

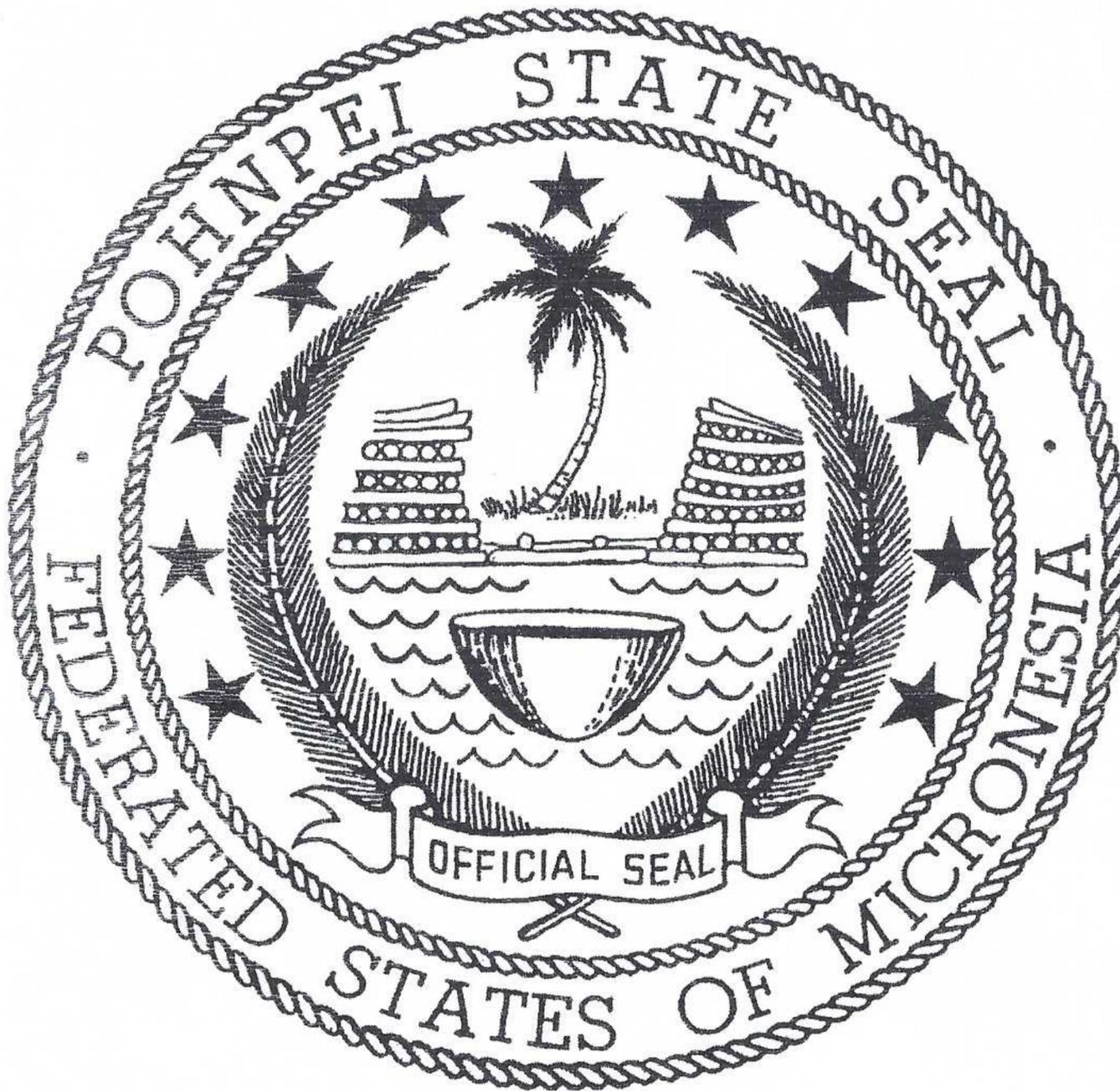
**POHNPEI TRANSPORTATION AUTHORITY  
FINANCIAL AUDIT  
FISCAL YEAR ENDED SEPTEMBER 30, 2023**

**AUDIT REPORT NO.002-24**

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**Office of the Public Auditor**

