

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

**AUDIT OF  
CONGRESS FUNDED PUBLIC PROJECTS IN CHUUK STATE  
FY 2006-2008 (as of July 31, 2008), P.L. 13-36 AS AMENDED**

**REPORT NO. 2009-04**



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



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863; Fax: (691) 320-5482;

CID Hot Line: (691) 320-6768; E-mail: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

August 10, 2009

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

**RE: Audit of Congress Funded Public Projects in Chuuk State Pursuant to Public Law 13-36, as Amended**

We completed our audit of the FSM Congressional appropriations for public projects in the State of Chuuk for fiscal years 2005-2008 (through July 31) as funded under Public Law 13-36, as amended. Our objective was to determine whether the administration of CFSM public projects complied with the Financial Management Regulation Part X and other applicable laws, policies, and regulations. Our audit was conducted pursuant to Title 55, Chapter 5 of the FSM Code, and in accordance with the *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States.

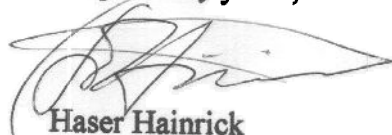
We found that overall process from selecting projects to paying vendors lacked appropriate controls and did not comply with the FMR and other applicable laws, policies, and regulations. The vague wording of PL 13-36 combined with the lack of a formalized project selection process and lack of incorporation of the State Development Plan into the project selection process resulted in an environment that failed to provide any assurance that selected projects demonstrated the greatest ability to improve social and economic conditions. As a result, Chuuk State may not have realized the full potential benefit of the public monies expended.

Little control was evident in the expenditure of funds for the selected projects. For example, fixed assets such as vehicles, boats, and engines were purchased but these assets cannot be accounted for. Additionally, funds were expended on items that were not included on the Project Control Document and appeared to be outside the project scope.

Weak controls also resulted in an environment where there was no assurance that projects were finished or that vendors completed agreed-upon work prior to receiving payment. Project Inspection Officials were not always designated nor did inspections always occur.

**We discussed our findings with pertinent officials and provided them an opportunity to submit their written comments which they all declined. The details of our findings and recommendations are in the attachment to this letter.**

**Respectfully yours,**



**Haser Hainrick**  
**National Public Auditor**

**XC: Vice President**  
**Governor, Chuuk State**  
**President, Chuuk Senate**  
**Speaker, Chuuk House of Representatives**  
**Chairman, Chuuk Delegation Office**  
**Executive Director, CSCIP**  
**Director, Office of SBOC**  
**Secretary, Department of Finance and Administration**

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

**TABLE OF CONTENTS**

INTRODUCTION .....	1
Background .....	1
Objective, Scope and Methodology .....	2
Prior Audit Coverage and Referrals .....	4
CONCLUSION .....	4
FINDINGS AND RECOMMENDATIONS.....	6
1. \$404,500 of the \$1,200,000 (Approximately 1/3) of the Funds Appropriated to Projects in Chuuk by PL 13-36, as Amended, May Not Have Been Used for the Intended Purpose .....	6
Cause and Recommendation.....	7
2. Project Selection Lacked Competitiveness, Documentation, and Transparency .....	7
Cause and Recommendation.....	8
3. Better Coordination with State Officials would Increase the Likelihood that the Maximum Benefit is Realized from PL 13-36 Appropriations .....	9
Cause and Recommendation.....	9
4. \$82,025 of Vehicles, Boats, and Engines are not Accounted for .....	10
Cause and Recommendation.....	11
5. Funds were not Always Expended in Accordance with the Project Control Documents or Within Authorized Appropriation Limits.....	12
Cause and Recommendation.....	13
6. Failure to Designate Inspection Officials and Require Submittal of Inspection Reports Resulted in Lack of Assurance that Work was Completed .....	14
Cause and Recommendation.....	15
APPENDIX I: CFSM Public Projects in Chuuk State.....	16
NATIONAL PUBLIC AUDITOR'S COMMENT.....	19
ONPA CONTACT AND STAFF ACKNOWLEDGEMENT.....	20

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

## **INTRODUCTION**

### **Background**

The 13<sup>th</sup> Congress overrode the President's veto of Public Law 13-36 (CFSM Appropriation Law) during its Third Regular Session. The Law appropriated \$2.8 million from local revenues (non-Compact) to provide funding for social and economic development projects, also known as CFM public projects, in the four States of Federated States of Micronesia. The funds were allocated in proportion to the number of Congressional members per state at \$200,000 per member.

