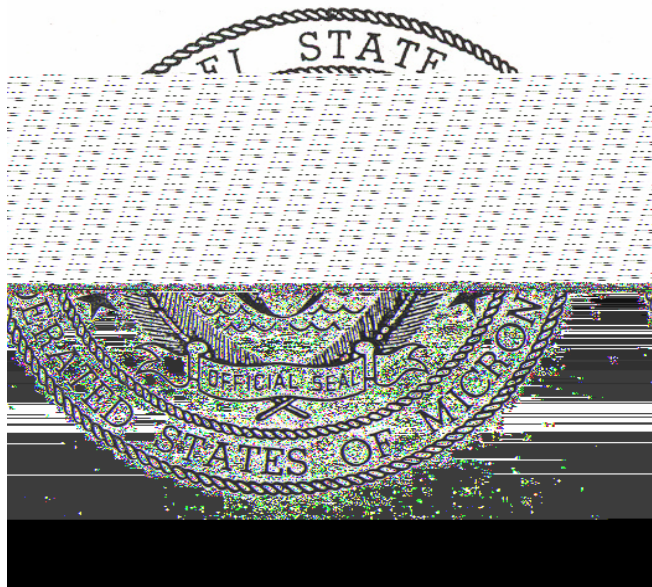


POHNPEI COMMUNITY ACTION AGENCY

EVALUATION REPORT NO. 001-04

SEPTEMBER 30, 2004



OFFICE OF THE PUBLIC AUDITOR  
POHNPEI STATE GOVERNMENT

ANNES H. LEBEN  
State Public Auditor  
P.O. Box 370  
Kolonia, Pohnpei  
Federated States of Micronesia 96941

**POHNPEI COMMUNITY ACTION AGENCY  
EVALUATION REPORT  
YEAR ENDED SEPTEMBER 30, 2004**

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December 7, 2005

The Honorable Johnny P. David, Governor, State of Pohnpei  
The Honorable Jack Yakana, Lt. Governor, State of Pohnpei  
The Honorable Nelson N. Pelep, Speaker, State of Pohnpei  
The Honorable Members of the Pohnpei State Legislature  
The Honorable Chairman, Ioanis Sahn, Pohnpei Community Action Agency  
The Honorable Board of Directors, Pohnpei Community Action Agency  
Mr. Mitchuo Daniel, Acting Executive Director, Pohnpei Community Action Agency

### **EXECUTIVE SUMMARY**

We are pleased to submit the evaluation report on Pohnpei Community Action Agency (PCAA) as of September 30, 2004. Our evaluation was performed in compliance with the letter request dated May 4, 2004 from the Lt. Governor of Pohnpei State to conduct a close-out financial audit and in accordance with the quality standards for evaluation, adopted by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) for the use of the Offices of Inspector General of the United States and were also adopted by the OPA. This evaluation was also conducted pursuant to Article 11, Section 8(2) of the Pohnpei State Constitution, and Pohnpei State Law Nos. 1L-10-79 and 5L-08-00.

We would like to inform you that we aimed at preparing a financial audit on PCAA but because of the absence of financial statements and the difficulty of gathering documents and some legal issues, our evaluation has been limited to the following:

1. Status of PCAA's building;
2. Status of PCAA's fixed assets;
3. Status of PCAA's liabilities;
4. Status of PCAA's lease "rent" income;
5. Land Lease;
6. PCAA's statutes; and
7. Prior Years' Audit Findings.

PCAA has not been providing its services of promoting community action projects for several years now and can be considered in-operational and to be able to get information in the conduct of our evaluation was a difficult challenge in our field work. We tried to gather relevant official documents, verified contract agreements, conducted interviews of key officials of the PCAA, FSM Social Security Office, and the Department of Land and Natural Resources of Pohnpei State. We also verified accounts payable documents and conducted confirmations on the various accounts with vendors.

After our diligent efforts to attain our evaluation objectives, our evaluation disclosed the following.

1. The PCAA Office building was constructed in 1995 under contract no. C50351 with a contract amount of \$71,000. After calculating the depreciation charges from FY 1996 until FY 2004, the net book value of the PCAA building amounted to \$55,254 as of the end of the FY 2004. This is the net book value (per audit) on the building excluding the land.
2. The record available on the other fixed assets of PCAA was for the FY 1996. The depreciation expenses on the other fixed assets as shown in the fixed asset register in FY 1996 were updated to include depreciation until FY 2004. Our computations revealed that except for the building all the other fixed assets included in the FY 1996 fixed asset register had zero net book values.
3. In our review of the various PCAA payables, we are considering the following:
  - a. We are requesting the assistance of the State Attorney General's Office to conduct a review of the personnel payables. During our examination of the personnel payables, we found discrepancies between the documents and we could not ascertain the amount of the legal and appropriate claim.
  - b. We were also provided with a listing of various accounts payable. The accounts payable to vendors and to other parties is in the amount of \$59,308 excluding interest and penalties up to the date of this report. In addition, we have confirmed that PCAA owes two law firms for legal counsel fees with an unpaid balance of \$14,110.
4. A total of Thirty Thousand Seven Hundred Sixty Three Dollars (\$30,763) was the lease rental collections from October 2000 to September 2004. This amount have increased to Thirty Eight Thousand Two Hundred Thirty Six Dollars (\$38,236) per updated rentals up to September 2005.