**State of Pohnpei**



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State Public Auditor  
Kolonia, Pohnpei, FM 96941

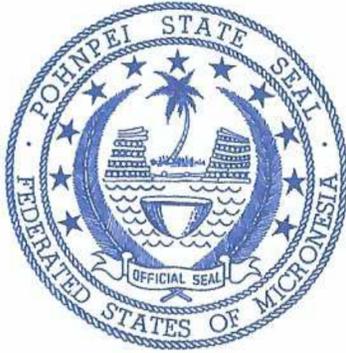
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Audit Report No 002-24- Pohnpei Transportation Authority

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August 18,2024

The Honorable Stevenson A. Joseph, Governor, State of Pohnpei  
The Honorable Marvin T. Yamaguchi, Speaker, 11<sup>th</sup> Pohnpei Legislature  
Honorable Members of 11<sup>th</sup> Pohnpei Legislature  
Board of Directors, Pohnpei Transportation Authority  
Mr. Welsin Helgenberger, Commissioner, Pohnpei Transportation Authority

**Executive Summary**

We are pleased to submit the financial audit report of the Pohnpei Transportation Authority (PTA), as of and for the fiscal year ended September 30, 2023. 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. 11-10, 79, as amended.

The objectives of our audit were:

- (i) The expression of an opinion concerning whether the financial statements present fairly in all material respects, the financial position, results of operations, and cash flows of Pohnpei Transportation Authority, in conformity with accounting principles generally accepted in the United States of America;
- (ii) Reporting on the internal control relevant to an audit of the financial statements; and,
- (iii) Reporting on the Authority's compliance with laws and regulations, which could have a material effect on the financial statements. We also conducted a review of management controls to determine whether there is reasonable assurance that management's objectives were achieved efficiently and effectively.

The highlights of the reports are as follows:

**Auditor's Opinion**

The Authority's financial statements present fairly, in all material respects, the financial position of the Authority, as of and for the fiscal year ended September 30, 2023, and the

results 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.

Financial Analysis

- (i) The Authority incurred \$472,895 operating loss for the fiscal year, as compared to \$498,107 in fiscal year 2022.
- (ii) At September 30, 2023, the Authority's operating expense totaled \$2,345,522, as compared to prior year of \$2,436,592. Total expenses decreased by 4% this fiscal year. Payroll related cost account for 59% of the total operating expense. Supplies and Materials increased by \$50,631, whereas POL decreased by \$45,645.
- (iii) The Authority's net assets for the year is \$16,072, a decreased of \$472, 895 or 97% from prior year. The Authority's due to primary government increased by 4% or \$75,698 from prior year.

Findings and Recommendations

There are three (3) audit findings for the Authority this fiscal year 2023. Two of the findings are issues concerning personnel related matter that resulted to non-compliance with the Pohnpei Code and Pohnpei Service System Regulations. The third finding, Finding No. 23-003 consists of issues from prior years that have not been resolved satisfactorily or fully. For the audit findings, we have provided our recommendations, if implemented, could further enhance the Authority's operation. The audit findings are discussed in the Schedule of Findings and Recommendations on pages 18 to 21 of this report.

As is customary, we have discussed the draft audit report with management of the Authority and have requested their response to our findings and recommendations. The Authority's response is shown on pages 22 and 23 of this report, as Exhibit I.

The Pohnpei State Law No. 5L-08-00 as amended, requires the auditee to prepare and submit monthly report to the Public Auditor indicating corrective measures already taken or will be shortly implemented to clear the deficiencies cited in the report until the finding(s) is(are) satisfactorily resolved, which period shall not exceed one year. Accordingly, the first progress report from the Authority should be due around September 04, 2024.

In closing, we extend our sincere appreciation to the Authority's Commissioner, Board of Directors and staff for the support and assistance extended to us during the course of our audit.

Sincerely,



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Erick Paul  
State Public Auditor  
Pohnpei, FSM



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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Pohnpei Transportation Authority:

### **Report on the Financial Statements**

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, 2023, 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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.

**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, 2023, 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.

**Other Matters**

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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated on June 12, 2024 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.



