

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA



**The Department of Transportation, Communications and
Infrastructure's Procurement of Construction Contracts Did Not
Fully Comply with the Financial Management Regulations**
REPORT NO. 2026-02



Image courtesy of World Estimating



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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November 25, 2025

His Excellency President Wesley W. Simina
Honorable Members of the 24th Congress
Secretary, Department of Transportation, Communications & Infrastructure
Secretary, Department of Finance & Administration
Federated States of Micronesia

**RE: Audit of Department of Transportation, Communications & Infrastructure's (TC&I)
Procurement of Construction Contracts**

We have completed the performance audit referenced above, which was conducted in accordance with the *Generally Accepted Government Auditing Standards (GAGAS)*.

We concluded that TC&I did not fully comply with the requirements of the Financial Management Regulations (FMR) 2021 and lacked policies and procedures for contracts. The findings and recommendations were discussed with the Secretary of TC&I and Secretary of DOFA; details are in Section 7 of the attached report. The management responses are included in Section 8 of the report.

We acknowledge and commend the cooperation of the Secretary of TC&I, Secretary of DOFA and their respective staff throughout this audit, as well as their commitment to addressing the findings and recommendations.

Sincerely,

Haser Hainrick
National Public Auditor

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Abbreviations

CFSM	Congress of the Federated States of Micronesia
CID	Compliance Investigation Division
CO	Contracting Officer
DOFA	Department of Finance & Administration
FMR	Financial Management Regulations
GAGAS	Generally Accepted Government Auditing Standards
ONPA	Office of the National Public Auditor
PIO	Project Inspection Official
SOP	Standard Operating Procedures
TC&I	Department of Transportation, Communications & Infrastructure

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1. INTRODUCTION

1.1 Reason for the Audit

An annual audit planning workshop was held, during which this topic was presented and discussed, and then added to the list of audits scheduled for the year. A risk assessment was also conducted, supporting the selection of this topic as outlined in the Medium-Term Risk-Based Audit Plan.

1.2. Background¹

The Department of Transportation, Communications, and Infrastructure (TC&I) is responsible for the delivery of national infrastructure projects.

TC&I is the technical branch of the FSM National Government that oversees all interstate and international sea and air transportation, regulates the radio communication spectrum, and manages, coordinates, and implements all capital projects funded by the FSM Congress.

Their mandate: Development and administration of sound policies and regulations to ensure a reliable sea and air transportation system and communication network and also ensure that capital projects meet construction safety standards, are cost-effective, and meet both the strategic development and the infrastructure plans of the Nation.

The duties and functions of the Infrastructure Division are as follows:

- Construction review, including preparing plans and specifications, and conducting periodic and final inspections of construction projects in which the National Government has a direct interest.
- Performing other functions related to public works construction and maintenance that fall under the jurisdiction of the National Government.
- Coordinate with the Department of Resource and Development to prepare for the National Government and collaborate with State Governments on their Public Sector Investment Programs related to physical infrastructure development in the FSM.
- Facilitating maintenance, including coordinating and monitoring all necessary maintenance of the FSM Capital physical facilities, janitorial cleaning, and disposal services, ground landscaping and maintenance.

