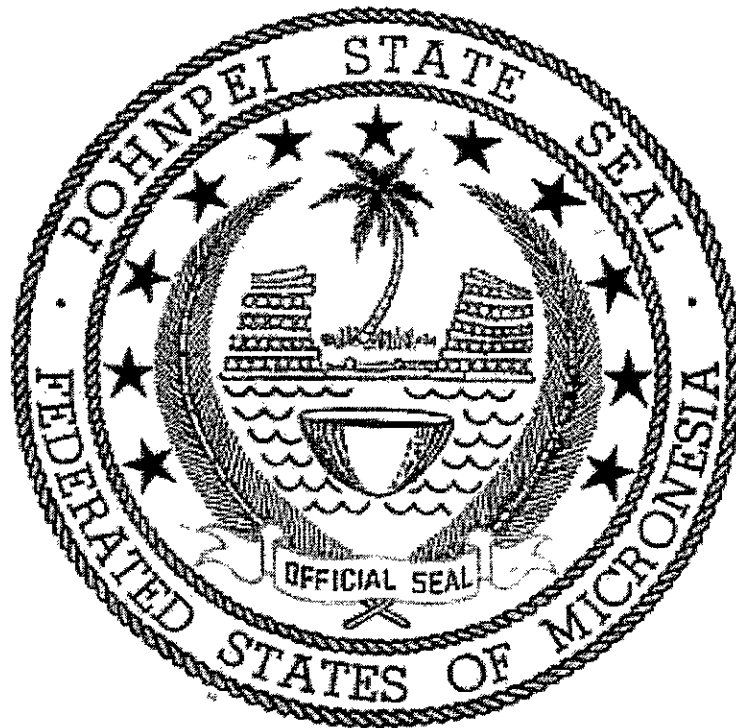


**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
FINANCIAL AUDIT
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

AUDIT REPORT NO. 003-22

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



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**SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
AUDIT REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

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**POHNPEI STATE GOVERNMENT
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June 28, 2022

The Honorable Oliver B. Reed, Governor, State of Pohnpei
The Honorable Marvin Yamaguchi, Speaker, 10th Pohnpei Legislature
Honorable Members of 10th Pohnpei Legislature
Board of Directors, Small Business Guarantee & Finance Corporation
Mr. Thomas Pablo Executive Director, Small Business Guarantee & Finance Corp.

EXECUTIVE SUMMARY

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

The objectives of our audit were: (1) the expression of an opinion concerning whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Small Business Guarantee and Finance Corporation, in conformity with accounting principles generally accepted in the United States of America, (2) reporting on the internal control relevant to an audit of the financial statements, and (3) reporting on the Corporation'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 report are as follows:

Auditor's Opinion

- The Corporation's financial statements present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2021, 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

- The Corporation earned a total of \$139,706 in revenues during the fiscal year, a \$71,250 or 104% increase as compared to the \$68,456 earned in fiscal year 2020.
- At September 30, 2021, the Corporation's operating expenses totaled \$169,314. The amount is \$15,934 or 9% lower than last year's figure of \$185,248.
- The Corporation's net asset was increased by \$114,847.
- The Corporation's loan accounts increased from a net of \$1,120,650 in fiscal year 2020 to a total net of \$1,647,699 in the current year. One contributing factor is that several accounts were paid off but new loans were approved and due to Consumer Loan Program.

Findings and Recommendations

- There are three (3) audit findings this fiscal year, regarding significant control deficiencies in the accounting system and unauthorized payroll advances and unresolved prior year's audit findings. For the findings, we have provided our recommendations if implemented, could improve the Corporation's operation.

The audit findings are fully discussed in the Schedule of Findings and Recommendations shown on pages 21 to 25.

As is customary, we have discussed the draft audit report with management of the Corporation and have requested for their response to our findings and recommendations. The Corporation's response is shown on pages 27-28 of this report, as Exhibit I.

The Pohnpei State Law No. 5L-08-00, 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 audit deficiencies cited in the report until all findings are satisfactorily resolved, which period shall not exceed six months. Accordingly, the first progress report from the Corporation should be due around July 31, 2022.

Other Matters

Lastly, we have noted that the Corporation's Cash and Cash Equivalent Account is fast decreasing every year due to fund transfers to the loans program accounts, including its new consumer loan program. For instance,

- Bank of Guam account had balances of \$454,603 and \$205,038 in FYs 2019 and 2020, respectively. At September 30, 2021, the balance has decreased to \$100,774.
- The PDLF account had balance of \$415,238 and \$171,172 in FYs 2019 and 2020, respectively. The balance was decreased to \$5,730 as of September 30, 2021.

- The TCD account balance was maintained at \$202,000 in FY 2019 and FY 2020. At September 30, 2021, the balance was \$96,322.

Overall, a total of \$330,252 fund transfer to Direct Loan Program account were made. Providing and availing business loans to individuals and citizens is within the corporation's mandate. However, we bring the rapid decrease in cash accounts to the Board and management attention so that they are aware of the corporation's cash position and activities and to ensure immediate future plans of financing important small business is not affected negatively.

In closing, we extend our sincere appreciation to the Corporation's Executive Director and members of the workforce for the support and assistance extended to us during the course of our audit.

With warm regards, I am.

