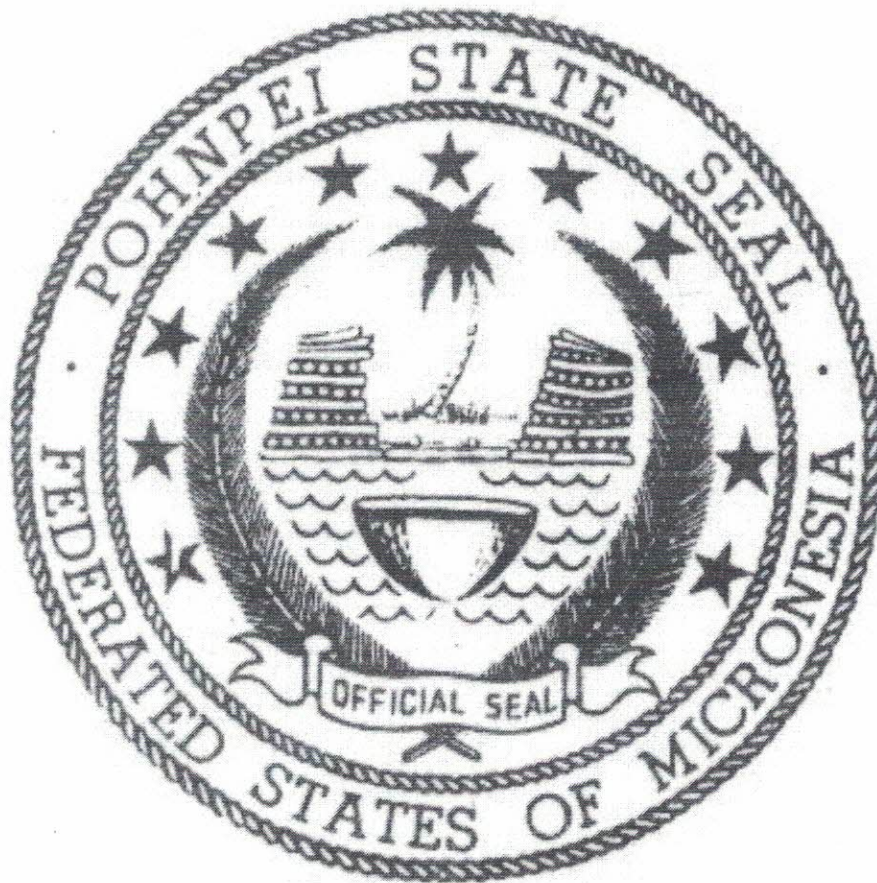


# **ANNUAL REPORT – FISCAL YEAR 2019**

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



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**POHNPEI STATE GOVERNMENT  
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December 31, 2019

Honorable Marcelo Peterson, Governor of Pohnpei State  
Honorable Ausen Lambert, Speaker, 9th Pohnpei Legislature  
Honorable Members of the 9<sup>th</sup> Pohnpei Legislature

Maing Ohlloakoa oh Liho:

Article 11, Section 8 (3) of the Pohnpei Constitution requires the State Auditor to annually report to the Governor and the Legislature concerning the Pohnpei Office of the Public Auditor (POPA) performance activities in safeguarding the Pohnpei Government's public funds and related resources. This Fiscal Year 2019 Annual Report has been prepared to inform the Governor, the Legislature, our development partners and related stakeholders of the POPA's program and performances initiated, conducted, and completed during the Fiscal Year 2019.

Our POPA's primary function is to conduct audits of transactions, accounts, books, programs and performances of the Pohnpei State Government. This includes audits of all departments, offices, agencies, local governments and all non-profit organizations and programs receiving public monies from the Pohnpei Government. Our Mission is to "produce quality and timely audit and investigative services reports to provide decision makers with timely, accurate and objective information from which, they can make well informed policy decisions." Our Vision is to achieve "an accountable, transparent, effective and efficient performing public sector".

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

### **Our POPA's 2019 Outcome Performance Measures**

In the fiscal year 2019, POPA conducted, completed, and issued a total of 22 reports. These include 2 financial audit reports, 7 performance audit reports, 8 preliminary review and administrative investigation reports, 4 quarterly progress reports and 1 annual report for FY-2018. We also initiated a number of audit and investigation engagements during the year, which we hope to complete and issue related reports in the early part of the new fiscal year 2020. (Refer to Part I of this report for details).



## **Our POPA's Operations Budget**

The total budget approved for POPA's programs and operations in the fiscal year 2019 totaled \$303,645, all sourced under the general fund of Pohnpei Government. In addition, we requested and received \$156,000 from the Office of Insular Affairs (OIA), U. S. Department of Interior (DOI) Technical Assistance Program (TAP) grant funds. The grant was approved specifically to support the POPA's staff capacity building and professional development training initiatives for the FY-2019. Funds have been partially expended to enable all POPA staffs to participate in the August 2019 APIPA Annual Conference/Training held in Guam, and the FSM Public Auditors' conference and performance audit training held in Chuuk in October 2019. (Refer to Part II of this report for detail).

## **Our POPA's Special Projects**

Our POPA participated in the Supreme Audit Institutions (SAI) Performance Measurement Framework (PMF) assessment program. The program was co-sponsored by the International Organization of Supreme Audit Institutions Development Initiative (INTOSAI IDI) and the Pacific Association of Supreme Audit Institutions (PASAI). The SAI PMF assessment program is designed to assist SAIs or Audit Offices conduct self or peer review assessment of their performances. POPA conducted, completed and issued the final SAI PMF assessment report for the Kosrae Office of the Public Auditor (KOPA). The Yap Office of the Public Auditor (YOPA) conducted and completed our POPA SAI PMF final report. Our SAI PMF Report has been published and distributed to the Governor, members of the Pohnpei Legislature, Attorney General and staffs of our POPA for information and reference.

