

**OFFICE OF THE NATIONAL PUBLIC AUDITOR**  
**FEDERATED STATES OF MICRONESIA**

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**AUDIT OF PASSPORT SECURITY MEASURES**  
**(FY 2006-2007)**

**REPORT NO. 2007-06**



**Haser H. Hainrick**  
**National Public Auditor**



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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September 18, 2007

Honorable Members of the FSM Congress  
His Excellency Manny Mori, President  
Federated States of Micronesia  
Palikir, Pohnpei FM 96941

### **RE: Audit of Passport Security Measures, FY 2006-2007**

We respectfully submit this report regarding our audit on Passport Security at the Division of Immigration & Labor (DIL), within the FSM Department of Justice, for fiscal years 2006 and 2007 (up to January 25, 2007). We performed the audit pursuant to Title 55 FSM Code Chapter 5 and in accordance with the *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. One of the functions of the DIL is to administer the issuance of passport booklets. In carrying out these duties and responsibilities, the Chief of DIL is required to comply with the Passport Act, Passport Revolving Fund Act, Citizenship and Naturalization Act, Passport Regulations, Financial Management Regulations and other laws, regulations, policies and procedures.

The objectives of the audit were to determine whether: 1) DIL complied with passport regulations in issuing passports and 2) adequate internal controls were in place to ensure passports are safeguarded from error, fraud, misuse and unauthorized alteration.

As a result of our audit, we concluded that: 1) DIL did not issue passports in accordance with the passport regulations and 2) internal controls were not adequate to safeguard passports from error, fraud, misuse, or unauthorized alteration. We recommended actions that the Chief should take to ensure that DIL processes comply with passport regulations and that internal controls are adequate to safeguard against error, fraud, misuse or unauthorized alteration. The findings and recommendations are described in detail in the attachment to this letter.

Respectfully yours,

A handwritten signature in black ink, appearing to read "H. Hainrick", written over a horizontal line.

Haser Hainrick  
National Public Auditor

xc: Secretary, Department of Justice  
Chief, Division of Immigration & Labor  
Passport Officer, Division of Immigration & Labor

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## **INTRODUCTION**

### **Background**

*“Passport security is a matter of critical importance that affects not only FSM citizens, but also the FSM’s standing in the international community,”* stated a Congressional Report issued by the Special Committee on FSM Washington Embassy Oversight dated May 5, 2006.

**Mission** – The President or his designee was granted the authority to issue, renew, verify or revoke FSM passports through Public Law 4-25. The Secretary of the Department of Justice (DOJ), as department head, and the Chief of the Division of Immigration & Labor (DIL) under DOJ, were delegated the authority to manage and control passport issuance amongst their other duties.

**Organization** – As part of his duties and responsibilities to manage and control passport issuance, the Chief of DIL has direct administrative authority over the Passport Revolving Fund. In carrying out these duties and responsibilities, the Chief of DIL is required to comply with the Passport Act<sup>1</sup>, Passport Revolving Fund Act<sup>2</sup>, Citizenship and Naturalization Act<sup>3</sup>, Passport Regulations<sup>4</sup> and Financial Management Regulations. Assisting the Chief in carrying out these passport duties are the Program Manager of the Statistics, IT Programmer, Immigration Matters Section, Passport Officer and her assisting Immigration and Labor officer within the Passport Section. Support staff includes five employees at the DIL Central Office in Palikir and 23 at the Field Offices as of November 2006.

The Division of National Treasury within the Department of Finance & Administration (DOF&A) collects passport fees, receipts, records the funds into the Passport Revolving Fund, and transfers excess fund monies to the General Fund. (See *Appendix #2 on Page 12* for a *Schedule of Revenues, Expenses, Fund Balances and Limitations* summarizing the activities within the Passport Revolving Fund)

**Passports** – A passport booklet is a travel document issued by the National Government that usually identifies the bearer as a national of the issuing state and requests that the bearer is permitted to enter and pass through other countries. They usually contain the holder’s photograph, signature, date of birth and nationality.

Three types of FSM passport booklets are issued: *Regular* passport booklets are the passport booklets issued to most citizens and have no special connotations. *Diplomatic* passport booklets are issued to diplomats and diplomatic representatives. *Official* passport booklets

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<sup>1</sup> Passport Act was signed into law through FSM Public Law 4-25 on December 31, 1985.

<sup>2</sup> Passport Revolving Fund Act was signed into law through FSM Public Law 4-68 on November 25, 1986.

<sup>3</sup> Citizenship and Naturalization Act covers provisions on citizenship, dual citizenship, naturalization, regulations and penalties.

<sup>4</sup> The Passport Regulations were approved by the President on September 29, 1987.

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are issued to employees of the National Government traveling for work related reasons who do not qualify as diplomats under the Vienna Convention of 1961 on diplomatic relations<sup>5</sup>.

**New Passport Booklets** – The FSM took action to upgrade its passport booklets to the current standard of machine-readable passports (MRPs) set by the International Civil Aviation Organization (ICAO)<sup>6</sup>. The MRP provides increased security through use of watermarks and encoded biographic data in optical character recognition format. This enables border controllers and other law enforcement agents to process such passport booklets quickly, without having to input the information manually into a computer.

