

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

AUDIT OF CFSM FUNDED PUBLIC PROJECTS

FISCAL YEARS 2010 AND 2011

REPORT NO. 2013-02



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FEDERATED STATES OF MICRONESIA

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April 29, 2013

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

RE: Audit of Congressional funded public projects appropriated during FY 2010 and 2011

We have completed our review of the FSM Congress appropriations for public projects in the four FSM states for fiscal years 2010 and 2011 as funded under public laws 16-18, 16-23, 16-49, 16-58 and 16-62 as amended. Our audit objective was to determine whether the administration of CFSM Public Projects complied with the Financial Management Act (FMA), Financial Management Regulations (FMR) and other applicable laws, policies, and regulations. We conducted the 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, offices, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”

In addition, the audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States.

We conclude that the overall implementation process from project control documents (PCD) to vendor payments to project close-out and reporting, lacked effective execution of existing controls and did not comply with the FMA, FMR and other applicable laws, policies, and regulations. As a result, the citizens of the FSM may have realized significantly less value of the use of public funds.

The auditors found evidence of significant issues:

- Failure to execute key controls and activities concerning PCDs weakened the entire process;
- Lack of monitoring, controlling and reporting of 47 projects across FSM (41 in Chuuk) resulted in \$149,033 being overspent;
- Expenditures of \$306,521 could not be verified;
- Assets were being misused (given to personal use) or lost; and
- Disbursement of \$401,619 without certification of completion.

This weak execution of controls resulted in an environment where there was no assurance that public projects were finished or that vendors completed agreed-upon work prior to receiving payments. Many projects were not inspected. Our conclusions are described further in the report following this letter.

We recommended the following for management action:

SBOC Director to review the key internal control procedures in accepting and reviewing the Project Control Document (PCD)

1. Ensure awareness and compliance with the existing guidelines, requirements, laws and regulations for preparing the Project Control Document (PCD).
2. Properly execute the key controls to ensure complete and accurate filled out of PCDs and to reject incomplete PCDs.
3. Ensure an independent Project Inspection Official is required in PCD whenever an inspection of project progress/completion is applicable to the project or program before a payment is made.
4. Consider collaborating with DF&A to implement a strong annual education and certification program for eligible allottees, as identified by DF&A's list of eligible allottees.

Secretary of DF&A ensure that/to:

1. The allottee and/or sub-allottee become aware of and comply with existing guidelines and requirements of the law to consistently monitor, track and properly close out the projects. DF&A solicit collaboration from SBOC (as mentioned above) as they (DF&A) manage and monitor the eligible allottee program, including annual education and certification.
2. Implement procedures to ensure allottees/sub-allottees become aware of the existing guidelines and requirements of the law regarding payments or expending and overspending of allotted funds. Consistently review and only certify payment requests in accordance with the requirements of the regulations and procedures. Closely monitor the disbursements of funds and should not approve disbursements that will result in an overspent situation or should report to Congress, over-obligation or over-expenditure as the law requires.
3. Conduct training on policies and procedures to ensure that allottees/sub-allottees become aware of the existing guidelines and requirements of the law, their responsibilities to implement the entire process required of public projects and to review every payment request accordingly.

4. Ensure that appropriate documentation is present before disbursement of payments, and that files are maintained as required by law.
5. Implement procedures to ensure that the allottees / sub-allottees are fully aware of their responsibilities regarding assets management and uses.
6. Ensure that the allottee and/or sub-allottee are aware of the existing guidelines and requirements of the law to implement and administer the entire project administration process, and to review every payment request accordingly.
7. Ensure that the Project Inspection Officials are aware of their responsibilities to manage, inspect and report the status of public projects.

We discussed the contents of this report with the Secretaries of DF&A and SBOC and with the Acting Director of Chuuk State Commission on Improvement Projects. We also provided Secretaries with the draft of this report for their formal management response. However, we only received the formal management response from the Secretary DF&A. It was attached as part of this report under the section for “Management Response”. Both the Secretary of DF&A and the Director of the Office of SBOC generally agreed with the finding and recommendations.

Respectfully yours,

Haser Hainrick
National Public Auditor

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

TABLE OF CONTENTS

INTRODUCTION	1
Background	1
Objective, Scope and Methodology	2
Prior Audits Coverage & Referrals.....	3
Conclusion	3
FINDINGS AND RECOMMENDATIONS.....	5
FINDING 1: Failure to Execute Key Controls	5
FINDING 2: 47 Projects Across FSM (41 in Chuuk) were Overspent by \$149,033.	7
FINDING 3: Expenditures of \$306,521 Could not be Verified.....	9
FINDING 4: Assets were being Misused (given to personal use) or Lost.	10
FINDING 5: Disbursement of \$401,619 without Certifications.	11
APPENDICES	14
Appendix I. Amendments to the five Public Laws:	14
Appendix II. The PLs designated the following allottees of 451 projects:.....	14
Appendix III. Flowchart: Public Project Administration.....	15
MANAGEMENT RESPONSES	16
From the Assistant Secretary, Department of Finance & Administration.....	16
From the Director, Office of SBOC.....	19
ONPA EVALUATION OF MANAGEMENT RESPONSES	20
NATIONAL PUBLIC AUDITOR’S COMMENTS	21
ONPA CONTACT AND STAFF ACKNOWLEDGEMENT.....	22

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

INTRODUCTION

Background

For the fiscal years (FY) 2010 and 2011, the 16th Congress of the Federated States of Micronesia (CFSM) passed five (5) public laws which appropriated approximately \$ 7.8 million from local revenue (general funds) *for the purpose of funding Economic and Social Public projects and programs*. A few details are described in *Table 1* below:

Table 1. Summary of CFSM Public Project Appropriations for FY2010 and 2011

State	PL 16-18		PL 16-23		PL 16-49		PL 16-58		PL 16-62		Totals	
	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount
Chuuk	89	\$1,336,000	12	\$164,000	72	\$1,080,000	24	\$300,000	29	\$450,000	<u>226</u>	<u>\$3,330,000</u>
Kosrae	22	495,000	1	5,000	13	205,000	14	255,000	15	150,000	<u>65</u>	<u>1,110,000</u>
Pohnpei	50	970,000	1	30,000	29	610,000	21	310,000	24	300,000	<u>125</u>	<u>2,220,000</u>
Yap	15	500,000	0	-	9	320,000	5	140,000	6	150,000	<u>35</u>	<u>1,110,000</u>
Total	<u>176</u>	<u>\$3,301,000</u>	<u>14</u>	<u>\$199,000</u>	<u>123</u>	<u>\$2,215,000</u>	<u>64</u>	<u>\$1,005,000</u>	<u>74</u>	<u>\$1,050,000</u>	<u>451</u>	<u>\$7,770,000</u>

Source: CFSM website: www.fsmcongress.fm (public laws)

The public laws (PL) were subsequently amended to modify specific projects, or to redirect the funds to other projects. As of September 30, 2011, there were 451 different economic and social public projects and programs funded under the five (5) appropriation laws. Specifically, the Public laws are as follows:

- PL 16-18 appropriated \$3, 301,000¹ for 176 projects for the four FSM states.
- PL 16-23 appropriated \$199,000, which was apportioned among 14 projects for three of the four states, excluding the State of Yap.
- PL 16-49 appropriated \$2,215,000² for 123 projects.
- PL 16-58 appropriated \$1,005,000 for 64 projects and,
- PL 16-62 appropriated \$1,050,000 for 74 projects.

A list of amendments to these public laws can be found in *Appendix I*.

In the PLs, Congress designated the allottees and defined their roles. The allottees are responsible for managing these public projects to ensure satisfactory completion and that funds are expended in accordance with applicable laws. The original allottee may delegate responsibility to a sub-allottee. See *Appendix II* - list of the allottees for the 451 projects

¹ Public Law 16-18 appropriated sum of \$3,500,000 , but amended by PL 16-24 to reduce the amount to \$3,301,000

² Public Law 16-49 appropriated sum of \$2,945,000, but further amended by PL 16-76 to reduce the amount to \$2,215,000

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

designated in these public laws. The applicable laws include the Financial Management Act (FMA) of 1979 and the Financial Management Regulations (FMR).

The FMR is a set of detailed instructions for the execution or implementation of the FMA. It explains specific key control activities that should be carried out in order to comply with the FMA and other applicable laws. According to the FMR, prior to the allotment of funds, the allottee or sub-allottee is responsible to submit a project control document (PCD) to the FSM Budget Office within the Office of Statistics, Budget and Economic Management, Overseas Development Assistance and Compact Management (SBOC).

The PCD is a key control document that, if completed accurately and completely, will help to ensure the project has accountability, traceability and that oversight for quality and completion existed for the project life cycle.

SBOC is responsible to review and approve the PCDs before any public project funds allotment is processed and issued. If satisfied with the PCDs, SBOC shall issue an advice of allotment to the allottee or sub-allottee and file a copy with the Secretary of the FSM Department of Finance & Administration (DF&A) for obligation and disbursement of funds.

The allottee or sub-allottee shall obligate the public project funds and the Secretary of DF&A, or designee, shall disburse the public project funds only in accordance with the applicable laws and regulations, see flow chart in *Appendix III*. According to the FMR, a person or entity is eligible to serve as an allottee only if they are included on a roster of eligible allottees to be maintained by the Secretary of DF&A.

Objective, Scope and Methodology

Objective – The objective of the audit was to determine whether the administration of CFSM public projects complied with the FMA, FMR and other applicable laws, policies, and regulations.

Scope – The audit scope covered congressional appropriations for public projects for FY 2010 and 2011 as established by PLs 16-18, 16-23, 16-49, 16-58, and 16-62 as amended. 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.”

Methodology – The audit fieldwork was conducted at the SBOC office in Palikir, the National Treasury at the FSM DF&A main in Palikir and field offices in Chuuk, Kosrae and Yap, and at the CSCIP office in Chuuk.

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

We reviewed the PLs, PCDs, regulations and procedures for administering the public projects and programs and previous audit reports. We also reviewed detailed expenditure reports, check files and supporting documents such as purchase requisitions, purchase orders, accounts payable vouchers, job orders, contracts, miscellaneous payment requisitions, invoices and receipts. We conducted site surveys of judgmentally selected projects in each of the four states. We interviewed allottees and sub-allottees, FSM DF&A Treasury field office managers, the Acting Secretary of DF&A, the Director of SBOC, the Speaker of the 16th Congress and other individuals as needed.

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

Prior Audits Coverage & Referrals

The last audit on congressional appropriation for public projects was issued on August 10, 2009. This was namely the *Audit of Congress funded Public Projects in Chuuk State FY 2006-2008 (as of July 31, 2008) under PL 13-36*, and was the last of the four public project audits conducted in the FSM States under the same public law. The other reports in the series include the following:

- *Review of Congress funded Public Projects in Pohnpei, FY 2005-2007, issued December 5, 2008,*
- *Review of Congress funded Public Projects in Kosrae State, FY 2005-2006, issued October 29, 2007 and*
- *Inspection of Congress funded Public projects in Yap State, FY 2005-2006, issued April 26, 2007.*

Throughout this report, we identified and discussed findings that were previously reported in the prior audits.

