

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
Notes to Financial Statements
September 30, 2000
POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2000

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POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

INDEPENDENT AUDITOR'S REPORT

The Board of Developers
Pohnpei Economic Development Authority:

We have audited the accompanying balance sheet of the Pohnpei Economic Development Authority (the Authority), a component unit of the State of Pohnpei, as of September 30, 2000, and the related statements of revenues, expenses and changes in fund equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Government Auditing Standards require that the Office of Pohnpei State Auditor (OPSA) should have an external quality control review at least once every three years. The last review was conducted in October 1998.

Except for the timeliness of an external quality control review and as discussed in the following paragraphs, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

As more fully described in note 6, documentation supporting the carrying values of certain donated assets has not been provided to the Authority and therefore, these assets have not been recorded in the accompanying financial statements. We were unable to determine the effect of this omission on the accompanying financial statements.

In addition, as described in note 2, a Pohnpei State Attorney General's letter dated June 1, 1994, stated that dividends from a \$500,000 investment accrue to the General Fund. This determination has raised doubt as to whether the underlying investment is properly recorded on the Authority's financial statements. The ultimate outcome of this matter is not currently predictable.

Furthermore, we were unable to obtain the audited financial statements of Caroline Fisheries Corporation (CFC), an investee of the Authority, and therefore, the related carrying value of the investment has not been adjusted for the fiscal year 2000 results. Please refer to note 7.

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had; 1) we been able to assure ourselves as to the propriety of donated assets; 2) we been certain that the \$500,000 investment should be recorded in the financial statements; and 3) audited financial statements of CFC is available to support the carrying value of the Authority's investment, the aforementioned financial statements present fairly, in all material respects, the financial position of the Pohnpei Economic Development Authority, as of September 30, 2000, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2002 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Ursula S. Abalos
Acting Pohnpei State Auditor
March 21, 2002

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Balance Sheet
September 30, 2000

ASSETS

Current assets:

Cash and equivalents	\$ 85,759
Advances, net (note 3)	174
Accounts receivable, net (note 4)	65,519
Loans receivable (note 5)	<u>40,000</u>
Inventory	
 Total current assets	 201,014
 Property and equipment, net (note 6)	 249,757
Investments (note 2)	<u>500,500</u>
	\$ <u><u>951,271</u></u>

LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable	\$ 239,914
Due to primary government	40,000
Advance from client	7,000
Accrued and other liabilities	<u>16,028</u>
 Total liabilities	 <u>302,942</u>

Fund equity:

Contributed capital	4,348,172
Deficit	<u>(3,699,843)</u>
 Total fund equity	 <u>648,329</u>

Commitments (note 7)	\$ <u>951,271</u>
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See accompanying notes to the financial statements.

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Notes to Financial Statements

September 30, 2000

Statement of Revenues, Expenses and Changes in Fund Equity

Year Ended September 30, 2000

Revenues:

Provisioning and ship agency services	\$	149,420
Transshipment services		280,726
Ice sales and storage fees		125,386
Fish sales		<u>1,721</u>

Total operating revenues 557,252

Operating expenses:

Selling and administration expenses		147,386
Factory overhead		232,519
Provisioning services		79,064
Direct labor – transshipment		79,713
Transshipment overhead		76,590
Ship agency services		34,866
Provisioning and ship agency overhead		27,303
Direct labor – cold storage		15,870
Direct labor – provisioning and ship agency		16,589
Purchases		<u>764</u>

Total operating expenses 710,664

Operating loss (153,412)

Non-operating revenues:

Other income		437
Interest income		<u>567</u>

Net loss (152,408)

Deficit at beginning of year (3,574,593)

Add depreciation on fixed assets acquired by capital grants
that reduces contributed capital from capital grants 27,158

Deficit at end of year (3,699,843)

Contributed capital at beginning of year 4,375,330

Depreciation charged against contributed fixed assets (27,158)

Contributed capital at end of year 4,348,172

Fund equity at end of year \$ 648,329

See accompanying notes to financial statements.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
Notes to Financial Statements
September 30, 2000

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Statement of Cash Flows
Year Ended September 30, 2000