Our evaluation also disclosed seven (7) issues which are described in detail in the Results of Evaluation on pages 8-25.

As is customary, a draft of this report has been provided to and reviewed by the management of the PCAA. Their response to the issues is included in the report as Exhibit I. We also offered our suggestions to each of the issues identified in order to assist in resolving them.

We also want to express our appreciation to the management of PCAA without their assistance the completion of the report would not be made possible.

Annes Leben  
State Public Auditor

**POHNPEI COMMUNITY ACTION AGENCY  
EVALUATION REPORT  
SEPTEMBER 30, 2004**

**BACKGROUND**

Organization

The Pohnpei Community Agency (PCAA) is a non-profit organization and was incorporated in 1967 under the laws of the Trust Territory of the Pacific Islands. The primary purpose of the PCAA is to administer and promote community action programs.

Source of Funds

The PCAA during the past years has been a recipient of federal funds including appropriations from the FSM National Government and from Pohnpei State to fund their operations and/or to finance certain community action projects. Our information on the PCAA's funds was based on the financial audit performed by OPA for FY 1995-1994. Information on the sources of funds subsequent to FY 1995 however, is not available. Management could not also provide us with the fund status report on the prior years' funds.

PCAA started to generate monthly revenues of \$600 from building rental collections. The status of these rental collections is briefly discussed in the results of the evaluation section of this report. It will also be noted that these rental collections started in FY 2000 and up to the date of this report which is also the available information we have on the source of funds.

Objectives, Scope and Methodology

In a letter request dated May 4, 2004, the Lieutenant Governor of the State of Pohnpei stated that since 1988 PCAA has not been operational because of lack of funding. Hence, he requested the Office of the Public Auditor (OPA) to perform a close-out financial audit of the PCAA that would result in the final determination of the following:

1. Status of PCAA's assets and how they may be disposed of;
2. Status of PCAA's liabilities and the proper way of settling these liabilities;
3. PCAA's income, if any, and whether such income has been managed in accordance with PCAA's mission and applicable statutes; and
4. Whether the PCAA during its final year of active operation, managed its resources in accordance with its mission and applicable statutes, or requirements.

In our attempt to conduct a close-out financial audit and comply with the request, our office conducted a preliminary audit survey. The result of our audit survey showed that

the financial statements were not available and the financial information/records obtained from PCAA were very limited. This has prompted the OPA to conduct an evaluation on PCAA.

Thus, the overall objective of this evaluation is to provide information as to the status of PCAA's building, assets, liabilities, lease rental income, land lease, statutes and prior years' audit findings.

The specific and sub-objectives are to determine the status of the following:

#### I Property and Fixed Assets

##### A. Building

1. The physical existence and condition of the building
2. The determination of the value of the building and verify the amounts recorded in the accounting books

##### B. Fixed Assets

1. The physical existence and status of the fixed assets
2. The appropriate valuation of the fixed assets
3. The amounts recorded in the accounting books

#### II Liabilities

1. Determine whether the accounts payable represents valid obligations
2. Whether the accounts payable are properly supported with invoices and other supporting documents
3. Whether the accounts payable are properly classified in the balance sheet and recorded in the accounting books

#### III Lease rent income

1. The description of the lease rental agreement
2. The lease rental collections and records in the accounting books
3. The accountability on the lease collections

#### IV Land Lease

1. The existence of the land lease agreement
2. The status of the land lease

## V PCAA's Statutes

1. Determine if there is any funds or grants appropriated or awarded for PCAA
2. Whether the funds have been properly recorded and accounted for

## VI Prior Years' Audit Findings

1. The nature of the prior year's audit findings
2. Determine whether the prior year's audit findings have been resolved or acted upon by PCAA's management

The evaluation was conducted from September 2004 to March 2005 and reports on the status as of the fiscal year ended September 30, 2004.

We conducted our evaluation in compliance with the request of the Lieutenant Governor of Pohnpei State and in accordance with the quality standards for evaluation, adopted by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) for the use of the Offices of Inspector General of the United States and were also adopted by the OPA. This evaluation was also conducted pursuant to Article 11, Section 8(2) of the Pohnpei State Constitution and Pohnpei State Law Nos. IL-10-79 and 5L-08-00.