Our POPA also participated in the PASAI and INTOSAI IDI sponsored and paid Strategic Planning and Management Reporting (SPMR) project. As part of the project, the State Auditor attended two (2) capacity building development workshops on SPMR held in Tonga and Cook Islands. Due to conflicting schedule, Pohnpei State Auditor was not able to participate in the 3<sup>rd</sup> one week long SPMR professional development training initiative that took place in FIJI. We have however, developed, published and disseminated our POPA five-year (2018 to 2022) Strategic Management and Operational Plan (SMOP) to the Governor, members of the Pohnpei Legislature, Chief Justice of the Pohnpei Supreme Court and others for information and reference. We have also developed, published and shared our POPA's FY-2020 Annual Operational Plan (AOP) with leaders of the Pohnpei State Government.

## **Our POPA's Appreciation**

We remain grateful to the Pohnpei State Government for its continuing financial assistance provided to support our programs and at the same time sustain our operations during the fiscal year. We will continue to communicate openly with the Governor, the Legislature, our development partners, stakeholders and citizens of Pohnpei to promote better understanding and appreciation of the value and benefit of our services. (Refer to Part I of this report for detail).

We extend our warm gratitude and sincere appreciation to our development partners (APIPA, PASAI, INTOSAI, IDI, DOI OIG, US Graduate School/PITI, ONPA and others) for their invaluable support and assistance. We participated in a number of training and capacity building programs sponsored by these organizations during the year. These capacity training initiatives were most helpful in enhancing our staffs' skills and professional development in the fields of

auditing, investigation, report writing, accountancy, and related areas during the year. (Refer to Part IV of this report for more information).

### **Our POPA's Challenges**

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

- a) Improve and strengthen the legal framework to clearly define POPA's independence, autonomy, and relationship to the three branches and other agencies of the Pohnpei State Government.
- b) Identify and secure adequate resources to support POPA's staff capacity building and professional development initiatives to strengthen and improve POPA's audit and investigative services and at the same time enable our staffs to earn the required Continuing Professional Education (CPE) hours in the years ahead.
- c) Continue to work closely with our auditees to encourage them to develop and implement appropriate corrective measures for timely resolution of outstanding audit findings in compliance with the requirements of POPA legal framework. (Refer to Part V of this report for further information).
- d) Explore, identify and request Governor and the Pohnpei Legislature to designate by law a site (land) for the permanent location of the Pohnpei Office of the Public Auditor (POPA).

### **Our Conclusion**

Again, thank you all for the financial support, understanding and cooperation extended to sustain our POPA's programs and operations during the reporting fiscal year. We stand ready to provide clarification on inquiries you may have concerning any part of this FY-2019 Annual report.

With friendly greetings and warm regards, we are.

Sincerely,



Ihlen K. Joseph  
State Auditor  
Pohnpei

Cc: All Departments, Offices and Agencies, Pohnpei Government  
All Local/Municipal Governments, Pohnpei State



**Pohnpei Office of the Public Auditor  
Annual Report - Fiscal Year 2019**

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**Part I: Summary of Audit Findings and Recommendations**

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The Pohnpei Office of the Public Auditor (POPA) conducted, completed and issued 22 reports during the fiscal year 2019. These include 2 Financial Audit reports, 7 Performance Audit reports, 8 Preliminary Review and Administrative Investigation reports, 4 quarterly activity reports and 1 annual progress report for the FY-2018. Summary of our audit and investigation findings and related recommendations are presented below.

**DIVISION OF AUDIT**

**Audit Report No. 001-19: Performance Audit of Travel and Transportation, Pohnpei State Government - (Fiscal Years 2013, 2014, 2015 and 2016).**

**Finding No. 001: Non-compliance with Pohnpei Government Travel and Transportation Legal Frameworks.** Our review disclosed: i) late filing of Travel Vouchers by official travelers, ii) processing of Travel Vouchers by DoT&A without the required supporting documents, and iii) paying official travelers in excess of established per diem rate for certain destination.

**Recommendation:** The Director of DoT&A should ensure: i) official travelers are properly oriented and informed of the travel policies and related procedures, including timely submission of completed and adequately supported Travel Vouchers within the period established by law and ii) close monitoring and enforcement of travel laws for all official travelers.

**Finding No. 002: Excessive Outstanding Travel Advances:** Our review revealed: i) 23 instances where certain Pohnpei Government official travelers have not filed their Travel Vouchers ranging from 11 working days to 4 years, ii) all 23 travelers received 100% of their approved per diems prior to their trips, iii) of the 23, 1 is no longer with the government, iv) 11 are members and staffs of the Pohnpei Legislature, and v) DoT&A continued to process and pay travel advances to some of these officials with outstanding travel advances, which is in direct conflict with Pohnpei travel laws.

**Recommendation:** We recommend: i) DoT&A Director to immediately discontinue advancing per diem to travelers with outstanding travel advances, and ii) DoT&A Director to take measures necessary to retire all outstanding travel advances at the earliest time possible by any means available.

**Finding No. 003: Inconsistent Rates/Allowances Paid to Official Travels for “Other Travel Expenses”:** We found several instances where “Other Travel Expenses” were paid to government travelers at different rates or amounts.

**Recommendation:** We recommend the Director of DoT&A to initiate action necessary to establish and implement a uniform rate for “Other Travel Expenses” to be applicable to all Pohnpei Government official travelers, regardless of the funding source.

**Finding No. 004: Official Travelers Receiving Double Entitlements for Same Expense:** We found 2 instances where official travelers received full per diem from the government for official trips sponsored and paid for by agencies or organizations other than Pohnpei Government..

**Recommendation:** We recommend the Director of DoT&A to: i) amend applicable travel regulations to clarify the extent of government's obligations when official travel is sponsored and paid for by an agency or organization other than the Pohnpei Government, and ii) DoT&A to require documentary information (invitation, financial support, itinerary and program agenda) with TA for off-island travel sponsored and paid for by agencies/organizations other than Pohnpei Government.

**Finding No. 005: Travel Expenditures Exceeded Approved Travel Budget for the Audited Period:** Our review disclosed that travel expenditures for the four years audited exceeded the approved travel budget by approximately \$32,697.

