

**POHNPEI TRANSPORTATION AUTHORITY
AUDIT REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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

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March 22, 2018

The Honorable Marcelo Peterson, Governor, State of Pohnpei
The Honorable Fernando Scaliem, Speaker, Pohnpei State Legislature
The Honorable Members of the Pohnpei State Legislature
The Board of Directors, Pohnpei Transportation Authority
Mr. Sadorino Martin, Commissioner, Pohnpei Transportation Authority

EXECUTIVE SUMMARY

We are pleased to submit the financial audit report of Pohnpei Transportation Authority (PTA) as of and for the year ended September 30, 2017. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards, issued by the Comptroller General of the United States. The audit was also Performed pursuant to Article 11, Section 8 (2) of the Pohnpei State Constitution and Pohnpei State Law No. 1L-10-79, and other laws enacted relative thereafter.

The objectives of our audit were:

1. The expression of an opinion concerning whether the financial statements present fairly, in all material respects, the financial position, result of operations, and cash flows of Pohnpei Transportation Authority as of September 30, 2017.
2. Reporting on the internal control relevant to an audit of the financial statements;
and
3. Reporting on PTA's compliance with laws and regulations, which could have a material effect on the financial statements.

The highlights of the report are as follows:

- The financial statements present fairly, in all material respects, the financial position of the Pohnpei Transportation Authority, as of September 30, 2017, and the result of its operations, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

- Operating revenues for the year is \$1,058,097, an increase by 16% or \$145,115 compared to prior fiscal year of \$912,981.
- Operating expenses has increased by 60% or \$518,426 from \$868,141 to \$1,386,567. More than 45% of the total operating expense was expended for payroll related costs. Depreciation for the year has increased from \$17,967 to \$354,435.
- Net loss this year is \$328,470, a decrease by more than 833% or \$373,310 compared to prior year.
- Due to Primary Government has dropped by 2% or 29,193 to \$1,363,873. This amount represents what PTA owes and needs to reimburse the Pohnpei General Fund. PTA is planning to pay off 30% of the liability however the management still negotiating the rates.

The audit cited two (2) material weaknesses in internal control over financial reporting and two (2) material instance of noncompliance with laws and regulations as follows.

- Office files and record keeping management needs improvement. The following conditions were noted:
 1. No Personnel records found in PTA office.
 2. Annual leave and sick leave records were still not properly updated and properly filed.
 3. No Vendor files were found during the visit.
 4. Status of project files was not adequately maintained and ere not complete.

Inventory control system and bookkeeping needs improvement. The following weaknesses were noted:

1. PTA Comptroller gave us a handwritten fixed asset inventory list which was not updated with some items missing the amount and date of acquisition.
2. POPA's auditor was the one who conducted the inventory and the DOTA Financial Advisor provided us the updated list.

Non-Compliance of Pohnpei Law.

A visit to the office and interview conducted revealed that the newly acquired vehicles do not have assigned plate numbers yet but PTA employees are already using the vehicles by simply putting the plate number of the Authority's old car.

Unresolved Prior Year's Findings. Management has not appropriately resolved all prior year audit findings. The non-resolution of the prior year audit findings resulted to non-compliance with Pohnpei State Law No. 5L-08-00.

The following prior year findings are still outstanding:

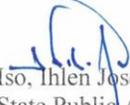
1. Finding No. 14-001 Inventory control system and record keeping needs improvements.
2. Finding No. 14-002 Property Management Accountability – A Property Maintenance Plan needs to be developed and implemented.

A draft of this report was provided to and discussed with the management of PTA and the auditee's response is included hereto as Exhibit I on pages 23 to ___.

In the report, we have offered our recommendations to the findings that we believe once implemented, PTA's operations could be improved. In this regard, we requests management to promptly identify corrective measures and to implement the audit recommendations to fully resolve the findings.

Lastly, we extend our appreciation to the management and members of the PTA work force for the assistance they extended to us during the course of our audit.

