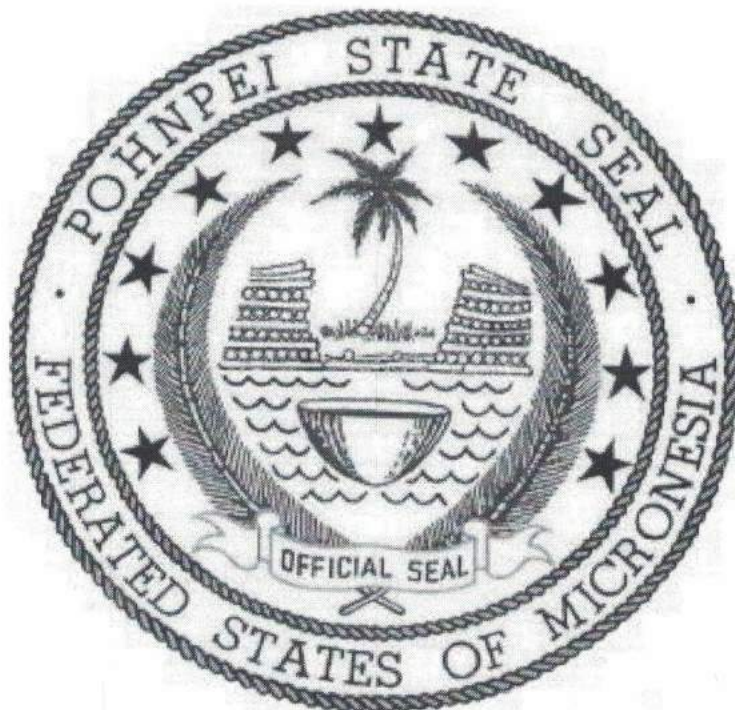


**POHNPEI TRANSPORTATION AUTHORITY
FINANCIAL AUDIT
FISCAL YEAR ENDED SEPTEMBER 30, 2019**

AUDIT REPORT NO. 003-20

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



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**POHNPEI TRANSPORTATION AUTHORITY
AUDIT REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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**OFFICE OF THE PUBLIC AUDITOR
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December 03, 2020

The Honorable Oliver Reed, Governor, State of Pohnpei
The Honorable Ausen T. Lambert, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Board of Directors, Pohnpei Transportation Authority
Mr. Welson Panuel, 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, 2019. 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, 2019.
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 Authority received a qualified opinion on its financial statements for the fiscal year ended September 30, 2019 due to lack of oversight, insufficient revenues, and its inability to pay for a long overdue liability to the State Government. The situation indicates that a material uncertainty exists that may cast significant doubt on PTA's ability to continue as a going concern. Also, PTA did not disclose to the auditors one of the sites where its

dyke inventory were being mined/dredged. Thus, the auditors did not observe and confirm the inventory of dykes, if any, at this particular site.

- Operating revenues for the year was \$1,206,737, a decrease by 18% or \$256,564 compared to prior fiscal year of \$1,463,301.
- Operating expenses has increased by 4% or \$63,887 from \$1,742,051 to \$1,805,938. 44% of the total operating expense was expended for payroll related costs. Supplies and Materials have decreased by \$91,363 and POL expenses increased from \$233,673 to \$251,604 for the year.
- Net loss this year is \$599,202, an increase by 115% or \$320,451 compared to prior year's loss.
- Due to Primary Government was increased by 4% or \$57,621 from \$1,623,344 to \$1,680,965. The amount represents what PTA owes the Pohnpei State General Fund.

The audit cited five (5) findings which are detailed on pages 17-27. Of the five (5) findings, three (3) are material weaknesses in the internal control over financial reporting and two (2) are material non-compliances with applicable laws, summarized as follows:

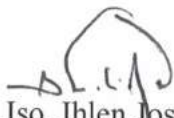
- Lack of oversight, poor management and deficient internal control system contributed to:
 - 1) Irregularities in PTA's dealings, payroll, and control activities; and,
 - 2) Non-compliances to applicable law and PTA's by-laws.

A draft of this report was provided to and discussed with the management of PTA and its response is included hereto as Exhibit I on pages 29 to 31.

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. We have omitted certain confidential information from our audit report, however, an investigation report detailing the matters have been submitted to the authorized parties for appropriate action.

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



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INDEPENDENT AUDITOR'S REPORT

Mr. Midion G. Neth
Chairman
Board of Directors
Pohnpei Transportation Authority
Kolonias, 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, 2019, 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.

