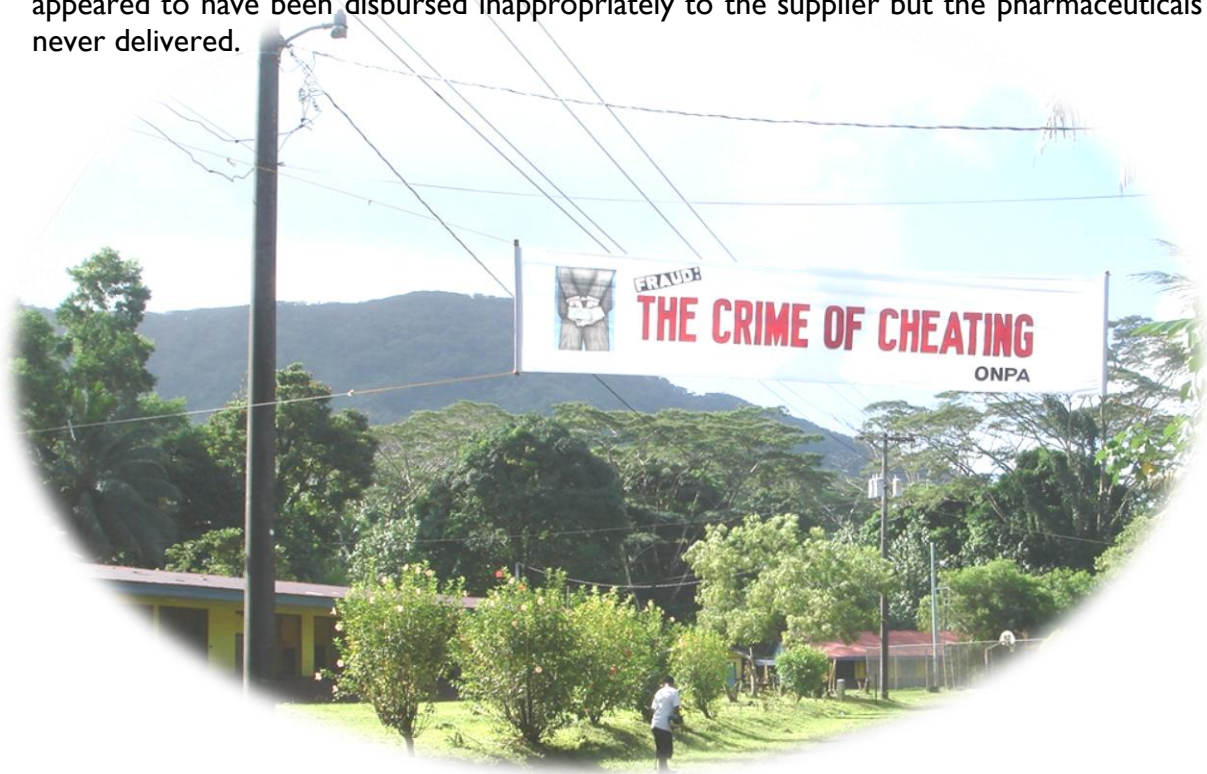
June 2009- One of the co-defendants was tried and entered a guilty plea in court and was sentenced to house arrest and restitution. DOJ extradited primary person of interest on September 2010 pending for trial.

Criminal Case No 2010-501

CID-09-005-May 19, 2010, this case was filed with the FSM Supreme Court involving theft by unlawful taking and criminal mischief. This individual embezzled and forged Social Security beneficiary checks in the amount of \$3,708.76 for her/his personal benefit.

CSSC CR NO. 082.2010

CID-09-007- July 8, 2001, this case was filed with the Chuuk State Supreme Court by the Chuuk State AG regarding an off-island supplier. The defendant has been a supplier of medical supplies including other medical needs of the CDHS. In addition, an amount of \$205,862 appeared to have been disbursed inappropriately to the supplier but the pharmaceuticals were never delivered.



CID Administration & Training

CID Presents the FAP to the Palau Delegation

In the late afternoon of July 20, 2010 during the APIPA conference week in Pohnpei, the CID did a presentation on the FAP for the Palau Delegation at the ONPA Conference Room. The Palau Delegation consisted of representatives from the Palau Office of Public Auditor (OPA) and the Palau Special Prosecutors Office.

The presentation gave the Palau delegation an overview of the FAP ranging from implementation support and tools, to feedback from participants and statistics. Chief Investigator Sophia Pretrick presented the FAP to the Palau Delegation. Questions and answers were entertained during and after the presentation. Investigators Kelly Samuel and Michael Nakasone were also present and shared their personal experiences during their FAB visits to the other FSM States. At the end of the presentation, the Palau Delegation received promotional t-shirts, key chains, pamphlets, posters and pens.

The presentation was arranged between the FSM Public Auditor, Haser Hainrick and Palau Public Auditor, Saturnino Tewid. The Palau Public Auditor first became interested in the FAP during the February 2010 Joint APIPA and US DOI/IG Conference held in Hawaii.

The sharing of the FAP with other countries within the insular area is part of the APIPA mutual cooperation to establish an organized body to act as one voice in support of the goal of promoting efficiency and accountability in the use of public resources of member jurisdictions and a forum to share ideas, experiences, and concerns and indentifying solutions which are often unique to the member audit institutions. Hopefully, the Palau OPA and Special Prosecutor's office can jointly execute their own version of the Fraud Awareness Program in their respective country.