To transition to the MRP format, DIL plans to:

- Acquire a stock of MRP passport booklets;
- Renovate the passport section office space to improve overall security
- Replace the passport safe by a much larger and more secure vault; and
- Install a new MRP issuance system

To fund the project, legislation was passed on October 25, 2005 to increase the passport revolving fund limit from \$40,000 to \$100,000 for fiscal year 2005 and \$500,000 for fiscal year 2006. Because the fund was not maintained at the new limit, Congress appropriated \$233,607.62 on December 12, 2006 through Public Law 14-95.

**Standards of Internal Controls** – Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. It comprises the plans, methods, and procedures used by an organization to meet its missions, goals and objectives. An effective system of internal controls provides reasonable assurance that the objectives of an agency are being achieved in the following categories:

- effectiveness and efficiency of operations including the use of the agency’s resources;
- reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and
- compliance with applicable laws and regulations

The U.S. Government Accountability Office (GAO) issued standards for internal control in government operations. The first standards were issued in 1983. They became widely known as the “Green Book”. Consequently, GAO revised the standards and reissued them on November 1999.

**Objectives, Scope, and Methodology**

**Objectives** – This audit is part of our efforts to review the primary causes of the mishandling of passport booklets at the FSM embassy in Washington DC, which was disclosed in the audit of the DC embassy covering October 1, 2002 to June 30, 2006. Our goal is to review

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<sup>5</sup> The Vienna Convention is a series of treaties and conventions signed or held in Vienna to formulate rules for international relations.

<sup>6</sup> ICAO is a United Nation’s agency created in 1944 which sets the standards and regulations for aviation safety and security.

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the passport handling process at DIL and provide recommendations to improve the current condition.

The objectives of the audit are to determine whether 1) adequate internal controls were in place to ensure passports are adequately safeguarded against error, fraud, misuse and unauthorized alteration and 2) DIL complied with regulations in issuing passports.

Scope – Our audit scope covered fiscal years 2006-2007 from October 1, 2005 to January 25, 2007. However, gathering of relevant information included previous and subsequent months for analytical purposes. The audit was conducted pursuant to Title 55 FSM Code Chapter 5, which states in part:

*“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.”*

We performed this audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States and included tests of records, transactions, and other auditing procedures that we considered necessary under the circumstances.

Limitations - We did not review and conclude on the adequacy of internal controls over the Passport Revolving Fund and compliance with laws and regulations.

Methodology – The audit evaluated the effectiveness of DIL’s internal controls to safeguard passports. We also evaluated whether passports were issued in compliance with the Passport Regulations and with generally accepted internal control standards<sup>7</sup>. Specifically, we obtained and validated documents from the DIL Passport Section such as logbooks, passport database, passport applications, Treasury receipts, birth certificates, expired passport booklets, un-issued passport booklets, and specimen passport booklets. We reviewed laws and regulations for the National Government regarding passports. We also identified internal controls at other departments and other regional agencies, which handle passports such as passport procedures at the FSM Embassy in Washington DC and Republic of Palau Passport Office. We also interviewed relevant staff and observed physical controls to achieve our objectives. We conducted fieldwork, based on random sample selections, at the DIL Central Office where the Passport Section Office is located. Finally, we summarized the results of our audit procedures.

### **Prior Audit Coverage**

This audit represents the first audit undertaken by the Office of the National Public Auditor (ONPA) specifically on passport security measures at the DIL. The latest ONPA audit was

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<sup>7</sup> Source: GAO’s *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.1.3.1, November 1999)

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on the passport revolving fund (Audit Report No. 108-95) and covered fiscal years ending September 30, 1989 through 1994. We noted in this report the internal control and compliance issues that were identified in the previous report.

**Conclusion**

Based on our audit, we concluded that: 1) DIL did not issue passports in accordance with the passport regulations, and 2) internal controls were not adequate to safeguard passports from error, fraud, misuse, or unauthorized alteration.

**FINDINGS**

**Passport Applications Missing and Logbooks and Database Incomplete**

DIL did not maintain adequate filing systems and logbooks for passport information. Specifically, passport applications could not be located, logbooks were not filled in and electronic databases were incomplete. As a result, DIL cannot support passports booklets that were issued, the handling passport information by DIL staff, and essential electronic information is not available.

Passport Applications – Procedures in the passport regulations imply that a proper filing system should be in place to ensure that all passport activities are properly recorded, documented and supported.

For our audit, we selected a sample of 102 passports for various reviews. However, many of the passport applications were missing as shown in Table 1 below.

Table 1. Schedule of applications selected but not located by passport type.

Passport Type	Applications selected for review	Applications not found	Percentage of applications not found
Regular	72	13	18 %
Official	20	8	40 %
Diplomatic	10	3	30 %
Total	102	24	24 %

*Source:* ONPA based on fieldwork

In general, we found that **24 percent** of the selected passport applications were missing. As a result, there is no assurance that the passport booklets were issued to eligible applicants. This situation increases the risk of error, fraud, and misuse of FSM passport booklets.

Passport Logbooks – Prudent government practices require logbooks to track passport applications received (logged in) and passport booklets distributed or sent to another location (logged out).

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However, many of the 102 passports selected for audit reviews were not logged in and/or logged out as shown in Table 2 below.

Table 2. Schedule of applications logged in and passport booklets logged out by passport type.

