Annual Report - Fiscal Year 2017

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Pohnpei Office of the Public Auditor (POPA)

Annual Report - Fiscal Year 2017

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December 31, 2017

Honorable Marcelo Peterson, Governor of Pohnpei State
Honorable Fernando Scaliem, Speaker, 9th Pohnpei Legislature
Honorable Members of the 9th Pohnpei Legislature

Maingkoa:

Article 11, Section 8 (3) of the Pohnpei Constitution requires the State Auditor to annually report to the Governor and the Legislature concerning his Office activities and progress in safeguarding the Pohnpei Government's resources. This Fiscal Year 2017 Annual Report has been prepared to inform the Governor, the Legislature, and other stakeholders of the Pohnpei Office of the Public Auditor (POPA) performances and activities initiated, conducted, and completed during the fiscal year 2017.

POPA's primary function is to conduct audits of transactions, accounts, books, programs and performances of the Pohnpei State Government. This includes audits of all departments, offices, agencies, local governments and all non-profit organizations and programs receiving public monies from the Pohnpei Government. POPA's mission is to produce high quality and timely audit and investigative services to provide decision makers with timely, accurate and objective information from which they can make well informed policy decisions.

All of our audit and investigation engagements performed directly contribute to good governance. POPA serves as the premier watch dog over the Pohnpei State Government funds and related resources. It has audit jurisdiction over all Pohnpei Government public funds and related resources. POPA holds the government accountable for the effective management of government resources and the efficient delivery of public services in the most transparent and economical manner. (Refer to Part III of this report for further information).

During the fiscal year 2017, POPA conducted, completed, and issued a total of 13 reports. These include 2 financial audit reports, 3 performance audit reports, 7 preliminary review and administrative investigative reports, and 1 annual report for FY-2016. We also performed 3 unannounced cash counts and 3 audit follow-up reviews of which, 6 management letters were issued reporting the results of the reviews. We initiated and implemented a number of audit and investigation engagements, which we

our services because when "POPA Communicates - - - Citizens are Assured." (Refer to Part I of this report for detail).

To our development partners: (APIPA, PASAI, INTOSAI, IDI, DOI OIG, US Graduate School/PITI, ONPA and others), we extend our warm gratitude and sincere appreciation. We participated in a number of training and workshop programs sponsored by these organizations during the year. These capacity building training initiatives were most helpful in enhancing our staffs' skills and professional development in the fields of auditing, investigation, report writing, accounting, and related areas during the year. (Refer to Part IV of this report for more information).

POPA faces many challenges going forward. With the guidance and support of the Pohnpei leadership, our development partners, and stakeholders, we are prepared to take on these challenges with confidence. These challenges include opportunities to:

a) Improve POPA's legal framework to strengthen and clarify its independence, autonomy, and relationship to the three branches and other agencies of the Pohnpei State Government.

b) Construct/rehabilitate new or existing office building to serve as the permanent office for POPA.

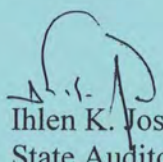
c) Identify and secure adequate resources to support POPA's capacity building and staff professional development to improve POPA audit and investigative services in the years ahead.

d) Continue to work closely with auditees to develop and implement appropriate corrective measures for timely resolution of audit findings in accordance with the requirements of POPA legal framework. (Refer to Part V of this report for further information).

Again, thank you all for the financial support, understanding and cooperation extended to sustain our programs and operations during the reporting fiscal year. We stand ready to provide clarification on inquiries you may have concerning any part of this FY-2017 Annual report.

With friendly greetings and warm regards, I am.

Sincerely,



Ihlen K. Joseph
State Auditor
Pohnpei

PART I
POPA Annual Report
Fiscal Year 2017

Part I: Summary of Audit Findings and Recommendations

POPA completed and issued 2 Financial reports, 3 Performance reports, 8 Preliminary Review and Administrative Investigation reports, and 1 Annual Activity Report for FY-2016 during the Fiscal Year 2017. We also performed 3 unannounced cash counts and 3 audit follow-ups and issued 6 Management Letter Reports concerning the results of these reviews. Summary of our findings, conclusions and related recommendations are presented below for information and reference.

A. Audit Division - Financial Audits

Audit Report No. 004-17: Pohnpei Transportation Authority (PTA)

At the outset, we found that PTA did not make any attempt at all to resolve any of the administrative internal control weaknesses identified in our prior years' audit reports. This clearly indicates that PTA Management is not in compliance with its obligations to develop and implement corrective measures to resolve audit findings and recommendations in a timely manner, as prescribed and required by the POPA legal framework.

As a result, the State Auditor has determined that POPA will discontinue its audit services to PTA after fiscal year 2018. PTA Management will have the opportunity to identify and make available the funding sources necessary to outsource its mandatory annual financial statement audit starting in fiscal year 2019 and onward. PTA however, will continue to be part of the POPA's performance and compliance audit program.

The audit findings and associated recommendations shown below are repeat and still outstanding internal control weaknesses identified and reported in our prior PTA audit reports.

Finding No. 1: Office Files and Record Keeping Management Need Improvement- On-site visit to the PTA Office disclosed management did not keep and maintain adequate office files and other important records such as:

1) Personnel Files – Of the 39 PTA employees, we found only 16 personnel files on record. Personnel Files for 23 employees could not be located, b) Personnel files for 2 employees who had left PTA employment more than 10 years ago were still in the active file and c) 1 employee has two Social Security Numbers.

2) Annual Leave and Sick Leave Records - were not properly updated and maintained.

3) Vendor Files - were not adequately maintained. and,

4) Project Files - were not adequately updated and properly maintained.

As a result of poor filing and internal record keeping weaknesses, PTA Management is not in any position to monitor its activities properly.

Recommendations: We offer the following recommendations for which, we believe if properly implemented, could improve services and accountability:

1) PTA Management to give high consideration to education and competency of applicants in its recruitment and appointment processes for employment;

2) PTA Management to give high priority to staffs orientation, professional development and training to improve skills, capacity, work productivity, work quality, work habits and work competency for all levels of PTA work force.