Sincerely,



Ihlen K. Joseph
State Auditor
Pohnpei



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Small Business Guarantee and Finance Corporation:

We have audited the accompanying financial statements of Small Business Guarantee and Finance Corporation (the Corporation), a component unit of the State of Pohnpei, as of September 30, 2021 and for the fiscal year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Small Business Guarantee and Finance Corporation, as of September 30, 2021, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2022 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

The Management's Discussion and Analysis on pages 2 to 4 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


Ihlen K. Joseph
State Auditor
28 May 2022

Small Business Guarantee and Finance Corporation
Management's Discussion and Analysis
Year Ended September 30, 2021

The Small Business Guarantee and Finance Corporation presents an overview of its financial performance as of and for the fiscal year ended September 30, 2021. This Management's Discussion and Analysis should be read in conjunction with the Corporation's financial statements, on pages 6 to 8 of this audit report.

Financial Highlights

- For the fiscal year ended September 30, 2021, the Corporation's total operating revenues increased by \$71,250 or 104% over last year's figure.
- The net asset as of September 30, 2021 was \$1,985,329 which is higher than last year's amount of \$1,870,482.
- Net assets was increased by \$114,847.
- During the year, total operating expense decreased by \$15,934 or 9%, as compared with prior year.
- The Corporation experienced an operating loss of \$29,608 in FY 2021 which is 75% lower than last year's operating loss of \$116,792.

Overview of the Financial Statements

The financial statements presented herein include all activities of the Small Business Guarantee and Finance Corporation. Included in this report are the statement of net assets, the statement of revenues, expenses, and changes in net assets, and statement of cash flows. These financial statements present the complete financial picture of the Corporation from the economic measurement focus using the accrual basis of accounting. It can be read from these statements whether the cash inflow of the Corporation is sufficient to take care of its financial obligations and commitments. These financial statements help management to measure company performance and determine flaws in its financial policies and consequently to assist management in determining the appropriate remedial measures.

The Corporation's budget that is subsidized partly by Pohnpei State is prepared annually by the management and transmitted through the Board of Directors for approval of the Pohnpei State Legislature. The budget contains the projected revenues, expenses and capital expenditures.

Small Business Guarantee and Finance Corporation
 Management's Discussion and Analysis
 Year Ended September 30, 2021

Financial Analysis of the Corporation as Whole

Changes in Net Assets

The statement of net assets presents the financial position or condition of the Corporation and it shows the information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets or net liabilities. The passage of time and/or increases or decreases in net assets may serve as an indicator whether the financial position of the Corporation is improving or deteriorating.

The following table summarizes the changes in net assets of the Corporation for FY2021 and FY2020.

	<u>2021</u>	<u>2020</u>	<u>% Increase/ (Decrease)</u>
Current assets	349,561	\$729,845	(52%)
Capital assets, net	44,685	57,930	(23%)
Other non-current assets	<u>1,647,699</u>	<u>1,120,650</u>	47%
Total assets	<u>2,041,945</u>	<u>1,908,425</u>	7%
Current liabilities	<u>56,616</u>	<u>37,943</u>	49%
Net assets:			
Invested in capital assets	44,685	57,930	(23%)
Restricted	1,929,189	1,778,623	8%
Unrestricted	<u>11,455</u>	<u>33,929</u>	(66%)
Total liabilities and net assets	<u>2,041,945</u>	<u>1,908,425</u>	7%

Operating Activities

The Corporation charges 1% guarantee fee per annum on the guaranteed outstanding loan based on the diminishing balance thereof and payable one (1) prepayment period in advance.

On the Micro Loan Program, the Corporation charges 9% interest per annum and 2% penalty fee for delinquent loans, based on the monthly amortization in the event an installment is made after the fifteenth (15th) day of the due date. Upon closing of the loan, the Corporation charges 0.5% processing fee and a 35% agent's commission on every credit life insurance premium the Corporation issues on each loan. The loan ceiling is \$25,000.

Small Business Guarantee and Finance Corporation
 Management's Discussion and Analysis
 Year Ended September 30, 2021

Personal/Consumer Loan Program was established in June 2020 for eligible Pohnpeian citizens. The loan program charges 13% interest per annum and 2% penalty fee for delinquent loans based on the monthly amortization. The Corporation charges \$25 upon closing of the loan. The loan ceiling is \$7,500 and the maximum repayment term is 3 years.

Loan program disbursed under the Economic Development Administration (EDA) charges 9% interest per annum and 1% penalty fee for delinquent payments based on the monthly amortization. The corporation charges 1% processing fee based on the total amount of loan.

In fiscal year 2021, about 38% of the Corporation's operation was subsidized by the State Government, while the remaining 62% was provided through the Corporation's project income and other revenues. Interest income from the \$1.5 million capitalization accrues to the benefit of the Corporation.

The result of the operation for the period as compared to last year is summarized below:

	<u>2021</u>	<u>2020</u>	<u>% Increase/ (Decrease)</u>
Operating revenues	\$ 139,706	\$ 68,456	104%
Operating expenses	<u>169,314</u>	<u>185,248</u>	(9%)
Operating income (loss)	(29,608)	(116,792)	(75%)
Non-operating revenues	144,455	157,330	(8%)
Capital Contribution from PSG	-	-	-
Net income (loss)	<u>\$ 114,847</u>	<u>40,538</u>	183%

Capital Assets and Debt Administration

Capital assets

As of September 30, 2021, the Corporation's investment in capital assets is \$44,685 (net of accumulated depreciation). The Corporation's capital assets include office furniture and equipment, software and vehicles.