Passport Type	Applications selected for review	Applications not logged in	Percentage of applications not logged in	Passport booklets not logged out	Percentage of booklets not logged out	Applications and booklets neither logged in or logged out	Percentage of applications and booklets neither logged in or logged out
Regular	72	61	85%	52	72%	49	48%
Official	20	14	70%	6	30%	6	6%
Diplomatic	10	8	80%	3	30%	3	3%
Total	102	83	81%	61	60%	58	57%

*Source:* ONPA based on review of passport applications and DIL Central's logbook

We found **81 percent** of the applications were not logged in, **60 percent** of the passport booklets were not logged out and **57 percent** were neither logged in nor logged out. As a result, there is no assurance that the applications and related information were properly handled and safeguarded and no assurance that passport booklets were properly distributed. This situation increases the risk of error, fraud, and misuse of FSM passports.

Intra Office Logbooks – All DIL offices are required to maintain passport logbooks to track movement of passport booklets and applications between the offices. (*Directive* issued by the Chief on April 21, 2006)

The DIL Field Offices in Pohnpei and Yap did not maintain logbooks as required. In addition, Central Office did not log in passport applications received from DIL Field Offices and did not log out passport booklets forwarded to the DIL Field Offices for final distribution.<sup>8</sup>

Although individual transmittal letters were being filed for passport booklets and applications, lack of logbooks to properly tracking the movement and responsibility for individual passport booklets and applications, puts these items at a higher risk of being misplaced or lost.

Passport Database – Prudent government practice requires that a passport data include data elements which will help manage the passport section.

We also found that DIL's new database system is inadequate to record recently issued passport booklets. In October 2006, the Passport Section started recording the recently issued passport booklet information into a newly installed Border Management System (BMS)

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<sup>8</sup> We also noted that DIL field offices in Chuuk and Kosrae maintained logbooks as required. Further, the Central Office logged in passport applications received from individuals and logged out passport booklets picked up by individuals at the Central office.

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database and discontinued using the previous database. The BMS database was developed to track movement of citizens and non-citizens within the FSM. However, the BMS database only includes space for the passport number, name, date of birth and passport type and does not have space for issuance and expiration dates, location passport was issued and passport status. Without this vital information in the database, DIL will have a more difficult time managing the Passport Section.

**Non-Compliance Results in**  
**Passport Issuance Errors and**  
**Elevated Risk of Fraud**

DIL did not comply with the requirements specified in the passport regulations in issuing passports. Specifically, DIL staff did not always certify citizenship, acquire expired or damaged passport booklets, acquire affidavit to support the claim of a lost passport, obtain original receipt for passport fee. In addition, DIL staff issued diplomatic passports to ineligible citizens. As a result, FSM is not assured that only eligible persons receive a FSM passport and DIL complied with FSM passport laws and regulations. Further, DIL's non-compliance resulted in an increased risk of fraud.

DIL should issue passport booklets in compliance with the requirements specified in the FSM passport regulations. (*Title 50 FSM Code Chapter 2 Section 206*) These regulations are meant to ensure that only authorized individuals receive FSM passport booklets. They also specify a process requirement to ensure proper documentation and payment of fees.

As described in Table 1 above, of the 102 passports selected for review, **24 percent** of the applications (24 of 102) could not be located. Therefore, we tested 78 applications to determine compliance with the passport regulations. The following sections specify the criteria, condition and effect of DIL not complying with regulations

Certification of Citizenship – DIL staff should review the documentation presented by the applicant as proof of citizenship (e.g. a birth certificate) and then certify that they are satisfied that the applicant is an FSM citizen. The certification means that DIL staff believes that the documentation is authentic and contains no signs of being forged, fraudulent, or erroneous.

We found that **54 percent** (42 of 78) were not properly certified for proof of citizenship. Thus, we are not assured that the proof for citizenship is authentic.

Surrender of Current Passport Booklet – When a passport expires or the booklet is damaged; the citizen should apply for a replacement passport and surrender the replaced passport. DIL should document that the passport was received.

We found that **100 percent** of the renewal passport application we tested (15 of 15) contained no documentation that the original passport was surrendered to DIL. If expired

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passport booklets are not given to DIL, the booklet could be altered and used by unauthorized persons.

Lost Passport – When a passport booklet is lost; the citizen should apply for a replacement passport and provide an affidavit to support the claim of a lost passport.

We found that **33 percent** of the applications for replacement passport booklets due to loss (1 or 3) contained no affidavit to support the claim of a lost passport. Without the affidavit, there is no assurance that the passport was actually lost. If the passport was not actually lost and the person is given a replacement passport, one of these two passport booklets could be altered and used fraudulently. According to the Passport Officer, there is no limitation on how many times an individual can apply to replace a lost passport. Therefore, an application could be fraudulently submitted to obtain a passport to alter. This problem is more significant because of the fact that the Passport Officer does not maintain a listing of lost passport booklets.

Fee requirements – The regulations also specify that applications should be accompanied by payment of prescribed fees.