Although not specifically identified in the report, we referred some of the findings of this audit to the National Public Auditor's Compliance Investigation Division (CID) for further review.

Conclusion

Based on our audit, we concluded that the existing controls were not followed and the execution of key controls was poor and ineffective. The overall process from completion of PCDs to project close-out was not implemented in accordance with the FMA, FMR, laws, policies, and regulations. As a result, the citizens of the FSM may have realized significantly less value of the use of public funds. Consequently, the following concerns existed:

- Failure to execute key controls and activities concerning PCDs weakened the entire process;

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

- Lack of monitoring, controlling and reporting of 47 projects across FSM (41 in Chuuk) resulted in \$149,033 being overspent;
- Expenditures of \$306,521 could not be verified;
- Assets were being misused (given to personal use) or lost; and
- Disbursement of \$401,619 without certification of completion.

The following issues and findings were also cited in prior audits conducted by this Office:

- Inappropriate and mismanaged procurements:
 - For example, vendor selection was not conducted in a fair and equitable manner resulting in payment of 244 percent more than the lowest bid.
- Misappropriated project funds
 - For example, funds were used for other than intended purpose, instead of repairing existing farm roads, funds were used to build a new private farm road.
- Questionable contracts
 - For example, specifics on amount and location of work to be done was not defined on contract and contractor was selected without required competitive bidding.
- Lack of certifications and approvals by allottee, project inspection official and the Secretary of DF&A prior to fund disbursement.

There has been little or no improvement to date. The controls prescribed by the laws, regulations, policies and procedures continue to be poorly executed.

We strongly recommend that the responsible authorities take ownership of the issues and implement corrective action as recommended herewith. The most leverage could be exercised, and the highest chance for improvement could be gained by simply complying with existing controls, laws, regulations, policies and procedures.

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

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

FINDINGS AND RECOMMENDATIONS

FINDING 1: Failure to Execute Key Controls

FMR 10.2 requires that ... *“prior to an allotment of National Government funds for any public project, the Allottee of those funds shall complete a Project Control Document (“PCD”).....the PCD shall:*

- a) Describe the project and its public purposes in sufficient detail to permit determination of the legality of the proposed expenditures, including ... the line item of the applicable national appropriation law...;*
- b) (b) Specify the total project budget and the source of any portion thereof not to be funded from the applicable national government appropriation;*
- c) Provide such detail as to the nature and type of expenditures to be made ...;*
- d) Designate the Project Inspection Official; and*
- e) Certify that the Allottee has read, understands, and will abide by these regulations and other applicable laws.”*

FMR Part 10.3 states *“that a PCD, completed and signed by the Allottee, shall be submitted to the Budget Officer for review. ...If the Budget officer is satisfied that the PCD is complete and ...consistent with the line-item of the national appropriating law and any other applicable law, he shall approve the PCD. Otherwise he shall disapprove the PCD and return it to the Allottee with a statement of his reasons therefore. The Allottee may then submit a revised PCD for review.*

FMR Part 10.7 states *“The Project Inspection Official must be ...of suitable skill and experience who is independent of the Allottee.*

The auditors found that 113 (59 %) out of 191 PCDs judgmentally selected and inspected were not in compliance with the FMR, and had one or more of the deficiencies shown below (some PCDs had multiple deficiencies):

- 28 were not approved / signed by the allottee designated in the PL as required by FMR 10.2.
- 51 did not designate an inspection official. Also, for many of the projects the inspection was performed by the allottee - in clear violation of the FMR Part 10.7 which requires independence.
- 31 lacked sufficient detailed descriptions to determine relationship of costs or consistency with the appropriation in violation of FMR 10.2. For example, one PCD for a secondary farm road improvement project had a description on it which reads *“also to purchase a set of computer for administrative work”*. (No logical connection to farm road improvement)

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

- Seven were not approved by SBOC (Budget Officer) Director or his designee as required by the FMR Part 10.3
- 5 were not signed by the allottee certifying that he/she read, understands, and will abide by the regulations and applicable laws as required as required by the FMR 10.2
- 5 projects were missing PCDs.
- 47 had the inspection official the same as the allottee.

As a result, there was no assurance that projects were finished. Public funds were not always spent efficiently and effectively and the opportunity for waste, abuse and possibly fraud was greatly increased.

Causes and Recommendations

1. SBOC: The SBOC (Budget Office) accepted PCDs that were incomplete and inaccurate. SBOC did not ensure that PCDs were accurately and completely filled out. This key control was not carried out in many cases.
2. Allottees and Sub-allottees
 - There was a lack of attention to the law and possibly lack of awareness of existing guidelines and requirements for the administration of public projects.
 - Project inspection officials were not designated as required in many projects. A significant number of projects were not monitored, tracked nor closed-out as required per the FMR.

We recommend that the:

Director of the Office of SBOC should review procedures to:

1. Ensure awareness and compliance with the existing guidelines, requirements, laws and regulations for preparing the PCDs.
2. Properly execute key controls that exist to ensure that PCDs are completely and accurately filled out by rejecting incomplete PCDs and requesting allottee to resubmit.
3. Ensure an independent Project Inspection Official is a requirement in PCD whenever an inspection of project progress/completion is applicable to the project or program before a payment is made.