For the State of Chuuk, which has six congressional members, \$1.2 million was apportioned among five Election Districts<sup>1</sup>. The CFM appropriation law was subsequently amended 6 times (PL 13-49, 13-66, 13-83, 13-90, 14-31, & 14-106) to incorporate various projects whose amounts of funding were proposed by Chuuk Congressional members. Then, PL 13-83 amended PL 13-36 to exclude Election District 5 public projects thus reducing the original appropriation by \$240,000 down to \$960,000. The amount deducted was re-appropriated to public projects for Election District 5 under PL 13-84 which is not in the scope of this review.

Under PL 13-36, as amended, the appropriation for public projects was apportioned to each of the four Election Districts. Table 1 below shows each Election District appropriation, allotment, expenditure and designated allottee covered by the audit.

**Table 1: CFM Public Projects in Chuuk per District**  
**Fiscal Years 2005 2008 (through July 31, 2008)**

	<b>Appropriation</b>	<b>Allotment<sup>2</sup></b>	<b>Expenditure</b>	<b>Percentage of Expenditure</b>	<b>Allottee</b>
Election District 1 (Mortlock Region)	\$270,000	\$270,000	\$276,987	31%	Chuuk State Commission on Improvement Projects (CSCIP)
Election District 2 (Northern Namoneas Region)	230,000	230,000	234,438	26%	CSCIP
Election District 3 (Southern Namoneas Region)	210,000	205,000	158,692	17%	President of the FSM
Election District 4 (Faichuk Region)	230,000 20,000	230,000 20,000	225,041 12,000	25% 1%	CSCIP Mayor of Polle

<sup>1</sup> The State of Chuuk, with five Election Districts, has one Congress member representing the whole State.

<sup>2</sup> An allotment is issued by the Budget Officer for the project described in the approved PCD. Each allotment shall specify an expiration date, after which no obligation may be legally incurred.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

Total	\$960,000	\$955,000	\$907,158	100%	
-------	-----------	-----------	-----------	------	--

Source: ONPA created table from Statistics, Budget, Overseas and Compact Management (SBOC) unaudited data

The appropriation was used to fund certain projects, which are shown in Table 2. Detailed description of public projects and expenditures are in Appendix 1 page 16.

**Table 2: Project Category, Allotment and Expenditure  
For Fiscal Years 2005 - 2008 (through July 31, 2008)**

	<b>Number of Projects Allotted</b>	<b>Allotment</b>	<b>Expenditure</b>
Municipal, agency operation grants and assistance	17	\$404,500	\$377,174
Fishing projects	7	116,000	119,511
Road, infrastructure and repair	6	95,000	104,998
Leadership	4	80,000	73,260
Medical supplies and referrals	4	54,500	39,209
Community halls	5	49,500	43,993
Financial aid	6	32,500	32,290
Disaster relief	2	27,500	27,490
Others	18	95,500	89,233
<b>Total</b>	<b>69</b>	<b>\$955,000</b>	<b>\$907,158</b>

Source: ONPA created table from SBOC unaudited data

The CFSM appropriation law designated CSCIP, President of the FSM, and the Mayor of Polle as the allottees to ensure successful implementation of these projects. Each allottee is also responsible for completing and submitting a Project Control Document (PCD) to the FSM Budget Officer prior to the allotment of funds.

The PCD is a document that includes the descriptive information of the project's purpose, budgeted funds, benefits, and implementation strategy. These parts of the PCD allow oversight officials to assess whether project expenditures are appropriate and allowable. The approval of the PCD by the FSM Budget Office is required before any funds are to be allotted for a project.

