

**Federated States of Micronesia**

**OFFICE OF THE  
NATIONAL PUBLIC AUDITOR**

**Annual Report**

**Fiscal Year 2009**



**Haser Hainrick  
National Public Auditor**

**March 01, 2010**

## FRAUD AWARENESS

Office Of The National Public Auditor  
Compliance Investigation Division

## PACIFIC ISLANDS REPORT

*Pacific Islands Development Program/East-West Center  
With Support From Center for Pacific Islands Studies/University of  
Hawaii*

You can be a  
first line of  
defense against  
fraud

AUDIT SHOWS WIDE ABUSE OF CHUUK STATE  
For client, employee



## Audit of Chuuk State pork barrel projects funds could lead to prosecutions

By Neil Jaynes  
Special to the Press

"social and economic development project," Razer Hensrik, Director of ONPA, said in a press release on the matter that 17 projects were, in essence, sub-

sidies that were purchased in conjunction with the 20 projects reviewed by the Chuuk State Commission on Improvement Projects (CSCIP) or the FIM Finance Field Office in Chuuk could locate and account for only one vehicle. The boats, engines, and other vehicles were

An audit  
says  
that

## Letters to the Editor

### ...Audit

(continued from Page 11)

The previous efforts on the part of the government to

NEWS

WS

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Investigating Possible Criminal Activity

## Table of Contents

Table of Contents .....	1
Public Auditor's Letter .....	3
ONPA Again Passes Peer Review with Highest Rating .....	5
Public Auditor Takes Proactive Approach in Combating Government Fraud .....	5
Reform Plan Audits Underway.....	5
CID Designs and Implements Case Management System to Enhance Information Management and Workflow Practices .....	5
ONPA Provides Training Opportunities to Strengthen Expertise of Local OPA Staff .....	5
Annual Report 2009 .....	6
Mission, Values, Vision.....	6
Duties of the National Public Auditor .....	7
Organization and Responsibilities of the ONPA .....	7
Audit Division .....	8
Compliance Investigation Division .....	13
Single Audits.....	19
Deloitte & Touche Reform Plan Audits .....	21
Other Matters of Interest.....	22
ONPA Passes Its Second Peer Review under Public Auditor Hainrick .....	22
Staff Physical Training Program Successful .....	23
ONPA Web Site: Transparency in Government Continues via ONPA's Web Site .....	23
ONPA held discussions with Fr. Francis Hezel and others.....	25
Office Administration.....	26
Budget .....	26
Training Classes and Professional Development .....	27
Training .....	27
Promotions, New Hires, and Departures.....	29
APPENDICES .....	32
Appendix I – Powers of the Office of the Public Auditor and Duties and Responsibilities .....	32
Appendix II – Organizational Chart: Office of the National Public Auditor as of September 30, 2009 .....	33
Appendix III: Audit and Compliance Investigation Division Operations .....	34

## Acronyms

APIPA	Association of Pacific Island Public Auditors
CFE	Certified Fraud Examiner
CFPA	Compact Fiscal Procedures Agreements
CFMR	Chuuk Financial Management Regulations
CFSM	Congress of the Federated States of Micronesia
CID	Compliance Investigation Division
CMS	Case Management System
CNMI	Commonwealth of the Northern Mariana Islands
DOE	Chuuk Department of Education
DOI	US Department of Interior
DOJ FSM	Department of Justice
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
NSEPO	National Special Education Program Office
OIA	US Department of Interior, Office of Insular Affairs
OIG	US Department of Interior, Office of the Inspector General
OJT	On-the-Job Training
OMB	US Office of Management and Budget
ONPA FSM	Office of the National Public Auditor
OPA	Office of the Public Auditor
SEP	Special Education Program
SEPO	Chuuk State Special Education Program Office
USDA	US Department of Agriculture



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### **Public Auditor's Letter**

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

I am deeply honored and very pleased to submit to you the Fiscal Year 2009 Annual Report of the Office of the National Public Auditor as required by law. As your Public Auditor, it is my duty and responsibility to report annually to the Congress on ONPA's progress and performance in safeguarding FSM's assets through audits and investigations that lead to improving government operations, efficiency, and accountability. It is our expectation that this Annual Report will inform our Stakeholders and increase the public's interest in our work. Within this report, we present our achievements for the year and the highlights of our continuing efforts in improving our performance.

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 2008-2011, target critical areas for audit. We issued five audits this year including: Review of Congress Funded Public Projects in Pohnpei State for fiscal years 2005 to 2007; Audit of ADB Loans 2099-FSM (SF) and 2100-FSM: Omnibus Infrastructure Development Project; Inspection of Procurement Activities in Chuuk Department of Education (FY2006-2007); Audit of Chuuk State Special Education Program Funds (FY2006-2008); and Audit of Congress Funded Public Projects in Chuuk State (FY2008-2009). We strive for transparency in government by quickly posting all audit reports to our website upon completion and transmission to the audited entity. This fiscal year ONPA for the second time in a row passed and received the highest rating possible for its external quality control review.

Our Compliance Investigation Division 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 2009, CID handled 27 cases, 13 of which were new cases. CID has also developed and implemented its new Case Management System (CMS) which is designed to manage, track and ensure completion of appropriated action steps for its cases. The CMS

has been modeled and developed with the assistance provided from the US Department of Interiors, Office of the Inspector General. In addition, CID launched a Fraud Awareness Program this year and completed a total of 29 presentations in Kosrae, Yap and Chuuk. Along with the presentations, the program includes the disseminations of fraud messages on banners, pamphlets and newspaper ads to the general public.

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. An increasing number of audited entities are receiving an Unqualified Opinion, the highest ranking that a government or entity can receive. This year, 18 of the 23 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 as well as in the performance and supervision of the Chuuk State Quarterly reviews.

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 2009 totaled \$694,268, with \$559,683 expended in our main office in Palikir and \$134,585 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. Our biggest achiever this year is Kelly Samuel who became a certified fraud examiner after passing the ACFE examination, refer to page 18.

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 staff at the main office in Palikir and at the field office in Chuuk are the real heroes whose commitment and contributions have helped move the office in a forward direction.

Respectfully submitted,



Haser Hainrick  
National Public Auditor

March 1, 2010

## 2009 Highlighted Accomplishments

### **ONPA Again Passes Peer Review with Highest Rating**

Under the leadership of Public Auditor Haser Hainrick, the ONPA passed its second Peer Review—a comprehensive evaluation used to determine whether the ONPA is performing its audits and inspections in accordance with professional auditing standards. The review committee determined that the ONPA is performing its audits and inspections work in full compliance with the Government Auditing Standards as issued by the Comptroller General of the United States. The committee awarded ONPA the highest possible rating of “full compliance.” Receiving the highest possible rating reflects on the excellence and hard work of the ONPA staff and its leadership. Audits and Investigations do not stand alone, however, in the work done by the Public Auditor and the ONPA staff. The ONPA is involved in other activities designed to improve overall performance and ensure that FSM and State government funds are managed and expended in an appropriate and accountable manner. These include strategic planning, increasing government transparency, strengthening local capacity (building expertise in the FSM and the States governments), and reducing fraud through a nationwide fraud awareness program.

### **Public Auditor Takes Proactive Approach in Combating Government Fraud**

Public Auditor Hainrick initiated a Fraud Awareness Program to bring attention to government fraud and ways to prevent it. The program refocuses ONPA from reactive—investigating acts of fraud and abuse, to proactive, bringing attention to government fraud with prevention as the primary focus. ONPA’s Compliance Investigation Division was given the lead for implementing this program and held educational briefings in Yap, Kosrae, and Chuuk. The briefings were well-attended and included the Yap Governor, Lt. Governor, cabinet members and representatives from the legislature, and Chuuk’s Governor, cabinet members, and members of the House of Representatives. Attendance by the leadership in these states underscores their interest and support for this topic.

### **Reform Plan Audits Underway**

Three quarterly audit reports of the cash receipts and expenditures of the Chuuk State Government have been issued. This audit requirement is part of the Reform Plan which was developed through a joint effort between the U.S. Department of Interior’s Office of Insular Affairs, the FSM National Government, and Chuuk State. A total of \$297,020 in questioned costs was identified in the reports. In addition, significant deficiencies in internal control over financial reporting were identified. Chuuk management concurred with the findings presented in the reports.

### **CID Designs and Implements Case Management System to Enhance Information Management and Workflow Practices**

Case Management Systems are designed to track and manage the details of open cases—tracking the status and progress of investigations, staying on top of critical dates, mapping milestones, collecting statistical data, and charting crime trends. ONPA’s case management system was developed and implemented by Chief Investigator Sophia Pretrick who gained information about case management systems during her professional development experience with the U.S. Department of the Interior Office of Inspector General in Washington, D.C. Her system is modeled after one used by the DOI/OIG.