3) Clearly written position/job description supported by adequate staff professional development and work orientation program, and proper on-the-job training will ensure employees' understanding of their duties and responsibilities. This will also strengthen work performance and productivity: and,

4) PTA Management oversight policy needs to be developed and implemented to ensure that staff work is properly reviewed, records are properly updated and maintained, and quality reports are timely prepared subject to management periodic review and assessment.

Finding No. 2: Inventory Control System and Bookkeeping Need Improvement – On-site visit and interviews with responsible PTA officials revealed the following internal control weaknesses.

1) Inventory Files – were not updated and maintained;

2) Records of Inventory on Hand, Issued and Balances – were not updated and monitored;

3) Subsidiary Ledger Files of Customer Accounts – were not properly updated and maintained; and,

4) Vendor Files – to trace items purchased, quantity and prices of goods purchased were not available on records.

As a result of the above internal control weaknesses, management was not in position to monitor the use of office supplies and materials, conduct reliable inventory, and reconciled customers' accounts.

Recommendation: We offer the following recommendations to strengthen accountability:

1) Key staffs assigned to maintain inventory records must be properly trained on inventory controls system by keeping accurate and complete records of inventory receipts, issued with associated balances.

2) Management must ensure that the following reports are prepared timely and reviewed by supervisors: a) Annual inventory report of supplies and materials, b) Subsidiary ledger files are updated and maintained, and c) Reconciliation of customer accounts are to be timely prepared.

3) Prioritize the recruitment of an Accountant/Comptroller capable of performing the accounting functions and proper record keeping for PTA. The Accountant or Comptroller should be able to prepare the required reports and train others to do the accounting and reporting requirements of PTA. *(PTA has identified and recruited an Accountant for employment commencing on the 26th of September 2017).*

Finding No. 3: Unresolved Prior Years' Audit Findings – The POPA's legal framework requires auditee (PTA) to report monthly to the State Auditor regarding status of outstanding audit findings until such time that all deficiencies are resolved, which period shall not exceed six (6) months.

PTA Management has not resolved four (4) prior years' audit findings as follows: 1) Finding No. 14-001 - relating to inventory control system and record keeping internal control weaknesses, 2) Finding No. 14-002 – concerning inadequate property management and accountability activities of PTA , 3) Finding No. 11-001 - dealing with inactive board of directors, which remained as a problem, and 4) Finding No. 10-003 - regarding the recurring losses resulted from the accumulated advances from the Pohnpei general fund partially resolved.

PTA Management's lack of action to develop and implement corrective measures for timely resolution of prior years' audit findings results to non-compliance to the provisions of Pohnpei State Law No. 5L-08-00.

Recommendation: We recommend PTA management to give priority consideration to the resolution of prior years' audit findings. It is also recommended PTA Management to seek other opportunities for the conduct of its annual financial statement audit. The State Auditor has determined to discontinue the required audit of PTA annual financial statement after fiscal year 2018.

Audit Report No. 005-17: Pohnpei Small Business Guarantee and Finance Corporation (PSBG&FC).

Finding No. 2016-01: Budget Cut Linked/Lead to Unauthorized Use of Loan Funds.

Our review disclosed that the PSBG&FC Management took $90,000 from one of the loan program account under its management to supplement the Corporation's operations in the fiscal year 2016 without proper approval. Funds appropriated and made available for the loan program cannot be used for purposes other than business loans without the prior approval of the Legislature.

Recommendation: We recommend management to:

a) Discontinue the practice of using business loan program funds for operations without proper prior approval of the Legislature;

b) Develop realistic annual operations budget and support it with adequate justifications for review and consideration of the Legislature.

Finding No. 2016-02: Weaknesses in the Accounting Control System.

In general, we noted during our review commendable improvement in the Corporation's financial and accounting reports as compared to previous years. However, we found certain areas of weaknesses in the Corporation's accounting records that need improvement. These include:

a) The Corporation's subsidiary ledger or schedules of accounts were not reconciled with the General Ledgers.

b) A number of transactions were not properly classified and recorded, including fund internal transfer from one account to another, liability accounts and expenses.

It should be noted that similar internal control weaknesses have been cited in the Corporation's annual financial statement audit since fiscal year ended on September 20, 2012.

Recommendation: We recommend Management to:

a) Give priority consideration to recruit a temporary/part-time qualified Accountant or Comptroller to assist train and develop the capacity of the Accountant currently on board to improve the Corporation's financial and accounting affairs.

Finding No.2016-03: Prior Year Findings Not Fully Resolved

Follow-up review of the Corporation's prior years audits findings disclosed one travel advance made in 2011 to a former Board member partly resolved.

Recommendation: Management is recommended to:

a) Work closely with the Attorney General office for the eventual resolution of this outstanding finding at the earliest opportunity.

B. Audit Division - Performance Audits

Audit No. 003-17: Audit of the 8th Micro Games

Our review of the 8th Micro Games financial activities disclosed instances of non-compliance to the provisions of appropriation law and grant award agreement as follows:

a) Pohnpei Legislature appropriated $169,193 to support the Pohnpeian athletes participating in the games under S. L. No. 8L-41-14. Over 60% of these funds were expended for purposes other than the original intent: (i.e. Food - $69,438, Office Supplies and Materials $32,286 and Utilities $1,847).

b) The Australian Embassy in the FSM donated $14,645 specifically to upgrade the PICS Cafeteria. Funds were reprogrammed to compensate overtime payment for Micro Games staffs without prior notification and approval of the donor agency.

Recommendation: We recommend responsible Pohnpei State Government officials to:

a) Ensure that all future Micro Games funds, regardless of the source and amount, be deposited and placed under the direct supervision and accounting of the Director, Department of Treasury and Administration.

Under this arrangement, responsibility for the Micro Games fund management, certification, disbursement, accounting and reporting will be centrally controlled by the Director or his designee. Authority to expend Micro Games monies will remain with the allottee or his designee. This will assure proper compliance, transparent accountability, and effective accounting and financial reporting of future Micro Games resources.