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

4. Consider collaborating with DF&A in helping to implement a strong annual education and certification program for eligible allottees, as identified by DF&A's list of eligible allottees.

Secretary of DF&A should:

5. Ensure that the allottee and/or sub-allottee become aware of and comply with existing guidelines and requirements of the law to consistently monitor, track and properly close out the projects as required.
6. Solicit collaboration from SBOC (as mentioned above) as they (DF&A) manage and monitor the eligible allottee program, including annual education and certification.

FINDING 2: 47 Projects Across FSM (41 in Chuuk) were Overspent by \$149,033

Title 55 FSMC:

- Section 204 ... *"The Secretary of the DF&A shall ensure that all allottees comply with reporting requirements of section 226 of this title"*.
- Section 221 ... *"Over-obligation of funds prohibited. Unless otherwise specifically authorized by law, no officer or employee of the Federated States of Micronesia or allottee of funds shall make or authorize expenditure from, or create or authorize an obligation pursuant to any appropriation, apportionment, reapportionment, or allotment of funds of the United States Government or the Federated States of Micronesia Government:*
 - (1) in excess of the sum made available by law; or*
 - (2) in advance of the availability of funds; or*
 - (3) for purposes other than those for which an allotment has been made."*
- Section 222 states ... *"Overobligations to be reported. "In the case of a violation of section 221 of this chapter, the Director of Finance shall immediately report to the President and to the Congress of the Federated States of Micronesia all pertinent facts together with a statement of the action taken or proposed to be taken with respect thereto."*
- Section 226 states... *"Required reports. (1) Required reports from allottees... (a) Not later than May 1 of each year, each allottee shall submit a report to the Congress of the Federated States of Micronesia which shall provide for the full accounting of each line item..., reports ... shall include a statement by the allottee of the status of the project, program, or list the achievements of the department or agency for which the funds were allotted..."*

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

The auditors found that DF&A and the allottees did not report to Congress the overspent amounts as required in Section 222, nor the reporting as required in Section 226. A total of 47 overspent public projects were identified as follows:

Table 2. Summary of Overspent projects.

States	# of projects overspent	Allotted Amount	Expended Amount	Overspent Amount
Chuuk	41	\$561,128	\$684,539	(\$123,411)
Pohnpei	5	\$116,000	\$137,349	(\$21,349)
Kosrae	1	\$15,000	\$19,273	(\$4,273)
Yap	-	-	-	-
Total	47	\$692,128	\$841,161	(\$149,033)

Source: FSM DF&A reports & data

Lack of monitoring, controlling and reporting over-spent situations created an environment in which waste, abuse or fraud could go undetected and unchecked. A total of \$149,033 was overspent on projects and went unreported to Congress. There was no accountability for the over-expenditures.

Consequently, some worthy projects may not have funds available because too much was spent on these 49 projects.

Cause and Recommendations

There was a lack of compliance or failure to follow laws, procedures and regulations as a result of either ignoring the law, or not being aware of what the law required.

We recommend that the Secretary of DF&A should:

8. Implement procedures to ensure allottees/sub-allottees become aware of the existing guidelines and requirements of the law.
9. Comply with the requirements of the laws and consistently review and certify payment requests in accordance with the requirements of the regulations and procedures.
10. Closely monitor the disbursements of funds and should not approve disbursements that will result in an overspent situation and should report to Congress, over-obligation or over-expenditure as the law requires.

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

FINDING 3: Expenditures of \$306,521 Could not be Verified

FMR Section 2.1 (paraphrasing) ...*Government funds may be obligated pursuant to a contract only if:*

- (a) *Written.*
- (b) *Approved by Signatures:*
 - i) *By the appropriate Allottee on behalf of the FSM Government or the contracting FSM Government Agency...*
 - ii) *allottee's signature shall not be affixed prior to obtaining the other required signatures*
- (c) *Legal Sufficiency is obtained by signature, and;*
- (d) *Availability of Funds is certified by signature of the Secretary or his designated certification officer as to availability of funds.*

FMR Section 5.1 (paraphrasing) *requires that all government procurements shall be adequately supported by applicable documentary evidence prescribed by the DF&A Secretary:*

- *Purchase Order form for \$1,000 or more,*
- *Job Order for repair, maintenance and construction services costing less than \$5,000 and,*
- *Miscellaneous Payment Request Form for purchase involving less than \$1,000.*

The auditors found:

- In Chuuk, 316 or \$429,659 of check vouchers were judgmentally selected to be tested, and 188 or \$186,470 lacked supporting documentation and could not be verified for legitimacy.
- In Kosrae, 252 or \$277,479 of check vouchers were judgmentally selected to be tested and 70 or \$120,051 lacked supporting documentation and could not be verified for satisfactory work completion. Lacking were contracts, purchase orders, job orders and miscellaneous payment requisitions.

The noted exceptions are summarized in the following table 3 below:

Table 3. Summary of disbursements with missing and inadequate supporting documentations.

	# of check vouchers selected for testing	Amount Selected	# of check vouchers with inadequate supporting documents	Amount with inadequate supporting documents
Chuuk	316	\$429,659	188 ³	\$186,470
Kosrae	252	\$277,479	70	\$ 120,051
Pohnpei	76	\$409,083	-	\$ -
Yap	24	\$219,963	-	\$ -
Totals	668	\$1,336,184	258	\$306,521

³ 140 check vouchers of \$121,888 were completely missing.