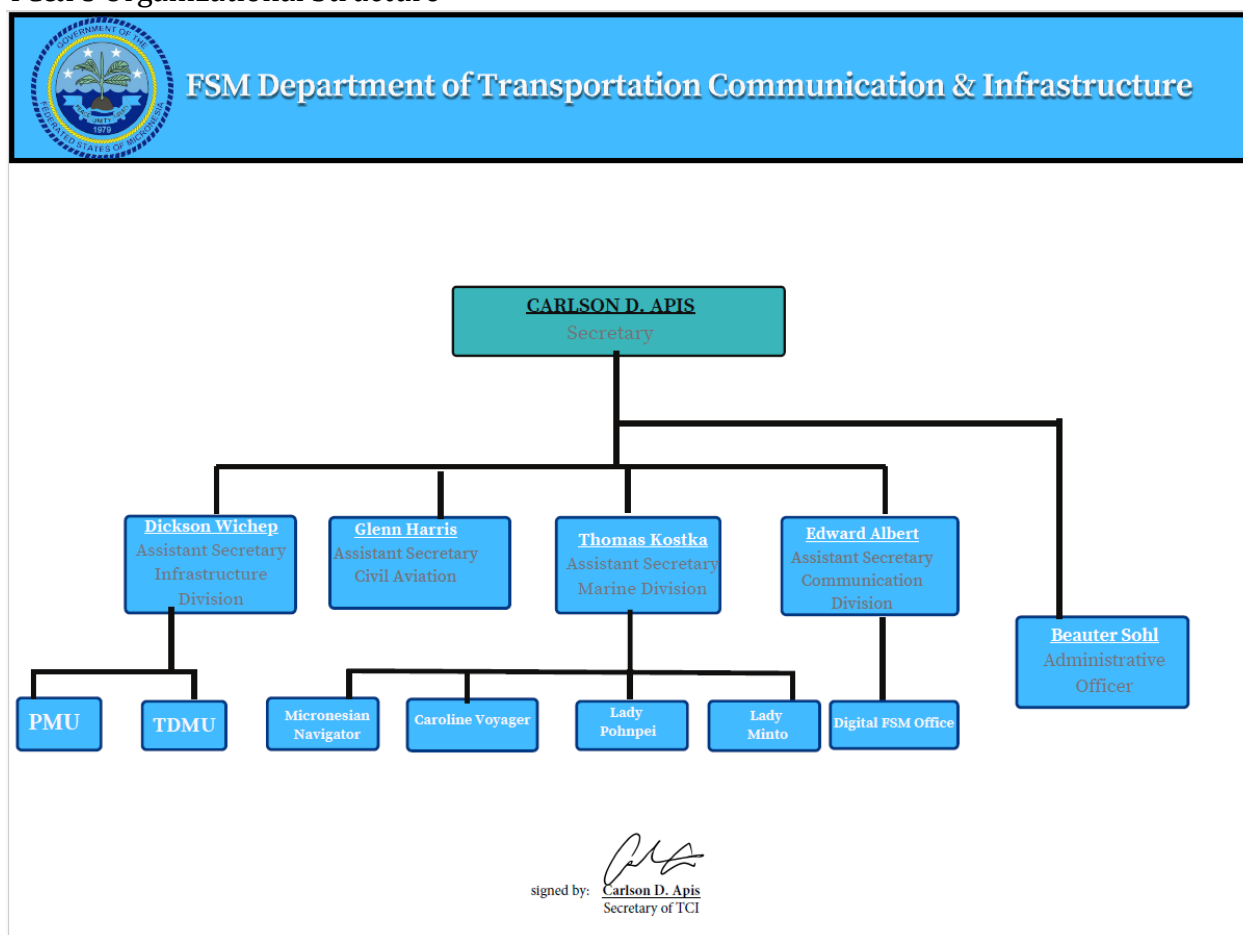
The Program Management Unit (PMU), part of TC&I, is responsible for coordinating amended compact matters for FSM's Compact Management Division. The PMU provides strong program oversight, ensures standards are developed and shared, and guarantees that subsequent design and construction contracts align with proper risk management. It also offers peer review expertise as needed.

¹ <https://tci.gov.fm/>

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The PMU has been restructured to concentrate on program management and is responsible for overseeing projects from initial planning and design through to construction completion. The National Government, through the PMU, handles program management systems, trains national and state personnel in these systems, reviews project documentation to ensure compliance with funding agency requirements, prepares consolidated annual FSM program reviews, and provides program implementation support to the states as needed. The creation of the PMU, along with the updated annual infrastructure plan, aims to enhance the FSM-US infrastructure relationship and ensure all projects are completed on time.

TC&I's Organizational Structure



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2. OBJECTIVES, SCOPE, AND METHODOLOGY

2.1 Objectives

The objectives of this audit are:

Objective 1:

To determine whether TC&I complies with the requirements of the Financial Management Regulations (FMR) for procuring contractors for construction projects.