Cash flows from operating activities:		
Operating loss		\$ (153,412)
Adjustments to reconcile net operating loss		
To net cash used for operating activities:		
Bad debts	\$ 31,121	
Depreciation	93,915	
Increase in accounts receivable	(56,002)	
Increase in advance	(114)	
Increase in due to/from primary government	24,010	
Increase in inventory	(3,240)	
Increase in accounts payable	110,299	
Increase in accrued and other liabilities	3,911	
Increase in advance from client	<u>7,000</u>	
Total adjustments		<u>210,901</u>
Net cash provided by operating activities		<u>57,489</u>
Cash flows from non-capital financing activities:		
Other income	437	
Interest income	<u>567</u>	
Cash provided by non-capital financing activities		1,004
Cash flows from capital financing activities:		
Payments for acquisition of fixed assets		<u>(10,804)</u>
Net cash and equivalents increase for the year		47,689
Cash and equivalents at beginning of year		<u>38,070</u>
Cash and equivalents at end of year		<u><u>\$ 85,759</u></u>

See accompanying notes to financial statements.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pohnpei Economic Development Authority (the Authority) was established in 1978 by Pohnpei District Law 4L-159-78 for the purposes of promoting economic development through expansion of agriculture, marine resources, tourism, industry, energy development, banking, transportation and community development in Pohnpei. The Authority was also designated to succeed the Pohnpei District Fishing Authority as the sole entity to promote, develop, and support commercial utilization of living marine resources as provided in Public Law No. 7-110 of the Trust Territory Code. The Authority is a component unit of the State of Pohnpei.

All functions and powers of the Authority are vested in and exercised by the Board of Developers appointed by the Governor with the advice and consent of the Legislature. The establishing legislation also places responsibilities for the administration of the Authority's day-to-day operations with the Executive Director, an ex-officio member of the board, who is appointed by the Governor with the advice and consent of the Pohnpei Legislature.

The Authority is a component unit (a discretely presented proprietary fund) 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 the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Government 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. Fund Structure, Measurement Focus and Basis of Accounting

The accounts of the Authority are organized as a proprietary fund type of the Pohnpei State Government. Proprietary fund types are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of a proprietary fund type is to provide periodic determination of revenues, expenses and net income, with maintenance of capital. Proprietary fund types accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. The Authority uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

C. Budget

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

The enabling legislation does provide the Authority the power to expend revenues generated by projects maintained by the Authority. Such expenditures must, however, be in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Cash and Equivalents

For the purpose of the balance sheet and statement of cash flows, cash and equivalents are defined as cash in checking accounts, savings accounts and cash on hand. Of these amounts, \$100,000 is insured through the FDIC, with the remaining balance exceeding insurable limits. The Authority does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed the FDIC insurable limits are characterized as uncollateralized.

E. Inventory

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

F. 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. (See note 6)

G. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefit accrues to employees. In accordance with the provisions of FASB Statement No. 43-Accounting for Compensated Absences, 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.

H. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require 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

The Authority does not purchase commercial insurance covering its potential risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

J. Investments

The Authority's equity investments are carried at cost when the equity ownership position comprises less than 20% or on the equity method when the ownership percentage exceeds 20% but is less than 50%.

(2) INVESTMENTS

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

In fiscal year 1993, the Authority recorded an investment of 50,000 shares of common stock in Bank of the Federated States of Micronesia (BFSM) of \$500,000. A capital contribution from Pohnpei State was simultaneously recorded for this investment.

(2) INVESTMENTS, CONTINUED

A Pohnpei State Attorney General's letter dated June 1, 1994 stated that dividends from the aforesaid investment should be deposited in the General Fund. This action has raised doubt as to whether the underlying investment is properly recorded in the Authority's financial statements. However, pending the resolution of this matter, the Authority's Board of Developers adopted a resolution on March 20, 1995 that this investment be maintained and recorded in its financial statements. This investment is recorded at cost since the Authority's ownership percentage is less than 20%. The market value of this investment is difficult to determine since the BFSM is not publicly traded and since respective governments comprising the Federated States of Micronesia have a controlling interest.

In 1996, the Authority made an investment of \$500 in Pacific Tuna Venture Incorporation, a development stage enterprise, in exchange for a one-third equity interest. This investment is carried at cost as the enterprise has not commenced operations.

The Authority also has an investment in Caroline Fisheries Corporation, Inc. (See note 7).