Qualified Opinion

In our opinion, except for the possible effects of matters described in the basis for qualified opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of PTA, as of September 30, 2019, 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.

Basis for qualified opinion


As discussed in note nos. 4 and 6 to the financial statements, PTA has not been able to decrease its long overdue liability to the State Government since 2012 or obtain sufficient revenues to support its operation. This situation indicates that a material uncertainty exists that may cast significant doubt on PTA's ability to continue as a going concern. As discussed in Note 6 to the

financial statements, PTA has suffered recurring losses from operations during the prior years. In spite of a large and long overdue non-current liability (Note 4), PTA's current operating expense has also significantly increased without matching increase of revenues. In addition, we did not observe or confirm the inventory at one of the locations PTA conducted mining/dredging of dykes. Consequently, we were unable to determine whether any adjustment to the inventory amount was necessary. The financial statements do not include any adjustments that might have resulted from the outcome of the above uncertainties.

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.

Moreover, the Pohnpei Office of the Public Auditor initiated an investigation into allegations of possible fraud and abuse of power by the Authority's management/employee(s). The details of the matters are deemed confidential information and therefore have been omitted from the report. The case(s) have not been filed in the Pohnpei Supreme Court and the outcome is not known.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2020 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.


Iso Ihlen'K. Joseph
State Public Auditor
May 15, 2020

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

Year Ended September 30, 2019

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, 2019. This MD&A is prepared in compliance with the GASB 34 requirement. Readers are requested to read this MD&A in conjunction with the PTA's financial statements, which follows this section.

Financial Highlights

- Operating revenues for the year is \$1,206,737 a decrease of 18% or \$256,564 compared to prior fiscal year of \$1,463,301.
- Operating expenses has increased by 4% or \$63,887 from \$1,742,051 to \$1,805,938. 44% of the total operating expense was expended for payroll related costs. Supplies and Materials has decreased by \$91,363 and POL increased from \$233,673 to 251,604 for the year.
- PTA incurred an operating loss of \$599,202 which is an increase of 115% or \$320,451 compared to prior year's loss.
- Net assets for the year is \$656,567 a decrease of \$409,877 from prior year.
- Due to Primary Government was increased by 4% or \$57,621 from \$1,623,344 to \$1,680,965.

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, 2019 and 2018.

	<u>2019</u>	<u>2018</u>	<u>Increase (decrease)</u>	<u>%tage Inc(dec)</u>
Current assets	\$ 177,545	\$ 311,899	\$ (134,354)	(43%)
Non-current assets	<u>2,349,777</u>	<u>2,494,649</u>	<u>(144,872)</u>	(6%)
	<u>2,527,322</u>	<u>2,806,548</u>	<u>(279,226)</u>	(10%)
Other liabilities	189,790	116,760	73,030	63%
Due to primary government	<u>1,680,965</u>	<u>1,623,344</u>	<u>57,621</u>	4%
Total liabilities	<u>1,870,755</u>	<u>1,740,104</u>	<u>130,651</u>	8%
Net Asset (Deficit)	<u>\$ 656,567</u>	<u>\$ 1,066,444</u>	<u>\$ (409,877)</u>	(38%)

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

Year Ended September 30, 2019

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, 2019 and 2018.

	<u>2019</u>	<u>2018</u>	<u>Inc (dec)</u>	<u>Inc (dec)</u>
Operating revenues	\$ 1,206,737	\$ 1,463,301	\$ (256,564)	(18%)
Operating expenses	<u>1,805,939</u>	<u>1,742,051</u>	<u>63,888</u>	4%
Net income (loss)	\$ <u>(599,202)</u>	\$ <u>(278,750)</u>	\$ <u>(320,452)</u>	115%

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, 2019

(With comparative totals for September 30, 2018)

<u>ASSETS</u>	2019	2018
Current assets:		
Accounts receivable, net (note 2)	\$ 126,854	\$ 60,437
Travel Advances	4,889	6,536
Inventory, at cost	45,802	193,085
Advances to Suppliers	-	51,840
Total Current Assets	\$ 177,545	\$ 311,899
Property and equipment, net (note 3)	2,349,777	2,494,649
TOTAL ASSETS	\$ 2,527,322	\$ 2,806,548
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 177,866	\$ 80,979
Accrued payroll	673	24,530
Accrued vacation leave	8,077	8,077
Deferred revenue	3,174	3,174
Total Current Liabilities	\$ 189,790	\$ 116,760
Non-current Liabilities:		
Due to primary government (note 4)	\$ 1,680,965	\$ 1,623,344
Total Non-Current Liabilities	\$ 1,680,965	\$ 1,623,344
Total Liabilities	\$ 1,870,755	\$ 1,740,104
Contingencies (note 5)	\$ - 0 -	\$ - 0 -
Net Assets:		
Invested in capital assets, net of related debt	\$ 2,349,777	\$ 2,494,649
Unrestricted	(\$ 1,693,210)	(1,428,205)
Total Net Assets (Liabilities)	\$ 656,567	\$ 1,066,444
TOTAL LIABILITIES AND NET ASSETS	\$ 2,527,322	\$ 2,806,548