Finding No. 002-17: 8th Micro Games Over-Obligation

We found during our review procurement of goods and services amounting to $25,684.23 remained outstanding and unpaid. According to the responsible management official, the goods and services involved were procured to support the Micro Games' activities with the understanding that payments will be made at a later date. Part 1.10 of the Pohnpei Financial Management Regulations (FMR) prohibits any official or employee to obligate the government without an appropriation or in excess of appropriations.

Recommendation: We recommend responsible Pohnpei Government Officials to:

a) Review the over obligation issue and take action necessary to retire these outstanding obligations in-whole or in-part at the earliest opportunity to avoid late payment charges.

Finding No. 003-17: Non-Compliance with the Financial Management Regulations and Common Best Practices.

Our review disclosed instances of non-compliance of financial and accounting activities to the Pohnpei Financial Management Regulations (FMR) and prudent common best practices. In short, we found:

a) Equipment valued at $27,100 was not properly tagged.

b) Computer and related parts worth $10,418, and reusable supplies and materials and sport gears valued at $30,809 were not properly recorded and distributed.

In addition, detailed review of 26 disbursements made against the donated funds revealed that payments were issued without the required supporting documents for the following transactions.

a) Renovation of the Athlete Village amounting to $5,518.

b) Procurement of a Yap canoe valued at $5,000.

c) Swimming pool equipment and supplies worth $1,066.

Lastly, due to lack of supporting documents and proper record keeping, we could not determine how the in-kind non-cash contributions and donations valued at approximately $656,884 received in support of the 8th Micro Games program activities were allocated, distributed and utilized.

Recommendation: We recommend:

a) responsible 8th Micro Games officials to prepare and submit to the DoT&A a detailed report on the status and location of all equipment and related assets procured in support of the games;

b) DoT&A to work closely with responsible MG officials to locate, tag, book and properly account for the assets in accordance with established property management and accountability procedures; and,

c) all purchases, custody, reporting and disposal of equipment and related assets procured to support the games to be managed and accounted for in accordance with applicable property management and accountability policies and procedures.

Finding No. 004-17: Outstanding Prior Year Findings

We found during our review that responsible Micro Games officials have not developed and implemented corrective measures to resolve prior year audit findings and recommendations specific to the 2002 Micro Games financial and accounting activities, also held in Pohnpei.

Recommendation: We recommend:

a) the Governor to require resolution of the prior Micro Games audit findings to ensure improvement in the management and accounting of the games' properties and assets.

Audit Report No. 001–17: Performance Audit of Pingelap Municipal Government (PMG).

Finding No. 01: Inadequate Control Activities Due to Untrained Personnel and Lack of Periodic Management Oversight Review.

Our review disclosed that the PMG maintains its inflows and outflows of cash in one combine Cash Journal. The Journal does not provide monthly summaries of the cash transactions recorded. We also found: a) no cash receipts were issued for several collections, b) no bank reconciliation was performed, and c) the sum of $305 collected between December 2015 to March 2016 and June to July 2016 was not deposited into the PMG bank account.

Recommendation: We recommend the PMG management to:

1) Identify and enroll responsible PMG staffs in relevant professional development and training program to enhance capacity in proper recording, accounting and timely reporting of PMG financial information.
2) Require issuance of cash receipt for every collection received.
3) Require timely bank reconciliation and reporting on PMG financial information.
4) Improve and strengthen management oversight review of the PMG financial and accounting information. and,
5) Ensure that accounting and financial records and supporting documents are properly organized and maintained

Finding No. 02: Status of Prior Year Audit Findings and Recommendations.

We found that the PMG management has not developed and implemented corrective measures necessary to resolve the internal control weaknesses identified in our Management Letter issued on June 29, 2015, declaring the PMG un-auditable. A cash receipt journal and a cash disbursement journal to record all cash received and cash disbursed have not been developed and implemented as previously recommended.

Recommendation: The PMG management is recommended to seek ways and assistances to develop and implement measures necessary to resolve the audit findings identified and reported in our Management Letter of June 2015.

Audit Report No. 002-17: Compliance Audit of the Procurement Practices of the Department of Health Services, Pohnpei State.

Finding No. 2017-1: DHS did not Follow Procurement Process that Includes: a) procurement planning, b) procurement preparation, and c) procurement implementation.

Recommendation: DHS management to:

a) develop and implement guidelines for efficient procurement plan according to best practice that include:
   - identification of procurement needs;
   - properly consider best approaches to procurement;
   - proper procurement processes; and,
   - proper procurement implementation.

Finding 2017-2A: Non-Utilization of X-Ray Equipment Purchase for Immobile Patients.

On-site inspection and interview with DHS staffs revealed that a flat panel x-ray digital machine costing $39,000 has not been utilized or used and remained idle for more than 2 years. Upon inquiry, our auditors were informed that additional equipment and accessories are needed to be connected to the machine before it can start operating.

Recommendation: We recommend DHS Management to:

a) conduct a need assessment identifying assets or services to be procured with proper specification; and,
b) strengthen existing policies to include needs assessment and pre-planning to be undertaken before procuring fixed assets.

2017-2B: Non-Implementation of an Effective Asset and Property Accountability.

On-site inspection of the 58 fixed asset items procured during the two years disclosed that two desk top computers valued at $2,358 were missing. The computers were procured for the Division of Administration. All other remaining 56 fixed assets were accounted for.

Recommendation: The DHS management is recommended to:

1) strengthen enforcement of existing property accountability process by requiring written records and memorandum receipts of fixed assets assigned to employees to ensure assets procured are properly safeguarded accounted for; and,
2) Investigate and report status of the missing computers monthly to the State Auditor until the matter is resolved, which period should not exceed six months as required by law.

Finding No. 2017-3: Awarding of Procurement Contracts to Vendors Without Compliance to the Bidding Legal Framework.

Our auditors reviewed 9 procurement contracts and found that 3 contracts totaling $149,238.75 were not incompliance with the government bidding requirements. The 3 contracts were not open for competitive bidding due to lack of management oversight to ensure that proper competitive bidding was observed.