(3) ADVANCES, NET

The net advances to employees as of September 30, 2000 is as follows:

Total advances	\$ 25,157
Less allowance for doubtful accounts	<u>24,983</u>
	\$ <u>174</u>

100% of the total travel advances are still outstanding.

(4) ACCOUNTS RECEIVABLE, NET

Accounts receivable, net at September 30, 2000 is as follows:

Accounts receivable – trade	\$1,020,764
Accounts receivable – employees	<u>3,864</u>
	1,024,628
Less allowance for doubtful accounts	<u>(959,109)</u>
	\$ <u>65,519</u>

93% of the Authority's accounts receivable are with business and individuals based in Pohnpei.

(5) LOANS RECEIVABLE

As of September 30, 2000, the Authority's outstanding loan receivable from Pohnpei Fisheries Corporation (PFC), a component unit-proprietary fund of Pohnpei State Government, is \$40,000.

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The amount of the loan was used to assist in liquidating PFC's account with a major vendor. This interest-free loan was due on March 1998.

(6) PROPERTY AND EQUIPMENT

A summary of the Authority's property and equipment at September 30, 2000, is as follows:

	<u>Estimated Useful Life</u>	
Buildings	15 years	\$ 12,833
Transportation equipments	3-5 years	210,843
Furnitures and fixtures	3 years	82,152
Fishing vessels	10 years	1,352,300
Building improvements	3 years	29,200
Other assets	2-10 years	<u>277,020</u>
		1,964,348
Less accumulated depreciation		<u>(1,714,591)</u>
Property and equipment, net		\$ <u>249,757</u>

The fishing vessels were valued by a marine surveyor in October 1994 with a resulting write-down of the original cost by \$618,936. Consequently, at that time, management changed the estimated useful life of these vessels from 20 to 10 years.

The Authority does not have cost data for five fishing boats and a cold storage facility contributed to the Authority by Pohnpei State. Additionally, the Authority does not have supporting documents for a moisture balance tester currently being used by the Pohnpei State Department of Conservation and Resource Surveillance. Therefore, these assets and the related depreciation expense are not included in the accompanying financial statements.

(7) COMMITMENTS

On November 4, 1998, the shareholders of Caroline Fisheries Corporation (CFC), an investee of the Authority, met, resolved and effectuated the transfer of 100% of FSM National Fisheries Corporation (a component unit of the Federated States of Micronesia) shares in CFC (1,500,00 shares) to Pohnpei State Government. Subsequent to the above transaction, the Authority and Pohnpei State Government became the sole shareholders of Caroline Fisheries Corporation.

The carrying value of investment in Caroline Fisheries Corporation (CFC) for the prior years were stated at \$0 since CFC has incurred substantial operating losses since inception. However, for fiscal year 2000, an audited financial statements of CFC has not been provided and therefore no adjustment, if any, has been recorded in the accompanying financial statements.

(8) CONTINGENCIES

The Authority represents that it is not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Statement No. 5.

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POHNPEI STATE AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

YEAR ENDED SEPTEMBER 30, 2000

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
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AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

The Board of Developers
Pohnpei Economic Development Authority

We have audited the financial statements of the Pohnpei Economic Development Authority (the Authority), as of and for the year ended September 30, 2000, and have issued our report thereon dated March 21, 2002, which report was qualified due to; 1) the absence of recordation of certain donated assets; 2) our inability to ensure that an investment is appropriately recorded on the Authority's financial statements; 3) lack of audited financial statements of CFC, an investee of the Authority. *Government Auditing Standards* require that the Office of the Pohnpei State Auditor (OPSA) should have an external quality control review at least once every three years. The last review was conducted in October 1998. Except for the timeliness of an external quality control review, 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.

Compliance

As part of obtaining reasonable assurance about whether the Authority'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 an instance of noncompliance, which is described in the accompanying Schedule of Findings and Questioned Costs (page 23) in finding number 00-11, that is required to be reported under *Government Auditing Standards*. Additionally, certain immaterial instances of noncompliance came to our attention that we are reporting to management in the accompanying Schedule of Findings and Questioned Costs (pages 24 and 25) in finding numbers 00-12 and 00-13.

Internal Control Over Financial Reporting

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

In planning and performing our audit, we considered the Authority'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 the Authority'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 as items 00-1 to 00-10 and 00-14 through 00-18.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that items 00-1 through 00-10 of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board of Developers, management of the 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 these specified parties.