Contacting the Corporation's Financial Management

This Management's Discussion and Analysis is designed to provide the customers, creditors, investors, board of directors and other interested parties, with a general overview of the Corporation's financial activities. Questions concerning any of the information provided in this discussion and analysis or requests for additional information should be addressed to the Executive Director, Small Business Guarantee and Finance Corporation at P.O. Box 1751 Kolonia, Pohnpei, FM 96941, or call (691) 320-2968 or (691) 320-3264.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Statement of Net Assets

September 30, 2021

(With Comparative totals for September 30, 2020)

ASSETS	2021	2020
Current assets:		
Cash and equivalents – unrestricted (note 2)	\$ 300	\$ 800
Cash and equivalents – restricted (note 2)	281,490	657,973
Prepaid Insurance	833	208
Accounts receivable, net (note 3)	1,250	1,250
Employee loans receivable (4)	14,913	20,509
Advances, net (note 5)	3,752	2,082
Interest receivable (note 6)	47,023	47,023
Deferred Charges	-	-
Total current assets	<u>349,561</u>	<u>729,845</u>
Non-current assets:		
Property and equipment, net (note 7)	44,685	57,930
Notes receivable – restricted (note 8)	1,647,699	1,120,650
Total non-current assets	<u>1,692,384</u>	<u>1,178,580</u>
 Total assets	 <u>\$ 2,041,945</u>	 <u>\$ 1,908,425</u>
 LIABILITIES		
Current liabilities:		
Social security payable	\$ 1,485	\$ 3,408
Withholding tax payable	1,392	1,328
Credit life insurance payable	32	765
Accrued expense	3,004	6,524
Deferred Revenue	33,088	-
Accounts payable	17,370	25,020
Cash Short/Over	245	243
Suspense Account	-	655
Total liabilities	<u>\$ 56,616</u>	<u>\$ 37,943</u>
 NET ASSETS		
Invested in capital assets, net of related debt	\$ 44,685	\$ 57,930
Restricted for capital stock and business development project	1,918,864	1,775,649
Restricted for employee loan program	10,325	2,974
Unrestricted net assets	11,455	33,929
	<u>1,985,329</u>	<u>1,870,482</u>
 Total liabilities and net assets	 <u>\$ 2,041,945</u>	 <u>\$ 1,908,425</u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Statement of Revenues, Expenses, and Changes in Net Assets

September 30, 2021

(With Comparative totals for September 30, 2020)

	<u>2021</u>		<u>2020</u>
Operating revenues			
Interest income (note 9)	\$ 127,331	\$	56,877
Loan processing fee	6,965		5,922
Loan restructuring fee	750		100
Income – CLI commission	0.00		0.00
Recovery of loans PDLF	4,660		5,557
Total operating revenues	\$ <u>139,706</u>	\$	<u>68,456</u>
Operating expenses			
Salaries	75,991		77,363
Employee benefit program	3,471	\$	2,469
Retirement Plan Employer	1,642		1,705
Social security tax	5,668		5,847
Cost of living allowance	8,400		3,900
Travel	-		19,088
Depreciation	15,656		11,475
Office supplies	7,510		15,234
Telephone and communication	3,315		2,590
Utilities	2,295		2,815
Annual dues	0.00		0.00
Gasoline	3,597		3,845
Representation and entertainment	10,039		9,659
Repairs and maintenance	1,053		525
Janitorial and cleaning	300		1,940
Bank charges	1,538		1,083
Meeting allowance	1,840		2,380
Membership fee	560		352
Security service	4,320		4,320
Promotion and Advertising	155		0.00
Printing and Production	-		475
Legal and Professional fee	6,000		6,000
Insurance Expense	1,125		671
Miscellaneous	4,927		948
Annual System Maintenance	9,912		-
System Installation	-		10,564
Total operating expenses	\$ <u>169,314</u>	\$	<u>185,248</u>

Operating loss	\$ <u>(29,608)</u>	\$ <u>(116,792)</u>
Non-operating revenues		
Transfers in (note 10)	107,000	153,000
Grant Contribution	34,598	-
Interest Income (note 9)	829	1,541
Other income (note 12)	602	1,860
Interest income - employee loan	1,426	929
Total non-operating revenues	<u>144,455</u>	<u>157,330</u>
Contributed Capital	-	-
Increase (decrease) in Net Assets	114,847	40,538
Net assets (liabilities) – beginning of year	<u>1,870,482</u>	<u>1,829,944</u>
Net assets (liabilities) – end of year	\$ <u><u>1,985,329</u></u>	\$ <u><u>1,870,482</u></u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

Statement of Cash Flows

September 30, 2021

Cash flows from operating activities:	
Receipts from customers	\$ 1,659,288
Payments to suppliers and employees	<u>(2,178,315)</u>
Net cash used by operating activities	<u>(519,027)</u>
Cash flows from non-capital financing activities:	
Transfers in	107,000
Grant Contribution-EDA	34,597
Interest income	2,255
Other income	<u>602</u>
Net cash provided by non-capital financing activities	<u>144,454</u>
Cash flows from capital and related financing activities:	
Purchase of capital asset	<u>(2,410)</u>
Net cash used by capital and related financing activities	<u>(2,410)</u>
Net cash and equivalents decrease for the year	(376,983)
Cash and equivalents at beginning of year	<u>658,773</u>
Cash and equivalents at End of Year	\$ <u>281,790</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating loss	\$ (29,608)
Depreciation	15,656
(Increase) decrease in assets:	
Accounts receivable	-
Prepaid Insurance	(625)
Advances	(1,670)
Interest receivable	-
Employee loans receivable	5,596
Notes receivable	(527,049)
Increase (decrease) in liabilities:	
Accounts payable	(7,650)
Accrued expense	(3,520)
Credit life insurance payable	(733)
Social security tax payable	(1,923)
Cash Short/Over	2
Deferred Revenue	33,088
Suspense Account	(655)
Withholding tax payable	<u>64</u>
Net cash used by operating activities	\$ <u>(519,027)</u>

See accompanying notes to financial statements.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Notes to Financial Statements
September 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Corporation was established by Pohnpei State Law No. 3L-86-95 on February 14, 1995. However, it officially started its operation on October 1, 1999 when the accounting system was transferred from the Department of Treasury and Administration to the Corporation. The Corporation's mission is to provide, promote, develop and widen in both scope and service, reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, and secondary mortgage and/or rediscounting of loan papers to small businesses.