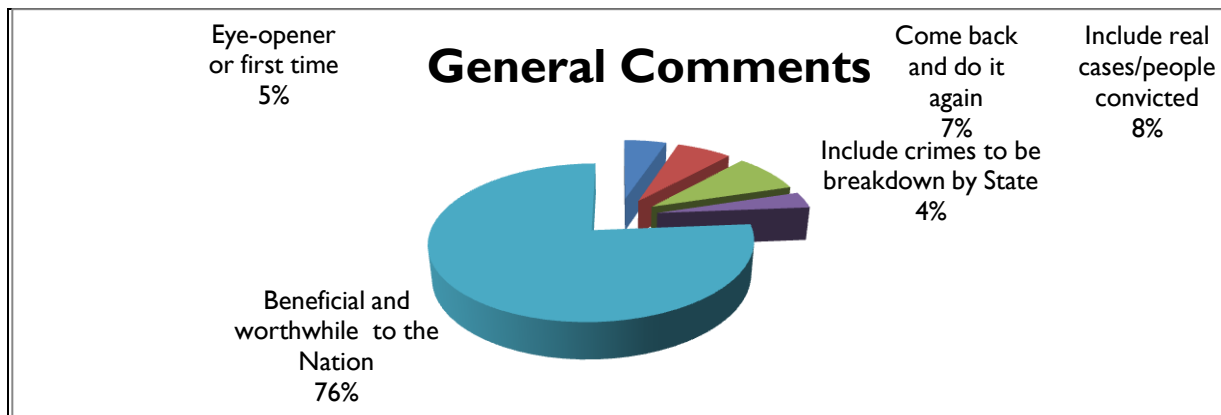
Results of the Fraud Awareness Program



Chief Investigator Pretrick presented the results of the FAP program in the FSM during the three-day joint US DOI-OIG and APIPA Principals Annual Conference in Honolulu held from February 2-4, 2010. The program was funded under a \$22,000 Technical Assistance Grant provided to the ONPA from the DOI-OIG.

Overall, seven hundred sixteen (716) people attended a total of 29 sessions in the States of Kosrae, Yap and Chuuk.

Participants included governors, legislators, government employees, teachers, students and other prominent individuals from the private sector. These distinct groups have provided the following feedback on how the presentation was received.



One of the participants commented that the training should be attended by every government employee and official. However, some participants commented that it was an eye-opener and realized that fraud exists in the nation without one knowing it.

CID Participates in the HOLEA meeting in Pohnpei



CID Chief Pretrick joined the FSM Head of Law Enforcement Association (HOLEA) meetings. Two important security meetings were held in Pohnpei. Senior Chief Executives from all over the Micronesian region including FSM, CNMI (Commonwealth of the Northern Mariana Islands) and Australia met in Pohnpei to discuss approaches to respond to regional crimes and security issues. The first meeting was held for two days for the FSM Law Enforcement Conference and the second one for the Micronesian Police Executive Association (MPEA).

Agency reports were presented by each of the law enforcement agencies in the states of Chuuk, Yap, Kosrae and Pohnpei. Chief Pretrick also presented her agency reports which include the CID's internal functions, crime statistics and the fraud awareness prevention program. As stated in her presentation, mutual cooperation within the States and the law enforcement arena is very essential to the work of investigation, intelligence gathering, and prosecution of fraud and corruption. The association adopted two resolutions involving ONPA/CID. Resolution 12- stated that a letter is to be provided to AG and State Governors advising that the Heads of Law Enforcement have a concern regarding the perceived lack of prosecution in relation to fraud cases. Resolution 13- declaring that a letter be sent to National Public Auditor stating that the Heads of Law Enforcement support consideration for State law enforcement officers to be temporarily assigned to CID OJT training which will support the ONPA operations plus to up-skill State Police Officers in the investigation of financial fraud and corruption matters.

ONPA/CID Hotline

The Public Auditor has established a Hotline for use by concerned private citizens to report possible 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 twenty-four hours a day, every day of the week, by answering machine. All calls to the Hotline remain absolutely confidential. In addition, ONPA also offers an on-line complaint form. The form can be found at the ONPA website, <http://www.fsmopa.fm>.

ONPA Web Site: Transparency in Government Continues via ONPA's Web Site

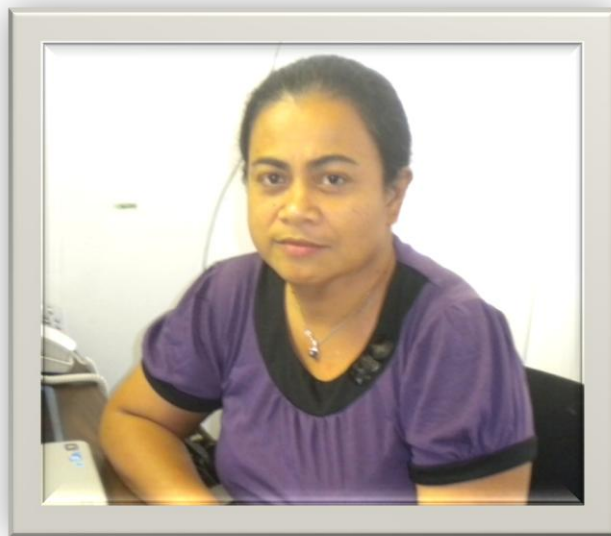
ONPA's strategic goal to improve transparency in government is furthered through the use of the ONPA internet website (www.fsmopa.fm). Transparency means providing citizens with information about their government's operations. One indicator of transparency is FSM citizens' use of the web site, tracked by the number of visits to the site, to locate information about ONPA activities. Google Analytics is the system used to track utilization of the web site. Another important indicator is whether visitors accessed the web site directly using the ONPA web address.² This type of visit could denote the visitor's specific intention to go to the ONPA web site to read ONPA reports, learn about staff, or find out what's new in the ONPA office. This type of access can be considered a direct link to transparency.

The number of web visits to the ONPA site has increased over the past year. For example, the average number of visits to the web site monthly is 500; whereas, the average number of monthly visits for the period reported in 2009 were 250. However, FSM citizens are the primary users of the ONPA web site.



