

POHNPEI TRANSPORTATION AUTHORITY

AUDIT REPORT NO. 04-03

SEPTEMBER 30, 2002 AND 2001



OFFICE OF THE POHNPEI STATE AUDITOR

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POHNPEI TRANSPORTATION AUTHORITY
YEARS ENDED SEPTEMBER 30, 2002-2001

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March 04, 2004

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 Honorable PTA Board of Directors
The Honorable Vincent Rosario, Acting Commissioner

EXECUTIVE SUMMARY

We are pleased to submit the audit report of Pohnpei Transportation Authority (PTA) as of and for the years ended September 30, 2002 and 2001. The audit was conducted pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution, and Pohnpei State Law no. SL-10-79, which requires the Office of the Pohnpei State Auditor (OPSA) to conduct audits of all books and accounts kept by or all departments, offices, agencies of the Pohnpei State Government and its political subdivisions and all projects, programs, activities or organizations within the State receiving public fund. The audit was also conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The highlights of the report are:

- PTA received unqualified opinion in its financial statements as of September 30, 2002 and 2001.
- For the two-year period, PTA partially paid \$1,363,543 of its advances from Pohnpei State Treasury. The balance as of September 30, 2002 is \$597,178.
- Deficits of \$589,262 in fiscal year 2001 and \$143,264 in fiscal year 2002 were incurred due to losses from operations.
- The audit disclosed fifteen (15) findings, which were detailed on pages 12 to 28. On page 23 of the report, we disclosed an immaterial instance of noncompliance related to travel. Out of fourteen (14) internal control findings, eight (8) were considered to be material weaknesses per finding numbers 1 to 8 and 15. Among the findings were:
 - PTA neither performed reconciliation of accounts with State Finance nor maintained ledgers to support the amounts in the financial statements.
 - Management did not monitor and follow up collection of delinquent construction services accounts worth \$560,459 in fiscal year 2002.
 - Controls to safeguard inventory of supplies and materials costing \$181,573 in fiscal year 2002 were not established.

- Title to a fully paid heavy equipment amounting to \$50,000 is not yet secured and transferred to PTA.
- The lack of controls on credit extension and approval had led to a heightened risk of receivables from sales of property and equipment rentals totaling \$64,326 might not be collected.
- Nine (9) prior year findings remain unresolved. These weaknesses hinder PTA's compliance with laws and regulations and effective internal control.

Pursuant to Pohnpei State Law no. 5L-08-00, PTA is mandated to submit a monthly report to OPSA that indicates progress in clearing deficiencies cited in the audit report, which period shall not exceed six months.

As is customary, a draft of this report has been provided to and reviewed by PTA. Their response is included hereto as Exhibit I. We have also offered our recommendations to each finding we believe once implemented could assist PTA improve its operations.

In closing, we extend our sincere appreciation to the Acting Commissioner and staffs for their cooperation and assistance during the course of our audit.

Annes Leben
Pohnpei State Auditor

POHNPEI TRANSPORTATION AUTHORITY

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2002-2001

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pohnpei Transportation Authority:

We have audited the accompanying balance sheets of the Pohnpei Transportation Authority (PTA), a component unit of the State of Pohnpei, as of September 30, 2002 and 2001, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the PTA management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of PTA, as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2003 on our consideration of PTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Annes Leben
Pohnpei State Auditor
October 15, 2003

