

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

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**AUDIT OF TRAVEL ACTIVITIES OF THE FSM NATIONAL GOVERNMENT  
FISCAL YEARS 2010, 2011 AND 2012**

**REPORT NO. 2014-03**



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



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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November 21, 2013

His Excellency Manny Mori, President  
The Honorable Members of the FSM Congress

### **RE: Audit of the Travel Activities of the FSM National Government**

We completed our audit on the travel activities for the National Government covering the fiscal years of 2010 to 2012. The objectives of the audit were (1) To determine if the travel activities of the FSM Government complied with the applicable laws and regulations, and (2) To determine if the internal controls concerning travel activities were present and executed effectively.

We found that significant improvements are needed. Specifically, we are concerned that responsible staffs are ignoring the existing guidelines and requirements in their handling and processing of travel activities within the government. As a result, government funds are more prone to waste and abuse. Our findings include the following:

- Ineffective monitoring and reviewing of travel advances and documents resulted in various non-compliances.
- Travelers with outstanding and/or overdrawn travel advances were still issued travel advances.
- An inadequate internal control procedure in writing-off travel advances/overdrawn advances.
- Travels funded by outside sponsoring agencies not refunded to the government.
- Requirement for a non-government employee traveler was not complied with.

We are equally concerned about the lack of action on the part of the department to implement the prior audit recommendations. For instance, we issued Audit Report No. 2005-02 on August 8, 2005 and reported to Management's attention numerous deficiencies in the handling and processing of travel activities. Because the audit recommendations of the prior audit were not implemented, we noted the recurrence of similar issues and weaknesses during the course of the current audit.

The new administration of the department is keen to improve operations. We support the new Secretary's effort to implement the necessary measures, including the prior and current audit recommendations, in order to improve and to enhance his department's operations.

The Management's response, along with our evaluation of their comments, is included in the final audit report.

Respectfully yours,

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

Haser Hainrick  
National Public Auditor

Xc: Secretary, Dept. of Finance & Administration

November 21, 2013

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## **INTRODUCTION**

### **Background**

Our last audit on the travel activities for the National Government of the Federated States of Micronesia was issued in August 2005. Travel costs represent a significant portion of the total government expenditures every year. For the three fiscal years covered by this audit (2010, 2011 and 2012), yearly spending on travels that took place within FSM and abroad averaged approximately \$6 million per year. Travels are authorized by the respective allottees of approved travel budgets within the National Government while the processing, disbursing, and accounting functions thereof are performed by the Department of Finance & Administration (DF&A).

### **Travel Process**

The Financial Management Act (FMA) of 1979 and the Financial Management Regulations (FMR) regulate the travel activities of the National Government. The FMR is a set of detailed rules and procedures in order to implement the requirements of the FMA. The sections of the FMR that pertain to travel activities are 1.8 and 4.10 through 4.20.

Every travel is required to have a valid Travel Authorization (TA) and a Travel Voucher and Expense Report (TV). The Travel Section within the Division of Treasury at the DF&A handles the processing of all TAs and TVs at the department's main office in Palikir. The DF&A also has field offices in the states of Chuuk, Kosrae and Yap. Travels originating from the aforementioned states that are under the funding purview of the National Government are processed at each respective field office. All travelers are required to file their TVs with supporting documents within 10 days after the completion of their trips. The TVs not filed are considered outstanding travel advances, which the travelers are required to account for. As required, a traveler who fails to submit a completed TV shall not be eligible to receive future travel advances until the outstanding TV is submitted to DF&A.

The Secretary of DF&A, or his designee, is responsible to compute the actual cost of the trip, based on the TV and accompanying documentation, and should notify the traveler of the amount overdrawn, if any, within 10 working days from the TV's date of submission. On the other hand, if the traveler is qualified for reimbursement then DF&A has to notify and pay the traveler within 10 working days, beginning from the date the TV was submitted.

Once the traveler is notified of any overdrawn amount, the traveler shall repay the amount within 20 working days from the day he is notified. If the traveler fails to repay the amount within the 20 working days, or has not made any allotment, the Government shall collect the overdrawn amount through any available legal means.

According to the FMR, government funded travels are intended to be available only to current and authorized government employees. If a traveler is not a government employee, that person should be a member of the Board of Directors for any semi-autonomous agencies of the government. Others who are not employees, but are authorized by the official approving the TA,

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should have formal invitation to attend the function. A copy of the invitation should be attached to the TA.

Travel Expenditures

The government spent an approximately \$18.7 million on travels during the three fiscal years 2010, 2011 and 2012.