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets
September 30, 2019
(With comparative totals for September 30, 2018)

	2019	2018
Operating Revenues:		
Construction Services	\$ 1,096,957	\$ 1,378,588
Aggregates & Sand Sales	39,437	36,309
Equipment Rental	9,445	5,744
Other Revenues	<u>60,898</u>	<u>42,660</u>
Total Operating Revenues	<u>\$ 1,206,737</u>	<u>\$ 1,463,301</u>
Operating Expenses:		
Salaries and wages	\$ 708,862	\$ 650,749
Supplies and materials	321,214	412,577
POL	251,604	233,673
Communications	5,444	2,744
Rental Services	115,723	96,191
Depreciation	344,846	267,978
Bad Debts	-0-	-0-
Utilities and water	9,546	8,122
Freight and Port Charges	23,525	49,362
Misc. Goods and Services	11,443	11,374
Travel	7,440	8,890
Repairs and Maintenance	939	389
Non-Cap Furniture and Fixtures	2,559	
Non-Cap Equipment	2,723	
Total Operating Expenses	<u>\$ 1,805,939</u>	<u>\$ 1,742,051</u>
Operating Income (Loss)	\$ (599,202)	\$ (278,750)
Non-operating revenues (expenses):	- 0 -	- 0 -
Net Income (Loss)	(599,202)	\$ (278,750)
Add: (Less) Adjustment that affect Net Loss	- 0 -	1,475
Contributed Capital	<u>189,325</u>	<u>892,576</u>
Net Increase (Decrease) in Net Assets	\$ (409,877)	\$ 615,301
Net Assets (Liabilities), beginning of year	<u>1,066,444</u>	<u>451,143</u>
Net Assets (Liabilities), end of year	<u><u>\$ 656,567</u></u>	<u><u>1,066,444</u></u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Cash Flows
September 30, 2019

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

Loss from operations	\$ (599,201)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	344,846
Changes in assets and liabilities:	
Decrease in accounts receivable	(66,417)
Increase in Travel Advances	1,647
Increase in Inventories	147,284
Increase in Advances to Suppliers	51,840
Increase in accounts payable	96,886
Decrease in accrued payroll	(23,857)
Increase in due to primary government	<u>57,621</u>
Sub-total	\$ 10,649
Add: (Less) Adjustment that affect net income	
Increase in liability/Decrease in net assets	- 0 -
Net cash provided (used) by operations	\$ 10,649
Cash Used for acquisition of property and equipment	<u>(\$ 199,974)</u>
Contributed Capital	189,325
Cash Provided by Financing Activities	<u>\$ 189,325</u>
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>\$ - 0 -</u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2019

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

B. Basis of Accounting

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

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

Basis of accounting refers to the time when revenues and expenses are recorded in the accounts and reported in the financial statements. PTA utilizes the accrual basis of accounting which means that revenues are recorded when earned and expenses are recorded when the related liabilities are incurred, regardless 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, 2019

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

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.

(3) PROPERTY AND EQUIPMENT

A summary of the PTA's property and equipment at September 30, 2019 follows:

	Estimated Useful Life	Balance October 1, 2018	Additions/Adj.	Deletions/Adj.	Balance September 30, 2019
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	3,015,365	189,324	-	3,204,689
Vehicles	5 years	102,178	3,000	-	105,178
Furniture and fixtures	3 years	14,745	5,850	-	20,595
Machinery and tools	2 years	16,299	1,799	-	18,098
		<u>\$ 3,218,587</u>	<u>\$ 199,973</u>	<u>\$ -</u>	<u>\$ 3,418,560</u>
Less accumulated depreciation		<u>(723,938)</u>	<u>(344,845)</u>	<u>-</u>	<u>(1,068,783)</u>
Property and equipment, net		<u>\$ 2,494,649</u>	<u>\$ 144,872</u>	<u>\$ -</u>	<u>\$ 2,349,777</u>

(4) DUE TO PRIMARY GOVERNMENT

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

Balance as of October 1, 2019	\$ 1,623,344
Increase (decrease) in the account as reflected in	
Cash Flow Statement	<u>57,621</u>
Balance as of September 30, 2019	<u>\$ 1,680,965</u>

These advances continue to increase every year and PTA did not secure enough projects to have sufficient revenues to pay back the advances to Pohnpei State.