Sincerely,


Iso, Ithlen Joseph
State Public Auditor



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INDEPENDENT AUDITOR'S REPORT

Mr. Robert Hadley
Chairman
Board of Directors
Pohnpei Transportation Authority
Kolonias, Pohnpei State, FM 96941

We have audited the accompanying statement of net assets of Pohnpei Transportation Authority (PTA), a component unit of the State of Pohnpei, as of September 30, 2017, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of PTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PTA, as of September 30, 2017, and the result of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that PTA will continue as a going concern. As discussed in Note 6 to the financial statements, the agency has suffered recurring losses from operations during the prior years. The current year operating expenses has increased significantly and PTA still has significant amount of non-current liabilities which would require

considerable amount of time to pay. Management's plans in regard to these matters are also described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 3 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of PTA. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of PTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Iso Helen K. Joseph
State Public Auditor
March 5, 2018

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis

Year Ended September 30, 2017

This section of the Pohnpei Transportation Authority's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2017. This MD&A is prepared in compliance with the GASB 34 requirement. Readers are requested to read this MD&A in conjunction with the PTA's financial statements, which follows this section.

Financial Highlights

- Operating revenues for the year is \$1,058,097, an increase by 16% or \$145,115 compared to prior fiscal year of \$912,981.
- Operating expenses has increased by 60% or \$518,426 from \$868,141 to \$1,386,567. More than 45% of the total operating expense was expended for payroll related costs. Depreciation for the year has increased from \$17,967 to \$354,435.
- Net loss this year is \$328,470, a decrease by more than 833% or \$373,310 compared to prior year.
- Due to Primary Government has dropped by 2% or 29,193 to \$1,363,873. PTA is planning to pay off 30% of the liability however the management still negotiating the rates.

Financial Statements Preparation

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

Financial Analysis

The Statement of Net (Deficit) Asset presents information on all of the PTA's assets and liabilities, with the difference between the two is reported as net assets if assets are higher than liabilities, otherwise it is reported as deficit. Presented below is the comparative change in net (deficit) assets as of fiscal years ended September 30.

	<u>2017</u>	<u>2016</u>	<u>Increase (decrease)</u>	<u>%tage Inc(dec)</u>
Current assets	\$ 194,148	\$ 51,969	\$ 142,179	274%
Non-current assets	<u>1,718,294</u>	<u>85,459</u>	<u>1,632,835</u>	1911%
	<u>1,912,442</u>	<u>137,428</u>	<u>1,775,014</u>	1292%
Other liabilities	97,427	110,548	(13,121)	(12%)
Due to primary government	<u>1,363,873</u>	<u>1,393,066</u>	<u>(29,193)</u>	(2%)
Total liabilities	<u>1,461,300</u>	<u>1,503,614</u>	<u>(42,314)</u>	(3%)
Net Asset (Deficit)	<u>\$ 451,142</u>	<u>\$(1,366,186)</u>	<u>\$ 1,817,328</u>	133%

POHNPEI TRANSPORTATION AUTHORITY

Management's Discussion and Analysis
Year Ended September 30, 2017

Operating Activities

The fundamental responsibility of PTA is to plan, develop, construct or maintain public roads. During the year, there were some projects from municipal, state and congress which were awarded or allotted to PTA. The following table summarizes the comparative net income for fiscal years ended September 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>Inc (dec)</u>	<u>Inc (dec)</u>
Operating revenues	\$1,058,097	\$ 912,982	\$ 145,115	(16%)
Operating expenses	<u>1,386,567</u>	<u>868,141</u>	<u>518,426</u>	60%
Net income (loss)	\$ <u>(328,470)</u>	\$ <u>44,841</u>	\$ <u>(373,311)</u>	(833%)

Budget

PTA operates on an annual budget from revenues generated on road construction projects, equipment rentals, and sale of coral and reinforced concrete pipes. Receipts and disbursements are accounted for by the Pohnpei State Department of Treasury and Administration. Appropriations require that funds be administered in accordance with the provisions of the State's Financial Management Act. The enabling legislation provides PTA the power to expend revenues generated from its projects.