Fiscal Year	Amount
2010	\$ 6,393,184
2011	6,565,917
2012	5,757,263
Total	\$ 18,716,364

Source – Department of Finance and Admin, Unaudited

Travel Section

For a long time, there was only one accountant within the Travel Section processing all TAs and TVs for the National Government travel activities. The Travel Accountant reports to a Payable Manager who then reports to the Operations Manager. The Operations Manager reports to the Assistant Secretary of Treasury. The Travel Section hired a second staff post September 30, 2012 to assist in the processing of TAs and TV claims.

Some of the responsibilities of the Travel Accountants include:

- Receive duly approved TAs;
- Review TAs for completeness, accuracy, and for availability of funds;
- Issue payment advances to travelers;
- Receive TVs and review them for completeness and accuracy;
- Issue payments for voucher claims;
- Issue notices to travelers who have not filed their vouchers;
- Issue notices to travelers who owe government for prior and/or current travels;
- Issue payments to travel agencies for airfares; and,
- Refuse travel activity if not allowed by laws, policies or regulations.

**Objective, Scope and Methodology**

Objectives: The objectives of our audit were to determine whether:

1. The travel activities of the National Government complied with the applicable laws and the implementing rules and regulations.
2. Internal controls over travel activities were operating effectively.

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Scope: Our audit covered the travel activities of the National Government for Fiscal Years 2010, 2011 and 2012. It included the review of applicable laws, policies, regulations and the implementing procedures for travel activities. We performed the audit at the main office for DF&A in Palikir and at its field offices in the states of Chuuk, Kosrae and Yap.

We conducted this audit 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.”*

Additionally, we conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards* (also known as Generally Accepted Government Auditing Standards) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

Methodology: To satisfy our audit objectives, we performed the following.

1. To determine if the travel activities of the FSM Government complied with the applicable laws and regulations, we obtained and reviewed laws, regulations, policies and procedures that are applicable to the period covered by the audit, and performed test of controls on judgmentally selected sample of TAs and TVs. We also interviewed the concerned management and appropriate staff handling the travel transactions.
2. To determine if the internal controls concerning travel activities were present and executed effectively, we judgmentally selected samples from TAs and TVs to check whether internal controls were working.

**Prior Audit Coverage**

Our last audit on travel, *Audit Report No. 2005-02, FSM National Government Travel Audit, FY 2002-2004*, was issued on August 8, 2005. The findings of the previous audit included the following:

- Government funds were issued to travelers with outstanding travel advances or who have not filed travel vouchers on previous travel advances. The outstanding travel advances of a traveler was not constantly monitored and reviewed prior to issuance of travel

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advances. Additionally, not all travelers were compelled to file all outstanding travel vouchers consistently.

- Travel claim vouchers were either not filed or those filed did not contain complete and accurate supporting documents.
- Outstanding and/or overdrawn travel advances not properly monitored to ensure that repayment arrangements were negotiated or settled with the Secretary of DF&A as required.

We found that the above conditions still exist because of the DF&A failing to effectively implement the recommendations of the prior audit.

**Conclusion**

Based on our audit, we conclude that significant improvements in terms of the implementation of strong internal controls are so needed within the Travel Section to ensure that the processing and handling of travel activities for the National Government are consistent and fully adhering to the applicable laws, rules and regulations of the government. Our findings include the following:

- Ineffective monitoring and reviewing of travel advances and documents resulted in various non-compliances.
- Travelers with outstanding and/or overdrawn travel advances were still issued travel advances.
- Inadequate internal control procedures in writing-off travel advances/ overdrawn advances.
- Travels funded by outside sponsoring agencies not refunded to the government.
- Requirement for a non-government employee traveler not complied with.

The findings and recommendations are discussed in detail in the following pages.

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## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1 - Ineffective Monitoring and Reviewing of Travel Advances and Documents Resulted in Various Non-Compliances**

Subpart 1.8 of the FMR specifies the requirement to review and monitor travel advances. In addition, subpart 4.15 of the FMR specifies the lead-time for the processing of travel voucher and/or traveler claims/payables. All travels are required to have a TV filed, with supporting documents within 10 days after the completion of a trip. Subpart 4.15 states...

*"... The Secretary, or his designee, shall compute the actual costs of the trip, based upon the Travel Voucher and accompanying documentation, and within ten (10) working days from the day the Travel Voucher is submitted, notify the traveler of the amount overdrawn through an advance, if any, or due and owing the traveler, if any. In the event that there is an amount due and owing to the traveler, said amount shall be paid to the traveler within ten (10) working days from the day the Travel Voucher is submitted..."*

Based on our audit testing, we found the following weaknesses:

- A. Of the 439 sampled travel vouchers and supporting documents:
  - 158 or (36%) were filed after the 10 working-day required after the completion of travel (refer to Column A in Table 1).
  - 100 or (23%) were not processed on time. Either claims were paid or no notice of overdrawn amount was made beyond the 10 working-day requirement from the date the Travel Expense Report and Vouchers were submitted to DFA. (refer to Column B in Table 1).
  - 127 or (29%) lacked proper documentation such as original airline boarding pass and airline ticket stub and others (refer to Column C in Table 1).
- B. Some airfares due to a travel agency have been long outstanding. Out of the 20 sampled airfare expenses, the supporting documents for three airfares were missing, two were partially paid, and seven were not yet paid.
- C. There were incidences of inaccurate calculations noted both in TAs and in TVs. For example, in one TA, we noted that a seminar registration fee and the airport departure fee were overstated despite the fact that these costs were already known during the preparation of the TA and TV.
- D. Two travel authorizations not approved by the concerned Department Heads. These were international travels in which the national government incurred a total travel expense of \$5,000.

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E. Several TAs in the Expenditure Report generated from the National Government computerized system were under a different name instead of the traveler. The check for the travel advance though was properly prepared in the name of the concerned traveler. This error had become known only during the audit. The error was explained as the TA transactions that were uploaded from the Chuuk State (to the national government computer system) with vendor numbers existing in the National Government computerized system.

**Table 1 – Summary of Exceptions of Travel Claims**

Office	Sample	Exceptions					
		(A)	%	(B)	%	(C)	%
Central Palikir	274	114	42%	80	29%	101	37%
Chuuk Field Office	93	34	37%	11	12%	15	16%
Kosrae Field Office	48	9	19%	7	15%	10	21%
Yap Field Office	24	1	4%	2	8%	1	4%
Total	439	158	36%	100	23%	127	29%
(A) TVs not filed on time (B) TVs not paid/travelers on time. Either the claims were paid or no notice of overdrawn amount made beyond 10 working-day requirement after submission of travel expense report and vouchers. (C) Lack of documentation							

Source: Travel Vouchers and supporting documentation from testing

As a result, there were delays in processing of travel vouchers. Consequently, the amount of pending authorizations for processing has been increasing.

It should be noted that as of September 30, 2012, the schedule of travel advances had a total outstanding amount of \$1.7 million (General Fund- \$1.5 million and Sector Grants- \$.2 million). Of this amount of outstanding travel advances, \$1.5 million or 88% was provided for as allowance for bad debts indicating the lack of enforcement of the regulations in the liquidation of travel advances and/or delay in processing of submitted travel vouchers.

When the travel advances are long outstanding and not reversed to appropriate travel expense account, these are provided for as bad debts and eventually written-off in the books – which could effectively mean that travel advances are not efficiently settled by the concerned travelers (refer to Finding 3 for a related finding on travel advances and write-offs). Consequently and due to accounting entries, the travel expense for those charged-offs are not recorded to the travel budget expenditure line item (travel expense) within the fiscal year when the budget was appropriated by the Congress. Instead, the travel expenses were charged to bad debt expense, a non-appropriated expenditure account; in the subsequent fiscal year/s when the provision for write-off is booked (refer to Footnote1). Finally, incidences of overdrawn travel advances and

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long outstanding travel advances are prone to result in collection challenges, which if not successful, could become a loss to the government.

The untimely settlement of airfares that are due to travel agencies could effectively erode the public's confidence and hurt the image of the government as a financial party in good credit standing.

**Cause and Recommendations**

The travel accountants failed to implement internal controls to strictly monitor travel advances and review the travels documentations. In addition, the new accountant in the Travel Section lacks the necessary training.

We recommend that the Secretary of DF&A should:

- A. Consistently monitor and review the control procedures in order to assure sufficient compliance with the travel laws, regulations, policies and procedures. In this connection, we reiterate our previous audit recommendations that the Secretary of DF&A should implement the following:
  - Ensure that outstanding travel advances are constantly updated and monitored.
  - Periodic notices should be sent to travelers and their Department Heads to ensure that all travel vouchers are filed in a timely manner.
  - A system should be in place that would allow for monitoring and notifying the travelers to file travel vouchers within the required period.
  - If travel vouchers are not filed after the required period upon notification, the Secretary of DF&A should compel the travelers to repay the amounts outstanding through any available means as set out in the FMR.
- B. Reject and return the travel documents that are submitted without the proper documentation.
- C. Provide training for the staff of the Travel Section to ensure compliance with the travel laws, policies, regulations and procedures.
- D. Monitor the performance and demand performance accountability by calling the attention of the staff who has been committing lapses in the implementation of the travel laws requirements.

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- E. Evaluate and study the existing manpower requirement of the Travel Section and make a determination whether there is sufficient manpower resources to timely dispose of all the daily travel transactions and all the monitoring and control activities relating to travel activities.