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

(5) CONTINGENCIES

Pohnpei Transportation Authority 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 2019 was \$1,680,965.

The Authority net assets decrease by 38% this year and 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. However, PTA operation expenses and non-current liabilities continue to rise for the past five (5) years and the plan projects or projected revenue were far beyond the actual revenue earned.

Due to the Financial provision of Compact of Free Association coming to end, FSM might be selective on projects which will affect the revenue generating income of PTA.

(7) Related Party Transaction

PTA and a government official hosted a meeting to welcome a company from Japan. The company assembled the asphalt plant in Palikir. The meeting was held at a diner which the government official is related to the owner. PTA paid \$889.95 for the space rental including the food.

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, 2019



POHNPEI STATE GOVERNMENT

OFFICE OF THE PUBLIC AUDITOR

P.O. BOX 370

KOLONIA, POHNPEI STATE, 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

Mr. Midion G. Neth
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, 2019, and have issued our report thereon dated May 15, 2020. 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 19-001 and 19-003 on pages 17 to 25.

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 19-004 and 19-005 on pages 25 to 27.

We did not include certain confidential information in the report due to the cases not been filed and litigated in the court of law. However, a report detailing the investigation and the matters have been submitted to the authorized parties.

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,



Isolhlen K. Joseph
State Public Auditor
May 15, 2020

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations Fiscal Year Ended September 30, 2019

Finding No. 19-001 Improper Dealings and Arrangements

Criteria:

Pohnpei State Government financial management laws and related regulations provide specific procedures for procurement of goods and services involving public funds and resources. As a state government entity, PTA must ensure that all its dealings, agreements and/or arrangements are in line with applicable laws, regulations, policies and procedures and sound management practices. All such matters should be accounted and documented in a transparent manner.

Condition:

During the audit we found arrangements and dealings involving the use of Pohnpei Transportation Authority's resources that were not in line with acceptable government rules and procedures and/or good business practice. For example:

- PTA entered into an arrangement with a public official (holding a dredging permit) to conduct dredging activity at Sapwohn, Sokehs Municipality. A written agreement was not developed specifying, among others, responsibilities and expectations of the parties. In addition, PTA did not disclose this fact to us and because of this, we were unable to observe and inspect the said location in order to determine inventory, if any. We also found an instance where coral sand was delivered to a private individual at the instruction of the public official free of charge. Similar service would have cost a regular customer about \$300.

We also found that PTA did not have a valid dredging permit but paid royalty fees of \$10,326 for the months of March, April, and May 2019. DOTA or Department of Land did not question the transfer of payments made from PTA's account to the Land of Trustees' account although there was no dredging permit or a contract in place.

PTA has been cited in the prior years' audits for providing goods and services without proper contracts in place that ultimately resulted to uncollected revenues and doing services on public officials' instructions using PTA's resources without payment.

PTA signed a Memorandum of Understanding (MOU) with one local private construction company for mining and dredging services. Per the MOU, PTA would use its construction equipment and personnel to dredge, transport and excavate dykes situated in Danpei, Sokehs Municipality in return for 50% of the dykes dredged from the site. PTA could not produce any documents showing that the returns it received justify the costs to dredge, excavate and transport the dykes (including labor and equipment use). The MOU was suddenly rescinded on May 29, 2020.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-001 Improper Dealings and Arrangements, Continued

Cause:

The condition is due to poor and reckless management who knowingly and willfully disregard adherence to the relevant laws, government rules, policies and procedures covering the administration and management of PTA and its resources. Ignoring acceptable government practices reflect management not committed to preventing errors, wrong doing, including corruption and unethical behavior.

Similar conditions keep reoccurring because over the years' PTA has underperformed, breached laws and regulations and has failed to correct material internal control weaknesses cited repeatedly in audit reports with little or no repercussion or administrative consequence from oversight/governing bodies. This lack of oversight and attention has emboldened and allowed management to operate and administer PTA's activities carelessly and irresponsibly outside of the government norms and sound management practice without regards to applicable government rules, ethical behavior and/or sound management practice.

Effect:

The condition subjected PTA to high risks of irregularities including revenue loss; exposed management/employees to improper government activities; and, encouraged and contributed to a workplace conducive to wrong doing including fraud, waste and abuse of PTA's resources.