Of the 78 passport applications we reviewed **62 percent** (48 passports) did not contain the original cash receipt to support proper payment of passport fee. Without the documentation, we are not assured as required by regulations that the passport fees were paid. *There was a similar finding reported in a prior ONPA audit report on the Passport Revolving Fund covering fiscal years 1990 through 1994.*

Unauthorized passports – The regulations specifically list FSM citizens who are eligible to receive diplomatic passport booklets. The list includes the dependents of an FSM Ambassador only if they are residing with the Ambassador. A diplomatic passport may afford the bearer various privileges that are not given to other passport holders.

Of the diplomatic passports we reviewed **50 percent** of them (3 of 6) were issued to an Ambassador's niece and nephews who listed on their application a residence that was over 2,000 miles away from the Ambassador's duty station. Based on the residency requirement, the niece and nephews should have only been given regular passport booklets.

Two parts of the passport regulations seem to allow a person not on the diplomatic passport eligibility list the opportunity to receive a diplomatic passport. Part 3.2(a)(viii) authorizes the issuance of a diplomatic passport to a person who receives a written appointment by the President to represent the FSM on a particular diplomatic mission. In addition, Part 3.2(c) requires the Secretary of the Department of Foreign Affairs (DFA) to endorse each diplomatic passport for issuance. In our opinion, these relevant parts do not allow issuance of diplomatic passports to the ambassador's dependents not residing with the ambassador at the time of the application. Even if a written authorization was obtained from the President or Secretary of DFA to issue these diplomatic passports, the issuances did not comply with the regulations.

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Dual Citizenship – FSM Code Title 7 Section 203 prohibits dual citizenship. We noted that the Republic of Palau (Palau) has a similar prohibition regarding dual citizenship. Palau’s passport rules state that except in cases where citizenship of another country is expressly renounced before the applicant’s 21<sup>st</sup> birthday, no passport renewal may extend the validity of a Republic of Palau passport beyond the date of the 21st birthday of a citizen. Although Palau has regulations to cover prohibition on dual citizenship, we found no regulations, policies or procedures that ensure a FSM citizen is not claiming dual citizenship and acquiring passports from more than one country. As a result, there is no assurance that FSM law prohibiting dual citizenship is being enforced.

**Internal Controls Not Adequate  
To Safeguard Passports**

Internal controls were not adequate to safeguard passports from error, fraud, misuse and unauthorized alteration. We found that key passport duties are not segregated; periodic inventories of blank and specimen passport booklets are not done, access to the Passport Section was not adequately restricted; passport booklets were illegally forwarded to the FSM foreign missions for final distribution; passport booklets are sent through unsecured mail and specimen passport booklets were not adequately safeguarded. Without these internal controls, FSM is not assured that passport booklets are adequately safeguarded and therefore the risk of fraud and misuse is increased.

Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Prudent government practice requires that DIL should design its internal controls to provide reasonable assurance that the unauthorized acquisition, use, or disposition of passport booklets are prevented or promptly detected. We used GAO’s *Standards of Internal Control*<sup>9</sup>, *FSM’s FMR*, and *Passport Regulation* to determine whether DIL has adequate internal controls to safeguard assets. The following sections specify the criteria, condition and effect of DIL not adhering to the concepts of internal controls in handling passport applications and booklets.

Segregation of Duties – Key duties and responsibilities need to be divided or segregated among different individuals to reduce the risk of error or fraud, per GAO’s *Standards of Internal Control*. Adequate segregation of duties also reduces the likelihood that errors or fraud will remain undetected. Segregation of duties provides for processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The basic idea underlying segregation of duties is that no one employee or group of employees should be in a position both to perpetrate and conceal errors or irregularities in the normal course of their duties. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. In addition, a control over the processing of a transaction

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<sup>9</sup> Source: GAO’s *Standards of Internal Control*, reissued November 1999.

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generally should not be performed by the same individual responsible for recording the transaction.

Since there is only one passport officer, she processed, recorded and reviewed all of the 102 passport applications we selected for review. In addition, of the 102 passports selected for testing, **41 percent** (41 passports) of applications were neither logged in nor logged out. This situation does not adhere to the intent of internal controls because one person could perpetrate and conceal errors or irregularities in the normal course of her duties.

We also determined if other staff received and distributed any passports. However, most of the passports were not logged in or out, therefore we reviewed only a small number of passports that were logged in or logged out.

1. Of the 102 passports selected for testing, we could only review the 19 passports applications that were logged in. Of these 19 applications, we found **32 percent** (6 applications) were logged in, processed, recorded, and reviewed by the Passport Officer.
2. Of the 102 passports selected for testing, we could only review the 41 passport booklets that were logged out. Of these 41 passport booklets, we found **59 percent** (24 passports) were processed, recorded, reviewed and logged out by the Passport Officer.

The passport process used by DIL lacked proper separation of duties. That is, the Passport Officer handled, processed, recorded, and reviewed the applications and the passports and thus increasing the risk of error or fraud. This lack of internal control is more significant because the Secretary of DOJ and the Chief of DIL do not review the applications prior to issuance of the passport booklets.

Periodic Inventory – Valuable assets that are particularly vulnerable to loss, theft, damage, or unauthorized use should be periodically counted and compared to control records and exceptions examined per GAO's *Standards of Internal Control*.

We found that the Passport Officer did not count the number of blank passport booklets and compare them to control records. Further, management is not being periodically made aware of verified comparisons between control records of passport stock available for issuance and actual physical count of un-issued passport stock. (*A similar condition was disclosed in a prior ONPA audit report on the Passport Revolving Fund covering fiscal years 1990 through 1994.*) Therefore, management does not know if blank passport booklets are properly accounted for or if some passport booklets are misplaced or used for unauthorized purposes.