- **Subobjective 1.1:** Does TC&I conduct open bidding for contracts for construction projects \$50,000 or more?
- **Subobjective 1.2:** Does the contracting officer(CO) require prospective bidders to:
 - a) Provide qualifications prior to submitting their bids, and
 - b) Proof of eligibility.
- **Subobjective 1.3:** Does TC&I have mechanisms in place to ensure Repair & Maintenance (R&M) construction contracts \$49,999 and below are not split to avoid open bidding?

Objective 2:

Does TC&I have in place the necessary processes and systems to ensure that its procurement practices are fair, transparent and with integrity to assure public trust in selecting the most competent and qualified contractors for construction projects?

- **Subobjective 2.1:** Do TC&I and Department of Finance & Administration(DOFA) maintain true and accurate records of procurement activities such as advertisements, review and evaluation of bids, awarding and contracting, inspection, payments, evaluation, and reporting?
- **Subobjective 2.2:** Do TC&I and DOFA maintain a roster of pre-qualified companies?

2.2. Scope

The audit covered all construction Contracts valued at \$50,000 and above and all repair and maintenance (R&M) contracts valued between \$20,000 and \$49,999, that were completed between October 2021 to August 2024 across all FSM States: Pohnpei, Chuuk, Yap & Kosrae.

2.3. Methodology

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We ensured that the evidence we obtained provided a reasonable basis for our findings and conclusions based on the audit objectives.

Audit fieldwork was conducted at DoFA and TC&I. Audit testing was conducted on the selected projects managed by both departments in Palikir, Pohnpei. In addition, we verified the results by inspecting selected project sites across the FSM states.

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To achieve the objectives, the team completed the following: reviewed applicable legislation and contracts; assessed policies and procedures; interviewed key staff to understand the entire project process; evaluated roles, duties, and responsibilities; and conducted physical inspections of completed projects.

3. LEGAL MANDATES/STANDARDS

3.1 Audit Mandate

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

"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."

4. PRIOR AUDIT COVERAGE

A previous audit was conducted in 2022 on two projects administered by TC&I.

5. SUBSEQUENT EVENTS

In July 2023, the citizens of the FSM approved nine amendments to the FSM Constitution. One amendment that could directly affect TC&I, especially procurement contracts, concerns the revenue-sharing scheme for fishing license fees. Under this amendment, 50 percent of fishing license revenue remains with the FSM National Government, while the other 50 percent is divided among the four FSM states.

As a result of this amendment, the Infrastructure Division, which is responsible for most construction projects funded under Section 9 of the FSM's Annual Appropriations and CFMS Public Projects for the State of Pohnpei, has experienced a significant decline in available funding for construction contracts. This reduction in funding is reflected in the data shown in the table below:

Table 1.1 Reduction in funding following the amendment of the FSM Constitution

	2021	2022	2023	2024
CFMS Public Projects	\$5,200,000	\$4,000,000	\$4,120,000	\$480,000
Section 9 Annual Appropriation	\$1,142,715	\$2,032,715	\$1,415,685	\$1,348,824
Total	\$6,342,715	\$6,832,715	\$5,285,685	\$1,768,824

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6. CONCLUSION

We concluded that TC&I did not fully comply with the FMR in managing and administering construction contracts. The audit also found that TC&I has weak internal controls over procurement and contract management and did not implement prior audit recommendations issued under Audit Report 2022-05.

To address these weaknesses, TC&I needs to develop and implement comprehensive Standard Operating Procedures (SOP) to guide the effective planning, management, and execution of national infrastructure projects.

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7. FINDINGS AND RECOMMENDATIONS

Finding No. 1: Noncompliance with the FMR in the Procurement of Construction Contracts.

The FMR of May 2021 establishes the mandatory regulatory framework for the procurement of goods and services by responsible government agencies. Specifically, Section 6 of the FMR outlines the regulatory requirements for Procurement and Open Bidding.

