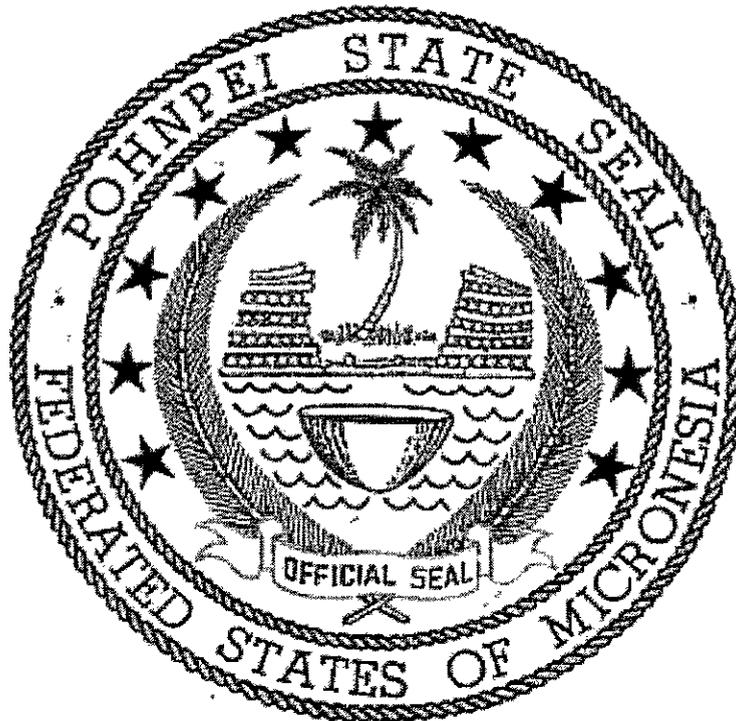


**POHNPEI TRANSPORTATION AUTHORITY
FINANCIAL AUDIT
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

AUDIT REPORT NO. 004-22

**Office of the Public Auditor
State of Pohnpei**



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**POHNPEI TRANSPORTATION AUTHORITY
AUDIT REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

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**OFFICE OF THE PUBLIC AUDITOR
POHNPEI STATE GOVERNMENT**

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June 29, 2022

The Honorable Oliver Reed, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Board of Directors, Pohnpei Transportation Authority
Mr. Berney Martin, Commissioner, Pohnpei Transportation Authority

EXECUTIVE SUMMARY

We are pleased to submit the financial audit report of Pohnpei Transportation Authority (PTA) as of and for the year ended September 30, 2021. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit was also performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79, as amended.

The objectives of our audit were:

1. The expression of an opinion concerning whether the financial statements present fairly, in all material respects, the financial position, result of operations, and cash flows of Pohnpei Transportation Authority as of and for the year ended September 30, 2021.
2. Reporting on the internal control relevant to an audit of the financial statements; and
3. Reporting on PTA's compliance with laws and regulations, which could have a material effect on the financial statements.

The highlights of the report are as follows:

- The Authority received an unqualified opinion on its financial statements for the fiscal year ended September 30, 2021.
- Operating revenues for the year was \$2,145,494, an increase by 38% or \$593,617 compared to prior fiscal year of \$1,551,877.

- Operating expenses has increased by 24% or \$392,202 from \$1,630,398 to \$2,022,600. Payroll related costs account for 59% of the total operating expense. Supplies and Materials decreased this year by \$21,533 whereas, expenses for Petroleum, Oil, & Lubricant increased from \$237,529 to \$241,943 for the year.
- This year's operating income is \$122,894, an improvement compared to net loss of \$78,521 last year.
- Net assets this year is \$987,074, an increase by 30% or \$228,349 compared to prior year.
- Due to Primary Government was increased by .68% or \$11,323 from \$1,663,537 to \$1,674,860. The amount represents what PTA owes the Pohnpei State General Fund.

The audit cited nine (9) findings which are detailed on pages 18-30. Of the nine (9) audit findings, three (3) are material weaknesses in the internal control over financial reporting and two (2) are material non-compliances with applicable laws, summarized as follows:

- Lack of proper records and documentation delayed compilation of financial statements;
- \$150,000 was expended without proper planning;
- Lack of control procedures in the processing of POL;
- Unauthorized cash collections and uses of funds; and,
- Unresolved prior years' audit findings.

A draft of this report was provided to and discussed with the management of PTA and its response is included hereto as Exhibit I starting on page 32, as Auditee Response.

In the report, we have offered our recommendations to the findings that we believe once implemented, PTA's operations could be improved. In this regard, we request management to promptly identify corrective measures to implement the audit recommendations to fully resolve the findings.

In addition, during the audit we issued a management letter dated May 2, 2022 regarding an activity that PTA started without the Board's approval. We have included the detail of the management letter in the Schedule of Findings and Recommendations of our report as Finding No. 21-005 on page 23.

Lastly, we extend our appreciation to the management and members of the PTA work force for the assistance they extended to us during the course of our audit.

Sincerely,


Iso, Ihlen Joseph
State Public Auditor



**POHNPEI STATE GOVERNMENT
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INDEPENDENT AUDITOR'S REPORT

Mr. Midion G. Neth
Chairman
Board of Directors
Pohnpei Transportation Authority
Kolonias, Pohnpei State, FM 96941

We have audited the accompanying statement of net assets of Pohnpei Transportation Authority (PTA), a component unit of the State of Pohnpei, as of September 30, 2021, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of PTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PTA, as of September 30, 2021, and the result of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of PTA. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2022 on our consideration of PTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Helen K. Joseph
State Public Auditor
May 30, 2022

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis Year Ended September 30, 2021

This section of the Pohnpei Transportation Authority's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2021. This MD&A is prepared in compliance with the GASB 34 requirement. Readers are requested to read this MD&A in conjunction with the PTA's financial statements, which follows this section.

