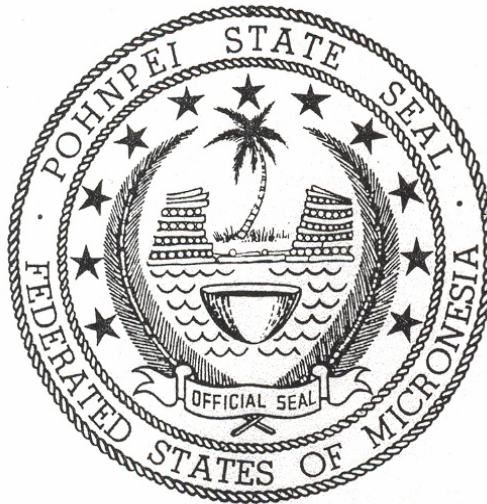


POHNPEI TRANSPORTATION AUTHORITY

AUDIT REPORT NO. 007-06

SEPTEMBER 30, 2005



OFFICE OF THE PUBLIC AUDITOR
POHNPEI STATE GOVERNMENT

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

**POHNPEI TRANSPORTATION AUTHORITY
AUDIT REPORT
SEPTEMBER 30, 2005**

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May 29, 2006

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 are pleased to submit the financial audit report of Pohnpei Transportation Authority (PTA) as of and for the year ended September 30, 2005. 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, result of operations, and cash flows of Pohnpei Transportation Authority as of September 30, 2005, (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.

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, 2005, and the result of its operations, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.
- As of September 30, 2005, PTA's net assets decreased to \$39,311 and the amount due to primary government increased to \$513,578.
- PTA's operations resulted to a loss of \$24,523 that increased the deficit to \$164,190.

The audit cited five (5) material instances of noncompliance with laws and regulations as follows:

1. Pohnpei State Law no. 5L-08-00 which requires PTA to report monthly to the Office of the Public Auditor (OPA) its progress in clearing the deficiencies cited in the audit report.

The PTA neither complied with the above mandate, nor implemented 13 of 14 audit recommendations for fiscal years 2003 and 2004.

2. Section 10-3(c) of the Ponape District Code and its subsequent amendments require the PTA Board to hold regular meetings in the first week of each month, and the Secretary of the Board to record the proceedings of Board meetings.

No minutes of meeting were furnished to the Office of the Public Auditor from October 2004 up to the date of audit report.

3. Sections 10-5(a) and 10-5(h) of the Ponape District Code (Establishing Act of PTA) mandate the Commissioner to implement projects as determined by the Board, and that expenditures in excess of \$5,000 require Board's approval respectively.

The Road Maintenance Project worth \$82,949 was performed without the Board's approval or contract. As of report date, collection for the project remains uncertain.

4. Section 10-3(a) and Section 10-5 (i) of the Ponape District Code require the Board's approval of all contracts in excess of \$500, and the joint signature of the Commissioner and PTA Chairman of contracts in excess of \$500 respectively.

A Memorandum of Understanding valued at \$15,000 for a coral road paving project was signed between a representative from the Election District Office (EDO) and a management official without the Board's approval. The work performed was not supported by a cost estimate, scope of works, and progress reports. Aside from this, PTA neither billed the EDO nor recorded the transaction.

Further to the above, the coral paving extended to a road going to a private "nahs". The "nahs" was subject of a report from the State Personnel Officer whereby several PTA employees were allegedly found working on its construction during office hours. The change of scope that amounted to \$25,385 was not also recorded in PTA's books.

5. Pohnpei Financial Management Regulations on procurement.

While PTA owes the primary government substantial amount of advances, the State Finance used PTA's funds amounting to \$20,000 for procurement of an asset requested by the Office of Transportation and Infrastructure. The transaction which was not authorized by PTA, was recorded as PTA's receivable from the primary government at the end of fiscal year.

- Two (2) out of six (6) findings on internal control over financial reporting were considered to be material weaknesses namely:
 1. Subsidiary ledgers and supporting documents of receivables from sales of materials and for travel advances amounting to more than \$80,347 were not maintained.
 2. Inventory was overstated by \$54,228 due to lack of controls and records.

As is customary, we have offered our recommendations to each finding we believe once implemented could improve the operations of PTA. A draft of this report was provided and discussed with the management of the Pohnpei Transportation Authority. Their response and corrective action plans are included hereto as Exhibit I on pages 32-36.