Ursula S. Abalos
Acting Pohnpei State Auditor
March 21, 2002

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-1 Untimely Recording and Reporting of Financial Information

Criteria: The Authority should have a system in place that would allow continuity in the recording and compilation of financial data even in case of resignation of key Finance personnel.

Condition: On June 2000 the Authority's CPA Comptroller resigned. The Authority hired a replacement on June 13, 2000. Subsequently, on February 2001, the Pohnpei Legislature confirmed a new Executive Director. Immediately after confirmation, the new Executive Director requested for an audit. The preliminary survey was conducted and the results were as follows:

- Special journals were only recorded up to May 2000;
- General Ledger was not updated after March 2000;
- Bank reconciliation after April 2000 were not performed;
- Cash receipt files for fiscal year 2000 could not be located.

On April 2001 the Comptroller resigned and was replaced by another CPA Comptroller on July 13, 2001. Upon the completion of the Authority's financial statements in October 2001, the audit for fiscal year 2000 finally commenced.

The Authority, however, adopted new computer software and the balances as of March 31, 2000 were carried forward to the new accounting system. Consequently, considerable time was spent on reconciling the balances forwarded particularly the accounts payable to a utility corporation.

Cause: The former Comptroller was not able to continue the recording and compilation of the financial reports.

Effect: The audit of the Authority's financial statements for fiscal year 2000 was delayed.

Recommendation: We recommend that the Authority should ensure that its Finance personnel are ready to perform and continue a smooth operation of the office even in case of the resignation or temporary absences of its key personnel. Foremost, the Authority should hire employees with professional integrity and should maintain a level of competence that allows them to accomplish their assigned duties. Management should also take active role in the review of its employees' performances to ensure that duties and responsibilities are carried out timely and satisfactorily.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-2 Discrepancies in the Accounting Records

Criteria: Financial statements are management tools in all of its major financial decision-making. It is therefore important that accounting records are maintained properly and accurately.

Condition: Our review of the Authority's records for the year revealed the following:

- The Authority did not record about \$74,197 worth of utility expenses;
- The Authority did not record about \$69,587 of its accounts payable, of which \$54,947 was for one major vendor;
- A material difference of about \$21,961 exists in accounts payable/utility expenses, depreciation and salaries;
- Fixed assets costing \$9,800 and \$742.50 were not properly capitalized;
- No record was found to authorize the deletion from the books of the Authority's Mitsubishi truck with an acquisition cost of \$6,500;
- The Authority did not close its beginning inventory, nor did it take up the ending inventory for fiscal year 2000;
- Storage fees in the amount of \$874.38 was recorded as fish sales;
- Storage fees recorded as ice sales or vice versa;
- \$614.21 was incorrectly charged to board meeting, instead of board representation;
- Incorrect calculation of invoices adding up to \$381.38;
- A check number 24906 in payment of the former Acting Executive Director's retroactive salary showed that a 10% income tax was withheld, instead of applicable rate;
- Petty cash vouchers were not replenished resulting to an unaccounted fund of \$173.85;
- Payroll allotment to Pohnpei State Housing Authority amounting to \$168.23 was inadvertently issued for \$168.73;
- A check number 25389 issued for employees' allotment to Pohnpei State Housing Authority was recorded as PUC allotment;
- Invoices incorrectly or not fully completed;
- Two invoices were missing with one not recorded in sales journal;
- Voided invoice with the original copy not in files;
- Employee receivable recorded as accounts receivable trade; and,
- Sales recorded as employee receivable and accounts receivable trade simultaneously.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Cause: It is evident that management is not active in reviewing the Authority's accounting records.

Effect: The above condition resulted to auditor adjusting entries in the amount of \$ 259,786. The adjustment was proposed to correct the material misstatement in the financial statements. In addition, a material unlocated difference of more than \$21,961 was noted in various accounts.

Recommendation: We recommend that the Authority should make certain that its financial data are recorded timely and accurately. In doing so, management should enforce monthly reconciliation and review of all of its accounts.

Auditee Response: Please see Exhibit 1.

