

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**INSPECTION OF THE
FSM EMBASSY IN SUVA, FIJI
FISCAL YEARS 2005 AND 2006**

REPORT NO. 2007-03



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA
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July 6, 2007

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

RE: Inspection of the FSM Embassy in Suva, Fiji

We have completed our review of the FSM Embassy in Suva, Fiji for fiscal years 2005 and 2006. Our objectives were to determine whether a) the monthly financial reports were submitted complete and timely, b) fund disbursements complied with the Financial Management Regulations, and c) the Embassy had procedures in place for the handling of FSM passports. These objectives were selected based on the work performed for the inspection of the Washington, D.C Embassy. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the U.S. President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

In summary, we found that the FSM Embassy in Fiji did not comply with some of the Financial Management Regulations. The Embassy submitted all the monthly financial reports however, most of the reports were late and occasionally some documentations were not included. We also noted that the Ambassador did not document his approval on numerous transactions including procurement of supplies, disbursement documents and travel voucher claims. While the FSM Embassy in Fiji usually submitted the required documentation for the use of the Representation Fund, the justification was not included when the Representation Fund was used while on travel status. We noted that these non-compliance issues could have been identified by the Department of Finance and Administration staff if they had properly reviewed the monthly financial reports. We also noted that since the Embassy in Fiji does not handle FSM passport booklets, it did not have any procedures for handling them. The findings and recommendations are described in greater detail in the attachment to this letter.

Respectfully yours,

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

Haser Hainrick
National Public Auditor

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BACKGROUND

The FSM Embassy in Suva, Republic of Fiji was established on January 16, 1989 pursuant to Presidential Order No. 6 in order to represent the FSM in the South Pacific region. The Embassy is under the direct supervision of the Ambassador who is appointed by the President with the advice and consent of Congress.

Because of the large diplomatic presence of governments and governmental organizations (regional and international) in Suva, and the increased beneficial participation of the FSM in activities in the region, the Embassy was deemed necessary to serve as the main channel of communication and coordination in matters pertaining to the interests of the FSM. In addition, the Ambassador and his staff assist, as necessary and proper, citizens and officials of the FSM who are in the Republic of Fiji or in other Nations of the South Pacific region. Additional duties of the Ambassador and the Embassy staff are prescribed by the Secretary of the Department of Foreign Affairs (DOFA) subject to the ultimate authority of the President to prescribe.

Table 1 below shows the total funds allotted and expended by the Embassy during fiscal years 2005 and 2006. For the two fiscal years, the Embassy had a fund balance of \$13,251.

**Table 1: Funds Allotted and Expended by the FSM Embassy in Fiji
For Fiscal Years 2005 and 2006**

	Total Allotments	Total Expenditures	Amount Under Expended
FY 2005	\$ 218,606	\$ 213,299	\$ 5,307
FY 2006	183,924	175,980	7,944
Total	\$ 402,530	\$ 389,279	\$ 13,251

Source FSM Department of Finance and Administration

SCOPE

The review covers October 1, 2004 to September 30, 2005 and from October 1, 2005 to September 30, 2006, which are fiscal years 2005 through 2006. The review was conducted pursuant to the authority vested in the National Public Auditor as codified at 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."

The review was conducted in accordance with the *Quality Standards for Inspections* issued by the U.S President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

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OBJECTIVES

Our review objectives were to determine whether:

1. The Monthly Operating Fund Reports were submitted complete and timely;
2. Fund disbursements complied with the FMR; and
3. The Embassy had procedures in place for handling of FSM passports.

METHODOLOGY

The fieldwork was conducted at the Embassy in Suva, Fiji, DOFA, and Department of Finance & Administration (DoF&A). Review procedures included analyzing data gathered on the Embassy's appropriation, allotments, disbursements and renovations. We reviewed the Embassy's bank statements, checks, contracts, control forms (purchase orders, travel authorizations, payment requests, etc.), invoices and receipts. We judgmentally selected and reviewed transactions with amounts of \$500 and above, except we reviewed all the payroll transactions. We also interviewed key personnel at the DoF&A, DOFA and the Embassy to validate our analysis. The review included tests of records, transactions, and other procedures that were necessary under the circumstances. Finally, we summarized the results of our review procedures based on the review objectives. At the end of our review in Suva, Fiji, we presented the draft findings to Embassy personnel. They generally agreed with our findings and we included their comments in the report as appropriate.

