| PERFORMANCE AUDIT ON THE RECOMMENDATIONS OF PRIOR AUDIT  
| (REPORT NO. 2021-02) |
| IMPROVEMENT NEEDED IN THE OVERSIGHT FUNCTION OF THE BOARD AND MANAGEMENT OF THE FUND |
| REPORT NO. 2022-04 |
Monday, June 05, 2023

His Excellency President Wesley Simina  
Honorable Members of the 23rd Congress  
Acting Secretary, Department of Finance & Administration  
Acting Director, Office of Personnel  
Federated States of Micronesia

RE: PERFORMANCE AUDIT ON THE RECOMMENDATIONS OF PRIOR AUDIT - REPORT NO. 2021-02

This report contains the results of the performance audit on the recommendations of our prior audit on the FSM Trust Fund, which was our Audit Report No. 2021-02, issued on December 02, 2020.

The main objective of this audit was to determine whether the management of the Department of Investment and International Finance and Office of Personnel in Palikir have taken actions to address the audit findings and recommendations disclosed in our prior Report No. 2021-02.

Based on our audit, we found that there was no progress towards the implementation of most of the audit findings and recommendations of the prior audit report. The status of implementation as indicated in the table below is: one (1) recommendation was partially implemented while twenty (20) recommendations were not implemented. The stages of implementation are either not implemented (NI), partially implemented (PI), fully implemented (FI), or no longer applicable (NLA), the definition is provided in Appendix A.

<table>
<thead>
<tr>
<th>Findings No. &amp; Title</th>
<th>No. of recommendations &amp; Stages of implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>01. The main objective of establishing Trust Fund may not be achieved in the next ten (10) years with the current pace</td>
<td>NI 3 PI FA NLA</td>
</tr>
<tr>
<td>02. Lack of effective governance and risk management activities</td>
<td>2</td>
</tr>
<tr>
<td>03. Capacity building of the board and management of the fund needs to be strengthened</td>
<td>3</td>
</tr>
<tr>
<td>Findings No. &amp; Title</td>
<td>No. of recommendations &amp; Stages of implementation</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>04. FSM Trust Fund lack of effective and efficient management</td>
<td>NI: 3     PI:       FI:       NLA:</td>
</tr>
<tr>
<td>05. The management of the FSM Trust Fund did not appropriately carry out account reconciliations</td>
<td>NI: 3     PI:       FI:       NLA:</td>
</tr>
<tr>
<td>06. Unclear duties and responsibilities of employees administering and monitoring the FSM Trust Fund</td>
<td>NI: 1     PI:       FI: 1       NLA:</td>
</tr>
<tr>
<td>07. Lack of Operating Manual for FSM Trust Fund Operations</td>
<td>NI: 1     PI:       FI:       NLA:</td>
</tr>
<tr>
<td>08. The sub-accounts of the FSM Trust Fund were co-mingled in the Financial Management Information System (FMIS)</td>
<td>NI: 2     PI:       FI:       NLA:</td>
</tr>
<tr>
<td>09. FSM Trust Fund Management and Department of Finance &amp; Administration did not implement all audit recommendations issued in the Audit Report No. 2015-08</td>
<td>NI: 2     PI:       FI:       NLA:</td>
</tr>
</tbody>
</table>

**Total no. of recommendations and its implementation status**

<table>
<thead>
<tr>
<th>NI</th>
<th>PI</th>
<th>FI</th>
<th>NLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We also acknowledge the management of the Department of Investment and International Finance and the Office of Personnel for their assistance during the audit engagement.

