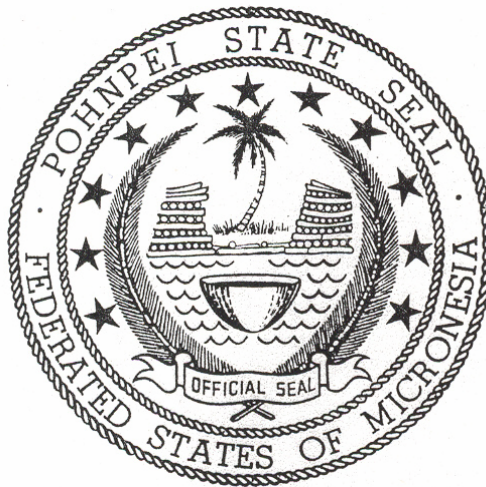


POHNPEI TRANSPORTATION AUTHORITY

AUDIT REPORT NO. 012-04

YEARS ENDED SEPTEMBER 30, 2004 AND 2003



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

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

**POHNPEI TRANSPORTATION AUTHORITY
AUDIT REPORT
YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

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December 19, 2005

The Honorable Johnny P. David, Governor, State of Pohnpei
The Honorable Nelson Pelep, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Board of Directors, Pohnpei Transportation Authority
Mr. Victor Edwin, Commissioner, Pohnpei Transportation Authority

EXECUTIVE SUMMARY

We respectfully submit the financial audit report of Pohnpei Transportation Authority (PTA) as of and for the years ended September 30, 2004 and 2003. 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 such other laws promulgated 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, results of operations, and cash flows of Pohnpei Transportation Authority as of September 30, 2004 and 2003, (2) reporting on the internal control relevant to an audit of the financial statements, and (3) reporting on the PTA's compliance with laws and regulations, which could have a material effect on the financial statements.

A Management's Discussion and Analysis, prepared by the PTA is presented before the financial statements. We have also offered our recommendations to each finding we believe once implemented could improve the operations of the PTA.

The highlights of the report are as follows:

- The financial statements present fairly, in all material respects, the financial position of the Pohnpei Transportation Authority, as of September 30, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
- A comparison of the PTA's financial position as of September 30, 2004 against September 30, 2002 disclosed the following:

- Total assets decreased by \$403,202 or 43%;
 - Total liabilities decreased by \$243,433 or 34%; and
 - Net assets decreased by \$159,769 or 71%
- The results of operations showed deficits of \$189,672 and \$101,724 in fiscal years 2004 and 2003 respectively. PTA incurred deficits from fiscal years 1999 through 2004.
 - The audit disclosed fourteen (14) findings that were detailed on pages 16 to 36. On pages 16-21 of the report, we disclosed three material instances of noncompliance as follows:
 - PTA did not comply with PSL no. 5L-08-00 which requires management to clear within six months the deficiencies cited in the PTA's financial audit of fiscal years 2001 and 2002. The corrective actions and status of the findings were not reported to the Office of the Public Auditor.
 - Management did not comply with PTA bylaws that require the Board to conduct meetings every month.
 - PTA did not fulfill the agreed completion dates for seven road paving projects.
 - Out of eleven (11) internal control findings, ten (10) were considered to be material weaknesses per finding numbers 4 to 13. Among the findings were:
 - As of September 30, 2004, PTA's cash advance from State Treasury is \$316,818. Although the amount decreased by 42% compared to fiscal year 2002, the advances accumulated to \$614,869 or 194% as of report date.
 - Management did not monitor the status of fully depreciated fixed assets that comprise 49% of PTA's total cost of property and equipment.
 - Policy and procedures for the safe handling and processing of paving asphalts have not been established. Drums of asphalt cements and primers were not tagged nor kept in a storage facility.
 - PTA did not perform reconciliation of accounts payable with State Finance.

As is customary, we provided a draft of this report to the management of the Pohnpei Transportation Authority. Their response and corrective action plans are included hereto as Exhibit I on pages 37-39. As stated above, PTA is mandated to report to the OPA monthly its progress and corrective actions, and clear the deficiencies cited in the audit report within six months.

Lastly, we express our sincere appreciation to the Commissioner and staffs for their cooperation and assistance extended to us during the course of our audit.

Annes H. Leben
State Public Auditor

POHNPEI TRANSPORTATION AUTHORITY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2004 AND 2003



OFFICE OF THE PUBLIC AUDITOR

POHNPEI STATE GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Pohnpei Transportation Authority:

We have audited the accompanying statements of net assets of the Pohnpei Transportation Authority (PTA), a component unit of the State of Pohnpei, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the PTA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the PTA's internal control over financial reporting. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of PTA, as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 5 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 the PTA. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005, 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.

Annes Leben
State Public Auditor
July 29, 2005

POHNPEI TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended September 30, 2004 and 2003

This portion of the Pohnpei Transportation Authority's financial audit report presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended September 30, 2004 and 2003. The management's discussion and analysis is intended to serve as an introduction to the Authority's financial statements. Please read this in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The due to primary government decreased by \$236,887 (40%) and \$43,473 (7%) in fiscal years 2004 and 2003 respectively.
- The net assets decreased to \$63,834 as of September 30, 2004 compared to \$223,603 in fiscal year 2002.

Overview of the Financial Statements

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

Financial Analysis

Net assets. The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. The passage of time and/or increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The following table is a comparative changes in net assets as of fiscal years ended September 30, 2002 to 2004.

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>% Decrease</u> |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| Current assets | \$ 272,670 | \$ 539,589 | \$ 469,083 | 42% |
| Capital assets | 253,506 | 354,700 | 460,295 | 45% |
| Total assets | <u>\$ 526,176</u> | <u>\$ 894,289</u> | <u>\$ 929,378</u> | 43% |
| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>% Decrease</u> |
| Due to primary govt | \$ 316,818 | \$ 553,705 | \$ 597,178 | 47% |

| | | | | |
|---------------------------|-------------------|-------------------|-------------------|-----|
| Other liabilities | 145,524 | 87,607 | 108,597 | |
| Total current liabilities | <u>\$ 462,342</u> | <u>\$ 641,312</u> | <u>\$ 705,775</u> | 34% |
| Total net assets | <u>\$ 63,834</u> | <u>\$ 252,977</u> | <u>\$ 223,603</u> | 71% |

Operating Activities

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.