### **Objective, Scope and Methodology**

**Objective** – The objective of this audit was to determine whether the administration of CFSM public projects complied with the Financial Management Regulation (FMR) Part X<sup>3</sup> and other applicable laws, policies, and regulations.

<sup>3</sup> FMR Part X pertains to Administration of Public Project Appropriations

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

Scope – This audit covered Congressional appropriations for public projects in Chuuk State for fiscal years 2005 to 2008 (up to July 31, 2008) as established by Public Law 13-36 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 FSM Department of Finance & Administration in Palikir, the FSM Finance Field Office in Chuuk and at the CSCIP Office in Chuuk.

To examine the administration of CFSM public projects, we reviewed and analyzed project regulations, allottees’ procedures for administering the program, and previous audit reports. We gained an understanding of the practices, guidelines, or standards for the project selection and administration of various organizations in the region. We gained an understanding of the internal controls over appropriations and expenditures and conducted tests of controls and compliance on a non-statistical sample of transactions. Our conclusions about the internal controls are included in our findings presented in this report.

PCD, funding reports, expenditures and contracting practices for public projects funded by the Congress in Chuuk State were reviewed. We selected 39 projects out of 69 projects with allotments totaling \$850,777 or 89 percent of the total amount allotted under PL 13-36, as amended. The selection of the 39 projects was based on those projects with allotted amounts in excess of \$5,000 based on our judgment. For detailed testing, the project expenditures, samples of disbursement checks and vouchers were randomly selected. The vouchers were examined together with their supporting documentation to assess the propriety and reasonableness of such expenditures vis-à-vis the PCDs and other relevant required conditions of these selected projects.

We interviewed project coordinators, the Acting Director of CSCIP, the staff of the Chuuk Delegation Office and officials of the Office of the President, the State and local municipalities as well as project managers at various organizations. We visited project sites to evaluate the status or result of some projects and to verify the existence of some fixed assets purchased for the projects. We also interviewed some recipients of the public projects during our project site visit.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

**Prior Audit Coverage and Referrals**

This review is the latest undertaken as part of the full review of all four States on public projects funded by Congress of the FSM under Public Law 13-36. We used as a basis for this review, recent reviews of the FSM States of Yap, Kosrae and Pohnpei and the full audit made for the four States in the 1990's. These completed reviews were the *Inspection of Congress Funded Public Projects in Yap State, Fiscal Years 2005-2006*, issued April 26, 2007, *Review of Congress Funded Public Projects in Kosrae State, Fiscal Years 2005-2006*, issued October 29, 2007, *Review of Congress Funded Public Projects in Pohnpei, Fiscal Years 2005-2007* issued on December 5, 2008 and the *Public Projects Funded by the Congress of the Federated States of Micronesia, Fiscal Years Ended September 30, 1997, 1996, 1995 & 1994* was issued April 7, 1999.

Throughout this report, we identified findings that were previously reported. Although not specifically identified in the report, we referred some findings to the National Public Auditor's Compliance Investigation Division for further review.

**CONCLUSION**

Based on our audit, we conclude that the overall process from selecting projects to paying vendors lacked appropriate controls and did not comply with the FMR and other applicable laws, policies, and regulations. The vague wording of PL 13-36 combined with the lack of a formalized project selection process and lack of incorporation of the State Development Plan into the project selection process resulted in an environment that failed to provide any assurance that selected projects demonstrated the greatest ability to improve social and economic conditions. As a result, Chuuk State may not have realized the full potential benefit of the public monies expended.

Little control was evident in the expenditure of funds for the selected projects. For example, fixed assets such as vehicles, boats, and engines were purchased but these assets cannot be accounted for. Additionally, funds were expended on items that were not included on the PCD and appeared to be outside the project scope.

Weak controls also resulted in an environment where there was no assurance that projects were finished or that vendors completed agreed-upon work prior to receiving payment. Project Inspection Officials were not always designated nor did inspections always occur.