PRIOR AUDIT COVERAGE

The previous audit of the Embassy in Suva, Fiji covered fiscal years ending September 30, 1997, 1996, 1995 and 1994. As part of this current review, we considered those audit findings that were reported in the previous audit. All of the previous audit findings were resolved and therefore are not included in this report.

CONCLUSIONS

In summary, we found that the Embassy in Fiji submitted many of the monthly financial reports late and some supporting documents were not included. We also noted that the Ambassador did not provide evidence of his approval on numerous transactions such as procurement of supplies, disbursement documents and travel vouchers. In addition, the Embassy did not always comply with regulations regarding the use of Representation Fund with regards to sufficient explanation to establish purpose of such expenses. Finally, since the Embassy in Fiji does not handle FSM passport booklets, it did not have any procedures for handling them.

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FINDINGS

Monthly Operating Fund Reports Were Submitted Late

Subpart 6.5 of the Financial Management Regulations (FMR) requires the Operating Fund Custodian to transmit to the Secretary of DoF&A on or before the tenth day of each month a report on the preceding month's fund activity.

The Embassy submitted many of the Monthly Operating Fund Reports late. For instance, 15 of the 18 monthly reports (83 percent) were submitted after the tenth day requirement. One of the monthly reports was filed five months late while another report was six months late.

According to Embassy staff, bank statements were received two weeks after the month-end, thus delaying the monthly operating fund reports to DoF&A.

The late submission of reports could preclude the DoF&A from performing an efficient review of the Embassy's financial transactions or from taking necessary and quick actions to assure the proper use and accountability of funds allotted to the Embassy.

Monthly Operating Fund Reports Did Not Always Include the Required Documentation

Subpart 6.5(b) of the FMR specifies documents which are required to be attached to the Monthly Operating Fund Report. These attachments include duplicate deposit slips, duplicate checks, original voided checks, Operating Fund Account check register, cash disbursement journal, copy of purchase orders, job orders, and contracts, and other pertinent information or comments to explain the activity reported or information submitted.

We identified the following deficiencies:

- (a) Duplicate deposit slips were missing in four of 62 deposits reviewed,
- (b) Original voided checks were missing in four of the nine voided checks reviewed,
- (c) Supporting documents for payments were missing for two of the 82 payments reviewed.

Embassy staff said that the documents were not submitted due to an oversight on their part. However, they showed us the missing documentation during our audit fieldwork.

Failure to submit the required documentation could affect DoF&A ability to effectively review and monitor for proper usage of funds allotted to and expended by the Embassy.

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**The Ambassador's Written Approval Not Always
Obtained Prior to Obligating Embassy's Fund**

The Ambassador is the Custodian of funds appropriated and allotted to the Embassy. As such, prudent practices, which are reflected in the spirit of the FMR, dictates that the Ambassador should always approve financial transactions for the Embassy prior to obligating funds and/or consummating transactions on behalf of the Embassy.

We discovered the following weaknesses during our review:

- (a) The Ambassador did not always provide written approval on purchases prior to the staff obtaining goods and/or services on behalf of the Embassy. The Ambassador's approval is received only upon the presentation of invoices for payment, which is usually at a later stage in the transaction rather than at inception of such transactions.
- (b) The Ambassador did not always provide written approval on travel vouchers prior to their processing and/or the settlement of payments due to the traveler.

Embassy staff explained that the Ambassador's approval was informally obtained. However, such approval was not always documented or recorded.