- **Section 6.1.1** states, *"High-value procurement requires special attention in the public sector to ensure public funds are put to the best use and not wasted due to poor planning and/or awarding of contracts to irresponsible suppliers."*
- **Section 6.1.4** outlines the FSM's basic procurement principles of:
 - a) *Accountability - public entities should be responsible for their performance and able to provide complete and accurate reports on how they have used public funds.*
 - b) *Openness – public entities should be transparent in the administration of funds... that supports accountability, promotes clarity, and fosters a shared understanding of the respective roles and obligations between entities and external parties entering funding arrangements.*
 - c) *Value for money - public entities should use resources efficiently, economically, and without waste, considering the overall costs and benefits of an arrangement and its contribution to the outcomes the entity aims to achieve.*
- **Section 6.1.8** further requires that, *"... tenders that are greater than \$50,000 in value, two representatives from the Department of Finance and Administration and/or the Department of Justice and/or an independent representative from another Department must be present as part of the panel. These two representatives can either supplement the base three panelists or only supplement the Contracting Officer."*
- **Section 6.1.9 (a)** states, in part, *"All procurement greater than \$50,000 for construction contracts.... must be conducted in a manner providing full and open competition consistent with these Financial Management Regulations...."*
- **Section 6.4.5** outlines the requirements for executing Change Orders from the Initial Contract, where changes involve extending the work duration, modifying the project scope, or necessitating additional work and/or funding to implement these changes. Section 6.4.5 states; in part, *"... all change orders resulting in a 10% increase in the initial contract price will require the Project Manager/Contracting Officer to convene an independent panel (comprising the allottee or designee, who cannot be the Project Manager/Contract Officer, the Secretary of Finance and Administration or designee, and a nominee from the Department of Justice) to provide oversight and review the details of the change orders. Formal sign-off from this panel must be obtained for the contract change order to proceed (subject to the final legal sufficiency review from the Department of Justice), or the contract must be rebid..."*
- **Section 6.5** outlines the policies and requirements regarding Conflict of Interest. Section 6.5.3(a)(i) states, in part, *"no employee, officer, or agent must participate in the selection, award, or administration of a contract supported by the National Government if that*

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person has a "real" or "apparent" conflict of interest." Furthermore, 6.5.3(a)(ii) reads, "Such conflict of interest will arise when employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract."

Our audit revealed widespread noncompliance with the FMR in the procurement of construction contracts during fiscal years 2022 to 2024. The non-compliance issues include awarding contracts without the required competitive bidding as outlined in the FMR, over-obligation and payment of project funds up to twice the original appropriation amount without proper justification or authorization from the FSM Congress, and spending funds on contracts that cannot be verified due to missing project files and documentation.

Of the \$12.7 million completed construction contracts, we tested \$5.3 million (41%), including contracts both above and below the \$50,000 bidding threshold. Our review identified concerns with \$3.8 million (73%) of the contracts tested due to deviations from the FMR requirements.

- A \$60,000 solar system contract was awarded without the required representation from the Department of Justice (DOJ) and Department of Finance and Administration (DOFA) on the bidding panel, as mandated by Section 6.1.8. of the FMR, despite a bidding panel being convened to consider the bids.
- A contract, including a change order, totalling \$170,000 was awarded without competitive bidding, which violated Section 6.1.9(a), Section 6.1.8, and Section 6.4.5 of the FMR. The contract, originally initiated in 2018, was extended through 2022 with additional congressional appropriations. The contractor is known to be affiliated with a national government official, raising concerns regarding impartiality and adherence to conflict-of-interest provisions.
- Two contracts, including the one previously mentioned and another totaling \$926,427.65, were amended through change orders without following the requirements of Section 6.4.5 of the (FMR), which requires an independent panel review for contract modifications of 10% or more of the original contract amount.
 - The first contract was initially awarded \$70,000. In FY 2022, it was amended to increase by \$50,000 (71%) and in May 2024, it was amended again with an additional \$50,000 or a 42% increase. Neither amendment involved the required independent panel review.
 - The second contract had an initial value of \$644,265, and was increased by \$282,162.65(44%), without the required independent panel as mandated by Section 6.4.5 of the FMR.
- A \$600,000 road construction contract was executed despite a legislative appropriation of only \$300,000. There was no subsequent Congressional authorization for the additional amount, except for another \$300,000 for road improvement projects in the same state. While TC&I staff indicated that the additional

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\$300,000 was appropriate, we were unable to trace or verify it in any appropriation law, and TC&I did not provide supporting documentation to substantiate the alleged authorization.