POHNPEI TRANSPORTATION AUTHORITY

Balance Sheets
September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<u>ASSETS</u>		
Current assets:		
Accounts receivable, net (note 3)	\$ 184,600	\$ 108,076
Advances, net (note 4)	12,715	71,675
Due from primary government (note 2)	14,201	14,201
Inventory, at cost	239,858	201,911
Prepaid rent	17,708	17,708
	<hr/>	<hr/>
Total current assets	469,082	413,572
Property and equipment, net (note 5)	<hr/>	<hr/>
	460,295	659,307
	<hr/>	<hr/>
	\$ 929,378	\$ 1,072,879
	<hr/> <hr/>	<hr/> <hr/>
 <u>LIABILITIES AND FUND EQUITY (DEFICIENCY)</u>		
Current liabilities:		
Accounts payable	\$ 38,315	\$ 42,602
Accrued liabilities	35,427	28,127
Deferred revenue	34,855	6,786
Due to primary government (note 6)	597,178	1,205,459
	<hr/>	<hr/>
Total liabilities	705,775	1,282,974
	<hr/>	<hr/>
Fund equity (deficiency):		
Contributed capital	366,867	379,167
Deficit (note 7)	(143,264)	(589,262)
	<hr/>	<hr/>
Total fund equity (deficiency)	223,603	(210,095)
	<hr/>	<hr/>
Contingencies (note 8)	<hr/>	<hr/>
	\$ 929,378	\$ 1,072,879
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statements of Revenues, Expenses, and Changes in Fund Equity (Deficiency) Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Construction services	\$ 2,453,688	\$ 2,587,106
Equipment rental	6,471	6,447
Other	187,894	147,144
	2,648,053	2,740,697
 Operating expenses:		
Salaries and wages	980,972	1,023,710
Supplies and materials	554,334	566,359
Fuel	256,359	305,667
Depreciation	220,348	290,847
Utilities	65,741	59,754
Employees benefits	64,185	67,030
Leases	32,040	35,560
Equipment rentals	24,715	66,135
Bad debts	17,203	55,009
Taxes and licenses	9,915	8,987
Freight	7,941	9,621
Communications	6,287	6,651
Professional services	-	4,125
Travel and transportation	-	4,018
Court settlements	3,000	-
Repair services	2,214	753
Entertainment	1,557	325
Meeting allowances	160	200
Miscellaneous	250	680
	2,247,220	2,505,432
 Total operating expenses		
	400,834	235,265
 Nonoperating revenues:		
Operating transfers in (note 9)	32,864	21,369
	433,698	256,634
 Net income		
	(589,262)	(897,024)
Deficit at beginning of year		
Add depreciation on fixed assets acquired by capital contributions which reduces contributed capital	12,300	51,128
	12,300	51,128

Deficit at end of year	<u>(143,264)</u>	<u>(589,262)</u>
Contributed capital at beginning of year	379,167	371,800
Add fixed assets acquired by capital contributions	-	58,495
Less depreciation charged against contributed fixed assets	<u>(12,300)</u>	<u>(51,128)</u>
Contributed capital at end of year	<u>366,867</u>	<u>379,167</u>
Fund equity (deficiency) at end of year	<u>\$ 223,603</u>	<u>\$ (210,095)</u>

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Reconciliation of loss from operations to net cash provided by operating activities		
Income from operations	\$ 433,698	\$ 256,634
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	208,049	239,720
Depreciation- contributed assets	12,300	51,128
Bad debts	17,203	55,009
(Increase) decrease in assets:		
Receivables	(93,727)	227,429
Prepayments	-	(3,520)
Advances	58,960	(62,766)
Inventories	(37,947)	54,517
Increase (decrease) in liabilities:		
Due to primary government	(608,281)	(755,262)
Accounts payable	(4,287)	(33,828)
Accrued liabilities	7,300	3,367
Deferred revenue	28,069	(19,214)
	21,336	13,213
Net cash provided by operating activities	21,336	13,213
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(21,336)	(13,213)
	-	-
Net increase (decrease) in cash and equivalents	-	-
Cash and equivalents at beginning of year	-	-
Cash and equivalents at end of year	\$ -	\$ -

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pohnpei Transportation Authority (PTA) was established by Pohnpei State Public Law 3L-44-72. The primary purpose of PTA is to promote, develop, and improve transportation facilities and services within Pohnpei. The services include the construction of circumferential roads for the island, secondary farm roads for the municipal governments and performance of other construction maintenance on a user charge basis.

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

PTA is a component unit of the Pohnpei State Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the State of Pohnpei as a whole. The financial statements of PTA have been prepared in conformity with 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 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. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income, with maintenance of capital.

Proprietary funds are 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. This is in contrast to "governmental" fund type accounting, which uses a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet.