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

Source: *FSM DF&A Check Vouchers for October 1, 2009 through September 30, 2011.* .

As a result, a total of \$306,521 was disbursed in Chuuk and Kosrae without adequate supporting documentation or with no documentation to verify existence and satisfactory completion, which allows for possible waste, abuse and fraud to go undetected and uncorrected.

Causes and Recommendations

There was a lack of compliance with the laws and regulations because of either negligence or unawareness of the laws. Poor record keeping, in-complete, missing documentation was found in the states of Kosrae and Chuuk; and in Chuuk, documentation was found to be totally lacking for approximately 66%. Furthermore, a poor management system (poor filing, lack of internal control, and lack of segregation of duty), was evident in the primary allottee (CSCIP) in Chuuk State.

We recommend that the Secretary of DF&A (or designee) should:

11. Conduct training on policies and procedures to ensure that allottees/sub-allottees become aware of the existing guidelines and requirements of the law, their responsibilities to implement the entire process required of public projects and to review every payment request accordingly.
12. Consistently review and only certify payment requests in accordance with the requirements of the regulations and procedures.
13. Ensure that appropriate documentation is present before disbursement of payments, and that files are maintained as required by law.

FINDING 4: Assets were being Misused (given to personal use) or Lost

FMR Section 7.1 requires... *“tangible property of the FSM Government with a fair market value of \$1,000 or more and a useful life of more than one year ("property") and to intangible property...with a fair market value of \$1,000 or more. Such property shall be under the overall control and accountability of the Secretary or his designee. ...”*

FMR Part 7.2 states... *“The Secretary, or his designee, shall identify all property as follows:*

- (a) With respect to FSM Government vehicles placed in service within the FSM, by affixing an FSM decal and FSM license plate[s], unless otherwise approved by the Secretary, or his designee; and*
- (b) With respect to all other tangible property, by assigning and affixing a property tag number to each item at the time of receipt.*
- (c) With respect to intangible property, by maintaining proper records and documentation*

Office of the National Public Auditor
Audit of CFMS Public Projects for FY 2010 and 2011
Report 2013-02

FSMC Title 55, Chapter 13, requires... *“All buildings, equipment, and other tangible items funded by public project funds appropriated by the Congress of the Federated States of Micronesia shall bear a label, sign, or other marking in a conspicuous place which shall display the words “funded by the Congress of the Federated States of Micronesia.” This section shall apply to all projects funded by appropriations made since May 13, 1985.*

The auditors found that:

- Government-owned vehicles, purchased during fiscal years 2010-2011 and funded by the Congress of FSM, were not accounted for and not traceable in Chuuk. The allottee failed to maintain proper records to keep track of project vehicles to ensure that they are used only for project purposes. A later investigation located 9 of 12 vehicles. The 9 were being misused for personal purposes.
- Public projects across the four FSM States for the fiscal years 2010-2011, funded by the Congress of FSM, were not labeled as required by FSMC Title 55.

As a result, 9 of 12 vehicles were being misused for personal and family purposes. Non-labeling of public assets diminishes accountability over mobile assets, and for permanent assets non-labeling potentially diminishes FSM citizens awareness and respect of their tax dollars at work.

Cause and Recommendations

There was a lack of compliance or failure to follow the laws, procedures and regulations as a result of either ignoring the law, or not being aware of what the law required.

We recommend that the Secretary of DF&A should:

14. Implement procedures to ensure that the allottees / sub-allottees:

- are fully aware of their responsibilities, and
- follow the laws, procedures and regulations pertaining to labeling of projects.

FINDING 5: Disbursement of \$401,619 without Certifications

FMR Section 1.7 states... *“ No Government funds shall be disbursed... , exceptfor acquisition of personal property, the appropriate Allottee, or the Secretary or his designee, has certified that the property has been satisfactorily received and installed, if applicable;... With respect to obligations for services other than employment and construction services, the appropriate Allottee has certified that the services have been satisfactorily performed...”*

FMR Section 10.6 requires that *“funds shall be disbursed only to satisfy obligations legally incurred and due under these regulations. Any request for payment under a design, construction,*

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

procurement, or independent consulting contract must be certified by the Project Inspection Official before payment is made. Such certification shall signify that it is the Project Official's best judgment, after due investigation, that the amount so requested is properly due and owing under the obligating contract and these regulations. The Budget Officer may develop and require use of a more detailed certification form in appropriate circumstances."

FMR Section 10.7 requires that ... *"Identifying and obtaining acceptance of a Project Inspection Official is the responsibility of the Allottee, b) The Project Inspection Official designated in the PCD shall provide project management and oversight so as to ensure the adequate accountability of funds expended and completion of the project..."*

The auditors found:

- 147 of 668 (22%) check vouchers reviewed were lacking approval by the project inspection official as required by FMR Section 10.6,
- 77 of 668 (12%) check vouchers reviewed were lacking approved accounts payable vouchers (APV) for disbursements (to ensure completion); and
- 13 of 668 (2%) check vouchers reviewed were lacking Allottee's certifications or approval for disbursements (to ensure completion) as required by FMR Section 10.7. See Table 4 for detail.

Table 4. Summary of Disbursements Lacking Inspection and Certifications.

Description	Kosrae	Chuuk	Pohnpei	Yap	Totals
Total number of Vouchers selected	252	316	76	24	668
No. of vouchers lacking Project Inspection Official Certifications	85	44	17	1	147
No. of vouchers lacking approved APV	47	30	-	-	77
No. of vouchers lacking allottee certifications	7	-	6	-	13

Source: FSM DF&A reports & files.