Financial Contact

This financial report is designed to provide all interested users with a general overview of the PTA's finances. If you have questions about this report or need additional information, please contact the Commissioner, Pohnpei Transportation Authority, P.O. Box 36 Kolonia, Pohnpei FM 96941 or call (691) 320-2377/2148.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Net Assets

September 30, 2017

(With comparative totals for September 30, 2016)

<u>ASSETS</u>	2017	2016
Current assets:		
Accounts receivable, net (note 2)	\$ 00	\$ 2,921
Travel Advances	2,738	00
Inventory, at cost	<u>191,410</u>	<u>49,048</u>
Total Current Assets	\$ 194,148	\$ 51,969
Property and equipment, net (note 3)	<u>1,718,294</u>	<u>85,459</u>
TOTAL ASSETS	\$1,912,442	\$ 137,428
	=====	=====
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 62,689	\$ 79,593
Accrued payroll	23,486	19,704
Accrued vacation leave	8,077	8,077
Deferred revenue	<u>3,174</u>	<u>3,174</u>
Total Current Liabilities	\$ 97,426	\$ 110,548
Non-current Liabilities:		
Due to primary government (note 4)	<u>\$ 1,363,873</u>	<u>\$ 1,393,066</u>
Total Non-current Liabilities	<u>\$ 1,363,873</u>	<u>\$ 1,393,066</u>
Total Liabilities	<u>\$ 1,461,299</u>	<u>\$ 1,503,614</u>
Contingencies (note 5)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 1,718,294	\$ 85,459
Unrestricted	<u>(\$ 1,267,151)</u>	<u>(1,451,645)</u>
Total Net Assets (Liabilities)	<u>\$ 451,143</u>	<u>(\$1,366,186)</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 1,912,442	\$ 137,428
	=====	=====

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets
September 30, 2017
(With comparative totals for September 30, 2016)

	2017	2016
Operating Revenues:		
Construction Services	\$ 881,622	\$ 790,605
Aggregates & Sand Sales	20,322	12,284
Equipment Rental	4,930	5,494
Other Revenues	<u>151,223</u>	<u>104,599</u>
Total Operating Revenues	<u>\$ 1,058,097</u>	<u>\$ 912,982</u>
Operating Expenses:		
Salaries and wages	\$ 618,725	\$ 523,797
Supplies and materials	83,712	135,093
POL	183,390	68,779
Communications	4,784	3,579
Rental Services	19,179	12,686
Depreciation	354,435	17,967
Bad Debts	2,924	00
Utilities and water	7,581	7,346
Freight and Port Charges	61,168	30,848
Miscellaneous Goods and Services	8,142	3,324
General Contractual Services	-0-	-0-
Travel	42,221	47,327
Repairs and Maintenance	<u>3,051</u>	<u>7,395</u>
Total Operating Expenses	<u>\$ 1,386,567</u>	<u>\$ 868,141</u>
Operating Income (Loss)	\$(328,470)	\$ 44,841
Non-operating revenues (expenses):	<u>- 0 -</u>	<u>- 0 -</u>
Net Income (Loss)	(328,470)	\$ 44,841
Add: (Less) Adjustment that affect Net Loss	109,860	- 0 -
Contributed Capital	<u>2,035,940</u>	<u>- 0 -</u>
Net Increase (Decrease) in Net Assets	\$ 1,817,329	\$ 44,841
Net Assets (Liabilities), beginning of year	(<u>1,366,186</u>)	(<u>1,411,027</u>)
Net Assets (Liabilities), end of year	\$ 451,143 =====	(\$1,366,186) =====

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Statement of Cash Flows

September 30, 2017

Reconciliation of income from operations to net cash provided by operating activities:

Loss from operations	\$(328,470)
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	354,435
Changes in assets and liabilities:	
Decrease in accounts receivable	2,921
Increase in Travel Advances	(2,738)
Increase in inventories	(142,362)
Decrease in accounts payable	(16,905)
Increase in accrued payroll	3,782
Decrease in due to primary government	<u>(29,193)</u>
Sub-total	\$ (158,530)
Add: (Less) Adjustment that affect net income Increase in liability/Decrease in net assets	<u>109,860</u>
Net cash provided (used) by operations	(\$ 48,670)
Cash Used for acquisition of property and equipment	<u>(\$ 1,987,270)</u>
Contributed Capital	2,035,940
Cash Provided by Financing Activities	<u>\$ 2,035,940</u>
Net increase (decrease) in cash and equivalents	\$ - 0 -
Cash and equivalents at beginning of year	<u>- 0 -</u>
Cash and equivalents at end of year	\$ - 0 - =====