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.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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. Contributed Capital

Fixed assets and spare parts donated by governments and transfers from other funds are credited to the contributed capital account.

H. Management Estimates

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

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

I. Risk Management

PTA does not purchase commercial insurance covering its potential risks. There is no material loss sustained as a result of this practice.

(2) DUE FROM PRIMARY GOVERNMENT

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

(3) ACCOUNTS RECEIVABLE

Accounts receivable represents receivables from the State of Pohnpei, the FSM National Government, and from businesses and individuals related to construction of roads and sales of fuel, aggregate, coral and reinforced concrete pipes.

Accounts receivable at September 30, 2002 and 2001, are summarized as follows:

		<u>2002</u>		<u>2001</u>
Accounts receivable	\$	765,352	\$	671,625
Less allowance for doubtful debts		<u>580,752</u>		<u>563,549</u>
Accounts receivable, net	\$	<u>184,600</u>	\$	<u>108,076</u>

(4) ADVANCES

The net advances to suppliers and employees as of September 30, 2002 and 2001 are as follows:

		<u>2002</u>		<u>2001</u>
Advances	\$	28,751	\$	87,807
Less allowance for doubtful debts		<u>16,036</u>		<u>16,132</u>
	\$	<u>12,715</u>	\$	<u>71,675</u>

(5) PROPERTY AND EQUIPMENT

A summary of PTA's property and equipment at September 30, 2002 and 2001 are as follows:

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2002 and 2001

Description	Useful Life	2002	2001
		<u>Cost</u>	<u>Cost</u>
Buildings	15 years	\$ 70,000	\$ 70,000
Communication equipment	2 years	40,510	37,806
Heavy equipment	5-10 years	5,720,169	5,720,169
Machinery, tools and equipment	2 years	92,875	91,338
Furniture and fixtures	3 years	72,594	71,999
Vehicles	5 years	452,099	435,599
		<hr/>	<hr/>
		6,448,247	6,426,911
Less accumulated depreciation		<u>(5,987,952)</u>	<u>(5,767,604)</u>
Property and equipment, net		\$ <u>460,295</u>	\$ <u>659,307</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 are shown below:

	<u>2002</u>	<u>2001</u>
Balances as of October 1, 2001 and 2000	\$ 1,205,459	\$ 1,960,721
Increase (decrease) in the account as reflected in		
Cash Flow Statement	<u>608,281</u>	<u>755,262</u>
Balance as of September 30, 2002 and 2001	\$ <u>597,178</u>	\$ <u>1,205,459</u>

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

(7) DEFICIT

As of September 30, 2002 and 2001, PTA's operations resulted to a deficit of \$143,264 and \$589,262 respectively.

(8) CONTINGENCIES

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

(9) TRANSFERS IN

The amount represents funds received from Pohnpei State Government for the maintenance of circumferential road. In fiscal years 2002 and 2001, PTA received \$32,864 and \$21,369 respectively.

POHNPEI TRANSPORTATION AUTHORITY

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

YEARS ENDED SEPTEMBER 30, 2002-2001

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

The Board of Directors
Pohnpei Transportation Authority:

We have audited the financial statements of the Pohnpei Transportation Authority (PTA), as of and for the two-years ended September 30, 2002-2001, and have issued our report thereon dated October 15, 2003. We conducted our audits in accordance with generally accepted auditing standards 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 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 an immaterial instance of noncompliance that we are reporting to the management in the accompanying Schedule of Findings and Questioned Costs (page 23) in finding number 02-011.

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 02-001 to 02-010 and 02-012 to 02-015 on pages 12 to 28.

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 002-001 to 002-008 and 02-015 to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of PTA, 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.

Annes Leben
Pohnpei State Auditor
October 15, 2003

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-001 Ledgers

Criteria:

The general and subsidiary ledgers should be accurately maintained to support the amounts in the financial statements.