Recommendation: We recommend DHS management to:

1) enforce strict adherence to the Pohnpei procurement laws, in particular to the bidding regulations: and,

2) strict compliance to the procurement review process that includes the DHS Contracting Officer, Legal Review, Budget Certification, Fund Certification, and Director of Treasury's review.

Finding No. 2017-4: Procurement Related Disbursements Made Without Supporting Documents.

Of the 141 procurement transactions selected for testing, we found 17 transactions were paid without supporting documentation.

Recommendation: We recommend DHS management to:

1) require careful review of the required documentation before processing payments;
2) ensure that records and files are retained for a minimum period of at least 3 years for recording and reporting purposes; and,
3) ensure that improve supervisory oversight and accountability controls are in place to require responsible staffs to keep orderly and complete accounting records

Finding No. 2017-5A: Non-Maintenance of an Inventory System for Medicines and Pharmaceutical Supplies.

Our review disclosed instances of internal control weaknesses in the issuance of medicines and pharmaceutical supplies from the stock room. We found: a) several instances where the required Issuance Forms for release of medical supplies were not prepared prior to the issuance of medicines, b) monthly summary reports for medicines received, issued and balances were not prepared due to lack of supervisory directive requiring monthly preparation of the summary reports, and c) need for responsible staffs to be trained in the use of the Computerized Inventory System for access and update.

Recommendation: We recommend DHS management to:

1) require constant staffs' adherence and compliance to established procedures for the receipt, issuance and balances of the medicines and pharmaceutical supplies;
2) require responsible staffs to prepare and submit for management's review the required monthly summary reports on the medicines and pharmaceutical accounts; and,

3) strengthen the supervisory monitoring and review over the medicines and pharmaceutical inventory and accountability

Finding No. 2017 5B: Non-Maintenance of Inventory Records of Procured Assets and No-Reconciliation with State Supply and Property Records.

Our review disclosed: a) out dated inventory list of DHS fixed assets account, b) no reconciliation activity done for the fixed assets account between the DHS and the State Supply Division. The DHS depends on the Supply Division's records for monitoring and updating their records.

We also found:

1) 16 items were not properly tagged;
2) 9 broken items;
3) 43 items in good working condition;
4) 2 items were missing; and,
5) a number of donated items were noted however, DHS management has no records and documentation regarding them.

In addition, we found that the Division Chiefs are not aware of their responsibility and duty for the preparation of the fixed assets inventory reports. The staffs responsible to keep track of the fixed assets needs close supervision and training on the inventory report preparation.

Recommendation: We recommend DHS management to:

1) require all responsible staffs involved to review and be updated on the fixed asset accountability and inventory reporting and reconciliation procedures as enshrined in the fixed assets accounting and maintenance regulations.
2) strengthen supervisory oversight to ensure that the fixed assets inventory list is updated and reconciled to the Supply Division's records.

C. Audit Division - Other Reviews Performed in FY-2017

The Audit Division also performed 3 audit follow-ups and 3 unannounced cash counts reviews during the year. Six Management Reports were prepared and issued to appropriate management oversight and these include:

Management Report No. 001-17: Sokehs Municipal Government Unannounced Cash Count Review.

Responding to a request received from Speaker Baldesar Sardis of the Sokehs Municipal Council, KOPA performed an unannounced cash count of SMG revenue collections on 19 January 2017 and found some monies collected missing. The matter was referred to the Compliance Investigation Division (CID) within KOPA for further investigation. Please refer to PCID 17-001 below for our conclusive findings and case status.

Management Report No. 002-17: Audit Follow-Up Review Results of Sokehs Municipal Government (SMG).

POPA conducted a follow-up review to determine whether the SMG has developed and implemented proper measures to resolve the findings identified and reported in our Audit Report No. 009-14, specific to the SMG revenue collection and cash disbursement activities. Our follow-up review disclosed that the SMG has not taken steps to address and resolve the audit findings. The SMG non-action for the timely resolution of audit findings is not in compliance with the KOPA legal framework, which requires that all audit findings must be resolved at the earliest time possible but later than 6 months after the issuance of the audit report.

Management Report No. 003-17: U Municipal Government (UMG) Unannounced Cash Count Review.

At the request of Speaker Estephan Primo of the U Municipal Council, POPA conducted an unannounced cash count review of the UMG cash collections on 14 March 2017. Our review revealed collections on hand that were not receipted, recorded or deposited. We also noted several instances of internal control

deficiencies in the administration and management of UMG revenue collection and disbursement activities.

Management Report No. 004-17: U Municipal Government (UMG) Audit Follow-Up Review.

POPA performed a follow-up assessment to determine status of the internal control weaknesses identified and reported in the UMG Audit Report No. 003-14 issued in May 2014. The review disclosed that not all of the findings have been fully resolved. The UMG continued to include a $100,000 in its annual revenue projections that never existed for the past three years since we issued the last audit report recommending discontinuation.

Management Report No. 005-17: Pohnpei Supreme Court (PSC) Revenue Collection Follow-Up Review.

POPA conducted a follow-up review of the PSC revenue collection activities on 25 April 2017. The review concludes that the PSC has implemented corrective measures to resolve the internal control weaknesses identified and reported in our Management Report issued to the Chief Justice on March 07, 2014, except for the finding and recommendation to close the PSC checking account at the Bank of Guam.

Management Report No. 006-17: Madolenihmw Municipal Government (MMG) Unannounced Cash Count Review.

POPA performed an unannounced cash count review of the MMG revenue collection activities on 27 April 2017. As a result, the review disclosed that the MMG properly receipted, accounted for and deposited all its collections made during the period examined (April 11-27, 2017).

A comprehensive review of the MMG revenue collections and cash disbursements for fiscal years 2016 and 2017 is scheduled as part of POPA's 2018 audit engagements.

D. Compliance Investigation Division (CID) - Cases

1. PCID 14-001 – Pohnpei Supreme Court Revenue Collection

Source: Audit Referral

Allegation: We continued to assist the Office of the Attorney General's investigation on the PSC revenue collection shortfall found during previous years' review. The case is pending in the Pohnpei Supreme Court.

