OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

Press Release # 2015-08

ONPA Releases Audit on the FSM Trust Fund: Lack of Board’s Oversight Contributed to Non-compliance & Accountability Issues

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2015-08, *The FSM Trust Fund: Lack of Board’s Oversight Contributed to Non-Compliance & Accountability Issues*.

The Speaker of the 18th FSM Congress asked the Public Auditor to audit the FSM Trust Fund to ensure that all laws regarding the Trust Fund were being adhered to, and to account for all appropriations made to the Trust Fund since its inception.

The FSM Trust Fund is not the same as the Compact Trust Fund. The Congress created the FSM Trust Fund in 1999 through Public Law No. 10-150 which became known as the “FSM Trust Fund Act.” The objectives of the Trust Fund are as follows:

- To contribute to the long-term financial viability of the FSM;
- To provide an additional source of revenue;
- To enhance the capacity of the National Government to receive and effectively utilize external resources in order to:
  - Assist the National Government and other participating governments to achieve greater financial autonomy in the management of their recurrent budgets;
  - Enable the FSM at all levels of government to meet long-term maintenance and operating costs of social and economic infrastructure; and,
  - Enable the FSM at all levels of government to improve existing levels of social and economic infrastructure

The total funding for the Trust Fund had reached $57 million as of March 31, 2015. However, $8,015,000 were transferred to the Compact Trust Fund and $1 million lapsed, leaving a balance of $48 million for the Trust Fund. $2 million of total remaining balance were contributed by the Government of the People's Republic of China.

Our audit objectives were to determine whether:

- the management and administration of the FSM Trust Fund were performed in accordance with applicable FSM laws; and,
- all appropriations, donations, transfers, and investment earnings (losses) for the FSM Trust Fund were accurately accounted for and reported.

Based on our audit, we concluded that the FSM Trust Fund was not administered in compliance with the requirements of the FSM Trust Fund Act. For example, a Board of Trustees was not created. Corporate powers and privileges were not established. The books of accounts were not properly maintained.
Annual audits and annual reports were not prepared. The Trust Fund objectives and operational targets were not set. $10 million was transferred from the General Fund to the Trust Fund without allotment as required by law.

Additionally, we concluded that the Trust Fund was not properly accounted for. For instance, the Trust Fund funds were comingled with other funds. Reconciliation was lacking. Accounting entries were recorded yearly instead of when transactions were consummated.

Consequently, the Trust Fund had no governance system and lacked strategic direction. Goals and objectives were not developed. The necessary oversight roles to monitor and control its operations were lacking. Growth targets were not defined so there was no benchmark against which to evaluate its financial performance. Without any reconciliation, the required reporting was not provided. Furthermore, the Trust Fund was not provided with a management focus. Ultimately, these issues affected the decision making and the management of the Trust Fund, and thus limited its earnings potential.

The new Secretary of the department and the key staff of the Division of Investment are keen to implement new positive actions to improve the FSM Trust Fund.

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

Click here FSMOPA/AUDIT to access the full report. Printed copies are also available at the ONPA office in Palikir, Pohnpei.

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