- Two renovation contracts totaling \$761,840 were awarded under circumstances that raise potential conflicts of interest in violation of Section 6.5 of the FMR.
 - A contract worth \$449,801 was given to a company owned by the second-in-command of the beneficiary department, who is also a close relative of a member of the bidding panel.
 - The second contract, totaling \$312,039, was awarded to another close relative of the same panel member.
- Two contracts totaling \$37,000 could not be reviewed due to missing documentation. The absence of supporting files and records prevents verification of compliance with the FMR and raises concerns about accountability and proper record-keeping.
- A \$50,000 contract remains incomplete well past its expected completion date, with no assessment of liquidated damages. (see Figure 1.1) This indicates a lack of contract monitoring and enforcement, which may result in delays, increased costs, and noncompliance.



Figure 1.1 Kepin Awak U Bridge

Four completed projects totaling \$1.56 million were found to have defects following the completion, indicating possible use of poor-quality materials or substandard construction work, despite full payments, including the 10% retainage, being released (Figures 1.2 through 1.5)

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Figure 1.2 Private Room Facilities at Pohnpei State Hospital



Figure 1.3 Nanpohnmal to Sekere Road

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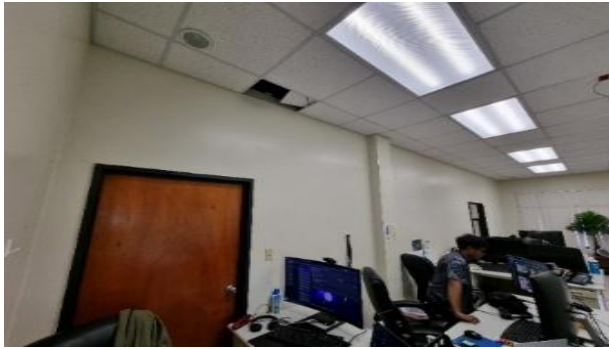


Figure 1.4 TC&I Annex & Parking



Figure 1.5 Office of the National Public Auditor

- A project with an allocated budget of \$187,651 has significantly deteriorated within four years, primarily due to inadequate construction planning and ineffective project administration. (see Figure 1.6 below)



Figure 1.6 Yap Isolation Units

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In addition, DoFA has not consistently ensured full compliance with the revised FMR prior to certifying contracts and approving payments. This oversight, or lack thereof, on DoFA's part undermines transparency, accountability, and compliance with the FMR's procurement requirements. One notable instance of non-compliance is that DoFA failed to maintain a current roster of pre-qualified contractors, as required by the FMR. Such a roster includes proven, capable contractors with performance records, as well as a list of high-risk and unstable contractors.

Cause

The root causes of the deficiencies are primarily due to TC&I and DoFA continuing to operate under outdated procedures and workflows that have not been updated to reflect the new requirements of the revised and improved FMR 2021. Noncompliance with the FMR is also a result of departmental negligence.

Although the amended and improved FMR introduced new procurement standards and enhanced accountability measures, both entities failed to update their internal processes, controls, and documentation practices accordingly. As a result, key procurement and records management functions remain out of sync with regulatory requirements.

At a minimum, both departments should conduct a comprehensive review and update of their operational procedures and internal control frameworks to incorporate and comply with the updated FMR provisions.

Effect

The lack of compliance with the FMR has caused numerous systemic procurement irregularities that undermine transparency, fairness, and accountability. Additionally, improper bidding panel composition can result in biased contractor selection and increase the likelihood of awarding contracts to unqualified or conflicted parties. Furthermore, weak enforcement of policy and regulatory requirements could lead to compromised contractor performance and potential project defects.

We are referring these matters for further review by our Compliance Investigation Division (CID).

Recommendations:

We recommend that both TC&I and DoFA:

- strengthen compliance with the FMR by jointly establishing an improved process to ensure strict adherence to all FMR requirements, including open bidding, bid documentation, change orders, conflict-of-interest disclosures, and contractor vetting.
- Jointly develop and implement comprehensive operating policies and procedures to ensure consistent procurement processes and full compliance with the FMR requirements when procuring construction contracts.