Sincerely,

[Signature]

Haser H. Hainrick
National Public Auditor

cc: Vice President
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIIF</td>
<td>Division of Investment and International Finance</td>
</tr>
<tr>
<td>DOFA</td>
<td>Department of Finance and Administration</td>
</tr>
<tr>
<td>FI</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>FMIS</td>
<td>Financial Management Information System</td>
</tr>
<tr>
<td>FSM</td>
<td>Federated States of Micronesia</td>
</tr>
<tr>
<td>IIFO</td>
<td>Investment &amp; International Finance Officer</td>
</tr>
<tr>
<td>IPS</td>
<td>Investment Policy Statement</td>
</tr>
<tr>
<td>NI</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>NLA</td>
<td>No Longer Applicable</td>
</tr>
<tr>
<td>PI</td>
<td>Partially Implemented</td>
</tr>
<tr>
<td>PL</td>
<td>Public Law</td>
</tr>
<tr>
<td>PSSR</td>
<td>Public Service System Regulation</td>
</tr>
</tbody>
</table>
Table of Contents

1.0 INTRODUCTION .................................................................................................................. 1
  1.1 Reason for the Audit ........................................................................................................ 1
  1.2 Background ..................................................................................................................... 1

2.0 AUDIT MANDATE ............................................................................................................ 2

3.0 OBJECTIVE, SCOPE, AND METHODOLOGY .............................................................. 2
  3.1 Objective ....................................................................................................................... 2
  3.2 Scope ............................................................................................................................ 2
  3.3 Methodology ................................................................................................................ 2

4.0 PRIOR AUDIT COVERAGE ............................................................................................ 3

5.0 COMMENDATION .......................................................................................................... 3

6.0 CONCLUSION .................................................................................................................. 3

7.0 IMPLEMENTATION STATUS OF OUR RECOMMENDATIONS, REPORT NO. 2021-02 .... 4

8.0 STAGES OF IMPLEMENTATION OF RECOMMENDATIONS ...................................... 13

9.0 MANAGEMENT RESPONSE ......................................................................................... 14

10.0 ONPA EVALUATION OF MANAGEMENT RESPONSE ........................................... 16

11.0 NATIONAL PUBLIC AUDITOR'S COMMENTS .......................................................... 17

12.0 ONPA CONTACTS AND STAFF ACKNOWLEDGEMENT .......................................... 18
1.0 INTRODUCTION

1.1 Reason for the Audit

In line with the Office’s strategic direction and consistent with ONPA’s Goal 1, to strengthen accountability and transparency in the Government through Impactful & Quality Services, it was approved that a performance audit on the recommendations of prior audit to be conducted on the Report No: 2021-02: FSM Trust Fund.

The reasons for this audit were as follows:

- Following-up on the implementation of our recommendations is a measure of how ONPA adds value to the operations of our audit clients.
- The audit was issued within the last two fiscal years hence the recommendations could still be valid, provided there were minimal/no changes to the administration of the FSM Trust Fund (Fund).
- Part of ONPA’s strategic plans and operational plans for FY2023 to conduct performance audits on the recommendations of prior audits hence complying with and carrying through with our targeted outcomes.

1.2 Background

A performance audit was conducted on the Fund in 2019\(^1\) with the report issued on December 02, 2020\(^2\) focusing on the governance structure or how the Fund was administered. With this focus, the objectives of the audit were to determine whether:

- there was an effective governance process in place;
- internal controls were in place and whether they were adequate and effective;
- the Fund had in place mechanisms to identify, monitor, and report and manage its inherent and emerging risks; and
- the FSM Government had financial and strategic plans in place with regards to the sustainability and earnings of the Fund.

The report (No. 2021-02) titled ‘The FSM Trust Fund: Actions are required to effectively & efficiently achieve the goals of the FSM Trust Fund” highlighted the need for improvements to be made in the administration of the Fund; improvements in the governance processes, internal controls, risk management process and in the operations of the Fund.

We followed up on the recommendations for the nine (9) findings listed below:

1. The main objective of establishing the Fund may not be achieved in the next ten (10) years with the current pace
2. Lack of effective governance and risk management activities
3. Capacity building of the Board and Management of the FSM Trust Fund needs to be strengthened
4. Lack of Effective and Efficient Management
5. The Management of the FSM Trust Fund did not appropriately carry out accounts’ reconciliations

---

\(^1\) Assignment No: 2019-01
\(^2\) As per letter addressed to His Excellency President David W. Panuelo
6. Unclear duties and responsibilities of employees administering and monitoring the FSM Trust Fund
7. Lack of Operating Manual for the FSM Trust Fund Operations
8. The sub-accounts of the FSM Trust Fund were co-mingled in the Financial Management Information System (FMIS)
9. Fund Management and Department of Finance and Administration (DoFA) did not implement all audit recommendations issued in audit report no. 2015-08.