Pursuant to Pohnpei State Law No. 5L-14-00 (Executive Reorganization Act of 2000), the Corporation shall be attached to the Pohnpei State Government's Office of Economic Affairs, and shall be under the policy, program, and administrative supervision of the Small Enterprise Development (SED) Council. It shall exercise all the general powers conferred by law upon corporations as are incidental or conducive to the attainment of the Business Development Act of 1994, including the power to promulgate articles of incorporation, bylaws, rules and regulations, guiding programs and policies. Its main function is to guarantee loans to qualified small enterprises, local and/or regional associations' small enterprises and industries, private voluntary organizations and/or cooperatives. It may guarantee loans up to 85% and may also provide second guarantees on the credit and/or investment guarantees made by credit guarantee associations and other institutions in support of small enterprises.

The powers of the Corporation shall be vested upon a seven-member Board of Directors. The Administrator of the Office of Economic Affairs shall serve as Chairman, with the other six members appointed by the Governor upon recommendation of the SED Council with the advice and consent of the Legislature. Three members shall come from the private sector and the other three members are from the public sector. The Board consists of seven (7) members, including its Chairman. Effective March 17, 2019 a new State Law No. 9L-103-19, provides that "The members of the Board shall elect a chairman of the Board during the first meeting of the Board, following the most recent amendment to this section of the Code, who shall serve a term of chairman as set forth in the bylaws of the Corporation."

The Corporation is managed by an Executive Director, appointed by the Board of Directors and who reports directly to the Board. The Director is charged with the responsibility of ensuring smooth operation of the Corporation in line with the policies

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

established by the Board of Directors. He is also in charge of the implementation of the guarantee program.

B. Financial Statements

The financial statements of Small Business Guarantee and Finance Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. 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 Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989.

The Corporation has implemented the general provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", pursuant to paragraph 142 of the Statement. The financial statements in this report include the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

C. Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Corporation are organized as a proprietary fund-component unit of 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. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income as well as the maintenance of capital.

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included in the statement of net assets. Net asset is segregated into three (3) components: invested in capital assets, restricted, and unrestricted. The operating statement for proprietary funds is the statement of revenues, expenses, and changes in fund net assets. Revenues are reported by major sources and distinguished between operating and non-operating revenues.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. The Corporation utilizes the accrual basis of

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

D. Budget

The Corporation operates on an annual budget determined and appropriated by the Pohnpei State Legislature (PSL). The Corporation, upon approval by the Board of Directors, may also use certain revenues generated by its activities to supplement its annual budget.

E. Cash and Equivalents

For the purpose of the statement of net assets and statement of cash flow, cash and equivalents are defined as cash on hand and cash in banks, including time certificates of deposit that mature within one year. Of these amounts, \$250,000 is insured through the FDIC, with the remaining balance exceeding insurable limits. The Corporation does not require collateralization of its deposits by its banks. Therefore, the amounts, which exceed the FDIC insurable limits, are characterized as uncollateralized.

F. Capital Assets

Assets with value of \$1,000 or more are capitalized and recorded at cost less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets.

G. Revenues

Annual operating subsidies to the Corporation, which finance either capital or current operations, are reported as non-operating revenues based on GASB Statement No. 33.

H. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. In accordance with the provisions of FASB Statement No. 43-Accounting for Compensated Absences, 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.

I. 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 reports could differ from those estimates.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

J. Net Assets

The Corporation complied with the requirements of GASB Statement No. 34, regarding the presentation of net assets in the financial statements. The difference between the assets and liabilities is displayed as “net assets”, which is further segregated into three (3) components: “invested in capital assets”, “restricted”, and “unrestricted”. The restricted component of net assets includes cash, notes receivable and investment where the fund source has been restricted for capital stock and business development projects. The unrestricted component of net assets includes unrestricted cash, other current assets and liabilities that are not restricted for use by the Corporation.

K. New Accounting Standards

During the year, the Corporation 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 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 to 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), 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 Small Business Guarantee and Finance Corporation.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Standards, Continued

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 Statements 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 the Corporation.

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

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 the Corporation.

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.

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 the Corporation.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

K. New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans, which revises existing guidance for the 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 Corporation's financial statements.

(2) CASH AND EQUIVALENTS

The Corporation's cash and equivalents at September 30, 2021 is summarized below:

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Petty cash	\$	300	300
Cash in bank – Savings ITA	3,096		3,096
Cash in bank – BOG	100,774		100,774
Cash in bank - PDLF Savings	5,730		5,730
Cash in bank - Employee Loan Program	10,325		10,325
Cash in bank – Direct Loan Program	11,962		11,962
Cash in bank- TCD	96,323		96,323
Cash in bank – EDA	53,280		53,280
Total cash and equivalents	\$ <u>281,490</u>	<u>300</u>	<u>281,790</u>

The restricted cash represents balances of cash in banks arising from the following:

- The Original capitalization of \$1,000,000;
- Business development projects fund of \$500,000 received by the Corporation in fiscal year 2000;
- A transfer of \$102,700 from the defunct Development Loan Fund. (See also Note 10); and,
- Initial employee loan fund of \$10,000.

(3) ACCOUNTS RECEIVABLE

The Corporation's accounts receivable at September 30, 2021 is **\$1,250**.

(4) EMPLOYEE LOANS RECEIVABLE

The total balance of employees' loans with the Corporation at September 30, 2021 is **\$14,913**.