Recommendation:

We recommend that the Board of Directors and all responsible oversight bodies should take appropriate actions to address PTA management/employees' conducts and their blatant disregard to established rules, procedures and practices acceptable in the government. The actions should also include directing the Commissioner to implement appropriate measures including but not limited to the following:

- Communicate to and ensure employees know and understand conducts and behaviors expected of government employees and the process/procedures for performing their duties and responsibilities properly and competently.
- Strengthen the internal control system to improve and safeguard PTA's operation from any and all irregularities, including the resolution of prior year's outstanding audit findings.

Auditee Response and Corrective Action Plan: Please refer to Exhibit I on pages 29 to 31 of this report.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations Fiscal Year Ended September 30, 2019

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

Criteria:

PTA as an enterprise fund must have a suitable system of internal controls in place to provide assurance on the validity and accuracy of the financial statements and the underlying accounting records; to ensure applicable laws, regulations, policies and procedures are adhered to and that, PTA is managed transparently and legitimately; and, that the control activities continue to function effectively to prevent or reduce the risks for errors and other much serious irregularities.

Condition:

Our review disclosed that management has not improved and strengthen PTA's internal control system to support and enhance operation. We noted problems this year similar to those cited in our FY 2018 audit report concerning PTA's management and accounting controls, documentation and compliance issues that needed attention. Our audit recommendations were ignored even though we warned management that the problems could lead to misstatements in the financial statements, loss in revenues, or other irregularities such as fraud, waste and/or abuse of PTA's funds and other resources.

Our audit this year has disclosed similar instances of lack of or poor application of control activities and noted additional deficiencies in the administration of PTA's resources and affairs that reflect the inadequacies of the internal control system. We found the following:

A. Not recorded and/or properly accounted transactions

- 1) Seven (7) fixed asset items in the total amount of \$226,425 were not capitalized and included in the Property, Plant and Equipment account;
- 2) Depreciation expense was not recorded for depreciable assets;
- 3) Thirty-one (31) instances of misclassification of accounts; and,
- 4) Payables amounting to \$114,700 were not properly authorized and recorded, hence were not paid timely.

B. Improper procurement process and/or inadequately supported disbursements. Of the thirty-three (33) samples reviewed, we found:

- 1) Four (4) instances where invoices from vendors were dated before Purchase Orders. One of these was a charge of \$6,257 from a bar purportedly for PTA's Christmas party. The

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

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

supporting documents included a Purchase Order dated September 2, 2019, a Requisition prepared on August 28, 2019 and two generic invoices for the same \$6,257 charge but one was dated September 3, 2019 and the other August 19, 2019. More than half or \$3,527 of the charge was for drinks including alcoholic beverages which seem unreasonable and irresponsible spending considering PTA's financial situation.

- 2) Two (2) instances where PTA purchased items from private individuals although supporting documents do not adequately justify the selection.
 - a. For one, price quotations from two car dealers provided the vehicle brand name, price and detail information and description of the car components whereas the private individual who was selected only submitted pictures of the vehicle and the asking price.
 - b. For the other, PTA obtained vendors quotations but purchased from a private individual that submitted a quote lacking complete description of the item. PTA's inspection of the item was made after the Purchase Order's date indicating pre-arranged deal.
 - 3) Twelve (12) instances where invoices were not attached to the check vouchers.
 - 4) Twenty-two (22) instances where receiving reports were not attached to the check vouchers.
 - 5) Three (3) instances where price quotations were not prepared or attached to the check vouchers.
- C. Faulty process and mishandling cash sales. Our review of fifty (50) samples of cash receipts, revealed the following:
- 1) An instance where a cash receipt was used twice. First, as originally issued from DOTA for a legitimate purchase, and second the receipt was altered to reflect a different cash sale of coral sand. The money from the second sale was received by an employee of PTA and was never turned in or deposited at State Finance.
 - 2) Twenty-two (22) instances where Job Orders were not attached to cash receipts.
 - 3) Nine (9) instances where goods/services were sold but Job Orders were not signed by the Commissioner.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

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

- 4) Seven (7) instances where Job Orders were not signed by the customer to evidenced receipt of ordered goods/services.
- 5) Several skipped and unused Pro-Forma Invoices were not voided to prevent misuse.

Cause:

The condition happened because management failed in its responsibility to provide proper leadership, promote ethical behavior and support good accountability and transparency in the management of PTA by not improving and strengthening its internal control system. Management was not committed to improve PTA's operation and thus knowingly and willfully disregard adherence to the relevant laws, rules and procedures covering the administration of PTA's resources and activities; neglected to implement timely and proper reviews, monitoring and reconciliation of PTA accounts and accounting records.

