

**OFFICE OF THE NATIONAL PUBLIC AUDITOR**  
**FEDERATED STATES OF MICRONESIA**

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**Agreed-Upon Procedures (AUP) Report on Project  
“Improving Pig Production in Nel Village, Yap State”**

**REPORT NO. 2016 - 01**



**Haser H. Hainrick**  
**National Public Auditor**



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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December 11, 2015

His Excellency Peter M. Christian  
Honorable Members of the 19<sup>th</sup> FSM Congress  
Federated States of Micronesia

### **RE: AUP Report on Project “Improving Pig Production in Nel Village, Yap State”**

We have completed our Agreed-Upon Procedures (AUP) engagement for the project “Improving Pig Production in Nel Village, Yap State”. This engagement was conducted based on a request from the College of Micronesia-FSM to report findings based on specific agreed-upon procedures on the subject matter. Although it is a small grant, this engagement is needed by the College in order to satisfy the grant’s requirements.

In this type of engagement, the clients are responsible for the sufficiency of the agreed-upon procedures and we make no representation in that respect. Our responsibility is to perform the agreed-upon procedures and report the corresponding results.

The agreed-upon procedures consists of (1) verifying that the Grant was used properly and strictly for the project with proper documentation, (2) ensure the compliance of applicable procurement laws/regulations, and (3) verify the completion and proper maintenance of the project. The following are the key issues resulting from the procedures performed for the project:

- The completion of the project was delayed for more than the required one year.
- The project was not properly maintained. However, current attempts are made to revive the project.

The detailed procedures and results are discussed in the following AUP report.

Respectfully submitted,

Haser Hainrick  
National Public Auditor

XC: President, College of Micronesia-FSM  
Ambassador, Embassy of Japan-FSM  
Secretary, FSM Department of Education

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### Engagement Report on Agreed-Upon Procedures

December 11, 2015

Dr. Joseph M. Daisy  
President, College of Micronesia-FSM  
Palikir, Pohnpei FM 96941

Dear Dr. Daisy;

As you requested, we have performed the procedures described in the enclosure to this letter, which we agreed to perform and with which the Embassy of Japan-FSM(Grantor) and the College of Micronesia-FSM (Recipient) concurred, solely to assist both parties in ascertaining that the implementation of the Project "Improving Pig Production in Nel Village, Yap State" complied with the terms and conditions of the grant agreement.

We conducted this engagement in accordance with U.S. generally accepted government auditing standards, which incorporate certain attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on the procedures as agreed upon.

The Embassy of Japan-FSM and the College of Micronesia-FSM are responsible for the sufficiency of the agreed-upon procedures in this report and we make no representation in that respect. Our responsibility is to perform the agreed-upon procedures and report the corresponding results. The parties have to draw their own conclusions based on the results. These procedures consist of (1) verifying that the Grant was used properly for the purchase of goods and/or services strictly for the project and that all expenses were valid and properly supported, (2) ensuring that the applicable laws and regulations regarding procurement and competitive bidding were adhered to during the selection and acquisition of products and/or services, and (3) conducting an inspection of the Project to verify the completion, proper maintenance and the achievement of project goals/objectives. The enclosure provides the details on the agreed-upon procedures and our results.

We were not engaged to perform, and did not perform an audit, the objective of which would have been to provide a conclusion on the subject matter. Accordingly, we do not provide such conclusion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you.

This report is intended solely for the use of the College of Micronesia-FSM and the Embassy of Japan in FSM and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the final report is a matter of public record, and its distribution is not limited. The report is also available at our website at [www.fsmopa.fm](http://www.fsmopa.fm).

A handwritten signature in blue ink, appearing to read 'Haser Hainrick', written over a horizontal dashed line.

Haser Hainrick  
National Public Auditor

Enclosures

XC: FSM President  
Members of the 19<sup>th</sup> FSM Congress  
Ambassador, Embassy of Japan – FSM  
Secretary, FSM Department of Education

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**Background**

In March 2011, the College of Micronesia-FSM was awarded a grant assistance in the amount of \$53,000 from the Embassy of Japan. The purpose of the grant was to fund a Piggery Project in Nel Village, Yap State, to assist the community of Nel Village and other surrounding villages increase the production of pork through the use of an improved local pig diet. In this venture, processed tilapia and land crabs would be combined or mixed with copra and dried green leafy materials to provide an improved diet for growing pigs. This project also aims to utilize the invasive tilapia species as an excellent resource in local pig diet, which can contribute to the protection and health of the mangrove environment. The following is the chronology of the project, taken from the project completion report:

1. March 2011 – Signing of the Grant Contract
2. August 2011 – Completion of building for storage and processing
3. December 2011 – Completion of breeding pens
4. September 2012 – Completion of crab holding pen
5. January 2013 – Completion of first building for 26 growing pens
6. March 2015 – Completion of second building for 24 growing pens
7. March 2015 – Setting up of fish holding tanks

Below are the agreed-upon procedures performed for the Piggery Project, followed by the results for each procedure.