²Access is tracked by whether the visitor came to the ONPA web site by (1) direct access (2) a search engine service, or (3) a referral. Using direct access, visitors enter the ONPA web address and are sent directly to the ONPA site. Using a search engine, visitors reach the site using key words that are inserted into the engine and then the service (for example Google) searches the web or a specialized database for any information related to the key words. In a referral, while visitors are at another web site, they are referred to the ONPA web site.

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 accounting firms under the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133³, 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 on single audit 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, the decision-makers within the National Government need current financial data in order to make sound decisions.

The ONPA has full management responsibilities for ensuring that this requirement is met. Ms Christina Elnei is the ONPA's Single Audit Specialist and she assists the Public Auditor in his oversight responsibilities for the contract work.

Single Audit Opinions Issued 2005 through 2009

| Government or Entity | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| FSM National Government | Qualified | Qualified | Qualified | Qualified | Unqualified |
| Chuuk State Government | Disclaimer | Disclaimer | Qualified | Qualified | Qualified |
| Kosrae State Government | Qualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Pohnpei State Government | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Yap State Government | Qualified | Qualified | Qualified | Qualified | Unqualified |
| Caroline Islands Air Inc., | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| College of Micronesia | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Coconut Development | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |

³ OMB Circular No. 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.

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

| Authority | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Chuuk State Public Utility Corp | Qualified | Disclaimer | Disclaimer | Disclaimer | Unqualified |
| Chuuk State Health Care Plan | Qualified | Qualified | Unqualified | Qualified | Unqualified |
| FSM Development Bank | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| FSM Social Security Administration | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| FSM Petroleum Corporation | X | X | X | Unqualified | Unqualified |
| FSM Telecommunication Corp | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Kosrae Utilities Authority | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Kosrae Port Authority | X | X | X | X | Unqualified |
| MiCare Plan Inc. | Qualified | Qualified | Unqualified | Unqualified | Unqualified |
| Micronesia Petroleum Corp | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| National Fisheries Corp | Disclaimer | Disclaimer | Disclaimer | Qualified | Qualified |
| Pohnpei Fisheries Corp | X | Unqualified | Unqualified | Unqualified | Unqualified |
| Pohnpei Housing Authority | X | Unqualified | Unqualified | Unqualified | Unqualified |
| Pohnpei Port Authority | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Pohnpei Utilities Corp | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| The Diving Seagull, Inc. | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified |
| Yap State Public Service Corp | X | X | Unqualified | Unqualified | Unqualified |

Compliance with the Single Audit Act is a requirement of the Compact of Free Association Amendments of 2003 and is a condition for receiving Federal grant programs for the entire FSM.

Under the annual Memorandum of Agreement (MOU) for single audits between the FSM and the US, the audits are to be equally funded by both FSM and the US. The Office of the Insular Affairs of the Department of Interior is the cognizant agency for the single audits and provides the US portion of the funds. The FSM Public Auditor Office is the oversight agency on the single audits for the entire FSM. Financial reporting on the annual grant is done quarterly through the FSM Department of Finance and Investment Division.

On July 10th 2009, the FSM Public Auditor and the FSM Audit Committee appointed by the FSM Public Auditor contracted two CPA firms (Deloitte & Touche and Fortenberry and Ballard LLC) to perform the single audits for the entire FSM for fiscal years 2009, 2010, and 2011.

Fiscal Year 2010 Annual Report

For the fiscal year 2009, all audits for the FSM Government, the State Governments and their component units were completed on time prior to the deadline of June 30, 2010. Highlights for the FY'09 single audits include the following improvements:

- ❖ All of the audits for the entire FSM receive unqualified opinions for the single audits with the exception of two entities: Chuuk State Government, and National Fisheries Corporation, a component unit of the FSM National Government.
- ❖ After receiving a Disclaimer Opinion since 2003, Chuuk State Public Utilities Corporation finally received an unqualified opinion on its financial statements audit.

Fiscal Year 2010 Single Audits

Deloitte & Touche was contracted to perform the single audits for the FSM National Government, Kosrae State, Pohnpei State, Chuuk State and their component units for the three fiscal years. FSM National Government component units include: College of Micronesia-FSM, FSM Coconut Development Authority, FSM Development Bank, FSM Social Security Administration, FSM Petroleum Corporation, FSM Telecommunications Corporation, MiCare Plan Incorporation, National Fisheries Corporation and Caroline Island Air, Inc. Kosrae State Government component units include: Kosrae Utilities Authority and Kosrae Port Authority. Pohnpei State Government component units include: Pohnpei Fisheries Corporation, Pohnpei Housing Authority, Pohnpei Port Authority and Pohnpei Utilities Corporation. Chuuk State Government component units include; Chuuk State Public Utility Corporation, Chuuk State Health Care Plan.

Deloitte & Touche has commenced the FY10 single audits for FSM, Kosrae, Chuuk, and Pohnpei State and their component units except for a couple of entities.



Fortenberry & Ballard was contracted to conduct the single audits for Yap State Government and its component units.

Yap State component units include: The Diving Seagull Incorporated, Yap State Public Service Corporation, and Yap State Visitor's Bureau.

Deadline for the FY10 single audits is June 30, 2011.

Additional Outsourcing of Audits -

The FY 09 single audit for Caroline Islands Air which was performed by Fortenberry and Ballard PPC received an unqualified opinion. The FY'10 contract is being awarded to Fortenberry & Ballard PPC again.

FSM Meets the June 30th Single Audit Deadline Again

The ONPA announced the FSM met the June 30th Single Audit deadline again for the FY 09. The ONPA extended its congratulations to the 5 Primary Governments, the auditees and everyone involved with the audits for making it possible to meet the audit deadline again in 2009. FY 09 audits marked the first time the entire FSM received better audit opinions on the annual audits since the inception of single audits in 1987 for the 5 governments (see table below):

| Entities | Opinion: Financial Statement | Opinion: Compliance & Internal Control |
|--------------------------|------------------------------|--|
| FSM National Government | Unqualified | Qualified |
| Kosrae State Government | Unqualified | Unqualified |
| Pohnpei State Government | Unqualified | Unqualified |
| Chuuk State Government | Qualified | Qualified |
| Yap State Government | Unqualified | Qualified |

Information Technology Section



ONPA created the Information Technology (IT) section under the administration division to support users on the existing computer network. Melvin Poll is currently the IT Specialist, whose responsibilities include monitoring of the office computer network, installation and repair of computers and network components, troubleshooting of computer issues and maintenance of the office website.