**Recommendation:** We recommend DoT&A to: i) closely monitor and update travel accounts to ensure travel expenditures are kept within the approved level, ii) return TAs to initiating department/agency unprocessed if the proposed travel cost exceeds travel funds availability, and iii) work closely with departments/agencies to ensure travel policies and procedures are complied with at all times.

**Audit Report No. 002-19: Fiscal Year 2018 Financial Statements Audit of Pohnpei Transportation Authority (PTA).**

**Finding No. 001: Control Weaknesses in the Management and Accounting System.** Having no qualified personnel on board to perform proper accounting and financial related duties for PTA, we found: i) 7 fixed asset items amounting to little over one million dollars worth were not capitalized and properly recorded in its fixed asset account, ii) 6 account payable transactions totaling \$171,289 were not recorded, iii) \$267,979 in depreciation expense was not recorded for the year, iv) contracts for projects and services were not properly filed. (all these internal control weaknesses are repeated findings).

**Recommendation:** We recommend PTA Board of Directors and responsible management officials to: i) give priority consideration to identify and recruit a qualified and capable accountant/comptroller, ii) give priority consideration to develop and implement operational guidelines for processing, monitoring, reconciling, updating, and maintaining account receivable and account payable records, iii) seek and provide capacity building and proper training and professional development for current employees to perform their duties in line with their duties and responsibilities, such as preparing and maintaining appropriate records and performing regular reconciliation, monitoring and management of all PTA accounts.

**Finding No. 002: Office Files and Record Keeping Management Needs Improvement.** PTA has not made any effort to improve its filing and record keeping management. We found: i) Job Order files and related supporting documents for "Other Revenues" incomplete, ii) employees' annual leave and sick leave records were outdated and not properly filed, and iii) no vendor files during our on-sight visits.



**Recommendation:** We recommend responsible management official (s) to: i) revisit and develop clear job/position descriptions and ensure that each staff is properly trained and aware of their duties and responsibilities; ii) ensure that staff work is closely supervised and that important records and reports are properly kept and maintained; iii) give priority consideration to the professional development and training of staffs in order to improve work quality, work habits, work productivity and work competency; iv) give priority consideration to applicants' competency and educational background in the recruitment process, and v) establish and maintain a reliable filing system to ensure that important records, reports, and related supporting documents are kept and readily available when needed.

**Finding No. 003: PTA Did Not Follow Its Own Work Policy and Procedure.**

Sales of Aggregate and Sand (52 samples tested)

Of the 52 transactions tested, we found: i) 15 instances of missing Job Orders for sales of aggregate and sand; ii) 8 Job Orders not signed by the Commissioner; iii) 17 instances where pro-forma invoices were not attached to Job Orders; iv) 33 cases where customer did not sign Job Orders as proof of delivery; v) 3 cases where receipts were not attached to the Job Orders; and vi) 2 instances of voided transactions but still filed.

Equipment Rentals (32 samples tested)

We also found: vii) 13 instances of transactions for equipment rentals with missing Job Orders; viii) 6 Job Orders for equipment rental not signed by the Commissioner; ix) 10 cases where pro-forma invoices were not attached to the Job Orders; x) 20 instances where customer did not sign Job Orders as proof of delivery; and xi) 2 cases where receipts not attached to the Job Orders.

Other Revenues (Coral Sand Sales 18 samples tested)

Of the 18 samples tested, we found: xii) 8 instances of sales made without Job Orders; xiii) 1 Job Order not signed by the Commissioner; xiv) 10 cases where pro-forma invoices were not attached to the Job Order; and xv) 5 instances where customers did not sign Job Orders as proof of delivery.

**Recommendation:** We recommend responsible management official (s) to: i) direct all employees to review, understand and comply with enforcement of all PTA work policies and procedures at all times; and ii) ensure all PTA employees review, understand and comply with their respective duties and responsibilities, as assigned.

**Finding No. 4: Non-Compliance with the Financial Management Regulations (FMR).** Our review of the PTA cash disbursements during the year disclosed the following: i) 2 transactions were paid prior to the issuance of the related Purchase Orders; ii) 1 Travel Voucher was filed 20 days after the trip was completed; and iii) 1 transaction where public fund was committed before the related PO was certified.



**Recommendation:** We recommend the Commissioner, his designee, or responsible management official (s) to: i) ensure that all employees review, understand and comply with established PTA procurement policies and procedures; and ii) disapprove all requests not in compliance with PTA established procurement guidelines.

**Finding No. 5: Outstanding Prior Years' Audit Findings:** All findings above (1-4) + others were reportable conditions in PTA prior years' audit reports. These same internal control weaknesses and deficiencies were clearly identified and reported in PTA's prior years' audit reports. As a government enterprise fund or self-supporting entity, PTA should have a suitable accounting system in place to effectively manage, support, record and report on its own financial affairs. Currently, the PTA accounting and financial reporting is performed by the Department of Treasury and Administration (DoT&A), Pohnpei Government

**Recommendation:** We recommend PTA Board and management to give priority consideration to identify and recruit capable employee (s) who can accurately interpret, prepares, document, records, maintains supporting documents, and properly reports on its financial affairs

**Audit Report No. 003-19: Small Business Guarantee and Finance Corporation (SBG&FC) Financial Audit (FY-2018).**

**Finding No. 1: Non-Compliance with Payroll Policy:** We selected 12 pay periods for testing and found: i) 4 instances where certain employees received payroll advances that include hours not yet earned; and ii) excessive issuance of payroll advances to employees.

**Recommendation:** We recommend: i) immediate discontinuation of payroll advances to employees for hours not yet earned; and ii) prudent compliance to the Corporation's payroll policies and procedures.

**Finding No. 2: Deficiencies in Loan Documentation:** We reviewed 22 borrowers' loan files and found: i) 8 cases where no copy of business licenses on file, ii) 2 instances where loan funds were used to purchase alcoholic beverages and yet business license for sale of such item was not on file, iii) 1 case where commitment letter was not signed by the borrower, iv) 1 case where personal financial statement was blank, v) 1 instance where the pledged vehicle was registered to a different person and not the borrower, and vi) 2 loans approved for construction (house and store building) did not have floor plan or material list on file.