See accompanying notes to financial statements.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2017

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Pohnpei Transportation Authority (PTA) was established by 33PC 2-101 and subsequent amendments thereof. The primary purpose of PTA is to promote, develop, and improve transportation facilities and services within Pohnpei. The services include the construction of circumferential roads for the island, secondary farm roads for the municipal governments and performance of other construction maintenance on a user charge basis.

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

PTA is a component unit of the Pohnpei State Government. The financial statements in this report do not represent the financial position, results of operations or cash flows of the State of Pohnpei as a whole.

B. Basis of Accounting

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

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

Basis of accounting refers to the time when revenues and expenses are recorded in the accounts and reported in the financial statements. PTA utilizes the accrual basis of accounting which means that revenues are recorded when earned and expenses are recorded when the related liabilities are incurred, regardless whether cash is received or payment is made.

PTA has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

Net Assets

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

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

Net assets constrained to a particular purpose by enabling legislation or imposed by third parties. PTA has no restricted assets.

- Unrestricted:

Net assets that are neither subject to externally imposed stipulations nor invested in capital assets.

C. Budget

PTA operates on an annual budget from revenues generated by projects, which are accounted for by the Pohnpei State Department of Treasury and Administration. 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 pursuant to 33PC 2-103. Such expenditures must, however, be in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

D. Inventory

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

E. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is based on the straight-line method over the estimated useful lives of the respective assets, which range from two to fifteen years depending on the nature of the asset.

POHNPEI TRANSPORTATION AUTHORITY

Notes to Financial Statements
September 30, 2017

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 non-vesting accumulating rights to receive sick pay benefits. The related sick pay expense is recorded when the benefit is actually taken.

G. Capital Contributions

Capital contributions represent amounts received from primary government for purchasing capital assets or capital assets donated by governments.

H. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Risk Management

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

J. New Accounting Standards

During the Fiscal Year ended September 30, 2017, PTA implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counter party, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions

of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statement No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In April 2012, GASB issued Statement No. 66, *Technical Corrections- 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for

periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PTA.

In March 2016, GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement 82 are effective for financial statements for periods beginning after June 15, 2016 except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The requirements of this Statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. Management has not yet determined the effect of implementation of these statements on the financial statements of PTA.

(2) ACCOUNTS RECEIVABLE

The previous balance of accounts receivable was written off this year. There is no outstanding accounts receivable for this year.

Accounts receivable	\$ 853,313
Less allowance for doubtful debts	<u>(853,313)</u>
Accounts receivable, net	<u>\$ 0.00</u>

(3) PROPERTY AND EQUIPMENT

A summary of the PTA’s property and equipment at September 30, 2017 follows:

	Estimated Useful Life	Balance October 1, 2016	Additions/Adj.	Deletions/Adj.	Balance September 30, 2017
Building	15 years	\$ 70,000	\$ -	\$ -	\$ 70,000
Heavy equipment	5-10 years	38,100	1,963,689	-	2,001,789
Vehicles	5 years	73,410	15,533	(8,560)	80,383
Furniture and fixtures	3 years	4,315	10,430	-	14,745
Machinery and tools	2 years	1,159	6,178	66,330	7,337
		<u>\$ 186,984</u>	<u>\$ 1,995,830</u>	<u>\$ (8,560)</u>	<u>\$ 2,174,255</u>
Less accumulated depreciation		<u>(101,525)</u>	<u>(354,435)</u>	<u>-</u>	<u>(455,962)</u>
Property and equipment, net		<u>\$ 85,459</u>	<u>\$ 1,641,395</u>	<u>\$ (8,560)</u>	<u>\$ 1,718,293</u>

(4) DUE TO PRIMARY GOVERNMENT

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

Balance as of October 1, 2016	\$	1,393,066
Increase (decrease) in the account as reflected in		
Cash Flow Statement		(29,193)
Balance as of September 30, 2017	\$	<u>1,363,873</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.