Erick Paul  
State Public Auditor  
June 12, 2024

**POHNPEI TRANSPORTATION AUTHORITY**

Management’s Discussion and Analysis

Year Ended September 30, 2023

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, 2023. 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 \$1,872,627, a decreased of 3% compared to prior fiscal year of \$1,938,485.
- Operating expenses decreased by 4% or \$91,070 from \$2,436,592 to \$2,345,522. Payroll related cost account for 59% of the total operating expense. Supplies and Materials increased by \$50,631 whereas POL decreased by \$45,645 from \$ 282,261 to \$236,616 for the year.
- PTA’s operation resulted in operating loss of 472,895 as compared to loss of \$498,107 last year.
- Net asset for the year of \$16,072 a decreased of \$472,895 or 97% from prior year.
- Due to primary government was increased by 4% or \$75,698, from prior year.

**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, 2023 and 2022.

	<u>2023</u>	<u>2022</u>	<b>Increase (Decrease)</b>	<b>%tage</b>
Current assets	\$ 289,820	\$ 362,901	\$ (73,081)	(20%)
Non-current assets	<u>1,800,304</u>	<u>2,129,925</u>	<u>(329,621)</u>	(15%)
	<u>2,090,124</u>	<u>2,492,826</u>	<u>(402,702)</u>	(16%)
Other liabilities	166,993	172,498	(5,505)	(3%)
Due to primary government	<u>1,907,059</u>	<u>1,831,361</u>	<u>75,698</u>	4%
Total liabilities	<u>2,074,052</u>	<u>2,003,859</u>	<u>70,193</u>	4%
Net Asset (Deficit)	<u>\$ 16,072</u>	<u>\$ 488,967</u>	<u>\$(472,895)</u>	(97%)

**POHNPEI TRANSPORTATION AUTHORITY**

Management’s Discussion and Analysis

Year Ended September 30, 2023

**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, 2023 and 2022.

	<u>2023</u>	<u>2022</u>	<u>Inc (dec)</u>	<u>Inc (dec)</u>
Operating revenues	\$1,872,627	\$ 1,938,485	\$ (65,858)	(3%)
Operating expenses	<u>2,345,522</u>	<u>2,436,592</u>	<u>(91,070)</u>	(4%)
Net income (loss)	<u>(472,895)</u>	\$ <u>(498,107)</u>	\$ (25,212)	(5%)

**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, 2023

(With comparative totals for September 30, 2022)

<u>ASSETS</u>	2023	2022
Current assets:		
Accounts receivable, net (note 2)	\$ 168,098	\$ 289,458
Travel Advances	2,738	2,738
Inventory, at cost	118,984	70,705
Prepaid Expenses	-	-
Advances to Suppliers	-	-
Total Current Assets	<u>\$ 289,820</u>	<u>\$ 362,901</u>
Property and equipment, net (note 3)	<u>1,800,304</u>	<u>2,129,925</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,090,124</u></u>	<u><u>\$ 2,492,826</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 142,751	\$ 150,592
Accrued payroll	17,986	15,650
Accrued vacation leave	3,082	3,082
Deferred revenue	3,174	3,174
Total Current Liabilities	<u>\$ 166,993</u>	<u>\$ 172,498</u>
Non-current Liabilities:		
Due to primary government (note 4)	<u>\$ 1,907,059</u>	<u>\$ 1,831,361</u>
Total Non-Current Liabilities	<u>\$ 1,907,059</u>	<u>\$ 1,831,361</u>
Total Liabilities	<u>\$ 2,074,052</u>	<u>\$ 2,003,859</u>
Contingencies (note 5)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,800,304	\$ 2,129,925
Contributed Capital, Net of Capital Assets	883,670	554,049
Unrestricted	(\$ 2,667,902)	<u>(2,195,007)</u>
Total Net Assets (Liabilities)	<u>\$ 16,072</u>	<u>\$ 488,967</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,090,124</u></u>	<u><u>\$ 2,492,826</u></u>

See accompanying notes to financial statements.