Financial Highlights

- Operating revenues for the year is \$2,145,494, an increase of 38% or \$593,617 compared to prior fiscal year of \$1,551,877.
- Operating expenses increased by 24% or \$392,201 from \$1,630,398 to \$2,022,600. Payroll related cost account for 59% of the total operating expense. Supplies and Materials decreased by \$21,533 whereas POL increased by \$4,414 from \$ 237,529 to \$241,943 for the year.
- PTA's operation resulted in operating income of \$122,894, an improvement compared to net loss last year of \$78,522.
- Net asset for the year is \$987,074 an increase of \$228,349 or 30% from prior year.
- Due to primary government was increased by .68% or \$11,323 from \$1,663,537.

Financial Statements Preparation

PTA is a component unit of Pohnpei State Government. PTA uses proprietary funds, financed and operated in a manner similar to private business enterprises to account for its operations. The financial statements are presented using the economic resources measurement focus and utilize the accrual basis of accounting.

Financial Analysis

The Statement of Net Asset presents information on all of the PTA's assets and liabilities, with the difference between the two is reported as net assets if assets are higher than liabilities, otherwise it is reported as net liabilities. Presented below is the comparative change in net assets (liabilities) as of fiscal years ended September 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>%tage Inc(dec)</u>
Current assets	\$ 311,898	\$ 356,962	\$ (45,064)	(13%)
Non-current assets	<u>2,467,407</u>	<u>2,329,333</u>	<u>138,074</u>	6%
	<u>2,779,305</u>	<u>2,686,295</u>	<u>93,010</u>	3.5%
Other liabilities	117,371	264,033	(146,662)	(56%)
Due to primary government	<u>1,674,860</u>	<u>1,663,537</u>	<u>11,323</u>	.68%
Total liabilities	<u>1,792,231</u>	<u>1,927,570</u>	<u>(135,339)</u>	(7%)
Net Asset (Deficit)	<u>\$ 987,074</u>	<u>\$ 758,725</u>	<u>228,349</u>	30%

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

Year Ended September 30, 2021

Operating Activities

The fundamental responsibility of PTA is to plan, develop, construct and maintain public roads. During the year, it secured several road related projects from the municipalities, state and FSM Congress. The following table summarizes the comparative net income for fiscal years ended September 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>	<u>Inc (dec)</u>	<u>Inc (dec)</u>
Operating revenues	\$2,145,494	\$ 1,551,877	\$ 593,617	38%
Operating expenses	<u>2,022,600</u>	<u>1,630,399</u>	<u>392,201</u>	24%
Net income (loss)	<u>122,894</u>	\$ (<u>78,522</u>)	\$ <u>201,416</u>	257%

Budget

PTA operates on an annual budget from revenues generated on road construction projects, equipment rentals, and sale of coral and reinforced concrete pipes. Receipts and disbursements are accounted for by the Pohnpei State Department of Treasury and Administration. Appropriations require that funds be administered in accordance with the provisions of the State's Financial Management Act. The enabling legislation provides PTA the power to expend revenues generated from its projects.

Financial Contact

This financial report is designed to provide all interested users with a general overview of the PTA's finances. If you have questions about this report or need additional information, please contact the Commissioner, Pohnpei Transportation Authority, P.O. Box 36 Kolonia, Pohnpei FM 96941 or call (691) 320-2377/2148.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Net Assets

September 30, 2021

(With comparative totals for September 30, 2020)

<u>ASSETS</u>	2021	2020
Current assets:		
Accounts receivable, net (note 2)	\$ 152,757	\$ 126,854
Travel Advances	2,738	2,738
Inventory, at cost	155,017	226,482
Prepaid Expenses	1,386	888
Advances to Suppliers	-	-
Total Current Assets	<u>\$ 311,898</u>	<u>\$ 356,962</u>
Property and equipment, net (note 3)	<u>2,467,407</u>	<u>2,329,333</u>
TOTAL ASSETS	<u><u>\$ 2,779,305</u></u>	<u><u>\$ 2,686,295</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 66,495	\$ 241,385
Accrued payroll	44,757	11,397
Accrued vacation leave	2,945	8,077
Deferred revenue	3,174	3,174
Total Current Liabilities	<u>\$ 117,371</u>	<u>\$ 264,033</u>
Non-current Liabilities:		
Due to primary government (note 4)	<u>\$ 1,674,860</u>	<u>\$ 1,663,537</u>
Total Non-Current Liabilities	<u>\$ 1,674,860</u>	<u>\$ 1,663,537</u>
Total Liabilities	<u>\$ 1,792,231</u>	<u>\$ 1,927,570</u>
Contingencies (note 5)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 2,467,407	\$ 2,329,333
Contributed Capital, Net of Capital Assets	216,567	354,640
Unrestricted	<u>(\$ 1,696,900)</u>	<u>(1,925,248)</u>
Total Net Assets (Liabilities)	<u>\$ 987,074</u>	<u>\$ 758,725</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,779,305</u></u>	<u><u>\$ 2,686,295</u></u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets September 30, 2021 (With comparative totals for September 30, 2020)

	2021	2020
Operating Revenues:		
Construction Services	\$ 1,771,287	\$ 1,187,825
Aggregates & Sand Sales	127,543	50,198
Equipment Rental	47,559	49,544
Other Revenues	<u>199,105</u>	<u>264,310</u>
Total Operating Revenues	<u>\$ 2,145,494</u>	<u>\$ 1,551,877</u>
 Operating Expenses:		
Salaries and wages	\$ 1,200,832	\$ 758,189
Supplies and materials	140,475	162,008
POL	241,943	237,529
Communications	11,979	4,600
Rental Services	329	114,013
Depreciation	343,883	284,952
Bad Debts	-0-	-0-
Utilities and water	11,712	13,568
Freight and Port Charges	26,299	20,437
Misc. Goods and Services	27,266	2,139
Travel	-0-	2,504
Repairs and Maintenance	6,450	6,201
Housing Allowances	7,720	7,200
Representation	-0-	6,317
Non-Cap Furniture and Fixtures	3,712	5,717
Non-Cap Equipment	<u>-0-</u>	<u>5,025</u>
Total Operating Expenses	<u>\$ 2,022,600</u>	<u>\$ 1,630,399</u>
 Operating Income (Loss)	 \$ 122,894	 \$ (78,522)
 Add: (Less) Adjustment that affect Net Loss Contributed Capital	 <u>105,454</u>	 <u>180,680</u>
 Net Increase (Decrease) in Net Assets	 \$ 228,348	 \$ 102,159
 Net Assets (Liabilities), beginning of year	 <u>758,726</u>	 <u>656,567</u>
 Net Assets (Liabilities), end of year	 <u><u>\$ 987,074</u></u>	 <u><u>758,726</u></u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Cash Flows
September 30, 2021