The total amount of check vouchers tested was \$1,336,184. A total amount of \$401,619 was disbursed without certification as required by the FMR, to ensure completion.

As a result, payments were disbursed without assurance that items or services were satisfactorily received or installed; without evidence that the amount requested for payment was properly due and owed; or evidence that the projects were satisfactorily completed. Ultimately, this failure to follow the laws, regulations, and procedures could result in financial loss to the FSM government and to the taxpayers of FSM (citizens).

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

Cause and Recommendations

There was a lack of compliance with the laws and regulations because of either negligence or unawareness of the laws.

We recommend that the Secretary of DF&A should ensure that:

1. The allottee and/or sub-allottee become aware of the existing guidelines and requirements of the law to implement and administer the entire project administration process, and to review every payment request accordingly.
2. The project inspection officials become aware of their responsibilities to manage, inspect and report the status of public projects.
3. Consistently review and certify payment requests in accordance with the requirements of the regulations and procedures.

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

APPENDICES

Appendix I. Amendments to the Five Public Laws:

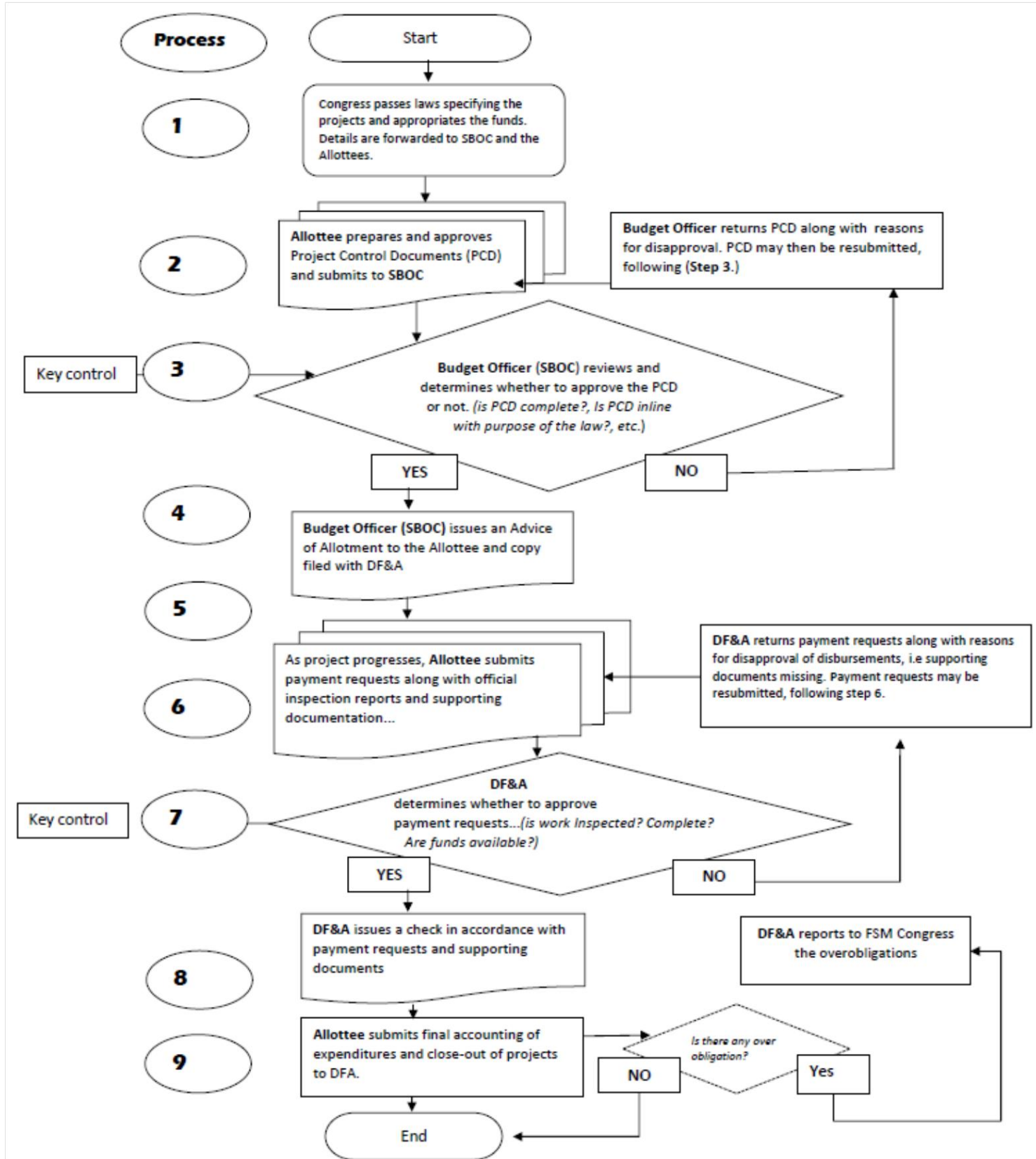
- PL 16-18, as amended eight (8) times by PL 16-24, PL 16-32, PL 16-39, PL 16-45, PL 16-54, PL 16-67, PL 17-04 and PL 17-14, appropriated \$ 3.3 million for 176 projects for the four FSM states.
- PL 16-23, as amended by PL 16-29, appropriated \$199,000, which was apportioned among 14 projects for three of the four states, excluding the State of Yap.
- PL 16-49 as amended by PL 16-68, PL 16-76 , 17-06 and 17-10 appropriated \$ 2,215,000 for 123 projects.
- PL 16-58, as amended by PL 16-64, PL 16-72, PL 17-08 and PL 17-11, appropriated \$1,005,000 for 64 projects.
- PL 16-62, as amended by PL 16-71, PL 17-05 and PL 17-18 appropriated \$1,050,000 for 74 projects.