(5) ADVANCES

The summary of the Corporation's advances at September 30, 2021 is as follows:

Total amount of advances	\$6,793
Allowance for doubtful accounts	<u>(3,041)</u>
Net	<u>3,752</u>

(6) INTEREST RECEIVABLE

The Corporation charges 15% on its direct loans and the loans from the defaulted guarantees. At September 30, 2021, the loans have accrued interests of **\$47,023**.

(7) CAPITAL ASSETS

The capital assets' activities as of and for the fiscal year ended September 30, 2021 are as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decrease)</u>	<u>Ending Balance</u>
Vehicles	\$ 14,532	0	0	\$ 14,532
Office equipment	19,997	2,410	0	22,407
Software	160,064	0	0	160,064
Total cost	<u>\$194,593</u>	<u>2,410</u>	<u>0</u>	<u>197,003</u>
(Less) accumulated depreciation for:				
Vehicles				\$ (11,936)
Office equipment				(19,652)
Software				<u>(120,730)</u>
Total accumulated depreciation				<u>\$ (152,318)</u>
Capital assets, net				<u>44,685</u>

(8) NOTES RECEIVABLE

The account represents two (2) promissory notes arising from defaulted loan guarantees and sixty-nine (69) promissory notes ensuing from the Micro Loan Program.

(8) NOTES RECEIVABLE, CONTINUED

A summary of the notes receivable at September 30, 2021 is as follows:

Description	Gross Amount	Allowance for Bad Debts	Net Amount
Micro Loan Program (69 accounts)	\$ 600,147	\$ (129,093)	\$ 471,054
Defaulted Loan Guarantees (2 accounts)	166,429	(166,429)	0.00
PDLF	256,859	(256,859)	0.00
Consumer Loan Program	1,142,047	0.00	1,142,047
EDA Grant	34,598	0.00	34,598
Total	\$ 2,200,080	\$ (552,381)	\$ 1,647,699

(9) INTEREST INCOME

The amounts represent 9% interests earned on the direct loans under Micro Loan Program (MLP), the loans from the defaulted loan guarantees (DLG) and 13% interest earned on the Consumer Loan program for the year ended September 30, 2021.

(10) TRANSFERS-IN

The Pohnpei State Legislature appropriated \$107,000 to subsidize the Corporation's operation for the fiscal year 2021. The amount is recorded as non-operating revenue.

(11) GRANT CONTRIBUTION

The amount represent the grant received from US Department of Commerce Economic Development Administration (EDA) for the year.

(12) POHNPEI DEVELOPMENT LOAN FUND (PDLF)

In December 2013 the Governor signed into law S. L. No. 8L-36-13 authorizing the transfer of \$100,000 of the liquid capital of the defunct Development Loan Fund (the Fund) and all the outstanding loan portfolio of the Fund to the Corporation. The fund is contributed as capital for the Corporation for the purpose of providing government assistance to qualifying businesses. The capital including payments/interests in the total amount of \$102,700 was recorded in the Corporation's books in June 2014 and named as Pohnpei Development Loan Fund.

(13) OTHER INCOME

The amounts represent interest earned on operation bank accounts maintained by the Corporation and interest earned on employees' loans for the year ended September 30, 2021.

(14) CONTINGENCIES

Risk Management

The Corporation does not purchase commercial insurance covering its potential risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

Claims

There is currently no outstanding lawsuit or claim filed or threatened to be filed against the Corporation.

Guarantees

Pursuant to the Corporation's enabling act [PSL No. 3L-86-95, Section 15 (3)], the Corporation shall become liable under its guarantees upon proof that the loan has become past due under such terms and guidelines adopted by its Board and printed on the contract of guarantee. The Corporation did not enter into new loan guarantees during the fiscal year 2021.

SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

YEAR ENDED SEPTEMBER 30, 2021



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

P.O. BOX 370
KOLONIA POHNPEI FM 96941
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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**

Chairman
Board of Directors
Small Business Guarantee and Finance Corporation:

We have audited the accompanying financial statements of Small Business Guarantee and Finance Corporation (the Corporation), as of and for the year ended September 30, 2021, and have issued our report thereon dated May 28, 2022. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Corporation'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 result of our tests disclosed an instance of non-compliance, which is described in the accompanying Schedule of Findings and Recommendations (pages 24-25) as finding Numbers 2021-003 that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation'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 do not 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 judgement, could adversely affect the Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations (pages 21-24) as findings 2021-001 to 2021-002.

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 item numbers 2021-001 to 2021-002, identified as reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of the Corporation, 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 these specified parties.



Ihen K. Joseph
State Auditor
28 May 2022

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 2021-001 Internal Control Weaknesses Resulted in Unreliable Financial Statements and Underlying Records and Schedules and Irregularities

Criteria: A well-designed and effective system of internal controls provides management with reasonable assurance that applicable laws, regulations, policies and procedures are complied with, accurate and reliable financial information are reported timely, and that, operations are effectively and efficiently managed. The system should encompass a robust oversight and management, suitable mechanism in place to assess, monitor, detect and/or prevent irregularities including potential fraud, errors and risks from happening. Furthermore, the internal control system should be sufficiently effective and responsive to ensure critical matters, findings and/or emerging issues are identified, tracked and resolved or reported to the Board for appropriate action before they become serious problems.

Condition: Similar with prior year, the Corporation was not able to provide accurate and reliable financial reports in a timely manner to relevant stakeholders. For example, the first sets of financial reports and records submitted to the Office of the Public Auditor was incomplete:

- 1) The checks disbursed were not recorded on time. For instance, some checks disbursed in January 2021 were recorded in February 2021; checks disbursed in February 2021 were recorded in April 2021 and all checks disbursed in March-June 2021 were recorded in September 2021.
- 2) Transactions for the months of July-September 2021 were not yet recorded in the Corporation's books at the start of our audit fieldwork.