Reconciliation of income from operations to net cash provided by operating activities:

Loss from operations	\$ 122,894
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	343,883
Changes in assets and liabilities:	
Decrease in Accounts receivable	(25,903)
Decrease in Inventories	71,465
Increase in Prepaid expense	(498)
Decrease in Accounts payable	(174,890)
Increase in Accrued payroll	33,360
Increase in Due to primary account	11,323
Decrease in Accrued vacation leave	<u>(5,132)</u>
Sub-total	376,502
Add: (Less) Adjustment that affect net income	<u>105,454</u>
Net cash provided (used) by operations	\$ 481,956
Cash Used for acquisition of property and equipment	<u>(\$ 481,956)</u>
Contributed Capital	-0-
Cash Provided by Financing Activities	<u>\$ -0-</u>
Net increase (decrease) in cash and equivalents	\$ - 0 -
Cash and equivalents at beginning of year	<u>- 0 -</u>
Cash and equivalents at end of year	<u><u>\$ - 0 -</u></u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Pohnpei Transportation Authority (PTA) was established by 33PC 2-101 and subsequent amendments thereof. The primary purpose of PTA is to promote, develop, and improve transportation facilities and services within Pohnpei. The services include the construction of circumferential roads for the island, secondary farm roads for the municipal governments and performance of other construction maintenance on a user charge basis.

The affairs of PTA are governed by a seven-member Board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of PTA is delegated to a Commissioner, who is appointed by the Governor and serves at the pleasure of the Board.

PTA is a component unit of the Pohnpei State Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the State of Pohnpei as a whole.

B. Basis of Accounting

The financial statements of PTA have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989.

The accounts of PTA are organized as a proprietary fund - component unit of the Pohnpei State Government. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises.

Basis of accounting refers to the time when revenues and expenses are recorded in the accounts and reported in the financial statements. PTA utilizes the accrual basis of accounting which means that revenues are recorded when earned and expenses are recorded when the related liabilities are incurred, regardless whether cash is received or payment is made.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

PTA has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

Net Assets

Net assets represent the residual interest in the assets after liabilities are deducted and consist of three sections: invested in capital assets, net of related debt; restricted; and unrestricted.

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

Net assets constrained to a particular purpose by enabling legislation or imposed by third parties. PTA has no restricted assets.

- Unrestricted:

Net assets that are neither subject to externally imposed stipulations nor invested in capital assets.

C. Budget

PTA operates on an annual budget from revenues generated by projects, which are accounted for by the Pohnpei State Department of Treasury and Administration. Appropriation acts require that funds be administered in accordance with the provisions of the State's Financial Management Act. The enabling legislation does provide PTA the power to expend revenues generated by projects maintained by PTA pursuant to 33 PC 2-103. Such expenditures must, however, be in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

D. Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) costing method.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

E. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets, which range from two to fifteen years depending on the nature of the asset.

F. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

G. Capital Contributions

Capital contributions represent amounts received from primary government for purchasing capital assets or capital assets donated by governments.

H. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Risk Management

PTA does not purchase commercial insurance covering its potential risks. There is no material loss sustained as a result of this practice.

J. New Accounting Standards

During the Fiscal Year ended September 30, 2018, PTA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statement No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements

September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections- 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PTA.

In March 2016, GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement 82 are effective for financial statements for periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements

September 30, 2021

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
CONTINUED

in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. Management has not yet determined the effect of implementation of these statements on the financial statements of PTA.

(2) ACCOUNTS RECEIVABLE

The majority of Accounts Receivable represents amounts owed by the State of Pohnpei related to restoration of roads and culverts during the "emergency period" declared by the Governor per Emergency Declaration 18-02. At September 30, 2021 the net balance is \$152,757.

(3) PROPERTY AND EQUIPMENT

A summary of the PTA's property and equipment at September 30, 2021 follows:

	Estimated Useful Life	Balance October 1, 2020	Additions/Adj.	Deletions/Adj.	Balance September 30, 2021
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	3,387,466	262,263	-	3,649,729
Vehicles	5 years	157,273	39,000	-	196,273
Furniture and fixtures	3 years	24,595	-0-	-	24,595
Machinery and tools	2 years	43,734	34,527	-	78,261
Building Improvements			146,166		146,166
		\$ 3,683,068	\$ 481,956	\$ -	\$ 4,165,024
Less accumulated depreciation		(1,353,735)	(343,882)	-	(1,697,617)
Property and equipment, net		<u>\$ 2,329,333</u>	<u>\$ 138,074</u>		<u>2,467,407</u>

(4) DUE TO PRIMARY GOVERNMENT

The amount represents accumulated advances made by the Pohnpei State to fund PTA's operations. Changes in the account are shown below:

Balance as of October 1, 2020	\$ 1,663,537
Increase (decrease) in the account as reflected in	
Cash Flow Statement	11,323
Balance as of September 30, 2021	<u>\$ 1,674,860</u>

These advances are facilitated by the use of a 'pooled' cash account at the Pohnpei State's general fund. Cash pooling is a practice whereby for practical purposes, cash is maintained in a single bank account.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2021

(5) CONTINGENCIES

Pohnpei Transportation Authority is a party to two legal proceedings. The Office of the Attorney General provides general legal assistance to the Authority. In addition to the assistance provided to PTA, a substantial amount of time is also spent on civil cases in litigation at the Pohnpei State Supreme Court and the FSM National Supreme Court.