Finding No. 00-3 Timely Adoption of Budget Hindered Timely Preparation of Employees Contracts

Criteria: The adoption of a budget is a management control to ensure that expenditures are within the capacity of the entity to spend. It is important therefore that budget are planned properly and adopted timely so that all anticipated expenditures and related documents needed such as personnel contracts could be executed prior to commencement of services.

Condition: The Authority's employees were working without employment contracts pending the approval of its budget by the Board of Developers. The Board however, placed the Authority's operation on a "*continuous resolution*" while deliberating on the budget, which was finally approved on January 27, 2000. Hence, from October 1999 up to the approval of the budget, the Authority's employees did not have employment contracts but were on payroll.

Cause: The Board of Developers failed to consider the impact of the Authority operating without a budget, and by placing the operation on a "continuous resolution, employees contracts were not prepared awaiting approval of the budget.

Effect: The controls that an approved budget denotes were lacking for the first quarter of fiscal year 2000.

Recommendation: We recommend that the Authority should give priority to the preparation, review, and approval of its budget. A budget completed before its period of fiscal authority will ensure that expenditures, programs or projects are budgeted and approved prior to execution.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
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Finding No. 00-4 Untimely Receipting and Depositing of Cash Collections

Criteria: Cash collections should be receipted at the time of receipt and should be deposited timely to prevent unauthorized use or loss.

Condition: Our initial test of thirty two (32) cash receipts revealed the following:

- An instance where cash receipt is dated fourteen days after the deposit;
- Two (2) instances where cash receipts could not be located; and,
- Four (4) instances of shortages in deposits.

Consequently, we decided to extend our test to include a 100% review of cash receipts issued for three consecutive months. The selected months were July, August, and September 2000. As a result, we found the following:

- Daily Sales and Collection Report dated July 28, 2000 showed a cash sales of \$1.40 that was not receipted. This collection is presumed to have been deposited on August 7, 2000 since the deposit was over by \$1.40 for that day.
- Cash sales of \$3.00 on August 17, 2000 was not receipted and deposited until August 23, 2000.
- Collections for August 28, 2000 in the total amount of \$4,963.25 were not deposited until September 8, 2000. Moreover, \$25 of the total collection amount was not receipted.
- Cash collection for August 24, 2000 was only receipted on September 21, 2000 and deposited on October 2, 2000. Further, the Daily Sales and Collection Report for the collection was missing.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

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- Cash collection for September 23, 2000 was not receipted until October 1, 2000.
- A collection on September 24, 2000 was not deposited until October 2, 2000.

Cause: The control over cash collections became weak under the former Comptroller.

Effect: The effect of this condition is that there probably were unauthorized “borrowings” from collection. In addition, idle cash are prone to misuse or loss.

Recommendation: We recommend that the Authority practice prudent control over collections to ensure that receipts are issued at the time of collections; and, that collections are deposited timely to prevent misuse or loss.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

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Finding No. 00-5 Fully Depreciated Fixed Assets Not Inventoried

Criteria: Annual physical count of fixed assets should be performed to ensure accuracy of the fixed assets records and to identify scrap or idle assets.

Condition: The Authority's fixed assets listing is consists of fully depreciated fixed assets amounting to more than \$348,256. Of the amount, \$205,436 is for assets purchased for more than 10 years.

Cause: The Authority did not perform annual inventory of its fixed assets.

Effect: The effect of this condition is that the fixed assets may be overstated in the financial statements.

Recommendation: We recommend that the Authority perform annual inventory of its fixed assets. Assets identified to be scrapped or idle should be surveyed.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
Notes to Financial Statements
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Finding No. 00-6 No Available Contract on Transshipment Operation

Criteria: The Authority should have a contract with all corporations engaged in long line fishing operations.

Condition: The Authority had no available contracts on file with corporations engaged in long line fishing operations since November 1995.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal years 1994 through 1999.

Cause: The Authority has not established a uniform transshipment agreement acceptable to agencies engaged in the long line fishing operations.

Effect: When challenge, the terms and conditions of long line fishing operations may not be enforceable. In addition, the above condition has a significant impact on transshipment operations and on the recording of transactions.

Recommendation: We recommend that management and the Board of Developers work together with concerned agencies and ensure that long line fishing agreements/contracts be duly signed and approved before the agencies commence long line fishing operation. The Authority should also monitor the expiration dates of agreements so that extensions or renewals are negotiated before the expiration of the contracts.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

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Finding No. 00-7 No Review of the Schedule of Accounts Receivable

Criteria: Accounts should be reconciled with respective customers to ensure the accuracy of balance. In addition, the schedule of accounts receivable should be reviewed to assess the collectibility of accounts and take necessary action accordingly.