Effect:

The condition resulted in serious irregularities as follows:

1. PTA's financial statements were misstated by \$979,243 prior to auditor's proposed adjusting entries. PTA also incurred \$2,440 penalty fee for late payment.
2. Non-compliance to relevant laws, regulations and/or established work policies and procedures.
3. Loss of revenues and increased risk for not reducing or detecting errors and other irregularities
4. Exposed PTA and employees to potential corruption and a workplace conducive to unethical behavior and conduct.

The condition also exposed PTA to high risk of fraud, theft, waste and abuse of its funds and other resources. POPA CID initiated and has completed an investigation into possible fraudulent acts and transactions including other illegal activities, embezzlement and corruption.

Recommendation:

We recommend that the new Commissioner should strengthen and improve PTA's overall system of internal controls that include proper measures and mechanisms implemented to:

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

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

1. Develop, implement and maintain effective and efficient work policy and procedure covering the overall operations of PTA, including employees' supervision, accounting and maintenance, report preparation, review and inter-departmental communication and relations.
2. Ensure that the underlying accounting records are reasonably accurate, thus assuring the validity of the financial statements;
3. Protect PTA from improper acts and behavior and safeguard its resources.
4. Provide appropriate reviews, monitoring and reconciliation of accounts and records to prevent and detect errors and other irregularities.
5. Provide and communicate to deepen employees' awareness and understanding of proper and ethical behavior, appropriate control policies and procedures and relevant laws and regulations.
6. Educate, support and promote programs and actions to stop all wrong doing activities, including fraud, mismanagement, abuse and embezzlement of government public funds and related resources.
7. Refer all allegations of wrong doings committed by PTA officials and employees to the Pohnpei Attorney General for further action.
8. Establish and implement communication strategy that would improve and strengthen relations between and among all PTA employees, accountability and transparency in the management and administration of all PTA's resources entrusted to its care.
9. Conduct periodic orientation/training on work compliance to PTA enabling legal frameworks and related work policies and procedures to enhance compliance and employees understanding and appreciation of their work.

Auditee Response and Corrective Action Plan: Please refer to Exhibit I on pages 29 to 31 of this report.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-003 Poor Management of Payroll Resulted to Unjustified and Illegitimate Payments to Employees

Criteria:

Pohnpei law established the requirements for incurring and paying of overtime hours. The Personnel Service System Regulations (PSSR) 7.1 requires that overtime hours should be properly supported with overtime request properly signed by the supervisor together with time and attendance sheet.

In addition, Part 11 of the PSSR specifies and requires proper support and documentation for the use of annual and sick leaves. Moreover, the Part 4 Financial Management Regulations specifies the requirements for the administration of payrolls.

Condition:

We selected and tested six (6) payroll periods and found the following:

A. For Overtime Differential

- 1) *For all the pay periods we selected for review, there were no supporting documents for overtime hours of work rendered by employees.*
- 2) *Six (6) instances where overtime hours paid were different from the approved time sheet.*
- 3) *Occasionally Commissioner verbally authorizes sixteen (16) hours of overtime bonus in the timesheets although employees did not actually work.*
- 4) *Overtime differential pays to employees exceeded the maximum rate allowed by law.*

B. Annual and Sick Leaves

- 1) *Thirty-eight (38) instances where sick leave and annual leave hours requested and paid exceeded the employees' remaining available balance.*
- 2) *Twenty-six (26) instances where leave application forms were not signed or correctly completed by employees.*
- 3) *Ten (10) instances where completed leave application forms were not attached to the time and attendance report to support work absences.*
- 4) *Eight (8) instances where hours requested for sick/annual leaves were different from the time sheet.*
- 5) *Seven (7) instances where leave hours were not approved but were paid.*
- 6) *Five (5) instances where number of hours paid were different from the approved time sheet.*

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-003 Poor Management of Payroll Resulted to Unjustified and Illegitimate Payments to Employees, Continued

- 7) *Two (2) instances where medical certificate was not signed by the doctor to support paid sick leave.*

C. Others

- 1) Amount for fringe benefits were not included in the employees' contracts.

Cause:

The condition happened because of poor management including the absence of diligent review and monitoring of payroll related activities to ensure rules, policies and procedures are complied with.

Effect:

The condition resulted to unjustified and illegitimate payment of employee leaves and overtime hours of more than \$11,839, increased payroll expense by more than \$58,000 and poses greater risks for payroll fraud and/or shortfall of personnel budget.