POHNPEI TRANSPORTATION AUTHORITY

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE BASED UPON THE AUDIT
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

YEAR ENDED SEPTEMBER 30, 2021



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Mr. Midion G. Neth
Chairman
Board of Directors
Pohnpei Transportation Authority
Kolonia, Pohnpei State, FM 96941

We have audited the financial statements of Pohnpei Transportation Authority (PTA), as of and for the year ended September 30, 2021, and have issued our report thereon dated May 30, 2022. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered PTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as finding numbers 21-001 to 21-004 on pages 18 to 22.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that of the reportable conditions described above, finding numbers 21-001 to 21-003 are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether PTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

The results of our tests disclosed material instances of noncompliance that we are reporting to the management in the accompanying Schedule of Findings and Recommendations as finding numbers 21-005 and 21-009 on pages 23 to 24 and 28-31. Our test also disclosed other instances of noncompliance we are reporting to management as well in the Schedule of Findings and Recommendations as finding numbers 21-006 to 21-008.

This report is intended for the information of the Board of Directors and management of the Pohnpei Transportation Authority, State of Pohnpei, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,



Ihlen K. Joseph
State Public Auditor
May 30, 2022

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-001: Lack of Proper Records and Documentation Delayed Compilation of Financial Statements

Criteria:

PTA, as a component unit of the Pohnpei State Government, should have an effective accounting system in place capable of producing complete and accurate financial information and data, updated schedules and account balances, and supporting records to enable timely preparation of reliable financial statements in accordance with the generally accepted accounting principles. PTA's duties and responsibilities are specified in **33 PC 2-104** of the Pohnpei Code that include, among others, the following in the furtherance of its purposes:

- To prepare reports on programs, projects and functions of the Authority, including financial reports;
- To establish and maintain Authority records including records of all bids, contracts and project descriptions, which shall be kept in good order for a minimum of six calendar years after the dates of completion of such contracts or projects.
- To submit an annual report on the activities of the Authority to the Legislature no later than 15 days after the last day of each fiscal year; PROVIDED, that the report shall include an accounting of all funds received by the Authority during the previous fiscal year from any source whatsoever.

Condition:

Our audit revealed that PTA was not able to prepare reliable financial statements for the year. It has not ensured necessary reconciliation and updates of its balances and accounts with the Department of Treasury and Administration are done. The inaction has continued to misstate PTA's financial information. It also did not maintain, reconcile and/or update Accounts payable, Accounts receivable, Inventory and Due to/from account. In addition, PTA did not create and properly maintain underlying records and documentation of transactions to support and facilitate validation of financial information, such as:

- a log of job orders and proforma invoices issued;
- a log of POL slips prepared and issued;
- detail summary of cost of projects; and,
- records for review of all its expense accounts.

Cause:

The condition happened because PTA's financial accounting and reporting system is deficient. This is partly due to the Board not understanding the value and benefits of good internal control system (encompassing suitable accounting and reporting) and has not demand and require management to implement and maintain one. Without that understanding, Board could not communicate clearly its expectation and requirements; and, therefore management has not exerted all necessary effort to set up, enhance or improve the accounting and financial reporting of PTA's operation.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-001: Lack of Proper Records and Documentation Delayed Compilation of Financial Statements, Continued

Effect:

The above condition will continue to affect the management timely preparation of PTA's financial statements and auditors' work. It also will continue to hinder PTA from becoming fully independent. In addition, the condition exposes PTA to misstatements and other irregularities that may not be prevented or detected timely.

Recommendation:

We recommend that the Board and management should work together, update themselves in the PTA operation's needs and requirement and take necessary action to resolve the financial accounting and reporting deficiencies.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

Auditor's Reply to Auditee Response:

The auditors observed the improvement made by PTA in regards to the use of pre-numbered Job Order, Proforma Invoices, and the recording of such in excel spreadsheet with corresponding Cash Receipts. However, there was still lack of reconciliation of the cash receipt reports (schedule) to ensure the balances reported by State Finance tally with PTA's record. In regards to POL, PTA still does not have a mechanism in place to track the running balance of fuel inventory, purchases and uses. In addition, the log sheet report did not explain or account for the 255 missing POL slips, thus indicating problems with control activities.

The auditor's proposed adjustments were numerous and material to the financial statements. The condition indicates a deficient accounting and financial reporting system not able to prevent or detect material misstatement from going on to the financial statements.

Though we commend the actions taken by management, the finding remains until the Board and management take appropriate actions necessary to set up or implement a better accounting and financial reporting system of PTA. The system should be able to produce accurate financial transactions, create, keep and maintain proper records, accounts, schedules, etc., to facilitate timely preparation of financial statements.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-002: \$150,000 Expended Without Proper Planning

Criteria:

Planning is an important management tool and should be done to justify decision made, cost incurred, action taken or other accountability matters. Good planning can help protect and safeguard management from potential failure or problems.

Condition:

In fiscal year 2021, PTA expended \$150,000 on the renovation of its main office building in Kolonia. Though the use of the money was approved, we found that there was no documented plan showing how the funds were spent. PTA could not provide to us the project plan or blue print and the listing of materials required for the renovation. Our review of the expenditures charged to the renovation funds disclosed purchases that did not appear to be directly related to building renovation such as step ladder for dump trucks, drivers, water dispensers, high back chairs, boots, tool sets, etc.

Cause:

The condition happened because PTA did not prepare a proper plan with associated material list to guide the renovation and related purchases.

Effect:

As a result, unrelated costs of \$3,694 were incurred and paid for from the money earmarked for PTA office renovation; and also, PTA was exposed to potential risks of irregularities.

Recommendation:

We recommend that the Board should direct and ensure that management plan properly for all endeavors of PTA in the future to avoid any kind of problems and issues from arising.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-003: Lack of Control Procedures in the Processing of POL

Criteria:

Rules and guidelines are necessary part of an agency's internal control structure and it is imperative that they are followed consistently to ensure management objectives are achieved, and that the agency is safeguarded from errors, misuse and any other irregularities.

Condition:

We selected and reviewed POL slips PTA issued in a two-months period for its heavy equipment and other vehicles. Our review disclosed deficiencies in the PTA's control over its POL slips handling and safeguarding practices. The data and information in the POL slips were not all logged or summarized for appropriate reporting to management. In addition, we estimated that PTA issued 595 POL slips for the two-months period but could only provide 340 for our review. It could not account for the remaining 255 slips.

The 340 POL slips we reviewed totaled to 610 gallons of gasoline and 3,294 gallons of diesel. However, we could not verify nor make estimate on the volume of POL "in gallons" for the missing 255 slips without other appropriate records.