Physical Access – Assets and records should be kept in a secure place with access restricted to management and authorized staff to reduce the risk of error, fraud, misuse and unauthorized alteration, per GAO's *Standards of Internal Control*.

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We observed on numerous occasions other DIL employees accessing the Passport Section office. This is where the passport applications and records are stored and the safe is located that holds the blank and specimen passport booklets. We also noted that passport applications, which were waiting to be scanned, were not properly filed and were stored on the floor. *(A similar condition was reported in a prior ONPA audit on the Passport Revolving Fund covering fiscal years 1990 through 1995.)* This lack of physically restricting access to unauthorized DIL employees ultimately increases the risk that applications, records and blank and specimen passport booklets, could be misplaced or used in an unauthorized manner.

Annual Reporting or Ongoing Monitoring –The FSM code requires the Chief of DIL to submit an *Annual Report on the Passport Revolving Fund* no later than 30 days after the end of each fiscal year to the Secretary of DOJ. The report provides the activities and condition of the Passport Revolving Fund for the fiscal year just ended. The Secretary is then required to submit the report within 30 days to the President and Congress. *(Title 50 Chapter 2 of the FSM Code)*

We found that the Chief did not produce and submit the fiscal year 2006 required report. Consequently, the Secretary of DOJ did not enforce the reporting requirement and did not submit the report to Congress as required. According to the Chief, he has not submitted the annual report since he became the Chief in fiscal year 1998. As a result, Congress, the Secretary of DOJ and the President were not informed of passport operations and could not provide oversight.

Vulnerable Assets – Assets with a fair market value of \$1,000 or more should be assigned a tag number at the time of receipt per *Part 7.2* of the *FMR*. In addition, all transactions for vulnerable assets need to be completely and accurately recorded, per GAO's *Standards of Internal Control*. We believe specimen passport booklets should be considered vulnerable assets because of their value on the black market.

We reviewed a sample of the specimen passport booklets, which were available for distribution during the period of the audit, and found the following exceptions:

1. individual booklets were not assigned a unique number to be able to identify and track missing booklets (i.e. all specimen booklets were perforated with the same passport number, 'M00000')
2. the Passport Officer did not maintain a separate logbook to record and account for the specimen passport booklets.

Without unique identification of specimen passport booklets, DIL cannot identify specific specimen booklet if they end up missing. Further, without a logbook, DIL has no record of who received specimen passport booklets. Therefore, if a specimen booklet was improperly used, DIL cannot identify who was originally given that specific specimen booklet.

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Physical Distribution – The Foreign Missions and Consulates do not have legal authority to receive and distribute valid FSM passport booklets. Specifically, a Department of Justice opinion<sup>10</sup>, dated January 15, 2007, stated:

*“We have reviewed Title 10 and 50 of the FSM Code<sup>11</sup> and have found no express statutory authority for the DFA (Department of Foreign Affairs) or its Mission to receive and distribute valid FSM passport booklets.”*

We reviewed the outgoing transmittal files for the period from October 2005 to December 2006 and found that passports booklets were forwarded to the Foreign Missions or Consulates for final distribution, as seen in the table 3.

Table 3. Distribution of Passport booklets to FSM Missions or Consulates during the period October 2005 to December 2006.

<b>Mission/Consulate</b>	<b>Number of Passport booklets Forwarded</b>
Guam	414
Hawaii	33
Washington D.C.	2
Total	449

Source: DIL outgoing transmittal files

Although the scope of our audit was completed before DOJ issued their opinion, based on discussions with DIL officials, DIL continues to forward passport booklets to the Foreign Missions and Consulates. Without express legal authority, DIL should not distribute passport booklets to Foreign Missions or Consulates. Besides performing an illegal act, the Foreign Missions and Consulates are not set up to assure physical safety of the booklets due to lack of DIL mandated internal controls and tracking systems at these locations. This situation increases the risk that passport booklets could be stolen, misplaced or used for unauthorized purposes.

Delivery by Regular Mail Not Secure – The Chief of DIL issued a directive on April 21, 2006 setting a new requirement for all FSM passport booklets to be delivered through postal mail. Prudent government practice requires that valuable assets, including FSM passport booklets, should be transported in a secure manner so that receipt of the asset is documented and non-receipt can be investigated.

However, we found that requiring all FSM passport booklets to be forwarded or delivered through the mail is not a secure form of delivery due to the cancellation in certified mail services provided by the U.S. postal service around September 2006. As a result, passport booklets forwarded or delivered using regular mail could be misplaced, lost or obtained by

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<sup>10</sup> A legal opinion issued to the Public Auditor on January 15, 2007 by an Assistant Attorney General at the Department of Justice, regarding the legal authority of the DFA, and its foreign missions, to receive and distribute valid FSM passport booklets.

<sup>11</sup> Source: Title 10 of the FSM Code also known as “FSM Foreign Relations Law” and Title 50 of the FSM Code also known as “FSM Immigration Law”

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unauthorized recipients. Without a return receipt certifying proper delivery, DIL is not ensuring that passports booklets sent through the mail are obtained by the proper recipient.

