

**POHNPEI TRANSPORTATION AUTHORITY**  
**FINANCIAL AUDIT**  
**AUDIT REPORT NO. 002-19**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2018**



**OFFICE OF THE PUBLIC AUDITOR**

**P.O. BOX 370**  
**Kolonia, Pohnpei FSM 96941**  
**Tel. (691) 320-2638**  
**Email: [opsa\\_psa@mail.fm](mailto:opsa_psa@mail.fm)**

**POHNPEI TRANSPORTATION AUTHORITY  
AUDIT REPORT  
FISCAL YEAR ENDED SEPTEMBER 30, 2018**

**Table of Contents**

	<b><u>Page No.</u></b>
Executive Summary	i-iv
Independent Auditor's Report	1-2
Management Discussion and Analysis	3-4
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flow	7
Notes to the Financial Statements	8-14
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	16-17
Schedule of Findings and Recommendations	18-25
Exhibit I	26
Exhibit I - Auditee Response	27-28



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

P.O. BOX 370  
KOLONIA POHNPEI FM 96941  
TEL: (691) 320-2638/5407 FAX: (691) 320-2059  
WEBSITE: [WWW.OPSA.FM](http://WWW.OPSA.FM) E-MAIL: [opsa\\_psa@mail.fm](mailto:opsa_psa@mail.fm)

May 15, 2019

The Honorable Marcelo Peterson, Governor, State of Pohnpei  
The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature  
The Honorable Members of the Pohnpei State Legislature  
The Board of Directors, Pohnpei Transportation Authority  
Mr. Sadorino Martin, Commissioner, Pohnpei Transportation Authority

**EXECUTIVE SUMMARY**

We are pleased to submit the financial audit report of Pohnpei Transportation Authority (PTA) as of and for the year ended September 30, 2018. 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, and other laws enacted relative thereafter.

The objectives of our audit were:

1. The expression of an opinion concerning whether the financial statements present fairly, in all material respects, the financial position, result of operations, and cash flows of Pohnpei Transportation Authority as of September 30, 2018.
2. Reporting on the internal control relevant to an audit of the financial statements; and
3. Reporting on PTA's compliance with laws and regulations, which could have a material effect on the financial statements.

The highlights of the report are as follows:

- The financial statements present fairly, in all material respects, the financial position of the Pohnpei Transportation Authority, as of September 30, 2018, and the result of its operations, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.
- Operating revenues for the year was \$1,463,301, an increase by 38% or \$405,204 compared to prior fiscal year of \$1,058,097.
- Operating expenses has increased by 26% or \$355,484 from \$1,386,567 to \$1,742,051. 37% of the total operating expense was expended for payroll related costs. Supplies and Materials were increased by \$328,865 and POL expenses increased from \$183,390 to \$233,673 for the year.

- Net loss this year is \$278,750, a decrease by 15% or \$49,720 compared to prior year's loss.
- Due to Primary Government was increased by 19% or 259,471 from \$1,363,873 to \$1,623,344. This amount represents what PTA owes and needs to be reimbursed to the Pohnpei General Fund. In its collection effort, DOTA issued a memo on January 25, 2018, stating that 30% of all reimbursements received by PTA shall be credited to the General Fund until the accumulated advances are fully paid.

The audit cited three (3) material weaknesses in internal control over financial reporting and two (2) material instances of noncompliance with laws and regulations as follows.

1. Control Weaknesses in the Management and Accounting System. The following weaknesses were noted:
  - a) Seven (7) fixed asset items in the total amount of \$1,044,333 were not capitalized and included in the Property, Plant and Equipment account.
  - b) Accounts Payable
    - Six (6) instances where vendor/supplier records were not included in PTA's records for the fiscal year amounting to \$171,289.
  - c) Depreciation expense for the year of \$267,978 was not recorded.
  - d) Accounts Receivable
    - Based on PTA's records for the work performed during the emergency declared by the Governor in fiscal year 2018, the amount was overstated by \$33,369.
    - Seven (7) transactions for sales of aggregate sand and a rental of equipment by government entities amounting to \$4,211 were not included in the Accounts Receivable for the Fiscal Year.
    - Contracts for projects and services were not properly filed.
    - Status of Project, Job Order files and related supporting documents were not adequately maintained and were incomplete.
  - e) Various items in the expense account that were misclassified and were not detected.
2. Office files and record keeping management needs improvement. The following conditions were noted:

*PTA files*

- Job order files and related supporting documents for Other Revenues are not complete.
- Annual leave and sick leave records were still not properly updated and properly filed; and,
- No vendor files were found during our visit.