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Finding No. 2 – Weak Internal Control Due to Lack of Formal Policies and Procedures for Administering Construction Contracts

Prudent management practices require establishing and consistently applying internal controls to protect assets, enhance operational efficiency, and ensure compliance with applicable laws and regulations.

The GAGAS defines internal control as a process implemented by an entity's oversight body, management, and personnel to provide reasonable assurance that the organization's objectives will be achieved (GAGAS 1.22(b)).

Furthermore, the Standards for Internal Control in the Federal Government (Green Book) emphasizes that management must design control activities, including policies and procedures, to ensure that operations are effective and efficient, assets are safeguarded, and compliance with applicable laws and regulations is maintained.

Our review of TC&I's procurement process identified significant weaknesses in internal controls over the management and operations of the FSM National Government's procurement practices. These weaknesses include widespread disorganization, poor recordkeeping, missing files, and a general lack of documentation necessary to evaluate the effectiveness of internal control systems and compliance with laws and regulations.

Specifically, our review of TC&I's files revealed disorganized records, missing documents, and inconsistencies in filing systems. Some files were provided in traditional hard-copy folders, while others were stored electronically and accessible only to designated custodians. Among the hard-copy files examined, many were disorganized or missing numerous documents.

There was also a notable absence of bidding panel meeting minutes in all the files—except for a few isolated scorecards indicating how contractors were being scored and selected. Furthermore, no verification of bidder qualifications was provided.

We also noted that TC&I has not established procedures for appropriately managing situations involving a single bidder. Sealed bids were not handled in accordance with the FMR and proper procurement protocols. Specifically, we observed that sealed bids were stamped "received" and then left with the secretaries until retrieved by the Contracting Officer, raising concerns about bid security and integrity.

Cause

TC&I lacks formal, documented policies and procedures, namely SOP, to guide the administration of construction contracts. Currently, TC&I relies on the FMR and applicable public laws as general guidance. Although management cited the use of internal guidelines, no supporting documentation was provided to confirm its existence or implementation.

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This issue persists due to TC&I's failure to implement prior audit recommendations, as noted in ONPA Report No. 2022-05 (issued September 2022). The continued absence of formal SOP indicates a lack of awareness or appreciation for the importance of documented internal controls in ensuring effective construction contract administration.

Effect

The absence of formal policies and procedures results in:

- Inconsistent contract administration practices;
- Errors in project documentation and oversight;
- Operational inefficiencies and possible delays in project completion;
- Increased risk of mismanagement of public funds;
- Reduced quality assurance in construction outputs;
- Inadequate accountability and transparency; and
- Diminished assurance that organizational and compliance objectives are being met.

These deficiencies undermine the Department's ability to effectively manage public infrastructure projects and demonstrate responsible stewardship of public resources.

Recommendations:

We recommend that TC&I develop and implement a comprehensive SOP for the administration of construction contracts. These procedures should clearly outline roles, responsibilities, workflows, control measures, and compliance requirements to promote consistency, accountability, and transparency across all projects.

Finding No. 3 – Lack of Segregation of Duties in Construction Project Oversight

Best practices in internal control, as outlined by the Standards for Internal Control in the Federal Government (Green Book) and general internal control frameworks, emphasize the importance of segregation of duties. This principle is crucial in reducing risks of errors, fraud, conflicts of interest, and undue influence over vital processes. Segregation makes sure that no single person has complete control over all parts of a transaction or process, especially those involving financial or operational oversight.

Within TC&I, a single engineer currently handles multiple roles—serving as the Project Manager, the Contracting Officer (CO) Representative, and sometimes as the Project Inspector on construction projects. These roles are not properly segregated to ensure key oversight and administrative functions are consolidated with one individual. Additionally, project managers and project inspectors are part of the bidding panel, creating further overlaps in critical project oversight functions.

Cause

The lack of segregation of duties is primarily due to the absence of formal Standard Operating Procedures (SOPs) within TC&I that define roles, responsibilities, and reporting lines for key

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project functions. Despite being one of the largest departments in the FSM National Government, with at least three engineers and over six or seven project managers and inspectors, staff assignments have not been structured to promote internal control through task separation.