Condition: Our review of accounts receivable revealed the following instances which raise doubt as to the collectibility of the accounts:

- Some of the customers are refuting the balance of their accounts;
- Some customers listed in the schedule of accounts receivable are no longer in operation and the Authority does not have their current addresses;
- Supporting documents such as invoices are not complete; and,
- One of the clients is already deceased.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal year 1999.

Cause: The management did not take action to implement corrective measures.

Effect: The non-resolution of the above condition will have the same impact in fiscal year 2000 as in 1999, and will continue to hinder the collection of the Authority's accounts receivable.

Recommendation: We recommend that the Authority reconcile its records with its customers, by sending regular notices and statement of accounts. We also recommend that a thorough review of the accounts receivable schedule be done to identify dormant or inactive accounts and take necessary action accordingly.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY
Notes to Financial Statements
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Finding No. 00– 08 Donated Assets

Criteria: Donated assets should be valued and recorded accordingly.

Condition: The value of the Cold Storage facility and the five fishing boats currently occupied and used by the Authority were not recorded in the financial statements. No attempt was made by management to determine the cost or fair market value of these donated assets.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal year 1998.

Cause: The Authority represents that no records were available to record the cost of the donated assets.

Effect: The Authority's assets are understated in the financial statements.

Recommendation: We recommend that the Authority value its donated assets and record them accordingly.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

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Finding No. 00-9 No Established Policy

Criteria: Policies and procedure manuals, or an equally effective method of communication, should exist for important organizational policies and procedures.

Condition: Except for one-page policies on travel and meeting allowance, the Authority does not have written policies governing personnel, investment, fixed assets, inventories, advances and approval of charge accounts.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal year 1999.

Cause: The management failed to consider the importance of written policies and procedures.

Effect: The effect of this condition is that there is no clear-cut policy that will protect the interest of the Authority. Also, the absence of an established policy leaves the Authority open to employees or officers who may overstep their authority and create potentially unsafe situations for the Authority.

Recommendations: We recommend that the Authority establish policy and procedure manuals, which at a minimum cover the Authority's investments, personnel, fixed assets, inventories, advances and the approval of charge accounts.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

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Finding No. 00-10 Deficit

Criteria: Proprietary fund types are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The Authority's accounts are organized as a proprietary fund type, and as such, the Authority must therefore ensure that its operation keeps on as a going concern.

Condition: The Authority's cold storage operation earned about \$125,386 in revenues for the year. However, the cost of its operation was more than \$248,389 resulting to a loss of more than \$123,000.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal years 1998 and 1999.

Cause: The major cause for this condition is the cold storage enormous utility usages and lack of management oversight.

Effect: The cold storage operation loss contributed to the increase of the Authority's deficit from \$ 3.57 M to about \$ 3.70 M for the fiscal year ended September 30, 2000.

Recommendation: Management should seriously evaluate the financial condition of the cold storage operation so that corrective actions can be taken to ensure that losses are eliminated.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-11 Investment in a Private Banking Institution

Criteria: Policies and procedures should be in place to ensure that the intent or the purpose of laws and/or regulations is observed.

Condition: The enactment of SL No. 3L-25-92 authorized Economic Development Authority to invest up to \$5 million dollars in private banking institutions domestically chartered and located in the FSM, which have a majority ownership of Micronesian citizens. The law states that such stock is to be later sold to private FSM citizens who are “pweldaks” of Pohnpei as defined in Section 1 of Article 3 or the Constitution of Pohnpei. SL No. 3L-25-92 also states that the Authority shall begin the sale of stock after six months and shall be completed prior to five years after its passage. In addition, within four months, the Authority shall submit a plan to the Pohnpei Legislature for the sale of stock, which plans, must be approved by the Legislature Resolution.

In accordance with the passage of the above-mentioned law, the Authority invested \$500,000 (50,000 shares of stock) in the local financial institution. The investment is still recorded in the name of the Authority as of the date of this report.

This condition was reported as a finding in the audit of Economic Development Authority for fiscal year 1999.