In order to achieve our objectives, we performed the following procedures:

- Interviewed the Executive Director of PCAA and obtained copies of personnel actions, job descriptions/assignments and verified the personnel claims.
- Obtained financial information on fixed assets using past year's FY 1996 audit.
- Updated the depreciation expenses on the fixed assets as listed in the Fixed Asset Register in FY 1996. The depreciation expenses were updated from FY 1996 to FY 2004.
- Conducted interview of the Chief of Public Land of Pohnpei State regarding land issues on PCAA.
- Conducted interviews of key officials of FSM Social Security Administration. Obtained relevant documents and information regarding the lease "rent" agreement.
- Conducted confirmation of bank account with Bank of Guam and liabilities accounts from various PCAA vendors.

### Scope Limitation

The inadequacy of financial records and information subsequent to FY 1996 could not permit us to perform the following procedures:

1. Verification of fixed assets additions and/or deletions from FY 1997 to FY 2004;
2. Verification of asset accounts aside from the building from FY 1997 to FY 2004;
3. Verification of other liabilities accounts, aside from the PCAA's listing provided to us from FY 1997 to FY 2004;
4. Verification of other sources of revenues/income from FY 1997 to FY 2004; and
5. Evaluation and verification of PCAA's business and operating activities from FY 1997 to FY 2004.

### **PRIOR YEAR REPORT**

The Office of the Public Auditor of Pohnpei State performed financial audits of the PCAA. The last financial audit was in fiscal year 1996. This is the first evaluation report performed on PCAA by the Office of the Public Auditor.

**As a result of our evaluation, we have identified issues and offered our corresponding suggestions as follows:**

### **ISSUES IDENTIFIED**

1. PCAA failed to maintain proper accountability of its fixed assets and did not prepare a record of its capital asset inventory. Except for the building account, the appropriate valuation of all the other fixed assets could not be determined and verified because records of any additions or deletions to the fixed assets from FY 1997 to FY 2004 were not available.
2. Discrepancies existed between the personnel records because PCAA did not adequately maintain records of its business activities. Personnel files were not organized and personnel records were on loose leaf pages.
3. Vendor files and subsidiary ledger files were not adequately maintained to provide access to copies of invoices, monthly statements of accounts, to verify any payments made and to determine vendor balances, if any.

Our confirmation of the various vendors showed that the payables have remained outstanding for several years. However, it was difficult to reconcile the balances of the payables because of the unavailability of documents and records.

The total balance of the payables to vendors and to other parties including legal fees is in the amount of Seventy Three Thousand Four Hundred Eighteen Dollars (\$73,418).

4. Lease "rent" income collected from October 2000 to September 2004 in the total amount of Thirty Thousand Seven Hundred Sixty Three Dollars (\$30,763) has not been properly recorded and accounted for. Cash receipts books were not maintained and not available for examination including copies of bank deposit slips and bank statements.

The collection report and financial statements were not available. This condition existed because of the lack of monitoring on the PCAA's collection activities and the accountability reporting requirements were not properly enforced on PCAA's management.

5. There is no existing land lease agreement on the land where the PCAA building is situated. Our information on the land is that the Board of Trustees will make the PCAA land issue as an agenda in the Board Meeting.
6. The balances of the appropriations or funds received by PCAA for prior years could not be determined and properly accounted for.
7. The prior years' audit findings have remained unresolved. These include federal findings and questioned costs, local findings and internal control findings.

In resolving the issues identified, you may consider our suggestions on these areas:

1. PCAA's management should be informed of their responsibility and accountability on fixed assets. An updated inventory of fixed assets needs to be prepared identifying assets condition. Should PCAA needs assistance in preparing this, then the State Division of Property and Supply and/or the Department of Transportation and Infrastructure could be requested to assist them. Assets that can still be useful or repairable should be identified and be surveyed while those that are no longer repairable should be disposed of in accordance with the PCAA accounting and procedures manual or in accordance with existing government regulation on property and equipment as applicable.
2. Although the PCAA has been in-operational for several years now, the fiscal responsibility and accountability on the agency still exist. Report monitoring should have been instituted and required from the agency's management.

As a result of the discrepancies cited in the personnel documentation, the amount of the personnel claims could not be ascertained. We therefore suggest that this matter be brought for legal review and verification.

3. Accounting records should be kept accurate and intact. Nevertheless, PCAA still has financial responsibilities to pay its obligations. Therefore, the need to obtain the needed revenues to pay its obligations must be resolved by PCAA's management or by the appropriate authority.
4. PCAA's management should be required to provide accountability reports on all collections. The agency's accounting policy and procedures manual requires that all collections should be deposited to the agency's bank account and be recorded as revenues in the financial statements.

Management acknowledged using the collections to pay for salaries and other expenses but has not provided records of what these expenses are, where and how much was used. If there is any amendment or changes to the existing policy and procedures manual, there should be documentation to that effect. Otherwise, said use of collections is questionable.

5. PCAA's management should continue to coordinate and monitor the progress on the land lease issue. The issue on the land lease needs to be resolved timely considering that the building lease rental agreement between the PCAA and the FSM Social Security Administration after December 2005.
6. PCAA's management should try to compile the documents and records they can gather to be able to come up with the required fund status reports and appropriations/fund balances report.
7. The federal findings and questioned cost that have remained unresolved poses a critical issue. Under Federal Regulations there are two options on how to resolve these questioned costs.