Effect

The consolidation of these critical roles has resulted in:

- Increased risk of potential conflicts of interest and biased decision-making.
- Weakened internal controls, undermining the effectiveness of project oversight.
- Limited checks and balances in procurement and contract administration processes; and
- Reduced transparency and accountability, which could impact the credibility and integrity of construction project outcomes.

Recommendations

We recommend that TC&I restructure its staff assignments to ensure appropriate separation of key functions. Specifically, the roles of Contracting Officer, Project Manager, and Project Inspector should be assigned to different individuals to establish checks and balances and strengthen internal controls.

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8. MANAGEMENT RESPONSES



Government of the Federated States of Micronesia
Department of Transportation, Communication & Infrastructure
P.O. Box PS-2 Palikir, Pohnpei FM 96941

Office of the Secretary

November 21, 2025

Mr. Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
Federated States of Micronesia

Dear Mr. Hainrick,

I wish to extend my sincere appreciation to you and your team for the time, effort, and professionalism invested in conducting the audit of the Department of Transportation, Communications & Infrastructure's procurement and administration of construction contracts. The dialogue held during the exit conference, together with the detailed findings presented in your report, has been instrumental in identifying critical areas where TC&I must strengthen its processes, controls, and compliance mechanisms.

The Department fully acknowledges the findings and recommendations outlined in the audit. It is our clear intention—and firm commitment—to improve the quality, integrity, and transparency of our work and to ensure that the services we provide are aligned with the needs of our nation and its people. In doing so, we reaffirm that all improvements will be grounded in full adherence to the applicable laws and regulations of the Federated States of Micronesia, in particular the Financial Management Regulations (FMR), which establish the mandatory requirements for procurement, internal controls, and contractor oversight.

I have noted the findings of the audit and have also reviewed the attached response from the Division of Infrastructure. As a result, I will issue a written directive to the Division of Infrastructure requiring them to formally adopt the audit recommendations as departmental policy. This directive will mandate the development and institutionalization of new Standard Operating Procedures (SOPs) to ensure:

- Clear definition of procurement panel membership consistent with the FMR, including required representation from DOFA and DOJ where applicable.
- Explicit delineation of roles, duties, and responsibilities for the Contracting Officer, Project Manager, Inspectors, and all personnel involved in procurement and contract oversight.
- Strengthened internal controls that prevent conflicts of interest, ensure proper documentation, and promote consistency and accountability throughout the project lifecycle.

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- Adoption of uniform documentation, record-keeping, and file management standards aligned with best practices and audit recommendations.

We are committed to ensuring that these SOPs are developed collaboratively, implemented uniformly, and routinely evaluated to maintain compliance and improve operational effectiveness. We will share the SOP for review and comment by all relevant offices to ensure transparency and inclusivity.

Given the scope and complexity of the required improvements, we respectfully request the assistance of your office—in partnership with the Department of Finance and Administration and the Department of Justice—in organizing a joint training and capacity-building program. Such a program will support harmonization of practices across departments, strengthen “checks and balances,” and ensure that all personnel involved in procurement and project management clearly understand their roles and obligations under the FMR.

Once again, thank you for your constructive engagement and for identifying the areas where TC&I can improve. We view this audit not only as an oversight mechanism but also as a valuable opportunity to elevate the quality of our services and strengthen public trust.

Sincerely,



Carlson D. Apis
Secretary

Attachment:

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Government of the Federated States of Micronesia
Department of Transportation, Communication & Infrastructure
P.O. Box PS-2 Palikir, Pohnpei State, FM 96941
Tel: (691) 320-2865, 2381, 5829

Office of the Secretary

November 13, 2025

MEMORANDUM

To: Secretary

From: Assistant Secretary, Division of Infrastructure

SUBJECT: Management response of Construction Contract Report # 2026-01

Below is the Departments Management Response to the audit findings and Recommendations.

Finding No. 001 – Noncompliance with the FMR in the Procurement of Construction Contract.

Management response: The findings regarding noncompliance with the FMR in the Procurement of construction Contract is well noted. Furthermore, management accept the noncompliance as cited and will coordinate with the DOFA to ensure that a comprehensive review and update of the standard operational procedures and internal control frameworks are incorporated and are in compliance with the FMR provisions.