Appendix II. The PLs Designated the Following Allottees of 451 projects:

- Chuuk State Commission on Improvement Projects (CSCIP) of 199 projects (44%),
- President of the FSM was the primary allottee of 190 projects (most of these were delegated to sub-allottees) (42%),
- The Governor of Yap State was named the primary allottee for 34 (8%),
- Other allottees are as follows (6%):
 - Executive Director of Northern Namoneas Social and Economic Development Authority,
 - Pohnpei Transportation Authority,
 - Pohnpei Housing Authority,
 - Mayor of Kolonia Town,
 - Luhkenmoanlap of Kitti
 - Meninkeder Lapalap of Madolenihmw,
 - Mayor of Madolenihmw Municipality,
 - Secretary of FSM Dept. of R&D and,
 - President of the College of Micronesia-FSM (COM-FSM).

**Office of the National Public Auditor
Audit of CFM Public Projects for FY 2010 and 2011
Report 2013-02**

Appendix III. Flowchart: Public Project Administration



**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

MANAGEMENT RESPONSES



Secretary of Finance
&
Administration

April 10, 2013

Mr. Haser Hainrick
Public Auditor
FSM National Government
Palikir, Pohnpei

Haser
4.16.2013

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

P.O. Box PS 158
Palikir, Pohnpei FM 96941
Tel: (691) 320-2640/5852 Fax: (691) 320-7728
E-mail: fsmsofa@mail.fm



Dear Mr Hainrick:

We wish to thank you for the opportunity to review and respond to the recently concluded CFSM Public Projects audit. Below is our response to each of the audit finding:

1. Failure to Execute Controls.

Response: The finding is specifically addressed to the Office of SBOC as it discussed failure to execute key controls in the approval of project control document and the questionable independence of the designated Project Inspection officials. The Office of SBOC will respond to this finding. However, we would like to comment on the recommendation to the Secretary of Finance and Administration in ensuring that the allottee and/or sub-allottee be aware of and comply with existing guidelines requirements of the law, proper monitoring and close-out of the projects. We agree to this recommendation, as a matter of fact, the Assistant Secretary for National Treasury has met with the respective Congressman in Chuuk State as well as the Authority (the allottee) sometime in January to March 2013 and discussed the reported overspending in CFSM public projects. During the meeting, the Assistant Secretary has reiterated the responsibility of the allottee to monitor the expenditure and to ensure that the budget does not overspend and accordingly spend the projects as specified in the appropriation law and project control documents.

2. 47 Projects Across FSM (41 in Chuuk) were overspent by \$149,033.

Response: We agree with the finding. During the preliminary closing of the FY2012 financial statements in December 2012, certain projects were identified as overspent in the state of chuuk, resulting in a meeting between the Assistant Secretary for National Treasury, the Election District Authorities (the allottee) and a separate meeting with the Chuuk Delegation, with the exception of Congressmen Harper. During the meeting, two (2) possible corrective action has been adopted in order to correct the over spending as follows:

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

- a. To transfer the over expenditure to the open or current program grants with sufficient fund available to cover the over spending to a similar project, or
- b. To request for amendment of the law to transfer money from an open or current program grants with available fund to the over expenditure program grant.

Furthermore, as a result of the meeting, additional procedure is implemented and agreed by the Allottee and the FSM Chuuk field manager and staff as follows:

- a. To freeze certification with regards to the overspending of the program grants as well as the open or current grant with the similar projects until the corrective action is being made on the overspending,
- b. Disbursement has to be approved by the Assistant Secretary or designee prior to the printing of checks.

The breakdown of \$123,410.97 in Chuuk State is broken down as follows

Election District No. 1	\$ 24,625.26
Election District No. 3	\$ 34,396.86
Election District No. 4	\$ 18,176.82
Election District No. 5	\$ 19,779.33
At large	\$ 26,432.70

Total	\$123,410.97
	=====

The breakdown of \$21,349.16 in Pohnpei State is broken down as follows:

Election District No. 2	\$11,771.10
Election District No. 3	\$ 9,578.06

Total	\$21,349.16

The breakdown of \$4,272.73 in Kosrae is as follows:

Puksrung, Utwa bridge/farm road improvement \$4,272.76

=====

3. Expenditures of \$306,521 could not be located.

Response: We agree with the finding. The audit covers Fiscal Years 2010 and 2011. During FY2010 the former field office manager in Chuuk State deliberately did not file the check vouchers accordingly. Fraud was identified in the last part of fiscal year 2010 and the former field office staff were asked to resign while and manager was terminated. The new FSM field office manager and staff for Chuuk State are currently filing the check vouchers in sequence and assistance from Palikir is currently provided in ensuring that such check vouchers are properly supported and filed accordingly. Monitoring for the National Treasury Chuuk field

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

office is being done to ensure that the staff complies to the policies and procedures in implementing the public projects.

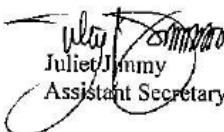
On Kosrae State finding, we will schedule a visit to the State to discuss with the FSM field office manager and staff about the finding and review the check vouchers being questioned.