Option 1. The PCAA's management needs to communicate to the grantor agencies to determine how the questioned cost will be resolved considering the in-operational status of PCAA. The probable responses of the grantor agency can either be (1) to request reimbursement for the questioned cost or (2) to forgive the agency. This is dependent on what the grantor agencies responses will be.

Option 2. If the grantor agency will not forgive the questioned cost, then PCAA needs to reimburse the amount to the grantor agency from the PCAA entity's sources. Considering that PCAA is a non-profit organization which is now

in-operational, the chance of securing the needed funds to reimburse the grantor agency will be difficult. Should PCAA as an entity be unable to secure the needed funds, then under federal regulations, there can be a potential possibility that the Board of Directors can be held liable for these questioned costs under the concept of Fiduciary Responsibility.

## I Property and Fixed Assets

### Property Accountability and Reporting Responsibility

A fundamental responsibility of PCAA is to account for its capital assets. Monitoring of the capital asset is essential to the property accountability.

Capital assets should be inventoried at least annually. Property record cards related to capital assets no longer useable or missing should be pulled and the disposition of the assets related thereto must be processed as set forth in the Community Action Agency's accounting manual.

In our examination of the fixed asset accounts, we found that PCAA has a building account with a net book value of \$55,254 per audit as of the end of FY 2004. The PCAA building is located in the heart of Kolonia, Pohnpei State.

Our information on the building is that its construction started in 1995 and it was completed in 1996. This was an FSM project with contract no. C50351. The contract amount was \$71,000. Per verification of the records, it showed that \$66,840 of the cost was allocated to the building while \$5,840 was allocated for office equipment.

We tried to update the depreciation expenses on the building and arrived at a net book value per audit in the amount of \$55,254.40 as of September 30, 2004. However, we were not able to cross check this value because the financial statements and accounting records were not available.

On January 18, 1996, there was an official transfer of ownership of the building from the FSM National Government to the Chairman of the Board of Directors of PCAA. A letter was prepared and transmitted from the National Planner, Office of Planning and Statistics, FSM National Government to the Chairman of the Board of Directors of PCAA. The said building project was transferred in its condition as is.

PCAA had ceased to carry out its programs for several years now and the questions of ownership of the building as well as the land where the building stands has been raised as an issue. This matter had been discussed in the letter of the Pohnpei State Attorney General dated October 21, 2004. (The letter mentioned is included in this report as Appendix A).

Aside from the PCAA building, there are other fixed asset accounts where the management is accountable for. PCAA however, does not have records for those assets to enable us to verify the costs and estimated useful lives. During the inspection of PCAA office, our auditors found that there were some office equipments namely; air

conditioner, copier, typewriters, fax machine and vacuum cleaner that were left idle and we could not determine whether said assets are still useable or already worn out. It was also observed that the office has not been maintained and in disarray.

Our auditors requested for the records of the said assets but there was none. As a result our verification became limited to those assets in the fixed assets register as of September 30, 1996.

We updated the depreciation expenses for the succeeding years to arrive at the present net book value per audit of the assets. Our verification showed that except for the building, all the other fixed assets in the register for FY 1996 were all fully depreciated as of September 30, 2004.

Issue Identified:

PCAA failed to maintain proper accountability of its fixed assets and did not prepare a record of its capital asset inventory. Except for the building account, the appropriate valuation of all the other fixed assets could not be determined and verified because records of any additions or deletions to the fixed assets from FY 1997 to FY 2004 were not available. These conditions existed because the property accountability and reporting responsibility on the fixed assets were not strictly enforced.

Suggestion:

PCAA's management should be informed of their responsibility and accountability on fixed assets. An updated inventory of fixed assets needs to be prepared identifying assets condition. Should PCAA needs assistance in preparing this, then the State Division of Property and Supply and/or the Department of Transportation and Infrastructure could be requested to assist them. Assets that can still be useful or repairable should be identified and be surveyed while those that are no longer repairable should be disposed of in accordance with the PCAA's accounting and procedures manual or in accordance with existing government regulation on property and equipment as applicable.

Management Response:

Please refer to Exhibit I.

## II Accounts Payable and Financial Reporting

### Records Maintenance and Financial Reports

The accounting system of PCAA has been designed such that expenditures during the period are not recognized as such until paid. Only at the end of each program year or grant period when appropriate accruals are recorded in the accounting records to recognize accounts payable.

Because of this policy, the accounts payable system is memorandum in nature. As invoices or billings are received from vendors, they are verified, extended, matched against purchase orders, etc., as the case may be. Within a designated period during each month, preferably the second week of each month, all accounts payable contained in the open accounts payable file are processed for payment by preparation of disbursement vouchers.