### **ONPA Provides Training Opportunities to Strengthen Expertise of Local OPA Staff**

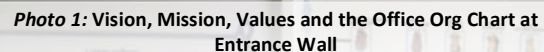
In addition, Chief Investigator Sophia Pretrick handled the training of Mr. Harry Jackson of Kosrae's Office of the Public Auditor. Mr. Jackson will be responsible for establishing an Investigative Unit within the Kosrae Office. Jackson's training was focused on implementing Quality Standards of Fraud Investigations, an overview of ONPA/CID and its Operating Procedures Manual, and the enabling legislation, as provided in the FSM Public Auditor's Act.

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.

The Public Auditor is dedicated to improving government operations by providing the FSM President, Congress, and audited entities with high quality, dependable, unbiased reports. Establishing a mission statement, vision statement, values and performance measures are essential first steps in laying the foundation for the ONPA work of conducting inspections and audits of departments, programs, and other entities that utilize National Government funds which improves the effectiveness and integrity of government operations.

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

## 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
- ◆ Professionalism
- ◆ Public Service
- ◆ Honesty

#### 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



**Photo 2:** Staff from the main office in Palikir (L-R) *Front:* Ivan Alafanso, Aisi Mori, Christina Elnei, Yolanda Leben, Erwihne David, Sophia Pretrick, Cathleen Alten, Cherisse Irons and Manuel San Jose, *Back:* Lover Haimin, Kelly Samuel, Michael Nakasone, Keller Phillip, Moses Russel, Eric Spivak, Fletcher Poll, Ron Sufficool, Edwin Barnuevo, Melvin Poll and Haser Hainrick.

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.



**Photo 3: Chuuk Field Office staff (L-R) Nakama Sana, Evelyn Paul, Charlene Joker and William Billimon**

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, 2009.)

ONPA has oversight responsibilities for monitoring and coordinating two additional areas. The first, part of the Reform Plan (the result of a collaborative effort between the Department of the Interior's (DOI) Office of Insular Affairs (OIA), the FSM National Government, and Chuuk State) are quarterly reviews of the DOI cash receipts and expenditures of the Chuuk State Government are conducted. The work is done by the outside contractor

that conducts the Single Audits. The second came about when the Joint Economic Management Committee (JEMCO) members adopted resolution 2008-01 requiring the services of an outside audit firm to conduct quarterly reports on the financial conduct and internal control environment of Chuuk's Department of Administrative Services for FY 2009.

### Audit Division

The Audit Division conducts three types of comprehensive performance 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 performance 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 2009, the Audit Division issued five reports. Reports issued since 2000, are posted on the FSM ONPA web, [www.fsmopa.fm](http://www.fsmopa.fm), except when there are reasons of security or privacy.

The following table presents FY 2009 audit reports issued by the ONPA.

**Table 1: Audit Reports Issued FY2009**

ONPA Number	Report	Audit Report Title
2008-07 <sup>1</sup>		Review of Congress Funded Public Projects in Pohnpei State, Fiscal Years 2005-2007
2009-01		Audit of ADB Loans No. 2099 FSM & Loan No.2100 FSM: Omnibus Infrastructure Development Project
2009-02		Inspection of Procurement Activities Chuuk Department of Education (FY 2006-

	2007)
2009-03	Audit of Chuuk State Special Education Program Funds (FY 2006-2008) (as of March 31, 2008)
2009-04	Audit of Congress Funded Public Projects in Chuuk State FY 2008-2009 (as of July 31, 2008), P.L. 13-36 as amended

1Report issue delayed until FY 2009.

### Highlights of Audit Reports Issued in FY 2009

Following is a brief discussion of the objectives and conclusions for each of the reports issued by our audit staff during this fiscal year. For more comprehensive knowledge, please refer to the complete report located on our internet web site: [www.fsmopa.fm](http://www.fsmopa.fm).

#### ***Review of Congress Funded Public Projects in Pohnpei State, Fiscal Years 2005-2007 (ONPA Report No. 2008-07)***



**Photo 4: Wone Elementary School road in Kittu, Pohnpei**

Our objectives were to determine whether (a) appropriate reviews and selection of Congress of the Federated States of Micronesia (CFSM) public projects were performed prior to funding, and (b) implementation of the CFSM public projects were in accordance with laws and regulations.

Public projects should have clarity of purpose, proper justification and transparency in how the projects are selected. The public projects selected for Pohnpei State did not exhibit these qualities. Instead, selections were based on the preferences and individual choices of each Congress member in their own election district. This fosters an appearance that favoritism and political influences may unduly decide where and how public funds are spent.

By sponsoring and funding Election District offices, Congress members were also involved in managing the staff and public funds needed to implement projects as well as other non-related activities. Involvement of Congress members in administering public funds conflicts with the separation of powers provision of the FSM Constitution leading to the inappropriate use of Election District offices.

Regarding CFSM public projects, the reasonableness of road construction costs was an issue due, in part, to Congress appropriating funds for projects without sufficient cost or pricing support for the work to be performed. As a result, the funds appropriated, rather than the estimated costs, became the

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1Public Law 13-36, appropriated \$2.8 million from local revenues (non-Compact) to provide funding for social development and economic development projects in the four States of the Federated States of Micronesia and is referred to as CFSM public projects.

targeted prices for contractors in developing construction plans and cost estimates. Furthermore, the allotter of funds, in some instances, was also the contractor performing the work. This is an apparent conflict with 11 FSMC §512.

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

On November 4, 2004 the Federated States of Micronesia (FSM) National Government entered into loan agreements 2099 FSM (SF) and 2100 FSM (the Project) with the Asian Development Bank (ADB) in the amounts equivalent to Special Drawing Rights (SDR) 9,686,000 and \$4,800,000, respectively, for the purpose of developing the Omnibus Infrastructure Development Project to enhance the public health and the environment, and to support economic growth and poverty reduction in the Federated States of Micronesia. The accumulated drawn amount for these loans is US\$694,854 as of September 30, 2008. The FSM National Government Department of Finance and Administration is the Executing Agency and is responsible for the timely release of funds. The FSM National Government Department of Transportation, Communication and Infrastructure is the Implementing Agency and is responsible for carrying out of the Project, including authorization of payments to be made from the Imprest Account. The Imprest Account is required to be operated and liquidated in accordance with ADB Regulations. The accompanying statement of project account is prepared for the year ended September 30, 2008, and solely incorporates the activities of the Project.

***Inspection of Procurement Activities Chuuk Department of Education (FY 2006-2007) (ONPA Report No. 2009-02)***



**Photo 5: Government tagged Chuuk DOE office equipment**

The inspection objectives were to determine whether the Chuuk Department of Education (DOE) (a) spent its budget for the categories of Contractual, Other Current Expense, and Fixed Assets according to laws, policies, and regulations, and (b) purchased and delivered the necessary supplies to schools in a timely manner. The scope of review covered fiscal years 2006 and 2007.

In our inspection, we determined that DOE did not comply with the Chuuk State Public Contract Act, Chuuk Financial Management Regulations (CFMR), Compact Fiscal Procedures Agreements (CFPA) and the FSM Code. Based on our review, we identified the following:

1. Significant weaknesses were noted in record keeping, for example,
  1. 35 percent of the sample expenditures selected, totaling \$2.2 million, lacked the appropriate and necessary supporting documents,
2. 23 percent (61 of 262) of Purchase Requisitions were not properly approved by the Allottee/or Sub-Allottee of the funds, and
3. for certain Accounts Payable Vouchers, three percent, totaling \$90,785 worth of expenditures, did not contain the proper approval of the Director prior to fund disbursements.

2. DOE management was not providing and delivering needed supplies/materials to the schools in a timely manner, for example, textbooks were received at the DOE warehouse in October 2007 and were still in storage at the warehouse when we conducted our fieldwork in June 2008.
3. Foods purchased for the School Feeding program lacked physical controls, accountability and monitoring.
4. Five percent or \$189,312 worth of DOE compact fund expenditures appeared to be in Conflict of Interest, Exclusive in Nature, and Anti-Competitive.
5. About 86 percent of DOE fixed assets and vulnerable items were not properly registered in the fixed assets registry and lacked physical controls over inventory records of fixed assets, vulnerable items, and the use of such assets. As a result, a total of \$32,105 of government assets were missing from the offices and some of the items had been taken by staff to their residences and used for personal purposes.

***Audit of Chuuk State Special Education Program Funds (FY 2006-2008 as of March 31, 2008) (ONPA Report No. 2009-03)***

Our primary objective was to determine whether the Chuuk State Special Education Program Office (SEPO) used its funds in compliance with FSM laws and regulations, and the terms and conditions of the grant. We reviewed whether the FSM National Department of Education through the FSM National Special Education Program Office (NSEPO), provided adequate oversight and monitoring to ensure that Special Education Program (SEP) funds were expended properly.