Budget

PTA operates on an annual budget from revenues generated by projects, which are accounted for by the Pohnpei State Department of Treasury. 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 by projects maintained by PTA.

The following table summarizes the comparative changes in operating income as of fiscal years ended September 30, 2002 to 2004.

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>% Fav(Unf)</u> |
|-----------------------------|---------------------|--------------------|-------------------|-------------------|
| Operating revenues | \$ 1,740,357 | \$ 2,143,358 | \$2,648,053 | (34%) |
| Operating expenses | <u>1,935,584</u> | <u>2,170,682</u> | <u>2,247,220</u> | 14% |
| Operating income (loss) | (195,227) | (27,324) | 400,834 | |
| Non-operating revenues(exp) | <u>6,085</u> | <u>(3,302)</u> | <u>32,864</u> | |
| Net income (loss) | \$ <u>(189,142)</u> | \$ <u>(30,626)</u> | \$ <u>433,698</u> | (144%) |

Capital Assets and Debt Administration

Capital assets. As of September 30, 2004 and 2003, PTA's investment in capital assets net of accumulated depreciation was \$253,506 and \$354,700 respectively. PTA's capital assets include office furniture & fixtures, communication equipments, buildings, heavy equipments, and vehicles. Capital assets for the years ended September 30, 2004 and 2003 are as follows:

| <u>Description</u> | Oct 01,2003 <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | Sept 30,2004 <u>Balance</u> |
|-------------------------------|-------------------------------|---------------------|-----------------|--------------------------------|
| Buildings | \$ 70,000 | | | \$ 70,000 |
| Communication equipment | 40,510 | | | 40,510 |
| Heavy equipment | 5,703,669 | 50,900 | | 5,754,569 |
| Machinery, tools & equip | 93,570 | 1,900 | | 95,470 |
| Furniture & fixtures | 74,023 | 4,317 | | 78,340 |
| Vehicles | <u>433,784</u> | | | <u>433,784</u> |
| Total cost | 6,415,556 | | | 6,472,673 |
| Less accumulated depreciation | <u>(6,060,856)</u> | <u>(158,311)</u> | | <u>(6,219,167)</u> |
| Capital assets, net | \$ <u>354,700</u> | \$ <u>(101,194)</u> | \$ <u>-</u> | \$ <u>253,506</u> |

| <u>Description</u> | Oct 01,2002 <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | Sept 30,2003 <u>Balance</u> |
|-------------------------------|-------------------------------|--------------------|--------------------|--------------------------------|
| Buildings | \$ 70,000 | | | \$ 70,000 |
| Communication equipment | 40,510 | | | 40,510 |
| Heavy equipment | 5,720,169 | 60,000^ | (76,500) | 5,703,669 |
| Machinery, tools & equip | 92,875 | 695 | | 93,570 |
| Furniture & fixtures | 72,594 | 1,429 | | 74,023 |
| Vehicles | <u>452,099</u> | 37,561 | (55,876) | <u>433,784</u> |
| Total cost | 6,448,247 | | | 6,415,556 |
| Less accumulated depreciation | <u>(5,987,952)</u> | <u>(168,100)</u> | <u>95,196</u> | <u>(6,060,856)</u> |
| Capital assets, net | \$ <u>460,295</u> | \$ <u>(68,415)</u> | \$ <u>(37,180)</u> | \$ <u>354,700</u> |

^ Capital contribution from the primary government

Long-term debt. Pohnpei Transportation Authority does not have any long-term liabilities at this time.

Contacting the PTA's Financial Management

This Management's Discussion and Analysis is designed to provide our citizens, taxpayers, customer, creditors, and other interested parties, with a general overview of the Pohnpei Transportation Authority's finances and to demonstrate PTA's accountability for the appropriations it receives. Questions concerning any of the information provided in this discussion and analysis or requests for additional financial information should be addressed to the Commissioner, Pohnpei Transportation Authority P.O. Box 36 Kolonia Pohnpei, FM 96941, or call (691) 320-2377 or (691) 320-2148.

POHNPEI TRANSPORTATION AUTHORITY

Statements of Net Assets September 30, 2004 and 2003

| <u>ASSETS</u> | <u>2004</u> | <u>2003</u> |
|---|-------------------|-------------------|
| Current assets: | | |
| Accounts receivable, net (note 3) | \$ 38,868 | \$ 425,862 |
| Advances, net (note 4) | 537 | 3,998 |
| Due from primary government (note 2) | 14,201 | 14,201 |
| Inventory, at cost | 213,965 | 95,528 |
| Prepaid rent | 5,100 | - |
| Total current assets | <u>272,671</u> | <u>539,589</u> |
| Property and equipment, net (note 5) | <u>253,506</u> | <u>354,700</u> |
| | <u>\$ 526,177</u> | <u>\$ 894,289</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 73,856 | \$ 36,501 |
| Accrued liabilities | 44,003 | 33,173 |
| Deferred revenue | 27,666 | 17,934 |
| Due to primary government (note 6) | 316,818 | 553,705 |
| Total current liabilities | <u>462,342</u> | <u>641,312</u> |
| Contingencies (note 7) | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | 253,506 | 354,700 |
| Restricted | - | - |
| Unrestricted | <u>(189,672)</u> | <u>(101,724)</u> |
| Total net assets | <u>63,834</u> | <u>252,977</u> |
| | <u>\$ 526,177</u> | <u>\$ 894,289</u> |