It is also required that subsidiary ledgers and vendor files must be maintained. Subsidiary ledgers must be reconciled to the accounts payable account on a monthly basis.

#### 1. Personnel Payables

We requested PCAA's management to provide us with the Accounts Payable Register but they were not able to do so. What they provided us is a list of accounts payable which was alleged to have been presented to their lawyer. Please see next page.

Enumerated below is the breakdown of accounts payable of PCAA taken from the listing submitted to us:

I Current Personnel

Executive Director	\$37,909.00
Fiscal Officer	\$8,400.00
Board Allowance	\$3,625.00
Attorney's fees and costs as of Jan. 31, 2004	\$13,100.09
<b>Sub-total</b>	<b>\$63,034.09</b>

II Account with Vendors

a. Ambros & Co. Inc.	\$2,266.66
b. EMC Construction & Supplies	\$438.30
c. H & E Enterprises	\$720.00
d. Nihco	\$9,983.33
e. PUC	\$2,349.79
f. FSM Telecom	\$6,124.45
g. FSM Postal Services	\$22.00
h. PITC	\$35.88
<b>Sub-total</b>	<b>\$21,940.41</b>

III. Others

a. Payment of Judgment to FSM Finance (Civil Action No. 1998 - 038)	\$14,500.00
b. Funding Interest for accounts/judgments with interest, anticipated salary and professional fees associated with the dissolution of corporate entity and other incidental fees and costs. This money shall be made available for other claimants that may come forth when announcements will be made for dissolution	\$15,525.50
<b>Sub-total</b>	<b>\$30,025.50</b>

<b>Total</b>	<b><u>\$115,000.00</u></b>
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**Table I Personnel**

<b><u>Description</u></b>	<b><u>Request for Payment</u></b>	<b><u>Personnel Action</u></b>	<b><u>Affidavit Submitted</u></b>	<b><u>Remarks</u></b>
Executive Director	\$37,909	\$7,800	\$37,908	Requesting payroll payment for 2 years Job description and letter of appointment were submitted
Fiscal Officer	\$8,400	\$7,800		Requesting payroll Payment for 2 years
Board Allowance	\$3,625			No Supporting documents submitted
Attorney's Fees & Costs as of Jan. 31, 2004	\$13,100.09			Reclassified to other payables. Please refer to Table 3.

We found that there were discrepancies between the amounts indicated in the personnel action and the affidavit presented to us. In order to reconcile the discrepancies and determine how much salaries have been paid, we need to verify the records of personnel payments made during those years 2000 and 2001. However, we were not able to perform this because there were no payment records on personnel.

We also found that the total revenue generated from the monthly rentals collected from Social Security Administration beginning October 2000 until September 2004 in the total amount of \$30,763 had been already collected and used up. We were also able to confirm the cash in bank account of PCAA.

We were informed by the Executive Director that the rental money was for monthly maintenance, power payment and the remaining amount was divided with two other individuals. We cannot be assured that there were power payments from the rental money because when we confirmed the power bills there was an unpaid balance of \$8,112 as of January 12, 2005. Hence, we cannot be assured whether there was any payment made by the Executive Director using the rental money. We cannot also determine how much was allocated to the monthly maintenance as well as the amount for salaries.

We requested for documentation on the Board Allowances but we were not provided with minutes of board meetings, board attendance and board allowance rates except for a handwritten letter dated March 14, 2005 which just mentions the amount being claimed as the board allowance.

Issue Identified:

Discrepancies existed between the personnel records because PCAA did not adequately maintain records of its business activities. Personnel files were not organized and personnel records were on loose leaf pages.

Suggestion:

Although the PCAA has been in-operational for several years now, the fiscal responsibility and accountability on the PCAA still exist. Report monitoring should have been instituted and required from the agency's management.

As a result of the discrepancies cited in the personnel documentation, the amount of the personnel claims could not be ascertained. We therefore suggest that this matter be brought for legal review and verification.

Management Response:

Please refer to Exhibit I.

2. Vendors and Other Payables

Based on the payables listing provided to us, we sent letters of confirmation to the different vendors. We requested copies of documents such as invoices, purchase orders and any other documents supporting their claims to determine the nature, status and existence of these accounts payable.

In one instance, we have found that a vendor filed a court case against PCAA. The court judgment was in favor of the vendor. There was an order to pay the vendor in the amount of Ten Thousand Three Hundred Ninety Four Dollars and Forty Seven Cents (\$10,394.47). It was also stated in the court judgment that PCAA may seek the aid of FSM Congress or the FSM National Government in making the obligation of PCAA to the vendor be made good. We requested confirmation from the FSM Department of Finance and Administration, Division of National Treasury whether said court order was paid with the assistance of FSM but their response did not confirm if payment has been made or not. The Division of National Treasury also needed

information whether or not Congress was assisting PCAA to pay the vendor's account and based on their response they don't also have a record of the appropriation law as well as the account number.