We determined that 44 percent of the funds expended did not comply with laws, rules and regulations, and/or with the terms and conditions of the grant. We noted that 75 percent (41 of 55) of the teachers did not have the required college degree. The total estimated annual salary of these unqualified teachers was \$210,100 which represents 44 percent of the total \$479,396 in special education spending for FY 2007. We identified weaknesses in the internal control procedures that led to missing/unaccounted fixed assets, mischarged expenses, unaccounted distribution of supplies, and unaccounted advances to suppliers. We also identified transactions that had the appearance of conflict of interest. This undermines the integrity of the procurement process.

Regarding oversight, we determined that the FSM Department of Education, through NSEPO, failed to provide adequate oversight and monitoring to ensure that funds were expended properly. Of primary concern was their failure to effectively monitor the completeness of the IEP—the Individual Education Plan—for each student. Services needed as identified in the IEPs drive the budget allocation. When there are incomplete and outdated IEPs, there is no assurance that the budget allocations satisfy the needs of the students.

The lack of effective monitoring allowed for non-compliance with regulations. For example, the construction did not follow the approved use of the grant and the renovation of the classrooms for students had not yet started. Further, the SEP grant fully funded special education rather than supplementing the local funds for special education, as required by regulation.

***Audit of Congress Funded Public Projects in Chuuk State FY 2006-2008 (as of July 31, 2008), P.L. 13-36 as Amended (ONPA Report No. 2009-04)***



**Photo 7: CFSM funded public project - sea wall in Chuuk**



**Photo 6: Chuuk Department of Education sign on Weno in Chuuk**

In this audit, our objective was to determine whether the administration of CFSM public projects complied with the Financial Management Regulation, Part X, and other laws, policies, and regulations.

We determined that the overall process, from selecting projects to paying vendors, lacked appropriate controls and did not comply with the FMR and other laws, and regulations. The lack of a formalized project selection process and the lack of incorporation of the State Development Plan into the project selection process, along with vague

wording in the law resulted in an environment that failed to provide any assurance that selected projects demonstrated the greatest ability to improve social and economic conditions. As a result, Chuuk State may not have realized the full benefit of the public monies expended.

A lack of control was evident in the expenditure of funds for selected projects. For example, fixed assets such as vehicles, boats, and engines were purchased but Chuuk cannot account for these assets. In addition, funds were expended on items that were not included in the Project Control Document and appeared to be outside the scope of the project. Weak control also resulted in an environment with no assurance that projects were completed or that vendors completed the agreed-upon work prior to receiving payment. Also, Project Inspection Officials were not always designated and inspections did not always occur.

### Compliance Investigation Division

The 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 2009, CID handled 13 new cases along with 14 cases that were carried over from prior years. Four cases were referred to DOJ for prosecution.

Compliance Investigation Division Case Statistics:

**Table 2: CID Cases Statistics:**

No.	Description	Quantity
1.	Open cases	13
2.	Open and carried over	27 (14 carried over)
3.	Referred Cases to DOJ	4
4	Closed cases or referred for administrative action	1
5	Active cases as of Date	22



**Photo 8: Entrance to Compliance Investigation Division**

**Table 3: CID Case Discussions:**

Case Number	Date Close and/or Referred	Allegation	Source of Request	Findings
CID-08-007	1/29/09	Payroll fraud-individual did not apply leave during campaign	Anonymous complainant	Allegation was disapproved found annual leave during campaign terms. (Case closed for file)
CID-06-009	2/16/09	False claim, payroll fraud and forgery	Concern citizen	Funds were allocated for a National Emergency Grant involving payroll to restore crops involving \$13,609.93 was misused, and used for ghost employees (Matter refer to DOJ for review)
CID-08-006	5/7/09	Misappropriation of public project funds	Concern citizen	Findings showed that the Municipal fishing funds for \$15,000 were used for boat repairs for individuals not intended for project and also expended for fuels not earmarked under the project's budget line item (Matter refer to DOJ for review)
CID-09-003	6/9/09	Internet scam	Departmental referral	Showed appearance of unauthorized withdrawal of government funds using the internet (matter refer to DOJ and Management advisory)
CID-08-003	8/19/09	Payroll theft and forgery	Concern citizen	Findings showed sufficient evidence of payroll fraud and forgery. Payroll checks were not delivered to workers or given consent or authorization for endorsement of their checks. \$18,196.87 may have been misappropriated (Matter referred to DOJ)

CID cases sent to DOJ for review, advice and/or appropriate legal action, and still pending as of the end of the year, are aged and presented in the table below. As shown in the table below, of the 15 cases referred to DOJ, four were referred more than two years ago. The statute of limitation could potentially run out if actions are not speedily taken on these matters.

**Table 4: Schedule of Aging of pending cases sent to Department of Justice as of September 30, 2009:**

CASE NUMBER	ALLEGATIONS	DATE REFERRED	Length of Time Since Referral			
			Less than 1 year	1 to 2 years	2 to 3 years	3 yrs & over
CID-04-003	Conspiracy and theft of fishing	3/8/05				XX
CID-05-007	Theft and Embezzlement from fishing corporation	3/30/05				XX
CID-03-016	False damage and crops claim	5/16/06				XX
CID-04-001	Conflict of Interest and Attempted Fraud	10/20/06				XX
CID-05-001	False Travel Claim	5/02/07			XX	
CID-07-005	Contract Fraud Involving Marine Park	3/10/08		XX		
CID-07-004	Collusion and violating of bidding procedures involving school supplies	3/10/08		XX		
CID-07-012	False Claim	2/27/08		XX		
CID-06-003	Theft and Misuse of the Secondary Nutrition Program	7/1/08		XX		
CID-04-005	Misappropriation of CIP Fishing Project Funds	7/4/08		XX		
CID-08-002	Tax Evasion and Money Laundering	9/10/08		XX		
CID-06-009	False claim, payroll fraud and forgery	2/16/09	XX			
CID-08-006	Misappropriation of Public Project funds	5/7/09	XX			
CID-09-003	Internet Scam	6/9/09	XX			
CID-08-003	Payroll theft and forgery	8/19/09	XX			

## Highlights of CID Cases:

### Criminal Case No 2008-2500

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 resulting investigation and prosecution led to two counts of theft of government funds against each defendant. The counts of theft of Government funds involving \$31,815.00

June 2009- One of the co-defendants was tried and entered a guilty plea in court and was sentenced for house arrest and restitution. DOJ is still extraditing the primary defendant

### Criminal Case No 2007-501

CID played a key role in the investigation, litigation and prosecution support on this case. The case involved the former FSM Ambassador to the US in Washington DC.

April 2009-Former Ambassador was convicted and found guilty on two counts of Theft of National Government funds. He was sentenced to prison for 31/2 years followed by restitution.

## **CID Administration & Training:**

### CID Launched Its First OJT with Kosrae OPA's Investigator

Harry Jackson received his training during the week of 23-27 February at the ONPA in Palikir. His training was coordinated and conducted by Sophia Pretrick, CID's Chief Investigator. Ms. Pretrick, a Certified Fraud Examiner (CFE), focused the training on the implementation of the Quality Standards of Fraud Investigations, as adopted by the U.S President's Council on Integrity and Efficiency Executive. Training topics also included an overview of ONPA/CID organization and mission, CID's Manual of Operating Procedures (MOP), the Memorandum of Understanding (MOU) with the FSM Department of Justice, and ONPA's enabling legislation as provided in the FSM Public Auditor's Act. Information provided to Investigator Jackson will be modified to conform to Kosrae state laws and regulations.

Mr. Jackson stated in his training summary report, "I evaluated the training program provided by ONPA/CID to the highest point rating possible and recommend that any individual or group that seek such training should come to ONPA." ONPA thanks Kosrae OPA for their support and cooperation in expanding anti-fraud capacity building in the FSM.

### Compliance Investigation Division Implements Case Management System (CMS) the First of its Kind in the Insular Area

The Compliance Investigation Division has recently designed and implemented a case management system (CMS), the first of its kind in the Insular Area. The CMS will be used to manage case activity and statistical information regarding the cases and activities initiated by CID. Use of the CMS will boost the division's efficiency and aid the division in preventing and detecting fraud. As such, it will become an integral component of the Public Auditor's efforts "to improve government operations, efficiency, and accountability for the public's benefit." The CMS will provide crime trends and reports on crime status, statistics, milestones and deadlines.

The project was initiated by Chief Investigator Sophia Pretrick during a 45-day professional development experience with the U.S. Department of the Interior Office of Inspector General

(DOI/OIG) in Washington, D.C. and Virginia. Ms. Pretrick negotiated and obtained the assistance of the OIG Acquisition Integrity Unit (OIG/AIU) in developing the CMS.