Other Matters of Interest

Technical Grant Assistance for Auditor/Investigator training



The ONPA received Technical Assistance grants from the DOI-OIA to facilitate its on-going local capacity building efforts. The grant was specifically provided to secure additional and on-going on-the job trainings for investigator and auditor staff at selected Office of the Inspector General's offices. As of September 30, 2010, the grant has facilitated four separate training opportunities for staff auditors and investigators from the National and State OPA offices. These include: procurement fraud training in Guam (2), Annual Conference in Honolulu, APIPA Conferences in Pohnpei, and OJT at the Sacramento IG office.

2010 APIPA Conference held in Pohnpei

The Association of Pacific Island Public Auditors conference for 2010 was held in Pohnpei at the College of Micronesia-FSM. All staff auditors and investigators attended the training and earned CPE hours.



US Ambassador H.E. Peter Alan Prahar visits ONPA

On February 12, 2010, US Ambassador to the FSM, H.E. Peter Alan Prahar visited the ONPA in Palikir.

The Ambassador acknowledged the achievements of the FSM and its states governments in completing the Single Audit requirements. Specifically, the Ambassador expressed appreciation for timely completion of the Single Audit reports as well as the recent improvement of single audit opinions and the subsequent reduction of questioned costs. The Ambassador also acknowledged and emphasized the roles played by the Public Auditor in improving overall

financial accountability for federal funds and programs in the nation as required under the amended Compact.

Among others, the Public Auditor explained the Single Audits process, discussed the quarterly audits for Chuuk State to meet deadlines, and also talked about the resolution of the unresolved questioned costs found in prior fiscal years. In addition, FSM has awarded a second auditing firm namely Fortenberry & Ballard to perform part of the Single Audit under the amended Compact. Since the inception of the Compact, Deloitte & Touche has been the sole contractor for the entire FSM-wide Single Audits. The Public Auditor is confident that this is a forward step to improve the results of the Single Audits.

In addition, Public Auditor Hainrick gladly explained that for transparency purposes all single audit reports and inspection reports are immediately made available by distribution to local medias and via the official website after they have been released to the President and members of the FSM Congress.

Public Auditor Hainrick also discussed the duties and responsibilities of the two divisions comprising the Office of the Public Auditor: Audit and Investigations (CID). He also explained to the Ambassador how audits are performed and distributed as well as the issues relating to resources and the restrictions encountered during the performance of audits and investigations.

PASAI Capacity Building Kick-off Meeting in Auckland



On June 21, 2010, members of the PASAI began the week-long Capacity Building kick-off Conference at the Mericure Hotel in Auckland, New Zealand. Members of PASAI who had been assigned to various working groups have now met to develop standard manuals and guidelines in three key areas of 1) Human Resources Management, 2) Financial and Performance Auditing, and 3) Quality

Assurance and Reporting.

FSM Public Auditor Haser Hainrick led the Human Resource Management manual working group, along with team members Stoney Taulung, Kosrae State Public Auditor, Margret Numanga, Audit Manager of the Cook Islands Audit Office and Sinaroseta Palamo-Iosefo, Audit Manager from the Samoa Audit Office. Members were tasked to draft the Human Resource Management manual to be reviewed by the 14th PASAI Congress in Tonga in 2011.

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

As part of the Pacific Regional Audit Initiative (PRAI) design as endorsed by the 12th PASAI Congress, the objective is to provide guidance on best practices to PASAI member countries and to achieve the overarching goal of the PRAI design to improve transparency and accountability in managing public resources in the Pacific countries by raising Pacific Public Auditing to uniformly high standards.

The Conference was attended by representatives from the Audit offices of the Cook Islands, Fiji, Federated States of Micronesia National, Pohnpei, Kosrae, Yap, Papua New Guinea, Solomon Islands, Republic of the Marshall Islands, Republic of Palau, Nauru, Samoa, Guam, Kiribati, Tonga, New Zealand and Australia.

PASAI Governing Board Meeting



Members of the PASAI Governing Board met in Nadi, Fiji on July 5, 2010. The Governing Board is the governing body of PASAI and has eight members. It establishes rules and sets directions of the Secretariat of PASAI. It's

responsible to oversee the activities of its Secretariat and set strategies and policies of the organization.

The meeting was centered on issues relating to the organization's activities covered during the year. Members discussed the successful establishment of the Secretariat office in Auckland, New Zealand. Among others, members also endorsed and implemented the PRAI projects. These projects include the Capacity Building programs ranging from developing operational manuals and guidelines to training of auditors within the region.

Public Auditor Hainrick was re-elected to the Governing Board to represent the Micronesian group, which include Palau, Guam, CNMI, Marshall Islands, and the FSM.

ONPA attempts to further amend the Professional Premium Law

ONPA proposed the introduction of a bill that would further amend Public Law (PL) 13-64. Known as professional premiums, PL 13-64 as amended provides for additional compensation for employees of the FSM government up to 90% of their base salary to adjust for, among other things, labor market conditions outside the FSM and for recognition of advanced professional qualifications, certifications and awards. The proposed bill would modify the premium law as it applies to accountants, which currently only recognizes the designation of Certified Public Accountants (CPA).