**Finding 2 - Travelers with Outstanding and/or Overdrawn Travel Advances Were Still Issued Travel Advances**

Subpart 4.15 of the FMR requires that travelers who fail to submit a completed Travel Voucher shall be ineligible for future travel advances until a completed Travel Voucher is filed. Additionally, the FMR 1.8(a) (5) states that the DF&A Secretary shall to the maximum extent possible, deduct any overdrawn and unpaid amounts from the traveler’s next travel advance. The deducted amount is applied against the overdrawn amount owed by the traveler, and the TA documentation is updated to reflect the deduction for previous amounts owing.

Based on our review of the schedule of outstanding advances, we found that the Travel Section was not implementing the regulations that a traveler with open travel advances and who fails to submit travel vouchers shall not be eligible for further travel advances. We noted that new TAs were still processed even when a traveler has outstanding advances and un-filed travel vouchers for previous travel/s. We also noted that this problem is pervasive in the entire national government. Also, this is a finding in our previous travel audit.

As a result, the outstanding travel advances of employees (two or more outstanding advances) have been accumulating in the books. Based on the review of the schedule of outstanding travel advances, travelers with two or more outstanding travel advances have accumulated to a total of \$988,323 as of the end of Fiscal Year 2012 as shown in Table 2 below.

<b>Table 2- Schedule of Outstanding Advances</b>		
<b>Travelers with two (2) or more outstanding</b>		
<b>Fund Type</b>	<b>Fund Description</b>	<b>Amount</b>
01-2210	General Fund	\$ 909,620
14-2210	Public Sector-Capacity	22,433
19-2210	Infrastructure Sector	18,276
10-2210	Education Sector	14,093
15-2210	Supplemental Educational Grant	8,028
20-2210	US Grants thru FSM Funds	11,589
11-2210	Health Sector	4,075
53-2210	CIP CFSM Funds	209
<b>Grand Total</b>		<b>\$ 988,323</b>

Source- DF&A

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**Causes and Recommendations**

The employees of the Travel Section were ignoring existing travel guidelines and requirements, and their work performance was not closely reviewed or evaluated by their supervisor.

We recommend that Secretary of DF&A should strictly implement the control procedures to ensure that a traveler with two or more outstanding travel accounts should settle or arrange to settle first his outstanding travel advances before allowing another travel for the person.

We also recommend that the Assistant Secretary for the National Treasury should closely review and evaluate the work performance of her staff. Appropriate disciplinary actions should be taken in the event of gross negligence and repeated abuse of their work duties and responsibilities.

We further reiterate our previous audit recommendations that the billing procedures should be established to compel the travelers with outstanding travel advances and overdrawn travel vouchers to repay amounts owed to the government, file travel vouchers, or negotiate with the Secretary of DF&A for an acceptable repayment plan.

**Finding 3 - Inadequate Internal Control Procedures In Writing-off Travel Advances/Overdrawn Advances**

Prudent practices for bad debts write-off procedures state, “.....*Departments are responsible for analyzing their outstanding receivables and creating a provision for accounts deemed doubtful or uncollectible. The amounts may be an exact amount or an estimate but must be supportable by analysis and documentation held on file at the department. Bad debts are to be reviewed and recorded on a regular basis.*”

Prudent practices also require that the internal control procedures in writing-off of receivable accounts (e.g. travel advances) include approval (of the write-off) by a designated official and the write-off be recommended only after demonstrating that necessary efforts are made to clear or collect the accounts.

We noted that DF&A has written-off outstanding travel advances amounting to \$344,042. The detailed listing of the travel advances for write-off however, was forwarded to the President per memo dated April 4, 2012 for information purposes only but not for approval and the actual write-off was reflected as adjustments to the books effective in fiscal year 2011. Furthermore, there were no records demonstrating that collection efforts have been tried and exhausted in pursuing the collection of amounts due from the travelers before recommending the write-offs. Upon the review of the list of write-offs, we noted the following:

- A. The listing included some active employees who are still working for the government and/or connected through employment at the government’s other agencies (i.e. component units).

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- B. The outstanding travel advances of resigned employees were not reflected in the Employment Clearance Form for settlement, or the outstanding travel advances were not updated when the Employment Clearance Forms of resigning employees were signed.
- C. The specific reason (e.g. deceased, terminated, retired, repatriated, or not associated with the government or agencies) for the individual write-off's was not documented and/or indicated as a separate column in the listing. Therefore, there is no clear explanation why the individual write-off was made.

As a result, travel advances that could still be collected or settled were written-off. Moreover, because of the lack of an effective collection campaign, government's assets were susceptible to loss and waste.

### **Cause and Recommendations**

There were no adequate internal and accounting written control procedures to follow in providing allowance and in writing-off of uncollectible advances and receivable accounts. Also, the staff need to improve their work performance and therefore need training.