<u>Description</u>	<u>Per PCAA</u>	<u>Per Confirmation</u>	<u>Difference</u>	<u>Remarks</u>
Ambros & Co.Inc.	\$2,266.66	\$2,967.43	\$700.77	Statement of account dated Dec. 8, 2004 submitted together with invoices, Confirmation letters received
EMC Construction & Supplies	\$438.30	\$438.30	\$0	Confirmation letter received
H & E Enterprises	\$720.00	\$620.00	(\$100.00)	Car rental invoice submitted Confirmation letter received
Nihco	\$9,983.33	\$9,983.33	\$0	Statement of account dated Nov. 30, 2004 indicating the balance submitted Confirmation letter received
PUC	\$2,349.79	\$8,122.11	\$5,772.32	Accounts Payable balance as of Jan. 12, 2005 per Confirmation with PUC
FSM Telecom	\$6,124.45	\$7,567.36	\$1,442.91	Payment history report dated Dec. 29, 2004 submitted Confirmation letter received
FSM Postal Services	\$22.00	\$34.00	\$12.00	Confirmation letter received
PITC	\$35.88	\$50.00	\$14.12	Copy of Cancelled Check Received Confirmation letter received
<b>Total</b>	<b>\$21,940.41</b>	<b>\$29,782.53</b>	<b>\$7,842.12</b>	

Our confirmation of the various accounts payables indicated that PCAA owes these vendors the total amount of \$29,783. These accounts have been outstanding for several years now.

**Table 3 Other Payables**

<u>Description</u>	<u>Per PCAA</u>	<u>Per Documentation</u>	<u>Remarks</u>
Payment of Judgment to FSM Finance (Civil Action No. 1998-038)	\$14,500.00	\$14,000.00	Court Order dated Aug. 7, 2000 was received
Funding interest for accounts/judgments with interest, anticipated salary and professional fees associated with the dissolution of corporate entity and other incidental fees and costs. This money shall be made available for other claimants that may come forth when announcements will be made for dissolution.	\$15,525.50		This amount is estimated.
Legal Counsel Fees			
Stephen V. Finnen, a Law Corporation	\$1,009.97		legal counsel fees payable, through October 31, 2005
Saimon & Associates (has contacted an attorney, Martin Jano who is pursuing this claim), for unpaid attorney's fees	\$13,100.09		

The court order amounting to \$14,000 needs to be settled and the \$15,525 is an estimated amount for anticipated expenses. The total outstanding legal counsel fees payable to two law firms is in the amount of \$14,110.

Issue Identified:

Vendor files and subsidiary ledger files were not adequately maintained to provide access to copies of invoices, monthly statements of accounts, to verify any payments made and to determine vendor balances, if any.

Our confirmation with the various vendors showed that the payables have remained outstanding for years. However, it was difficult to reconcile the balances of the payables because of the unavailability of documents and records. The accounts payable to vendors and to other parties including legal fees is in the amount of \$73,418.

Suggestion:

Accounting records should be kept accurate and intact. Nevertheless, PCAA still has financial responsibilities to pay its obligations. Therefore, the need to obtain the revenues to pay its obligations must be resolved by PCAA's management or by the appropriate authority.

Management Response:

Please refer to Exhibit I.

### III Collections and Accountability

#### Lease Rental Collections and Accountability

Collections should be recorded in the Cash Receipts Journal. Daily or as appropriate the accountant will deposit the funds received together with other receipts for the period. This is the established policy in the Community Action Agencies accounting manual.

A lease agreement was made between the PCAA and the FSM Social Security Administration on October 1, 2000. This involves the leasing of an office space where PCAA is the lessor while FSM Social Security Administration (FSM SSA) is the lessee. The term of the lease is for five years beginning October 1, 2000 until September 1, 2005 unless sooner terminated.

The lessee shall pay the rent of \$600 per month, payable on the first day of every month during the life of the lease. At the termination of the lease, if the lessee wishes to exercise its option to renew the lease, the rent shall be renegotiated subject to agreement of the parties but not exceeding an increase of five percent (5%) per month over the rent now payable under this lease.

A Memorandum of Understanding was prepared between the PCAA and the FSM SSA. One of the rooms in the leased premises is hooked up to the lessor's electric meter, while the equipment therein has been used by the lessee since October 1, 2000. Both parties agreed that certain electrical equipment in the room are in use and are anticipated to continue to be in use by the FSM SSA. This has prompted both parties to agree on sharing the cost of the utilities until whichever of the following events first occurred:

1. until such time that appropriate arrangement is made the utility wires running through the room are connected to the electrical meter assigned for the exclusive use of the lessee, or
2. from the commencement of the lease agreement through the termination of the lease agreement and any extension thereto on the basis of 217.8 KWH per month for power for each month of the lease agreement term or \$43.56 per month, plus \$3.00 per month for water.