The revised second sets of the financial reports and records re-submitted contained numerous errors, as follows:

- 1) Certain accounts payable, sundry and notes receivable transactions were not properly recorded and the accounts were not reconciled and monitored. We found incorrect and material adjusting entries made to Sundry Account, Accounts Payable, and Interest Receivable, Notes Receivable, Allowance for Doubtful Account misstatement totaling \$900,755. One of these adjusting entries was made without the Board's approval.

Also same as last year, our audit again uncovered missing petty cash funds and lack of reconciliation, as discussed below:

- 1) A change fund of \$500 was missing. Upon inquiry, the Loan Manager informed us that the Corporation is no longer using change fund and the money was therefore deposited back to the bank. However, the Corporation could not provide a copy of the deposit slip or any other documentation to support the claim.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 2021-001 Internal Control Weaknesses Resulted in Unreliable Financial Statements and Underlying Records and Schedules and Irregularities continued

- 2) Petty Cash was not properly managed resulting to \$284 gone missing. In addition, \$70 worth of disbursements paid out of the petty cash funds were not properly supported.
- 3) Three instances where meeting allowances paid did not tally with number of the Boards presented in the meeting.

Cause: The condition happened due to an ineffective internal control in place and laid-back management and oversight body. Board and management were aware of the accountant competency level since the matter was first reported in FY 2013, but did not take timely and appropriate action hence the deficient accounting system has persisted until now. Management and Board has also ignored our audit finding cited in the FY 2020 audit report regarding missing cash receipts, including deficiencies of controls over petty cash funds.

Effect: The condition resulted in the following:

- Financial information reported for the 4th quarter of FY 2021 to different stakeholders were not factual or accurate;
- Financial statements and underlying records and schedules not readily available and greatly delayed audit work;
- Final unaudited financial statements submitted to us were materially misstated before our proposed adjustments. In addition, there is still high risk of material misstatement to occur in subsequent financial statements if the situation is not resolved.
- The Corporation incurred unnecessary costs amounting to \$950.77 due to late payments of withholding and social security taxes.
- The Corporation made a contract with a private company to provide accounting/consulting services to complete the Corporation's unrecorded transactions. Thus, the Corporation incurred \$3,000 for services that its employee failed to perform.

Recommendation:

We recommend that the Board and the Executive Director should seriously prioritize the improvement of the Corporation's internal control system by:

- Taking a proactive approach to deal and resolve matters including audit findings, and emerging issues affecting the Corporation to prevent serious problems happening and/or

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION
Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2021

Finding No. 2021-001 Internal Control Weaknesses Resulted in Unreliable Financial Statements and Underlying Records and Schedules and Irregularities continued

- unnecessary costs and loss of funds. Board and management's action should be timely so that misstatements, risks of irregularities and other serious problems can be prevented.
- Recruiting a qualified and licensed Accountant to assume the responsibility for accounting, recording and reporting of the Corporation's financial information; and be, responsible to train the Corporation's finance personnel to take up the responsibility afterward;
- Once improved and enhanced, the controls should be monitored to ensure they continue to function as designed.

Auditee Response: Please refer to Exhibit I on pages 27-28 of this report.

Auditor's Reply: Please refer to Exhibit II on pages 30-31

Finding No. 2021-002 Unauthorized Payroll Advances

Criteria: The Corporation's Manual of Administration requires that payroll advance must be properly requested and authorized in advance and only for hours already earned.

Condition: Our review of payroll advances revealed that a Corporation's employee singly requested and approved payments of payroll advances to himself/herself. All his/her payroll advances were not properly processed and approved in accordance with the Corporation's payroll disbursement. The employee's payroll advances balance for FY 2020 amounted to \$1,950 and increased to \$3,590 (net of \$180 payment) this fiscal year.

Cause: The condition happened again due to management and board's lack of adequate response and action to improve the Corporation's internal control system. Specifically, the Board and management failed to properly and regularly review the financial records of the Corporation, hence missed noticing the payments to the employee averaging about \$145 every payday

Effect: The condition resulted in non-compliance with the Corporation's Manual of Administration and there is a high possibility that the Corporation will not get reimbursed for the \$3,590. This also appears to be theft of the Corporation's funds of about \$1,820 (net of payment).

Recommendation: We recommend that management should diligently review and monitor all financial reports/records of the Corporation including payroll related activities to ensure all payment transactions were legitimate.

Auditee Response: Please refer to Exhibit I on pages 27-28 of this report

Finding No. 2021-003 Unresolved Prior Years' Findings

Criteria: Pohnpei State Law No. 5L-08-00, required to submit to the Public Auditor a report on its progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed six (6) months.