2. PCID 15-011- Health Insurance Fraud

Source: Anonymous Tip

Allegation: Information received concerning the MICARE Health Insurance Audit Report issued by Staywell. The concern relates to the Genesis Hospital for possible fraudulent claims against Micare Insurance. Since Micare is under the jurisdiction of the National Government, the matter became a cooperative investigation and all information on the case rest at the FSM National Public Auditor's Office.

Status: The matter was officially referred to FSM Office of the National Public Auditor for action.

3. PCID 16-002- Sea Cucumber Harvesting

Source: Non-Governmental Organizations (Hotline)

Allegation: Allegations received requesting POPA to review the Foreign Investment permitting process and bidding procedures including major opposition from numerous stakeholders and why the Executive Branch is moving forward with it.

Status: Findings conclude potential violation of the Pohnpei Foreign Investment Law. Case was completed and our report was referred to the Attorney General for further investigation and evaluation.

4. **PCID 17-001- Sokehs Municipal Government**

Source: Audit Referral

Allegation: Surprised cash count conducted by POPA found approximately $851.14 in revenues collected by the SMG for the two months examined was missing and could not be accounted for. Matter was referred to CID for further investigation.

Status: CID Investigation concluded approximately $7,156.45 in revenues collected in FY-2015 to January 19, 2017 was missing. Case was referred to the AG's Office for further legal action. The AG has filed a criminal case with the PSC.

5. **PCID 16-003- Student Exchange Program**

Source: Anonymous Tip (Hotline)

Allegation: Allegation received concerning a certain School Principal's decision on selecting student for the Japan Student Exchange Program without notifying the teachers on the excellence of the student but ended up selecting family member. This constitutes a conflict of interest on the Principal's part.

Status: Investigation confirmed the allegation of conflict due to the lack of procedures in place to guide the selection process. A Management Advisory Note was prepared and transmitted to the Director of Education addressing the conflict issue with recommendation to establish and put in place proper procedures for the selection process. Case closed.

6. **PCID 17-004- Office of Fisheries and Aquaculture (OFA) False Purchase/Undelivered goods.**

Source: Departmental Referral

Allegation: It was alleged that OFA purchased certain goods valued at $2,500 from one of its employees but the goods were never delivered.

Status: Our findings showed that the OFA employee diverted $2,500 worth of government funds into his own private company without delivering the goods, which constitutes a theft and conflict. The matter was referred to the Office of the Attorney General for legal action. The employee has entered into a plea agreement to repay the government the entire amount.

7. **PCID -14-009 - Kitti Municipal Government Unaccounted Revenues.**

   Source: Audit Referral

   Allegation: Audit of Kitti Municipal Government disclosed missing revenues collected of approximately $6,000.

   Status: Investigation found approximately $3,081.49 missing and could not be accounted for. Case referred to AG's Office for further legal action.

8. **PCID 15-006 - DOE POL Conflict of Interest Issue**

   Source: Hotline/Tip

   Allegation: It was alleged that a School Principal was using his personal business for private gain on POL.

   Status: The matter was handled internally by the Department of Education management and the vendor stopped providing POL for the school vehicles.

Public Education and Awareness activities:

We conducted a series of Fraud and Preventive Awareness Workshops during the period starting with:

1. Calvary Christian Academy School (CCA)- November 2016
2. FSM Budget & Finance Conference (Kosrae)- November 2016

3. Conflict of Interest Training in Fiji- Ombudsman Offices/SAI- May 4, 2017
4. Revenue Division of DoT&A - Pohnpei State- June 8, 2017
5. FSM Development Bank- July 19, 2017
6. NGO (Micro Production) - September 13, 2017

Other Awareness Activities/ Project:

1. POPA sponsored the International Anti-Corruption Day (Parade and Essay contests) on December 9, 2016 (funded by UN).
2. POPA coordinated the FSM Fraud Awareness/ Flexible Project, which includes production of video, office signs and promotional materials i.e. posters, lanyards, bumper sticker (project is ongoing).

Strengthening Collaboration:

- On June 20, 2017, the State Auditor signed a Memorandum of Understanding (MOU) with the Attorney General and the Director of the Department of Public Safety to strengthen collaboration and assistance in combating financial crimes in the Pohnpei State Government.

Part II
POPA Annual Report
Fiscal Year 2017

Part II: Program and Operating Budgets and Expenditures
Fiscal Years 2017 and 2016

A total of $305,866 was appropriated to support POPA operations during the reporting fiscal year. Of this total, $276,921 was made available under the FY-2017 Compact Sector grant and $28,945 was sourced from the Pohnpei General fund. The table below presents a summary of the POPA's operating budgets and expenditures for the fiscal years 2017 and 2016.

POPA Operating Budget and Expenditures
Fiscal Years 2017 and 2016

Revenue Source	Fiscal Year 2017	Fiscal Year 2016
General Fund	$28,945-	$ 17,688-
Compact Sector Grant	276,921-	277,601-
Total Revenues	**$305,866-**	**$295,289-**
Expenditures		
Personnel (CSG)	$206,759-	$177,160-
Personnel (GF)	-0-	10,688-
Travel (CSG)	9,900-	17,511
Travel (GF) – 2017 APIPA	16,000-	-0-
Contractual Services (CSG)	2,020-	2,020-
Other Current Expenses (CSG)	40,089-	41,804-
Representation Fund (GF)	1,446-	1,950-
Total Expenditures	**$276,214**	**$251,133-**
Balance	**$ 29,652**	**$44,156-**

Source: DoT&A and POPA Accounting Records.

In addition, POPA requested and received approximately $US79,600 from various domestic and external sources to support its program activities during the year. The amounts received, expended, and source for each grant are shown in the table below.