The fiscal control environment was relaxed but it should not be. The Ambassador and Embassy's staff did not always perform with strict adherence to existing regulations and requirements. Furthermore, the review process at the DoF&A was not implemented carefully to weed out any elements of non-conformance.

Fiscal improprieties could easily occur in an operating environment where management and financial controls are weak.

**Representation Fund Expenditures
Were Not Sufficiently Justified**

Subpart 4.22 (b) of the FMR requires that use of the Representation Fund should be supported by documentary evidence sufficient to establish the purpose and amount of the expenditure.

We found that some Representation Funds were used while on travel status but sufficient justification was not documented to establish the purpose of such expenses. For example, the Ambassador hosted a dinner for \$590 while on travel but did not document the purpose of such expenses as required in the FMR.

Again, the Embassy staff did not strictly implement the FMR's requirements. The fiscal control environment was relaxed but it should not be. The Ambassador and Embassy's staff did not always perform with strict adherence to existing regulations and requirements. Furthermore, the

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review process at the DoF&A was not implemented carefully to weed out any elements of non-conformance.

Fiscal improprieties could easily occur in an operating environment where management and financial controls are weak.

RECOMMENDATIONS:

We recommend that the Ambassador of the Embassy should:

- (A) Submit Monthly Operating Fund Reports to the Secretary of the DoF&A not later than the tenth of each month as required. The delayed receipt of bank statements and cancelled checks should not be used as an excuse to delay the submission of the Monthly Operating Fund Reports. The bank statements and cancelled checks can be submitted as soon as possible after their receipt from the bank.
- (B) Submit Monthly Operating Fund Reports to the Secretary of the DoF&A with all required documents as specified in the FMR except the bank statements and cancelled checks as discussed above.
- (C) Always provide written approval of purchases prior to the staff obtaining goods and/or services.
- (D) Always provide written approval of disbursement documents and travel vouchers prior to processing and/or the settlement of payments.
- (E) Strictly implement the FMR's requirements and other existing regulations relating to Representation Funds.
- (F) Require the Deputy Chief of Mission and the Financial Management Specialist to carefully review the FMR and provide signed certification verifying their thorough understanding of the provisions and requirements of the FMR. The certifications should be done on an annual basis and placed in the personnel file at the Embassy.

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We also recommend that the Secretary of the DoF&A should:

- (A) Conduct timely and thorough review of Monthly Operating Fund Reports and supporting documentation to determine compliance with the FMR.
- (B) Provide timely feedback to the Embassy on any non-compliance found during the review of monthly reports and supporting documentation.
- (C) Withhold the Embassy's quarterly allotments, where applicable, until any identified non-compliance with the FMR has been corrected by the Embassy.

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APPENDIX I: Response from the Department of Finance and Administration



Secretary of Finance
&
Administration

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

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Palikir, Pohnpei FM 96941
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June 27, 2007

June 27.1.2007
Mr. Haser Hainrick
Public Auditor
FSM National Government
Palikir, Pohnpei State, FM 96941

Dear Mr. Hainrick:

We appreciate the opportunity given to us to review and comment on the recently concluded Inspection Report of our FSM Embassy in Suva, Fiji, financial activities for FY05-FY06. In our examination of the Report, we reached the same conclusions on areas cited that need immediate attention for improvement and compliance.

We are working closely with the Embassy on timely submission of monthly financial reports and related documents. We are withholding transfer of operations funds if reports are not satisfactorily received from our missions abroad. Our Accountant, Ms. Donna Amaraich, is responsible to receive and analyze monthly reports for compliance and she has been again given specific instruction to conduct timely review and action in compliance with our National Financial Management laws and regulations.

Sincerely,

[Signature]
Ihten K. Joseph

xc: Ms. Donna Amaraich
Ms. Beauter Sohl
Mr. Noel Pascua

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APPENDIX II: Response from the Department of Finance and Administration



DEPARTMENT OF FOREIGN AFFAIRS

of the

FEDERATED STATES OF MICRONESIA

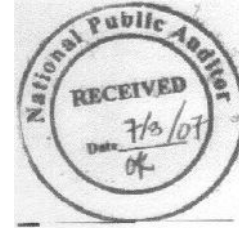
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02 July 2007

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



Dear Mr. Hainrick.