**Recommendation:** We recommend responsible management official (s) to: i) perform diligent review and periodic monitoring of loans and related documents to ensure compliance with the Corporation's lending policies and procedures, and ii) direct responsible employees to ensure that borrowers submit all documents required prior to loan disbursements.

**Finding No. 3: Unauthorized Use of the PDLF:** We found the sum of \$35,000 of PDL funds was re-allocated or transferred to support the Corporation's operations during the year without Pohnpei Legislature's review and approval, as required. This issue has been reported in the Corporation's prior years' audit reports.

**Recommendation:** We recommend: i) SBG&FC management to discontinue diverting loan funds to support its operations, ii) management to work closely with the Governor and the Legislature to ensure ample funds are provided annually to finance its operations, and iii) identify funds from other sources to reimburse PDL funds diverted to support operations.

**Finding No. 4: Control Weaknesses in the Financial Reporting and Supporting Accounting Records.** We noted following internal control weaknesses: i) the Corporation did not prepare and submit timely its unaudited financial statements and supporting schedules for our audit, ii) accounting records and financial reports submitted to POPA contained errors that took us unnecessary time to review and analyzed. (Similar findings were reported in the Corporation's prior years' audit reports).

**Recommendation:** We recommend management to give priority consideration to identify and recruit a qualified person to assume the accounting and reporting of SBG's financial affairs and at the same time train and build the capacity of the Accountant currently on board to assume the financial activities of the Corporation in the not distant future.

**Finding No. 5: Internal Control Weaknesses in Loan Disbursements.** We found 3 instances where loan proceeds were used to purchase items not related to the intended purpose of the loan project. Example: i) a sewing machine was purchased with a loan proceed approved for a fishing project, ii) \$1,000 was used from loan funds approved for a Used Tire Shop to purchase a pig, and iii) portion of a loan proceed approved for a Laundromat was used to purchase a "glass door beverage ice box".

**Recommendation:** We recommend management's close monitoring of loan disbursements to ensure compliance to established policies and procedures.

**No. 6: Unresolved Prior Year Findings** - An audit finding reported in our FY-2011 Financial Audit Report remain unresolved and still outstanding.

**Recommendation:** We recommend the Board to review and take corrective measure (s) to retire all prior years' outstanding audit findings. Board's final decision to resolve these matters should be formally communicated to the State Auditor for review and final resolution.

**Audit Report No. 004-19: Madolenihmw Municipal Government (MMG) Performance Audit on Cash Receipts and Cash Disbursements – Fiscal Years 2017 and 2018.**

**Finding No. 1: Weaknesses in Internal Control Led to Misuse of Cash or Revenue Collections:** Our review of the MMG cash/revenue collections for the period audited disclosed: i) MMG employees were borrowing from revenues collected for personal use without proper documentation and authorization, ii) records were manipulated to cover-up the missing collections, iii) repayment of borrowed collections were not made timely causing delayed deposit of monies involved, iv) revenue collection totaling \$16,764.50 was deposited but not recorded or receipted. v) cash collected were used as change funds for MMG employees, vi) late deposit of revenues, and vii) numerous cash receipts were not dated or recorded correctly.



**Recommendation:** We recommend responsible management officials (s) to: i) develop and implement appropriate preventive measures to safeguard MMG revenue collections, ii) direct the MMG Treasurer to update, strengthen and enforce policies and procedures in place governing cash receipts, and iii) conduct periodic monitoring of employees work to ensure consistent application of policies and procedures.

**Finding No. 2: Unauthorized and Excessive “Payroll Advances” Allowed in MMG** – Our review disclosed: i) MMG management was giving excessive salary advances to its employees without proper authorization, ii) salary advances often exceeded the employees’ bi-weekly net pay, iii) there was no restriction on the amount and frequency of salary advances given to employees, iv) certain employee received 5 payroll related checks in one month, v) employees were not required to pay in full their advances before receiving another advance, vi) the payroll advance scheme was not adequately controlled, vii) no formal agreement in place to monitor and control the payroll advances, viii) no policy in place to govern the program, and ix) although called or labeled as “salary advance” the scheme was simply “free interest cash loan” to employees of the MMG.

At the end of the period audited, over one hundred thousand dollars (\$100,000) remained unpaid and outstanding since the inception of the salary advance/loan scheme some years back.

**Recommendation:** We recommend the Meninkeder Lapalap to: i) immediately discontinue this unauthorized salary advance/loan scheme, and ii) require and undertake an in-depth review to determine the actual balance of each employee’s outstanding advances/loan and enforce immediate restitution through payroll allotments and other legal means available until all advances/loans are fully paid.

**Finding No. 3: Disbursements Not in Compliance with Established Policies and Procedures** During our review, we noted many cases of non-compliance and control deficiencies in the MMG cash disbursement processes for the audited period. These include: i) numerous instances where account payable vouchers were not properly signed by the certification and the approving officers or by person preparing the APV, ii) 14 instances where travel was paid out of project funds, iii) 2 cases where travel authorizations were not properly signed or approved, iv) 2 cases where departure fees for travel were not supported by receipts, v) 11 instances where purchases were made without supporting invoices, and v) an instance where members of the MMG Advisory Board of Land, Health and Sport were paid meeting allowance before the meeting took place.

**Recommendation:** We recommend responsible management official (s) to: i) closely monitor disbursement of MMG funds and ensure compliance to established policies and processes.

**Finding No. 4: Prior Year Audit Finding Still Outstanding** – We found that disbursements of MMG project funds continued to be made without proper written guidelines in place to govern MMG project fund disbursements, as recommended in our Management Letter Report No. ML02-13, issued in 2013 specific to the administration and management of the MMG project monies.

**Recommendation:** We recommend responsible MMG management officials to give priority consideration to develop and implement standards, plans, policies and procedures to guide the proper administration and management of MMG project funds.