2.0 AUDIT MANDATE

We conducted this Performance Audit pursuant to the authority vested in the National Public Auditor as codified under Chapter 5, Title 55 of the FSM Code which states in part as the following:

"The Public Auditor shall inspect and audit transactions, accounts, books and other financial records of every branch, department, office agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government."

In addition, Section 1219 of the FSM Trust Fund Act states that "At the end of each financial year the accounts of the Fund shall be audited either by the Public Auditor or by an independent auditor who has no connections with the Fund managers and is appointed by the Board."

3.0 OBJECTIVE, SCOPE, AND METHODOLOGY

3.1 Objective

The objective of this audit was to verify the implementation of the recommendations for audit report no. 2021-02 that are still relevant at the time of this audit.

3.2 Scope

The scope of this audit was focused on the responses and documents received from the Division of Investment and International Finance (Division or DIIF) and Office of Personnel on the extent of the implementation of the recommendations highlighted in the Audit Report No. 2021-02.

We performed this audit at the DIIF and Office of Personnel in Palikir, Pohnpei.

3.3 Methodology

We conducted this Performance Audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective as identified in Section 3.1.

The audit procedures included the review of responses and documents submitted by the DIIF and Office of Personnel.
4.0 PRIOR AUDIT COVERAGE

Refer to the following Audit Reports for prior audits performed on the Trust Fund:
- No. 2021-02 – Actions are required to effectively and efficiently achieve the goals of the FSM Trust Fund; and
- No. 2015-08 – Lack of Board’s Oversight contributed to non-compliance & accountability issues.

5.0 COMMENDATION

Our sincere appreciation is extended to the DIIF and Office of the Personnel for their assistance and cooperation rendered during the audit.

6.0 CONCLUSION

Based on the results of this audit, we concluded that the DIIF and Office of Personnel, have not fully implemented all audit recommendations, and have not set any plans or taken preparation steps to address the findings and recommendations reported in the Audit Report No. 2021-02.

The results of this audit are discussed in detail in the following pages.
7.0 IMPLEMENTATION STATUS OF OUR RECOMMENDATIONS, REPORT NO. 2021-02

7.1 Implementation of recommendation for Finding 01: The Main Objective of Establishing the Fund may not be achieved in the next ten (10) years with the current pace

We issued three (3) recommendations under Finding 01

Recommendations: We recommended that the Secretary, DOFA and the Board of Trustees should ensure that:

- A Strategic Plan, charting out the direction of the Fund with appropriate milestones, identifying existing and potential sources of funds, is established and operationalized.
- Full (100%) reliance on contractors for management of Fund investment and the embedded risks are minimized to an acceptable level through concerted efforts that should include capacity building of the existing employees and members of the Board of Trustees (Board).
- Management tools for managing the activities of the Fund are developed and enshrined in all existing and planned operations, e.g., strategic plan, risk management framework and register, training program for employees and members of the Board.

A Summary of Management's Response to the prior audit: DOFA and the Board concurred with the recommendation for a Strategic Plan.

Current Implementation Status: Not implemented. The Strategic Plan, risk management framework, risk register or training program for the Board members and staff handling the Trust Fund were not developed. We were informed that the Board members and staff handling the Fund attended the annual training courses on Fiduciary and Global Fiduciary Strategist; however, there were no records provided to confirm this statement.

Effect of the delay or failure to fully implement the recommendations:
- Non-compliance with the requirements of Section 1208 (8) of the Act.

Causes of the delay or failure to fully implement the recommendations:
Ineffective oversight from the Board and management of the Fund to ensure that:
- the strategic plan, risk management framework, risk registers and procedures on the documentation and maintenance of training records and other documents concerning the operations of the Trust Fund are developed; and
- resources are available to develop these documents and procedures.