We take this opportunity to inform management of Pohnpei State Law no. 5L-08-00: PTA is required to submit a monthly report to OPA indicating its progress in clearing the deficiencies cited in the audit report, which period shall not exceed six months.

Lastly, we extend our appreciation to the management and staffs of PTA for their 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**

YEAR ENDED SEPTEMBER 30, 2005

INDEPENDENT AUDITOR'S REPORT

Chairman
Board of Directors
Pohnpei Transportation Authority:

We have audited the accompanying statement of net assets of the Pohnpei Transportation Authority (the PTA), a component unit of the State of Pohnpei, as of September 30, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the PTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PTA, as of September 30, 2005, and the result of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of 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 March 27, 2006, on our consideration of the 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 H. Leben
State Public Auditor
March 27, 2006

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis Year Ended September 30, 2005

This section of the Pohnpei Transportation Authority's financial audit report presents management's discussion and analysis of the PTA's financial performance as of and for fiscal year ended September 30, 2005. Please read it in conjunction with the PTA's financial statements and accompanying notes.

Financial Highlights

- The net assets decreased to \$39,311 as of September 30, 2005 compared to \$63,834 in fiscal year 2004.
- The due to primary government increased by \$196,760 or 62%.

Overview of the Financial Statements

Pohnpei Transportation Authority is a proprietary fund - 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. Accordingly, 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 PTA'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 PTA is improving or deteriorating. Presented below is the comparative change in net assets as of fiscal years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>\$ Inc(dec)</u>	<u>% Inc(dec)</u>
Current assets	\$430,159	\$272,670	\$157,489	
Capital assets	203,501	253,506	(50,005)	
Total assets	\$633,660	\$526,176	\$107,484	20%
Due to primary government	\$513,578	\$316,818	\$196,760	
Other liabilities	80,771	145,524	(64,753)	
Total current liabilities	\$594,349	\$462,342	\$132,007	29%
Total net assets	\$39,311	\$63,834	(\$24,523)	(38%)

Operating Activities

The primary purpose of PTA is to promote, develop and improve transportation facilities and services within Pohnpei State. 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 change in operating loss for fiscal years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>% Inc(Dec)</u>
Operating revenues	\$ 1,839,589	\$ 1,740,357	6%
Operating expenses	<u>(1,864,112)</u>	<u>(1,935,584)</u>	(4%)
Operating income (loss)	\$ (24,523)	\$ (195,227)	
Non operating income (expenses)	<u>-</u>	<u>6,085</u>	
Net income (loss)	<u>\$ (24,523)</u>	<u>\$ (189,142)</u>	(87%)

Capital Assets and Debt Administration

Capital assets. Capital asset acquisitions during the year include a Boom truck, and an Asphalt finisher that cost \$11,000 and \$51,900 respectively. In addition, management bought two computer laptops costing \$1,950 each. The PTA's investment in capital assets net of accumulated depreciation as of September 30, 2005 is as follows:

	<u>Balance Oct 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept 30, 2005</u>
Building	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5,754,569	62,900		5,817,469
Vehicles	433,784	-		433,784
Furniture & fixtures	78,340	3,900		82,240
Machinery and tools	94,775	513		95,288
Communication equipment	41,205	-		41,205
	\$6,472,673	\$ 67,313	\$ -	\$6,539,986
Less accumulated depreciation	(6,219,167)	(117,318)		(6,336,485)
Capital assets, net	\$ 253,506	\$(50,005)	\$ -	\$ 203,501

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

Contacting the PTA's 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, FSM 96941, or call (691) 320-2377 or (691) 320-2148.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Net Assets

September 30, 2005

ASSETS

Current assets:

Accounts receivable, net (note 3)	\$	206,933
Advances, net (note 4)		44,378
Due from primary government (note 2)		34,201
Inventory, at cost		144,647

Total current assets 430,159

Property and equipment, net (note 5) 203,501

\$ 633,660

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	20,379
Accrued liabilities		46,649
Deferred revenue		13,743
Due to primary government (note 6)		513,578

Total current liabilities 594,349

Contingencies (note 7)

Net assets:

Invested in capital assets, net of related debt 203,501
Unrestricted (164,190)