**Inspection and Evaluation Report No. IE001-19: Construction of a Multi-Purpose Gymnasium, Nett Elementary School, Department of Education, Pohnpei.**

Our Pohnpei Office of the Public Auditor (POPA) was engaged to conduct an inspection/evaluation of the construction of the Nett Elementary School Multi-Purpose Gymnasium funded by the Japan Embassy in FSM small grant program. The objective of the examination was to determine whether the Department of Education expended the grant award totaling \$180,970 in accordance with the grant agreement and conditions.

**Finding:** Based on our inspection, we conclude that the initiation, implementation and completion of the project were carried out in accordance with the terms and conditions as set forth in the grant agreement. The financial records provided confirm that funds received were expended for the project and the facility is now completed, fully functional and is serving the very purpose in which it was originally conceived. Records also disclosed that some \$970 of the Japan grant remained unexpended.

**Audit Report No. 005-18: A Performance Audit of the Pohnpei Port Authority Payroll Allotments and Annual Leave Applications and Uses (Initiated in FY-2018 But Completed and Issued in FY-19).**

**Finding No. 1: Excess Annual Leave Cash-Out Not In Compliance with Policy.** We found during our review: i) 6 Airport Division employees applied to take excess annual leave hours around the same time in November and December 2017 but management declined and gave all six employees cash payments for their excess annual leave hours.

**Recommendation:** We recommend responsible PPA management official (s) to: i) encourage supervisors to plan each employee's annual vacation time in conformity with the PPA established policies and procedures, and ii) PPA management and all employees should review, understand and comply at all times with the PPA working processes.

**Finding No. 2: Non-Compliance to the Annual Leave Application Rule.** We noted during our review: i) a division head went on vacation without filing a leave application or advance approval from supervisor, and ii) contrary to PPA Personnel Services System Regulations (PSSR), we noted that the division heads were approving/disapproving leave applications.

**Recommendation:** We recommend PPA management to ensure that periodic orientation and training are provided to all employees concerning the PPA PSSR rules and processes.

**Finding No 3: Payroll Allotment Processes Not Followed.** We noted during review: i) PPA has no limit on the number of payroll allotments an employee can have or any restriction on allotment period, and ii) lack of proper documentation to support allotment transactions



**Recommendation:** We recommend closer management supervisory oversight to ensure that: i) allotments are processed only after allotment forms are fully completed by each allotter, and ii) management to revisit the unlimited number of allotments an employee can have and the length of each allotment.

## **COMPLIANCE AND INVESTIGATION DIVISION (CID)**

### **PCIU 18-007: Office of Transportation and Infrastructure (T&I) Contract Awards**

**Source:** Departmental Referral

**Allegation:** Information received from the Pohnpei Attorney General's office concerning the Office of Transportation & Infrastructure (T&I) bidding and awarding of construction contracts activities. The concern relates to a certain Company X receiving majority of the Pohnpei Government construction project contracts awards and potential conflicts.

**Findings:** We found instances of bid rigging and bid manipulation in the awarding of contracts by T&I involving a Company X. This Company X has a potential conflict and collusion with the Government Architect. Findings also showed negligence and misconduct by the T&I Administration for not carrying out their duties and responsibilities in compliance with applicable laws and regulations. On-site inspection of the projects involved revealed material defects (i.e. product substitution, undelivered materials, incomplete projects and misappropriation of project funds).

**Status:** This case has been filed in Pohnpei Supreme Court (PSC) by the AG and is pending trial.

### **CIU 18-004 Agriculture:**

**Source:** Departmental Referral

**Allegation:** We received a referral from the Department of Treasury and Administration and the Department of Resources and Development to look into the Agriculture Revolving Fund (ARF) collection activities for 2017. They have reconciled the account and found that during the period from January to October 2017, approximately \$11,000.00 was collected but was not deposited at the Pohnpei State Treasury.

**Finding:** Our investigation confirmed \$13,956.10 of the FY-2017 collections were missing and could not be accounted for. When contacted and interviewed, a number of Agriculture Division and R&D Administration employees admitted to taking funds from the ARF for personal use. Our review further revealed lack of management supervisory oversight and weak internal control compliance to ensure that funds were routed and timely deposited intact at the Pohnpei State Treasury.

**Status:** This case has been filed at the PSC by AG and is pending trial.

**PCIU 18-008: Road Marking Project:**

**Source:** Hotline Tip

**Allegation:** The FSM National Office of the Public Auditor called and requested our POPA to look into the project on the traffic road markings. The concern is to look into the manner in which the contractor and the T&I are performing on the project. The road traffic markings are fading quickly and cheap materials are being used for the project.

**Findings:** Based on the review, we found that the markings quickly faded because according to the former Administrator of T&I, the paint they chose for the project was water-based and cheaper than the one normally used for road marking projects. Former T&I Administrator also admitted in his letter to Governor that he purposely selected to use this cheaper paint because the road surfaces are dilapidated and would constantly resurface and it would be foolish to use expensive paint only to overlay asphalt in a short period of time. In addition, the budget for the project was inadequate and the Contractor was using paint brush and not the painting machine used in Base 1 of the project.

**Status:** POPA recommended discontinuation of the project and allow T&I to do proper planning and thorough administration to avoid waste of project funds. Project discontinued (2/25/19).

**PCIU 18-009 Chinese Translator**

**Source:** Departmental Referral

**Allegation:** An application for a Foreign Investment Permit for a Chinese citizen and a local partner for a Tour Company was denied by the Foreign Investment Board due to the manner in which the proposed structure of the partnership and the start-up capitalization of the business were presented. After denial, the alien applicant submitted an employment package to serve as a tour guide employee (translator) for the same company instead of a partner.

**Finding:** Based on our review, we found that the local partner became sole owner of the Tour Company, secured a valid business license and hired his alien partner as an employee.

**Status:** This matter is placed on our Intelligence Watch list and if there should be any changed, this will be reported appropriately.