Condition:

PTA's financial statements in fiscal years 2001 and 2002 were supported by schedules that showed discrepancies as follows:

	2001			2002		
	Balance Sheet	Schedule	Difference	Balance Sheet	Schedule	Difference
Receivables	\$1,398,344	\$473,778	\$924,566	\$1,990,600	\$803,905	\$1,186,695
Inventory	\$542,859	\$186,580	\$356,279	\$816,962	\$274,103	\$542,859
Fixed Assets	\$6,491,119	\$6,499,724	\$(8,605)	\$6,510,842	\$3,119,656	\$3,391,186
Payables	\$316,646	\$9,765	\$306,881	\$346,817	\$34,073	\$312,744

In addition, receivables from sales of property and equipment rentals valued at \$20,530 and \$64,326 in fiscal years 2001 and 2002 respectively were not included in the schedules.

Cause:

The accountant did not perform reconciliation of accounts with State Finance or maintain the general and subsidiary ledgers.

Effect:

The accounts were not fairly stated prior to the auditor's adjustment.

Prior Year Status:

The absence of subsidiary ledgers and nonperformance of account reconciliation were cited as a finding in PTA audits of 1999 and 2000.

Recommendation:

We recommend that management ensure that general and subsidiary ledgers are accurately maintained to support the amounts in the financial statements.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-002 Cash Advance

Criteria :

Significant accountabilities should be considered in the budget and funds should be reserved to pay for such promptly.

Condition:

As of fiscal year 2000, PTA's cash advances from State Treasury amounted to \$1,960,721. Although the cash advances decreased in fiscal years 2001 and 2002 respectively, PTA still owed Pohnpei State as follows:

Cash Advance	
<u>FY 2001</u>	<u>FY 2002</u>
\$ 1,205,459	\$ 597,178

Cause:

Management did not consider the advances in the budget.

Effect:

The above condition resulted to significant balance of \$538,593 due to Pohnpei State Government subsequent to September 30, 2002.

Prior Year Status :

The above condition was cited as a finding in PTA audit for fiscal years 2000 and 1999.

Recommendation:

We recommend management to ensure that cash advances owed from State Treasury are considered in the budget and funds are reserved to pay the advances promptly.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-003 Delinquent Accounts

Criteria:

An effective system of internal control requires that receivables be aged and billings sent to customers monthly. Further, past due accounts should be confirmed from customers, any discrepancies noted should be investigated and measures should be instituted for timely collection of the accounts.

Condition:

Our review of receivables from construction services disclosed that there were no collection of delinquent accounts in fiscal years 2001 and 2002. Further review revealed the following:

1. Delinquent accounts represent 86% and 81% of gross receivables in fiscal years 2001 and 2002 respectively;
2. Past due accounts were increased by \$302,126 or 117% within a five year period.

FY	Receivables from Construction Services		
	Gross	Delinquent	% to Gross
1998	\$ 630,899	\$ 258,333	41%
1999	\$ 1,014,150	\$ 458,985	45%
2000	\$ 845,231	\$ 508,540	60%
2001	\$ 644,450	\$ 555,959	86%
2002	\$ 691,206	\$ 560,459	81%

(\$560,459-\$258,333) div by \$258,333 =117%

Cause:

Management failed to monitor and follow up collection of delinquent accounts.

Effect:

Potential loss of substantial revenues amounting to \$560,459 might result from the above condition.

Recommendation:

We recommend management to enforce collection of delinquent accounts.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-004 Reconciliation of Accounts

Criteria:

An effective system of internal control requires that reconciliation of accounts be performed timely. In addition, any resulting adjustments should be reviewed and approved by responsible official.

Condition:

The Department of Treasury and Administration processes and records PTA's transactions. PTA however, employs an accountant. Despite of this, it appears that reconciliation of accounts was not being done.

For example, in fiscal year 2001, an erroneous credit to revenues of \$522,219 was not corrected.

In FY 2002 however, PTA's expense account was debited by the same amount in an attempt to correct the erroneous credit.

Cause:

The above condition is due to the lack of timely reconciliation of accounts.

Effect:

Revenues were overstated in fiscal year 2001 and the expenses were also overstated by the same amount in fiscal year 2002; prior to the auditor's adjustment.