PTA is planning to pay off this liability so it will reduce to amount that will improve its Financial statements. The Board already approved 30% rate but the management is still negotiating the rate so that they can still meet their operations requirements.

(5) CONTINGENCIES

Pohnpei Transportation Authority is a party to six legal proceedings. The Office of the Attorney General provides general legal assistance to the Authority. In addition to the assistance provided to PTA, a substantial amount of time is also spent on civil cases in litigation at the Pohnpei State Supreme Court and the FSM National Supreme Court. At the beginning of FY 2016, there were six (6) civil cases handled by the Office of the Attorney General on behalf of PTA. In one (1) of the civil cases, the PTA may have to pay damages pursuant to Title 58 of the Pohnpei Code. However, no provision for any liability that may result from these court cases has been made in the accompanying financial statements.

(6) GOING CONCERN

PTA has incurred significant amount of losses from operations during the fiscal year. The balance of the due to primary government by the end of fiscal year 2017 was \$1,363,873. The balance of net assets as of the end of the FY 2017 was \$451,143.

The Authority was able to recover from the net liabilities this year but was not able to generate sufficient revenues for operations. Management needs to secure more projects to generate revenue for its operations and to pay its non-current liabilities.

POHNPEI TRANSPORTATION AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2017



POHNPEI STATE GOVERNMENT OFFICE OF THE PUBLIC AUDITOR

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

Mr. Robert Hadley
Chairman
Board of Directors
Pohnpei Transportation Authority
Kolonias, Pohnpei State, FM 96941

We have audited the financial statements of Pohnpei Transportation Authority (PTA), as of and for the year ended September 30, 2017, and have issued our report thereon dated March 5, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered PTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect PTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as finding numbers 17-001 to 17-002 on pages 17 to 19.

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 the reportable conditions described above are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether PTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

The results of our tests disclosed material instance of noncompliance that we are reporting to the management in the accompanying Schedule of Findings and Recommendations in finding number 17-003 and 17-004 on pages 20 to 21.

This report is intended for the information of the Board of Directors and management of the Pohnpei Transportation Authority, State of Pohnpei, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

IsoIhlen K. Joseph
State Public Auditor
March 5, 2018

POHNPEI TRANSPORTATION AUTHORITY

Schedule of Findings and Recommendations
Fiscal Year Ended September 30, 2017

Finding No. 17-001 Office files and record keeping management needs improvement

Criteria:

Good practice requires a suitable system for maintenance of records with effective and organized filing method to ensure that organization's pertinent files, documents, data, etc., are safeguarded and kept for management's use and reference. Pohnpei Transportation Authority (PTA), as part of its service to the government and public, should have an organized system of files and an effective record keeping documenting the various activities and services it provides.

Condition:

Visits to the office revealed that management has not adequately maintained office files and kept important records such as:

1. Personnel Files
 - No personnel records found in PTA office for its 57 employees. (Personnel file includes contract, resume, application form, position job description and any other documentation related to employment).
 - Contracts for its projects and services were not properly filed.
 - Two instances where Social Security Numbers are different from the contract document (these are the files reviewed at State Finance).
 - Three instances each for sick and vacation leave wherein balances were negative already.
2. Annual leave and sick leave records were still not properly updated and properly filed;
3. No vendor files were found during our visit; and
4. Status of project files was not adequately maintained and were not complete.

Cause:

The causes of the conditions were attributed to the following:

1. There was lack of clearly defined duties and responsibilities of key staffs. Each staff needs to be informed of his/her roles in the organization including related duties and responsibilities.
2. No clear policy and procedures in place with regards to PTA filing system.
3. Staffs were not adequately supervised.
4. The lack of training and appropriate education of staffs contributed to the office records weaknesses.
5. PTA is dependent on records from State Finance to serve as files instead of creating and maintaining its own records.