The purpose was to expand the law to include other professional designations within the accounting and auditing professions. Other examples of professional standing include Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Government Auditing Professional (CGAP), Certified Management Accountant (CMA), Certified Financial Manager (CFM), and Certified Information System Auditor (CISA). This would benefit FSM by motivating citizens and encouraging them to pursue higher education and attain advanced professional standing in the fields of accounting, auditing, and other related areas. Unfortunately, the bill did not have widespread support in the 16th Congress and did not pass.



Office of the National Public Auditor

Public Auditor Hainrick attends the 13th PASAI Congress



On July 7, 2010, Public Auditor Hainrick joined members of the Pacific Association of Supreme Audit Institutions (PASAI) for the 13th PASAI Congress at the Otintai Resort on the island of Tarawa, Republic of Kiribati.

At the opening, the Vice President of Kiribati Honorable Teima Onario welcomed the participants. She favorably highlighted the roles in which the Audit offices and PASAI play in building accountability, transparency and good governance in the Pacific region. Particularly, the Vice President commented ambitiously about the PRAI projects undertaken by members of the association.

During the 13th PASAI Congress, members endorsed the establishment of the PASAI Secretariat in Auckland. Decisions were made based on discussions, which focused on various presentations by members and the different key donors. Presentations concerning the planning and implementation of the on-going activities of the PRAI projects and the phases of the Sub-regional Audit Support projects were also included. And finally other items such as reorganization of officers on the PASAI Board were also presented on last day of the Congress.

The new Secretary General, Lyn Provost, closed the conference by thanking all participating members and said that they should be proud of the achievement PASAI has made and maintain the momentum to have lasting impact in the region.

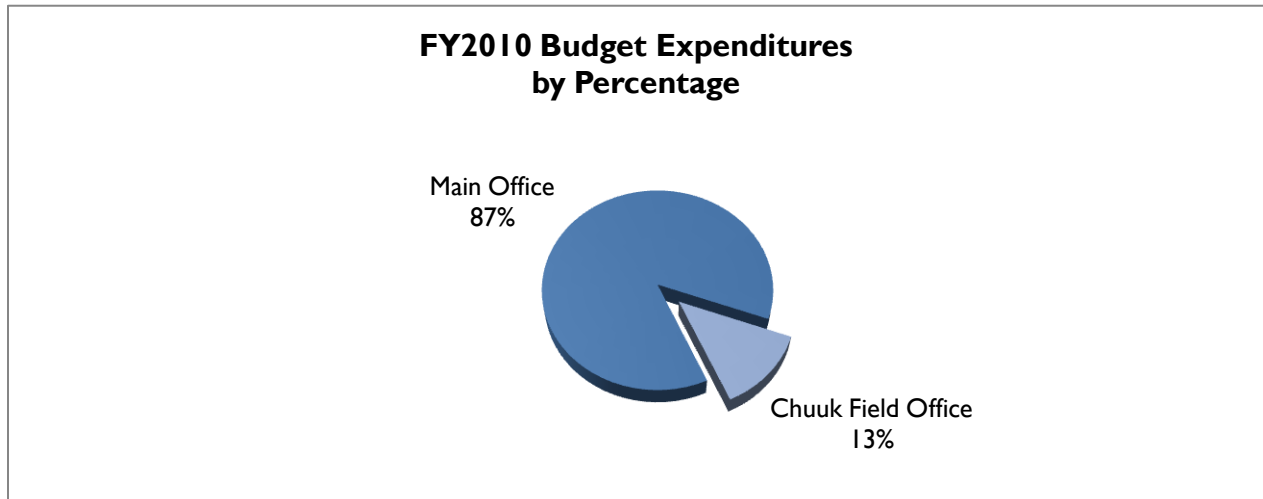
Office Administration

Budget

A total of \$976,087 was appropriated by the 16th Congress for the operation of ONPA for Fiscal Year 2010. Of that amount, \$801,730 came from local revenue to fund the operations of the main office in Palikir and the remaining balance of \$174,357 from Compact Sector Grant to fund the Chuuk Field Office on Weno.

| | Approved Budget | Expenditures |
|--------------------|-----------------|--------------|
| Main Office | \$ 801,730 | \$ 635,584 |
| Chuuk Field Office | \$ 174,357 | \$ 93,524 |
| Total | \$ 976,087 | \$ 729,108 |

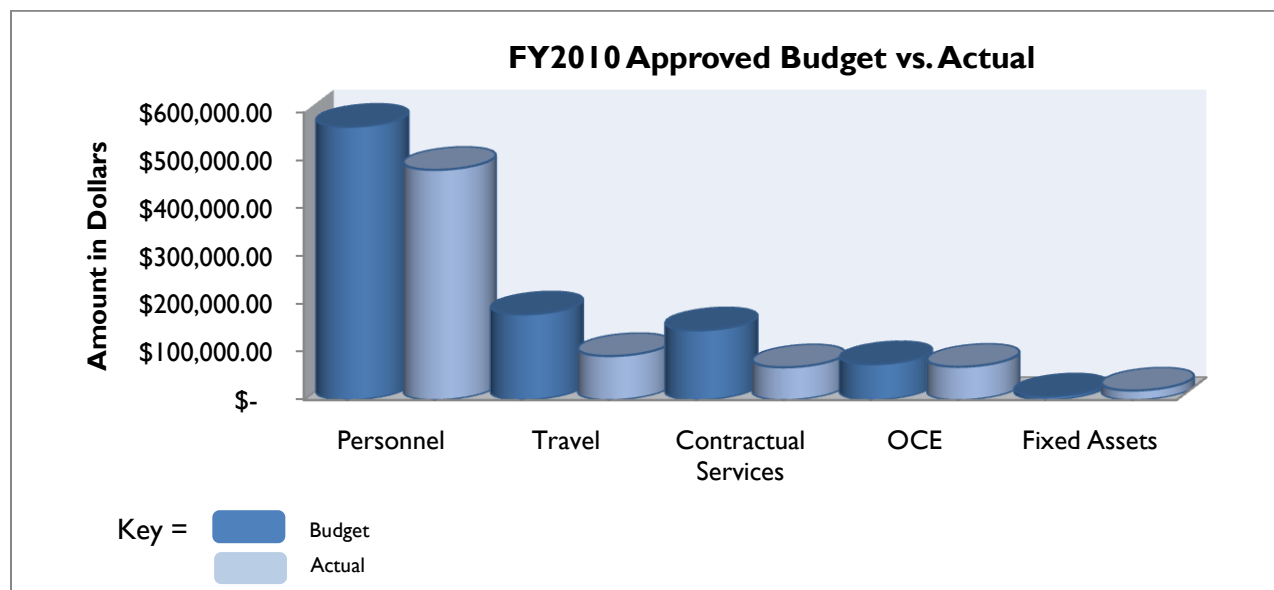
Actual budget expenditures for fiscal year 2010 were \$729,108. Expenditures for the main office in Palikir were \$ 635,584, or 87 percent of the total, and for the field office in Chuuk, \$93,524 or 13 percent of the total.