**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

Our conclusions are described in greater detail in the Findings and Recommendations section below.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

**FINDINGS AND RECOMMENDATIONS**

**1. \$404,500 of the \$1,200,000 (Approximately 1/3) of the Funds Appropriated to Projects in Chuuk by PL 13-36, as Amended, May Not Have Been Used for the Intended Purpose**

The introductory statement of Public Law 13-36 defines the law's purpose. It states:

*To appropriate the sum of \$2,800,000, from the local revenue in the General Fund of the Federated States of Micronesia for the fiscal year ending September 30, 2004, for the purpose of funding social and economic development projects in the States, and for other purposes.*

However, Section 4 of the Act which pertains specifically to Chuuk State's allocation states:

*The sum of \$1,200,000, or so much thereof as may be necessary, is hereby appropriated from the General Fund of the Federated States of Micronesia for the fiscal year ending September 30, 2004, to provide funding for social and economic development projects in the State of Chuuk.*

The difference between the Purpose statement and Section 4 is the phrase "and for other purposes." Section 4 limits the purpose of Chuuk's allocation to social and economic development projects. It does not allow funds to be used 'for other purposes.'

However, we found that specific projects listed in PL 13-36, as amended, did not appear to contribute to social and economic development. Several projects in essence were not projects; they were supplemental funding for the operating budgets of municipalities and the delegation office. Thus, it appears that appropriations made in the body of the law contradicted the purpose of the law.

As noted above, we found that approximately 1/3 of the total Chuuk appropriation was used specifically to subsidize government operations. We found that 17 projects totaling \$404,500 can best be described as supplemental funding for municipal operations and as additional funding for the Chuuk Delegation Office.

Specific examples of the projects in question include the following<sup>4</sup>:

- The Chuuk Delegation Office was awarded \$40,000 for the purpose of defraying its operation costs. An additional \$20,000 was awarded for a project titled "Chuuk Delegation Office Operation."

---

<sup>4</sup> A full listing of the 17 projects can be found in Appendix I.

- The Municipal Operation Supplement project was awarded \$45,000 for the purpose of subsidizing general operations of the municipal government in the Southern Namoneas region. Expenditures included \$15,000 which was used to “subsidize salaries for operation of [the] municipal government inclusive of executive, legislative, and judicial staff personnel” of the Uman Municipal Government.
- The Ta Municipal Supplement Grant project was awarded \$8,000 for the purpose of defraying operating costs of the municipal government. \$2,118 was expended on the purchase of turtles, pigs, and groceries for the municipal inauguration ceremony.
- The Polle Municipal Operation Supplement project was awarded \$20,000 for the purpose of defraying the operating costs and activities of the Polle Municipal Government. \$12,000 of the \$20,000 was used to provide stipends/allowances to 62 municipal employees. The stipends/allowances ranged from \$24 per month to \$100 per month.
- The Satawon Municipal Operation Supplement project was awarded \$7,000 for the purpose of defraying the cost of operations of the Satawon Municipality. \$4,750 of the \$7,000 was used to purchase pigs for various celebrations such as the Satawon Liberation Day.

### **Cause and Recommendation**

Inclusion of the phrase “and for other purposes” in the purpose statement of the law may have contributed to the inclusion of projects that subsidize government operations. Furthermore, the lack of inclusion of a definition for the term ‘social and economic development’ may have contributed to the use of funds for purposes that do not appear to aid development.

We indicated similar concerns in our previous audits of Pohnpei, Yap and Kosrae CFSM public projects.

We recommend that future Congressional Acts be written in a manner that defines the terms used and provides specific guidance and instruction in order to ensure that funds are used for the intended purpose.

## **2. Project Selection Lacked Competitiveness, Documentation, and Transparency**

The project selection process should be based on documented criteria, which is intended to ensure that funds are expended wisely and in accordance with the intended purposes of the funding organization.