POPA Program Funds
Contribution and Donations
Fiscal Year 2017

Source of Fund	Amount	Expenditure	Balance
US DOI, OIA Tech. Assist. Program	$$58,600-	$19,569-	*$39,031-
DFA&T (Australia)	16,000-	5,300-	**10,700-
UN Convention Against Corruption	3,000-	3,000	-0-
FSM Congress	2,000-	2,000	-0-
Total	**$79,600-**	**$29,869**	**$49,731**

Source: DoT&A and POPA Accounting Records.

Notes:
* Unexpended funds will remain available until FY-2019 and can only be used for POPA staffs capacity building and professional development.

** Amount will be fully expended by December 2017 specific to the FSM Fraud and Flexible Project.

Part III
POPA Annual Report
Fiscal Year 2017

Part III: About POPA

Establishment

Established pursuant to the provisions of Article 11, Section 8 of the Pohnpei Constitution and the State Law No. 1L-10-79, as amended, the Pohnpei Office of the Public Auditor (POPA) is authorized to: *"Conduct audits of all transactions and of all books and accounts kept by or for all departments, offices, agencies of the State, its political subdivisions and all projects, programs, activities or organizations receiving public funds from Pohnpei State Government, regardless of the source."*

The Office is headed by the State Auditor who is appointed by the Governor with the advice and consent of the Pohnpei Legislature by affirmative vote of the majority of members, without regard to vacancies. The State Auditor serves for a term of four years and until a successor is appointed and confirmed. Within 30 days before the end of each four-year term, the Auditor may be removed by affirmative vote of two-thirds of the members of the Legislature, without regard to vacancies.

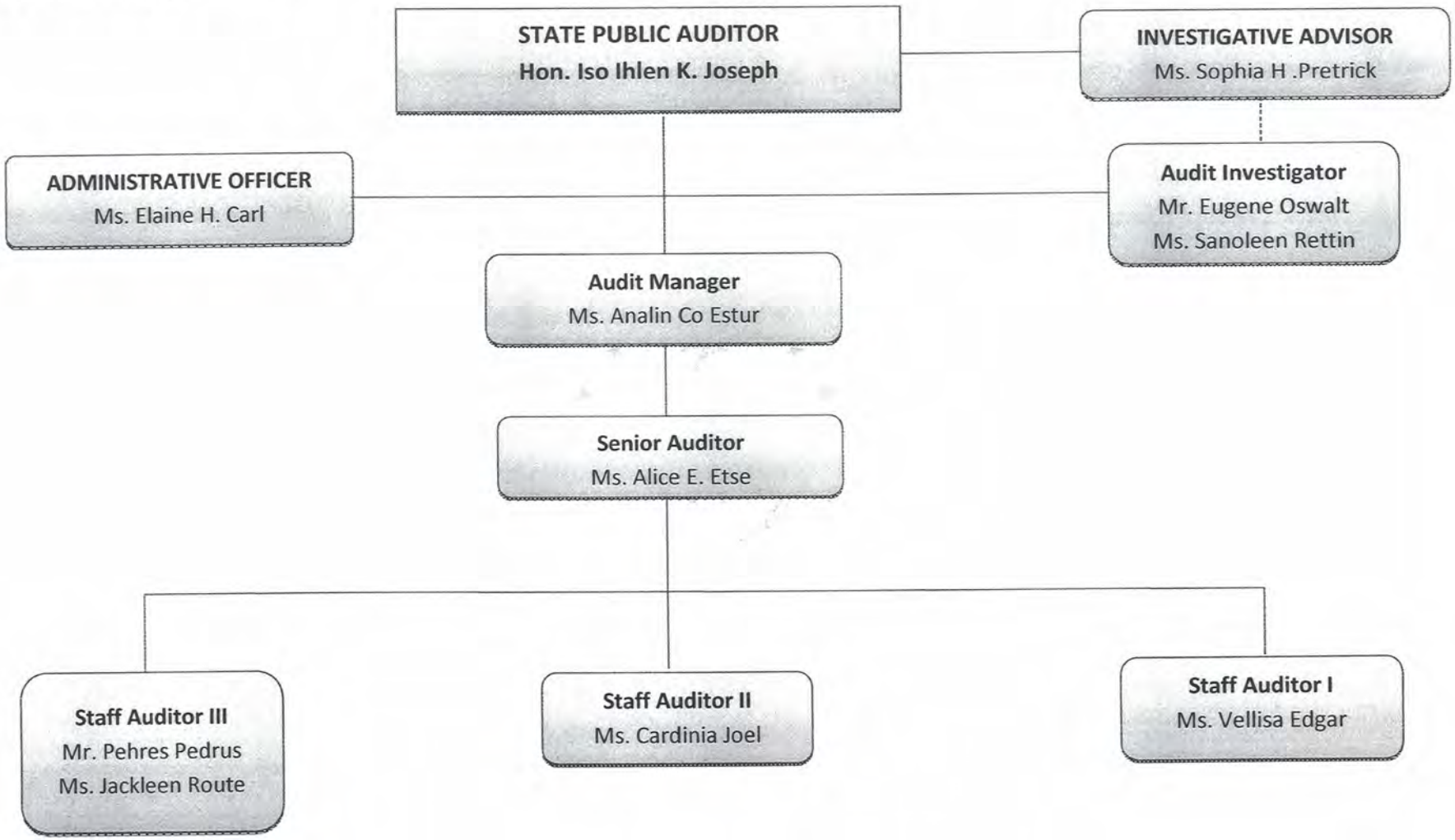
Recruitment of staffs required to support the POPA operations remain at the discretion of the State Auditor subject to availability of appropriated funds. (Refer to POPA's Organizational Chart on page 22 for details).

Our Vision

Our services assure an efficient government free of waste, fraud and mismanagement.

OFFICE OF THE PUBLIC AUDITOR
ORGANIZATIONAL STRUCTURE

Iso Ihlen K. Joseph — Date 10-01-16



Employees:
Appointed: x 1; Contractual services: x 3; Permanent: x 7.
Total: x 11

Prepared by: Elaine H.Carl

Our Mission

We produce and publish high quality and timely audit and investigation services to enable our leaders, public administrators and other stakeholders to make well informed decisions leading to transparency, accountability and good governance.