*State Finance files*

- Two (2) instances where assigned checks were different from the supporting documents; and,

- Two (2) instances of voided travel transactions where amounts still included in the total travel and transportation expense of PTA.
3. PTA failed to follow its own policy and procedures. During our review of PTA's revenues, we found the following:

*Aggregate and Sand Sales (52 samples)*

- Fifteen (15) instances of sales with missing job orders.
- Eight (8) job orders not signed by the Commissioner.
- Seventeen (17) instances where pro-forma invoice was not attached to the job order.
- Thirty-three (33) instances where customer did not sign the job order as proof of delivery.
- Three (3) instances where receipt is not attached with the job order.
- Two (2) instances of voided transactions but still filed.

*Equipment Rentals (32 samples)*

- Thirteen (13) instances of transactions with missing job orders.
- Six (6) job orders not signed by the Commissioner.
- Ten (10) instances where pro-forma invoice was not attached with the job order.
- Twenty (20) instances where customer did not sign the job order as a proof of delivery.
- Two (2) instances where receipt is not attached with the job order.

*Other Revenue (18 samples)*

- Eight (8) instances of sales with missing job orders.
  - One (1) job order not signed by the Commissioner.
  - Ten (10) instances where pro-forma invoice was not attached to the job order.
  - Five (5) instances where customer did not sign the job order as proof of delivery.
4. Not-Complying with Financial Management Regulation. Our review of disbursements disclosed the following:
- One (1) transaction that was paid before the issuance of Purchase Order.
  - One (1) transaction where delivery of services was made before the issuance of a MS Form and approval of a Purchase Order.
  - One (1) transaction where the required PO and requisition form were certified after committing government funds.
  - One (1) instance where payment was not timely.
  - One (1) transaction where the Travel Voucher was submitted 20 days after the completion of the trip.
5. Unresolved Prior Year's Findings. Management has not appropriately resolved all prior year audit findings. The non-resolution of the prior year audit findings is not in compliance with Pohnpei State Law No. 5L-08-00, and also will continue to affect the effective maintenance of PTA's internal control system. Outstanding findings from prior year are as follows:


1. Finding No. 14-001 - Inventory control system and record keeping needs improvements.
2. Finding No. 14-002 - Property Management Accountability – A Property Maintenance Plan needs to be developed and implemented.
3. Finding No. 17-003 – Non-Compliance of Pohnpei Law - Commissioner should not allow PTA employees to use the newly acquired vehicles until such time that a legally obtained plate number is attached to the vehicles.

A draft of this report was provided to and discussed with the management of PTA and the auditee's response is included hereto as Exhibit I on pages 27 to 28.

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

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

Sincerely,



Iso, Ihlen Joseph  
State Public Auditor



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

P.O. BOX 370

KOLONIA POHNPEI FM 96941

TEL: (691) 320-2638 FAX: (691) 320-2059

WEBSITE: [WWW.OPSA.FM](http://WWW.OPSA.FM) E-MAIL: [opsa\\_psa@mail.fm](mailto:opsa_psa@mail.fm)

### **INDEPENDENT AUDITOR'S REPORT**

Mr. Robert Hadley  
Chairman  
Board of Directors  
Pohnpei Transportation Authority  
Kolonia, Pohnpei State, FM 96941

We have audited the accompanying statement of net assets of Pohnpei Transportation Authority (PTA), a component unit of the State of Pohnpei, as of September 30, 2018, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of PTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PTA, as of September 30, 2018, and the result of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that PTA will continue as a going concern. As discussed in Note 6 to the financial statements, the agency has suffered recurring losses from operations during the prior years. In spite of large and long overdue non-current liability, PTA's current operating expenses also significantly increased. Management's plans in



regard to these matters are also described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019, on our consideration of PTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Ihlen K. Joseph  
State Auditor  
15 March 2019



# POHNPEI TRANSPORTATION AUTHORITY

## Management's Discussion and Analysis

Year Ended September 30, 2018

This section of the Pohnpei Transportation Authority's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2018. This MD&A is prepared in compliance with the GASB 34 requirement. Readers are requested to read this MD&A in conjunction with the PTA's financial statements, which follows this section.