Total net assets 39,311

\$ 633,660

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2005

Operating revenues:	
Construction services	\$ 1,506,939
Other	332,650
	<hr/>
Total operating revenues	1,839,589
	<hr/>
Operating expenses:	
Salaries and wages	785,769
Fuel	405,546
Supplies and materials	326,852
Depreciation	117,318
Utilities	95,088
Employees benefits	55,381
Contractual services	23,666
Leases	10,200
Taxes and licenses	9,459
Bad debts	8,017
Repair services	7,429
Travel	5,848
Entertainment	5,330
Communications	4,546
Freight	2,268
Miscellaneous	1,395
	<hr/>
Total operating expenses	1,864,112
	<hr/>
Loss from operations	(24,523)
	<hr/>
Non-operating revenues (expenses)	-
	<hr/>
Capital contributions	-
	<hr/>
Increase (decrease) in net assets	(24,523)
	<hr/>
Total net assets at beginning of year	63,834
	<hr/>
Total net assets at end of year	\$ 39,311
	<hr/> <hr/>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Cash Flows Year Ended September 30, 2005

Cash flows from operating activities:	
Cash received from customers	\$ 1,663,507
Cash paid to suppliers and employees	<u>(1,596,194)</u>
Net cash provided by operating activities	<u>67,313</u>
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	<u>(67,313)</u>
Net cash used in capital and related financing activities	<u>(67,313)</u>
Net increase (decrease) in cash and equivalents	-
Cash and equivalents at beginning of year	<u>-</u>
Cash and equivalents at end of year	<u><u>\$ -</u></u>
<u>Reconciliation of loss from operations to net cash provided by operating activities:</u>	
Loss from operations	\$ (24,523)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	117,318
Bad debts	8,017
Change in assets and liabilities:	
Increase in accounts receivable	(176,082)
Increase in advances	(43,841)
Increase in due from primary government	(20,000)
Decrease in inventories	69,318
Decrease in prepaid expenses	5,100
Decrease in accounts payable	(53,477)
Increase in accrued liabilities	2,646
Decrease in deferred revenue	(13,923)
Increase in due to primary government	<u>196,760</u>
Net cash provided by operating activities	<u><u>\$ 67,313</u></u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pohnpei Transportation Authority (PTA) was established by Chapter 10, Section 10-1 of the Ponape District Code and subsequent amendments thereof. The primary purpose of PTA is to promote, develop, and improve transportation facilities and services within Pohnpei. The services include the construction of circumferential roads for the island, secondary farm roads for the municipal governments and performance of other construction maintenance on a user charge basis.

The affairs of PTA are governed by a seven-member Board, consisting of representatives of the Pohnpei State Government appointed by the Governor to four-year terms. Daily operation of 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.

B. Basis of Accounting

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

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

Basis of accounting refers to 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, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting, 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.

- 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, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 and reimbursements for the Pohnpei State advances to fund PTA's operations.

(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, 2005, is as follows:

Accounts receivable	\$ 870,467
Less allowance for doubtful debts	(663,534)
Accounts receivable, net	<u>\$ 206,933</u>

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2005

(4) ADVANCES

The net advance to suppliers and employees as of September 30, 2005 is as follows:

Travel advances	\$ 18,606
Advances to suppliers	54,523
	<u>73,129</u>
Less allowance for doubtful debts	(28,751)
	<u>\$ 44,378</u>

(5) PROPERTY AND EQUIPMENT

A summary of the PTA's property and equipment at September 30, 2005, is as follows:

	Estimated Useful Life	Balance October 1, 2004	Additions	Deletions	Balance September 30, 2005
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	5,754,569	62,900	-	5,817,469
Vehicles	5 years	433,784	-	-	433,784
Furniture and fixtures	3 years	78,340	3,900	-	82,240
Machinery and tools	2 years	95,470	513	-	95,983
Communication equipment	2 years	40,510	-	-	40,510
		<u>6,472,673</u>	<u>67,313</u>	<u>-</u>	<u>6,539,986</u>
Less accumulated depreciation		<u>(6,219,167)</u>	<u>(117,318)</u>	<u>-</u>	<u>(6,336,485)</u>
Property and equipment, net		<u>\$ 253,506</u>	<u>\$ (50,005)</u>	<u>\$ -</u>	<u>\$ 203,501</u>

(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 is shown below:

Balance as of October 1, 2004	\$ 316,818
Increase (decrease) in the account as reflected in	
Cash Flow Statement	<u>196,760</u>
Balance as of September 30, 2005	<u>\$ 513,578</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.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2005

(7) CONTINGENCIES

Pohnpei Transportation Authority is party to ten legal proceedings. The Attorney General represents that some of these proceedings may involve monetary settlement of claims estimated at less than \$150,000. However, no provision for any liability that may result from the ultimate resolution of these matters has been made in the accompanying financial statements.