**POHNPEI TRANSPORTATION AUTHORITY**

Statement of Revenues, Expenses, and Changes in Net Assets  
 September 30, 2023  
 (With comparative totals for September 30, 2022)

	2023	2022
<b>Operating Revenues:</b>		
Construction Services	\$ 1,682,284	\$ 1,697,448
Aggregates & Sand Sales	137,538	132,479
Equipment Rental	35,563	35,645
Other Revenues	17,242	72,913
Total Operating Revenues	<u>\$ 1,872,627</u>	<u>\$ 1,938,485</u>
<b>Operating Expenses:</b>		
Salaries and wages	\$ 1,391,600	\$ 1,381,883
Supplies and materials	286,636	236,005
POL	236,616	282,261
Communications	7,974	6,504
Rental Services	-0-	74,628
Depreciation	330,916	348,924
Bad Debts	-0-	-0-
Utilities and water	21,334	18,235
Freight and Port Charges	15,121	8,226
Misc. Goods and Services	14,904	38,998
Travel	13,267	-0-
Repairs and Maintenance	1,912	1,400
Housing Allowances	7,200	7,200
Representation	-0-	-0-
Non-Cap Furniture and Fixtures	2,566	5,787
Non-Cap Equipment	-0-	-0-
Customs and Tax	16	6,341
General Contractual Services	15,000	20,000
Allowances	460	200
Total Operating Expenses	<u>\$ 2,345,522</u>	<u>\$ 2,436,592</u>
<b>Operating Income (Loss)</b>	<b>\$ (472,895)</b>	<b>\$ (498,107)</b>
Add: (Less) Adjustment that affect Net Loss		
Contributed Capital	<u>-0-</u>	<u>-0-</u>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ (472,895)</b>	<b>\$ (498,107)</b>
<b>Net Assets (Liabilities), beginning of year</b>	<b><u>488,967</u></b>	<b><u>987,074</u></b>
<b>Net Assets (Liabilities), end of year</b>	<b><u>\$ 16,072</u></b>	<b><u>\$ 488,967</u></b>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Cash Flows  
September 30, 2023

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

Income (loss) from operations	\$ (472,895)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	330,916
Changes in assets and liabilities:	
Increased in Accounts Receivable	121,360
Increased in Inventories	(48,279)
Increased in Accrued payroll	2,336
Decreased in Accounts Payable	(7,841)
Increased in Due to primary account	<u>75,698</u>
Sub-total	1,295
Add: (Less) Adjustment that affect net income	<u>-0-</u>
<b>Net cash provided (used) by operations</b>	<b>1,295</b>
<b>Cash Used for acquisition of property and equipment</b>	<b><u>(\$ 1,295)</u></b>
Contributed Capital	-0-
<b>Cash Provided by Financing Activities</b>	<b><u>\$ -0-</u></b>
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, 2023

(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 of whether cash is received

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**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements  
September 30, 2023

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

or payment is made. 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.

**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements  
September 30, 2023

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

D. Inventory

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

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*

**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements  
September 30, 2023

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,  
CONTINUED

*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.

- 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

**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements

September 30, 2023

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

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 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

**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements  
September 30, 2023

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

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 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, 2023 the net balance is \$168,098.

(3) PROPERTY AND EQUIPMENT

A summary of the PTA’s property and equipment at September 30, 2023 follows:

	Estimated Useful Life	Balance October 1, 2022	Additions/Adj.	Deletions/Adj.	Balance September 30, 2023
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	3,649,729	-	-	3,649,729
Vehicles	5 years	196,273	-	-	196,273
Furniture and fixtures	3 years	27,629	-	-	27,629
Machinery and tools	2 years	86,671	1,295	-	87,967
Building Improvements		146,166			146,166
		\$ 4,176,468	\$ 1,295	\$ -	\$ 4,177,764
Less accumulated depreciation		(2,046,543)			(2,377,460)
Property and equipment, net		<u>\$ 2,129,925</u>	<u>1,295</u>		<u>1,800,304</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, 2022	\$ 1,831,361
Increase (decrease) in the account as reflected in	
Cash Flow Statement	75,698
Balance as of September 30, 2023	<u>\$ 1,907,059</u>

**POHNPEI TRANSPORTATION AUTHORITY**

Notes to Financial Statements

September 30, 2023

(4) DUE TO PRIMARY GOVERNMENT, CONTINUED

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.

(5) CONTINGENCIES

Pohnpei Transportation Authority does not have any pending or threatened litigation. The Office of the Attorney General provides general legal assistance to the Authority.