We recommend that the Secretary of DF&A should:

- A. Develop and implement adequate internal control procedures that will govern the provision of allowance for bad debts and writing-off of bad debts accounts in the books.
- B. Review the list of charge-offs to identify and then to collect the amounts due from the individuals who have the ability to pay.
- C. Develop and implement a system that should compel travelers who are either former employees of the government or non-government employees to clear their outstanding travel advance balances.
- D. Provide appropriate in-house training for his staff to improve their work performance.

### **Finding 4 - Travels Funded by Outside Sponsoring Agencies Not Refunded to the Government**

Prudent business practices require that whenever an outside organization fully funded a travel, the traveler should refund any amount of travel advances drawn from the government account.

From the sample of travel authorizations/vouchers, we encountered two travels that were fully funded by the organization that sponsored the workshop/meeting but the travel advances made have not been refunded to the National Treasury. These travelers initially received travel advances with notations in the TAs that the advances would be collected from the sponsor and paid back to the government. However, the travel advances were never returned by the travelers, and the Travel Section has not made any follow-up on these two reimbursements.

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As a result, \$2,294 were not collected from the two travelers included in our sample. Because this is based only on the sample population, we believe that more travel advances were not being reimbursed for travels that were fully funded by outside sponsors. In addition, this increases the risk of abuse since the travelers could be using the unreturned travel funds for personal purposes.

**Cause and Recommendations**

The above condition occurred due to the absence of written policies and procedures, lack of monitoring/ following-up, and because the Travel Section relies only on the traveler's initiative in returning the amount of travel funds advanced from the government.

In addition, each concerned department/office, through their respective administrative officers, could do more to assist in ensuring that the travelers make the proper reimbursement to the National Treasury for travel funds advanced to them from the government for trips that were fully funded by outside sponsors.

We recommend that the Secretary of DF&A should consider the following:

1. Collect the travel advances from the concerned travelers for fully funded travels by an outside sponsors.
2. Develop and implement policies and procedures to guide the handling of travel advances funded by an outside organization.
3. Review prior fiscal years' travel activities to identify if similar incidences occurred and, if yes, collect any unpaid travel advances that should be refunded to the National Treasury.

We also recommend that all department/office heads, through their administrative officers, should take active responsibility to ensure that travel activities are properly handled including the reimbursement of travel advances for trips taken by their employees that are fully paid for by outside agencies.

**Finding 5 - Requirement for a Non-Government Employee Traveler Not Complied With**

FMR Section 4.14(a) requires that: *"...The payment for travels out of government funds are intended for current and authorized employees only. If a traveler is not an employee, that person would have to be a board member of a board of directors for the government. Others who are authorized by the official approving the Travel Authorization (TA) should be with a written invitation naming the said traveler."*

A number of travels with government TAs were performed for travelers who were not government employees or members of any government board of directors but such travels did

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not comply with the requirement of the FMR that a written invitation naming the traveler be attached to the TA. The Table 3 below provided some examples:

**Table 3 – Examples of Travels without Formal Invitation**

<b>Travel Authorization</b>	<b>Destination of Travel</b>	<b>Purpose of Travel</b>	<b>Total Travel Cost of TA</b>
TG0059	Guam	Attend Micro Island Fair in Guam	\$565.36 (Airfare and Departure Fee)
T11C129	Chuuk/Guam/Chuuk	To Meet With the Constituents Residing in Guam	\$1,386.36 (Airfare and Perdiem)
T11C385	Chuuk/PNI/Chuuk	Attend 17 <sup>th</sup> Congress Inauguration	\$367.00 (Perdiem and other)
T11C111	Honolulu	Meet with Constituents residing in Honolulu	\$500.00 (Perdiem Only)
TKH002	Guam	To attend the 2011 Guam Micro Island Fair (GMIF)	\$1,211.36 (Airfare, Perdiem & Departure Fee)
TKH001	Guam	To attend the 2011 Guam Micro Island Fair (GMIF)	\$1,211.36 (Airfare, Perdiem & Departure Fee)
TKH003	Guam	To attend the 2011 Guam Micro Island Fair (GMIF)	\$1,211.36 (Airfare, Perdiem & Departure Fee)

Source: FSM Travel Vouchers and Supporting Documentation

These non-compliances increase the risk of abuse because the travel funds may be used for illegitimate travels that did not serve any useful purposes for the government. In addition, these travels may increase the outstanding travel advances if the requirements continue to be disregarded.

**Cause and Recommendations**

The Travel Accountant and Fund Managers in the field offices failed to implement the FMR requiring that there should be formal invitation when the traveler is not a government employee.