Our Core Values

We value our independence, professionalism, integrity, collaboration, impartiality, reliability and respect of the values of Pohnpei "WAHU".

Our Goals and Objectives

Our primary goal is to conduct and issue high quality and timely audit reports of the transactions, accounts, programs and performance of the Pohnpei State Government departments, offices, agencies, local governments, and all organizations, programs, projects receiving public monies from Pohnpei State Government. We also perform other duties and services as may be directed by statutes. POPA's objective is to provide decision makers with high quality, timely, accurate and objective information from which they can make well informed policy decisions.

Auditing Standards

We conduct audits in accordance with the *generally accepted government auditing standards (GAGAS), contained in the Government Auditing Standards also known as the "Yellow Book".* Promulgated and issued by the Comptroller General of the United States of America, these standards refer to auditors' professional qualification, independence, audit quality, and meaningful audit reporting characteristics. We also conduct audits in conformity with the Pohnpei Constitution, POPA legal framework, POPA Audit Manual and related work procedures.

We perform administrative reviews and preliminary investigations in conformity to the quality standards for inspections issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The primary aim of POPA's audit and

investigative services is to improve transparency, accountability, and good governance in the Pohnpei State Government.

External Quality Control Peer Review

The auditing standards we follow (Yellow Book) requires government audit organizations to undergo external quality control Peer Review at least once every three (3) years. The external quality Peer Reviews are required to determine whether the audited organization's internal quality control system is adequate and, whether the internal control system in place are being complied with to provide assurance of conforming to applicable professional standards. POPA has gone through six (6) external quality control Peer Reviews in the past 18 years with satisfactory ratings. POPA has commenced preparation for the next External Peer Review taking place in May or June 2018.

Membership in Regional and International Organizations

POPA is a member of the following regional and international audit organizations:

1) Association of Pacific Islands Public Auditors (APIPA) – Members include audit offices of Palau, Yap, Guam, CNMI, Chuuk, Pohnpei, Kosrae, Marshalls, Nauru, Kiribati, American Samoa, and Samoa.

2) Pacific Association of Supreme Audit Institutions (PASAI) – All countries in the Pacific region, including Australia, New Zealand, New Caledonia and French Polynesia are members.

3) Pacific Islands Ombudsman Alliance (PIOA) – Members are FSM National Government OPA, OPA Pohnpei, OPA Palau, OAG Marshalls and all SAIs in Melanesian and Polynesian island countries, including Australia and New Zealand.

4) International Organization of Supreme Audit Institutions (INTOSAI) - POPA is a member through PASAI.

Our membership provides POPA staffs opportunity to participate in workshops and other capacity building training initiatives sponsored by these organizations to enhance skills and at the same time earn the required CPE-hours.

Part IV
POPA Annual Report
Fiscal Year 2017

Part IV: Staff Professional Development and Other Programs

The Staff Development Standard under GAGAS or the "Yellow Book" requires government auditors responsible for planning, directing, conducting or reporting on government audit to complete at least 80-hours of Continuing Professional Education (CPE) every two years. At least 24 of the 80-hours required should directly relate to government auditing. The Standard also requires that at least 20 hours of the 80-CPE should be completed in any one of the two years.

We remain grateful to our development partners and associates for their continuing support, most especially in our human resource capacity building and staff professional development initiatives during the year. Our staffs participated in a number of audit and investigative related training and workshops sponsored by our development partners and associates. These include:

1. In October 2016, the Pohnpei State Auditor attended the APIPA Principals' interim meeting in Guam. The heads of Audit Offices from Palau, Yap, Guam, CNMI, FSM National Government, Kosrae, Marshalls and American Samoa participated in the meeting. (All meeting expenses were fully paid by APIPA).

2. In November 2016, the POPA Investigative Advisor was invited and attended the FSM Annual Finance Conference held in the State of Kosrae. She addressed the Conferees on matters relating to fraud and corruption detection and prevention in government. (POPA paid for her trip).

3. In November 2016, POPA Senior Auditor was invited and participated in the Public Assets Auditing Workshop held in Papua New Guainía. (sponsored and funded by PASAI and IDI).

4. In December 2016, POPA Audit Manager and a staff auditor attended the reporting meeting of 6th cooperative audit, Procurement Practices of the Department of Health Services, in Apia, Samoa.

5. In January 2017, the State Auditor and the Senior Auditor joined representatives from the Audit Offices of Yap, Guam, FSM National Government, Kosrae and the Marshalls at the "SAI Performance Measurement Framework (PMF)" assessment Workshop held in Guam (sponsored and paid by PASAI and the INTOSAI Development Initiative (IDI).

6. In March 2017, Staff Auditor Oswalt currently detailed to CID attended the Young Leaders Forum held in New Zealand. (The Forum was sponsored and paid by PASAI and IDI).

7. In April 2017, the Investigative Advisor represented the State Auditor to the Pacific Integrity Leaders Forum held in Australia. (The Forum was sponsored and funded by the Office of the Commonwealth Ombudsman, Australia).

8. In May 2017, the Investigative Advisor and Staff Auditor Oswalt attended the Conflict of Interest Management Training held in Fiji. (The program was sponsored and funded by the Commonwealth Ombudsman).

9. In May 2017, the State Auditor joined the Pacific Heads of SAI Leadership Program in Fiji. Sponsored and funded by PASAI and IDI, the program was designed to improve and promote better Communication on the value and benefit of SAIs' or OPAs' to citizens in the Pacific region.

10. In July 2017, all POPA staffs attended the Audit and Investigative training programs held in Pohnpei. The program was co-hosted by the ONPA and POPA with the assistance of the U. S. Graduate School. Instructors for the audit and investigative training were provided by the U. S. Department of Interior, Office of the Inspector General.

11. In July 2017, the entire POPA workforce participated in the FSM Public Auditors' Annual Conference and training held in Pohnpei.