As illustrated in the following table, personnel costs remain the largest expenditure and account for approximately 66 percent of the total. On the other hand, fixed assets costs account for only 3 percent.

Fiscal Year 2010 Annual Report

| Budget Category | Expenditures in \$ | Expenditures in % |
|----------------------|--------------------|-------------------|
| Personnel | \$480,061.35 | 66% |
| Travel | \$91,714.76 | 13% |
| Contractual Services | \$68,240.49 | 9% |
| OCE | \$69,296.55 | 10% |
| Fixed Assets | \$19,795.00 | 3% |
| Sub-total | \$729,108.15 | 100% |



| Budget Category | Budget Expenditures for the last five fiscal years | | | | | |
|------------------------|--|-----------|-----------|-----------|-----------|-----------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Personnel | \$331,209 | \$329,709 | \$374,803 | \$409,423 | \$447,692 | \$480,061 |
| Travel | \$126,659 | \$127,590 | \$227,959 | \$186,808 | \$109,487 | \$91,715 |
| Contract Services | \$45,000 | \$43,053 | \$119,917 | \$49,734 | \$51,678 | \$68,240 |
| Other Current Expenses | \$153,160 | \$66,651 | \$94,642 | \$88,458 | \$75,673 | \$69,297 |
| Fixed Assets | \$9,000 | \$11,797 | \$31,074 | \$22,718 | \$9,737 | \$19,795 |
| Totals | \$665,028 | \$578,800 | \$848,395 | \$757,141 | \$694,267 | \$729,108 |

Training Classes and Professional Development

FSM Public Auditor attends the WIAF/AGA Conference in Honolulu Hawaii

From October 12-16, 2009 Public Auditor Hainrick, Audit Supervisor Manuel San Jose, Auditor Evelyn Paul and the Single Audit Specialist Christina Elnei attended the AGA/WIAF conference held in Honolulu Hawaii.

The highlights of the conference focused on the Emerging Issues in the Pacific which include the military buildup in Guam as well as the American Reinvestment & Recovery Act of 2009 (ARRA) and its reporting requirements. The single audits will be used to monitor and report the ARRA funds beginning end of fiscal year of 2009. The ONPA staff earned up to 40 CPE at the conference.

ONPA Auditor completes OJT at DOI, OIG

Staff Auditor Aisi Mori completed a 60-day OJT with the OIG in Sacramento, California. The training started on the first week of April and ended in June, 2010 marking ONPA's second auditor to successfully complete the 60-day OJT at the Sacramento OIG Field Office. Aisi participated in two separate audits at the field work phase.

The OJT was an excellent hands-on experience and offered valuable lessons highly recommended for local auditors. Aisi had the opportunity to observe and learn from experienced professional auditors. She was introduced to new auditing tools such as the auto audit system, which includes handy to use electronic working papers in the field. The auditors rely on such system to access their working papers and the database at the Sacramento Office from anywhere outside the office during fieldwork.

The training was organized and coordinated by Public Auditor Hainrick, DOI/OIG Liason Officer Ben Privitt on Guam and Michael Colombo, the regional manager of the OIG Sacramento office. All financial costs were fully covered by a technical assistance grant provided by the DOI/OIA.

CGAP in-house sessions for all auditors

All the auditors gather in the office conference room to do Certified Government Auditing Professional (CGAP) in-house training sessions. The sessions were held every Friday of the week from 2PM to 5PM. The CGAP is a specialty certification designed for and by public-sector internal auditing practitioners. The sessions were given as part of the employees Individual Development Plan (IDP) to improve their auditing skills as well as enable them to study for the CGAP Exam.

ONPA Auditor Graduated with a BA in Accounting from UOG

CONGRATULATIONS ON A JOB WELL DONE!!! Auditor Julinida Weital made it a personal goal to attain her degree in accounting from an accredited 4-year university as part of her IDP. It is part of the ONPA Strategic Plan which requires each staff to develop his/her own IDP as part of the overall goal of building capacity for the office. Julinida made considerable sacrifices and has achieved yet another milestone in her capacity development plans. The ONPA is happy to announce that Julinida, a staff auditor, was a member of University of Guam (UOG) graduating class of 2009. UOG formally conferred upon her a Bachelor's Degree of Business Administration in Accounting.

ONPA Auditor enrolled at COM-FSM

Auditor Keller Phillip attended the College of Micronesia (COM) National Campus spring 2010 semester. As part of his IDP he wanted to obtain his degree in Accounting. The classes he took were credits needed towards his Accounting major. Keller believed that the knowledge gained was a good addition to his learning experience personally and professionally. He enjoyed the spring term at COM and he looks forward to continuing his education.