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Operating revenues: | | |
| Construction services | \$ 1,573,187 | \$ 1,989,293 |
| Other | <u>167,170</u> | <u>154,065</u> |
| Total operating revenues | <u>1,740,357</u> | <u>2,143,358</u> |
| Operating expenses: | | |
| Salaries and wages | 780,343 | 903,126 |
| Supplies and materials | 355,751 | 497,735 |
| Fuel | 297,767 | 274,415 |
| Depreciation | 158,311 | 168,100 |
| Utilities | 88,455 | 78,108 |
| Equipment rentals | 83,203 | 32,693 |
| Employees benefits | 54,430 | 58,483 |
| Leases | 29,060 | 30,352 |
| Court settlements | 27,367 | 17,000 |
| Travel | 15,585 | - |
| Repair services | 11,835 | 638 |
| Bad debts | 8,344 | 85,221 |
| Taxes and licenses | 8,117 | 6,108 |
| Freight | 6,886 | 5,352 |
| Entertainment | 5,098 | 6,401 |
| Communications | 4,821 | 5,996 |
| Meeting allowances | 140 | 140 |
| Miscellaneous | <u>71</u> | <u>817</u> |
| Total operating expenses | <u>1,935,584</u> | <u>2,170,683</u> |
| Loss from operations | <u>(195,227)</u> | <u>(27,324)</u> |
| Non-operating revenues (expenses): | | |
| Operating transfers in (note 8) | - | 32,806 |
| Recovery of bad debts | 6,085 | - |
| Loss on retirement of assets | <u>-</u> | <u>(36,108)</u> |
| Total non-operating revenues (expenses) net | <u>6,085</u> | <u>(3,302)</u> |

| | | |
|---------------------------------------|------------------|-------------------|
| Capital contributions | <u>-</u> | <u>60,000</u> |
| Increase (decrease) in net assets | (189,142) | 29,374 |
| Total net assets at beginning of year | <u>252,977</u> | <u>223,603</u> |
| Total net assets at end of year | \$ <u>63,834</u> | \$ <u>252,977</u> |

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

| | 2004 | 2003 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 2,125,091 | \$ 1,829,591 |
| Cash paid to suppliers and employees | (2,067,975) | (1,823,784) |
| Net cash provided by operating activities | 57,117 | 5,807 |
| Cash flows from noncapital financing activities: | | |
| Operating transfers in | - | 32,806 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from sale of property and equipment | - | 1,073 |
| Receipt of capital contributions | - | 60,000 |
| Acquisition of property and equipment | (57,117) | (99,685) |
| Net cash used in capital and related financing activities | (57,117) | (38,613) |
| Net increase (decrease) in cash and equivalents | - | - |
| Cash and equivalents at beginning of year | - | - |
| Cash and equivalents at end of year | \$ - | \$ - |
| <u>Reconciliation of loss from operations to net cash provided by operating activities:</u> | | |
| Loss from operations | \$ (195,227) | \$ (27,324) |
| Other non-operating income | 6,085 | - |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | | |
| Depreciation | 158,311 | 168,100 |
| Bad debts | 8,344 | 85,221 |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 378,649 | (313,767) |
| (Increase) decrease in prepaid expenses | (5,100) | 17,708 |
| (Increase) decrease in advances | 3,461 | (3,998) |
| (Increase) decrease in inventories | (118,437) | 144,330 |
| (Decrease) in due to primary government | (236,887) | (43,473) |
| Increase (decrease) in accounts payable | 37,356 | (1,814) |

| | | |
|--|------------------|-----------------|
| Increase (decrease) in accrued liabilities | 10,830 | (2,254) |
| increase (decrease) in deferred revenue | <u>9,732</u> | <u>(16,921)</u> |
| Net cash provided by operating activities | \$ <u>57,117</u> | \$ <u>5,807</u> |

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pohnpei Transportation Authority (PTA) was established by Pohnpei State Public Law 3L-44-72. 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 the 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. 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.

B. Basis of Accounting

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 when revenues and expenses are recorded in the accounts and reported in the financial statements. PTA utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liabilities are incurred, regardless of when 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:

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Assets

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

B. Basis of Accounting, Continued

- 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. 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. 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, 2004 and 2003

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 nonvesting 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.

(2) DUE FROM PRIMARY GOVERNMENT

The receivable from the primary government (Pohnpei State) represents unused appropriations from general fund transfers to PTA.

(3) ACCOUNTS RECEIVABLE

Accounts receivable represents receivables from the State of Pohnpei, the FSM National Government, and from businesses and individuals related to construction of roads and sales of fuel, aggregate, coral and reinforced concrete pipes. The detail of accounts receivable at September 30, 2004 and 2003, is as follows:

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------|------------------|-------------------|
| Accounts receivable | \$ 694,385 | \$ 1,079,120 |
| Less allowance for doubtful debts | <u>(655,517)</u> | <u>(653,258)</u> |
| Accounts receivable, net | <u>\$ 38,868</u> | <u>\$ 425,862</u> |

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(4) ADVANCES

The net advances to suppliers and employees at September 30, 2004 and 2003 are as follows:

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------|-------------|-------------|
| Travel advances | \$ 14,678 | \$ 14,141 |
| Advances to suppliers | 14,610 | 18,608 |
| | 29,288 | 32,749 |
| Less allowance for doubtful debts | (28,751) | (28,751) |
| | \$ 537 | \$ 3,998 |