**POHNPEI TRANSPORTATION AUTHORITY**

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

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**YEAR ENDED SEPTEMBER 30, 2023**



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

TEL: (691) 320-2638    Hotline: (691) 320-8497

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, 2023, and have issued our report thereon dated June 12, 2024. 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.

### **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 in finding numbers 23-001 and 23-003 on pages 18-21.

### **Internal Control over Financial Reporting**

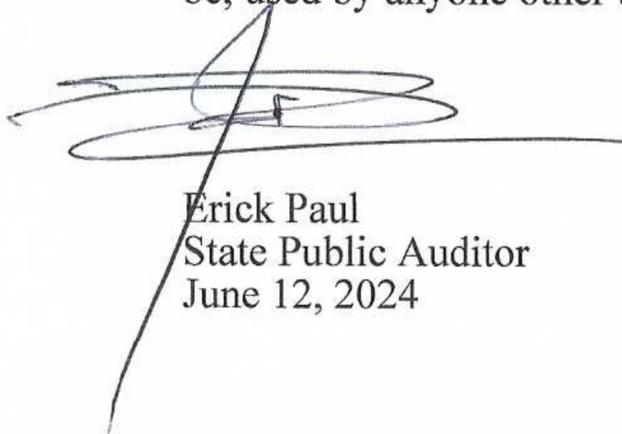
In planning and performing our audit, we considered PTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, 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 condition is described in the accompanying Schedule of Findings and Recommendations as finding number 23-002 on pages 18 to 21 of this report.

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 finding number 23-002 identified as a reportable condition described above is not a material weakness.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.



Erick Paul  
State Public Auditor  
June 12, 2024

**POHNPEI TRANSPORTATION AUTHORITY**  
Schedule of Findings and Recommendations  
Fiscal Year Ended September 30, 2023

**Finding No. 23-001: Noncompliance with Pohnpei Code Law over Night Differential Payment**

Criteria: An employee whose tour of duty includes regularly scheduled hours falling between 7:00 pm and 6:00 am shall be compensated at the rate of one hundred fifteen percent (115%) of the adjusted base salary for all hours within that period. (9PC-123).

Condition: PTA did not follow the rule regarding night differential hours as stated in the Pohnpei Code. That is, PTA only applies night differential rate for hours falling between 10:00 pm and 6:00 am and did not pay night differential rate for employees' hours falling between 7:00 pm and 10:00 pm.

We found that in one of the selected pay periods reviewed, a total of forty-two (42) hours for three employees earned between 7:00 pm and 10:00 pm were not counted and paid as night differential hours.

Cause: Management did not know about the night differential hours rule. The Project Manager claims that he obtained the night differential schedule from the Payroll Manager of the Department of Treasury and Administration.

Effect: The condition is not in compliance with the Pohnpei Code Regulations and it resulted in underpayment of employees' night differential hours earned.

Recommendation: We recommend management to update itself of relevant laws and regulations applicable to PTA's operation. The laws and regulations should also be communicated to appropriate personnel for proper implementation.

Auditee Response: Please refer to Exhibit I on page 22-24 of this report for auditee response.

**POHNPEI TRANSPORTATION AUTHORITY**  
Schedule of Findings and Recommendations  
Fiscal Year Ended September 30, 2023

**Finding No. 23-002: Noncompliance with Pohnpei Service System Regulations over Recruitment**

Criteria: Whenever there is a position to be filled, the authorized Management Official shall submit to the Division of Personnel, a Personnel Action requesting recruitment. The State Personnel Officer, through the Assistant to Governor, Office of Human Resources, shall then certify a list of five (5) or less taken from the Division of Personnel's eligible lists in the following order:

- (1) promotional list;
- (2) re-employment list; and,
- (3) open competitive list.

Condition: Our review disclosed that there was a vacant position management filled up without proper announcement or other documentation to show that the recruitment process was followed. For example, we did not see evidence that applications were received and reviewed, selection and appointment of applicant, etc.

Cause: Management may have overridden control policies and procedures to expedite the appointment process.

Effect: The condition could increase the risk of recruiting unsuitable applicant and or creating possible conflict of interest and other undesirable circumstances.