POHNPEI TRANSPORTATION AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2005

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

Chairman
The Board of Directors
Pohnpei Transportation Authority:

We have audited the financial statements of the Pohnpei Transportation Authority (PTA), as of and for the year ended September 30, 2005, and have issued our report thereon dated March 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs in finding numbers 05-006 to 05-011 on pages 24 to 31.

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 05-006 to 05-007 on pages 24 to 26 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 05-001 to 05-005 on pages 14 to 23.

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 H. Leben
State Public Auditor
March 27, 2006

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Fiscal Year Ended September 30, 2005

Finding No. 05-001 Audit Recommendations

Criteria:

Pohnpei State Law no. 5L-08-00 states, "The auditee shall file a monthly report to the Office of the Public Auditor indicating its progress in clearing deficiencies in the audit report until such time as it can report that all deficiencies have been cleared, which period shall not exceed six months."

Moreover, management should implement the audit recommendations promptly as well as establish controls that correct the deficiencies cited in the audit report.

Condition:

As of report date, the PTA is delinquent in reporting monthly the status of weaknesses cited in the financial audit of fiscal years 2003 and 2004. Our follow up audit of fiscal year 2005 revealed that ninety-three per cent (93% or 13 out of 14) of audit recommendations in the audit report were not implemented. These are:

Audit Recommendations for FYs 2003 and 2004	Status Per Audit of FY 2005
<p>1 <u>Follow Up of Recommendations</u> The Board to ensure that (1) the Commissioner to make a monthly report to the OPA of corrective actions implemented by management and the status of each finding; (2) the Commissioner to institute control measures that prevent the recurrence of the same deficiencies as well as monitor compliance to the measures; (3) the Commissioner to implement the audit recommendation for each of the weaknesses cited in the audit report.</p>	<p>No monthly report to the OPA of corrective actions or controls implemented to resolve the audit findings for fiscal years 2003 and 2004.</p>
<p>2 <u>Board Meetings</u> (1) The Board chairman to ensure that minutes of meetings are signed by designated officials. (2) The Commissioner to comply with PTA's bylaws. (3) The Commissioner to support payment of meeting allowances with the roster of attendance.</p>	<p>No FY 2005 Board minutes furnished to the auditors. However, our test disclosed that on Nov 12, 2004, a special meeting was held for which minute was not prepared.</p>
<p>3 <u>Road Paving Contracts</u> The Commissioner to ensure that works are completed on or before the contract completion date.</p>	<p>Two projects in FY 2004 have yet to be completed.</p>
<p>4 <u>Deficits</u> The Commissioner to implement control measures that improves PTA's financial performance.</p>	<p>In FY 2005, PTA's operating loss was \$24,523 and cash advances from State Treasury increased to \$513,578.</p>

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Fiscal Year Ended September 30, 2005

Finding No. 05-001 Audit Recommendations, continued

Condition:

Audit Recommendations for FYs 2003 and 2004	Status Per Audit of FY 2005
5 <u>Fully Depreciated Fixed Assets</u> The Commissioner to ensure that (1) field supervisors and custodians of assets prepare interim reports as to the status and location of fixed assets; (2) the Accountant and Mechanic to inspect and reconcile its status to the fixed asset schedule. (3) the Commissioner to review the updated records.	No updated report for fully depreciated fixed assets in fiscal year 2005.
6 <u>Progress Reports</u> The Commissioner to ensure that road paving and construction services are supported by progress reports and billings that are prepared timely.	No progress reports, billings, and cost estimate for a FY 2005 project that remains uncollected.
7 <u>Paving Asphalt</u> The Commissioner to implement a safety policy relative to the proper handling and processing of paving asphalts. In addition, the Commissioner should establish an adequate storage facility to keep the asphalt cement and primer.	No PTA policy relative to proper handling of paving asphalt in FY 05.
8 <u>Accounts Payable</u> The Commissioner to ensure that the supply specialist and other purchasers to coordinate with the Accountant in the procurement of goods and services. The Accountant to maintain the accounts payable ledger with complete details. The Commissioner to review and sign the reconciliation of accounts prepared by the Accountant.	No subsidiary ledger for purchases or accounts payable, no reconciliation of accounts reviewed and signed by Commissioner in FY 2005.
9 <u>Third Party Supplies</u> The Commissioner to ensure that PTA's inventory is segregated from third party supplies. In addition, the Commissioner to ensure that the Accountant establish inventory records at various job sites and reconcile the record to periodic physical count.	FY 2005 inventory records of supplies and materials in Kolonia, Palikir, and Pohnlangas plants were not maintained.
10 <u>Cash Receipts</u> The Commissioner to ensure that the Accountant performs timely reconciliation of cash receipts with State Finance and account for all invoices in sequence.	FY 2005 audit showed invoices that are missing, issued out of sequence or cancelled without the original copies.
11 <u>Operating Expenses</u> The Commissioner to ensure that the Accountant monitor and report the operating expenses by activity or department and generate monthly cost of production report.	Operating expenses were not monitored and monthly costs of production reports were not prepared.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-001 Audit Recommendations, continued