New Recommendations:
The Board and management of the Fund to strengthen its oversight function by ensuring that:
- the strategic plan, risk management framework, risk register, procedures on the documentation and maintenance of training records and other documents concerning the operations of the Fund are developed; and
- appropriate and competent resources are available to develop these documents and procedures.
7.2 Implementation of recommendation for Finding 02: Lack of Effective Governance and Risk Management Activities

We issued two (2) recommendations under Finding 02.

Recommendation: We recommended that the Secretary, DoFA and the Board of Trustees should:
- Initiate review and seek amendment of Chapter 12 of Title 55 of FSM Code to capture issues identified within this audit report; and
- Ensure that risk management framework and risks registers are established for guidance and reference to the Board of Trustees and staff of DIIF.

Management's response to the prior audit: We disagree with the claim that the Fund “lack effective governance and risk management”. The Fund allocates investments in a diversified long-term-oriented portfolio. The Fund engages with world class institutions for services. These service providers have separation of duties which provides checks and balances. The Board has regular monitoring meetings and meets with all the vendors at least once a year for review. The Fund has achieved superior performance.

The Fund assets are custodied by US Federally registered banking organizations. They are the Trust Fund’s official record keeper. It is impractical for DoFA to establish administration capabilities to record and settle investment trades.

We disagree with the notion that short-term market losses can be avoided by market timing. Discussions of these sections are speculative and are against generally accepted investment principles for long-term investors.

The Fund is properly diversified and conforms to the institutional risk management standard. Risk management should not be taken out of context of the long-term investment horizon of the Fund. This means that the Fund can sustain short-term volatility risks such as what happened during the first calendar quarter of 2020, because it has a long-term horizon to recover these temporary (non-permanent) asset value impairments. FY2020 has outperformed FY2019.

Current Implementation Status: Not Implemented. We acknowledge that amendments have been made to Chapter 12 of the FSM Code after our audit report was issued on December 02, 2020. The amendments were made to the definitions (1202), purpose (1204) and miscellaneous restrictions (1216) through Public Law 22-06. The issue raised in the report was that the establishment of the Fund did not consider federal-related risks such as the possible eventuality of one state ceasing to be part of the Federation or dissolution of the Federal Government. From our observations, Chapter 12 of the FSM Code is yet to be amended to consider federal-related risks.

In addition, the risk management framework and risk registers were not developed.

Effects of the delay or failure to fully implement the recommendations:
- The lack of effective governance and risk management is exacerbated.
- In the absence of a risk management framework, the Division might not be able to consider the full range of the risks the Division can face such as losses pertaining to competitive advantage, assets, business opportunities, data, or legal risks.
• It will be difficult to mitigate and monitor the risks when it is not documented and stored in one accessible place.

**Cause of the delay or failure to fully implement the recommendations:**
• Lack of proper oversight by the Board and management of the Fund to ensure that the risk management framework and risk registers are developed and that resources are available to develop these documents.

**New Recommendation:**
• Oversight function by the Board and management of the Fund to be strengthened by ensuring that the risk management framework and risk registers are developed, and that appropriate and competent resources are available to develop these documents.

7.3 Implementation of recommendation for Finding 03: Capacity Building of the Board and Management of the Fund needs to be strengthened

We issued three (3) recommendations under Finding 03.

**Recommendations:** Based on the fact that the Fund is projected to be one of the lifelines for financial viability in the event of full termination or significant reductions in economic assistance under the Renewed Compact of Free Association, we recommend that the Secretary of DoFA and the Board of Trustees should ensure that:
• Appropriate and sufficient plans (on trust fund administration and management) are developed and operationalized for building the capacity of management and employees in the DIIF in order to enable them to effectively and efficiently carry out their duties as delineated in Chapter 12 of Title 55 of the FSM Code;
• The capacity of members of the Board of Trustees to understand and interpret information relating to the investment of funds is developed to enable them to make timely and informed decisions; and
• Staff and management receive adequate training courses such as Certification in Fund Administration.

**A Summary of the Management’s Response to the prior audit:** The Management of the Fund concurred with our findings and recommendations to strengthen capacity building within the Division.

**Current Implementation Status:** Not Implemented. We were informed that the Board members and staff handling the Fund attended the annual trainings on Fiduciary and Global Fiduciary Strategist; however, there were no records provided to confirm this statement.