Mr. Robert Knox, formerly Director of the AIU and Mr. James Smith, a Special Agent with the DOI, traveled to Pohnpei to provide the assistance. Messrs. Knox and Smith provided a week of intensive assistance and collaboration in the development of the CMS, which is modeled after their CMS with modifications made to fit the needs of the CID. Additionally, while in Pohnpei, the two gentlemen conducted a fraud procurement training session for the ONPA staff and assisted in the development of a Procurement and Contract database.

The Public Auditor wishes to publicly thank Messrs. Knox and Smith for their assistance, without which the CMS could not have been designed. They have played an important role in helping the ONPA develop the tools needed to carry out its mission and in the professional development of the ONPA staff.

The Public Auditor also thanks the DOI for its assistance and continued support of the ONPA and the CID. They look forward to benefitting from the expertise and assistance that the DOI has and continues to provide to the FSM.

#### Investigator Kelly Samuel Earns CFE Credential



**Photo 9: Kelly Samuel,  
Investigator**

On April 4, 2009 Kelly Samuel earned the Certified Fraud Examiner designation. Mr. Samuel is an Investigator employed by the ONPA's Compliance Investigation Division (CID).

The Association of Certified Fraud Examiners (ACFE), the world's leading provider of anti-fraud training and education, awarded Mr. Samuel the globally preferred Certified Fraud Examiner (CFE) credential upon his passing of the CFE exam. In order to become a CFE, an anti-fraud professional must meet a stringent set of criteria and pass a rigorous exam administered by the ACFE. The exam focuses on four sections of knowledge critical to the fight against fraud: Criminology & Ethics, Financial Transactions, Fraud Investigation and Legal Elements of Fraud. Mr. Samuel successfully passed the exam on his first attempt.

Chief Investigator Sophia Pretrick highly applauded Investigator Samuel's exceptional achievement, stressing that Samuel is a dedicated and hardworking Investigator.

Samuel joins the ranks of over 23,000 business and government professionals worldwide who have also earned the CFE certification. Samuel is the fourth FSM citizen who has earned the CFE designation. Fletcher Poll, CID Investigator; Sophia Pretrick, the CID Division Chief; and Jack Jack are the other three.

The attainment of professional designations is part of the ONPA objective to develop and upgrade staff capabilities. The ONPA serves the citizens of the FSM by acting as the public's watchdog over government operations. The ONPA conducts audits and investigations that hold the government accountable for the effective and efficient use of public funds. As Public Auditor Haser Hainrick commented, "We should always be one step ahead of the fraudsters. Mr. Samuel's attainment of the CFE title demonstrates that he has the skills and abilities to assist the FSM when investigating allegations of fraud."

CFE's have the ability to examine data and records to detect and trace fraudulent transactions; interview suspects to obtain information and confessions; write investigation reports, advise clients as to their

findings and testify at trials; be well versed in the law as it relates to fraud and fraud investigations; and understand the underlying factors that motivate individuals to commit fraud.

### Launching of the Fraud Awareness Program

ONPA launched its Fraud Awareness Program early in 2009 with the objective of bringing attention to government fraud, a very serious concern in the nation. By educating government employees, schools and the general public on what fraud is and how it impacts government operations, the ONPA hopes to encourage the public to be vigilant and more likely to recognize and report fraud. An environment where fraud is recognized and reported helps to deter and prevent individuals from committing such crime. Therefore, education is considered a preventative tool in the fight against fraud.



**Photo 10: Fraud Awareness banner in Pohnpei**

The activities involved in the educational awareness program include dissemination of information throughout the FSM by the use of banners, flyers, hotline cards, advertisements, and fraud awareness briefings. The briefings are an opportunity for the public to meet the ONPA's fraud investigators and learn more about the investigative process and how the investigators handle the fraud tips and complaints it receives from the public. The briefings are given to government employees, schools and the general public and include discussion about the internal functions of ONPA and the manner in which they perform their duties and responsibilities. According to the National Public Auditor Haser Hainrick, "The role of ONPA has been refocused from a reactive to a proactive approach."

The program is funded under a technical assistance grant awarded to the ONPA from the Department of Interior/Office of Insular affairs.

In July of 2009, Chief Investigator Sophia Pretrick and her staff visited Kosrae and completed eight (8) briefings. There were about 180 participants attending the briefings.

CID conducted nine (9) briefings in the State of Yap. One hundred forty four (144) citizens of the State of Yap attended the briefings. The briefings were attended by Governor Sebastian Anefal, Lt. Governor Anthony Tareg, cabinet members and representatives from the Legislature as well as by students, government employees, and other citizens. The majority of the participants rated the presentation valuable and recommended that it be conducted periodically.



**Photo 11: CID staff conducts FAB in Chuuk**

The program was also extended and conducted in the state of Chuuk after Kosrae and Yap. The briefings were successful. There were twelve (12) briefings and a total of three hundred ninety-two (392) participants. The team visited various government entities and high schools in Chuuk, such as Saramen Chuuk Academy, Berea Christian School, Xavier High School and the College of Micronesia Chuuk branch. The government entities include the State Legislatures House of Representative, Governor's Office, Health and Education

Department, FSM Supreme Court, FSM Finance rep office, Customs and Immigration office.

The execution of the fraud briefings in Chuuk occurred on the island of Weno. Chief Investigator Sophia Pretrick and Investigator Fletcher Poll were assigned to do the task, along with their newly hired staff Michael Nakasone. Like in the other FSM States, this was the first time ever for this type of program to occur in the State of Chuuk.

The objective was to aim for as many participants as possible. The coordination with the field office in Chuuk was great. Evelyn Paul, the Officer in Charge of the FSMOPA Chuuk Field Office (CFO) and her staff were very helpful and prompt in arranging and liaising with the Chuuk State Government, schools, private entities and the general public.

The highlight of the briefings was the participation of the member of Legislature, House of Representative and Governors and cabinets; which established the support from the highest level of the State Governments. The public officials were actively involved in the question/answer sessions, which showed their support for the program. As expressed during the FAB in Kosrae and Yap, the appreciation of the presence of the Public Officials, Leaders and Managers because they possess the will to change and implement good governance, integrity and ethical conduct, which is very vital for Chuuk, which in return will help the entire nation.

### Single Audits

Under the Compact of Free Association agreement between the FSM and the United States of America, FSM National and State Governments are required to have their general purpose financial statements audited annually. Under OMB Circular A-133, 2 audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position. 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 has oversight responsibilities for the contract work.

#### Deloitte & Touche Single Audits

Deloitte & Touche, LLP, is the outside contractor handling the bulk of the single audit work requirement. They have been awarded the audit contract every year since the inception of the Compact of Free Association in 1985. The main objective of a financial audit is to express an opinion on the fairness of the financial statements of the audited entity. The highest ranking that a government or entity can receive in the financial audit is an unqualified opinion. For FY 2008 (opinions that were issued before July 1, 2009), 23 opinions were issued and 18 of these were Unqualified Opinions. This is an increase by one over FY 2007. All audits for the FSM National and State Governments were completed on time.

For each of the years when audits were performed, 12 entities have consistently received an Unqualified Opinion—the College of Micronesia, Coconut Development Authority, FSM Development

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2 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.

Bank, FSM Social Security Administration, FSM Telecommunication Corporation, Kosrae Utilities Authority, Micronesia Petroleum Corp., Pohnpei Fisheries Corp., Pohnpei Housing Authority, The Diving Seagull, Inc., Yap State Public Service Corp., and Yap Visitor's Bureau.

Pohnpei Utilities Corp., has consistently received an Unqualified Opinion for each of their last five audits, Pohnpei State Government, and Pohnpei Port Authority have consistently received an Unqualified Opinion for each their last four audits, Kosrae State Government has received an Unqualified Opinion for each of their last three audits, and MiCare Plan Inc., for each of their last two audits. After receiving a Qualified Opinion or a Disclaimer for the past three years, Chuuk State Health Care Plan received an Unqualified Opinion for FY 2008.

The following table presents the results of the Single Audits since 2002.