ONPA Auditors took up beginning Auditors courses in Chicago



Auditors Mermina Mongkeya, Evelyn Paul and Cherisse Irons attended a training course on Tools & Techniques for Beginning Auditors in Chicago, Illinois. Their primary objective was to learn and understand some of the most common and standardized techniques and tools for beginning auditors. The course covered familiarizing each auditor with audit process which begins with identifying the areas of concern to the last stage of issuing the audit report. Each declared their trip as a success.

Promotions, New Hires, and Departures

Promotions



Ronald Sufficool was recently promoted to fill the Audit Manager position which was vacant after the departure of Eric Spivak. Sufficool was hired out of Los Angeles, California on a two-year contract as one of three audit supervisors at the office back in March of 2009. Ron's current contract as the Audit Manager will expire on August 02, 2012.



Erwihne David has recently been promoted to Auditor III. Erwihne was hired on March 15, 2007, as an Auditor II. Prior to that, Erwihne had spent six years with the ONPA, then four years with Pohnpei State Government as a Tax Auditor and also worked in the private sector.



Keller Phillip was promoted to Auditor II on April 4, 2010. Keller has developed his professional auditing skills from actual hands-on experience in the fields over the last 9 years of his auditing services to the government. He has completed many auditing courses offered by the AGA, the IIA and USDA Graduate School. Recently, he has successfully completed his OJT at the US OIG, in Sacramento.



Julinida Weital was promoted to Auditor II on August 18, 2010. Julinida has over 9 years of government auditing experience. While working with the OPA, she completed a part-time year accounting program offered at COM-FSM, where she received a 3rd year certificate in Accounting on December 20, 2007. On December 20, 2009, she received her BA degree of Business Administration in Accounting from the University of Guam.



Michael Nakasone also known as Mitch was promoted to Investigator II on August 16, 2010. Michael has been with the CID division for over one year in which he performed superbly and completed his assignments on time according to Chief Sophia Pretrick. Michael has played key roles in the fraud awareness program conducted in all the FSM states, actively participated in auditing and fraud related conferences and training and demonstrated his competencies and capabilities to move up the ladder.



In April 2010, Lover Haimin was transferred to the Audit Division. Previously, he was the administrative officer. A citizen of the FSM, from the State of Chuuk, he completed his education at the University of the South Pacific in Suva, Fiji where he received a Bachelor of Arts in Management and Public Administration.

New Hires



Julein Danis as the new executive secretary started her employment on November 04, 2009. A resident of Kitti in the state of Pohnpei and a citizen of the FSM, prior to joining the ONPA, she worked with Small Business Development Center at COM-FSM, Pohnpei Campus. She also worked at the Talent Search Program, COM-FSM, Pohnpei Campus where she tutored high school students in English and Mathematics.



The new Administrative Officer Loreen Cyndi Hadley was hired on June 29, 2010. Prior to joining the ONPA, Cyndi spent over two years experience working with the Bank of the FSM as an Accountant and a Credit Administration Assistant. Cyndi is from the State of Pohnpei and recently earned her two-year degree in Business Administration at the COM-FSM.



Neong Yoma was hired as an Assistant to the Administrative Officer in August of 2010. Prior to joining the ONPA, Neong worked with the Fred Ramp Law firm in Kolonia, Pohnpei. Neong completed her 2-year study at COM-FSM, where she received her Associate of Arts degree in Liberal Arts.



The ONPA welcomed a new member of the audit division Cherisse Irons on October 01, 2009. Cherisse is a citizen of the FSM from the State of Chuuk. Cherisse completed her four year studies and received a bachelor's degree in accounting from Chaminade University of Honolulu in May 2009. From June to August 2009, she worked as an intern at ONPA. She later became a permanent employee after completing her internship.



Mermina Mongkeya started her first day of work on October 12, 2009. Mermina is from the State of Kosrae in the FSM. In May of 2000, she graduated from Park University in Parkville, Missouri with a Bachelors Degree in Business Administration with emphasis in Management. Before joining ONPA, she worked as a staff auditor at the Kosrae State OPA for seven (7) years.



Elina Paul joined the ONPA on July 2010. Prior to that, Elina worked at the CTSI Logistics Inc. in Torrance, CA from 2007-2009 as an Air & Ocean Import Coordinator. Elina, from the State of Chuuk, completed her studies at the University of Phoenix where she received her Bachelor's degree in Business Management in 2006 and her Master's in Business Administration in 2008.

Departures – The ONPA extend its appreciation to the following former staff for their contributions and wish them success in their future endeavors.



Moses Russel worked for ONPA for 5 years as an Auditor III. Moses has been a great asset to the ONPA team. With an impressive professional background Mosses was able to contribute a great deal to ONPA. He resigned from his post on February 3, 2010 and accepted a job offer to become the first Chief Financial Officer for the Micronesian Shipping Commission.



Ivan Jimbo Alafonso resigned from ONPA in March of 2010 and accepted a job offer from the Government of CNMI. Jimbo worked with the office since early 2007 and enormously contributed to the successful completion of a number of audit reports.



Fletcher Poll left the ONPA in October 2009. Fletcher worked with ONPA in the CID Division as an Investigator since May 29, 2000.



William Billimon resigned from ONPA, more specifically the CID Division in March 2010. William worked with the ONPA at the Chuuk Field Office as an investigator since March 26, 2007.



Edwin Barnuevo returned to his home in the Philippines on July 19, 2010. Edwin had joined the ONPA in July of 2008 as an Audit Supervisor. After completing his two-year contract, Edwin decided that it was time to go home.



Eric Spivak has recently resigned from his position as Audit Manager and moved back to the US. Eric had arrived in Pohnpei on February 26, 2009 on a 2-year contract. He had to return to his home country to attend to personal matters.