**Effect of the delay or failure to fully implement the recommendations:**
• Non-compliance with the requirements of Section 1208 (8) of the Act.

**Cause of the delay or failure to fully implement the recommendations:**
• Ineffective oversight by the Board and management of the Fund to establish written procedures on the documentation and maintenance of training records (to record and monitor
that the staff and Board members are informed of and kept abreast with changes to the standards/requirements relating to the Fund operations).

**New Recommendation:**
- Strengthen the oversight function by the Board and management of the Fund to establish written procedures on the documentation and maintenance of training records.

### 7.4 Implementation of recommendation for Finding 04: Lack of Effective and Efficient Management

We issued three (3) recommendations under Finding 04.

**Recommendations:** We recommended that the Secretary, DoFA in collaboration with the Board of Trustees should perform the following:
- Create awareness to management, staff and members of the Board of Trustees on the Investment Policy Statement (IPS) and other applicable laws pertaining to administering and managing the Fund;
- Review the establishment Act, Chapter 12 of Title 55 of the FSM Code and where necessary recommend amendment or update; and
- Develop and operationalize appropriate and sufficient internal policies and procedures to guide staff and management in carrying out their day-to-day activities.

**A Summary of the Management’s Response to the prior audit:** Even though management disagreed with some of the findings, there were no comments that disagreed with our recommendations.

**Current Implementation Status:** Not Implemented

**Effects of the delay or failure to fully implement the recommendations:**
- Non-compliance with the requirements of Section 1208 (8) of the Act.
- Susceptibility to fraud and mismanagement when policies and procedures are not available to guide the Division on the operations of the Fund.
- Poor records management.

**Cause of the delay or failure to fully implement the recommendations:**
- Ineffective oversight by the Board and management of the Fund to ensure that an Operations Manual or policies and procedures to guide the staff on the day-to-day operations of the Fund such as the reconciliation process and records management (which would include ensuring that narrations for payment records and journal adjustments are accurate and sufficient for future references) are developed and that resources are available to develop these documents.

**New Recommendation:**
- Supervisory oversight by the Board and management of the Fund to be strengthened to ensure that an Operations Manual; and policies & procedures pertaining to the day-to-day activities of the Fund are developed; and appropriate and competent resources are available to develop these documents.
7.5 Implementation of recommendation for Finding 05: The Management of the Fund Did Not Appropriately Carry out Accounts Reconciliation

We issued three (3) recommendations under Finding 05.

Recommendations: We recommended that the Secretary, DOFA should ensure that the Assistant Secretary and the Investment Officer:

- Implement all prior audit recommendations;
- Establish and maintain its own independent books of account to record and monitor every activity incurred on the Fund instead of updating its records based on the bank statements received from the Bank of New York (BNY); and
- Reconcile the Fund accounts and produce accurate reports regularly.

Management’s Response to the prior audit: Wilshire and the money managers establish a 3 way-reconciliation on a monthly basis. Errors and omissions, if any, can be identified through this monthly process. While the Trust Fund’s custodians are the official record keeper of all transactions and settlements, DoFA will continue to strengthen in-house reconciliation processes.

The Division maintains the following records which are reconciled with bank statements and Fundware:

- Quarterly FSM Trust Fund Report – contains all appropriations/contributions to the fund and track all deposits to the Fund. This report is maintained on a quarterly basis.
- Earnings Distribution Schedules – monthly records of deposits, interests, realized gain/loss, income earned, allocated expenses, change in realized gain/loss, interest income earned, dividend income earned, management fees, and unrealized earnings. This report is maintained monthly.
- NGNet Worksheets – records net earnings, accruals, and unrealized earnings at the end of the year. This is maintained yearly.
- NG Summary – summary of deposits, earnings, and unrealized earnings. This is maintained yearly.

Current Implementation Status: Not Implemented. We were not provided with the following records:

- Reconciliations performed by the Division;
- Evidence that Fundware has been updated;
- Quarterly FSM Trust Fund Report for FY2022 and first quarter of FY2023;
- Earnings Distribution Schedules for FY2022 and FY2023;
- NGNet Worksheets for FY2022; and
- NG Summary for FY2022.