### Financial Highlights

- Operating revenues for the year was \$1,463,301, an increase by 38% or \$405,204 compared to prior fiscal year of \$1,058,097.
- Operating expenses increased by 26% or \$355,484 from \$1,386,567 to \$1,742,051. 37% of the total operating expense was expended for payroll related costs. Supplies and materials were increased by \$328,865 and POL expenses increased from \$183,390 to \$233,673 for the year.
- PTA incurred an operating loss of \$278,750, which is a decrease of 15% or \$49,720 compared to prior year's loss.
- Net assets for the year is \$1,066,444, an increase of \$615,301 from prior year.
- Due to Primary Government was increased by 19% or \$259,471 from \$1,363,873 to \$1,623,344. In its collection effort, DOTA issued a memo on January 25, 2018, stating that 30% of all reimbursements received by PTA shall be credited to General Fund to pay for the liability.

### Financial Statements Preparation

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

### Financial Analysis

The Statement of Net Asset presents information on all of the PTA's assets and liabilities, with the difference between the two is reported as net assets if assets are higher than liabilities, otherwise it is reported as net liabilities. Presented below is the comparative change in net assets(liabilities) as of fiscal years ended September 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Increase (decrease)</u>	<u>%tage Inc(dec)</u>
Current assets	\$ 311,899	\$ 194,148	\$ 117,751	61%
Non-current assets	<u>2,494,649</u>	<u>1,718,294</u>	<u>776,355</u>	45%
	<u>2,806,548</u>	<u>1,912,442</u>	<u>894,106</u>	47%
Other liabilities	116,760	97,426	19,334	20%
Due to primary government	<u>1,623,344</u>	<u>1,363,873</u>	<u>259,471</u>	19%
Total liabilities	<u>1,740,104</u>	<u>1,461,299</u>	<u>278,805</u>	19%
Net Asset (Deficit)	<u>\$ 1,066,444</u>	<u>\$ 451,143</u>	<u>\$615,301</u>	136%

## POHNPEI TRANSPORTATION AUTHORITY

### Management's Discussion and Analysis

Year Ended September 30, 2018

#### Operating Activities

The fundamental responsibility of PTA is to plan, develop, construct or maintain public roads. During the year, there were some projects from municipal, state and congress which were awarded or allotted to PTA. The following table summarizes the comparative net income for fiscal years ended September 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Inc (dec)</u>	<u>Inc (dec)</u>
Operating revenues	\$1,463,301	\$ 1,058,097	\$ 405,204	38%
Operating expenses	<u>1,742,051</u>	<u>1,386,567</u>	<u>355,484</u>	26%
Net income (loss)	<u>\$(278,750)</u>	<u>\$ (328,470)</u>	<u>\$ 49,720</u>	15%

#### Budget

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

#### Financial Contact

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

# POHNPEI TRANSPORTATION AUTHORITY

## Statement of Net Assets September 30, 2018 (With comparative totals for September 30, 2017)

<u>ASSETS</u>	2018	2017
Current assets:		
Accounts receivable, net (note 2)	\$ 60,437	\$ -0-
Travel Advances	6,536	2,738
Inventory, at cost	193,085	191,410
Advances to Suppliers	51,840	-0-
Total Current Assets	<u>\$ 311,899</u>	<u>\$ 194,148</u>
Property and equipment, net (note 3)	<u>2,494,649</u>	<u>1,718,294</u>
TOTAL ASSETS	<u><u>\$ 2,806,548</u></u>	<u><u>\$ 1,912,442</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 80,979	\$ 62,689
Accrued payroll	24,530	23,486
Accrued vacation leave	8,077	8,077
Deferred revenue	3,174	3,174
Total Current Liabilities	<u>\$ 116,760</u>	<u>\$ 97,426</u>
Non-current Liabilities:		
Due to primary government (note 4)	<u>\$ 1,623,344</u>	<u>\$ 1,363,873</u>
Total Non-Current Liabilities	<u>\$ 1,623,344</u>	<u>\$ 1,363,873</u>
Total Liabilities	<u>\$ 1,740,104</u>	<u>\$ 1,461,299</u>
Contingencies (note 5)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 2,494,649	\$ 1,718,294
Unrestricted	( <u>\$ 1,428,205</u> )	( <u>1,267,151</u> )
Total Net Assets (Liabilities)	<u>\$ 1,066,444</u>	<u>\$ 451,143</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,806,548</u></u>	<u><u>\$ 1,912,442</u></u>

See accompanying notes to financial statements.