Recommendation:

We recommend PTA's accountant to perform reconciliation of accounts on a monthly basis. In addition, any correction or adjusting entries affecting PTA's financial statements should be noted by the accountant.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-005 Inventory

Criteria:

An effective system of internal control requires that inventory be safeguarded against loss or damage. In addition, records should be established and updated through periodic physical count.

Condition:

During the inventory cut off in fiscal year 2002, we found 1,570 drums of asphalt cement and prime coats worth \$142,413 exposed to elements at Palikir and Pohnlangas plants.

In addition, supplies and spare parts stored at PTA Garage valued at \$55,656 in fiscal year 2001 and \$39,160 in fiscal year 2002 do not have inventory records that show receipts and issuances as well as source, description, quantity, location, and cost for each item. Lastly, the staff in charge did not perform periodic physical count of inventory except at year-ends.

Cause:

Management did not establish controls to safeguard its inventory.

Effect:

There is no assurance that inventory were properly accounted for and adequately safeguarded against loss and misuse.

Prior Year Status:

The above condition was reported as a finding in PTA audits of 1998, 1999 and 2000.

Recommendation:

We recommend management to ensure that inventory is kept at a safe place and that records are maintained and updated through periodic physical count.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-006 Fixed Assets

Criteria:

Fixed asset acquisitions should be supported with underlying documents that establish ownership and amount.

Condition:

Heavy equipment valued at \$50,000 was purchased on a lease-to-own term from a vendor, who at the same time is also a Board member. In fiscal year 2001 however, even though the fixed asset was already fully paid, the title to the equipment was not transferred to PTA.

Cause:

The Board approved the transaction without a valid contract.

Effect:

The effect of the above condition resulted to fixed asset acquisition, the ownership of which is not clear.

Recommendation:

We recommend that management ensure that fixed asset acquisitions are supported by documents that establish ownership and amount. Further, we recommend the management to secure title to the heavy equipment immediately.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-007 Credit Approval

Criteria:

An effective system of internal control requires that a policy on credit approval and extension be maintained. In addition, the authorization and terms of credit should be made in writing and must be signed by both responsible official from PTA and the customer.

Condition:

In fiscal year 2002, thirty – two per cent (32%) or \$20,293 of receivables from sales of property and equipment rentals were accounts from fiscal year 2001 and prior. During the year, the receivables increased by \$44,033. As shown on the table below, our detailed review revealed the following:

- a. Credits were extended to customers with prior year unpaid accounts;
- b. Credits were extended to off island contractor that have left the island;
- c. Subsequent charges were approved even though customer has not paid previous account/s.

Customer	Receivables	# of accts	Per Audit
A	\$ 16,159.00	12	a
B	\$ 6,077.50	4	a
C	\$ 5,331.90	7	a
D	\$ 7,261.00	5	b
E	\$ 13,090.00	3	c
F	\$ 2,303.00	3	c
G	\$ 1,408.00	3	c

Further interview with the accountant revealed that collection of the accounts was difficult because the credits were approved without a binding promissory note or document from the customers.

Cause:

The above condition is due to the lack of clear cut policy on credit extension and approval.

Effect:

The risk that revenues valued at \$64,326 might not be collected is heightened as a result of the above condition. In addition, the above condition might lead to future extended credits that are improbable to collect.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-007 Credit Approval

Recommendation:

We recommend management to ensure that a policy on approval and extension of credit is established. In addition, the terms of the credit should be written and signed by customer.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-08 Fuel

Criteria: Purchases of supplies should be monitored and properly accounted for.

Condition:

PTA provides fuel to Pohnpei State Government on a user charge basis. In fiscal years 2001 and 2002, fuel expenses amounted to \$305,667 and 256,359 respectively.

Our audit showed that PTA has no monthly record of fuel purchases or fuel used in production. Consequently, we noted the following:

1. In fiscal year 2001, budget overrun of \$37,167 was incurred for fuel.
2. Fuels purchased in fiscal year 2000 amounting to \$8,853 was not accrued but paid at the end of fiscal year 2001.
3. Invoices were not monitored and paid in random.
4. At least five (5) employees are signing the receipts of fuel.

Cause:

An apparent absence of controls in procurement resulted from the above condition.