We recommend the following:

- A. The Secretary of DF&A should consider ensuring that all concerned employees of the department fully implement the existing travel regulations and requirements, which are applicable to their duties and responsibilities within the department.

In this connection, the Secretary should consider implementing in-house training/workshops for all the staff to ensure adequate understanding of all financial regulations, guidelines and

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requirements applicable to travel. For example, the Secretary should consider requiring each staff to:

- Keep copy of all the financial regulations readily available in his/her work library.
  - Submit written certification indicating that he/she has read, understood, and pledged to comply with all the financial requirements applicable to the department. Such written certification should be made on a semi-annual basis.
- B. The Travel Accountant should reject the processing of travel documents that do not comply with existing travel regulations and other applicable requirements.

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MANAGEMENT RESPONSE



Office of the Secretary

**Government of the Federated States of Micronesia**  
Department of Finance & Administration  
P.O. Box PS158 Palikir, Pohnpei FM 96941

September 10, 2013



**MEMORANDUM**

TO : FSM National Public Auditor

FROM : Secretary

SUBJECT: Revised Response to Audit of Travel Activities

This is to revise our management response of August 13<sup>th</sup> per your Office's evaluation of September 3<sup>rd</sup> to reflect several clarifications and follow ups by your auditors on the audit findings.

**Finding No. 1 Ineffective Monitoring and Reviewing Resulted to Various Non-Compliances.**

**Response:** Based on our review of the documentation on this finding as specified below, we would generally agree with the finding for a couple of reasons: that filing of travel vouchers within the 10-day requirement is beyond our control despite repeated reminders to travelers; that the travel regulations will need to be amended to reflect alternative documentations; and, that the use and enhancement of the Fundware System is critical to improve and expedite processing of travel vouchers.

The auditor provided two (2) working papers which we traced back to the documents as follows:

A. The audit report indicated 92 or (21%) of travel vouchers submitted were processed and claims were paid beyond the 10 working-day requirement.

The above claim is partly incorrect and does not validate the true picture of processing time. We pulled 53 or 57.61% of the 92 selections indicated above and our review shows that 37 or 70% does not agree with the finding and 16 or 30% agree with the finding due to the following reasons:

A1- Refer to ONPA  
Comments on page 18

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- (1) Two (2) travel vouchers are within the 10-day processing time. The schedule provided to National Treasury shows the comparison from the last date of travel to the date of check printing. The comparison should have been from the date the travel voucher was received by National Treasury as evidence thru the stamped on the receiving date to the date of check printing.
- (2) Five (5) Travel Vouchers show that the traveler owes advanced travel funds to the government. In this case, the government could not at that time process any payments because the travelers owe the government. The traveler is required to settle the overdrawn amount or make scheduled payments through allotment deductions to clear the overdrawn or to wait for a next travel trip to offset the overdrawn. The National Treasury should then make a Zero check to clear the inter fund payables.
- (3) Sixteen (16) Travel Vouchers show that the travelers owe or had overdrawn funds from previous travel authorizations. It is the practice of the National treasury to offset current travel vouchers to those who have overdrawn funds from previous travels.
- (4) Twelve (12) Travel Vouchers show a Zero Check, meaning the Traveler advance is equal to the expenditures and/or previous overdrawn may have been offset the current travel voucher to clear previous travel advance. The printing of Zero Checks is scheduled not to run with the regular check printing.
- (5) Two (2) travel vouchers submitted past the 10 days after the completion of their trips. We believe the violation on the part of the traveler in not filing within the ten (10) days after completion of the trip invalidates finance requirement to process no later than 10 days after receipt of the travel voucher by the National Treasury, but we agree that National Treasury should disburse the payment within a reasonable time, no later than 30 days from receipt of voucher.

Other findings such as 179 or 41% of travel vouchers were filed after the 10-working day requirement and that 153 or 35% lacked proper documentation such as original airline boarding pass and airline ticket stubs.

The current procedure is to remind travelers by sending out a notice to file after the required ten days or to deduct what is owed from an upcoming travel advance for overdrawn travel advances. Management will ensure that a monthly notice is sent to all travelers in violation of the require ten days filing. The last resort is to have the traveler institute payroll deductions to settle the outstanding advance.

In the case of a lost boarding pass or airline ticket, the National Treasury has a corresponding alternative documentation that is acceptable in lieu of these travel documents. The acceptable alternative documents are the luggage ticket receipt, passport stamped dates or the airline mileage report. These supporting documents show where and when the travel was actually taken. Management will propose an amendment the Financial Management Regulation to reflect such alternative documents in lieu of the boarding pass.

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B. The audit report indicated Airfares due to travel agency amounting to \$20,709 have been outstanding since 2008.