**Procedures & Results**

- 1. To verify that the Grant was used properly for the purchase of goods and/or services strictly for the project and that all expenses were valid and properly supported.**

Procedure 1A: To verify that the Recipient provided to the Grantor an official receipt of the Grant and other relevant documents such as procurement contracts for good/services.

Results: We verified that an official receipt of the Grant was submitted by the Recipient to the Grantor. In addition to the official receipt of the Grant, all procurement documents relating to the Project were also provided by the recipient to the Grantor. We noted no exceptions.

Procedure 1B: To verify that the expenses of the project were for the purpose of implementing the project and that all accounting documents supporting how the Grant was spent were procured and/or maintained.

Results: We obtained the expenditure report for the Nel Project, along with the supporting documents for all purchases, and verified that all expenses were strictly for the purpose of implementing the project. We noted no exceptions.

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Procedure 1C: To verify that all original receipts from vendors and financial reports were submitted to the Grantor, and that all requests for procurement and disbursements were authorized and supported before obligation of funds.

Results: We analyzed all original receipts from vendors and financial reports that were submitted to the Grantor and verified that all requests for procurement and disbursements were authorized and supported before obligation of funds, except for the following exceptions:

1. The Reimbursement of \$62.00 to Yap Campus Petty Cash used to purchase fish wastes for processing and demonstrating local pig feed. No authorization letter from the Embassy of Japan-FSM (POLG12-1256).
2. The total amount based on Authorization Letter and Purchase Order for payment of a Pump and Wire Mesh was \$356.27. Actual payment made for the items was \$171.81 (POLG12-1231). The justification for the difference in amount paid was that the materials requested were not available during the time of purchase, thus only available materials/items were purchased, resulting in less payment than the initial Purchase Order.

2. **To ensure that the applicable laws and regulations regarding procurement and competitive bidding were adhered to during the selection and acquisition of products and/or services.**

Procedure 2A: To verify whether the procurement of products and/or services complied with applicable laws and regulations.

Results: The College has three (3) methods for the procuring of goods and services: formal/open bidding, direct contracting and informal bidding/canvassing. Due to the small amounts of purchases, the procurement for the Nel Piggery Project falls under the informal bidding requirements. In this method of procurement, the requisitioning department shall request for price quotations from at least three (3) suppliers. Then, a Price Comparison and Analysis (PCA) is prepared, listing all price quotations from suppliers, and the supplier offering the lowest price shall be chosen and a corresponding Purchase Order (PO) is prepared.

For all the procurements of goods/services made for the Nel Project, all had the required PCA forms along with a corresponding PO. Although the College prepared the PCA forms for all purchases, most of the PCA’s had either one or two vendors submitting price quotations. The justification was that other vendors on the island were not able to provide the requested goods/services.

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**3. To conduct an inspection of the Project to verify the completion, proper maintenance, and the achievement of project goals/objectives (outputs & intended beneficiaries).**

Procedure 3A: To conduct an ocular inspection of the project and verify that the project was completed as agreed upon, and supported by a completion report.

Results: The completion timeframe for the project was for one year after the contract date. However, we noted that the completion of the project was very much delayed. We obtained the completion report and noted that the Project was completed in March 2015, which was four years after the signing of the grant contract. Based on the completion report, the change in the date of completion was due to the slow progress of construction work, typhoon and weather conditions and limited community volunteers and laborers to do the necessary work. Additionally, there was limited supply of materials from local vendors.

An ocular inspection was conducted in mid-October 2015. It was observed that the project site, specifically the growing pens, was deserted after its completion. The breeding pens and the crab holding pen are both situated on the project manager’s residence, located approximately 7-minutes away from the growing pens. It was further observed that the growing pens were covered by growing grasses and vinery plants, with no pigs in the pens. Unlike the growing pens, both the crab holding pen and the breeding pens are being well-maintained by the project manager. A couple of pigs can be found in the breeding pens, along with several land crabs in the holding pen.

The fish holding tanks were setup but were later taken down due to the typhoon threats this year. It is currently sitting in the storage building (Refer to Appendices for Project photos).

Procedure 3B: To verify the implementation of a proper maintenance plan in order to ascertain the project’s sustainability.