**Table 5: Single Audit Opinions Issued 2002 through 2008**

Government or Entity	2002	2003	2004	2005	2006	2007	2008
<b>FSM National Government</b>	Q	Q	Q	Q	Q	Q	Q
<b>Chuuk State Government</b>	Q	Q	D	D	D	Q	Q
<b>Kosrae State Government</b>	Q	Q	Q	Q	UQ	UQ	UQ
<b>Pohnpei State Government</b>	Q	Q	Q	UQ	UQ	UQ	UQ
<b>Yap State Government</b>	Q	Q	Q	Q	Q	Q	Q
<b>College of Micronesia</b>	X	X	UQ	UQ	UQ	UQ	UQ
<b>Coconut Development Authority</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>Chuuk State Public Utility Corporation</b>	Q	D	D	D	D	D	D
<b>Chuuk State Health Care Plan</b>	X	X	UQ	Q	Q	UQ	UQ
<b>FSM Development Bank</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>FSM Social Security Administration</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>FSM Telecommunication Corporation</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>Kosrae Utilities Authority</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>MiCare Plan, Inc.</b>	X	X	X	Q	Q	UQ	UQ
<b>Micronesia Petroleum Corporation</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>National Fisheries Corp</b>	Q	Q	D	D	D	NC	Q
<b>Pohnpei Fisheries Corp</b>	UQ	UQ	X	X	UQ	UQ	UQ
<b>Pohnpei Housing Authority</b>	X	X	X	X	UQ	UQ	UQ
<b>Pohnpei Port Authority</b>	Q	Q	Q	UQ	UQ	UQ	UQ
<b>Pohnpei Utilities Corp</b>	UQ	Q	UQ	UQ	UQ	UQ	UQ
<b>The Diving Seagull, Inc.</b>	X	X	X	UQ	UQ	UQ	UQ
<b>Yap State Public Service Corporation</b>	UQ	UQ	UQ	UQ	UQ	UQ	UQ
<b>Yap Visitor's Bureau</b>	X	X	X	X	X	UQ	UQ

**Key:**

UQ = Unqualified Opinion, the financial statements are reasonably correct

Q = Qualified Opinion, there are some reservations

D = Disclaimer, the auditor could not form, and consequently refuses to present, an opinion

X = No audit performed

NC = Not completed by deadline

FSM Government is better-served when ONPA resources are directed towards performance, compliance, and inspections audits and reviews that provide results that can be utilized in making sound decisions regarding the nation's resources. In an effort to maximize ONPA in-house audit resources and to increase the number of firms auditing in FSM, the Public Auditor authorized the outsourcing of financial audits for Caroline Island Air, Inc. and for a program funded by the Asian Development Bank.

J.E. Fortenberry, III, P.C. audited the financial statement of the Caroline Islands Air, Inc and issued two reports, one for the timeframe covering 2004 and 2005 and another for the timeframe covering 2006 and 2007, both reported an Unqualified Opinion. RC Holsinger Associates, P.C., audited the statement of account of the FSM Asian Development Bank Loan 1874-FSM (SF) for the year ending September 30, 2007 and reported an Unqualified Opinion.

#### Deloitte & Touche Reform Plan Audits

The U.S. Department of Interior's Office of Insular Affairs directed that DOI cash receipts and expenditures of the Chuuk State Government be audited quarterly. This requirement came about as a component of the Reform Plan, a product of the collaborative effort between OIA, the FSM National Government, and Chuuk State. This work requirement was incorporated into an amendment to the Deloitte & Touche Single Audit contract. ONPA has oversight responsibilities for these quarterly reviews.

Three reports have been issued, *State of Chuuk Federated States of Micronesia, Schedule of Cash Drawdowns and Expenditures of U.S. Department of the Interior Programs Administered by the State of Chuuk and Independent Auditor's Report, (1) Quarter Ended December 31, 2008, (2) Quarter Ended March 31, 2009, and (3) Quarter Ended June 30, 2009.*

In planning and performing the audits, the auditors considered the State's internal control over financial reporting as a basis for designing the auditing procedures and for the purpose of expressing an opinion on the financial statement, but not on the effectiveness of the State's internal control over reporting. In every report, significant deficiencies in internal control over financial reporting were identified.

Each of the three reports identified questioned costs with a total for the three reporting periods of \$297,020. This amount was reflected in a variety of findings including lack of supporting documentation, lack of evidence of competitive bidding, and differences between the established pay rate and the accounting system pay record. In every instance, the audit report states that Chuuk management concurred with the findings of the auditors. In cases when there was a lack of supporting documentation, Chuuk management noted that the documentation was subsequently available for review. In addition, to the findings with a dollar amount identified, several findings were reported that had no dollar amount in question. These instances generally involved a lack of following proper procedures which gives the appearance of lack of compliance.

#### Additional Outsourcing of Audits

JEMCO members adopted resolution 2008-01 requiring FSM National Government to secure the services of a professional audit firm to provide quarterly reports on the financial conduct and internal control environment of Chuuk's Department of Administrative Services for FY 2009. We have issued a Request for Proposal of Services for this work but have not, as yet, awarded a contract.

### ONPA Passes Its Second Peer Review under Public Auditor Hainrick



Photo 12: Peer review team met ONPA staff

Peer Review is an external quality control review conducted by the Association of Pacific Islands Public Auditors every three years to determine whether an audit office is performing its audits and inspections in accordance with professional auditing standards. Peer Review is a critical component in maintaining ONPA excellence in audits and inspections. Under the leadership of Public Auditor Haser Hainrick, ONPA passed its second Peer Review, again passing with the highest possible rating of “full compliance” with the Government Auditing Standards as issued by the Comptroller General of the United States. The review covered work performed by ONPA from October 01, 2005 to September

30, 2008 (referred to as the 2008 review). During this three year period, Public Auditor Hainrick issued a total of 19 reports—four performance audits, two financial audits, one attestation engagement, and twelve inspections. Passing peer review is a significant achievement within the audit division, however, it also reflects highly on the reputation, dedication and competency of the entire office staff. PA Hainrick attributed the accomplishment to team effort and the hardworking spirit of his staff.

After taking office in 2002, Public Auditor Hainrick was advised that ONPA failed its previous Peer Review and that his unwavering mission was to turn the office around before the next peer review in 2005. Demonstrating dramatic improvement, ONPA received the highest possible peer review rating in the 2005 review. In preparation for the 2008 review, the Public Auditor determined that his staff would participate in external peer reviews. This effort would provide his staff an excellent opportunity to work with other auditors, enhance their auditing skills through review of the products that were produced, and observe techniques and methodologies used in other OPA's. The Public Auditor and ONPA staff participated in peer reviews in Palau and the Commonwealth of Northern Mariana Islands.

The team conducting the 2008 Peer Review was comprised of Mr. Charles Hester, APIPA Technical Advisor; Ms Atmita Jonathan, Acting Auditor General of the Marshall Islands, and Ms. Rodalyn May Marquez, an Audit Supervisor in Guam's Office of Public Accountability. Mr. Frank Cooper-Nurse, also of the Guam Office of Public Accountability, assisted the Peer Review team. PA Hainrick expressed his appreciation to the members of the Peer Review team for their hard work and diligence in conducting the review on behalf of the APIPA. He also extended appreciation to the Guam Public Auditor, Doris Flores Brooks and her staff for the administrative support and to the U.S. Department of the Interior, Office of Insular Affairs for their continued financial support.

## Staff Physical Training Program Successful

Public Auditor Hainrick authorized the implementation of a six-week exercise training program that was led by ONPA's CID. All ONPA staff was invited to participate in the program. After some initial trepidation about the event, the program kicked off with enthusiasm. Improving the motivation and wellbeing of staff, as well as reducing stress and anxiety were objectives of the program. Staff began with a warm-up session followed by walking and jogging for 30 minutes every Tuesday and Thursday after work. ONPA management created incentive awards to keep the participants active and hold their interest.



**Photo 13: ONPA staff walk down the road behind the Capitol Complex**

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

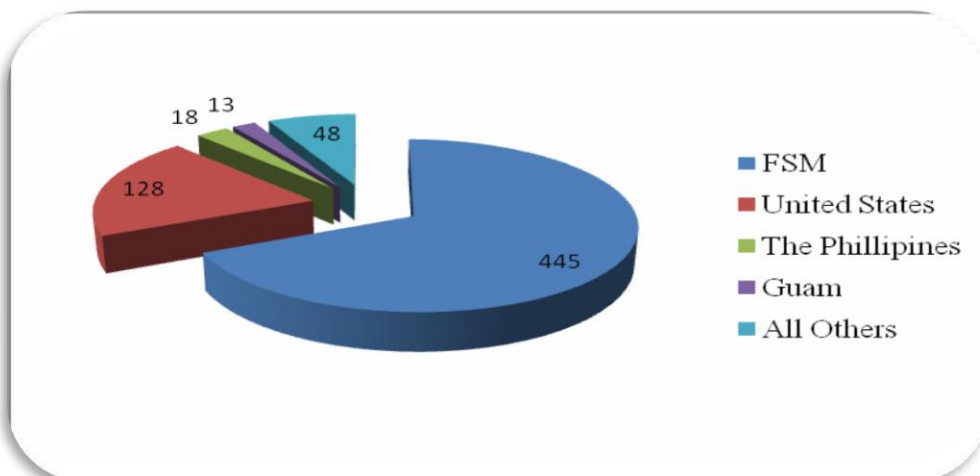
ONPA's strategic goal to improve transparency in government is furthered through the use of the ONPA internet website ([www.fsmopa.fm](http://www.fsmopa.fm)). Transparency means providing citizens with information about their government's operations. One indicator of transparency is FSM citizens' use 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.<sup>3</sup> 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 number of visits to the web site in September 2009 was 652; whereas, the average number of monthly visits for the period reported in 2008 were 250. However, FSM citizens are the primary users of the ONPA web site. Of the 652 visits to the web site during the month of September, 445, or 68 percent, were made by citizens of the FSM. The remaining visits were scattered among the United States (128), the Philippines (18), Guam (13), and eleven other countries.

