



OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

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**ONPA RELEASES AUDIT REPORTS ON FSM LOANS FROM ADB AND
THE JAPAN FUND POVERTY REDUCTION GRANT**

The office of the National Public Auditor (ONPA) announces the release of Report No. 2011-03, Audit of FSM Loans from the Asian Development Bank (ADB) for: Omnibus Infrastructure Development Project and Report No. 2011-04, Audit of Grant Assistance from the JFPR. The reports are available for public viewing online at www.fsmopa.fm. The audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The audits were performed for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the cash receipts and disbursements of the project for the year ended September 30, 2010. The audits conclude that the financial statements present fairly, in all material respects, the project cash receipts and disbursements. However, findings regarding internal control deficiencies and an instance of noncompliance with the formal agreements were reported, as described below.

The following internal control deficiencies were considered to be *material* weaknesses:

- Segregation of duties is lacking over the control of cash disbursements. Presently, checks issued by the Department of Finance & Administration (DFA) in payment of project expenditures are returned to the Project Accountant. This individual also prepares the payment requests, maintains vendor and invoice files, records all project transactions, and reconciles cash.
- Monitoring of reconciliations is not consistently performed. Our review of reconciliations of the imprest account revealed that reconciliations are not timely performed and reconciling items are not cleared on a timely basis.

The following internal control deficiencies were considered to be *significant* weaknesses:

- Manual checks are used for project disbursements instead of the MICR encoded checks routinely used for most payments processed through DFA. The project checks are prepared using a typewriter.
- Current *certificates of insurance* are not maintained on file by the Project for consulting and engineering contracts. As stipulated in each contract, specific levels of insurance

coverage are required depending on the nature of the work to be performed. However, absent some form of evidence, as in the case of a certificate of insurance, there is no assurance adequate and continued insurance coverage is maintained by contracting parties.

- Idle cash is not properly managed. Since its inception, the project has maintained its funds in a non-interest bearing checking account with the Bank of Guam. It also has incurred bank service charges in connection therewith. At the time the bank account was established by DFA the bank offered, and still does offer, an interest bearing checking account.

Also, the projects failed to comply with the covenants of the loan or grant in connection with the preparation and submission of project progress reports.

The audit reports included recommendations to address the aforementioned deficiencies. Except for the lack of segregation of duties, management agreed with the recommendations.