As a result, we were not able to confirm whether the Division prepared the reconciliations and if Fundware was updated. However, we were provided with a few e-copies of excel spreadsheets, which were not signed off by the preparer, there were no evidence to confirm that the reconciliations have been reviewed and no supporting documents to confirm the figures in the excel spreadsheets.

Effect of the delay or failure to fully implement the recommendation:
Discrepancies, omissions, fraudulent activities, unauthorized transactions, or errors will not be identified and corrected.

**Cause of the delay or failure to fully implement the recommendations:**

- Absence of procedures to guide staff on the reconciliation process, what records to reconcile (internal & external), and checks and balances to confirm that the records are accurate.

**New Recommendation**

- The Board and management of the Fund should establish written procedures to guide staff through the reconciliation process.

### 7.6 Implementation of recommendation for Finding 06: Unclear Duties and Responsibilities of Employees Administering and Monitoring the Fund

We issued two (2) recommendations under Finding 06.

**Recommendations:** We recommended that the Director of the Office of Personnel and Secretary, DoFA should:

- Update the personnel files and records to match employees’ current title and job descriptions; and
- Amend the Public Service System Regulation (PSSR) and Job Classifications and Qualifications to reflect new positions, titles, and job descriptions.

**Management’s Response to the prior audit:** All staff have job descriptions and are clear on their roles with regards to the Trust Fund. We will work with our Administrative Officers and Personnel Office to update our records to provide the correct documents mentioned in the report. We also agree to amend the PSSR and Job Classifications and Qualifications as recommended for new positions, titles and job descriptions.

**Current Implementation Status:** Partially Implemented. The personnel file for the Assistant Secretary of the Division has been updated to include the job description. However, the personnel file for the Investment and International Finance Officer (IIFO) was not updated to include the job description for the position. We were provided with a memorandum that describes the duties and responsibilities for the position. The issue is the same as was raised in the prior audit report.

There was no amendment made to the PSSR to include the additional duties and responsibilities of the IIFO position.

**Effects of the delay or failure to fully implement the recommendations:**

- It would be difficult to verify whether employees are performing their required duties and responsibilities effectively.
- Absence of formal duties and responsibilities may result in a lack of accountability.
- Incomplete or inaccurate documents maintained by the Office of Personnel.

**Causes of the delay or failure to fully implement the recommendations:**

- Absence of a filing system or checklist to guide the staff on the records & documents to be filed in the personnel files.
Office of the National Public Auditor
Report No: 2023-04

- Lack of monitoring and continuous review of the personnel files to ensure that records are properly maintained and updated.

New Recommendations
- Establishment of a filing system or checklist detailing the records & documents to be filed in each of the personnel files maintained by the Office of Personnel.
- Supervisory check should be strengthened through the continuous review of personnel files to ensure that the records are properly maintained and updated with the current position title and approved job descriptions for the current position.

7.7 Implementation of recommendation for Finding 07: Lack of Operating Manual for the Fund Operations

We issued one (1) recommendation under Finding 07.

Recommendation: We recommended that the Secretary, DoFA to establish an Operating Manual to guide the Division’s employees with their day-to-day operations.

Management’s Response to the prior audit: Management concurred with our recommendations for an Operating Manual.

Current Implementation Status: Not Implemented. The Operating Manual is yet to be developed. The Division has been using the IPS as the guide for the operation of the Trust Fund. However, with the IPS it does not provide the necessary guidance on the daily activities of the Fund to allow a competent person without specific experience to understand what is needed and how it is to be done.

Effects of the delay or failure to fully implement the recommendations:
- There will be inconsistency in the approach undertaken by staff when handling Fund matters.
- New employees will find it difficult to adapt to their new working environment, especially where the experienced staff are no longer working with the Fund.

Cause of the delay or failure to fully implement the recommendations:
- Ineffective oversight by the Board and management of the Fund to ensure that an Operating Manual is in place and that resources are available to develop the Manual.