Recommendations:

We recommend the Commissioner should improve management of PTA's payroll that includes appropriate review and monitoring measures to ensure that regulations, policies and procedures and rules over payroll related matters and activities are complied with. The Commissioner should also ensure that the management and control activities implemented would be able to prevent or reduce and timely detect the risks of error or wrong doing.

Auditee Response and Corrective Action Plan: Please refer to Exhibit I on pages 29 to 31 of this report.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-004 Non-Compliance to PTA By-laws

Criteria:

PTA by-laws require that the Board shall meet once a month and every minutes of meetings should be signed by the Secretary and Chairman of the Board. The by-laws also provide the order of business to be followed for the meetings.

Condition:

Management did not document and maintain records of all PTA Board meetings and related minutes. Of the three (3) minutes provided to the audit team, two (2) were not signed by appropriate signatories. All of the minutes reviewed did not follow the Order of Business as indicated in the by-laws.

Cause:

Official/Employee responsible for the taking of Board's minutes of meetings did not ensure compliance with the by-laws. PTA management and the Board is not providing adequate guidance and supervision so that minutes are properly prepared, recorded and maintained.

Effect:

Important issues discussed and related decisions made at Board meetings were not properly captured, documented and maintained for future reference. Also, the Board could not prove that it met once each month of the year as required in the by-laws and to properly justify any Board meeting allowances paid out.

Recommendation:

We recommend the Commissioner to bring the matter to the Board's attention and if warranted, appropriate person should be appointed to be responsible to properly record and maintain all minutes of Board meetings.

Auditee Response and Corrective Action Plan: Please refer to Exhibit I on pages 29 to 31 of this report.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-005 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 the progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed six months.

Condition:

The table below shows the status of prior year’s recommendations:

Audit Findings	Implementation Status	Auditor’s Remarks
<p>Finding No. 14-001 Inventory control system and record keeping needs improvement</p> <p>Key staffs assigned to maintain inventory records must be properly trained. Ensure that reports prepared by staffs are reviewed by supervisors.</p>	<p>Management still has not improved the inventory control system and records were not properly maintained.</p>	<p>The new Commissioner should direct PTA employees to work together to improve the inventory control system and the related documentation.</p>
<p>Finding 17-003 Non-Compliance of Pohnpei Law</p> <p>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.</p>	<p>PTA is still doing this with one of its vehicle.</p>	<p>Management immediate attention is required to resolve this at the earliest time.</p>
<p>Finding No. 18-001 Control Weaknesses in the Management and Accounting System</p> <p>1) Establish policies and procedures for Accounts Receivable and Accounts Payable. 2) Prepare aging of Accounts Receivable. 3) Monthly reconciliation of Accounts Payable</p>	<p>Improvement started when the new Accountant was hired. However, most of it can be seen in Fiscal Year 2020.</p>	<p>The new Accountant did establish procedures on how to update PTA’s Accounts Receivable but not Accounts Payable. However, most of the update and improvement is in Fiscal Year 2020</p>
<p>Finding No. 18-002 Office Files and Record Keeping Management needs improvement.</p> <p>Management to establish good filing system.</p>	<p>PTA continues to have a poor filing system.</p>	<p>The new administration is trying to improve the filing system (Fiscal Year 2020)</p>
<p>Finding No. 18-004 Not complying with FMR</p> <p>PTA employees regardless of position should adhere to the regulations.</p>	<p>PTA still continues disregard rules and regulation required by FMR.</p>	<p>Management immediate attention is required to ensure full compliance soon.</p>

Cause:

PTA management failed to develop and implement corrective measures necessary to resolve prior years’ audit findings and the associated recommendations timely.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2019

Finding No. 19-005 Unresolved Prior Year's Findings, Continued

Effect:

- 1) Non-compliance to audit legal framework requiring auditees to report monthly to the State Auditor regarding status of prior year's audit findings until such time that all deficiencies have been cleared, which period shall not exceed six (6) months.
- 2) Non-timely resolution of prior years' audit findings hampers and weakens PTA's internal control system, as reflected in this year's audit. The FY-19 audit disclosed or revealed numerous non-compliances to laws, rules and regulations by PTA management and employees as a whole.

Recommendation:

We recommend:

- 1) The PTA Board of Directors to direct the Commissioner to develop and implement appropriate measures necessary to resolve all prior years' outstanding audit findings.
- 2) The Commissioner to work closely with responsible employees to ensure that the project to resolve prior years' "outstanding audit findings" starts and completed at the earliest time possible.
- 3) The Commissioner to implement and keep the State Auditor current and updated on the audit resolution project progress as required by law.