Both parties also agreed that the lessee shall reimburse the lessor for the utility expenses incurred as follows:

1. \$435.60 for the months of March 2001 to December 2001 for power, \$45.00 for water consumption (\$3.00 per month from October 1, 2000 through December 31, 2001 or 15 months). The total monthly payment is \$480.60.

2. \$46.56 per month commencing January 2002 throughout the term of the existing lease agreement for electricity at \$43.56 and \$3.00 water usage.

The parties also agreed that FSM SSA will tap its own utility power source to power up the adjacent room now currently being occupied by it.

The result of our inquiry and verification showed that FSM SSA has been paying the monthly lease rental. The payment details indicated that a total of \$30,763.39 lease rental and utilities has been paid to PCAA from October 31, 2000 to September 30, 2004. Until September 2004 the lease rental total payments was \$28,800 while the utilities total payments was \$1,963.39. Our subsequent information regarding the lease rental payments by Social Security Administration indicated that as of September 16, 2005, a total of \$35,925.00 has been paid for rent, \$2,236.75 for utilities and \$75.00 for maintenance thereby bringing the total sum of the payments made to PCAA from October 2000 to September 16, 2005 in the amount of \$38,236.75. A Memorandum of Understanding to extend the expired contract of the office lease agreement until December 2005 has been executed. Said memorandum also mentions that the negotiation to renew the contract is underway.

The payments reports prepared by FSM SSA Comptroller are included in this evaluation report as Appendices C and D.

The established policy in the Community Action Agencies accounting manual requires that collections should be recorded in the Cash Receipts Journal. Daily or as appropriate the accountant will deposit the funds received together with other receipts for the period.

However, when we requested PCAA's management to provide us with a report on collections, they were not able to do so.

Issue Identified:

Lease "rent" income collected from October 2000 to September 2004 in the total amount of Thirty Thousand Seven Hundred Sixty Three Dollars (\$30,763) has not been properly recorded and accounted for. Cash receipts books were not maintained and not available for examination including copies of bank deposit slips and bank statements.

The collection report and financial statements were not available. This condition existed because of the lack of monitoring on the PCAA's collection activities and the accountability reporting requirements were not properly enforced on PCAA's management.

Suggestion:

The PCAA's management should be required to provide accountability reports on all collections. The agency's accounting policy and procedures manual requires that all collections should be deposited to the agency's bank account and be recorded as revenues in the financial statements.

Management acknowledged using the collections to pay for salaries and other expenses but has not provided records of what these expenses are, where and how much was used. If there is any amendment or changes to the existing policy and procedures manual, there should be documentation to that effect. Otherwise, said use of collections is questionable.

Management Response:

Please refer to Exhibit I.

#### IV Land Lease

##### Status of Land Lease

The land where the PCAA building is situated is in Kolonia, Pohnpei State. This is designated as parcel no. 020-A-02. This is pursuant to the Pohnpei State Government Conveyance Act of 2003, S. L. 5L-101-03 which designated Parcel No. 020-A-02 as a part of the Pohnpei State Capital which is under the management and supervision of the Governor. (A copy of the Land Map is included in the report as Appendix B).

An interview of the Chief of the Division of Public Land was conducted by the auditors to get information regarding any existing land lease agreement. Our auditors learned that there is no existing land lease agreement. However, even though the administrative process of preparing the land lease did not formally materialize, PCAA was authorized to use the land per information obtained from the Pohnpei State Division of Public Land.

##### Issue Identified:

There is no existing land lease agreement on the land where the PCAA building is situated. As of the date of this report, our information on the land is that the Board of Trustees will make the PCAA land issue as an agenda in the Board Meeting.

##### Suggestion:

PCAA's management should continue to coordinate and monitor the progress on the land lease issue. The issue on the land lease needs to be resolved timely considering that the building lease rental agreement between the PCAA and the FSM Social Security Administration will expire after December 2005.

##### Management Response:

Please refer to Exhibit I.

## V PCAA's Statutes

The PCAA during the past years has been a recipient of federal funds including appropriations from the FSM National Government and from Pohnpei State to fund their operations and/or to finance certain community action projects.

An adequate system of internal control requires that procedures for maintenance of records and documents regarding the appropriations or grants received must be in place.

The PCAA is required to prepare reports on the uses or disbursement of the funds including the adequate record of its activities but PCAA was not able to comply with this requirement. There were no records of appropriations or funds received from any funding agency.

### Issue Identified:

The balances of the appropriations or funds received by PCAA for prior years could not be determined and properly accounted for.

### Suggestion:

PCAA's management should try to compile the documents and records they can gather to be able to come up with the required fund status reports and appropriations/fund balances report.

### Management Response:

Please refer to Exhibit I.

## VI Prior Years' Audit Findings

PCAA is required by law to resolve the prior years' audit findings and deficiencies. This is pursuant to Section 3 of the Pohnpei State Law 5L-08-00 which requires that the audited agency shall respond to the audit report in writing, to the Auditor and each of the officials listed in Subsection (1), by indicating the actions immediately taken to correct such deficiencies cited as well as stated action or actions to be taken on deficiencies not immediately resolved. Thereafter, the office shall file a monthly report with the Auditor indicating its progress in clearing deficiencies until such time as it can report that all deficiencies have been cleared, which period shall not exceed six months.