Effect:

There is no assurance that fuel purchases and sales were properly authorized, monitored, and accounted for.

Recommendation:

We recommend management to ensure that purchases and sales of fuel are monitored and properly accounted for.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-009 Overtime

Criteria:

Overtime should be properly supported and reviewed prior to payment.

Condition:

Our review of overtime paid for two (2) pay periods in fiscal year 2001 and three (3) pay periods in fiscal year 2002 disclosed the following:

Fiscal Year 2001

Pay Period 26	Overtime of eighty (80) employees totaling 3,712.5 hours and amounting to \$13,122 was not supported with timesheets or approved request.
Pay Period 3	Overtime for nine (9) pay periods in FY 2000 worth \$8,420 was paid.
	Overpayment of overtime to five (5) employees amounting to \$382.

Fiscal Year 2002

Pay Period 2	Overpayment of overtime to two (2) employees amounting to \$110.
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Cause:

The above condition is due to lack of controls in processing payroll.

Effect:

The above condition might have resulted to payments of overtime that are not authorized.

Recommendation:

We recommend management to ensure that overtime is properly reviewed and supported with approved timesheets and overtime request forms prior to payment.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-010 Paid Time Off

Criteria:

Paid time off should be supported with approved leave applications.

Condition:

Our review of five (5) pay periods in fiscal years 2001 and 2002 showed that employees' paid time off were not supported by approved applications for either sick and vacation leaves.

The table below shows the number of employees with paid time off and the aggregate hours paid for each pay period as follows:

FY	PPR#	Pay Period	Paid Time Off	Hours Paid	# of employees w/ PTO
2001	26	12/3/00-12/16/00	\$4,075.87	1,256	102
	3	1/14/01-1/27/01	\$3,518.53	1,124	89
2002	2	12/30/01-1/12/01	\$1,972.10	569	48
	12	5/19/02-6/01/02	\$2,369.94	756	65
	21	9/22/02-10/05/02	\$1,090.75	320	33

Further review disclosed that accrued vacation leave recorded at State Finance includes six (6) terminated employees in fiscal years 2001 and 2002.

Cause:

The payroll staff did not require employees to file applications for sick and vacation leaves. In addition, the accountant did not perform periodic reconciliation with State Finance of individual employees accumulated and used leaves.

Effect:

There is no assurance that employees' paid time offs are legitimate.

Recommendation:

We recommend management to ensure that paid time off are supported with approved applications for both vacation and sick leaves.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-011 Travel

Criteria:

Travel vouchers and supporting documents should be filed ten (10) working days after completion of the trip. Otherwise, travelers should promptly pay their travel advances through payroll allotments.

Condition:

In fiscal year 2001, two (2) travelers did not file their travel vouchers after their trips. Our review disclosed that up to fiscal year 2003, the Travel Authorizations were still outstanding and that travel advances amounting to \$3,806 were not cleared.

Cause:

The travelers claimed that the accountant did not submit their travel vouchers to State Finance.

Effect:

The effect of the above condition resulted to non-collection of advances from the travelers. In addition, the above condition resulted to noncompliance with PTA's Financial Management System.

Recommendation:

We recommend the Commissioner and Director of Treasury and Administration to ensure that travelers promptly pay their travel advances through payroll allotments.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-012 Travel Advance

Criteria:

Travel Authorizations should be properly reviewed so that travel advances are paid accurately.

Condition:

Our review of travel advances in fiscal year 2001 disclosed the following:

1. Car rentals of \$260 each were advanced to two (2) travelers for the same trip and purpose. Subsequent review disclosed that one of the travelers rented a car and shared it with the other traveler.
2. Advance of \$3,037 was paid to a traveler that includes two (2) days overpayment of car rentals and per diem as follows:

TA	Period of Travel	# of Days		Amount	
		Per Audit	Per Diem	Car Rental	Overpaid
10281	4/26/01 - 5/09/01	13	15	15	\$ 467

Cause:

State Finance processed the Travel Authorizations and allowed the payment.

Effect:

The effect of the above condition resulted to overpayment by \$727 of travel advances, which have not been cleared.