(5) PROPERTY AND EQUIPMENT

A summary of the PTA's property and equipment at September 30, 2004 and 2003, is as follows:

| | Estimated Useful Life | Balance October 1, 2003 | Additions | Deletions | Balance September 30, 2004 |
|-------------------------------|--------------------------|-------------------------------|--------------|-----------|----------------------------------|
| Building | 15 years | \$ 70,000 | \$ - | \$ - | \$ 70,000 |
| Heavy equipment | 5-10 years | 5,703,669 | 50,900 | - | 5,754,569 |
| Vehicles | 5 years | 433,784 | - | - | 433,784 |
| Furniture and fixtures | 3 years | 74,023 | 4,317 | - | 78,340 |
| Machinery and tools | 2 years | 93,570 | 1,900 | - | 95,470 |
| Communication equipment | 2 years | 40,510 | - | - | 40,510 |
| | | 6,415,556 | 57,117 | - | 6,472,673 |
| Less accumulated depreciation | | (6,060,856) | (158,311) | - | (6,219,167) |
| Property and equipment, net | | \$ 354,700 | \$ (101,194) | \$ - | \$ 253,506 |

| | Estimated Useful Life | Balance October 1, 2002 | Additions | Deletions | Balance September 30, 2003 |
|-------------------------------|--------------------------|-------------------------------|-------------|-------------|----------------------------------|
| Building | 15 years | \$ 70,000 | \$ - | \$ - | \$ 70,000 |
| Heavy equipment | 5-10 years | 5,720,169 | 60,000 | (76,500) | 5,703,669 |
| Vehicles | 5 years | 452,099 | 37,561 | (55,876) | 433,784 |
| Furniture and fixtures | 3 years | 72,594 | 1,429 | - | 74,023 |
| Machinery and tools | 2 years | 92,875 | 695 | - | 93,570 |
| Communication equipment | 2 years | 40,510 | - | - | 40,510 |
| | | 6,448,247 | 99,685 | (132,376) | 6,415,556 |
| Less accumulated depreciation | | (5,987,952) | (168,100) | 95,196 | (6,060,856) |
| Property and equipment, net | | \$ 460,295 | \$ (68,415) | \$ (37,180) | \$ 354,700 |

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2004 and 2003

(6) DUE TO PRIMARY GOVERNMENT

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

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Balances as of October 1, 2003 and 2002 | \$ 553,705 | \$ 597,178 |
| Increase (decrease) in the account as reflected in | | |
| Cash Flow Statement | <u>(236,887)</u> | <u>(43,473)</u> |
| Balances as of September 30, 2004 and 2003 | \$ <u>316,818</u> | \$ <u>553,705</u> |

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

(7) CONTINGENCIES

Pohnpei Transportation Authority is party to eight legal proceedings. The Attorney General represents that some of these proceedings may involve some form of monetary settlement. However, the ultimate amount of the potential settlement is not determinable and therefore, no provision for any liability that may result from the ultimate resolution of these matters has been made in the accompanying financial statements.

(8) TRANSFERS IN

The amount represents funds received from the Pohnpei State Government for the maintenance of circumferential road. In fiscal year 2003, PTA received the amount of \$32,806.

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***

YEARS ENDED SEPTEMBER 30, 2004 AND 2003



OFFICE OF THE PUBLIC AUDITOR

POHNPEI STATE GOVERNMENT

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

The Board of Directors
Pohnpei Transportation Authority:

We have audited the financial statements of the Pohnpei Transportation Authority (PTA), as of and for the years ended September 30, 2004 and 2003, and have issued our report thereon dated July 29, 2005. We conducted our audits 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 Questioned Costs in finding numbers 04-004 to 04-014 on pages 22 to 36 .

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, of the reportable conditions described above, we consider finding numbers 04-004 to 04-013 on pages 22 to 35 to be 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 Questioned Costs in finding numbers 04-001 to 04-003 on pages 16 to 21.

This report is intended for the information of the Board of Directors and management of the Pohnpei Transportation Authority, 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.

Annes Leben
State Public Auditor
July 29, 2005

| | | |
|----|----|---|
| 12 | 14 | Management to maintain subsidiary ledger of prepaid purchases and monitor prepayments and the receipts of items. Receiving reports should be filed at the State Finance timely. |
|----|----|---|

Cause:

The above condition is due to the following:

- Lack of POHNPEI TRANSPORTATION AUTHORITY.
- The above cited law did not provide for auditee's accountability in case of noncompliance.

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-001 Follow Up of Prior Year Recommendations

Criteria:

Pohnpei State Law no. 5L-08-00 requires the management of PTA to report to the Office of the Public Auditor (OPA) the status as well as the corrective actions made to resolve the weaknesses cited in the audit report. The progress should be reported monthly and all deficiencies should be cleared within a six month period.

Further, control measures that address the weaknesses should be set up and compliance thereof should be monitored. Lastly, audit recommendations should be implemented timely.

Condition:

Management did not report to the OPA the corrective actions and status of findings cited in the PTA's financial audit of fiscal years 2001 and 2002.

Our audit and follow up of recommendations disclosed that twelve (86%) out of fourteen deficiencies have not been resolved. The recommendations are:

| Finding No. | | Recommendation |
|-------------|----|---|
| 1 | 1 | Management to ensure that general and subsidiary ledgers are accurately maintained to support the amounts in the financial statements. |
| 2 | 2 | Management to ensure that cash advances owed from State Treasury are considered in the budget and funds are reserved to pay the advances promptly. |
| 3 | 3 | Management to enforce collection of delinquent accounts. |
| 4 | 4 | The accountant to perform reconciliation of accounts on a monthly basis. |
| 5 | 5 | Management to ensure that inventory is kept at a safe place and that records are maintained and updated through periodic physical count. |
| 6 | 7 | Management to ensure that a policy on approval and extension of credit is established; the terms of the credit should be written and signed by customer. |
| 7 | 8 | Management to ensure that purchases and sales of fuel are monitored and properly accounted for. |
| 8 | 9 | Management to ensure that overtime is properly reviewed and supported with approved timesheets and request forms prior to payments. |
| 9 | 10 | Management to ensure that paid time off are supported with approved applications for both vacation and sick leaves. |
| 10 | 11 | The Commissioner and Director of Treasury to ensure that travelers promptly pay their travel advances through payroll allotments. |
| 11 | 13 | PTA to ensure that budgets are reasonably planned, monitored, and amended to actual results. |
| 12 | 14 | Management to maintain subsidiary ledger of prepaid purchases and monitor prepayments and the receipts of items. Receiving reports should be filed at the State Finance timely. |

Cause:

The above condition is due to the following:

- Lack of control consciousness by the management of PTA.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-001 Follow Up of Recommendations, continued

Cause:

- The above cited law did not provide for auditee's accountability in case of noncompliance.