Results: According to the community leaders, the project has not been properly maintained. This is visible by the growing grass and vinery plants that have almost covered up the growing pens area. An interview was conducted by the Yap State Auditor’s Office with the project manager and the community leaders on October 20, 2015. Based on the interview, the community of Nel has not been contributing their share in the implementation of the project. Supposedly, each household were to contribute two piglets to be placed in the growing pens, but this has not been the case ever since the completion of the growing pens.

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**Appendices**

Appendix A: Completion of the Project



*Breeding Pen*



*Fish Holding Tank*



*Growing Pen*



*Land Crab Holding Pen*

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Appendix B: Current Photos of the Project



*Breeding Pen*



*Fish Holding Tank*



*Growing Pen*



*Land Crab Holding Pen*

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**Management Response**



**COLLEGE OF MICRONESIA – FSM**

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Office of Vice President for Cooperative Research and Extension

Date: 11.30.15

To: Office of the National Public Auditor -FSM  
P.O. Box PS-05 Palikir  
Pohnpei, FM 96941

Thru: Joseph M. Daisy, Ed.D.  
President and CEO, COM-FSM

SUBJECT: response to audit report of *Improved Pig production in Nel Village, Yap State*

As per the request for comment on the aforementioned report, I submit to you the following responses to the issues presented in the report.

1. Concerning the reimbursement of \$62.00 to the Yap imprest fund for the purchase of fish wastes to start the feed project I have attached to this letter is a copy an email sent by me on August 06, 2012 approving the use of the Imprest Funds and another on August 13, 2012 approving for payment of POLG12-1256.
2. To clarify the concerns about POLG12-1231 wherein only half of the approved expenditure was made, the State coordinator advised that the vendor did not have the full amount of the requested materials in stock. They bought what was available at that time.
3. A concern was raised of the sustainability of the project. Attached is the most recent communication with the State Coordinator as liaison with the community Project Manager, Mr. Steven Kugfas. CRE office was communication link to the project and monitored purchases and gave training and other guidance to the project manager and community. Also attached are recent pictures of the project site. The community seems to be attempting to fulfill their commitment of providing pigs for breeding in anticipation of providing for the upcoming Micro-games in 2018.

I do hope this satisfies the concerns of the auditors.

W. James Currie

### **ONPA’s Evaluation of Management’s Responses**

A management response was received from the Office of Cooperative Research and Extension (CRE) at the College of Micronesia-FSM regarding the results of the procedures performed for the Yap Piggery Project. In their response, they made clarifications to three issues that were presented in the report:

- Procedure 1C, Result #1: The reimbursement of \$62.00 to Yap Campus Petty Cash used to purchase fish wastes was authorized and approved by the Vice President for Cooperative Research and Extension.

ONPA Comments: Although the reimbursement was authorized and approved by the Recipient, since the reimbursement came from the account for the Project, it had to be authorized by the Embassy of Japan-FSM as required by the Grant. There was no authorization from the Embassy approving the reimbursement of the Yap Campus Petty Cash.

- Procedure 1C, Result #2: Only half of the approved expenditure for POLG12-1231 was made due to the fact that the vendor did not have the full amount of the requested materials in stock.

ONPA Comments: This is okay. We have already made the necessary changes to this final report.

- Procedure 3B, Results: The College indicated that the community is now currently attempting to fulfill their commitment of providing pigs for breeding in anticipation of providing for the upcoming Micro Games in 2018.

ONPA Comments: The community plays an important role in the implementation of the project. With the proper training and guidance from the College, there will be greater assurance in terms of the project’s sustainability. This attempt to revive the project will be beneficial to both the College and the community.

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**National Public Auditor’s Comments**

We would like to thank the management and staff at the College of Micronesia-FSM for their assistance and cooperation during the course of the engagement at the main campus in Palikir and at the Yap Campus. Furthermore, we would like to thank the staff at the Yap State Public Auditor’s Office for their assistance in performing several procedures at the project site in Yap.

In addition to providing copies of the final report to the President and Members of the 19<sup>th</sup> FSM Congress, we will also send copies to the President of the College of Micronesia-FSM and the Ambassador for the Embassy of Japan-FSM. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office can be found on the last page of this report along with the National Public Auditor and the staff who made major contributions to this report.



Haser Hainrick  
National Public Auditor

December 11, 2015

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**ONPA Contact and Staff Acknowledgement**

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ONPA CONTACT: Haser H. Hainrick, National Public Auditor  
Email: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

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ACKNOWLEDGEMENTS: In addition to the contact named above, the following staff made key contributions to this report:

Manuel San Jose, Jr. CPA, CGAP, CIA, CISA, CRMA, Audit Manager  
Clayton Eliam, Auditor-in-Charge  
Dane William, Staff Auditor

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