# POHNPEI TRANSPORTATION AUTHORITY

## Statement of Revenues, Expenses, and Changes in Net Assets

September 30, 2018

(With comparative totals for September 30, 2017)

	2018	2017
<b>Operating Revenues:</b>		
Construction Services	\$ 1,378,588	\$ 881,622
Aggregates & Sand Sales	36,309	20,322
Equipment Rental	5,744	4,930
Other Revenues	<u>42,660</u>	<u>151,223</u>
<b>Total Operating Revenues</b>	<b><u>\$ 1,463,301</u></b>	<b><u>\$ 1,058,097</u></b>
<b>Operating Expenses:</b>		
Salaries and wages	\$ 650,749	\$ 618,725
Supplies and materials	412,577	83,712
POL	233,673	183,390
Communications	2,744	4,784
Rental Services	96,191	19,179
Depreciation	267,978	354,435
Bad Debts	-0-	2,924
Utilities and water	8,122	7,581
Freight and Port Charges	49,362	61,168
Misc. Goods and Services	11,374	8,142
Travel	8,890	42,221
Repairs and Maintenance	<u>389</u>	<u>3,051</u>
<b>Total Operating Expenses</b>	<b><u>\$ 1,742,051</u></b>	<b><u>\$ 1,386,567</u></b>
<b>Operating Income (Loss)</b>	<b>\$ (278,750)</b>	<b>\$ (328,470)</b>
Non-operating revenues (expenses):	- 0 -	- 0 -
<b>Net Income (Loss)</b>	<b>(278,750)</b>	<b>\$ (328,470)</b>
Add: (Less) Adjustment that affect Net Loss	1,475	109,860
Contributed Capital	<u>892,576</u>	<u>2,035,940</u>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ 615,301</b>	<b>\$ 1,817,329</b>
<b>Net Assets (Liabilities), beginning of year</b>	<b><u>451,143</u></b>	<b><u>( 1,366,186)</u></b>
<b>Net Assets (Liabilities), end of year</b>	<b><u><u>\$ 1,066,444</u></u></b>	<b><u><u>451,143</u></u></b>

See accompanying notes to financial statements.

## POHNPEI TRANSPORTATION AUTHORITY

### Statement of Cash Flows September 30, 2018

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

Loss from operations	\$ (278,750)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	267,978
Changes in assets and liabilities:	
Increase in accounts receivable	(60,437)
Increase in Travel Advances	(3,798)
Increase in Inventories	(1,675)
Increase in Advances to Suppliers	(51,840)
Increase in accounts payable	18,290
Increase in accrued payroll	1,043
Increase in due to primary government	<u>259,471</u>
Sub-total	\$ 150,281
Add: (Less) Adjustment that affect net income	
Increase in liability/Decrease in net assets	<u>1,475</u>
<b>Net cash provided (used) by operations</b>	<b>\$ 151,757</b>
<b>Cash Used for acquisition of property and equipment</b>	<b><u>(\$ 1,044,334)</u></b>
Contributed Capital	892,576
<b>Cash Provided by Financing Activities</b>	<b><u>\$ 892,576</u></b>
Net increase (decrease) in cash and equivalents	\$ - 0 -
Cash and equivalents at beginning of year	<u>- 0 -</u>
Cash and equivalents at end of year	<u><u>\$ - 0 -</u></u>

See accompanying notes to financial statements.

## POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements  
September 30, 2018

### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

#### B. Basis of Accounting

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

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

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

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

Net Assets

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

- Invested in capital assets, net of related debt:

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

- Restricted:

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

- Unrestricted:

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

C. Budget

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

D. Inventory

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

E. Property and Equipment

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



## POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements  
September 30, 2018

### F. Compensated Absences

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

### G. Capital Contributions

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

### H. Management Estimates

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

### I. Risk Management

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

### J. New Accounting Standards

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

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap

counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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

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

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

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

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

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

In April 2012, GASB issued Statement No. 66, *Technical Corrections- 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

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

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

In March 2016, GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement 82 are effective for financial statements for periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. Management has not yet determined the effect of implementation of these statements on the financial statements of PTA.

(2) ACCOUNTS RECEIVABLE

Accounts Receivable represents amounts owed by the State of Pohnpei related to restoration of roads and culverts during the "emergency period" declared by the Governor per Emergency Declaration 18-02; and, by the FSM National Government related to sales of corals and equipment rental. Summary at September 30, 2018 is as follows:

Accounts receivable-Pohnpei State	\$	52,427
Accounts Receivable-FSM National		4,211
JV180275		3,799
Accounts receivable, net	\$	<u>60,437</u>

(3) PROPERTY AND EQUIPMENT

A summary of the PTA's property and equipment at September 30, 2018 follows:

	Estimated Useful Life	Balance October 1, 2017	Additions/Adj.	Deletions/Adj.	Balance September 30, 2018
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	2,001,789	1,013,576	-	3,015,365
Vehicles	5 years	80,383	21,795	-	102,178
Furniture and fixtures	3 years	14,745	-	-	14,745
Machinery and tools	2 years	7,337	8,962	-	16,299
		<u>\$ 2,174,254</u>	<u>\$ 1,044,333</u>	<u>\$ -</u>	<u>\$ 3,218,587</u>
Less accumulated depreciation		(455,960)	(267,978)	-	(723,938)
Property and equipment, net		<u>\$ 1,718,293</u>	<u>\$ 776,355</u>	<u>\$ -</u>	<u>\$ 2,494,649</u>

(4) DUE TO PRIMARY GOVERNMENT

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

Balance as of October 1, 2017	\$ 1,363,873
Increase (decrease) in the account as reflected in	
Cash Flow Statement	<u>259,471</u>
Balance as of September 30, 2018	<u>\$ 1,623,344</u>

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

PTA is planning to pay the liability whenever it has available funds. In its collection effort, DOTA issued a memo dated January 25, 2018, stating that 30% of PTA's revenue received from contract services shall be credited to General Fund to pay for the liability. However, the Board has not yet approved this arrangement.

(5) CONTINGENCIES

Pohnpei Transportation Authority is a party to six legal proceedings. The Office of the Attorney General provides general legal assistance to the Authority. In addition to the assistance provided to PTA, a substantial amount of time is also spent on civil cases in litigation at the Pohnpei State Supreme Court and the FSM National Supreme Court. At the beginning of FY 2016, there were six (6) civil cases handled by the Office of the Attorney General on behalf of PTA. In one (1) of the civil cases, PTA may have to pay damages pursuant to Title 58 of the Pohnpei Code. However, no provision for any liability that may result from these court cases has been made in the accompanying financial statements.

(6) GOING CONCERN

PTA has incurred significant amount of losses from operations during the fiscal year. The balance of the due to primary government by the end of fiscal year 2018 was \$1,623,344. The balance of net assets as of the end of the FY 2018 was \$1,066,444.

The Authority was able to improve its net assets this year but was unable to generate sufficient revenues for operations. Management plan to secure more projects to generate revenues and to control operation expenses in order to prevent operating loss and be able to pay for its non-current liabilities.

**POHNPEI TRANSPORTATION AUTHORITY**

---

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

---

**YEAR ENDED SEPTEMBER 30, 2018**

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

P.O. BOX 370  
KOLONIA POHNPEI FM 96941  
TEL: (691) 320-2638 FAX: (691) 320-2059



WEBSITE: [WWW.OPSA.FM](http://WWW.OPSA.FM) E-MAIL: [opsa\\_psa@mail.fm](mailto:opsa_psa@mail.fm)

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

Mr. Robert Hadley  
Chairman  
Board of Directors  
Pohnpei Transportation Authority  
Kolonias, Pohnpei State, FM 96941

We have audited the financial statements of Pohnpei Transportation Authority (PTA), as of and for the year ended September 30, 2018, and have issued our report thereon dated March 15, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered PTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as finding numbers 18-001 and 18-003 on pages 18 to 22.

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



not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are material weaknesses.

## **Compliance**

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

The results of our tests disclosed material instances of noncompliance that we are reporting to the management in the accompanying Schedule of Findings and Recommendations in finding numbers 18-004 through 18-005 on pages 22 to 25.

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

Sincerely,



Ihlen K. Joseph  
State Auditor  
15 March 2019

## POHNPEI TRANSPORTATION AUTHORITY

### Schedule of Findings and Recommendations Fiscal Year Ended September 30, 2018

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

##### Criteria:

Pohnpei Transportation Authority as a government enterprise fund (self-supporting entity) must have a suitable accounting system in place to effectively manage, support, record and report on its financial matters and related functions in accordance with applicable laws and regulations, policies and procedures and/or best practice. Monitoring and reconciling of accounts and reports with State Finance should be an integral part of PTA's accounting system to ensure accuracy of account balances and financial reports.

##### Condition:

PTA does not have any employee (s) capable of accurately interprets, records, maintains supporting documents and properly reports on its financial activities. Its accounting and financial reporting is currently handled by the State Finance. Even with this arrangement, PTA is not reviewing, reconciling or monitoring its accounts and coordinating with State Finance so that appropriate updates and corrections can be made of its financial records and reports.

After the Comptroller left PTA in September 2018, there is no other qualified staff to ensure appropriate records are prepared and maintained and regular reconciliation and monitoring of accounts and financial reports are performed. Having no qualified personnel to perform accounting and financial related duties has been a constant problem that management has not been able to resolve successfully.