**PCIU 18-010 Sapwuafik Municipal Government:**

**Source:** Audit Referral

**Allegation:** An audit finding was referred to CID concerning: 1) the Sapwuahfik Municipal Government (SMG) revenue collection and cash disbursement activities, and 2) the Sapwuafik Stone Wall Project expenditures and practices.



**Findings:** We found: 1) approximately \$2,495 in revenues collected were missing and unaccounted for. During interview, the SMG Treasurer admitted taking the missing collections and using the proceeds for her personal benefit, and 2) approximately \$15,632.10 worth of Pohnpei State Government checks was issued for the Sapwuafik Stone Wall Project and was deposited into the SMG checking account at a local bank in Pohnpei. Our review further revealed that same amount was disbursed to the former Mayor in several increments. The expenditure of these funds were not properly accounted for, some receipts provided by the Mayor were not appropriate for the project. We further found appearance of double billing and fraudulent purchases.

**Status:** The matter was referred to the Attorney General for appropriate review and prosecution. (6/17/19).

#### **PCIU 18-010: Pohnpei Housing Authority Official Vehicle Disposition**

**Source:** Hotline Tip

**Allegation:** An anonymous complaint requesting our POPA to look into how and why the Executive Director of the Pohnpei State Housing Authority (PSHA) has become the owner of a PSHA official vehicle. According to the allegation, there was reason to believe that the Executive Director did not follow legal procedures in disposing the said government vehicle involved.

**Finding:** Our review found that the manner or procedure in which the PSHA used to dispose of its surplus properties was not in compliance with prudent practice and Pohnpei State Government established bidding process. We found no written policy or procedure in place to guide the PSHA on disposal of its government assets surpluses. As a result, an appearance of perception of conflict of interest on the part of the Executive Director in requesting and purchasing the vehicle without an equal and fair competitive bidding as required by law.

**Status:** PSHA management has developed necessary guidelines specific to disposal of its surplus properties and related matters. (2/12/19)

#### **PCIU 18-012 Pohnpei Okeanos Contract:**

**Source:** Departmental Referral

**Allegation:** The matter was referred from the Attorney General's Office asking our POPA to look into the contract for the Okeanos's Pohnpei and the manner in which the MOU and the Contract agreement were executed.

**Finding:** We found a Charter Agreement/Contract and a MOU relating to Pohnpei Okeanos' chartering services at about \$130,000 a year executed between Pohnpei Government and the Director/Owner of the Ocean Sustainability Research Limited. We also found that there was no

fund specifically authorized and appropriated to finance the \$130,000.00 Okeanos Pohnpei project Contract cost.

**Status:** The matter was referred to the Office of the Attorney General for review and legal interpretation.

### **PCIU-19-001: Madolenihmw Municipal Government**

**Source:** Audit Referral

**Allegation:** An audit referral requesting CID to deepen investigation into two areas concerning the Madolenihmw Municipal Government (MMG) operations and financial management. These areas include: 1) the MMG revenue collection activities, and 2) the MMG employees salary advance schemes.

**Findings:** We confirmed that: 1) during the period from 2016 to 2018, two (2) checks were not recorded and receipted in the revenue collection records. Funds were manipulated to cover-up nearly \$884.84 in missing cash. The checks were used as substitution of cash taken by staff involved. Total amount of cash missing was about \$884.84. Responsible MMG employee admitted taking cash from the revenues collected during the period, and 2) Investigation also confirmed that MMG management was excessively issuing unauthorized free-interest loans to themselves and other employees. They justified these transactions as “Salary Advances”, when in fact these were improper interest free loans not authorized and funded by law. The employees were receiving their entire payroll checks in addition to these loan payouts. For example: one employee X received 52 regular payroll checks plus 60 salary advance checks for the fiscal years 2017 and 2018.

Investigations going back to 2007 to July 2019 on the employees’ salary advance schemes disclosed that approximately \$106,496.60 in salaries advanced to MMG employees remained unpaid and outstanding from these unauthorized and illegal free-interest loans or cash advances.

**Status:** The case has been referred to the Office of Attorney General for evaluation and prosecution. (8/22/19)

### **Other Activities:**

**Fraud Awareness and Anti-Corruption Activities:** A series of Fraud Awareness and Anti-Corruption Workshops were conducted by CID during the year. These include:

- 1) Training for Youth-4-Change on “Cultivating Creativity Against Fraud and Corruption (October 2018).
- 2) FSM Postal Services Management workshop on fraud – (January 2019).
- 3) SDA School with Youth-4-Change – (March 2019).
- 4) PICS High School- Youth-4-Change Joint visit.
- 5) NMHS High School- with Youth-4-Change joint visit.
- 6) CCA School visit- with Youth-4-Change joint visit.



- 7) Madolenihmw High School visit- Youth-4-Change joint visit
- 8) COM/FSM Class on Contemporary Issues in Micronesia.
- 9) FSM Finance/Municipal Government training held in Chuuk- (February 2019).
- 10) FSM 2019 Annual Finance & Budget Conference held in Pohnpei.
- 11) Kosrae State Government Executive Branch management officials.
- 12) Kosrae Office of the Public Auditor entire staff, Kosrae State Government employees, and Kosrae Youth Development Association. and,
- 13) We also joined the global community and celebrated the 2019 International Anti-Corruption Day on December 9, 2018 and about 175 people participated in the talent shows provided by several youth groups in Pohnpei all relating to anti-corruption.

#### Staff Capacity Building and Professional Certification (CID)

- Our Investigative Advisor received or was awarded a Master Degree in the field of Fraud and Financial Crime through on-line courses and studies during the year.
- Attended course on issues in Developing a Global Compliance Ethics Program- Feb 2019.
- Participated in the Anti-Corruption Training/United Nations Convention Against Corruption (UNCAC)/ National Strategic Plan Review- July 31, 2019
- Attended APIPA Guam Annual Training and Conference courses in August 2019 and received 40-hours of CPEs.