Effect:

As a result of poor filing and record management weaknesses, management could not properly monitor its activities or rely on its own office records and reports. Without proper and adequate record keeping system, PTA management cannot and will not meet its accountability requirements and cannot manage the Authority's needs appropriately. The condition can result to bad image for PTA and does not leave adequate audit trail or accessibility of pertinent records and documents. In addition to this, poor filing system leads to improper monitoring of employee's matters such as vacation and sick leave balances, trainings and skill enhancement to name a few.

Recommendations: We recommend the Commissioner should ensure that:

1. Duties and responsibilities are clearly written and explained to staffs. It should be outlined in job descriptions and confirm by the employees if they understand those job descriptions.
2. Supervisors to ensure that staff work is properly supervised and that important records and reports are properly kept and maintained.
3. Management to prioritize training of staffs to strengthen and improve work quality, work habits, expand knowledge and improve competencies.
 - 3.1 Employees who receive necessary training have increased confidence and have better understanding of public service and of their responsibilities.
 - 3.2 Employees who undergo training learn new things which could lead them to new ideas that eventually create a healthy working environment.
4. Management to consider in the recruitment process the competency of applicants and appropriate education as one of the criteria for hiring.
5. Management to establish a good filing system to help ensure pertinent records are maintained and kept safely for subsequent use and ready reference, and to leave adequate audit trail. This would save time and contribute to work efficiency. PTA then would not need to borrow another office files for its use.

Prior Year Status:

This finding was a reportable condition in prior year's audit.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I.

Finding No. 17-002 Inventory control system and bookkeeping needs improvement

Criteria:

An efficient system of inventory control is necessary to properly account, track and maintain supplies and materials of the Authority. A reliable bookkeeping system and reporting system is needed to ensure efficiency in operations.

Condition:

A visit to the office and interview conducted revealed the following weaknesses:

- PTA Comptroller gave us a handwritten fixed asset inventory list which was not updated with some items missing the amount and date of acquisition.
- POPA's auditor was the one who conducted the inventory and the DOTA Financial Advisor provided us the updated list.

Cause:

Interview of key staff revealed the following:

- Office staffs who are in-charge of inventory control and record keeping have limited knowledge. (PTA Comptroller was just hired on September 26, 2017).
- The Authority relies on the State Finance records instead of creating and updating its own.
- PTA comptroller has limited computer knowledge and would take time updating the inventory list.

Effect:

The conditions resulted to:

- Management is not able to monitor the use of supplies and materials.
- The listing of fixed assets was not prepared on time.

Recommendation:

We recommend that management should:

- Provide appropriate training to the staff to ensure that he/she is able to perform his/her duties and responsibilities effectively and efficiently. Example: train staff on inventory control and record keeping and the PTA Comptroller on the use of computer.
- Ensure that inventory is performed annually and that the Pohnpei Office of the Public Auditor should be notified to observe.
- Make sure inventory records are updated and supporting documents are kept and maintained.

Prior Year Status:

This finding was a reportable condition in prior year's audit.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I.

Finding No. 17-003 Non-Compliance of Pohnpei Law.

Criteria:

Title 71 PC 2-109 of Pohnpei Code provides for "License and registration violations" such that it is unlawful and constitute a misdemeanor for any person to:

- (1) Operate upon a road any motor vehicle which is not registered or which does not have attached thereto the number plate;
- (2) Display or to have in possession any registration card or number plate knowing the same to be fictitious or to have been canceled, revoked, suspended or altered;
- (3) Transfer to one not entitled thereto any registration card or number plate; or
- (4) Use a false or fictitious name or address or other required information in any application for any vehicle or otherwise commit a fraud in any such application.

Condition:

A visit to the office and interview conducted revealed that the newly acquired vehicles do not have assigned plate numbers yet but PTA employees are already using the vehicles by simply putting the plate number of the Authority’s old car.

Cause:

It was explained during the interview of key staff that due to the delay of State Finance Supplies Division in the process of tagging the assets and because PTA needs to use the vehicles for operation, they have resort to just using an old plate number instead of delaying their work.