Effect:

The condition resulted to noncompliance with PSL 5L-08-00. In addition, the non resolution of the findings continues to hinder PTA's operational efficiency and positive financial performance.

Recommendation:

We recommend the Board to ensure the following:

- The Commissioner to make a monthly report to the OPA regarding any corrective actions implemented by the management and status of each finding which should be resolved within six months after transmittal of audit report.
- The Commissioner should institute control measures that prevent the recurrence of the same deficiencies as well as monitor compliance thereof.
- The Commissioner to implement the audit recommendation for each of the weaknesses cited in the audit report.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-002 Board Meetings

Criteria:

The PTA By-Laws states that:

- The Board shall meet once a month on the first Tuesday of each month.
- Meetings may be called by or at the request of the Board Chairman, Commissioner or any one or more of the Board.

In addition, the minutes of Board meetings should be written and signed by designated Board officials. Lastly, payment of meeting allowances should be supported by a roster of attendance.

Condition:

The PTA board meetings were not conducted on a monthly basis. Instead, our audit revealed the following:

- In fiscal year 2003, one out of five minutes of meetings was neither signed by the preparer nor approved by the designated official.
- In fiscal year 2004, the minutes for two (out of six) meetings were prepared. However, only one was signed by designated officials.

Our review of expenses in fiscal year 2004 disclosed payment of allowances to a Board for meetings unsupported by rosters of attendance or minutes of meetings.

Cause:

The causes of the above condition are:

- The term of Board members has expired and the successors have been nominated but were not confirmed by Legislature.
- Although the Commissioner designated PTA's secretary to record the meetings, she might not have been present during the meetings.

Effect:

The effect of the above condition is noncompliance to PTA's By Laws. In addition, there is no assurance that the Board exercised the vested powers in PTA. Lastly, significant decisions that negatively impact PTA's operation might have been made without the approval of the Board.

Prior Year Status:

The above condition was reported as a finding in the financial audit of PTA for fiscal year 2000.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-002 Board Meetings, continued

Recommendation:

We recommend the following:

- The Commissioner should comply with PTA's By Laws.
- The Chairman of the Board should ensure that written minutes of meetings are signed by designated officials.
- The Commissioner to support payment of meeting allowances based on the roster of attendance.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated December 16, 2005:

The payments of meeting allowances were only supported by agendas; unsigned by the attendees. In addition, minutes were not provided on the date of meeting specified in the agendas. Thus, we maintain our finding.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-003 Road Paving Contracts

Criteria:

Works should be completed in accordance with the terms of contract.

Condition:

During fiscal year 2004, PTA signed seven contracts for the construction and paving of secondary roads. The project completion date per contract is as follows:

- a. 60 days after the Notices to Proceed (NTP) were issued; or
- b. 180 days after the contract was signed.

Our audit disclosed that the projects were performed for an extended period after the Office of Transportation and Infrastructure has issued the NTP's. The projects are:

| | <u>Contract No.</u> | <u>Amount</u> | <u>NTP Date</u> | <u>CD*</u> | <u>Status**</u> |
|---|---------------------|------------------|-----------------|------------|-------------------------|
| 1 | 40385 | \$ 20,000 | Mar 30, 2004 | a. | completed after FY 2004 |
| 2 | 40386 | 50,000 | | b. | for re-scoping |
| 3 | 40388 | 30,000 | Mar 30, 2004 | a. | completed after FY 2004 |
| 4 | 40399 | 30,000 | Mar 30, 2004 | a. | completed after FY 2004 |
| 5 | 40400 | 50,000 | Mar 30, 2004 | a. | on going |
| 6 | 40401 | 30,000 | Mar 30, 2004 | a. | on going |
| 7 | 40620 | 48,500 | July 20, 2004 | b. | completed after FY 2004 |
| | Total | <u>\$258,500</u> | | | |

* Completion Date

** as of audit report date

Cause:

The causes of the above condition are:

- Management claimed lack of necessary equipment for the project/s.
- The Office of Transportation and Infrastructure did not strictly monitor the delays nor enforce the penalties stipulated in the contracts because PTA is a government entity.

Effect:

The above condition resulted to noncompliance with the above cited contracts. In addition, potential revenues amounting to \$258,500 were not realized during the year.

Recommendation:

We recommend the Commissioner to ensure that works are completed on or before the contract completion date.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-003 Road Paving Contracts, continued

Auditor's Reply to Auditee Response dated December 16, 2005:

Management should comply with the terms of the contract. Otherwise, amendments to the contracts should be executed. Thus, we maintain our finding.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

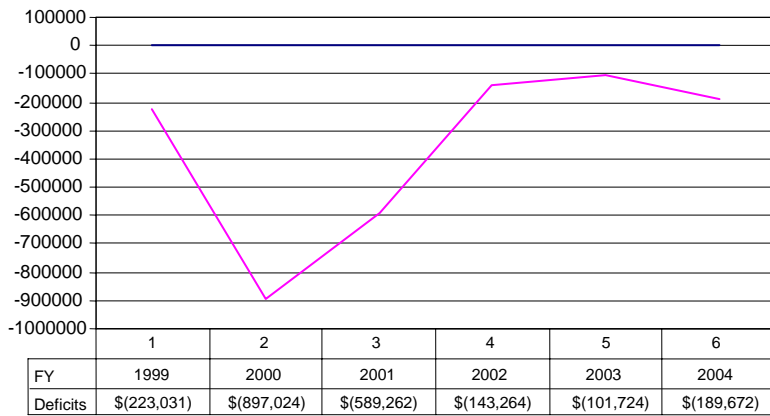
Finding No. 04-004 Deficits

Criteria:

Enterprise funds should operate similar to private businesses where the measurement focus is on the determination of net income. In addition, control measures applicable to sound financial administration should be established.