Again, we verified the statement above in the accounting system of the National Treasury but the statement does not fully support the finding due to the following reasons:

The schedule of \$20,709 did not come from the accounting system of the National Government but rather from a travel agency. Apparently, the auditors interviewed the travel agencies and requested from them the list of the unpaid airfares. From the list of 23 TA's sampled; 5 TA's worth \$3,768,79 were paid; 8 TA's worth \$8,378.03 were cancelled; 3 TA's worth 488.24 were in excess of authorized amounts; and, 6 TA's worth 8,073.45 are still outstanding. The National Treasury will contact the travel agency to effect the payment of the \$8,073.45 this fiscal year.

C. Incidences of inaccurate calculations noted in TAs and in TVs. As an example of one (1) transaction noted.

We did not receive the working paper to verify the details of the finding, but given the benefit of a doubt, we should reserve our response on this finding but to ensure that proper calculation is made to future travel vouchers.

D. Two (2) Travel Authorizations were not approved by the concerned Department Heads.

Based on the discussions made during the audit process, we explained that the original TA was not signed by the Director but on a duplicate faxed copy as he was off island during that time. Management will ensure that the appropriate supporting documents are on file.

E. The audit report indicated several TAs in the Expenditures Report generated from the National Treasury FMIS System were under a different name instead of the traveler.

We agree with this finding due to the mismatch of vendor number assignments made by the FSM Chuuk Field Office and at the National Central Office. However, it should be noted that the travel advance was given to the named traveler on the travel authorization.

F. The audit report indicated a backlog of unprocessed travel vouchers.

National Treasury receives an average of 17 travel vouchers a day and they are normally processed within a week but without releasing the check payment to the traveler. This payment withholding is necessary to allow time for reconciliation of all outstanding travel vouchers and advances and any active payroll deductions, in order to determine the actual money to be paid to the traveler.

**Finding No. 2- Traveler with outstanding and/or overdrawn Travel Advances were still issued travel advances.**

**Response:** We agree with this finding and its recommendation. The current procedure requires the approval of travel authorizations from the Office of the President to enable the National Treasury to process and issue travel advances. The Office of the President is provided

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with a clearance report indicating outstanding travel advances and/or overdrawn travel advances and signed either by the Assistant Secretary, National Treasury or the General Operations Manager or when both are not in the office, then the Accounts Manager can sign. With the clearance report provided, the Office of the President has then the discretion to approve or disapprove travel authorizations. The Department of Finance & Administration on the other hand, should also exercise sound accounting practices to ensure credibility of the clearance report.

Refer to ONPA  
Comments on page 20

**Finding No. 3-Inadequate Internal Control Procedures on Writing-Off travel Advances/Overdrawn Advances.**

**Response:** The writing-off of travel advances is done on the allowance methodology with aggregate figures based on the established procedures that were instituted more than five (5) years ago. We believe the current practices are adequate but there is room for improvement by way of documentation through amendments to the travel regulations, including the use of the form submitted by the Staff Auditor during the exit conference to improve the process for future write-offs if such are warranted.

**Finding No. 4-Travel Funded by Outside Sponsoring Agencies Not refunded to the Government.**

**Response:** We agree with the finding and recommendation. We will develop and implement policies and procedures that would provide guidance in handling of travel authorizations funded by outside grantors and organizations.

**Finding No. 5-Requirement for Non-government employee traveler not complied with.**

**Response:** We agree with the audit finding and recommendation. We will scrutinize processing of travel requests for non-government employees to ensure such travelers are properly authorized and insured to conduct official business on behalf of the government.

I hope the clarifications presented in Finding No. 1 and 3 above are reflective of the understanding made in the meeting held with your auditors on August 27<sup>th</sup> but let me know if additional clarifications are needed.

Thank you.



Kensley Ikosia

xc: Assistant Secretary, National Treasury  
File

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**ONPA EVALUATION OF MANAGEMENT RESPONSE**

The Department of Finance and Administration (DFA) in its response generally agreed with all findings except on Finding 1 regarding the ineffective monitoring and reviewing that resulted in various non-compliances; and Finding 3 about the inadequacy of internal control procedures on writing-off travel advances/overdrawn advances.

In response to DFA's management response, the audit team met with Secretary of DFA and his representative on August 27, 2013 to seek clarification and to present the ONPA's basis for its findings. Additionally on August 29, 2013, the team met with DFA's Operations Manager, Payables Manager and Travel staff.

*Based on the results of the discussions and the audit team's subsequent verification, we believe that no change is necessary in the audit report relative to the matters pointed by the management regarding some of the findings. It is our opinion that some of the explanation made in the management response are mere excuses.*

We are providing below our comments to some of the specific response from management.

- For Finding #1- Ineffective monitoring and reviewing, that resulted in various non-compliances.

A1. Management Response: "Two (2) travel vouchers are within the 10-day processing time..."