Condition:

	Audit Recommendations for FYs 2003 and 2004	Status Per Audit of FY 2005
12	<u>Vehicles</u> The Commissioner to ensure that vehicles are safeguarded from unauthorized use through monitoring of the status and usage of vehicles.	No policy from Commissioner relative to vehicles being used by the Office of Transportation and Infrastructure.
13	<u>Payroll records</u> The Administrative Officer to maintain complete personnel file for each employee. The Commissioner to ensure that the Accounting department is informed of changes in employee status.	Personnel files and other payroll forms were maintained at State Finance.

Cause:

The Board did not exercise its vested authority to resolve the audit findings nor require management to implement the audit recommendations.

Effect:

The condition resulted to PTA's noncompliance with PSL 5L-08-00. In addition, there is no assurance whether management intends to resolve the recurring weaknesses.

Prior Year Status:

PTA has not complied with PSL no. 5L-08-00 since its resolution in June, 2000. The Office of the Public Auditor had cited the requirement in PTA's financial audits of fiscal year 2000, 2001-2002, and 2003-2004.

Recommendation:

We recommend the Board to prioritize the resolution of weaknesses cited in the audit report and to ensure that management complies with 5L-08-00. Further, we recommend the Commissioner to implement the audit recommendations promptly and to establish adequate controls that resolve the deficiencies.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-001 Audit Recommendations, continued

Auditor's Reply to Auditee Response dated May 19, 2006:

Finding No. 04-003: PTA should comply with the contracts and NTP's from the Office of Transportation and Infrastructure. Any requests for extensions by PTA should be documented and approved by the OT&I.

Finding No. 04-012: PTA should document the transfer of vehicles to OT&I and the books adjusted accordingly.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-002 Board Meetings

Criteria:

Section 10-3(c) of the Ponape District Code and subsequent amendments require the following:

- The PTA Board to hold regular meetings in the first week of each month, and the Chairman to give notice of each meeting at least one week in advance.
- The Secretary of the Board to record the proceedings of Board meetings.

Condition:

No minutes of Board meetings were furnished to the auditors for fiscal year 2005 up to the date of audit report. In spite of this, management claimed that the Board seldom conducts its monthly meeting.

Cause:

The nominees for PTA Board submitted by the State Executive have not been confirmed by the Pohnpei State Legislature, and the Board is uncertain of their status and tenure.

Effect:

The above condition resulted to noncompliance with PDC and subsequent amendments. In addition, there is no assurance that the Board exercises its functions or performs its role as an oversight body. Furthermore, significant decisions that have a negative impact on PTA's operations might have been made without Board's approval.

Prior Year Status:

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

Recommendation:

We recommend the PTA Board to comply with the provisions of section 10-3(c) of the Ponape District Code and its subsequent amendments. In addition, we recommend the Chairman to ensure that minutes of meetings are prepared and signed by designated officials.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-003 Project With No Contract

Criteria:

The Ponape District Code and subsequent amendments thereof states the duties of the Commissioner, among which are as follow:

§10-5(a) To direct the implementation of the programs, policies, **projects** and procedures of PTA, **as determined** by the Board.

§10-5(h) Subject to budgetary limitations, to authorize all expenditures of funds under PTA control, make contracts, acceptance, purchases, and sales, **with Board approval** for such transactions in excess of five thousand dollars.