Cause:

The condition happened because PTA management has not created and put in place an appropriate systems of control activities and monitoring mechanism to govern the documentation, handling and issuance of POL.

Effect:

This could lead to under reporting, misuse and abuse of PTA's fuel inventory without proper documentation trail and monitoring of POL.

Recommendation:

We recommend that PTA create and institute suitable and reliable systems of control activities and monitoring to rule, properly document and track the handling, issuance and use of fuel for its operations.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Finding and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-004: Internal Control Weaknesses in the processing of Cash Disbursements or Payments

Criteria:

Internal controls over disbursements should be effectively in place to assist management and staff adhere to good practice and comply with laws and regulations. The controls ensures and guide management and staff the proper way to process, record, and maintain disbursements financial related data and information of an entity.

Condition:

We have reviewed all the expense accounts of PTA. We selected sixty entries from the 135P report and test if PTA complied with the requirements of the FMR. During our review, we found weaknesses which are mostly repeat of last year's findings. Listed below are the issues found:

- There were **16 instances** where there were no supporting invoices instead payment was supported by proforma invoice,
- **5 instances** where the wrong account was charged and there was no corrective entries made to post to the correct account;
- **14 instances** where there were no receiving reports;
- Amount of **\$3,494** in payment for coverall, steal toe boots, step ladder, wheelbarrow, etc., were charged to the Building Renovation account; and,
- One instance where the invoice does not tally to the check and that invoice was missing from the supporting documents;

Cause:

The above happened because management and staff of PTA were not diligent enough in making sure that complete documents were processed and filed intact.

Effect:

This could result to wrong data in the financial statements, misuse of funds, and loss of documents.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Finding and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-004: Internal Control Weaknesses in the Processing of Cash Disbursements or Payments, Continued

Recommendation:

We recommend that management of PTA should consistently implement and standardized proper control activities over its disbursements to ensure documentations are complete and accurate and maintained properly.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-005: Unauthorized Cash Collections and Use of Funds

Criteria:

PTA's accounting and receiving of its revenues and other collections are pooled at the Department of Treasury and Administration. In view of that, all PTA's disbursements or purchases are approved and processed through the State Finance.

In addition, PTA's establishing law requires that all its programs and activities must be approved by the Board.

Condition:

During the review we found out that PTA personnel were performing other services and selling goods at their off-site plant at Palikir and collecting payments. The activity was not formally authorized by the Board and neither were the necessary policies and procedures set up to guide the activity.

We observed that the control over the handling and the uses of these collections was poor. The monies were not remitted to the Department of Treasury and Administration for proper recording and depositing to the bank. Also, the three (3) collection points at the plant-site were not monitored properly to ensure cash collected are remitted timely to the designated custodians.

We also found out that the monies collected were being used for operation expense without proper authorization. At the time of our count, PTA only has \$177 on hand from the total receipts of \$11,130.34 collected from Fiscal Year 2021 up to April 7, 2022, detailed as follows:

- In Fiscal Year 2021, PTA had collected \$4,404.54., and already spent the amount but the invoices on file can only support \$1,012.76 and the remaining amount of \$3,391.78 is not supported.
- For the fiscal year 2022, PTA has already collected a total of \$5,725.80 but can only produce invoices worth \$1,769.28 and the remaining difference of \$4,779.52 is unsupported.
- It seems that not all the services being provided are approved by the Board; and,
- Detail accounting and recording of the money received and its uses are not maintained properly.

The condition was reported in a Management Letter dated May 2, 2022 to the Board and management of PTA. Subsequent to our letter report, the Commissioner stopped and closed the activity. However, we have not yet received any report from management regarding the turn over of the money and related report of the activity to the Department of Treasury and Administration.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-005: Unauthorized Cash Collections and Use of Funds, Continued

Cause:

According to PTA employees, the former Commissioner started the provision of other services and sales of goods to assist management defray cost of unexpected and unbudgeted expenditures.

Effect:

As a result, the starting of the activity without Board approval and not remitting collections to the Department of Treasury and Administration are not in compliance with PTA laws. Also, the condition exposes the cash collection to potential irregularities, including abuse and misuse without proper controls and guidelines in place. In addition, disbursements were made out of the funds without proper support and accountability.

Recommendation:

We recommend that the Board of Directors (BOD) should direct the PTA Commissioner to stop any supplemental activity not properly authorized. The Board should also ensure that payments for all PTA's services and/or sales of goods are paid directly at the Department of Treasury and Administration as required by PTA laws and regulations.

We also recommend that the BOD should require from the PTA Commissioner a complete report detailing the collections and disbursements of the monies received for the "unauthorized activity" so that proper accountability and reporting can be ascertained. In addition, we recommend that the Board should ensure that any provision of services and/or sales of goods follow the same process already in place. That is, receiving of collections and processing of payments should be made at the Department of Treasury and Administration with no exception.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Finding and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-006 Noncompliance with PSSR Relating to Overtime and Leaves

Criteria:

The Pohnpei Service System Regulation (PSSR) 7.1 states that an employee is eligible for overtime hours worked in addition to the normal workweek. To qualify, an employee must be assigned additional duties and the overtime must be applied for in advance. In requesting overtime, supervisors will initiate the request and forward the request to their management official for review and concurrence. Also Section 11.5 specifies that sick leave of more than one (1) day duration shall require certification from a medical doctor, medical officer or medex. Further, section 11.2 requires that requests for annual leave must be made and approved in advance on a leave request form.

Condition:

We selected five (5) pay periods for review of payroll and found the following:

- Nine (9) instances where overtime hours were paid without following the proper procedures regarding overtime;
- One (1) instance where overtime was not reflected in the timesheet summary and yet overtime hours were paid to one particular employee;
- Three (3) instances where sick leave was for more than one (1) day was paid but not supported by medical slip; and,
- One (1) instance where annual leave was not requested in advance.

Cause:

The condition occurred due to lack of proper review over the supporting documents for the reported overtime and leave requested.

Effect:

The condition could lead to payment of unauthorized overtime and leave hours.