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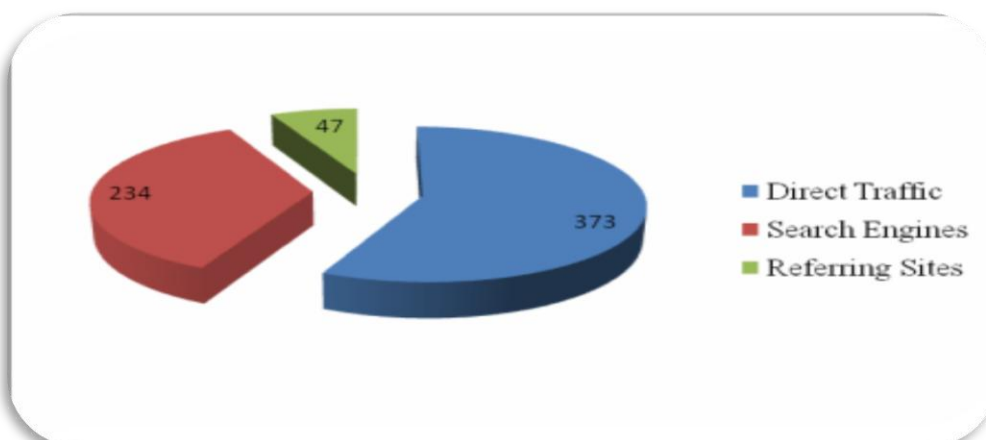
<sup>3</sup>Access is tracked by whether the visitor came to the ONPA web site by (1) direct access (2) a search engine service, or (3) a referral. Using direct access, visitors enter the ONPA web address and are sent directly to the ONPA site. Using a search engine, visitors reach the site using key 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.

Chart 1: Source of Visits to the ONPA Web Site



In September 2009, the majority of visits to the ONPA web site were by direct access—the visitor entered ONPA’s web address into their internet browser in order to access the site. As seen in the following chart, 373 of the 654 site visits came to the site by using the ONPA web address.

Chart 2: Method of Accessing ONPA Web Site



Although visitors can reach the ONPA web site by using a search engine or by referral when they are at another web address, directly entering the ONPA web address is an indicator of the visitor’s intent to access ONPA’s web site.

#### Hotline (320-6768)

A Hotline has been established by the Public Auditor for use by concerned private citizens to report possible misconduct and alleged abuse of all government entities. Information from the public is a valuable part of the audit process and helps ONPA focus 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 is located on the ONPA website, <http://www.fsmopa.fm>.

## ONPA held discussion with Fr. Francis Hezel

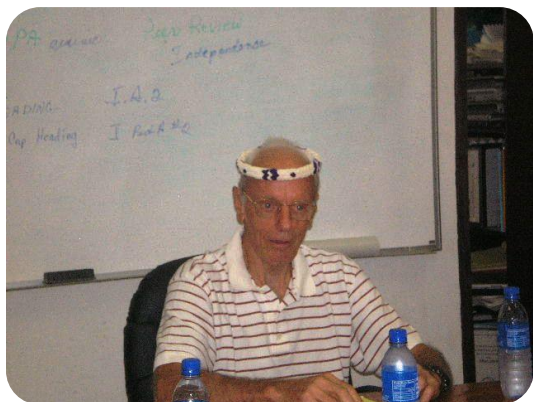


Photo 14: Fr. Hezel at ONPA

On August 25, 2008, ONPA invited Fr Francis Xavier Hezel, Director of Micronesian Seminar (Micsem) to discuss the functions of Micsem in the FSM. Micsem is a non-profit pastoral research institution, which serves the Federated States of Micronesia, Palau, the Marshall Islands, and the Commonwealth of the Northern Mariana Islands for over the past 30 years.

The objectives of the discussion were to understand the role that Micsem plays in raising the literacy on social and economic development of the Micronesian island nations and its views on health and education sectors. According to Fr. Hezel Micsem plays an important role in the form of community education, and has engaged in social and historical research for the islands. In details, Fr Hezel further discussed the issues facing islanders as a result of social and economical changes in recent years.

The discussion provided an opportunity for the staff to gather relevant information on issues affecting the health and education sectors from a different perspective. Fr. Hezel discussed issues and potential solutions on program implementation, structure of the FSM and state governments, payroll system for the Education Sector and land issues in Chuuk that may have contributed to the slow pace of overall development.



Photo 15: Former FSM President John Haglelgam with ONPA staff

## ONPA staff held discussion with John Haglelgam

On August 19, 2008 ONPA staff held a meeting with College of Micronesia-FSM (COM-FSM) Social Science Professor Mr. John Haglelgam, former member of the Congress of Micronesia and the 2<sup>nd</sup> President of the FSM. The meeting was organized by Audit Supervisor Edwin Barnuevo and his team for the CFSM Public Projects in Chuuk State.

The discussion was centered on issues and the uses of CFSM funds for public projects. It provided an opportunity for the auditors to discuss changes and issues related to Congressional appropriations for public projects also known as pork barrel.

## ONPA Staff held discussion with Jack Yakana

Public Auditor Hainrick invited Mr. Jack Yakana, Director of the Project Management Unit (PMU) to discuss with ONPA staff the infrastructure grants and projects that are currently in the process. Mr. Yakana discussed his office's functions and issues that he encounters.

The PMU Director further discussed about his office handling thirty six (36) projects, which 20 were already



Photo 16: PMU Director Jack Yakana (middle) and his staff with ONPA staff

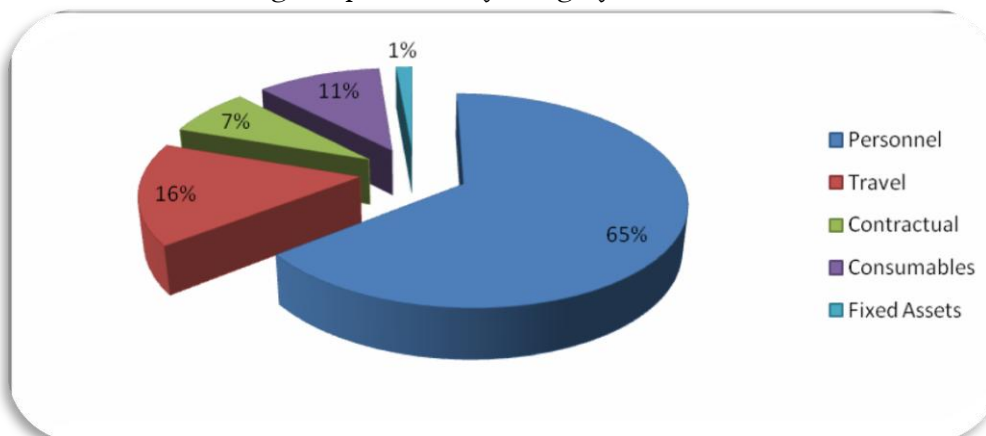
been completed and 16 are still under design works and will need approval prior to their implementation. He also mentioned that the implementation of projects in the FSM States is very slow. In addition, he mentioned that there was a \$130 million infrastructure sector grant for FSM to be used on infrastructure projects however, only 25% of that amount was spent in all the FSM States. This issue had been an on-going concern by the US Congress. Finally, he mentioned that the deadline for PMU to submit infrastructure projects to JEMCO is on the 15th of May of each year and the projects are to be submitted along with budget breakdown on all the projects. Somehow, two (2) projects have already been submitted by the State of Kosrae.

## Office Administration

### Budget

Total expenditures for fiscal year 2009 were \$694,268. Expenditures for our main office in Palikir were \$559,683, or 81 percent of the total, and for our field office in Chuuk, \$134,585 or 19 percent of the total. As illustrated in the following graph, personnel costs remain our largest expenditure at 65 percent of the total, followed by travel costs at 16 percent, consumables at 11 percent, contractural at 7 percent and fixed assets at 1 percent.

Chart 3: Percent of Budget Expenditure by Category for FY2009



The actual expenditures for fiscal year 2009 were less than the approved budget in every category. The following table illustrates the breakdown of expenditures by category for each office as well as a comparison of the amount approved and the actual amount expended.