### **POPA Annual Report Fiscal Year 2019**

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#### **Part II: Program and Operating Budget and Expenditures Fiscal Years 2018 and 2019**

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The sum of \$303,645 was appropriated to support POPA's programs and operations during the fiscal year 2019, all sourced under the general fund. In addition, we requested and received \$156,000 from the OIA DOI Technical Assistance Program (TAP) grant funds to support specifically our staffs' capacity building and professional development training initiatives for the year. The table below presents a summary of the POPA's programs and operating budget and expenditures for the fiscal years 2018 and 2019.

#### **POPA Operating Budget and Expenditures Fiscal Years 2018 and 2019**

<b>Revenue Source</b>	<b>Fiscal Year 2018</b>	<b>Fiscal Year 2019</b>
General Fund	\$ 17,688-	\$303,645-
Compact Sector Grant	277,601-	-0-
OIA/DOI TAP Grant Funds	58,500-	156,000*
<b>Total Revenues (Budget)</b>	<b>\$353,789-</b>	<b>\$459,645-</b>
<b>Expenditures</b>		

Personnel (CSG)	\$177,160-	
Personnel (GF)	10,688-	\$208,212-
Travel (CSG)	17,511-	
Travel (GF) – 201 APIPA	-0-	19,800-
Contractual Services (CSG)	2,020-	
Other Current Expenses (CSG)	41,804-	47,688-
Representation Fund (GF)	1,950-	1585-
OIA/DOI TAP GRANTS	58,600-	35,409-
<b>Total Expenditures</b>	<b>\$309,733-</b>	<b>312.694-</b>

*Source: Do&A and POPA Accounting and Financial Records. \* Funds remain available for expenditure until FY-2021.*

## POPA Annual Report Fiscal Year 2019

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### Part III: About Our POPA

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#### Our POPA Establishment

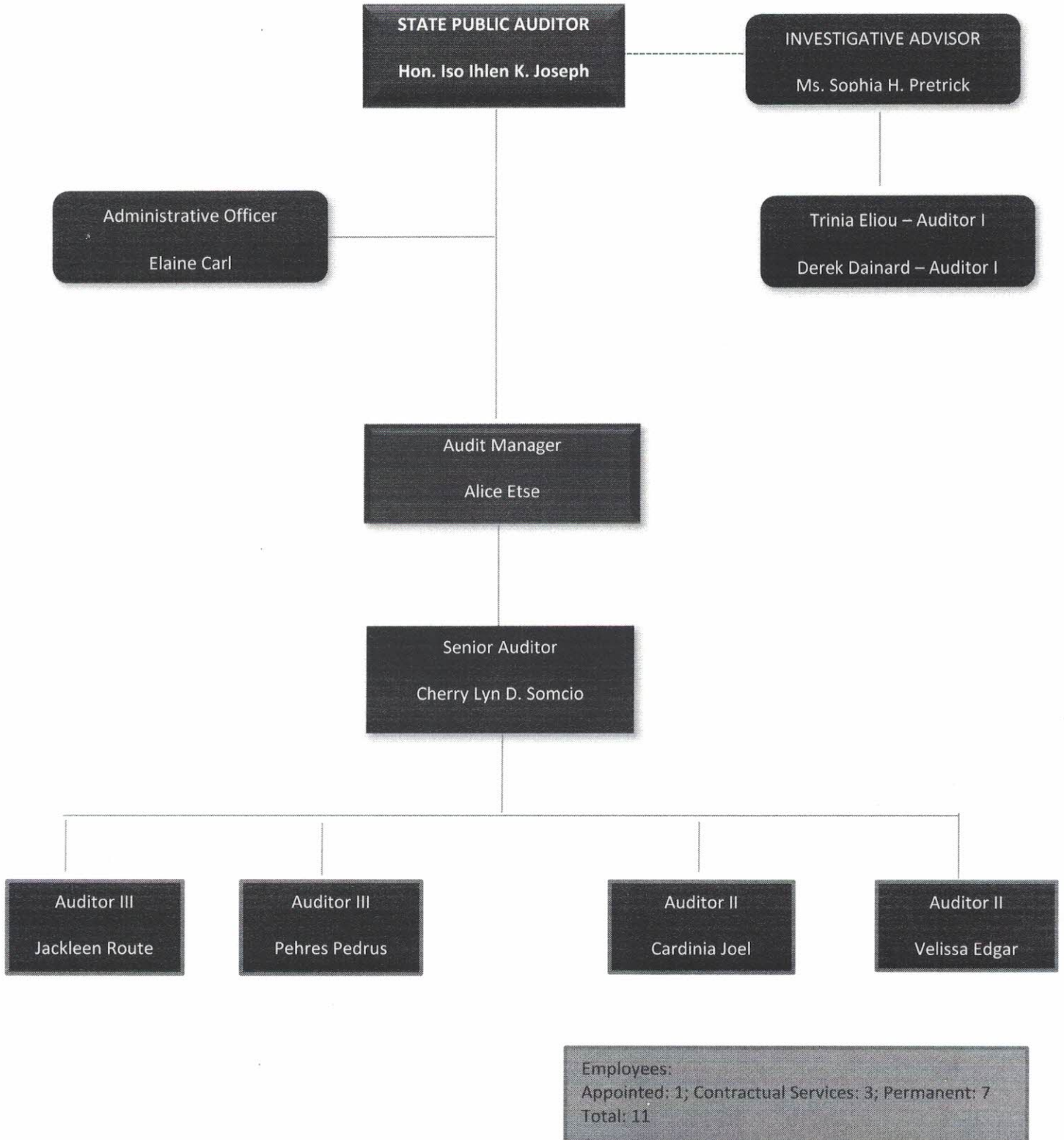
Established pursuant to the provisions of Article 11, Section 8 of the Pohnpei Constitution and the State Law No. 1L-10-79, as amended, the Pohnpei Office of the Public Auditor (POPA) is authorized to: “Conduct audits of all transactions and of all books and accounts kept by or for all departments, offices,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

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

Recruitment of staffs needed to support the POPA operations remain at the discretion of the State Auditor subject to availability of appropriated funds. In FY-2019, there were eleven (11) full-time positions budgeted for POPA. (Refer to POPA’s Organizational Chart on the next page for details).