Cause: The cause for this condition is that the Authority has not submitted a plan to the Pohnpei Legislature for the sale of the stock.

Effect: The effect of this condition is that the Authority has not fulfilled the intent of SL No. 3L-25-92.

Recommendation: We recommend that the Authority establish policies and procedures to ensure that the intent or the purpose of laws and regulations is observed. We also recommend that the Authority resolve with Pohnpei State Legislature the rightful disposition of the stock.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-12 Vacation Leave

Criteria: The Pohnpei Public Service System as amended does not allow cash payment of unused accrued vacation leave unless an employee is separated from the government employment. In addition, each employee can only accumulate vacation leave up to 80 hours.

Equally, an employment contract is a legal document binding the employee and the employer to fully follow the terms and conditions set out therein. Specifically, item number nine of the contract terms and conditions authorize each Authority's employees to receive eighty (80) hours of paid vacation leave per contract year. The vacation leave "must be taken during the year earned and may not be carried over". Furthermore, "employee will not receive credit, compensation, or reimbursement for unused vacation leave".

Condition: On December 8, 2000, the former Acting Executive Director of Economic Development Authority, upon a request from the Authority's Comptroller approved payments for the "excess hours" of some of the Authority's employees. These "excess hours" ranging from two (2) hours to four hundred seventy-seven (477) hours were purportedly earned during fiscal year 2000. Accordingly, the first payment making up 50% of the total excess hours were paid on December 8, 2000 and the final payments were issued on December 28, 2000. The Authority's employment contracts do not provide for payment of "excess hours".

The Authority could not provide the schedule of leave balances or "excess hours" and, therefore we could not ascertain the legitimacy of the excess hours. Further, a review of minutes of the board meetings did not mention any payments of employees' excess hours.

Cause: The Authority made actions that contradict the vacation leave regulation.

Effect: The Authority incurred approximately \$4,467 as payments for the excess leaves of its employees.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Recommendation: We recommend that the Authority should review and understand its employees' contracts to ensure that payments to its employees, aside from salaries must also be included and authorized in the employment contracts. Also, amounts should be duly approved in the budget. In addition, the Authority should establish its own personnel policy otherwise strict adherence to the Pohnpei Public Service System Regulations should be done.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-13 Overtime Pay for Board Members

Criteria: Compensation for board meeting allowance should be in accordance with the law.

Subsection 3 of Section 6 of District Law No. 4L-159-78 was amended by District Law No. 4L-204-79 to read as follows: “Members of Board, who are not regularly employed by the State Government shall be compensated at a rate of twenty dollars per day for attendance at Board meetings or while engaged in other services for the Authority as are authorized by the Board. Pohnpei State Government employees shall not be entitled to such compensation, but shall be granted administrative leave from their regular duties while in attendance of meetings and other activities of the Authority; PROVIDED that those Board members who are State Government employees earning less than twenty dollars a day shall be paid per day by the Authority the difference between their daily compensation and twenty dollars.”

Condition: Our subsequent review of payments of board meeting allowances disclosed that three board members of whom two are also Pohnpei State Government employees were paid meeting allowances equal to the rate of time and a half or overtime rate for attending board meetings on October 9, November 27, and November 28, 2000. The allowances were calculated by using the members’ hourly rates at their respective employment.

Cause: The former Comptroller and one of the board member approved the payment of meeting allowances based on overtime rate.

Effect: This condition is not in compliance with D. L. No. 4L-204-79.

Recommendation: We recommend that the Authority’s officers and staffs review and understand all the laws applicable to the Authority to ensure that full compliance is observed. In any event that the law is not clear, the Authority should consult with the State Attorney General or its own legal counsel for clarification.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-14 Comptroller Salary Over Contract Amount

Criteria: The obligation of the Authority should only extend to the amount approved and authorized in the employee's contract.

Condition: Our test of payroll revealed that the actual salary of the former Comptroller was about \$692 more than his employment contract. Moreover, he received payment for June 12, 2000, although the effective date of his contract is on June 13, 2000.

Cause: The Authority approved the payment.

Effect: The effect of this condition is an overpayment of the former Comptroller's salary by \$ 692.

Recommendation: We recommend that the Authority should pay its employees based on the employment contract or current personnel actions.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

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Finding No. 00-15 No Individual Summary of Employees' Benefits

Criteria: All financial records and data should be prepared to provide management to make sound financial decisions.