We found the following during our review:

1. Seven (7) fixed asset items in the total amount of \$1,044,333 were not capitalized and included in the Property, Plant and Equipment account.
2. Accounts Payable
  - Six (6) instances where vendor/supplier records were not included in PTA's records for the Fiscal Year amounting to \$171,289.
3. Depreciation expense for the year of \$267,979 was not recorded.
4. Accounts Receivable
  - Based on PTA's records for the work performed during the emergency declared by the Governor in fiscal year 2018, the amount was overstated by \$33,369.
  - Seven (7) transactions for sales of aggregate sand and a rental of equipment by government entities amounting to \$4,211 were not included in the Accounts Receivable for the Fiscal Year.
  - Contracts for projects and services were not properly filed.

- Status of Project, Job Order files and related supporting documents were not adequately maintained and were incomplete.

5. Various items in the expense account that were misclassified and were not detected.

Cause:

There is inadequate management oversight and attention over PTA's financial and accounting related activities. Moreover, current employees with related duties were not helping organizing and maintaining supporting files and records to assist in recording transactions and updating accounts.

Effect:

As a result, the auditor proposed twenty-eight (28) adjusting entries for the year amounted to more than \$1.5M. The condition can result to potential misstatement of the financial statements that may not be detected.

Recommendation:

We recommend that the Board should take this matter seriously and work with the Commissioner to resolve the situation. The Board should ensure that the Commissioner recruits a qualified person to carry out the accounting and financial reporting functions of PTA. We also recommend that the current personnel should be trained to perform the duties that are also in line with their responsibilities, such as preparing and maintaining appropriate records and performing regular reconciliation and monitoring of PTA's accounts.

At the very least, the Commissioner should also take the following actions:

1. Establish policies and procedures for Accounts Receivable and Accounts Payable.
2. Direct appropriate personnel to prepare the aging report of Accounts Receivable. The report should provide the status of customers' accounts. PTA can use the report to identify potential collection problems early so that appropriate actions can be taken to prevent or minimize the number of accounts becoming bad.
3. Assign a staff and make sure that monthly reconciliation of Accounts Payable is performed. This is to keep account balances updated and accurate and also to help in detecting errors.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I on page 27 to 28 of this report.

**Finding No. 18-002 Office Files and Record Keeping Management Needs Improvement**

Criteria:

Good practice requires a suitable system for maintenance of records with effective and organized filing method to ensure that organization's pertinent files, documents, data, etc., are safeguarded and kept for management's use and reference. Pohnpei Transportation Authority (PTA), as part of

its responsibilities servicing the government and public should have an organized system of files and an effective record keeping documenting the various activities and services it provides.

Condition:

During the audit we found that PTA still has not improved its filing and record keeping management. Our review and interview of personnel revealed the following weaknesses:

*PTA files*

- Job order files and related supporting documents for Other Revenues are not complete.
- Annual leave and sick leave records were still not properly updated and properly filed; and,
- No vendor files were found during our visit.

*State Finance files*

- Two (2) instances where assigned checks were different from the supporting documents; and,
- Two (2) instances of voided travel transactions where amounts still included in the total travel and transportation expense of PTA.

Cause:

The causes of the condition were attributed to the following:

1. No clear policy and procedures in place with regards to PTA filing system.
2. Staffs were not adequately supervised.
3. Lack of appropriate education and training of staffs; and,
4. PTA is dependent on records from State Finance to serve as files instead of creating and maintaining its own records.

Effect:

As a result of poor filing and record management system, PTA could not properly monitor its activities or rely on its own office records and reports. Without proper and adequate record keeping system, PTA management cannot and will not meet its accountability requirements and cannot manage the Authority's needs appropriately. The condition can also results to bad image for PTA and does not leave adequate audit trail or accessibility to pertinent records and documents. In addition to this, poor filing system leads to improper monitoring of employee's matters such as vacation and sick leave balances, trainings and skill enhancement to name a few.

Recommendation:

We recommend that the Commissioner should ensure that:

1. Duties and responsibilities are clearly written and explained to staffs. It should be outlined in job descriptions and confirm by the employees if they understand those job descriptions.
2. Supervisors to ensure that staff work is properly supervised and that important records and reports are properly kept and maintained.
3. Management to prioritize training of staffs to strengthen and improve work quality, work habits, expand knowledge and improve competencies.
4. Management to consider in the recruitment process the competency of applicants and appropriate education as one of the criteria for hiring.