Table 6: Approved Budget vs. Actual Expenditures by Category for Fiscal Year 2009

Budget Category	Main Office in Pohnpei		Chuuk Field Office	
	Approved Budget	Actual Expenditures	Approved Budget	Actual Expenditures
Personnel	\$436,644	\$347,420	\$145,164	\$100,272
Travel	\$162,027	\$95,887	\$25,000	\$13,599
Contract Services	\$139,000	\$41,101	\$31,750	\$10,577
Other Current Expenses	\$65,690	\$65,537	\$25,670	\$10,135
Fixed Assets	\$14,000	\$9,737	\$875	-0-
Totals <sup>1</sup>	\$817,361	\$559,683	\$228,459	\$134,585

<sup>1</sup>Amounts may not total due to rounding.

As seen in the following table, our personnel costs have increased with our office expansion and the staffing of our field office in Chuuk, while our travel costs have decreased.

**Table 7: Budget Expenditures by Category and Fiscal Year**

Budget Category	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
<b>Personnel</b>	\$326,797	\$326,797	\$331,209	\$331,209	\$329,709	\$374,803	\$409,423	\$447,692
<b>Travel</b>	\$128,200	\$128,200	\$103,413	\$126,659	\$127,590	\$227,959	\$186,808	\$109,487
<b>Contract Services</b>	\$ 39,000	\$42,000	\$33,000	\$45,000	\$43,053	\$119,917	\$49,734	\$51,678
<b>Other Current Expenses</b>	\$24,000	\$26,000	\$34,930	\$153,160	\$66,651	\$94,642	\$88,458	\$75,673
<b>Fixed Assets</b>	\$6,000	\$1,000	\$3,000	\$9,000	\$11,797	\$31,074	\$22,718	\$9,737
<b>Totals<sup>1</sup></b>	<b>\$523,997</b>	<b>\$523,997</b>	<b>\$505,552</b>	<b>\$665,028</b>	<b>\$578,800</b>	<b>\$848,395</b>	<b>\$757,141</b>	<b>\$694,268</b>

<sup>1</sup>Amounts may not total due to rounding.

### Training Classes and Professional Development

Public Auditor Hainrick recognizes and supports the need for staff to keep abreast of developments in their work area of expertise and to continue to expand their knowledge and skills. The ONPA staff obtains their continuing professional education through a variety of learning opportunities including classroom training, workshops, and conferences.

#### Training

##### Strengthening Audit Skills Training Program

A one-week training program was held at the College of Micronesia to strengthen staff auditing skills and to review recent revisions to the Yellow Book on government auditing standards. The training was funded by the FSM National Government and sixteen ONPA staff attended. Local staff capacity building, one of ONPA's strategic goals, parallels FSM's capacity building program.



Photo 17: Audit training funded by National Staff Upgrading

##### Keller completed OJT training at DOI/IG Office in Sacramento



Photo 18: Keller Phillip with Mr. Charles Wiebe in Sacramento DOI/OIG

Keller Phillip completed his 60-day on-the-job training with the Office of the Inspector General in Sacramento, California on June 12, 2009.

During the training, Keller had the opportunity to meet USDOJ/OIG Regional Manager, Michael Colombo and Deputy Regional Manager Mr. Charles Wiebe and staff at the Sacramento office. Keller was also introduced to the Lotus Notes database and filing system.

As part of his training, Keller reviewed evaluation reports and participated in draft report conferences. He was invited to participate during an Evaluation whether the Bureau of

Land Management (BLM) is meeting its Environmental Mitigation Responsibilities. Later on Keller joined an evaluation team to conduct the “Evaluation on Conservation Easement Monitoring and Enforcement for the US Fish and Wildlife Services (USFWS)”.

According to Keller, the training was the best he ever had. The training was organized and coordinated by the FSM Public Auditor, DOI/OIG and Office of Insular Affairs. ONPA's continuing efforts to provide such training to resident staff have been made successful through the technical assistance funding from DOI/OIA and supports from DOI/IG office.

#### Julinida studies at UOG



Photo 19: Julinida Weital, Staff Auditor

ONPA accepted the opportunity for Julinida Weital, Auditor I, to attend at the University of Guam (UOG) beginning spring 2009. After completing her third year certificate program at the College of Micronesia-FSM (COM-FSM) in December, 2007, Julinida has one year remaining toward her degree in Business Administration. Julinida left for UOG early in January of this year to continue her education.

As part of her Individual Development Plan, she executed an agreement with the office for a one year educational leave. Julinida is expected to complete her program by end of Fall 2009. Julinida accepts to continue her employment with the Office after completion of her study for a period not less than two years.

ONPA develops the Individual Development Plan (IDP) to support its effort toward staff capacity building. The IDP is a plan which is communicated and implemented by each staff member. It ensures that all staff members attain one higher level of accounting, auditing and technical proficiency. ONPA provides such opportunities to continuously upgrade staff skills and credentials to perform their duties effectively.

#### Auditor Alafanso Participates and Completes the 1<sup>st</sup> Inaugural Executive Leadership Development Program (ELDP)



Photo 20: ELDP Graduation Ceremony: (L-R) Mr. Nikolao Pula, Mr. Ivan Alafanso and Mr. Stephen Latimar

Ivan ‘Jimbo’ Alafanso was accepted into the 1<sup>st</sup> Inaugural Executive Leadership Development Program and began his first formal training session on Guam in October. The program is designed to assist the insular areas in developing and retaining qualified, skilled staff to become future leaders. The program focuses on the need to establish a pool of potential leaders to assume key government functions. Ivan began his training by developing an action plan for a specific project and engaged in discussions to identify unique government issues and key topics for projects that will be undertaken for the duration of the program.

Ivan completed the rigorous program in September 2009 and delivered the graduation speech on behalf

of his fellow participants.

## Promotions, New Hires, and Departures



**Photo 21: Lover Haimin, Administrative Officer**

Lover Haimin was promoted to the position of Administrative Officer, reporting directly to the Public Auditor. Lover has been employed by the ONPA since June 2007. He served as the assistant to the former Administrative Officer prior to his promotion in January 2009. Lover, from the State of Chuuk, 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. He also attended the College of Micronesia where he received an Associate of Arts degree in Micronesian Studies.

ONPA hired Edwin Barnuevo on July 14, 2008 as an Audit Supervisor. Originally from the Philippines, Edwin is a certified Public Accountant. He completed his masters of Business Administration and Education at the University of Baguio City in the Philippines.

Edwin previously worked with the Yap State Public Service Corporation for two years as Controller and at the same time a part-time accounting instructor at the COM-FSM, Yap Campus. He also worked with COM-FSM National Campus, in Pohnpei as Assistant Professor for the College's Division of Business. Before moving to the FSM, Mr. Barnuevo had spent over two years working as Associate Professor at the College of Commerce, University of Baguio, in the Philippines. As an auditor, he spent three years at Punongbayan & Araullo, a member firm of Ernst & Young International and a short stint with Heidelberg Philippines, Inc. as an accountant.



**Photo 22: Edwin Barnuevo, Audit Supervisor**



**Photo 23 Eric Spivak, Audit Manager**

The ONPA welcomes Eric Spivak who was hired as Audit Manager in February 2009 under a 2-year contract. Originally from New Jersey, Eric has also spent time in Arizona and Oregon. Eric is a Certified Internal Auditor with more than 14 years of auditing and management consulting experience. He received a Bachelor of Arts degree in Political Science and a Masters degree in Public Administration, both from Arizona State University.

Ron was recruited from Los Angeles, California where he was employed as the Internal Audit Manager for the Guitar Center Company. He has also held audit positions with Aecom Technology and RD Shell Oil. Ron received a Bachelor of Science degree in Business Management from Loma Linda University in California. Ron is a Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor and Certified Fraud Examiner.



**Photo 24. Ronald Sufficool, Audit Supervisor**

Michael Nakasone was hired as an Investigator for the Compliance and Investigation Division. Michael, also known as Mitch, previously worked at the Department of Justice as an intern, and served as a Trial Counselor at the Pohnpei State Supreme Court, after graduating from the College of

Micronesia, FSM. Mitch brings strong legal research skills to CID along with training in Prosecuting Money Laundering and Terrorist Financing, Maritime Policy, and Legislative Drafting and Litigation Skills.



**Photo 26: Melvin Poll, IT Specialist**

Melvin Poll was hired on April of 2009 as ONPA Temporary IT Specialist. Melvin is from the State of Pohnpei and completed his 2-year college education at the College of Micronesia, FSM where he received an Associate of Arts in Computer Information System.

Previously, Melvin worked with Pohnpei Computer Consulting, a private computer consulting and networking business where he was exposed to actual IT works and acquired more skills. Melvin works closely with an appointed 5-member IT committee to monitor and address issues related to IT matters. In addition, Melvin monitors the network, upgrades the computer capabilities and repair other IT equipments for both main and Chuuk Field office to meet the staff need and to facilitate the overall work requirements by providing security for the Internet, network administration and computer equipment repair.