Condition: The Authority did not maintain summaries of its individual employees' earnings for the fiscal year 2000.

Cause: The former Comptroller failed to make sure that all pertinent financial data were prepared.

Effect: Employees' social security contributions were over deducted by \$281.60 as of September 30, 2000.

Recommendation: We recommend that management should ensure that all accounting data and records are prepared by the responsible personnel to reflect true and complete records of the Authority.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-16 Meetings Without Minutes

Criteria: Minutes of all board meetings (including committee meetings) should be documented and maintained for record purpose. In addition, a report or summary of issues discussed for those meetings where a board member attended representing the Authority should also be prepared and maintained.

Condition: Based on our review of meeting allowances paid, we noted that at least thirty (30) board meetings were conducted during fiscal year 2000. The meetings conducted were either regular or special, executive or committee meeting, or other meetings. Out of the thirty meetings noted, only fourteen (14) were supported by minutes.

Cause: The board secretary is not ensuring that minutes of board meetings are prepared and maintained.

Effect: Without the minutes of meeting documenting the issues discussed or decision reached by the board, there may be chances that pertinent information is not disseminated appropriately.

Recommendation: We recommend that the Authority's board secretary should ensure that all board meetings or any other meetings are supported with written minutes summarizing issues discussed, action of the board taken and all other relevant information such as, date of the meeting, time, and attendees, etc.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-17 Payment of Board Allowances

Criteria: Sufficient control should always be in place to ensure that errors are avoided or minimized.

Condition: During our review of meeting allowance payments to the board, we counted only thirty (30) board meetings held for fiscal year 2000, and yet there were thirty-two (32) meeting allowances that were paid. We believe this is due to the following instances:

- A board member received his allowance for June 23, 2000 meeting twice; one on the same day by a check number 25078 and again on August 3, 2000 by a check number 25244.
- On June 29, 2000 a board member received \$40 allowance for June 8, 2000 meeting. (Allowance is \$20 a day).

Further, six (6) of the allowances paid were not adequately supported by either a copy of the minutes of meeting or an attendance sheet.

Cause: Not always requiring a proof of meeting attendance for issuing meeting allowance is the probable cause for the above condition.

Effect: The meeting allowance expense is overstated by \$40.

Recommendation: We recommend that meeting allowance payment shall be based on attendance and supported by roster.

Auditee Response: Please see Exhibit 1.

POHNPEI ECONOMIC DEVELOPMENT AUTHORITY

Notes to Financial Statements

September 30, 2000

Finding No. 00-18 Prior Year Findings

Criteria: Prior year audit findings should be resolved by management in a timely manner to ensure that efficiency and effectiveness of operation and its compliance with laws and regulations are not compromised.

Moreover, the law that created the Office of the Pohnpei State Auditor, Pohnpei State Law No. 5L-08-00 was amended in part to include “upon receipt of the report, the office being audited shall respond to said report in writing, to the Auditor, and each of the officials listed in Subsection (1), by indicating the action(s) immediately taken to correct such deficiencies cited as well as stated action(s) to be taken on deficiencies not immediately resolved. Thereafter, the office shall file a monthly report with the Auditor indicating its progress in clearing deficiencies until such time as it can report that all deficiencies have been cleared, which period shall not exceed six months.”

Condition: In relation to our review to determine the status of the prior year non-material audit findings, we discovered that two of the audit findings cited in fiscal year ending September 30, 1999 are still outstanding.

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2	15	per Utilization and Maintenance of Properties
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In addition, two (2) audit findings for fiscal year ending September 30, 1998 have not been resolved also, by the Authority.

<u>g No.</u>	<u>No.</u>	<u>escription</u>
1	17	inding Travel Advances
8	26	Overseas Calls

Cause: Management has not implemented corrective action.

Effect: The non-resolution of these prior year findings will have the same impact in fiscal year 2000 as in 1999 and 1998, and will continue to hinder the effective maintenance of the Authority’s compliance with regulations and the effectiveness of its internal control.

Recommendation: It is recommended that the Authority’s management resolve prior year audit findings appropriately and comply with the requirement of Pohnpei State Law No. 5L-08-00.

Auditee Response: Please see Exhibit 1.