Condition:

The PTA is an enterprise fund of Pohnpei State Government. However, PTA is dependent on the State Treasury to finance its operation. The results of operation from fiscal year 1999 to fiscal year 2004 showed deficits as follows:



Cause:

Management has not been cost effective nor profit-oriented in its activities. We noted the following:

- Significant disparity of actual revenues against the budget.
- Delays in the performance of road paving contracts.
- Neither expenses were monitored nor accumulated by department or activity.
- Receivables from prior years have not been collected.
- Vehicles were purchased for use of other government office.

Effect:

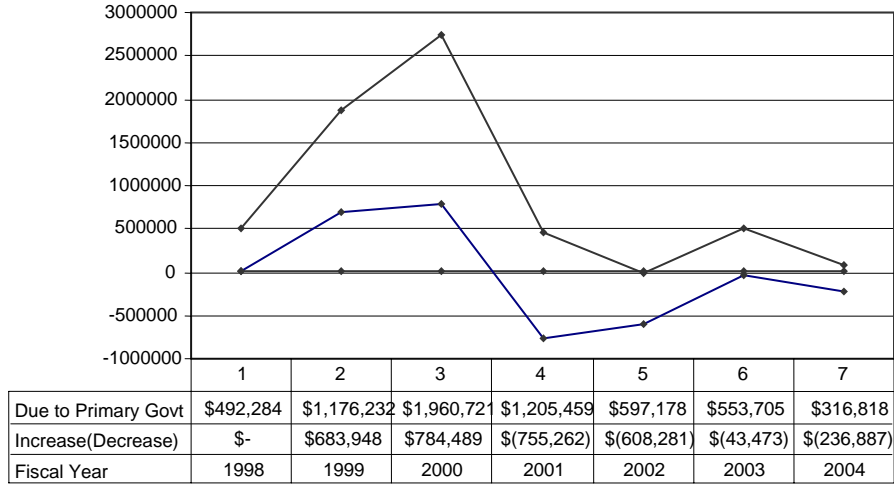
From fiscal year 1998 through fiscal year 2004, the cash advances from the Pohnpei State general fund have not been fully paid.

The following graph shows the increases and decreases of the account within the seven year period:

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-004 Deficits, continued



Subsequently, the amount increased to \$614,869.

Recommendation:

We recommend the Commissioner to implement control measures that improves PTA's financial performance. The controls should include but is not limited to the following:

- The annual budget should reflect expected revenues and expenses that are reasonable.
- Road paving contract services should be performed timely.
- Operating revenues vis a vis expenses should be managed and reported on a regular basis.
- Outstanding accounts of customers and employees should be collected, and charges extended only to those who are credit-worthy.
- Procurement for supplies and assets that are not vital nor used in operation should be restricted.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-005 Fully Depreciated Fixed Assets

Criteria:

Fixed assets should be monitored and inspected on periodic basis. In addition, adjustment should be made in the accounting records for fully depreciated assets that are no longer in service, missing, or inoperative.

Condition:

PTA's detailed accounting record for fixed assets consists of significant number of fully depreciated assets (FDA).

The physical inventory for fixed assets observed by the auditors in fiscal years 2003 and 2004 revealed that either the FDA's were inoperative or missing. For instance, the heavy machinery and equipment includes fifteen (15) inexistent dump trucks that were fully depreciated.

The percentage of inoperative or missing FDA's to total cost per class for fiscal year 2004 is as follows:

| <u>Class</u> | <u>Total Items</u> | <u>Total Cost</u> | <u>FDA</u> | <u>No. of Items</u> | <u>% to Ttl Cost</u> |
|------------------|--------------------|---------------------|---------------------|---------------------|----------------------|
| Heavy Machinery | <u>88</u> | <u>\$ 5,754,569</u> | <u>\$ 2,740,940</u> | <u>53</u> | <u>48%</u> |
| Vehicles | <u>39</u> | <u>\$ 433,784</u> | <u>\$ 253,481</u> | <u>23</u> | <u>58%</u> |
| Communication | <u>20</u> | <u>\$ 41,205</u> | <u>\$ 37,806</u> | <u>16</u> | <u>92%</u> |
| Machines, Tools | <u>30</u> | <u>\$ 94,775</u> | <u>\$ 85,488</u> | <u>25</u> | <u>90%</u> |
| Office Equipment | <u>28</u> | <u>\$ 78,340</u> | <u>\$ 72,594</u> | <u>21</u> | <u>93%</u> |
| | | <u>TOTAL</u> | <u>\$ 3,190,309</u> | | |

Cause:

Management neither reviewed the detailed fixed asset record nor monitored the status of fully depreciated assets.

Effect:

There is no assurance that all fixed assets listed in the schedule exist.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-005 Fully Depreciated Fixed Assets, continued

Recommendation:

We recommend the Commissioner to ensure the following:

- Require the custodian of each asset or field supervisors to prepare interim reports as to the status and location of fixed assets.
- The Accountant and the Chief Mechanic should be assigned to inspect the condition and location of existing assets.
- The Accountant should reconcile the detailed fixed asset schedule to physical existence and status of assets.
- The Accountant should update the accounting records after the Commissioner's review and approval of adjustments.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-006 Progress Reports

Criteria:

Revenues for road paving and construction should be supported by progress reports and billings that substantiate completed works. In addition, the progress reports and billings should be prepared timely.

Condition:

As shown in the table below, PTA's recorded revenues for road paving and construction for fiscal year 2004 include:

- a. A road paving project with no supporting progress report and billing.
- b. Two projects with supporting progress reports and billings subsequent to fiscal year 2004.

| | <u>Contract No.</u> | <u>Amount</u> | |
|---|---------------------|---------------|---|
| 1 | C40384 | \$ 45,000 | b |
| 2 | C40387 | 90,000 | a |
| 3 | C40394 | 45,000 | b |
| | Total | \$180,000 | |

Cause:

The cause of the above condition is due to the absence of appropriate reviews of accounting entries by management.