Auditee Response and Corrective Action Plan: Please refer to Exhibit I on page 29 to 31 of this report.

POHNPEI TRANSPORTATION AUTHORITY

AUDITEE RESPONSE (EXHIBIT I)

YEAR ENDED SEPTEMBER 30, 2019



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



November 26, 2020

Honorable Iso Ihlen K. Joseph
State Public Auditor
Pohnpei State Government
Kolonia, Pohnpei, FSM 96941

Dear Hon. Joseph,

Greetings!

Please find below, the PTA's Response and Corrective Action Plans.

Finding No. 19-001 Improper Dealings and Arrangements

PTA is no longer dealing with privately-owned dredging sites. PTA is now holding a valid dredging permit for the Paliapailong, Kitti dredge site.

All road projects are supported with Advice of Allotment or Contracts. In some instances, due to urgency of the project, PTA will proceed with the projects, while the paper works are still in-process. There are delays in the collections because the processing of the project documents may take a while. PTA management is determined to collect all project billings in due time.

PTA management has identified weaknesses in the procurement of materials & supplies. To prevent unnecessary losses, PTA has designated one person, trusted to obtain or receive supplies and services from local vendors, except the carpenter supervisor in charge of the PTA office renovations. These supplies will be kept in the newly installed containers at PTA Palikir plant for safekeeping and will be issued only upon approval by the Commissioner. A warehouseman will be in charge of safekeeping of tools and equipment, supplies, upon completion of the container set up.

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

All entries made in the books of PTA were posted by Pohnpei State Finance staffs.

PTA has an open account at Pohnpei Ace Hardware. PTA management has advised them to shut down the account for control purposes.

All PTA customers are directed to pay at Pohnpei State Finance.

All accounting transactions must be supported with a valid and verifiable supporting document. The Objectivity principle must be strictly adhered to at all times.

Finding No. 19-003 Poor Management of Payroll Resulted to Unjustified and Illegitimate Payment to Employees.

PTA accountant is in charge of payroll processing, to ensure proper handling and safeguarding of payroll documents. Commissioner has instructed the security guard to log in the time in and out of all employees assigned at the plant and main office. Making sure all their working time are accounted for.

Annual and sick leave hours will start upon the effectivity of the contract. All annual and sick leave request shall be approved by the Commissioner. Sick leave request for more than 1 day must present a doctor's slip. The accountant is in charge of monitoring the leave balances of each employee.

Employees Overtime Request Form must be submitted to the Commissioner for approval

Finding No. 19-004 Non-Compliance to PTA By-laws

PTA has a new set of Board of Directors. Commissioner will fully comply with the required monthly board meeting.

Commissioner has instructed the new PTA secretary to have file for each official record of the proceedings of the PTA Board Meetings.

Finding No. 19-005 Unresolved Prior Year's Findings

Finding No. 14-001

PTA Palikir staffs are currently working on containers to be used as storage facilities and offices for all staffs involved in operations. A warehouseman will be train to use Stock Cards to monitor the in and out of tools & supplies, and maintain database for all stock items in the computer.

Finding No. 17-003

The PTA management reiterates to all employees to observe protocols in the usage of newly acquired vehicles. The vehicle must not leave the PTA premises without a license plate number.

Finding No. 18-001

Accounts Receivable – Billings for the completed projects are numbered as reference to keep track of the payment received, and with the corresponding outstanding amount.

Accounts Payable – Discontinued. All purchases must have Purchase Orders.

Finding No. 18-001

The new PTA accounting office will be equipped with filing cabinets for safekeeping and as a storage for all accounting documents.

Finding No. 18-004

The new Administrative Officer will take immediate and appropriate actions to those employees who failed to observe the FMR.

PTA's going concern was an issue due to significant losses incurred from prior-year's operations. Nonetheless, all prior-year's audit findings must be resolved and concluded the soonest possible time.

The PTA management will continue to work out and resolve all internal control weaknesses. The operations will be managed accordingly, consistently and with transparency.

Thank you very much for your invaluable recommendations.

With warm regards.

Sincerely,



Welson Panuel
Commissioner

11/26/20
Date

Cc: Chairman, PTA Board of Directors
Director, DoT&A
Commissioner, PTA



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:

Office of the Public Auditor
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 tetehek, apwapwalih oh doadoahki mwohni oh dipwisou en kopwoment en wein Pohnpei sapwelimatail karos (tohn doadoahk en kopwoment, 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 kopwoment en Pohnpei ni ahnsou karos ong ni:

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