## **CAUSES AND RECOMMENDATIONS**

### **Causes**

The primary causes of the findings regarding missing passport applications and incomplete logbooks and database; non-compliance issues; inadequate internal controls; and failure to produce Annual Report on the Passport Revolving Fund is the lack of adequate regulations specifying procedures and policies to ensure compliance with FSM laws and to ensure reasonable safeguarding of FSM assets. Further, neither the Secretary of DOJ nor the Chief of DIL reviewed the completed passport applications before issuing the passport booklets.

### **Recommendations**

We recommend that the Secretary of DOJ and Chief of DIL should ensure that adequate regulations, policies and procedures are developed and implemented. Further, the Chief of DIL should ensure that adequate training on the new procedures is provided to DIL staff and other National Government employees who will be implementing the new procedures.

Specifically, the new regulations, policies and procedures should include at a minimum, but are not limited to, the following areas.

Regarding proper record keeping, the Chief of DIL should establish policies and procedures:

- To ensure that passport applications can be readily found to support issuance of passport booklets;
- To ensure that logbooks are used to track movement of applications (e.g. log in, intra office transfers and log out); and
- To ensure that the database used to record passport issuances contain all necessary record elements (e.g. date of issuance, expiration date, and passport status) to aid in passport office management.

The Chief of DIL should establish policies and procedures to ensure compliance with FSM laws and regulations and provide adequate supporting documents to be filed with the passport applications by requiring authorized DIL staff:

- To certify that they are satisfied that the applicant is an FSM citizen and that the supporting documentation (e.g. birth certificate) appears authentic and contains no signs of being forged, fraudulent, or erroneous;
- To include a copy of the expired or damaged passport which was surrendered by the replacement passport applicant;
- To include properly notarized affidavits for claims of lost passport;
- To include proof of passport fee payment (e.g. cash receipt); and

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- To include verification that an applicant for a diplomatic or official passport is included in the list of FSM citizens eligible for diplomatic passports or has specific authorization from the President to obtain the passport.

The Chief of DIL should establish internal control procedures to ensure that FSM passports and related information are reasonably safeguarded from error, fraud, misuse and unauthorized alteration. These procedures should include but not limited to:

- Separating the duties of authorizing, processing and recording, reviewing and handling passports to meet the requirement of segregation of duties. Segregation of duties is that no one employee or group of employees should be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties.
- Conducting periodic inventories of blank and specimen passports by physically counting and comparing to control records, examining exceptions noted and preparing monthly inventory reports for Management review;
- Restricting access to the Passport Section and safe and post notices that only management and authorized staff have access;
- Protecting valuable assets by assigning unique identification numbers to specimen passport booklets and keeping a separate specimen passport logbook to record and account for the movement and responsibility of individual specimen booklets;
- Developing and submitting the Annual Report on the Passport Revolving Fund within the required timeframes to ensure that the activities and condition of the Fund are consistently being reported to the President and Congress to make the necessary decisions about its use and needs;
- Ceasing the practice of sending passport booklets through regular postal mail since it is not a secure form of delivery.
- Ceasing the practice of sending passport booklets to the Foreign Missions and consulates not only to comply with the passport Regulations but also to ensure safeguarding the booklets since there is a high risk of weak internal controls at these missions and consulates as revealed by the passport mishandling practices at the FSM Embassy in DC;
- Establishing a review process prior to issuance of the booklet in which Management approves and certifies that each application was properly processed and complied with relevant FSM laws and regulations.

The Secretary of DOJ and Chief of DIL should establish regulations, policies and procedures to ensure DIL is not issuing passports booklets to applicants over the age of 21 who have not relinquished citizenship to foreign country. For example, the procedures should include a signed statement that an applicant over the age of 21 does not have dual citizenship with a foreign country.

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**APPENDICES**

**Appendix I – Chief of DIL’s Response**

To ensure that the report is fair, complete and objective we have provided the Chief of DIL the opportunity to review the draft and submit comments for inclusion in the final report. We have also included notes to clarify some of the issues in the Chief’s comments.



**FSM IMMIGRATION & LABOR**

Department of Justice

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September 12, 2007

♣  
Asher H. Hainrick  
National Public Auditor  
Office of the National Public Auditor  
FSM National Government  
Palikir, Pohnpei FM 96941

*Asher*  
9.13.2007



Dear Mr. Hainrick:

Thank you for providing us the opportunity to comment on the draft audit report prepared by your staff as a result of the audit conducted on Immigration in the handling of our passports. I wish further to state for the record that the audit performed was based on the older version of our FSM Passports.

In your draft audit report on passport security measures for Fiscal Year 2006-2007 you set the examination objectives under the audit protocol as the basis for your determination whether *“(1) adequate internal controls were in place to ensure passports are adequately safeguarded against error, fraud, misuse and unauthorized alteration and (2) DIL complied with regulations in issuing passports.”*

In response to your draft assessment I wish to state on record in a reasonable manner that the “Draft Audit Report” represent the views of the FSM Public Auditors Office and not a total multiparty representation of the FSM Division of Immigration & Labor, although we share and agree to some of your fact-findings. Furthermore, the audit was conducted after repeated attempts made by this office when I took over the function as the Chief of Immigration & Labor in 1998 to have ONPA audit the new created division within the Department of Justice.