Effect:

The above condition resulted to overstatement of revenues amounting to \$180,000 prior to auditor's adjustment.

Recommendation:

We recommend the Commissioner to ensure that road paving and construction services are supported by progress reports and billings that are prepared timely.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-006 Progress Reports, continued

Auditor's Reply to Auditee Response dated December 16, 2005:

Based on documents submitted by the PTA to the OPA, the mobilization for the three projects was paid a day before the end of fiscal year ending September 30, 2005. In addition, OPA's follow up with the OT&I disclosed that OT&I's inspections for the three projects were conducted after fiscal year 2005. These meant that the works were performed after fiscal year 2005; thus we maintain our finding.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-007 Paving Asphalt

Criteria:

Policy and procedures for the safe handling and processing of paving asphalts should be established. In addition, a functioning system of internal control requires that inventory should be safeguarded against loss and damage.

Condition:

PTA has no existing safety policy and procedures manual that guides operators and workers in processing the asphalt mixture and in road paving. In addition, during the inventory cut off for fiscal years 2003 and 2004, the total drums of asphalt cement and primer counted were 457 and 1,121 respectively. However, the drums were exposed in the field, and untagged. Further, drums that are leaking were not removed from the stock.

Cause:

The lack of a positive attitude towards safety and controls by management resulted to the above condition.

Effect:

The risk for safety and environmental hazards is heightened as a result of the above condition. In addition, the above condition might result to further loss of supplies.

Prior Year Status:

The above condition was reported as a finding in PTA audits of fiscal years 1997 to 2002.

Recommendation:

We recommend the Commissioner to implement a safety policy relative to the proper handling and processing of paving asphalts. In addition, we recommend the Commissioner to establish an adequate storage facility to keep the tagged drums of asphalt cement and primer.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-007 Paving Asphalt, continued

Auditor's Reply to Auditee Response dated December 16, 2005:

Safety measures should be implemented to reduce workers unrestrained exposure to asphalts.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-008 Accounts Payable

Criteria:

The accounts payable subsidiary ledger should be reconciled to the general ledger on a periodic basis. The difference should be investigated and appropriate adjustment made.

In addition, the reconciliation should be reviewed and approved by a responsible official.

Condition:

The accountant did not establish the accounts payable subsidiary ledger for fiscal years 2003 and 2004. Instead, she maintains an incomplete logbook of purchase requisitions that shows the vendor, amount, purchase order number, miscellaneous requests, and description of items. On the other hand, State Finance processes the payment for vendors upon receipt of the purchase orders and support documents.

Our audit of accounts payable revealed material discrepancies for fiscal years 2003 and 2004 as follows:

| <u>Fiscal Year</u> | <u>PTA</u> | <u>State Finance</u> | <u>Difference</u> |
|--------------------|------------|----------------------|-------------------|
| 2003 | \$ 74,320 | \$ 20,918 | \$ 53,402 |
| 2004 | \$ 13,691 | \$ 61,252 | \$(47,561) |

The auditors spent time reconciling the accounts because PTA kept copies of requisitions and purchase orders only. The auditors traced the supporting documents such as vendor invoices, billings and checks paid to vendors at State Finance.

Cause:

The above condition is due to lack of controls for procurement. In addition the condition is due to lack of coordination between the supply specialist and accountant. For instance, the supply specialist initiates the procurement process, purchases supplies, and files the documents without reporting to the accountant. The accountant, unaware of the procurement, did not monitor the payments to vendors. Instead, she receives the monthly report of expenditures from State Finance.

Effect:

Expenses were overstated in fiscal year 2003 and understated in fiscal year 2004; prior to the auditor's adjustment. In addition, there is inadequate assurance that PTA monitors its expenses.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-008 Accounts Payable, continued

Prior Year Status:

The above condition was cited in PTA financial audits of fiscal years 2000 to 2002.

Recommendation:

We recommend the Commissioner to ensure the following:

- The supply specialist and other authorized purchasers to coordinate with the accountant prior to initiating procurement of goods and services.
- The accountant should maintain accounts payable subsidiary ledger and reconcile the accounts with State Finance monthly. The subsidiary ledger should include details such as vendor, amount, purchase order number, voucher number, invoice number (or other support document), and details of payment details such check number and date.
- The Commissioner should review and sign the reconciliation.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-009 Third Party Supplies

Criteria:

Inventory should be properly tagged and segregated from properties owned by third parties. In addition, records of receipts and issuances of supplies should be maintained and updated through periodic physical count.

Condition:

Our audit of fiscal year 2004 showed that third party supplies consisting of 370 drums of asphalt primer were included in PTA's inventory. Neither the drums were identified nor segregated from PTA's supplies and materials.

Further, we observed that supplies located at various job sites were not documented nor monitored except at year ends. The receipts and issuances of supplies to the sites were not recorded.

Cause:

The above condition happened because of absence of controls for inventory.

Effect:

Inventory was overstated by \$64,000 prior to the auditor's adjustment.

Prior Year Status:

The above condition was reported in PTA's financial audits of fiscal years 1998 to 2002.

Recommendation:

We recommend the Commissioner to ensure that PTA's drums of asphalt primer and cement are identified and segregated from third party supplies. In addition, we recommend the Commissioner to ensure that the Accountant records the receipts and issuances of supplies at various job sites and reconcile the record through periodic physical count.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-010 Cash Receipts

Criteria:

Cash receipts should be recorded and completely accounted for. In addition, supporting documents such as sales invoices and job order forms should be issued in numerical order, attached to the cash receipts, and filed in sequence. Lastly, cancelled sales invoices and order forms should be filed with all copies intact.