Recommendation:

We recommend that both PTA and DOTA conduct proper reviews of the hours requested to ensure overtime or other differential hours and leave request are properly and adequately supported and comply with applicable rules and policies.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Finding and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-007: Noncompliance with PSSR: Unauthorized Hiring of Personnel

Criteria:

PSSR section 3.13 states that employment of any person without an approved personnel action is prohibited. The government shall not be liable for any compensation to any employee working without a properly certified and approved personnel action.

Condition:

During our review of payroll, we noticed that a paycheck in the amount of \$233.38 was issued to an individual who did not have an employment contract with PTA and was not listed in the payroll register or payroll history. Further review revealed that it was an error. The paycheck was meant for an actual employee who happens to share the same last name with the individual mistakenly named on the payroll check.

We also found that PTA reported 80 regular hours each for two individuals (sharing same last name), and one of which also claimed 8 hours of overtime. Both individuals have no employment contract with PTA and were not PTA employees. Fortunately, DOTA noted the oversight and did not process payroll checks for the individuals.

Cause:

Simple human error caused the wrong name to be printed on a payroll check meant for PTA employee, whereas, management attempt to by-pass the standard hiring procedures is the cause for the second part of the condition.

Effect:

The condition reflects PTA management attitude toward internal controls and its willingness to circumvent control procedures to achieve its purpose. The condition can lead to more internal controls and compliance issues.

Recommendation:

We recommend that PTA should, in all its endeavor, complies with existing rules, regulations, policies and procedures to avoid potential problems and issues, including embarrassment and negative feedback.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding number 21-008 Noncompliance with PTA's Payroll Process

Criteria:

PTA's time keeping of employee hours requires supervisors of each division to oversee the recording and monitoring of employee attendance and submitting the daily timesheets to the Accountant. All daily timesheets should be submitted to the Accountant for review before compilation into one daily work accomplishment summary report to be submitted to the Department of Treasury and Administration.

Condition:

As a result of our review, we found the following:

- There were many instances where employees' daily timesheets or timecards were unaccounted for or missing;
- There were many instances where employees' daily regular hours did not match the hours in the summary report compiled by the Accountant; (For example, an employee filed leave during the pay period but the hours reported in the timesheet summary were 80 regular hours.)

Cause:

There is lack of proper review and monitoring of the timesheets by supervisors and the Accountant to ensure hours earned tally with hours recorded and reported. The Accountant is not making sure that hours submitted to DOTA for payments are correct and matches with the supervisor's report.

Effect:

The condition could result to over/under payment of actual employees' hours earned and could lead to potential complain, misstatement and other problems.

Recommendation:

We recommend that the Commissioner direct the Accountant and supervisors responsible for monitoring and reviewing daily and summary timesheets to be diligent in their reviews.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY
 Schedule of Findings and Recommendations
 Fiscal Year Ended September 30, 2021

Finding No. 21-009 Unresolved Prior Year's Findings

Criteria:

Pursuant to Pohnpei State Law No. 5L-08-00, the Authority is required to submit to the Public Auditor a report on the progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed six months.

Condition:

The table below shows the status of prior year audit findings and recommendations:

Audit Findings	Implementation Status	Auditor's Remarks
<p>Finding No. 14-001 Inventory control system and record keeping needs improvement</p> <p>Key staffs assigned to maintain inventory records must be properly trained. Ensure that reports prepared by staffs are reviewed by supervisors.</p>	<p>Management still has not improve the inventory control system, Filing system has improved and records were properly maintained for contracts (both project and employee) , Job Order, Pro-Forma Invoices, Receipts.</p>	<p>The new Commissioner should direct PTA employees to work together to improve the inventory control system and the related documentation.</p>
<p>Finding 17-003 Non-Compliance of Pohnpei Law</p> <p>Commissioner should not allow PTA employees to use the newly acquired vehicles until such time that a legally obtained plate number is attached to the vehicles.</p>	<p>PTA still continue to do this.</p>	<p>Management immediate attention is required to resolve this at the earliest time.</p>
<p>Finding No. 18-001 Control Weaknesses in the Management and Accounting System</p> <p>1) Establish policies and procedures for Accounts Receivable and Accounts Payable. 2) Prepare aging of Accounts Receivable. 3) Monthly reconciliation of Accounts Payable</p>	<p>Accounts Payable monitoring and reconciliation needs to improve.</p>	<p>The new Accountant did establish procedures on how to update PTA's Accounts Receivable and Accounts Payable.</p>
<p>Finding No. 18-004 Not complying with FMR</p> <p>PTA employees regardless of position should adhere to the regulations.</p>	<p>PTA still continues to disregard rules and regulation required by FMR.</p>	<p>Management immediate attention is required to ensure full compliance soon.</p>
<p>Finding No. 19-002 Management and Internal Control Weaknesses Resulted in Serious Irregularities</p> <p>Management should strengthen and improve PTA's overall system of internal control.</p>	<p>Errors and discrepancies still continue to exist.</p>	<p>PTA to coordinate with State Finance regarding unrecorded transactions</p>

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-009 Unresolved Prior Year's Findings, Continued

Audit Findings	Implementation Status	Auditor's Remarks
<p>Finding No. 19-004 Non-Compliance to PTA by laws</p> <p>Appropriate person should be appointed to be responsible to properly record and maintain all minutes of Board Meeting.</p>	<p>Authority has not improved the recording of their Board minutes of meeting.</p>	<p>Management to ensure that all meetings are properly recorded.</p>
<p>Finding No. 20-001 Lack of Proper Oversight Resulted in a Waste of Fund</p> <p>The Board of Directors and management should exercise good governance to minimize potential risks for PTA including waste and lose of its funds due to error, corruption or fraud. The Board should obtain adequate knowledge of the Authority's operation to enable it to make informed decision and carry out proper oversight and monitoring of operation and management.</p>	<p>Management started an unauthorized activity involving collecting of monies that were not properly recorded and its uses not properly documented. Control over the funds were poor which could result to misuse that would not be detected. Therefore, PTA has not resolve on lack of proper oversight.</p>	<p>Pending management action plan on how to resolve the issue.</p>
<p>Finding No. 20-004 Lack of Proper Accounting and Reconciliation Resulted in Incomplete and Inaccurate Financial Information</p> <p>Accounting and reconciliation of the Authority's financial records and reports are not auditor's job. Hence, we also recommend that PTA management must ensure the Accountant perform timely reconciliation of the Financial Statements and related schedules. PTA management should ensure the following are performed timely:</p> <ol style="list-style-type: none"> 1) Monitor the advances from Pohnpei State and make sure necessary adjustments is made to reflect correct balance of their payables to the State. 2) Coordinate with State Finance regarding unrecorded transactions and not wait for the audit to find them. 	<p>Accounting and reporting of financial information is still not resolve. Financial statements were not prepared by PTA and misstatements were found in the financial reports and accounts before auditor's proposed adjustments.</p>	<p>Pending management action plan on how to resolve the issue.</p>