As you already know, the FSM Division of Labor was merged with FSM Division of Immigration thereby creating the new FSM Division of Immigration & Labor immediately after the restructuring took effect. Although we had requested for the assistance of ONPA during the same period to conduct the audit it failed to materialize due to other commitments. On impulse, I can say that even though it is high time for this office to be audited, I still think that if ONPA had responded to our repeated requests for the said audit it would have then set the policy guidelines and recommended

See ONPA  
Note 1 in  
Appendix II

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improvements that could have prevented the passport problem that surfaced in Washington D.C.

- If FSM ONPA had responded to our 1998 request for an audit, and under assumption, would that have controlled the situation for happening?
- Would Immigration as a result of an audit exposed to new directions that would have DIL come in compliance with suggestions made in the draft audit report?

See ONPA  
Note 2 in  
Appendix II

These are some thoughts that worry me when reading the audit report because suddenly the aim is directed at us exclusively and in a catch twenty-two situation. However, given the circumstances that dictate whatever overreaching authority we have within the parameters of our jurisdiction I wholeheartedly accepted that because as the supervisor of the division it is my responsibility to have all the necessary precautionary measures in place to safeguard our passports.

On the other hand, the FSM Division of Immigration & Labor is happy that an actual audit has been made and that the division would now be in a better position to know its weaknesses and improve upon these shortfalls, especially in safeguarding our new machine readable passports.

As to your findings, again, I want the record to reflect that the audit conducted was based on the handling of the old passports and it was done during a period of time when we were constructing the new passport area at the new office location, formerly used by ONPA. During this period as you witnessed we simply did not have the secured area to properly store our cancelled passports, applications for passports already processed, among other passport administrative matters.

See ONPA  
Note 3 in  
Appendix II

With the new location and the newly constructed passport room and the improved security measures in place I am confident that in your next visit you will find things different and hopefully would meet your audit compliance established standards. Of course, we are open for advice from here on that in expectation could assist us enhance and improve our security protocol in safeguarding our new machine-readable passports.

Even supposing that our views on the output of the audit in some instances were challenged the overall result is and will be the basis for our improvement. Realistically speaking, the FSM Division of Immigration & Labor is understaffed and under budgeted and we are trying our very best to be in compliance with all the rules and policy directions that can make our work efficient while safeguarding our passports.

See ONPA  
Note 4 in  
Appendix II

Probably like other offices, we find difficulty segregating passport duties from other assigned responsibilities because the function of these officers are not limited only to passport review, approval and issuance, but other complex and sometimes time consuming responsibilities that include and are not limited to the following.

- Title 50 of the Code of the FSM – airport inspection, seaport inspection, monitoring and inspection, issuance of permits, vessel movement, aircraft movement, people movement within FSM and outside FSM, investigation

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and removal, statistics, passport review, approval and processing, etc., just to mention a few.

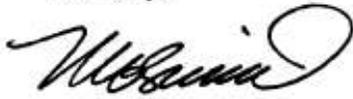
- Title 51 of the Code of the FSM – review work permit applications,
- Title 18 of the Code of the FSM – designation of the official ports of entry
- Title 32 FSM Foreign Investment Act/EWA
- Title 7 Naturalization Act
- 

Unlike ONPA that has your job prescription catered to auditing, inspection and investigation, among other relevant and related audit duties, what we do and how we implement our duties varies from day to day and the assignment of work are therefore not specific but general in nature.

I thank you for providing us the opportunity to respond to your audit findings and I hope that the outcome of this report will redirect our efforts in implementing new and improved corrective measures to address the issue of passport.

Thank you.

Sincerely,



Mohner A. Esiel  
Chief of Immigration & Labor

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**Appendix II – ONPA’s Response to DIL Comments**

**Note 1:** Page 1 of the comments stated that the audit report “*represents the views of the ONPA and not a multiparty representation of the DIL, although we share and agree to some of your fact-findings*”.

Auditor’s Response: Article XII, Section 3 of the FSM Constitution and Title 55, Chapter 5 of the FSM Code established the ONPA as the Nation’s primary audit office authorized to independently audit and inspect National entities and recipients of national funds. ONPA was established as a separate unit of the National Government to provide administrative independence from the other Branches of the Government. As the Nation’s primary audit office, we provided the National Government with independent, objective and timely audits and inspections since the ratification of the Constitution in 1978. To further ensure that our findings and recommendations are addressed, we have forwarded copies of the report to other FSM officials who have legal oversight authority over DIL and are ultimately responsible to act on the audit findings and recommendations.

**Note 2:** Page 2 of the comments implied that ONPA is somehow responsible for the mishandling of passports at the FSM Embassy in DC by not responding to DIL’s repeated requests for an audit starting in 1998.

Auditor’s Response: It is Management’s responsibility, not the auditor’s, to design and implement adequate internal control measures to ensure that DIL’s resources (for example, passports) are properly safeguarded from fraud, waste and abuse and to ensure that relevant laws and regulations are followed.

**Note 3:** Page 2 of the comments implied that because the audit was based on the handling of the old passports, the results are irrelevant.