ONPA Comments: We met with the concerned DFA staff and showed that the travel vouchers were paid beyond 10 working days after the travelers had submitted their claims. We compared the receiving dates for vouchers with the check printing dates.

A2 Management Response: "Five (5) Travel Vouchers show that the traveler owes advanced travel funds to the government..."

A3. Management Response: "Sixteen (16) Travel Vouchers show that the travelers owe or had overdrawn funds from previous travel authorizations..."

A4 Management Response: "Twelve (12) Travel Vouchers show a Zero check, meaning the Traveler advance is equal to the expenditures and/or previous overdrawn may have been offset the current travel voucher to clear previous travel advance..."

A5 Management Response: "Two (2) travel vouchers submitted past the 10 days after completion of their trips..."

ONPA Comments for A2 to A5 above: While it is true that some of the travelers had overdrawn advances or had zero accountability, the closing of those travel advances was being made beyond the 10-day processing requirement. While the FMR contemplates an individual processing of the liquidation report and travel

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voucher, it has been a practice to accumulate several liquidation reports of a traveler and subject them to a one-time processing. For example,

- The closing of a traveler's 14 open travel advances was processed in one travel voucher dated June 15, 2011 (**FY 2011**) with a net claim payable to a traveler amounting to \$673 (check#336-834145-22). We observed that the processing of all the 14 TAs was delayed considering that some liquidation reports were submitted to DFA as far back as 2010 (8/20/10, 9/17/10, 10/28/10) .
  - The closing of a traveler's seven open travel advances was processed in one travel voucher dated September **28, 2012 (FY 2012)** with zero net amount (check#185-849002-22). The processing of all these seven TAs included was delayed considering that the liquidation reports were submitted to DFA more than a year ago (2/21/11, 4/12/11, etc) from the travel voucher processing date.
- DFA responded that in lieu of missing boarding pass, the National Treasury required an alternative documentation (note: the remedy for this situation as per FMR should have been the affidavit of loss). However, we noted that there were no written procedures with respect to the optional documentation. Our subsequent verification on this practice also showed that DFA did not consistently require the attachment of alternative documentation for vouchers received with missing boarding passes.

B Management Response: DFA said that schedule of \$20,709 did not come from the accounting system of the National Government but rather from a travel agency.

ONPA Comments: We removed the reference to the amount \$20,709 in original draft of the report and such change was discussed with the management before the preparation of their management response. We want to clarify though that based on a sample of airline fares transactions selected from the travel agency's billing statement (which is an acceptable audit procedure), we verified the airline fares transactions against the DFA accounting records and documents and consequently, we came up with an observation indicating weakness in the processing of airline fares.

- C Management Response: "We did not receive the working paper to verify the details of the finding, but given the benefit of a doubt..."

D Management Response: We did not receive the working paper to verify the details of the finding but based on the discussions made during the audit process, we explained that the original TA was not signed by the Director but on a duplicate faxed copy as he was off island during that time.

ONPA Comments (C and D) : All of the requested working papers were timely provided and received by the DFA before the preparation of their management response. The

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original TA, which the DFA claims as signed, was not presented to the audit team until the release of this audit report.

- For Finding 3: Inadequate Internal Control Procedures on Writing-Off travel Advances/Overdrawn Advances.

Management Response: DFA disagreed with this finding...because they believe that the current established procedures in the writing-off of travel advances are adequate...

ONPA Comments: We maintain that the existing practice in writing-off of travel advances were inadequate because of the following factors:

- Included in the accounts written-off were employees who are still working with a component unit of the national government.
- There is no written procedure for writing-off of travel advances.
- There are no records on file demonstrating/evidencing that efforts have been exhausted to collect first the outstanding advances before deciding the write-off of travel advances. There was weak basis in deciding the write-off since the DFA based the decision merely from the representation by the Personnel Division that an employee is not anymore connected or working with the government or that an employee was deceased. Had due diligence been done, DFA would have found out that some employees whose travel advances were written-off could still close or settle their accounts since these employees were currently working with the components units or other branches of the government.
- For some of the resigned employees, the outstanding employee travel advances were not properly reflected in their clearance forms for clearing.

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**NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the management and staff of Department of Finance and Administration; Office of Statistics, Budget and Economic Management, Overseas Management and Compact Management; Department of Health and Social Affairs; Office of Environment and Emergency Management, and other departments for their assistance and cooperation during the course of the audit.

In addition to providing copies of the final report to the President and Members of the Congress, we will also send copies to the Secretary of the Dept. of Finance & Administration. 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 Hainrick  
National Public Auditor

November 21, 2013

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## **ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

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Mermina Mongkeya, Auditor-in-Charge  
Clayton Eliam, Staff Auditor

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