New Recommendation:
- To strengthen the oversight function by the Board and management of the Fund to ensure that an Operating Manual is developed and that resources are available within the Division to develop the Manual.

7.8 Implementation of recommendation for Finding 08: The Sub-Accounts of the Fund were co-mingled in the Financial Management Information System (FMIS)

We issued two (2) recommendations under Finding 08.

Recommendations: We recommended that the Secretary, DoFA and Board of Trustees should ensure that:
Separate accounts are established to record the funds for each of the five (5) governments to avoid confusion and error in the posting of transactions; and

Transactions are recorded based on accounting principles, which include but are not limited to matching, prudence, consistency, cost measurement, objectivity, etc.

Management's Response to the prior audit: This is an inaccurate statement. The FSM Trust Fund is the collection of a total of 10 sub-accounts, each separately set up and has its own accounting history. There are bank statements to support this.

The co-mingled funds in the FMIS reflect the fact that no State Government has voluntarily contributed to the FSM Trust Fund. All contributions to the FSM Trust Fund are from NG. This has been made clear by the Congress laws that have made appropriations to the Fund. If a State voluntarily contributes, the FMIS System will record that transaction separately.

We do have State sub-accounts set up under the master custody agreement with BNY with monthly cashflows and investment performance separately tracked for each state, and regularly reported to the FSM National and State Government leadership as well as Congress.

Current Implementation Status: Not Implemented. We were provided with one account number for Fundware. All contributions are entered into this account in Fundware.

Effect of the delay or failure to fully implement the recommendations:

- Incorrect reporting of Trust Fund balances for the National and State Governments.

Cause of the delay or failure to fully implement the recommendations:

- Lack of resources within the Division to implement the recommendations; and
- Ineffective oversight from the Board and management of the Fund to implement the recommendations.

7.9 Implementation of recommendation for Finding 09: The Fund Management and Department of Finance and Administration Did not Implement All Audit Recommendations issued in Audit Report No. 2015-08

We issued two (2) recommendations under Finding 09.

Recommendations: We recommended that the Secretary, DoFA and the Board of Trustees should:

- Implement all audit recommendations identified in our Audit Report No. 2015-08 and where it is possible, alternative methods should be used to correct the identified weakness; and
- Ensure that staff who are assigned accounting and bookkeeping duties and responsibilities are qualified and where there are deficiencies, capacity-building intervention should be considered timely.

Management's Response to the prior audit: Management agreed that there is a need to improve internal reconciliation of the Fund. Management has requested new staff dedicated to Fund and the request is pending budget approval from Congress. The Trust Fund books are separate from the General Fund. The Trust Fund and the General Fund have different fund numbers in the FMIS System.
**Current Implementation Status:** Not Implemented.

**Effects of the delay or failure to fully implement the recommendations:**
- Inappropriate reconciliation and book-keeping of transactions.
- Improvements to the administration of the Fund are delayed.

**Causes of the delay or failure to fully implement the recommendations:**
- Lack of resources within the Division to perform the reconciliations.
- Ineffective supervisory oversight from the Board and management of the Fund to ensure that priority is given to addressing and resolving the weaknesses identified about the operations of the Fund.

**New recommendations:**
- The Board and management of the Fund should ensure that the Division has adequate resources to perform the reconciliations.
- The Board and management of the Fund should improve their supervisory oversight function to prioritize addressing/resolving the weaknesses identified about the operations of the Fund.
8.0 STAGES OF IMPLEMENTATION OF RECOMMENDATIONS

Summary
There are four stages used to assess the status of implementation of the recommendation which are listed below:

i. Not Implemented

No progress or insignificant progress
Actions such as having meetings and generating informal plans.

ii. Partial Implementation

When formal plans for organizational changes have been created and approved by the appropriate level of management with appropriate resources and a reasonable timetable.

If the entity made preparations for implementing a recommendation by hiring or training staff or developing or acquiring the necessary resources to implement the recommendation.