Recommendation: We recommend that management should not circumvent internal controls but should support and encourage application of good practices to prevent and/or limit the risk of negative or undesirable results.

Auditee Response: Please refer to Exhibit I on page 22-24 of this report for auditee response.

**POHNPEI TRANSPORTATION AUTHORITY**  
**Schedule of Findings and Recommendations**  
**Fiscal Year Ended September 30, 2023**

**Finding No. 23-003 Unresolved Prior Year's Audit 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 one year.

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

Audit Findings	Implementation Status	Auditor's Remarks
<p><b>Finding No. 18-001 Control Weaknesses in the Management and Accounting System</b></p> <p>1) Establish policies and procedures for Accounts Receivable and Accounts Payable.  2) Prepare aging of Accounts Receivable.  Perform regular reconciliation of Accounts Payable and receivables.</p>	PTA still continue to do this.	Management immediate attention is required to resolve this at the earliest time.
<p><b>Finding No. 18-004 Not complying with FMR</b></p> <p>PTA employees regardless of position should adhere to the regulations.</p>	PTA to properly monitors, reconciles, updates and maintains related records of its Accounts Payable and Accounts Receivable.	The Accountant did establish procedures on how to update PTA's Accounts Receivable and Accounts Payable. However, not all documentation is being maintained by the Accountant.
<p><b>Finding No. 19-002 Management and Internal Control Weaknesses Resulted in Serious Irregularities</b></p> <p>3) Management should strengthen and improve PTA's overall system of internal control.</p>	PTA still continues to disregard rules and regulation required by FMR.	Management immediate attention is required to ensure full compliance soon.
<p><b>Finding No. 20-004 Lack of Proper Accounting and Reconciliation Resulted in Incomplete and Inaccurate Financial Information</b></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> <p>1) Monitor the advances from Pohnpei State and make sure necessary adjustments is made to reflect correct balance of their payables to the State.  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 resolved. Financial statements were not prepared by PTA and misstatements were found in the financial reports and accounts before auditor's proposed adjustments.	Pending management action plan on how to resolve the issue

**POHNPEI TRANSPORTATION AUTHORITY**  
**Schedule of Findings and Recommendations**  
**Fiscal Year Ended September 30, 2023**

**Finding No. 22-003 Unresolved Prior Year’s Audit Findings, CONTINUED**

Audit Findings	Implementation Status	Auditor’s Remarks
<b>Finding No. 22-002: Internal Control Weaknesses in the processing of Cash Disbursement or Payments</b>	Maintaining proper records and documentation not resolved fully.	Management to oversee whether proper documentation is maintained because it is a responsibility of PTA not just Finance alone.
<b>Finding No. 22-004 Noncompliance with PTA’s Payroll Process</b>	Daily regular hours reported not matching with summary of report compiled and submitted to Finance still recurring and not resolved.	Management to review both daily timesheets and master timesheet before submitting to Finance.
<b>Finding No. 22-005 Noncompliance with PTA’s and Policies of Revenue Collection</b>	Missing documentation from files still not resolved fully.	Management to oversee whether proper documentation is maintained and to avoid loss of potential accounts receivable without proper documentation

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 not committed to good internal controls to ensure applicable laws are complied with.

Effect: Non-timely resolution of prior years’ audit findings hampers and weakens PTA’s internal control system, as reflected in this year’s audit.

Recommendation: We recommend that 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 page 22-24 of this report for auditee response.

Auditor’s Reply: Though we can see improvement in the reconciliation of accounts, there were still material adjustments proposed by the auditor to the accounts receivable and other accounts.

**POHNPEI TRANSPORTATION AUTHORITY**

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**AUDITEE RESPONSE (EXHIBIT I)**

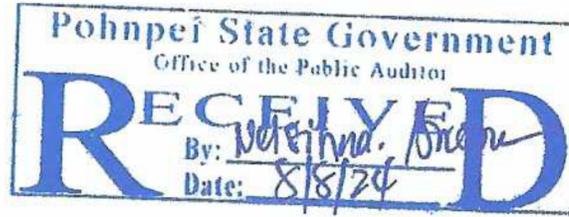
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**YEAR ENDED SEPTEMBER 30, 2023**



**POHNPEI TRANSPORTATION AUTHORITY**  
**POHNPEI STATE GOVERNMENT**  
 P.O. Box 36, Kolonia, Pohnpei, FM 96941  
 Tel. Nos.: (691) 320-2377/ 2148      email: pta@mail.fm

August 8, 2024



**Mr. Erick Paul**  
**State Public Auditor**  
**Pohnpei State Government**  
**Kolonia, Pohnpei, FSM 96941**

Subject: Audit Reply FY 2022 - 2023

Dear Mr. Paul,

First and foremost, I would like to express how truly we appreciate the work your audit staff has done as the auditor of PTA.