Cause:

PTA management failed to develop and implement corrective measures necessary to resolve prior years' audit findings and the associated recommendations in a timely manner. Board and management are not committed to good internal controls to ensure provisions of applicable laws are complied with.

Effect:

- 1) Non-compliance to audit legal framework requiring auditees to report monthly to the State Auditor regarding the status of prior year's audit findings and resolving the findings timely.

POHNPEI TRANSPORTATION AUTHORITY
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 21-009 Unresolved Prior Year's Findings, Continued

- 2) Nonresolution of prior years' audit findings will continue to hamper and weakens the effective maintenance of PTA's internal control system and its compliance with provisions of applicable laws and regulations.

Recommendation:

We recommend that the Board and management should exert efforts to resolve prior year audit findings, that should include but not limited to the following:

- 1) Board to direct the Commissioner to develop and implement appropriate measures necessary to resolve all prior years' outstanding audit findings.
- 2) The Commissioner to work closely with responsible employees to ensure that the project to resolve prior years' "outstanding audit findings" starts and completed at the earliest time possible.
- 3) The Commissioner to implement and keep the State Auditor current and updated on the audit resolution project progress as required by law.

Auditee Response:

Please refer to Exhibit I on pages 33 to 36 of this report for the Auditee Response dated June 29, 2022.

POHNPEI TRANSPORTATION AUTHORITY

AUDITEE RESPONSE (EXHIBIT I)

YEAR ENDED SEPTEMBER 30, 2021

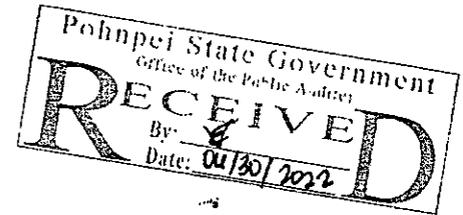


POHNPEI TRANSPORTATION AUTHORITY
POHNPEI STATE GOVERNMENT
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EXHIBIT I

June 29, 2022

Iso Ihken K. Joseph
 State Auditor
 Office of Public Auditor
 State of Pohnpei



*Done
6/30/22*

Maing State Auditor Joseph,

This is in response to the Audit Findings for the Fiscal Year 2020 – 2021.

Finding No. 21-001: Lack of Proper Records and Documentation Delayed Compilation of Financial Statements and unrealistic balances in the Financial Statements.

- a log Job Order and Proforma Invoices Issued – Before the accountant came on board, PTA was using a piece of paper as Job Order. The accountant initiated and implemented to use of the official PTA Job Order, pre-numbered and in triplicate booklet form. An accounting office clerk was assigned to issue proforma invoices as well as the Job Order. She inputs the Proforma Invoices’ data in an Excel spreadsheet with the corresponding Cash Receipts and Job Order if payment has been made by the Customer. All Job Orders must be signed by the Commissioner before rendering services to customers.
- a log of POL slips prepared and issued - Before the accountant came on board, PTA did not have any official fuel issue slips being used. The accountant initiated and implemented the use of the official PTA POL Issue Slip, pre-numbered and in triplicate booklet form. The Fuelmen prepares the Issue Slip and submit it to Commissioner for approval, before issuing them. The Fuelmen fills up the Issuance Log Sheet Report (with log sheet reference#), detailing the date, driver’s name, equipment description, quantity and the Issue Slip# and submit it to accounting for filing.
- detail summary of the cost of projects – The PTA Engineering staffs are responsible for the surveying of projects as well as the preparation of the Project Cost Estimates to be approved by the Commissioner then submit the report to the contractor or customer for acceptance.
- Records for review of all its expense accounts – PTA Accounting keeps all the duplicate supporting documents for every payment made by Pohnpei State Finance. PTA prepares the Requisitions with the attached Pro-forma Invoice and submits it to State Finance for certification and approval. Once approved a Purchase Order will be issued, and PTA will take the P.O. to the vendor, keeping one copy of P.O and a duplicate copy of the vendor’s invoice, for filing. The vendors will submit the P.O. to State Finance for payment and they also receive the check thereafter. State Finance will not process any requisitions without the vendor’s Pro-forma Invoice. State Finance kept all Original vendors’ invoices.

- PTA's financial accounting and reporting system are deficient – The official transcript of the PTA financial records is being kept and done at Pohnpei State Finance. There were some errors in the classification of the transactions and thus ended up posted in the wrong accounts. To correct this issue, the PTA accountant has directed the PTA office clerk to write down the account number on the PTA proforma invoice for proper posting of accounts. But the State Finance Cashier refuse to follow what we would like her to do. Misposting of entries normally happens in accounting but it's insufficient to say it's deficient especially if the amount involved is immaterial which does not have a material effect and there is no intentional misrepresentation of the financial statements

Finding No. 21-002: \$150,000 Expended Without Proper Planning

- It was the discretion of the former Commissioner to work out his plans for the renovation of the PTA Main Office in Kolonia.

Finding No. 21-003: Lack of control procedures in the Processing of POL

- ***There were no control procedures in the processing of POL before the accountant was hired.*** Knowing that POL was one of the major components of PTA expenditures, the accountant initiated and implemented the use of PTA POL Issue Slip, pre-numbered and triplicate booklet forms. No issuances of fuel unless the POL Issue Slip is approved by the Commissioner. The Fuelmen Supervisor will fill up the POL Issuance Log Sheet form and submit it to accounting for filing. The Commissioner has assigned the Supervisor to monitor the request from the drivers or equipment operators and directed him to report for an unusual requests. The Supervisor has started learning to use Excel and input the POL Issue Slip data. The data stored is very useful in determining and measuring the frequencies of the requests, and accountability of the drivers and equipment operators and also serves as a base source in the analysis and the preparation of the Project Cost Estimate more so in the Equipment Rental pricing/ costing analysis.