4. Assets were being misused (given to personal use) or lost.

Response: Assets procured by the National Government are recorded both at the FSM Field Office and Central office in Palikir at the Department of Finance and Administration. The records of the Fixed Assets Register are kept and accounted at Central Office of which a physical inventory is being conducted every 2 years, however the physical use and monitoring of the asset is the sole responsibility of the Department and/or the Allottee. As a matter of procedure, vehicles are not only being tagged, but likewise sealed to indicate that it is a government vehicle.

5. Disbursements of \$478,900 without Certification.

Response: We agree with the finding but qualify on certain finding in Kosrae State. Most of the findings in Kosrae State are the lack of certification from the Project Inspection Official (PIO). Most of these disbursements are payment for meeting allowance, payment for airfare & food items for appropriation under program accounts not for public projects. We believe that certification from PIO that are not related to construction, design, procurement, or independent consulting contract as specified in FMR Section 10.6 may not require certification from PIO. We will discuss with the Attorney General regarding this matter and if it requires all disbursements for program account and regardless of type of expenditures be certified by the PIO then we will abide. We will discuss the findings to all our field office manager and staff after we get confirmation from the Attorney General.


Juliet Jimmy
Assistant Secretary, Finance and Administration

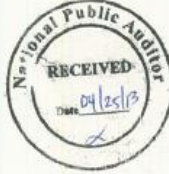
**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**



THE FEDERATED STATES OF MICRONESIA
OFFICE OF STATISTICS, BUDGET & ECONOMIC MANAGEMENT,
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April 24, 2013

Mr. Haser Hainrick
Public Auditor
FSM National Government
Palikir, Pohnpei FM 96941



RE: Comments on ONPA Audit on CFSM Public Projects for FY2010 and FY2011

Dear Mr. Hainrick:

Thank you for the opportunity to comment on the subject audit. In my view, the audit findings and recommendations point out important weaknesses that need to be addressed to improve the effectiveness and efficiency in the use of public resources, in this case for Congress funded public projects.

Only FINDING 1 and the accompanying recommendations relate to the work of the Office of SBOC; therefore our comments will be limited this finding. We agree with the finding and the causes that were identified. As a result of the draft report being shared with our office and in direct response to this finding and the accompanying recommendations, we have instituted stricter and more comprehensive review of the Project Control Documents (PCDs) before approval and issuance of allotments. During this short period, we have returned incomplete and deficient PCDs to allottees for proper completion.

However, recognizing that the limited familiarity that certain allottees have with the FMR's requirements for proper PCDs will mean that strict enforcement of the FMR requirements will result in a backlog of project implementation and not necessarily improvements in quality of PCDs. With this recognition, we have submitted to President a request for funding to enable the Office of SBOC to provide, jointly with Department of Finance and Administration, much needed training for allottees of project funds across the FSM.

Once again, thank you for the opportunity to comment but most importantly the valuable recommendations for improving our processes to ensure strict compliance with relevant laws and regulations.

Sincerely,

Evelyn Adolph
Director

Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02

ONPA EVALUATION OF MANAGEMENT RESPONSES

The contents of this report were discussed with the officials from both the DF&A and SBOC and at the same time they were given a copy of the final draft of the audit report to submit formal comments in response to the audit findings and recommendations. The Heads of both entities provided their management responses, which are included in the preceding pages of this final report

The DF&A management generally agreed with all findings and recommendations except on the recommendations under Finding 4 and on the amount of disbursement without certification by Project Inspection Official under Finding 5. We removed the recommendation under Finding 4 that the DFA& should comply with the requirements of the laws, regulations and procedures with respect to maintenance of fixed assets. However, we retained the recommendations that DF&A should implement procedures to ensure that the allottees are aware of their responsibilities for the protection, use and maintenance of assets. For Finding 5, we changed the figures to consider the comments made by the DF&A management that certain payments were for meeting allowance, airfares and food, and therefore, do not need a certification from a Project Inspection Official. We deducted a total of 143 payments (\$78,654) that were described in the expenditures report as expenditures for meeting allowance, airfare and food.

The Director of the Office of SBOC agreed with the findings and recommendations. We noted her positive response to implement the audit recommendations in order to further strengthen the controls in the management and implementation of funds for public projects.

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank management and staff at the DF&A, SBOC and field offices for their assistance and cooperation during the course of the review.

The ONPA will perform a follow-up review within the next 6-9 months to ensure that the entities have taken corrective measures to address all the findings and recommendations provided in this report.

In conformity with general practice, we presented our draft findings and recommendations to management of DF&A and SBOC for comment. We have incorporated their written comments in the audit report.

We have provided copies of the final report to the President and Members of the Congress for their use and information. 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 are listed on the last page of this report, along with the ONPA and staff who made major contributions to this report.



Haser H. Hainrick
National Public Auditor

April 29, 2013

**Office of the National Public Auditor
Audit of CFSM Public Projects for FY 2010 and 2011
Report 2013-02**

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT:	Haser H. Hainrick, National Public Auditor Email: hhainrick@fsmopa.fm
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ACKNOWLEDGEMENTS	In addition to the contact named above, the following staff made key contributions to this report:
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Ronald Sufficool, CGAP, CIA, CISA, CFE, CMA, CPA, Audit Manager until 8/2012
Manuel L. San Jose Jr, CGAP, CIA, CISA, CPA, Audit Manager
Jesse Robert (Bob) Hayes, CFE, CIA, Audit Supervisor
Lover Haimin, Auditor-In-Charge
Keller Phillip, Staff Auditor
Cherisse Irons, Staff Auditor

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