The discussion during the exit conference meeting at the PTA Conference room held on August 01, 2024, was focused mainly on the two (2) Audit Findings for the Fiscal Year 2022 – 2023, namely;

- Finding No. 23-001: Noncompliance with Pohnpei Code Law over Night Differential
- Finding No. 23-002: Noncompliance with Pohnpei Service System Regulation over Recruitment

***A. Finding No. 23-001: Noncompliance with Pohnpei Code Law over Night Differential***

PSSR 2-123: Nightwork Differential stated: “An employee whose tour of duty includes regularly scheduled hours falling between 7:00 p.m. and 6:00 a.m. shall be compensated at the rate of one hundred fifteen percent (115%) of the adjusted base salary for all hours falling within that period.”

The regular working hours in question are 5:00 p.m. to 1:00 a.m. The 10:00 p.m. to 6:00 a.m. night differential time was applied as advised by the Payroll Division staff. POPA recommended that the PTA update itself on applicable relevant laws and regulations

***We will strictly adhere to the audit recommendation on Night Differential Time from 7:00 p.m. to 6:00 a.m.***

***B. Finding No. 23-002: Noncompliance with Pohnpei Service System Regulation***

The State Auditors explicitly explained the issue of hiring employees. The PTA Management believes that the Recruitment and Placement regulations will eliminate the risk of hiring unsuitable applicants or creating a possible conflict of interest.

***The PTA Management has agreed to the findings and will completely abide by PSSR 2-110 regulations on Recruitment and Placement. These must be strictly adhered to consistently.***

**C. Finding No. 23-003: Unresolved Prior Year's Audit Findings**

Finding No. 18-001 Control Weakness in the Management and Accounting System and Finding No. 18-004 are findings related to Accounts Payable and Accounts Receivable accounts.

***These two accounts are completely reconciled. The Balance Sheet as of September 30, 2023, shows the established balances and is supported with a detailed Schedule of Accounts Receivables and the Schedule of Accounts Payables.***

Finding No. 19-002: Management and Internal Control Weaknesses Resulted in Serious Irregularities

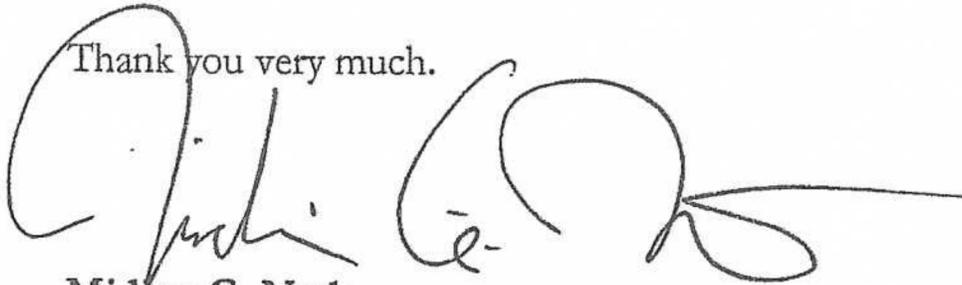
***All PTA Purchase Requisition and MS are submitted to Pohnpei State Treasury for certification and approval. They are very strict when it comes to supporting documents. Requests with incomplete supporting documents are returned for compliance.***

***It was in 1999 that I designed and implemented the use of the official Job Order Form in a booklet, which is used today. In the prior years, it was printed on a piece of paper and was compiled improperly.***

All the prior-year findings are no longer present in the FY 2023 audit.

We will strictly comply with the Audit Recommendation for FY 2022 – 2023.

Thank you very much.



**Midion G. Neth  
Chairman  
PTA Board of Directors**