Condition:

The table that follows shows the status of the implementation of prior year's recommendations:

Audit Findings	Status of Resolution	Auditor's Remarks
<p>Finding No. 2018-004 Control Weaknesses in the Financial Reporting and Supporting Accounting Records</p> <p>Management should recruit a qualified person to account and report on the financial activities of the Corporation and train the current Accountant to eventually assume the duties and responsibilities.</p>	<p>Finding accepted and Corporation submitted corrective action plan. Will recruit CPA.</p> <p>Due to close of FSM borders, the accountant hired from the Philippines cannot travel to Pohnpei. Instead, an assistant accountant was recruited.</p>	<p>Partly resolved.</p> <p>Auditors will assess subsequent financial reporting and accounting of the Corporation for the finding to be fully resolved.</p>
<p>Finding No 2019-003 Payroll Related matters not in accord with Policies and Procedures</p> <p>Management should strictly implement the Corporation's policies and procedures regarding payroll related administrative matters including advances of salaries.</p>	<p>Finding accepted and Corporation agreed to strictly follow payroll related policies of the Corporation.</p>	<p>Partly resolved.</p> <p>Payroll advances have been already referred to the legal advisor. Personnel with payroll advance has resigned.</p>
<p>Finding No 2019-004 Lapse in Reconciliation resulted in numerous adjusting entries proposal</p> <p>Management to explore and find the best way to resolve the Corporation's accounting and reporting deficiencies.</p>	<p>Finding accepted and Corporation submitted corrective action plan. Will recruit CPA.</p> <p>Due to close of FSM borders, the recruited CPA cannot travel to Pohnpei.</p>	<p>The Corporation hired an accounting assistant.</p> <p>Auditor proposed numerous adjusting entries this year.</p>
<p>Finding No. 2019-05 Control Deficiencies in Disbursement Process</p> <p>Executive Director should implement effective supervisory review and monitoring of disbursements to ensure observance of policies and procedures</p>	<p>Finding accepted and Corporation submitted corrective action plan.</p>	<p>Partly resolved. Implementation not consistent.</p>
<p>Finding No. 2019-06 Lack of Proper Review and Documentation</p> <p>Executive Director and the Board to implement suitable internal control structure that enable improved review and documentation.</p>	<p>Finding accepted and Corporation submitted corrective action plan. Working with State Financial Advisor in correcting internal control issues.</p>	<p>Partly resolved. Auditors' will assess internal control over review and documentation for this finding to be fully resolved.</p>
<p>Finding No. 2019-007 Non-capital assets not properly maintained</p> <p>Executive Director should ensure that all responsible employee (s) regularly performed inventory count and inspection of Corporation's assets.</p>	<p>Finding accepted and Corporation submitted corrective action plan.</p>	<p>Partly resolved. Implementation not consistent.</p>

Finding No. 2021-003 Unresolved Prior Years' Findings continued

Cause:

Management did not develop and implement corrective measures to resolve all prior year audit findings. The condition reflects unconcerned attitude of management not taking action that would improve the operation as well as protect the Corporation's interest. In addition, the management did not take seriously of the yearly audit report.

Effect:

The non-resolution of the prior years' audit findings will continue to hinder the effective maintenance of a suitable internal control system as well as Corporation's compliance with applicable laws and regulations including lowering or preventing the risk of financial loss due to and as result of weak internal controls.

Recommendation:

We recommend that the Board should work with management in developing a good corrective action plan to resolve all prior years' audit findings. The Board should ensure that the Executive Director take charge, monitor and track the status of the audit findings until satisfactory resolved.

Auditee Response: Please refer to Exhibit I on pages 27-28 of this report.

Auditor's Reply:

Finding No. 2019-005, Control Deficiencies in Disbursement Process. Similar condition happened again as mentioned in **Finding No. 21-001** in regards to petty cash disbursements that were not properly supported.

Finding No. 2019-007, Non-capital Assets Not Properly Maintained. We maintain the finding because we believe the controls over the Corporation's assets management can be further improved. Management allowed employees to take the properties home, yet there is no log or sign out sheet to document and track the whereabouts and the return of the assets, which could result to abuse, misuse or loss of the Corporation's assets.

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

AUDITEE RESPONSE (EXHIBIT I)

YEAR ENDED SEPTEMBER 30, 2021



SMALL BUSINESS GUARANTEE & FINANCE CORPORATION

P.O. Box 1751, Kolonia, Pohnpei FM 96941
Telephone: (691) 320-2968/3264

June 28, 2022

Ihlen K. Joseph
State Public Auditor
Office of the Public Auditor
Kolonia, Pohnpei 96941

Ref: Auditee Response to Fiscal Year 2021 Audit Findings of SBGFC financial Statements

Maing Iso ko,

I am again pleased and honored to transmit our response and corrective action plan to address each of the audit citation enumerated below.

Finding No. 2021-001 Internal Control Weaknesses Resulted in Unreliable Financial Statements and Underlying Records and Schule and Irregularities

Auditee's Response - We do not concur nor do we concur with the finding. However, we simply wish to note that an opportunity was given to the board and the management to address some alarming and possibly damaging issues that may have affected the end of Fiscal Year September 30, 2021 outcome. To help resolve these issues, SBGFC employed the services of the State Financial Advisor Mr. Keller and Mesening Credit Union due to their knowledge of the software. Through this effort, a sound and more reliable financial statement were provided. The importance and the urgency of the matter caused the board to meet weekly to gage on the issues that needed to be addressed and resolved.

Auditee's Action Plan - Recruitment of qualified and licensed accountant and onsite training in accounting and system user. Resolution of the change fund and petty cash must be done immediately even if it means exhausting legal means.

Finding No. 2021-002 Unauthorized Payroll Advances

Auditee's Response – We concur

Auditee's Action Plan – Payroll Advances including loan outstanding receivables were all referred to the legal counsel for collection purposes.

PRIOR YEARS AUDIT FINDINGS

Finding No. 2018-004 Control Weaknesses in the Financial Reporting and Supporting Accounting Records

Auditee's Response – We concur. Therefore, the Board and the Management are going forward with its action plan to recruit a qualified accountant (CPA) to get the SBGFC financial records in order and train

the staff (accountant). In the meantime, SBFCA has secured the assistance of the of the State Financial Advisor and hired a more responsive accountant. Finally, the Executive Director will be responsible to ensure all accounting records are fully supported.