Auditor’s Response: Although the audit was based on the old passports, the audit focused on the systems and processes that are still in place and applicable to the management of the MRP booklets. All seventeen (17) weaknesses reported in the three findings remained unresolved as of the date of our exit conference with the Chief of DIL on August 9, 2007. This was more than five months after the completion of the renovation on the passport area and installation of the issuance system to issue MRP booklets on March 2007.

**Note 4:** Page 2 of the comments stated that DIL is understaffed and under budgeted and that these contributed to some of the problems noted by the audit.

Auditor’s Response: The budget for DIL should be reviewed carefully by the Executive Budget Review Committee and by the Congress to ensure adequate resources are provided to DIL.

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**Appendix III - Schedule of Revenues, Expenses, Fund Transfers, Balances and Limitations**

The following table shows the Passport Revolving Fund revenues (fees) collected, expenditures made, funds transferred, fund balances and change in fund limits since the last ONPA audit covering fiscal years 1990-1994:

Table 4: Schedule of Revenues, Expenses, Fund Transfers, Balances and Limitations for the Fiscal Years 1995 to 2006

<i>Fiscal Year</i>	<i>Total Revenue Collected</i>	<i>Expenses</i>	<i>Net Revenue</i>	<i>Transfers In</i>	<i>Transfers Out</i>	<i>Fund Limit at End of Year</i>	<i>Fund Balance at Beginning of Year</i>	<i>Beginning Balance Over or Under Fund Limit</i>	<i>Fund Balance at End of Year</i>	<i>Ending Balance Over or Under Limit</i>
1995	\$ 94,736	\$ 0	\$ 94,736	\$0	\$ 93,847	\$ 40,000	\$ 40,180	\$ 180	\$ 41,069	\$ 1,069
1996	111,957	75,220	36,737	0	37,806	40,000	41,069	1,069	40,000	0
1997	106,884	75,200	31,684	0	31,684	40,000	40,000	0	40,000	0
1998	127,320	-2,088	129,408	0	129,408	40,000	40,000	0	40,000	0
1999	191,705	31,300	160,405	0	160,405	40,000	40,000	0	40,000	0
2000	302,525	71,204	231,321	0	231,321	40,000	40,000	0	40,000	0
2001	289,464	12,738	276,726	0	276,726	40,000	40,000	0	40,000	0
2002	294,960	0	294,960	0	294,960	40,000	40,000	0	40,000	0
2003	368,840	33,800	335,040	0	335,040	40,000	40,000	0	40,000	0
2004	442,250	16,042	426,208	0	426,208	40,000	40,000	0	40,000	0
2005	439,535	13,315	426,220	0	426,220	100,000	40,000	(60,000)	40,000	(60,000)
2006	434,069	65,042	369,027	0	0	500,000	40,000	(460,000)	409,027	(90,973)
	<b>\$3,204,245</b>	<b>\$391,773</b>	<b>\$2,812,472</b>	<b>\$0</b>	<b>\$2,443,625.</b>					

**Sources:** National Government's Single Audit Reports covering FY 1995-2006

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**Appendix IV – Total Number of Passport Booklets Issued**

Table 5 lists the number of passport issued by the Passport Section for Fiscal Year 2006 and Fiscal Year 2007 through January 24, 2007.

Table 5: Schedule of the number of FSM passports issued by type and fiscal year.

FY	Type	Passport Status				Total
		Valid	Void	Cancelled	Missing	
2006	Regular	8,460	83	29	1	8,573
	Official	18	0	0	0	18
	Diplomatic	8	0	0	0	8
2007 (through 1/24/07)	Regular	2,233	5	0	0	2,238
	Official	2	0	0	0	2
	Diplomatic	2	0	0	0	2
<b>TOTAL</b>		<b>10,723</b>	<b>88</b>	<b>29</b>	<b>1</b>	<b>10,841</b>

**Sources:** DIL data from *FY 2006 Passport Database* and *FY 2007 Border Management System (BMS) Database* maintained on Microsoft Access.

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**Appendix V - Pictures**

Exhibit 1—Cardboard box of passport booklets.

During renovation of the Passport Section we observed boxes containing passport booklets in open cardboard boxes.

**Exhibit 1**



Exhibit 2 – Previous safe and combination lock cabinet.

This was the previous safe used to store passport booklets. The safe could only store 10,000 passport booklets at one time.

**Exhibit 2**



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**NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank Management and staff at the DOJ, DIL and the Department of Foreign Affairs for their assistance and cooperation during the course of the audit.

The ONPA will perform a follow-up review within the next 6-9 months to ensure that DIL has taken corrective measures to address all the findings and recommendations provided in this report. We will also review aspects of the new MRP system that was recently installed to ascertain whether the system has been adequately installed and improvements in passport security have been realized.

In conformity with general practice, we presented our draft findings and recommendations to the DIL management. The written comments we received are attached to this report.

In addition to providing copies of the final report to the President, Vice President, Speaker and Chief Justice, we also sent copies to the Secretary of the DOJ, Chief of the DIL, Secretary of the Department of Foreign Affairs and the rest of the Congressman and Cabinet members. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting 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 who made major contributions to this report.



Haser H. Hainrick  
National Public Auditor

September 18, 2007

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**ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS**

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**ACKNOWLEDGEMENTS**

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

Ann Walker, Audit Manager  
Michael Henry, Auditor-In-Charge  
Julinida Weital, Staff Auditor

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