Additionally, road construction and maintenance projects should be supported with valid contracts that specify the scope of works and compensation.

Condition:

The Madolenihmw Road Maintenance project valued at \$82,949 was performed without the Board's approval or a contract.

The request for payment and the accomplishment report which were signed by the Commissioner on March 2005 were sent to the Office of the State Executive. However as of report date, collection for the project remains uncertain.

Cause:

According to management, the project was performed based on verbal directive from the State Executive. In addition, the condition happened due to lack of controls for checks and balances, and absence of oversight from the Board.

Effect:

The above cited condition resulted to noncompliance with the PDC. Further, loss of revenues amounting to \$82,949 might result from the above condition.

Prior Year Status:

Construction works performed without contracts were reported as a finding in the financial audits of PTA for fiscal year 1998, 1999, and 2000.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-003 Project With No Contract, continued

Recommendation:

We recommend the Commissioner to comply with the Ponape District Code and its subsequent amendments. Alongside this, we recommend the Commissioner to ensure that road construction and maintenance projects be supported with valid contracts that specify the scope of works and compensation.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated May 26, 2006:

Construction services performed by the PTA that are unsupported by contracts were neither approved by the Board nor were revenues collected from the projects.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-004 Approval of Contracts by the Board

Criteria:

Section 10-3(a) of the Ponape District Code requires the PTA Board to **approve** all contracts in excess of five hundred dollars.

Additionally, Section 10-5(i) of the same law requires the Commissioner to sign **jointly** with the Chairman of the Board contracts in excess of five hundred dollars.

Condition:

The Memorandum of Understanding valued at \$15,000 for the coral road paving and construction at the last section of Nanwelin Rohi, U was signed between the Commissioner and a representative from the Election District Office without the Board's approval. Our audit disclosed that the work performed was not supported by a cost estimate, scope of works, and progress reports. Further, PTA neither billed the EDO nor recorded the transaction.

Eventually, the scope extended to coral paving of a road going to a **private** "nahs". The "nahs" is subject of a report from the State Personnel Officer whereby several PTA employees were allegedly found working on its construction during work hours. The change of scope that amounted to \$25,385 was not also recorded in PTA's books.

As of audit report date, no collection has been made for the works.

Cause:

In reply to the auditor's management letter of March 6, 2006, the Commissioner stated the following:

- The Board seldom conducts its monthly meeting or quorum is attained.
- Projects would be delayed and employees are being paid while waiting for Board approval.
- The project does not require any change order because there is nothing in the MOU that PTA should perform the work in a given direction but dependent upon the approval of the landowners. The landowner refused to give an easement to build the road, so PTA constructed the road going down the river and it is unfortunate that there is a private "nahs" in that location.

Effect:

The above condition resulted to noncompliance with the above cited law. In addition, potential loss of revenues amounting to \$25,385 or more might result from the above condition. Lastly, there is no assurance that the Board has oversight of PTA's operations.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-004 Approval of Contracts by the Board, continued

Recommendation:

We recommend the Commissioner to comply with Sections 10-3(a) and 10-5(i) of the Ponape District Code. In addition, we recommend the Commissioner to ensure collection of revenues for the works performed.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated May 26, 2006:

Contracts for Pohnpei State projects from the Office of Transportation and Infrastructure are reviewed by the State Contract Review Board. All other contracts in excess of five hundred dollars should be reviewed and approved by the Board.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-005 Procurement

Criteria:

PTA follows the Pohnpei Financial Management Regulations (FMR) in processing its transactions. Part 6 of the FMR requires the following:

- The procurement of property and services shall be properly documented and executed only when appropriate funding is available.
- Each initiating entity and agency of the Pohnpei State Government shall be responsible for the preparation of the Requisition. Once prepared and approved by the appropriate allottee, the Requisition shall be submitted to the Director or his designee to determine the cost of supplies to be procured and certify and approve that the procurement is in compliance with, or not subject to open competitive bidding requirements.
- The Director or his designee shall review the Requisition to determine whether it is complete and to determine if funds are available to cover the amount requested.

Condition:

PTA's expenditure report from State Finance includes a \$20,000 advance payment to an off island vendor for a generator requested by the Office of Transportation and Infrastructure (OT&I). The generator was urgently needed for the MS Micro Glory in order to resume its outer island fieldtrips. The OT&I awards and inspects the State Projects performed by the PTA, and administers the Micro Glory.