Finding No. 2019-003 Payroll Related Matters not in according with Policies and procedures

Auditee's Response –We concur. The Board of Directors and the Management has taken steps to ensure that such incidents do not occur again which includes the termination of its previous accountant. In addition, a new process has been put in place. Signatures of the operations checking account now must only be signed by the executive director and the chairman of the board or his designee. Recovery of outstanding loan balances and payroll advances has been referred to the legal counsel for collection purposes.

Finding No. 2019- 004 Lapse in Reconciliation resulted in numerous adjusting entries Proposal

Auditee's Response – We concur. However, we wish to note that current year transactions are been captured and recorded in the system on a daily basis. Any adjusting entry that is needed to correct a mis posting were simultaneously entered. Director will ensure that required monthly reconciliations are done on a monthly basis.

Finding No. 2019-005 Control Deficiencies in Disbursement Process

Auditee's Response – We do not concur for the said finding to remain on the books. It is evident that there is no such finding in the current year, therefore it is our belief that is finding should be removed.

Finding No. 2019-006 Lack of proper Review and Documentation

Auditee's Response – We concur.

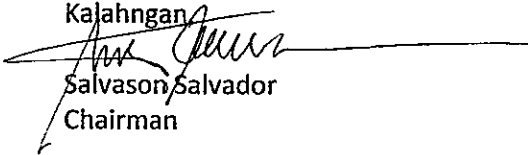
Auditee's Action Plan – continue to ensure the implementation of the action plan which seems to be working as evident from auditor's remark.

Finding No. 2019-007 Non-capital assets not properly maintained

Auditee's Response – We do not concur and believe that the finding should be removed. Auditors were informed that the two items not on hand/available at the time of inspection were with employees of the corporation. The computer was assigned to the former accountant while the vacuum was borrowed by another employee which is not unusual. The items were returned to the office prior to the release of the audit where by the auditors were informed of.

Before concluding, we wish to express our sincere gratitude to the Office of the Public Auditor for the opportunity given to us by extending the submission date so that we may address the issues raised by the auditors, that if not properly addressed, may have resulted in a negative opinion by your office on the said report. The board and the management, collectively, will ensure that these finding are resolved as soon as practical.

Kalahngan


Salvason Salvador
Chairman

SMALL BUSINESS GUARANTEE AND FINANCE CORPORATION

AUDITEE RESPONSE (EXHIBIT II)

YEAR ENDED SEPTEMBER 30, 2021



OFFICE OF THE PUBLIC AUDITOR

P.O. BOX 370

KOLONIA, POHNPEI STATE, FM 96941

Tel: (691) 320-2638/8497

WEBSITE: www.opapni.fm E-MAIL: opsa_psa@mail.fm

July 04, 2022

Honorable Salvason Salvador
Chairman
Board of Directors
Small Business Guarantee & Finance Corp.
Kolonias, Pohnpei State, FM 96941

Maing Chairman Salvador:

Kalahngan en komwi for the timely response to our POPA's Financial Audit Report conclusions and findings concerning the Corporation's fiscal activities for the fiscal year 2021. Please find below our reply.

Finding No. 2021-001: Please note that this finding will remain as a going concern for the reasons discussed during our audit exit conference, as generally outlined below:

- 1) When our audit team commenced the Corporation's financial audit for fiscal year 2021 in January of 2022, we found that the financial statements and supporting schedules and accounts presented to POPA were not complete to facilitate timely review. These financial statements are the responsibility of the Corporation's management.
- 2) Our role, as the Corporation's external auditor, is to review and express an opinion as to whether the financial statements present fairly in all material respect, the financial position, results of operations, and cashflows of the Corporation in conformity with accounting principles generally accepted in the United States of America.
- 3) Because of the management's inability to prepare and present timely and reliable reports on the Corporation's financial affairs for the past years, we have not been able to complete the Corporation's annual financial audits on time as desired on scheduled. This has been a going concern since I joined the Audit Office about ten (10) years ago, and has negatively impacted our annual work plan and performance outputs in the past several years.


4) As a result, the SBG&FC management should be advised of the followings:

- a) On November 15, 2022, POPA will start audit of the Corporation's financial activities for the fiscal year 2022. This is about one and a half month after the closure of the fiscal year 2022, and should provide ample time for management to prepare and present complete and more reliable financial statements for our audit team's review. and,
- b) Management should initiate action necessary to identify, contract, and outsource the Corporation's external audit functions to a qualified accounting firm. Our POPA will not continue to provide this service should we find the fiscal year 2022 financial statements and records presented for our review are incomplete, as in the previous years.

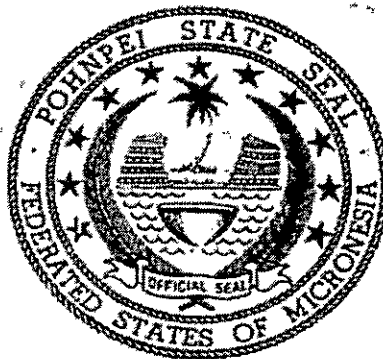
Again, thank you and we look forward to working closely with you and others in improving and strengthening the financial affairs and services of the Corporation in the coming years. In the meantime, please call us at POPA for assistance, if required.

With friendly greetings and warm regards, we are.

Sincerely,



Ihlen K. Joseph
State Auditor
Pohnpei



IMPORTANT MESSAGE

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

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P.O. Box 370
Kolonia, Pohnpei State, FM 96941
Phone (691) 320-2638
Hotline: (691) 320-8497 - (24/7)
E-mail: opsa_psa@mail.fm
Website: www.opapni.fm

MEHN KAPESEH KESEMPWAL

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

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