Condition:

For equipment rentals and sales of corals, aggregates, and concrete pipes, the accountant issues sales invoices that are paid by customers at State Finance. Our tests on cash receipts revealed the following:

Fiscal year 2003:

- Five cash receipts were not recorded by PTA.
- A cash receipt was supported by original copy of invoice; duplicate copies of which were cancelled.
- Six invoices were not issued in sequence.
- An instance of cash receipt less than the amount of supporting invoice.
- The original copy of a cancelled invoice was missing.
- An instance of missing invoice.

Fiscal year 2004:

- Duplicate copies of two invoices were cancelled; the original copies were missing.
- An original copy of invoice support cash receipt; the duplicate copies were cancelled.
- An invoice issued for prior year accounts, the prior invoice was not cancelled.
- A cash receipt was not recorded by PTA.

Cause:

The above condition is due to the absence of controls on cash receipts.

Effect:

The risk that all revenues from sales of materials and equipment rentals were not recorded and accounted for resulted from the above condition.

Recommendation:

We recommend the Commissioner to ensure that the Accountant performs timely reconciliation of cash receipts with State Finance. In addition, the Accountant should issue sales invoices and order forms in numerical order, account for all issued invoices and file cancelled invoices with all copies intact.

POHNPEI TRANSPORTATION AUTHORITY

**Schedule of Findings and Questioned Costs
Years Ended September 30, 2004 and 2003**

Finding No. 04-010 Cash Receipts, continued

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-011 Operating Expenses

Criteria:

Expenses should be monitored and accounted for properly. In addition, cost incurred in production such as materials, labor, and overhead should be reported timely.

Condition:

PTA's chart is organized as follows:

- Engineering department that includes dredging, hot plants, planning, and road construction;
- Motor pool, that comprise of mechanics, drivers, stockmen, and operators;
- Administrative; and
- Finance

Our audit of fiscal years 2003 and 2004 revealed that costs incurred in operation were not accounted for or accumulated by department or activity. For instance, materials for road construction and paving, office supplies, and for office renovation were all recorded as supplies. Further, there is no production report that details the cost incurred in processing the mixed asphalt cement, concrete pipes, and dredging of corals.

Cause:

The above condition is due to the following:

- PTA relies on State Finance' report.
- The accountant is not adequately trained in financial reporting.

Effect:

There is no assurance that all expenses are monitored or legitimate.

Prior Year Status:

The above condition was reported in PTA's financial audit of fiscal year 1998.

Recommendation:

We recommend the Commissioner to ensure that the accountant:

- Monitor and report the operating expenses by activity or department.
- Generate monthly report and costing of the materials, labor, and overhead used in production of mixed asphalt cement, concrete pipes and corals.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-012 Vehicles

Criteria:

Fixed assets should be safeguarded against unauthorized use. In addition, fixed assets should be used in operation.

Condition:

The Office of Transportation and Infrastructure (OT&I) was mandated to inspect and certify completion of work for the road construction and paving projects awarded to the PTA.

Our review of fixed assets disclosed that in fiscal year 2003, PTA purchased two units of vehicles for use of the OT&I during its inspection of PTA projects. The auditors' physical inspections conducted in fiscal years 2003, 2004 and subsequent period showed that the vehicles were kept by the OT&I. Further, neither vehicle usage was monitored by PTA nor PTA was advised in writing of all routine inspections made by the OT&I.

Cause:

Management stated that the State Executive verbally authorized the arrangement.

Effect:

The effect of the above condition resulted to unmonitored access to PTA vehicles by the OT&I. In addition, there is no assurance that PTA derives the maximum benefit from the assets.

Recommendation:

We recommend the Commissioner to ensure that the vehicles are safeguarded from unauthorized use through monitoring of the status and usage of the vehicles. For instance, PTA should coordinate with OT&I when inspections are due and log the date, project and status of such inspections. In addition, we recommend the Commissioner to ensure that only authorized OT&I personnel are allowed use of the vehicles.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-013 Payroll

Criteria:

Payroll calculations should be reviewed prior to payment. In addition, employees should acknowledge receipt of pay checks.

Condition:

PTA submits the timesheets to State Finance for processing the bi weekly payroll. Our audit disclosed that on pay days, the payroll department obtains from State Finance the payroll distribution report that accompanies the pay checks. Neither the payroll technician reviews the payroll distribution report nor employees are required to acknowledge the receipt of their paychecks.

Cause:

The causes of the above are:

- The payroll technician did not prepare the payroll registers and reconcile with State Finance' payroll reports.
- The supervisors distribute the laborers' pay checks.

Effect:

The above condition resulted to payments for payroll that are not monitored. In addition, there is no assurance that all payrolls were accurate.

Recommendation:

We recommend the Commissioner to ensure that the payroll technician performs the following:

- Prepare the payroll register based on the approved timesheets submitted to State Finance.
- Reconcile the payroll register with State Finance' payroll report prior to payment.
- Require each employee to acknowledge the receipt of his/her paycheck.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2004 and 2003

Finding No. 04-014 Payroll Records

Criteria:

Personnel action forms, contracts, authorizations for allotment and other vital information related to employees should be maintained. In addition, the accounting records should be updated of the changes in personnel status.

Condition:

Our audit of payroll for fiscal years 2003 and 2004 revealed discrepancies between the pay registers from State Finance and PTA's personnel list as follows:

- A. Fiscal Year 2003
 - An employee's actual pay is more than rate in the personnel list.
 - An employee's actual pay is less than the rate in PTA's personnel list
- B. Fiscal Year 2004
 - Seven employees were not listed in the personnel list
 - Two terminated employees were included in PTA's personnel list
 - Twelve employees' actual pay rate was less than rate in the personnel list.
 - Instances wherein PTA's rate was less than the pay register.

Cause:

The accountant was not aware of the changes in personnel status.

Effect:

There is no assurance that all payroll payments were legitimate.

Recommendation:

We recommend the Administrative Officer to maintain complete personnel file for each employee. In addition, the Commissioner should ensure that the accountant and payroll department are informed of changes in the status of each employee.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

AUDITEE RESPONSE (EXHIBIT I)

YEARS ENDED SEPTEMBER 30, 2004 AND 2003