**Photo 25: Michael Nakasone, Investigator**

Cathleen Alten was hired on January 12, 2009 as ONPA temporary Administrative Assistant. Cathleen aka Cathy has been playing an active role in moving the administrative division forward. Cathy also from the State of Pohnpei completed her studies majoring Hotel & Restaurant Management (HRM) at the College of Micronesia, FSM where she successfully received an associate of Arts degree. Prior to her current employment, Cathy worked as an administrative clerk at the College of Micronesia, Pohnpei Campus.



**Photo 27: Cathleen Alten, Administrative Clerk**



**Photo 28: Maureen Edward, former Executive Secretary**

Maureen Edward was hired as executive secretary for the Public Auditor on December 03, 2008 but resigned in August of 2009. Originally from the State of Pohnpei, Maureen studied Business Administration at Walla Walla College in Washington State after studying at the College of Micronesia. Prior to her recruitment she worked as the executive secretary for the U.S. Ambassador and Deputy Chief of Mission at the U.S. Embassy in Kolonia, Pohnpei.

Development Bank. Mike has been an auditor for nine (9) years. Mike was recently reclassified as the only Auditor IV and handled duties and served as a supervisor on many audit engagements.



**Photo 30: Eric Elias, former Auditor III**

Eric Elias, Auditor III officially resigned on May 25, 2009 to accept an offer to become the Director of Administration at the Pohnpei State Supreme Court. Eric had over nine (9) years of auditing experience with ONPA. Before he resigned, Eric was the auditor-in-charge of a series of audits of the Congress funded Public Projects in Yap, Kosrae and Pohnpei.



**Photo 29: Michael Henry, former Auditor IV**

Hileen Jack Allen served as the executive secretary to the Public Auditor but resigned in November of 2008. Hileen resigned from her position to join her family in the U.S. mainland.

Mackenzie Reynold had served as the administrative officer from September 2007 until he resigned on December 2008. Mackenzie moved to the US mainland.



**Photo 32: MacKenzie Reynold, former  
Administrative Officer**

ONPA team acknowledges the positive efforts of its departing staff members in all ONPA accomplishments and extends deep appreciation to each one of them for their many contributions.



**Photo 31: Hileen Jack Allen, former  
Executive Secretary**

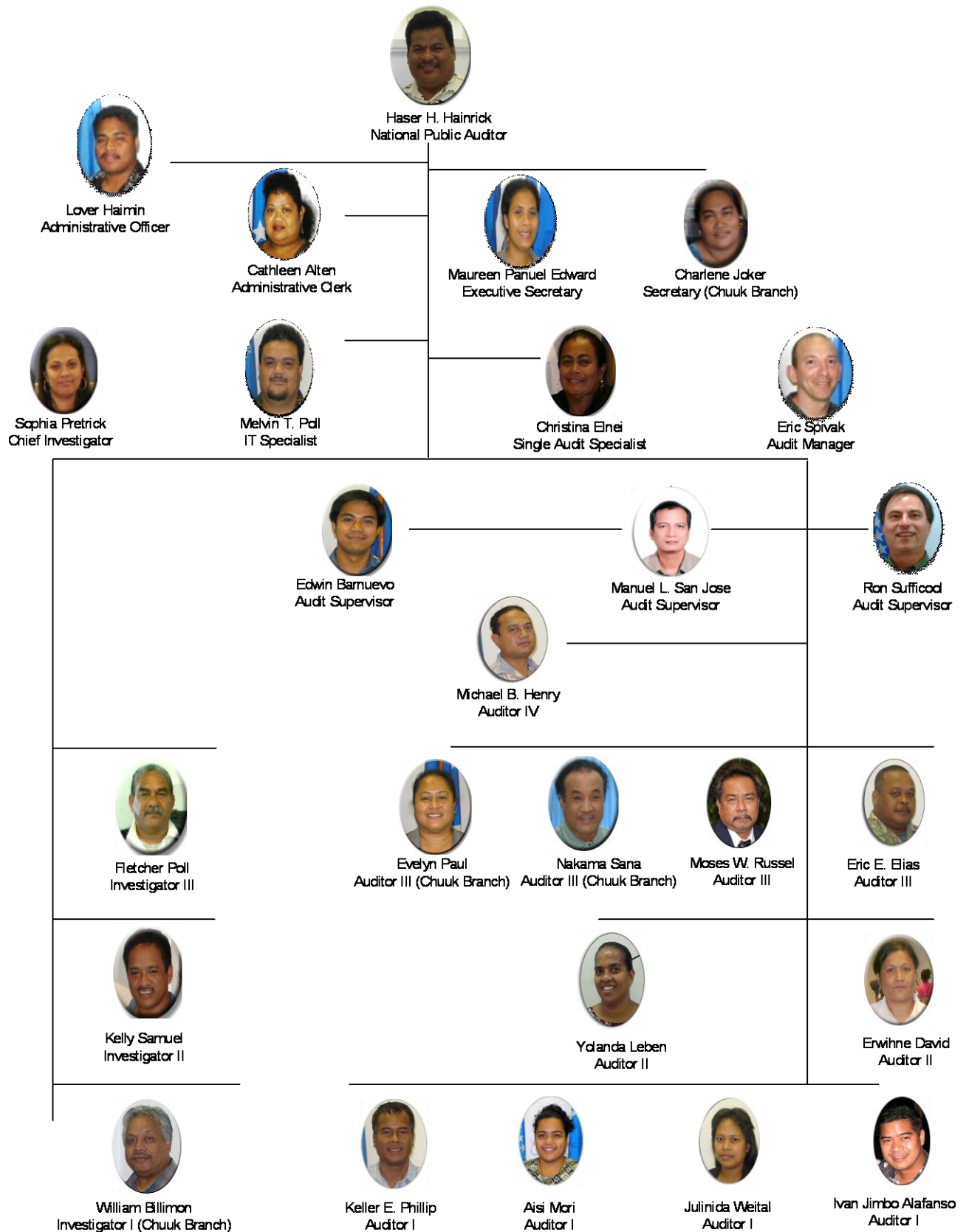
### Appendix I – Powers of the Office of the Public Auditor and Duties and Responsibilities

**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, subdivision 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 service 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, 2009



## Appendix III: Audit and Compliance Investigation Division Operations

### Audit Division

#### Performance Audits

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

1. Financial and Compliance. 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 conformity with generally accepted audit standards as established by the American Institute of Certified Public Accountants.

#### Quality Standards for Inspections within Performance Audits

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1995 and revised in 2005. The 13 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](http://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.

#### 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 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.

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

# ONPA releases audit on Chuuk Special Education Program Office expenditures

## ONPA, "SEPO did not use its funds in compliance with the applicable laws..."

extended to fully fund program  
the FSM National Department of  
the state for

served in these roles.  
The audit's secondary materials  
show that SEPO actually received approx-  
imately \$200,000 more than the distribution  
it was allowed.

The audit said that most of Chuuk  
Special Education teachers do not meet the  
minimum qualifications for the job and the  
most of them are not pursuing the education  
to become qualified for the job. Only eight  
of the 41 unqualified teachers in the program  
are in a program to obtain a co-

# Public auditor's office review expected to receive high marks

BY ISLAND TIMES STAFF

## Audit Shows Lack of Transparency in FSM Congress Mem Spending

(Kaselehle Press  
showed that "for  
purpose, account

## FSM PUBLIC AUDITOR RELEASED REPORT

Continued from page 3

## Public Auditors from Pacific Islands reviews Palau's OPA

By CHARLIE ANNE  
E. VILLARROMA  
Kaselehle Press

audit policy and procedures for  
auditing.

The panel covered the re-  
view in from June 1, 2003 to  
December 31, 2007.

The group who are members  
of the Association of Pacific  
Island Auditors.

PUBLIC Auditor from Pacific  
Islands are here in Palau to re-  
view the Office of the Public  
Auditor's internal policy and  
procedures.

Charles W. ...  
find out...

## Public...

(from page 2)

professional development, the  
group advised Palau and other  
members of the Pacific...

## HOW TO REPORT FRAUDULENT ACTIVITY

Call ONPA Hotline at  
(691) 320-6768

Call: ONPA Office at  
(691) 320-2562/2563 (ask  
for CID)

Fax: (691) 320-5482  
(Attn: CID)

Mail to:  
Office of National Public  
Auditor, ATTN: CID P.O.  
Box PS-05,  
Palikir, Pohnpei, FM 96941

On-line:  
[http://www.fsmopa.fm/hotline/  
complaint.htm](http://www.fsmopa.fm/hotline/complaint.htm)

# **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.*