5. Management to establish a good filing system to help ensure pertinent records are maintained and kept safe for subsequent use and ready reference, and to leave adequate audit trail. This would save time and contribute to work efficiency. PTA then would not need to borrow another office files for its use.

Prior Year Status:

This finding was a reportable condition in the prior year's audit.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I on page 27 to 28 of this report.

**Finding No. 18-003 PTA failed to follow its own policy and procedures.**

Criteria:

PTA policy and procedures requires the following:

1. Issuance of Pro-Forma Invoice.
2. Customer will pay at State Finance based on the amount stated in Pro-Forma Invoice.
3. Receipts issued by State Finance will be attached to Job Order approved by the Commissioner.
4. Job Order should be signed and approved by the Commissioner and signed by customer as a proof of delivery of services or corals.

Condition:

During our review of PTA's revenues, we found the following:

*Aggregate and Sand Sales (52 samples)*

- Fifteen (15) instances of sales with missing job orders.
- Eight (8) job orders not signed by the Commissioner.
- Seventeen (17) instances where pro-forma invoice was not attached to the job order.
- Thirty-three (33) instances where customer did not sign the job order as proof of delivery.
- Three (3) instances where receipt is not attached with the job order.
- Two (2) instances of voided transactions but still filed.

*Equipment Rentals (32 samples)*

- Thirteen (13) instances of transactions with missing job orders.
- Six (6) job orders not signed by the Commissioner.
- Ten (10) instances where pro-forma invoice was not attached with the job order.
- Twenty (20) instances where customer did not sign the job order as a proof of delivery.
- Two (2) instances where receipt is not attached with the job order.

*Other Revenue (18 samples)*

- Eight (8) instances of sales with missing job orders.
- One (1) job order not signed by the Commissioner.
- Ten (10) instances where pro-forma invoice was not attached to the job order.

- Five (5) instances where customer did not sign the job order as proof of delivery.

Cause:

PTA employees do not fully understand the importance of following policies and procedures. This condition can also be attributed to carelessness and inattention of responsible employee(s).

Effect:

The condition can lead to sales being questioned for lack of proper documentation and may result in loss of revenues. Also, by not following policies and proper procedures, mistakes in the process are not identified and addressed timely. Even more significantly, the condition can put PTA in a vulnerable position where it is susceptible to irregularities including misuse or misappropriation of funds.

Recommendation:

We recommend that the Commissioner should communicate to and ensure that all employees understand the following:

- policies and procedures including the importance of abiding by them and the implications of not following (both to the employee and to PTA);
- their respective duties and responsibilities, as well as what is expected of them and what they can expect from management.

The Commissioner should also implement effective review process and oversight on PTA's operation. Employees must be appropriately supervised and financial records and reports are properly maintained, reviewed, and reconciled to enable preparation of financial statements.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I on page 27 to 28 of this report.

**Finding No. 18-004 Not complying with FMR**

Criteria:

Pohnpei Financial Management Regulation (FMR) 6.5 provides that each initiating agency shall be responsible for the preparation of requisition. Once prepared and approved by the appropriate allottee, the requisition shall be submitted to the Director or his/her designee to determine the cost of the supplies, personal property or services to be procured and certify and approved that the procurement is in compliance with, or not subject to open competitive bidding. The Director or his/her designee may accept no less than three price quotations from the purchasing government agencies.

Condition:

Our review of disbursements disclosed the following:

- One (1) transaction that was paid before the issuance of Purchase Order.
- One (1) transaction where delivery of services was made before the issuance of a MS Form and approval of a Purchase Order.
- One (1) transaction where the required PO and requisition form were certified after committing government funds.
- One (1) instance where payment was not timely.
- One (1) transaction where the Travel Voucher was submitted 20 days after the completion of the trip.

Cause:

The condition is caused by inadequate supervisory and oversight review of documentation supporting transactions. This also reflects laxity and carelessness of management in its responsibility to ensure compliance with applicable regulations, policies and procedures.

Effect:

The condition can lead to delivery or payment of unauthorized service or sale which ultimately may result to loss of PTA's funds:

Recommendation:

We recommend that the Commissioner should instruct all PTA employees regardless of position to faithfully follow applicable regulations, policies and procedures to ensure that PTA is safeguarded against potential irregularities including loss of funds. The Commissioner must also direct supervisors to review and monitor employees work to ensure duties and responsibilities are done right. We also recommend that the Commissioner should not approve purchases or payment transactions that are not properly supported, justified and/or reasonable.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I on page 27 to 28 of this report.

