OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

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ONPA RELEASES AUDIT REPORT ON FSM CAROLINE ISLANDS AIRLINE

The Office of the National Public Auditor announces the release of Audit Report No. 2010-11, an Audit of the FSM Caroline Islands Airline, Inc. (CIA). The report is available for public review online at the Auditor's website at www.fsmopa.fm and copies are also available at the Auditor's offices in Palikir, Pohnpei and on Weno, Chuuk. The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The audit was performed at the request of the Chairman, Committee on Judiciary and Governmental Operations of the FSM Congress who asked the Public Auditor to perform a management audit of the Airline's operations. The main audit objectives were to determine if management and oversight systems provided sufficient assurance that operational goals and objectives are achieved; cash is sufficiently secured; assets, equipment, and supplies are properly protected; and, procurement procedures are satisfactory.

According to the audit findings, more than a decade since it was created the Airline remains a government owned corporation lacking the strategic and tactical capacity to operate as a self-sustaining enterprise. The Airline is dependent on government subsidies in order to operate. The Board has not built the necessary management capacities to perform business planning. For instance, the Airline does not have a Budget and Finance officer, which is a key requirement of PL 10-072. As a result, there is no employee trained in financial planning, financial analysis, or in the Generally Accepted Accounting Principles (GAAP). This was due to lack of management oversight by the Board of Directors and their lack of training in its governance responsibilities. And, the Board, likewise, was not held accountable by the FSM President's Office or the Congress, both of which also have oversight responsibilities. The audit found that the lack of Board oversight resulted in poor management performance which resulted in the lack of long term or short term business planning and no financial analysis.

In addition, management has not implemented the necessary internal controls. Flight Manifests were missing or filled out for approximately 20-25% of flights taken which resulted in 12% of incomplete existing manifests. Thus, it could not be determined whether all flights complied with weight limitations, or whether all income from the flight activities were properly recorded and deposited. Moreover, chartering of the aircraft provided sales revenue of $103,900 in FY2009. This significant and profitable service is provided without documentation that enables the customers to understand and agree with key terms and conditions. As a result, in the absence of formal documentation of Charter activity there is inadequate assurance that all Charter income is properly recorded especially if a flight manifest was not prepared.

Furthermore, the largest single expense to operate the Airline is the cost of aviation fuel. Fuel is purchased in 55 gallon drums. Standard business practice requires expenditures, especially of this amount, to be fully accounted for including the keeping of records and documenting its legitimate use. While refueling of aircraft is noted on the maintenance logs, the quantity of fuel disbursed is not recorded. As a result, the audit team could not determine if all fuel purchased was used only for authorized purposes.

Lastly, the Airline has15 or more employees, however, there is no documentation of job performance expectations, no job descriptions, no documentation of employee policy regarding sick or annual leave, and no employment documents signed by the employee or the employer. Individuals were hired and reported to work without approved personnel actions and/or employment contracts. There is no standard procedure being followed for hiring of employees or other employment practices. As a result, overall employee performance is diminished and in the event of legal action, the Airline is potentially liable.

Therefore, the audit team concluded that management and oversight systems do not provide adequate assurance that the operational goals and objectives are being achieved. Cash received from all flights is not fully accounted due to missing or lack of manifests. Although most assets and equipment are adequately secured, we found that fuel, which is the Airline's largest expense, is not adequately protected. And the procurement procedures were inadequate.

The audit report included numerous recommendations to address the abovementioned problems. The FSM President's Office and Congress need to oversee that the Board is properly trained and held accountable for their performances. The employ of a Budget and Finance Officer educated and trained in financial planning and analysis and in generally accepted accounting principles is also needed. Management need to design and implement the appropriate business internal controls that includes using a standard form for the terms and conditions specific to charter services, making sure flight manifests are verified for accuracy, having proper procedures that documents fuel usage that can indicate the date, time, quantity, and purpose, and, a standard procedure for employment hiring and practices.