We sincerely appreciate the opportunity extended to us to provide comments on the draft Audit Report. The audit provides a useful basis upon which to formulate measures aimed at improving the financial management and operation of the FSM Embassy in Suva, Fiji.

While noting the Report's caveat in some instances about the insufficiency if not absence of documentation upon which to make conclusive determination of its findings, in itself a serious deficiency, it is not our intention to obliterate the overall message of the Report that corrective measures must be in place. While the Department of Foreign Affairs and the Embassy in particular will do their part in the rehabilitative process, we also acknowledge the critical roles that various departments and offices of the National Government can and should play in this endeavor.

While we are prepared to do all that we can do to improve the financial management of the Embassy, we beg to make the following observation and clarifications:

Monthly Operating Fund Reports Were Submitted Late

The embassy took careful note of auditors' comments regarding financial reports submitted after the "tenth of the month deadline" and will strive earnestly for improvement and compliance in the future. ANZ Bank has provided the Embassy electronic means of accessing needed accounting information necessary for preparation of monthly financial reports.

Yes, when the Embassy's Receptionist/Accounts Specialist/Secretary had to go on Maternity Leave, one or two monthly financial reports of the period audited were unfortunately delayed in their submissions. This is an event beyond practical human control. It should be noted, however, that subsequent monthly reporting have been corrected and brought up-to-date. This particular matter was a subject of discussion during exit conference with auditors and we can only repeat gist of our explanation then.

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Monthly Operating Fund Reports Did not Include the Required Documentation

As was pointed out to Auditors at exit conference, ANZ Bank does not always supply the Embassy with copies of Bank Remittance Slips/Advices, particularly in respect with reimbursements by FSM Department of Finance to the FSM Embassy Account for salaries of the Ambassador and the Deputy Chief of Mission. As above, recent discussions with the Bank has resolved this matter.

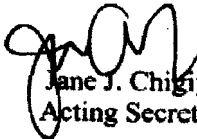
Photo copies of voided original checks reported missing were actually presented for Auditors' viewing during the course of auditor inspection of March 4-16, 2007. At any rate such voided original checks are on file with Embassy.

The Ambassador's Written Approval Not Always Obtained Prior to Obligor's Fund

The Embassy does not have a form like the Miscellaneous Form as referenced by Auditor's findings. However, the Embassy has Purchase Order Forms, which obligates, approves and certified the availability of funds prior to any purchase is made. Either Ambassador or Deputy Chief of Mission signs the form.

The Ambassador took note of the Auditor's recommendation and will sign in place of the Secretary of Finance to approve all travel vouchers.

In concluding our response, we hope that the comments and observations that we make will contribute meaningfully to the efforts aimed at improving the management and operation of the Embassy in Suva, Fiji. Thank you again for the opportunity to comment.


Jane J. Chigiyal
Acting Secretary

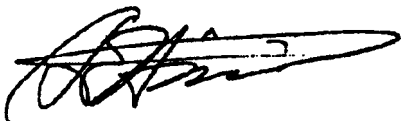
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NATIONAL PUBLIC AUDITOR'S COMMENTS

We wish to thank the staff at the DoF&A, DOFA, and the FSM Embassy in Suva, Fiji for their assistance and cooperation during the review.

In addition to providing copies of this report to the President and Members of the FSM Congress, we also sent copies to the Secretaries of the DoF&A and DOFA and the Ambassador of the FSM Embassy in Suva, Fiji. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting the Office. Contact information for the Office can be found on the last page of this report, along with the National Public Auditor and staff who made major contributions to this report.



**Hacer H. Hainrick
National Public Auditor**

July 6, 2007

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

ONPA CONTACT

Haser H. 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

Ann Walker, Audit Supervisor

Moses Russel, Auditor-In-Charge

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