



# Office of the Public Auditor Pohnpei State Government

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September 14, 2018

Mr. Nicholson Solomon  
Director  
Department of Resources and Development  
Kolonias, Pohnpei 96941

And

Honorable Ryoichi Horie  
Ambassador Extraordinary & Plenipotentiary  
Embassy of Japan in the Federated States of Micronesia  
Kolonias, Pohnpei 96941

RE: Inspection Report No. IE 002-18 Project for Procuring Agricultural Tractors for Pohnpei State

Gentlemen:

We have conducted and completed an inspection of the "Project for Procuring Agricultural Tractors in Pohnpei". This report, number IE 002-18, presents the results of our review. The report also contains our recommendations for certain matters where we noted opportunities for improvement to ensure better accountability and transparency of the project and the related funds.

## **Introduction**

The Department of Resources and Development (R&D) – Division of Agriculture applied for and was granted \$84,990 by Japan Government through its Embassy in the Federated States of Micronesia. The purpose of the grant was to purchase two John Deere tractors and related implements for its Division of Agriculture's project. Besides progress reports, an independent review and the resulting report on the use of the grant is required after the completion of the project. R&D requested the Pohnpei Office of the Public Auditor to conduct a review of the grant.

## **Background**

The Pohnpei Department of Resources and Development (R&D) through its Division of Agriculture helps Pohnpei farmers, among other responsibilities, by providing services, products and implements necessary to maintain and increase the level of agriculture production in Pohnpei. One of its development targets is to increase and improve agricultural production to address food security issues as well as assist improve local farmers' prospects for cash income. Through Japan's grant assistance for "grassroots human security", R&D's Division of Agriculture obtained a fund to implement its project, the "Project for Procuring Agriculture Tractors in Pohnpei State". The purpose of the grant was to procure farm tractors and related equipment to assist accelerates land cultivation needs of the local farmers. The grant agreement was signed on October 31, 2017, by the Ambassador of Japan and the Governor of Pohnpei State formalizing the grant award contract between the two parties.

## **Objective, Scope and Methodologies**

The objective of the review was to determine whether R&D through its Division of Agriculture, expended the fund in accordance with the grant agreement and applicable laws and regulations of Pohnpei State. Our inspection was limited to the review of the "Project for Procuring Agriculture Tractors in Pohnpei State", management and administration of the related grant and does not include other areas of the Department of Resources and Development. To achieve our objective, we conducted interview, performed review of records and documentation, visited the site, verified and inspected the assets purchased with the grant. Our inspection was conducted in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspector General on Integrity and Efficiency (CIGIE).

## **On Site Visit**

During on-site inspection and review of the project on July 24, 2018, the auditors confirmed the existence of two agricultural tractors within the compound of the Division of Agriculture. The auditors noted that the two tractors are in good operable condition and that the assets are being rented out to the farmers for their use. However, the auditors also observed that both tractors have not been properly tagged (affixed with Government property identification label). Pictures of the tractors are attached as part of this report on pages 5 and 6 (Exhibits I and II).

## **Inspection Result**

Based on our inspection, inquiries and review performed from July 23 to August 31, 2018, we observed the following:

- 1) On October 12, 2017, Embassy of Japan approved the grant request of Department of Resources and Development-Division of Agriculture.
- 2) On October 31, 2017, a deposit was made to the Pohnpei State General Fund in the amount of \$84,990. On the same date, State Budget Office issued an Advice of Allotment and the Department of Resources and Development prepared a Requisition



- Form in the total amount of \$84,865 for overseas purchase of tractors and implements including related freight and wharfage.
- 3) The purchase was not let to bidding competition. For justification, per auditors' inquiry, the Chief of Agriculture represented that Fogg-It Nozzle is dependable, provides ideal farm equipment at reasonable price and delivery time. He said they have been dealing with the vendor numerous times, know it is responsible and Japan Embassy approved the company. The Audit Team checked with the local hardware stores that sell farm equipment. None of them sells the John Deere tractors or implements.
  - 4) On December 29, 2017, the Department of Resources and Development requested for 25% (\$21,216.25 of \$84,865 total price) advance payment to the vendor.
  - 5) On February 22, 2018, Pohnpei State sent by telegraphic transfer at Bank of Guam Pohnpei Branch an amount of \$21,216.25 to Fogg-It Nozzle Company Inc. For this wire transfer, \$106.08 was paid for bank charge.
  - 6) Invoice from Fogg-It Nozzle Company dated April 22, 2018 indicated an unpaid amount of \$63,648.75. Through our inquiry and review of the accounting records provided by the Department of Treasury and Administration (DOTA), we found out that the \$63,648.75 remaining balance of the tractors has not been paid. The assets arrived in Pohnpei on or around May 25, 2018.
  - 7) On May 31, 2018, Department of Resources and Development paid the wharfage fee for the two tractors out of R & D's account.
  - 8) In the grant application, rental fee was proposed at \$30 per hour. However, during our inquiry and review, we learned that Agriculture is charging a rate of \$25 per hour.
  - 9) The Division of Agriculture receives rental payments for the tractors, issue receipts and bring the collections to State Finance.
  - 10) Another visit and review on July 27, 2018, we noted that the two new tractors still have not been tagged by the Department of Treasury and Administration, and that the unpaid balance of \$63,648.75 was still outstanding.
  - 11) Another follow up review conducted on September 13, 2018 revealed that the outstanding balance for the tractors was paid through a telegraphic bank transfer dated August 7, 2018. In addition, the assets have been properly affixed with government property numbers.
  - 12) Final inquiry by the audit team on September 14, 2018 disclosed that the payment of \$63,648.75 has not been recorded in the books.

## **Conclusion**

The Department of Resources and Development –Division of Agriculture expended the grant properly in accordance with the provisions of the Grant Agreement between the Pohnpei State Government and Japan Embassy in the Federated States of Micronesia.

## Recommendation


In line with our review we noted room for improvement to further strengthen the management and administration of grants and related assets. Accordingly, we offer the following recommendations to the Department of Resources and Development to ensure that the Division of Agriculture should do the following:

- 1) Develops policies and procedures to govern the renting/using of the assets.
- 2) Follows (as appropriate) the assets maintenance plan to ensure longevity of assets' service life.
- 3) Collaborates with the Department of Treasury and Administration to make certain that the tractors and implements are properly recorded in the books and are added to the Capital Assets' Master List.
- 4) Makes and keeps a complete record and accounting of the project's related expenditures which should be kept for 5 years from the completion date of the project.

We appreciate very much the cooperation and the assistance extended to us by the Embassy of Japan in the Federated States of Micronesia, management and staff of the Department of Resources and Development, in particular personnel from the Division of Agriculture.

Please contact us at telephone number 320-2638 for any clarification relating to our report, if required.

With warm regards, I am,

  
for Ihlen K. Joseph  
Pohnpei State Auditor

cc: Governor, Pohnpei State  
Speaker, 9<sup>th</sup> Pohnpei Legislature  
Director, Department of Treasury and Administration



**EXHIBIT 1**



**Left side of tractor no 1.**



**Rear side of tractor no 1.**



EXHIBIT II



Rear side of tractor no.2 and partial right side of tractor no. 1



Rear side of tractor no.2