 10-01-2019  
Ihlen K. Joseph



## **Our Vision**

An accountable, transparent, effective and efficient performing public sector.

## **Our Mission**

We produce and publish quality and timely audit and investigation services reports to enable our leaders, public administrators and other stakeholders to make well informed decisions that promote transparency, accountability, integrity, and good governance in the public sector.

## **Our Core Values**

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

## **Our Goals and Objectives**

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

## **Our Auditing Standards**

We conduct audits in accordance with the “Generally Accepted Government Auditing Standards (GAGAS), also known as the “Yellow Book”. Promulgated and issued by the Comptroller General of the United State of America, these standards refer to auditors’ professional qualification, independence, audit quality, and meaningful audit reporting characteristics. We also conduct audits in conformity with the Pohnpei Constitution, POPA legal framework, and POPA Audit Manual and related work procedures.

We perform administrative reviews and preliminary investigations in conformity to the quality standards for inspections issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The primary aim of POPA’s audit and investigative services is to improve transparency, accountability, integrity, and good governance in the Pohnpei State Government.

## **Our External Quality Peer Review**

The auditing standards we follow (Yellow Book) requires our POPA to undergo external quality control Peer Review at least every three (3) years. The external quality Peer Reviews are required to determine whether the audited organization’s internal quality control system is adequate and, whether the internal control system in place are being complied with to provide assurance of conforming to applicable professional standards. POPA has gone through six (6)



external quality control Peer Reviews in the past 18 years with satisfactory ratings with comments. The next External Peer Review for our POPA will take place in 2021.

### **Our Membership in Regional and International Organizations**

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

- 1) Association of Pacific Islands Public Auditors (APIPA) – Members include government audit offices of Palau, Yap, Guam, CNMI, Chuuk, Pohnpei, Kosrae, Marshalls, Nauru, Kiribati, American Samoa, and Samoa. Fiji SAI recently became a member in 2018.
- 2) Pacific Association of Supreme Audit Institutions (PASAI) – All countries, commonwealths and territories in the greater Pacific region, including Australia, New Zealand, New Caledonia and French Polynesia.
- 4) International Organization of Supreme Audit Institutions (INTOSAI) - POPA is a member of INTOSAI through PASAI.

Our membership in these audit organizations provides POPA staffs opportunity to participate in workshops, seminars and other capacity building and professional development training initiatives sponsored, and in some cases paid for by these organizations.

### **POPA Annual Report Fiscal Year 2019**

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#### **Part IV: Staff Professional Development and Certification**

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

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

- 1) Our Investigative Advisor was awarded/received a Master Degree in Fraud and Financial Crimes from the Charles Sturt University in Australia through on-line courses and studies.
- 2) Our POPA staffs participated in four (4) auditing, investigation, fraud and accounting training programs conducted by Certified Instructors to ensure and update the required Continuing Professional Education (CPE) hours for our staffs during the year.

- 3) Four (4) in-house capacity building courses were conducted by POPA management to enhance staffs' skills in the fields of auditing, investigation, accounting and report writing and were attended by all POPA staffs.
- 4) Our Senior Auditor attended and completed the SAI Young Leaders Program and has written four (4) articles all relating to our POPA based on her learning experience. All her articles were featured in the PASAI newsletter and blog.
- 5) Our staff auditor V. Edgar commenced studying for Certified Fraud Examiner (CFE) on line.
- 6) Our Investigative Advisor traveled to Kosrae and conducted Fraud Awareness Program for the Kosrae State Government leaders, staff of the Kosrae OPA and others during the year. Her trips were paid by the Kosrae Office of the Public Auditor (KOPA).
- 7) The entire POPA workforce attended the 2019 Annual APIPA Conference/Training held in Guam during the year. Each staff earned 40-hours of the required CPE hours during the week-long training and also updated their skills in the areas of auditing, accountancy, investigation, reporting writing and others.
- 8) Two POPA staffs commenced training with national and other FSM states audit staffs in the application of Teammate, a software program designed to assist and ease auditing functions.

**POPA Annual Report  
Fiscal Year 2019**

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**Part V: Challenges Going Forward**

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

- 1) Independence and Autonomy: With the assistance of the PASAI Legal Counsel, the Pohnpei Attorney General and the Pohnpei Legislative Counsel, a bill has been drafted and transmitted to the Speaker, Pohnpei Legislature for review and consideration. In short, the bill proposes to amend and add sections to Chapter 1 of Title 5 of the Pohnpei Code to improve, strengthen, and modernize the POPA's legal framework to ensure that POPA's mandate and practices are properly aligned with International Good Practices and Public Auditing Standards.
- 2) POPA Permanent Office Site and Facility – An opportunity to identify and designate a site/land by law to serve as the permanent location for the POPA.
- 3) Capacity Building, Professional Development and Professional Certification. Staff training and competency continues to be a priority of POPA. We will continue to work



closely with our development partners (APIPA, US Graduate School, PASAI, IDI, OIA and others) in promoting appropriate professional development and certification programs suitable for our POPA staffs.

- 4) Adequate Resourcing and Allocation Flexibility – Greater budgetary autonomy for POPA is most desirable to improve and strengthen planning, work implementation and work productivity. The Commonwealth of the Northern Marianas Islands (CNMI) laws requires that 1% of all departments and agency approved annual operations budget shall be allocated to fund the CNMI OPA operations annually. This funding arrangement provides CNMI OPA the financial autonomy and ability to develop realistic long-term program strategic planning and implementation. We recommend Pohnpei leadership to consider similar budgetary arrangement for the Pohnpei OPA.
- 5) Embracing the Digital Future/IT Technology: POPA is currently exploring with other FSM OPAs for ways to improve the economy, efficiency and effectiveness of our audit works. POPA's desire to transition into electronic working papers with Team Mate, an audit software program currently utilized by OIG/DOI and several members of APIPA, including Guam and Palau will strengthen our Information Technology (IT) systems and modernize our auditing functions.