Effect:

Using vehicle without proper plate number is a non-compliance with the above cited law and can result to more serious legal action against PTA.

Recommendation:

We strongly recommend that the Commissioner should not allow PTA employees to use the newly acquired vehicles until such time that a legally obtained plate number is attached to the vehicles.

Finding No. 17-004 Unresolved Prior Year’s Findings:

Criteria:

Pursuant to Pohnpei State Law No. 5L-08-00, the Authority is required to submit to the Public Auditor a report on the progress in clearing the deficiencies cited in the audit report until such time that all the deficiencies have been cleared, which period shall not exceed six months.

Condition:

The table that follows shows the status of the implementation of prior year’s recommendations:

Audit Findings	Status of Implementation of Recommendation	Auditor’s Remarks
Finding No. 14-001 Inventory control system and record keeping needs improvement		

Key staffs assigned to maintain inventory records must be properly trained. Ensure that reports prepared by staffs and reviewed by supervisors.	Management still has not improved the inventory control system and records were not properly maintained.	We are hoping that records for next fiscal year will improve and properly maintained with the help of newly hired PTA comptroller.
Finding No. 14-002 Property Management Accountability Management should prepare the list of property and equipment. An annual inventory of fixed assets needs to be conducted.	Management did not update the Fixed Assets Register for fiscal year 2017.	PTA just hired their Comptroller

Cause:

Management did not develop and implement corrective measures to resolve prior audit finding on the improvement of record keeping and inventory system. Management was not also able to prepare the Property Maintenance Plan.

Effect:

The non-resolution of the prior audit findings will continue to hinder the effective maintenance of suitable and reliable inventory system.

Recommendation:

We recommend management to give priority consideration in resolving the prior year's findings. Resolving the findings will improve the internal control system of the Authority.

Auditee Response and Corrective Action Plan:

Please refer to Exhibit I.

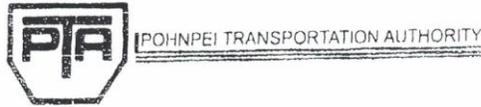
POHNPEI TRANSPORTATION AUTHORITY

AUDITEE RESPONSE (EXHIBIT I)

YEAR ENDED SEPTEMBER 30, 2017

Exhibit I

Rec: 3/20/18 *Cardin*



P.O. Box 36 Kolonia, Pohnpei
EASTERN CAROLINE ISLANDS 96941
Cable Address: PTA POHNPEI
Telephone: (6910 320-2377/214)

March 20, 2018

Honorable Iso Ihlen K. Joseph
State Public Auditor
Office of the Public Auditor
Pohnpei State Government
Pohnpei, FM 96941

RE: Response to FY-2017 Audit Findings

Dear Honorable Iso:

Mwohn ei pahn doula, ah I men wia ei tungoal sakaradahn wahu ohng komwi oh sapelimwomwi kan koaros.

Finding No. 17-001 Office File and Record Keeping Management Needs Improvement

PTA management concurs with Findings no. 17-001. Record files are now being kept accordingly and safely for subsequent use and read references, and to leave adequate audit trail.

Finding No. 17-002 Inventory Control System and Bookkeeping Needs Improvement

PTA management concurs with Findings no. 17-002, thus previous year's audit findings will not happen again as per hired accountant's analysis and efficient knowledge on the matter.

Exhibit I

Finding No. 17-003 Non-Compliance of Pohnpei Law

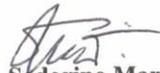
The management of PTA is much concentrated on this matter and actions have been in process so as to avoid any harmful effect.

Finding No. 17-004 Unresolved Prior Year's Findings

PTA management is committed to pursue more efforts and operate effectively in accordance with government requirements, so as better internal control system.

Management is committed to continue working hard to ensure adequate revenues are earned to keep PTA operation as a going concern. Current year funding (FY17) for CFSM amounts to \$ 1,600,000.00. All these project moneys are allotted directly to the Authority. Reoccurring deficits due to lack of projects will not be an issue for the current and coming year.

Respectfully,


Sadorino Martin

PTA, Commissioner

cc: Chairman, Board of Directors

File