Finding No. 21-004: Internal Control Deficiencies Over Cash Disbursements

- No supporting invoices – State Finance is stern by requiring PTA to submit the Requisitions with an attached 3 proforma invoices. PTA only keeps duplicate copies of Purchase Orders and vendors' invoices. I do not recall we failed to provide these supporting documents unless of course if they were asking for the original supporting documents which were being kept at State Finance. **GAAP Objectivity Principle - The objectivity principle in accounting states that the financial statements a company produces must be based on solid evidence. It must be supported with valid and verifiable documents.**
- No Receiving Reports – For off-island requisitions, PTA is required to write a letter requesting the Advance Payment to the vendor thru wire transfer or bank deposit (check). Once the items arrived PTA is required to submit a Receiving Report to the State Finance Supplies office for PTA to clear the Advance Payment Request. We keep our receiving reports consistently, and we do not have pending issues with State Finance regarding unresolve Advance Payment requests. For local purchases, the Procurement officer is in charge of receiving, monitoring, storing, and inspecting supplies received from the vendors.

- Coverall, steel toe boots, step ladder, wheelbarrow, etc. – The safe working conditions of the employees in doing their work, is the responsibility of the PTA Management. It has been the practice of PTA to provide their employees with safety shoes, safety vests and t-shirt uniforms.

Finding No. 21-005: Unauthorized Cash Collections and Use of Funds

- The accountant suggested to the Commissioner to deposit the funds. It was his sole discretion to keep the funds intended for emergency use.

Finding No. 21-006: Noncompliance with PSSR Relating to Overtime and Leaves

- Overtime – PTA supervisors will fill up the Overtime Authorization Form and submit it to Commissioner for approval. Without the approved request, PTA will not process any overtime request. PTA accountant will then prepare the State Finance Overtime Request form, to be approved by the Commissioner, State Finance Director and the Chief of Finance. The PTA accountant also prepares and submits the State Finance Payroll Time Sheet, signed by the Accountant and the Commissioner.
- Leave – PTA is fully aware of the requirement regarding leaves. For sick leaves of 2 days or more, the employee must present a valid doctor slip or health certificate, other he/ she will be considered AWOL. For annual leave, sometimes employees failed to submit their leave on time. If the leave filed was submitted after PTA submitted the Time Sheet to State Finance, then he/ she is considered AWOL.

Finding No. 21-007: Aunthorizeds hiring of personnel

- It was the sole discretion of the former Commissioner to hire more employees.

Finding No. 21-008: Non-compliance with PTA's Payroll Process.

PTA keeps the duplicate copies and submits all Original copies of the Time Sheet, Overtime Request Form, and Application for Leave to State Finance Payroll. The PTA accountant could not recall that the Auditor requested a meeting to discuss or resolve this issue. If in case some documents were misplaced, they can be replaced with a copy from State Finance Payroll because that is where all the original copies of Payroll documents are being kept.

Finding No. 21-009: Unresolved Prior Year's Findings

- ***Finding No. 14-001 – Inventory Control System and Record-Keeping needs Improvement***

The Procurement Officer has been hired to oversee the Inventory of supplies and materials, computer data storage and maintenance. However, the person in charge still needs time to be familiarised with the flow of transactions and documentation.

- ***Finding No. 17-003 – Non-compliance with Pohnpei Law***

The Procurement Officer is also tasked to keep the records of all vehicle registrations and facilitate the renewal of the vehicle registration annually.

➤ ***Finding No. 18-001 – Control Weaknesses in the Management and Accounting System.***

The Accounts Payable and Accounts receivables are now updated properly monitored and reconciled and supported with the list of vendors or individuals with direct assistance and participation from the State Finance Financial Advisor's office or staff.

➤ ***Finding No. 18-004 – Non-complying with the FMR.***

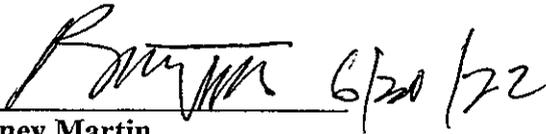
It was the discretion of the former Commissioner concerning FMR compliance.

➤ ***Finding No. 19-002 – Management and Internal Control Weaknesses Resulted in Serious Irregularities***

The Pohnpei State Finance Financial Advisor in coordination with the PTA Accountant is currently working together to address this finding.

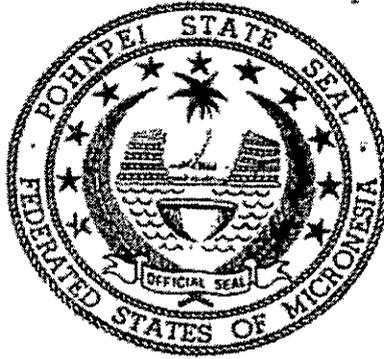
*******Nothing Follows*******

Signed by:



Berney Martin
PTA Commissioner

Cc: Chairman, PTA Board of Directors
PTA Board of Directors
Director, DOTA
Acting Governor



IMPORTANT MESSAGE

We actively solicit and welcome allegations of any insufficient and wasteful practices, fraud and abuse of Pohnpei State Government public resources. Fraud, waste and abuse in government should be concern of everyone in Pohnpei. You can report allegations of fraud and abuse by contacting us at address below:

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MEHN KAPESEH KESEMPWAL

Pwukoa en tetehk, apwapwalih oh doadoahki mwohni oh dipwisou en kopwerment en wein Pohnpei sapwelimatail karos (tohn doadoahk en kopworment, Ohpis en Public Auditor oh aramas karos en Pohnpei). Komw kak repwohtki omwi iren kapwunod kan me pid sou itar en apwalih mwohni, dipwsou de awahn doadoahk en kopworment en Pohnpei ni ahnsou karos ong ni:

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