**Finding No. 18-005 Unresolved Prior Year's Findings:**

Criteria:

Pursuant to Pohnpei State Law No. 5L-08-00, the Authority is required to submit to the Public Auditor a report on 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 Implementation of Recommendation	Auditor's Remarks
<b>Finding No. 14-001 Inventory control system and record keeping needs improvement</b>  Key staffs assigned to maintain inventory records must be properly trained. Ensure that reports prepared by staffs are reviewed by supervisors.	Management still has not improved the inventory control system and records were not properly maintained.	There is little improvement in PTA filing system especially with regards to contract, but it also needs to improve filing system for other important files. With the help of a competent employee (e.g., a Comptroller) PTA can improve the inventory control system and the filing system.
<b>Finding No. 14-002 Property Management Accountability</b>  Management should prepare a list of property and equipment as well as a schedule showing depreciation expense, accumulated depreciation, and book value. An annual inventory of fixed assets needs to be conducted.	Management through their Accountant was able to update the Fixed Assets Register for fiscal year 2018.	Through Comptroller schedule auditor was able to update the Fixed Asset Schedule for FY 2018.
<b>Finding 17-003 Non-Compliance of Pohnpei Law</b>  Commissioner should not allow PTA employees to use the newly acquired vehicles until such time that a legally obtained plate number is attached to the vehicles.	PTA is still doing this with one of its vehicle.	Commissioner must be cognizant of potential implication of this matter or the risk problems may arise as a result of this matter.

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 PTA's interest.

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 PTA's compliance with applicable laws and regulations.

Recommendation:

We recommend the Board of Directors to direct the Commissioner to resolve all prior years' audit findings. The Board should ensure that the Commissioner develops and implements suitable corrective measures that would satisfactory resolve the audit findings to improve the internal control system and compliance issues of PTA.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I on page 27 to 28 of this report.

**POHNPEI TRANSPORTATION AUTHORITY**

---

**AUDITEE RESPONSE (EXHIBIT I)**

---

**YEAR ENDED SEPTEMBER 30, 2018**



POHNPEI TRANSPORTATION AUTHORITY



P.O. Box 36

Kolonia, Pohnpei

EASTERN CAROLINE ISLANDS 96941

Cable Address: PTA POHNPEI

Telephone: (691) 320-2377/2148

Fax: (691) 320-5534

May 09, 2019

Hon. Ihlen K. Joseph  
Public Auditor  
Office of the Public Auditor  
Kolonia Pohnpei FSM 96941

Audit Response FY2018

Dear Mr. Joseph,  
Mwohn ei pahn doula, ah I men wia ei tungoal sakaradahn wahu ohng komwi oh sapwelimoamwi kan koaros.

Eri met iei ei tungoal response ohng findings Kan me pato nan audit en en, FY18.

**Finding 001-18 Control Weakness in the management and Accounting System**

The Management of PTA concurs with findings 001-18. We have submitted a opened position for certified accountant after the left of the prior accountant and finally the PL&M just approved to PTA hired a new certified accountant during the Month of April 24, 2019 so that he control all the Accounting system and the control accounting weaknesses in the Authority.

**Findings 002-18 Office Files and Record Keeping Management Needs Improvement**

The management of PTA concurs with the findings and recommendations presented by the State Auditor. The management submitted to hire a new competent Account and finally on April 24, 2019, A new accountant was hired and the management instructed office staffs to work with the new accountant to resolve the reoccurring problem. In the interim, the Management will designate appropriate staff to maintain office files.

**Finding 18-003 Failed to follow its own policy and procedures.**

The management of PTA will strongly implement that all staffs of PTA to follow the policy and procedures of PTA .

**Finding 18-004**

The management of PTA will implement strongly to all PTA employees regardless of position to follow applicable regulations, policies, and procedures faithfully to ensure safeguard of PTA. The management will take this action seriously to direct supervised on all duties and responsibilities to be done accordingly, this includes purchases or payment of transactions that are not properly supported, justify and/or reasonable.

**Findings 14-003**

**14-001 Inventory Control System and record keeping needs Improvement**

**>See response 002-18**

**14-002 Property Management Accountability**

**>See response 001-18**

**Finding 17-003-Non-compliances of Pohnpei Law**

In response to this finding, the management of PTA will implement strongly and correctively measure to all supervisor and employees to comply with Pohnpei Law to resolve finding 17-003.

Respectfully,

Ni Wahu,

  
Sadorino Martin  
Commissioner

Cc: Chairman of Board/ Robert Hadley