Finding No. 002 – Weak Internal Control Due to Lack of Formal Policies and Procedures for Administering Construction Contracts.

Management Response: The findings regarding the weak internal control due to lack of formal policies and procedures for administering construction contracts are well noted as cited. The managements accept the findings as recommended and will develop a comprehensive standard operational procedure that adheres and in compliance to the FMR.

Finding No. 003 – Lack of Segregations of Duties in Construction project Oversight.

Management Response: The findings regarding the lack of segregation of duties in construction project oversight. The management accept the findings and recommendations and note that the very same issue was mentioned in the previous findings by the auditor. However, due to the shortage of manpower, the management will do it's very best to restructure its current manpower to strengthen its internal control to ensure appropriate duties and responsibilities and tasks are separated.

The management appreciates the findings and recommendations as cited and will continue to collaborate with the DOFA to strengthen its internal control and to ensure that all aspect of the procurement of contracts adheres to and in compliance to the FMR.

FSM National Government

OFFICE OF THE NATIONAL PUBLIC AUDITOR
Audit of the Department Transportation, Communications & Infrastructure's (TC&I)
Procurement of Construction Contracts
REPORT NO. 2026-02

Thank you,


Dickson P. Wichap

FSM National Government

OFFICE OF THE NATIONAL PUBLIC AUDITOR
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Secretary of Finance
&
Administration

November 05, 2025

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration

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T.H. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
FSM National Government



Subject: Response to Audit Report #2026-01
Audit of the Department of Transportation, Communication & Infrastructure's
(TC&I) Procurement of Construction Contracts

Thank you for the opportunity to respond to the subject audit. Below is our response to Finding #1 of the audit as required:

1. The Department of Finance sends a representative to the bidding panel when we are informed about a bidding of a contract from \$50,000.00 and above.
2. Prior to FY2025, there was one compliance officer on board in the Department of Finance. Recently we have hired two additional compliance officers and will conduct the following training for them from November 24 to 28:
 - a) Training on section six (6) "Procurement and Open Bidding" of the Financial Management Regulations to ensure full compliance of the FMR.
 - b) Training on the PCD and how to amend it.
 - c) Ethics Training from the FSM ONPA Office if such service is still available.
3. We will equip our Compliance Officers with a pre-qualified contractor roster when we obtain one.

Invitations to all Departments and Agencies to attend the above training courses, A 6-month follow-up review from the ONPA auditors is recommended.

Sincerely,

Rose N. Nakanaga
Secretary, Dept. of Finance & Administrations

cc: Department of TC&I

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9. ONPA EVALUATION OF MANAGEMENT RESPONSES


Both the Secretary of TC&I and the Secretary of DOFA agreed with the report's findings and recommendations. Furthermore, they have both included corrective actions in their management responses.

10. NATIONAL PUBLIC AUDITOR'S COMMENTS

We express our gratitude and appreciation to the Secretary of TC&I, the Secretary of DOFA, and their staff for their cooperation and assistance throughout this audit. We now hope that this audit will add value to the Departments' operations.

We have provided copies of this final audit report to His Excellency, the President; members of the 24th FSM Congress; the Secretary of TC&I; and the Secretary of DOFA. Copies of this report will be available to interested parties upon request and can also be viewed on our official website.

If there are questions or concerns regarding this report, please feel free to contact our office. Contact information for the office can be found on the last page of this report, along with the National Public Auditor and the audit team that conducted the audit and prepared this report.



Haser H. Hainrick
National Public Auditor

November 25, 2025

OFFICE OF THE NATIONAL PUBLIC AUDITOR
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Procurement of Construction Contracts
REPORT NO. 2026-02

11. ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT Haser Hainrick, National Public Auditor
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ACKNOWLEDGEMENTS In addition to the contact named above, the following staff
made key contributions to this report:

Selai Managreve, Audit Manager
Gillian Doone, Audit Supervisor
Neong U. Yoma, Auditor in Charge
Reed Floyd, Staff Auditor

ONPA MISSION We conduct quality audits and investigations to improve good
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for the stakeholders' benefit.

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