Prior Year Status:

Payments of travel expenses that are not valid were reported as a finding in PTA audits of 1999 and 2000.

Recommendation:

We recommend that the accountant ensures that all Travel Authorizations are reviewed and paid correctly.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-013 Budget

Criteria:

Budget should be reasonably planned, monitored and amended if needed to reflect actual position.

Condition:

PTA's budget for revenues against actual amount in fiscal years 2001 and 2002 resulted to a shortfall of 22% and 36% respectively as follows:

	Revenues	
	FY 2001	FY 2002
Budget	\$ 3,526,671	\$ 4,155,010
Actual	\$ 2,740,697	\$ 2,648,053
Shortfall	\$ 785,974	\$ 1,506,957
Shortfall %	22%	36%

For instance, we noted that in fiscal year 2001, projected revenues from contract service and from National Government grants were estimated at \$2,700,000 and \$771,671. No detailed description of the projects for each line item was given. On the other hand, in fiscal year 2002 although most projects listed were not performed, the budgeted revenues were not amended.

Cause:

Management did not properly plan its budgets.

Effect:

There is no effect of this condition on the financial statements.

Recommendation:

We recommend PTA to ensure that budgets are reasonably planned, monitored, and amended to actual results.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-014 Receiving Reports

Criteria:

Receiving reports for off-island purchases should be filed at the State Finance promptly and with complete shipping documents.

Condition:

PTA often requests State Finance for prepayment of supplies and equipment urgently needed in its operation. However, during our review of significant disbursements, we noted that PTA was late in filing receiving reports for off island purchases. For instance:

FY	PO	Pmt Date @	Amount	Arrival Date*	RR Date**
2001	P10119	04/06/01	\$59,500	05/18/01	06/08/01
	P10148	06/14/01	\$8,400	07/12/01	07/16/01
	P10173	07/04/01	\$39,780	09/03/01	09/27/01
	P10201	07/11/01	\$58,960	08/13/01	09/12/01
	P10245	08/30/01	\$58,960	10/16/01	10/30/01
2002	P20042	01/03/02	\$58,960	02/20/02	03/18/02
	P20099	05/02/02	\$5,227	05/24/02	06/21/02
	P20161	07/16/02	\$115,040	08/26/02	10/04/02

no shipping documents attached

@ Date of check or wire transfer

*Per bill of lading, airway bills, customs clearance, or equivalent

**Receiving Report

Cause:

The purchasing officer was late in filing the receiving reports of supplies and equipment at State Finance.

Effect:

There is no full assurance that prepaid equipment and supplies were received timely and or actually received.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-014 Receiving Reports, continued

Recommendation:

We recommend management to maintain subsidiary ledger of prepaid purchases in order to monitor prepayments and the receipts of the items. In addition, the receiving reports, together with supporting documents should be filed at the State Finance timely.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Questioned Costs Years Ended September 30, 2002-2001

Finding No. 02-015 Unresolved Findings

Criteria:

Pohnpei State Law no. 5L-08-00 requires PTA to file a monthly report to the Office of Pohnpei State Auditor (OPSA) indicating its progress in clearing deficiencies cited in the audit report, which should not exceed six (6) months.

Condition:

Nine (9) findings from fiscal year 2000 audit were not resolved:

No.	Finding
00-001	Deficit
00-003	Accrual Accounting
00-007	Payroll documents
00-008	Inventory cut off
00-012	Verbal agreements
00-013	Advances to vendors
00-014	Accounts payable
00-016	Invoice
00-020	Travel

Cause:

Management did not submit its monthly report to OPSA.

Effect:

The above condition resulted to noncompliance with PSL 5L-08-00. In addition, there is no assurance that management intends to resolve the deficiencies and/or in a timely manner.

Recommendation:

We recommend management to comply with PSL no. 5L-08-00 and resolve the weaknesses cited in the audit report in a timely manner.

Auditee Response:

Please refer to Exhibit I.

POHNPEI TRANSPORTATION AUTHORITY

EXHIBIT I

AUDITEE RESPONSE

YEARS ENDED SEPTEMBER 30, 2002-2001