The Miscellaneous Payment Form was prepared, certified, and signed by the Acting Director of Treasury and the payment was made without competitive bidding. At the end of fiscal year, the transaction was recorded as PTA's receivable from the primary government.

Cause:

Funding source for MS Micro Glory might be inadequate and because PTA owes the primary government substantial amount of advances, State Finance processed the procurement from PTA's fund.

Effect:

The above condition resulted to noncompliance with the Pohnpei Financial Management Regulations. In addition, there is no assurance that PTA authorized the transaction.

Prior Year Status:

PTA's procurement of two vehicles for use by the OT&I allegedly for inspections of PTA projects was reported in the financial audit of fiscal year 2003 to 2004.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-005 Procurement, continued

Recommendation:

We recommend the Director of Treasury or designee to comply with the Pohnpei Financial Management Regulations on procurement. Further, we recommend the Director to ensure that PTA's reimbursements to the State Treasury for cash advances should be properly authorized by the management of PTA.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-006 Subsidiary ledgers

Criteria:

General ledger balances should be supported by subsidiary ledgers.

Condition:

PTA did not maintain subsidiary ledgers of the following:

1. Receivables from sales of materials to customers worth \$80,347. Our review also showed that customers' individual file and support documents were not maintained. Of the total receivables, \$75,526 (94% of \$80,347) was delinquent from fiscal year 2000 and no collection has been made.
2. Receivables from employees valued at \$2,286. Our test revealed that employees' payments through payroll deductions were not monitored resulting to payment refunds. Out of twelve-12 employees who replied to the confirmation letters, six-6 (50% of 12) employees stated that their accounts were fully paid, and one employee (8% of 12) refuted her account.

In addition, invoices, delivery receipts, job orders, and other documents that support the accounts were not kept and filed.

3. Travel advances amounting to \$18,606. The amount of \$14,678 (79% of \$18,606) represents advances prior and up to fiscal year 2004 that remain uncollected. Files for each traveler were not established and travelers' reimbursements were not monitored.

Our review of cash receipts also showed that subsidiary ledgers for fuel sales to municipal governments were not prepared.

Cause:

Management failed to perform appropriate review of accounting records and entries.

Effect:

Loss of revenues amounting to \$80,347 or more might result from the above condition. In addition, there is no assurance whether all receivables were properly supported.

Prior Year Status:

The above condition was reported as a finding in the financial audit of PTA for fiscal year 2000 to 2004.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-006 Subsidiary ledgers, continued

Recommendation:

We recommend the Commissioner to ensure that the Accountant set up the subsidiary ledgers and maintain supporting documents of receivables from customers and employees, and travel advances.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-007 Costing of inventory

Criteria:

Inventory should be properly valued. In addition, records that support receipt and issuances of inventory should be maintained.

Condition:

Inventory of supplies and materials purchased in fiscal year 2005 were valued at fiscal year 2004 unit cost. In addition, two drums (each at 55 gallon) of fuel were costed as follows:

Per PTA 110 gallons @ \$328 = \$36,080

Per Audit 2 drums @ \$413 = \$826

Cause:

The cause of the above condition is due to absence of controls for inventory.

Effect:

The above condition resulted to overstatement of inventory by \$54,228 prior to the auditor's adjustment.

Prior Year Status:

Inventory costing and the lack of inventory records were cited in the financial audits of fiscal years 2001 to 2002, and 2003 to 2004.

Recommendation:

We recommend the Accountant to ensure that inventory of supplies and materials are valued properly and to establish the inventory records.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-008 Project Specifications

Criteria:

Construction and road maintenance projects should be performed based on specific plans and clear-cut scope of works agreed upon by the contractee and PTA.

In addition, matters that delay the construction process such as land disputes, environmental and building requirements should be settled prior to commencement of projects.

Condition:

Our review of road construction services disclosed the following:

1. The \$16,500 road paving contract between PTA and a party related to the Commissioner was approved by the State Attorney General and the PTA Chairman. The contract requires the customer to pay 20 days after completion of the project. However, the revenues were not collected because the customer allegedly claimed that the finished work was not according to agreed specification.
2. A Pohnpei State project contracted for \$50,000 was stopped due to a land dispute. The project was completed subsequent to fiscal year 2005 although mobilization for the project was paid in fiscal year 2004.

Cause:

The above condition happened due to lack of management oversight.