If the structure or processes are in place and integrated within at least some parts of the organization, and some achieved results have been identified.

iii. Full Implementation

If the structure or processes are operating as intended and are fully implemented.

iv. No longer applicable

If the recommendation that was issued no longer applies to the current processes or systems.
9.0 MANAGEMENT RESPONSE

May 25, 2023

The Honorable Haser Hainrick
National Public Auditor
FSM National Government
Palikir, Pohnpei FM 96941

Re: Response to Audit Report No. 2021-02

Dear Mr. Hainrick:

We are pleased to provide the following responses to your letter of May 18, 2023, regarding Finding 6 in your Audit Report No. 2021-02 on the FSM Trust Fund - Improvement Needed in the Oversight Function of the Board and Management of the Fund:

Finding 6: Unclear Duties and Responsibilities of Employees Administering and Monitoring the Fund

RECOMMENDATION 1: It is recommended that the Director of the Office of Personnel and Secretary of the Department of DoFA should update the personnel files and records to match employees' current titles and job descriptions; and amend the Job Classifications and Qualifications to reflect new positions, titles, and job descriptions.

RESPONSE: The Office of Personnel wishes to advise that the personnel files and records have been updated in consultation with DoFA to match the employees' current titles and job descriptions. [The updated titles and job descriptions are attached.] Finally, the classifications and qualifications for these positions are being amended.

RECOMMENDATION 2: Establishment of a filing system or checklist detailing the records & documents to be filed in each of the personnel files maintained by the Office of Personnel; and strengthened supervisory checks to ensure that records are properly maintained and updated with current position titles and job descriptions.

RESPONSE: The Office of Personnel wishes to advise that it has prepared a filing system or checklist detailing the records and documents to be filed in each of the personnel files maintained by the Office of Personnel. [The checklist is attached for reference.]

Ms. Maria Susinber, Compensation Specialist, is in charge of or responsible for implementing these recommendations and will make sure that they are fully implemented and followed through.
We thank you for sharing the draft report and for the opportunity for management to review and respond.

Thank you.

Sincerely yours,

[Signature]

Edgar W. Lickaneth
Acting Director

Enclosures
10.0 ONPA EVALUATION OF MANAGEMENT RESPONSE

Auditees are usually given one (1) week to provide management responses and are informed through our letter requesting for responses that we will issue the reports without the management responses, if we do not receive the responses by the timeline specified in our letter.

We requested management responses from the Department of Finance & Administration and Office of Personnel on May 17 & 18, 2023 respectively. We only received the responses from the Office of Personnel on May 25, 2023.

The Office of Personnel has actioned the new recommendations under Findings 06, and we acknowledge the commitment from the Office of Personnel in implementing our recommendations.
11.0 NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the Department of Investment and International Trade and the Office of Personnel for their facilitation and cooperation during the audit. We anticipate positive implementation results when we carry out another follow-up audit, six (6) months from the date of issuing this report.

We have provided copies of the final report to the President and Members of the 23rd FSM Congress. Furthermore, the report is made available to the public through our official website and upon request.

If there are any questions or concerns regarding this report, please do not hesitate to contact our Office. Contact information for the Office can be found on the last page of this report along with the National Public Auditor and staff that made major contributions to this report.

Haser H. Hainrick
National Public Auditor
June 05, 2023
12.0 ONPA CONTACTS AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
                Email: hhainrick@fsmopa.fm

ACKNOWLEDGEMENTS  In addition to the contact named above, the following staff made key
                    contributions to this report:

                    Makereta Dyer, Audit Manager
                    Brenda Carl, Auditor II
                    Christopher Delcampo, Auditor II
                    Jimmy Ponapart, Single Audit Specialist

ONPA MISSION  We conduct quality audits and investigations to improve
good governance and to prevent and deter fraud, waste and
abuse for the stakeholders' benefit.

Copies Available at: The fastest and easiest way to obtain copies of ONPA documents at
no cost is through the ONPA website: http://www.fsmopa.fm

Copies by mail or phone: Office of the National Public Auditor
                        P.O. Box PS-05
                        Palikir, Pohnpei FM 96941
                        Phone: (691) 320-2862/3

CONTACT  Website: www.fsmopa.fm
          Hotline: (+691) 320-6768
          Facebook: https://www.facebook.com/fsmpublicauditor