APPENDICES

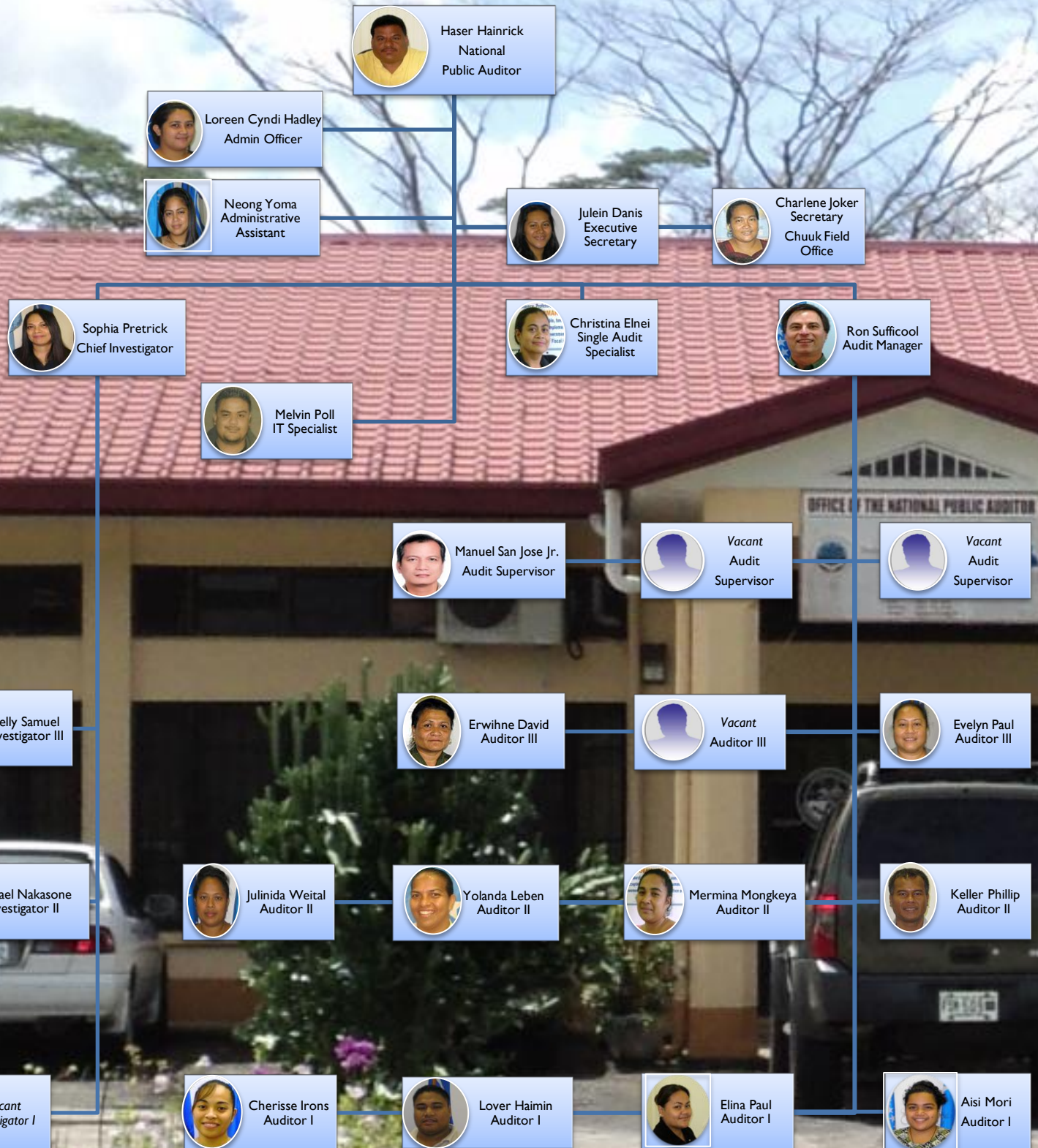
Appendix I – Powers of the Office of the Public Auditor and Duties and Responsibilities

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 moneys, and the need for amendments or new laws to secure the efficient expenditure of public funds,
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 as of September 30, 2010



Appendix III: Audit and Compliance Investigation Division Operations

Audit Division

Audits

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 is 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 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 2005. The 14 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at the following website www.ignet.gov/pande/standards/oeistds.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

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

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 the following website <http://www.ignet.gov/pande/standards/invstds.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.

F i s c a l Y e a r 2 0 1 0 A n n u a l R e p o r t

Qualifications - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.

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.

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.

FEDERATED STATES OF MICRONESIA

Public Information Office

PRESS RELEASES

Unqualified Opinion on Audit Report for the FSM National Government

Press Release #0710-14

Palikir, Pohnpei – FSM Information Services

July 12, 2010

Palikir, Pohnpei: July 12, 2010 - The FSM National Government joins the Pohnpei,



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Article: ONPA RELEASES AUDIT REPORTS ON CHUUK DEPARTMENT OF HEALTH SERVICES PROCUREMENT



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ONPA Releases Audit Report on Chuuk State Department of Education Teacher Reclassification

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CHUUK TEACHER RECLASSIFICATION POLICY DID NOT VIOLATE ANY RULES REGULATIONS OR FUNDING AGREEMENTS

September 06, 2010

By Bill Jaynes

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MicSem General Discussion: ONPA Releases Audit Reports on Chuuk Department of Health

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Government of the Federated States of Micronesia

ONPA Releases Inspection Report of Kitti Council Allegations of Election District Two in Pohnpei

Palikir, Pohnpei (Office of the FSM National Public Auditor): February 24, 2010 - The Office of the National Public Auditor (hereinafter, "ONPA") announces the release of Report No. 2010-02: Inspection of Kitti Council Allegations Election District II In Pohnpei. Soft copy of the report is available for public review online at

Office of the National Public Auditor

P.O. Box PS-05
Palikir, Pohnpei FM 96941
Federated States of Micronesia



Mission Statement

We conduct audits and investigations to improve government operations, efficiency and accountability for the public's benefit.

Vision Statement

We create a high performing, transparent, and accountable government through the performance of high quality, independent audits and investigations.