The last audit report on PCAA was for the FY ended September 30, 1996. The result of that FY 1996 audit revealed several audit findings including prior years' findings which have remained unresolved. The PCAA is supposed to resolve those findings and communicate with the Pohnpei State Public Auditor of their action, however, PCAA failed to do so.

The prior years' audit findings have remained unresolved. The list of the prior years' audit findings follows:

Prior Years' Audit Findings  
Per OPA Audit Report  
FY ended September 30, 1996

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>	<u>Remarks</u>
		<b>Federal Findings and Questioned Costs</b>	<b>There are no accounting records and documents are not available to enable the auditors to verify the status of prior years' audit findings and recommendation implementation.</b>
1	27	Matching Fund Requirement HPG Agreement	
2	29	Grant Funds Rural Housing Preservation Grant (HPG) Funds	
3	30	Reporting Expenditures Accounting of Federal Financial Assistance Expenditures	
4	32	Financial Reporting Requirements	

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>	<u>Remarks</u>
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**Local Findings**

1	34	Prior Year Outstanding Findings FY 1995 Findings FY 1994 Findings	
2	36	Off-Island Travel	
3	38	Over Payment of Per Diem	
4	40	Payroll	
5	41	Double Compensation	
6	42	Annual Leave	
7	44	Non Deduction of Tax and SS on Salary	
8	45	Payroll Advances	
9	46	Payroll Deductions	
10	47	Payroll	
11	49	Dual Compensation	
12	50	Revenue and Expense	

<u>Finding No.</u>	<u>Page No.</u>	<u>Description</u>
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**Questioned Costs 51**

Total federal questioned costs for the year ended September 30, 1996	\$52,098.00
Unresolved questioned costs from September 30, 1998 through September 30, 1993 per FSM Auditor's Office report no. 095-94 Federal Funds	<u>\$5,884.00</u>
Total outstanding federal questioned costs	\$57,982.00
Unresolved questioned costs from September 30, 1988 through September 30, 1993 per FSM Auditor's Office report no. 095-94	<u>\$54,446.00</u>
<b>Total Questioned Costs</b>	<b><u>\$112,428.00</u></b>

Note: The auditee responded to the auditors that the prior year federal questioned costs of \$5,884 for Health and Education Access Project should not be a questioned cost because the amount was previously approved by the grantor agency. The auditors stated however, that in the absence of supporting documents, this could not be removed from the questioned costs.

Remarks:

There are no accounting records and documents are not available to enable the auditors to verify the status of the questioned costs for prior years.

<b><u>Finding No.</u></b>	<b><u>Page No.</u></b>	<b><u>Description</u></b>
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**Internal Control Findings**

1	54	Prior Year Outstanding Findings
2	56	Check Disbursements
3	58	Check Payable to Cash
4	59	Bank Reconciliation
5	61	Accounts Receivable, Employees
6	62	Property, Plant and Equipment
7	63	Depreciation of Property, Plant and Equipment
8	64	Accounts Payable
9	65	Payroll Advances
10	66	Payroll
11	67	Journal Vouchers

Issue Identified:

The prior years' audit findings have remained unresolved. These include federal findings and questioned costs, local findings and internal control findings.

Suggestion:

The federal findings and questioned cost that have remained unresolved poses a critical issue. Under Federal Regulations there are two options on how to resolve these questioned costs.

Option 1. The PCAA's management needs to communicate to the grantor agencies to determine how the questioned cost will be resolved considering the in-operational status of PCAA. The probable responses of the grantor agency can either be (1) to request reimbursement for the questioned cost or (2) to forgive the agency. This is dependent on what the grantor agencies responses will be.

Option 2. If the grantor agency will not forgive the questioned cost, then PCAA needs to reimburse the amount to the grantor agency from the PCAA's sources as an entity. Considering that PCAA is a non-profit organization which is now in-operational, the chance of securing the needed funds to reimburse the grantor agency is difficult. Should PCAA as an entity be unable to secure the needed funds, then under federal regulations, there can be a potential possibility that the Board of Directors can be held liable for these questioned costs under the concept of Fiduciary Responsibility.

Management Response:

Please refer to Exhibit I.

POHNPEI COMMUNITY ACTION AGENCY

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EXHIBIT I  
MANAGEMENT RESPONSE

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SEPTEMBER 30, 2004

POHNPEI COMMUNITY ACTION AGENCY  
EVALUATION REPORT  
SEPTEMBER 30, 2004

List of Appendices

- A Letter of Pohnpei State Attorney General dated October 21, 2004
- B Land Map Parcel No. 020-A-02
- C Payments to PCAA from October 2000 to September 2004
- D Updated Payments to PCAA from October 2000 to September 2005