12. In August 2017, the State Auditor joined the heads of Audit Offices or Supreme Audit Institutions (SAI) in the Pacific region for the 17th PASAI Congress held in Tuvalu. Some major decisions were made at the Congress, including PASAI financial and program priorities going forward.

13. In August 2017, the entire POPA workforce attended the 2017 APIPA Annual Conference held in Majuro, Marshall Islands. Over 325 participants took part in the Conference proceedings. POPA staffs earned 36 to 40 Continuing Professional Education (CPE) hours. In addition, the training components of the Conference enhanced the capacity and professional development for all those who participated. The APIPA Annual Conference provides the best opportunity for the Audit Offices in the greater Micronesian region to build staffs capacity and at the same earned the CPE hours required.

14. In September 2017, the Audit Manager served as the leader of the three member team that conducted on-site External Quality Peer Review and Assessment of the Guam Accountability Office (GAO). The review was carried out to determine whether the GAO internal control system is adequate and is being complied with for the past three years. The program was funded by APIPA and is required by the auditing standards we follow.

15. In September 2017, the Investigative Advisor attended the ELDP Evaluation and Assessment project held in Guam. The Advisor was one of those ELDP alumnae who were selected and invited to perform an evaluation and assessment of the effectiveness of the ELDP program.

POPA Community Outreach Activities Conducted in 2017

Community Outreach Awareness Initiatives

We conducted a series of fraud awareness and preventive workshops during the year. These include on-site fraud awareness and preventative presentations at:

1) Calvary Christian Academy School in Pohnpei.
2) FSM Finance and Budget Officers Annual Conference held in Kosrae.
3) Conflict of Interest Training held in Fiji.
4) Division of Revenue in Pohnpei.
5) FSM Development Bank Corporate Office in Pohnpei.
6) NGO (Micro Production) in Pohnpei.

POPA also sponsored the International Anti-Corruption Day activities on 9 December 2016. Activities included an Essay Contest among all high school students in Pohnpei and a Parade Competition between Youth Groups in Pohnpei. "Team Up Against Corruption" was the theme selected for the event and winners took away good prizes.

The State Auditor signed a Memorandum of Understanding (MOU) with the Director of the Public Safety Department and the Pohnpei State Attorney General during the year. The MOU strengthened collaborative assistance between the three entities in combating financial crimes in Pohnpei State Government.

Part V
POPA Annual Report
Fiscal Year 2017

Part V: Challenges Going Forward

POPA faces many challenges going forward. With the continuing support and guidance of the Pohnpei leadership and our development partners, we are prepared to take on these challenges with confidence. These challenges include opportunities to:

1) Independence and Autonomy - Strengthen and clarify POPA's independence, autonomy and relationship to the three branches and other agencies of the Pohnpei Government. The legal framework needs to provide the State Auditor sufficient protection, adequate financial support, and greater organizational autonomy to effectively carry out his/her mandates. POPA can only be effective if it is independent to undertake its functions and mandates free of outside interference and political influence.

2) POPA Permanent Office Facility – An opportunity to identify and secure funds for the construction or renovation of a permanent office facility for POPA. Currently POPA is housed in an old Trust Territory Government constructed residential housing unit built more than 50 years ago. Because of aging, the facility is deteriorating a lot faster and the need for a new permanent office building for POPA becomes an urgent priority.

3) Dedicated Legal Support – We applaud the decision of the new Pohnpei Attorney General for taking active interest in our audit and investigation cases previously referred to the Office of the Attorney General for criminal investigation and prosecution. Several audit related cases have been filed in Pohnpei Supreme Court for judgment. We believe the court involvement and action on these cases will prevent fraud and corruption in our government. It would also discourage recurrence of the internal control weaknesses involved and improve effective use and management of Pohnpei Government public resources.

4) Website Update and Maintenance – The POPA website was developed and installed in 2004 and has not been updated since inception. We require financial support to contract a specialist to update and train our personnel in the website operations and maintenance. We will seek funding from sources within and outside of Pohnpei in support of the project. The website is essential to promote public awareness of the benefits and value of the OPA to our citizens.

5) Capacity Building. Professional Development and Professional Certification Staff training and competency continues to be a priority of POPA. We have developed and transmitted to the Office of Insular Affairs, U. S. Department of Interior a proposal requesting nearly $58,600 to support our OPA training and manpower development initiatives required for the FY-2017. We will continue to work closely with APIPA, PASAI, IDI and our other development partners in realizing appropriate professional development and certification programs suitable for our OPA staffs.

6) Adequate Resource Availability – Greater budgetary autonomy for POPA is most desirable to improve and strengthen planning, work implementation and work productivity. The Commonwealth of the Northern Marianas Islands (CNMI) laws require that 1% of all departments and agency approved operations budget funded under locally generated revenues shall be allocated to fund the CNMI OPA operations annually. This funding arrangement provides CNMI OPA the funding autonomy and ability to develop realistic long-term program strategic planning and implementation. We recommend Pohnpei leadership to consider similar budgetary arrangement for the Pohnpei OPA. This will also satisfy the

JEMCO/OIA requirement to commence shifting POPA operations budget from the Compact Sector grant to other sources.

7) Information Technology (IT) Upgrade - POPA is currently exploring with other FSM OPAs for ways to improve the economy, efficiency and effectiveness of our audit works. POPA's desire to transition into electronic working papers with Team Mate, an audit software currently utilized by OIG/DOI and several members of APIPA, including Guam and Palau will strengthen our Information Technology (IT) systems and modernize our auditing functions.

Important Message

The Pohnpei Office of the Public Auditor (POPA), actively solicits and welcomes allegations of any insufficient and wasteful practices, fraud, and corruption in the Pohnpei Government. Fraud, waste, mismanagement, misuse, abuse or any allegation or sign of corruption in the government should be a concern of everyone in Pohnpei. You can report allegations of fraud and abuse by contacting the POPA at the following addresses:

Mail:	Office of the Public Auditor P. O. Box 370 Kolonia, Pohnpei State, FM 96941
Phone:	(691) 320-2538
Hotline:	(691) 320-8497 (24-hours)
E-Mail:	opsa_psa@mail.fm