Effect:

Potential loss of revenues amounting to \$16,500 might result from the above condition.

Recommendation:

We recommend the Commissioner to ensure the following:

1. Perform road construction services based on clearly defined scope and agreed specifications between PTA and customer.
2. Request advance payment for mobilization of **private** road paving or construction projects prior to road paving or construction.
3. Pursue collection of \$16,500 with the advice of the Board and the State Attorney General.
4. Resolve land disputes and building requirements prior to road construction.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-009 Receiving Reports

Criteria:

Receiving reports of purchases from off island vendors should be filed at State Finance promptly.

Condition:

PTA requests State Finance to process advance payments for purchases from off island vendors. However, our review showed that the supplies and spare parts have been received sometime before PTA filed the receiving reports at State Finance. These are:

PO No.	Date Received	Date Report Filed
P50067	04/20/05	11/30/05
P50097	08/02/05	11/29/05
P50110	07/19/05	11/29/05
P50111	07/14/05	11/29/05

Cause:

The cause of the above condition is due to absence of controls on procurement.

Effect:

Expenses were understated by \$7,129 prior to the auditor's adjustment.

Prior Year Status:

The above condition was reported in the audit of fiscal years 2001 and 2002.

Recommendation:

We recommend the Commissioner to ensure that the purchasing officer file the receiving reports at State Finance three days after receipt of supplies.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-010 Policy on Fuel Distribution

Criteria:

A clear cut policy on fuel distribution should be established.

In addition, PTA withdrawals of fuel should be properly accounted for and supported by slips with written justification and proper authorization.

Condition:

1. In 1994, PTA was authorized by the State Executive to issue fuel to Executive departments whose fuel requirements were centrally administered by Office of Resource Management and Development, now the Office of Transportation and Infrastructure (OT&I). In order for the Pohnpei State Government to save on fuel expenditure, the PTA charges the users with a minimal markup on fuel cost.

Thereafter aside from the OT&I, the PTA services other Executive agencies and entities, the Legislative, and Judiciary branches as well as of the Office of the Public Auditor.

For fiscal year 2005, our audit showed that PTA also sold fuel to four Pohnpei State municipal governments, a College of Micronesia program, the National Election Office, and an Election District Office of the National Government. However, there is no policy that clearly defines the PTA's scope of fuel distribution particularly to offices outside the Pohnpei State Government.

2. Our tests of fuel issuances subsequent to fiscal year 2005 revealed that a PTA official's private vehicle was filled up with gasoline without proper justification or authorization slips. The withdrawals are as follow:

<u>Month of</u>	<u>No. of Withdrawals</u>	<u>No. of Gallons</u>
October, 2005	2	8
November, 2005	6	32
December, 2005	3	15
January, 2006	3	18

Cause:

The causes of the above condition are:

1. The State Executive policy on fuel distribution was not amended or updated.
2. Absence of controls on fuel issuances.

Effect:

There is no assurance whether all fuel issuances are legitimate.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-010 Policy on Fuel Distribution, 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 that a clear cut policy on fuel distribution be established and approved by the Board. Additionally, we recommend the Commissioner to ensure that withdrawals of fuel are properly justified and supported with authorization slips.

Auditee Response:

Please refer to Exhibit I.

Auditor's Reply to Auditee Response dated May 26, 2006:

Management should address the issue of fuel issuances to offices and entities external to the Pohnpei State Government. Thus we maintain our finding.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs
Fiscal Year Ended September 30, 2005

Finding No. 05-011 Offset of Accounts

Criteria:

Offset of accounts with vendors should be in writing, properly authorized by the Commissioner, and supported by underlying documents.

Condition:

An offset of accounts was made with a vendor without written authorization or approval from the Commissioner. Neither the voucher nor support documents such as invoices, delivery receipts, and job orders were prepared. The reconciliation showed that the vendor recorded an invoice amounting to \$2,250 that has been paid by PTA. On the other hand, PTA's record includes an \$80 invoice that has been paid by the vendor.

Cause:

The Commissioner failed to perform appropriate review of accounting entries.

Effect:

There is no assurance that accounting entries are properly recorded, authorized, and supported.

Recommendation:

We recommend the Commissioner to ensure that the Accountant support offset of accounts with approved vouchers and support documents.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

AUDITEE RESPONSE (EXHIBIT I)

YEAR ENDED SEPTEMBER 30, 2005