For example, the following four criteria are commonly used by regional organizations when evaluating project proposals submitted in request of grant funding<sup>5</sup>:

1. A public project's purpose and methodology should be easily understood. Therefore the proposal should contain a clear description of the project envisioned.
2. A public project should be reasonably priced and provide value for the money. Therefore the proposal should have a detailed estimate of expected outlays and a justification for estimated costs.
3. A public project should provide benefit to the community it serves. Therefore the proposal should contain a clear description of who would benefit and how they would benefit from the project.
4. The implementation of a public project should be monitored to ensure that the project is carried out as envisioned. Therefore a project proposal should contain a detailed implementation plan.

Additionally, in order to achieve a level of transparency in government operations, the government should implement a request for proposal (RFP) process that includes advertising the availability of funds and requesting proposals; documenting in the RFP the criteria that will be used to evaluate proposals; formally reviewing and scoring each proposal; and making all proposals and their resulting scores available for public review.

We found that the project selection process occurred without any documented proposal evaluation criteria or documentation as to why the chosen projects were selected for funding.

Failure to use established criteria in evaluating proposals decreases the likelihood that the State will gain the greatest benefit from the expenditure of the funds. Additionally, failure to document the decision making process can erode public confidence and lead to the suspicion that favoritism played a part in the decision making process.

### **Cause and Recommendation**

According to Congressional staff, the members of Congress selected projects based on the members' knowledge of constituent needs that resulted from meetings, campaign events, and personal visits. No meeting minutes or documentation of these interactions were available for review by the audit team. No documentation existed that would provide an explanation to an

---

<sup>5</sup> Auditor analysis of grant proposal criteria used by the Australian Embassy small grants program, the New Zealand Pacific Fund Partnership, and others.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

auditor or other interested party as to how and why projects were selected and whether other proposals were rejected. We indicated similar concerns in our previous audits of Pohnpei, Yap and Kosrae CFSM projects.

We recommend that the Congress members adopt guidelines for project proposals and process for reviewing and selecting public projects based on selection standards similar to those commonly used by other regional agencies in the region.

We also recommend that in the future the project selection process be based on a standard competitive RFP process that involves advertising the availability of funds, documenting the review and scoring of all proposals, and maintaining and making all documents available for public inspection.

However, it should be noted that a competitive RFP process might unintentionally exclude those groups that lack experience or familiarity with a formalized document submittal process. Therefore, it is also recommended that a neutral, non-political organization be asked to help provide assistance to those who need help completing proposals.

### **3. Better Coordination with State Officials would Increase the Likelihood that the Maximum Benefit is Realized from PL 13-36 Appropriations**

Coordination between state officials and Congress would increase the likelihood that public project funding would be used to achieve objectives that conform to the State Development Plan.<sup>6</sup>

We found that projects selected for funding with the monies supplied by PL 13-36 were selected by the Chuuk Congressional delegation without the formal input of the Governor or any other state executives. It should be noted that Members of Congress and State executive leaders participate in meetings intended to discuss ways to improve the State. However, there is no documented evidence that the results of these meetings were incorporated into the planning or selection of public projects.

We could not determine the effect that would have occurred if state officials were formally involved in the project planning or selection processes. However, it stands to reason that better coordination with state officials would have increased the likelihood that monies would have been used for projects that are aligned with the State Development Plan and that, as a result, the greatest improvement in social and economic development would have occurred.

#### **Cause and Recommendation**

---

<sup>6</sup> The plan is intended to serve as a long-term blueprint of maintenance improvements and infrastructure development works.

**Office of the National Public Auditor  
Audit of Congress Funded Public Projects in Chuuk State  
Report No. 2009-04**

---

Coordination between Congress members, the State executives and other stakeholders is not required for project planning and selection. We indicated similar concerns in our previous audits of Pohnpei, Yap and Kosrae CFSM projects.

We recommend the redesign of the project planning and selection processes so that formal input from stakeholders such as the Governor, other state executives, and community leaders is incorporated into the processes for future public program appropriations.

**4. \$82,025 of Vehicles, Boats, and Engines are not Accounted for**

Section 7.1 of the FSM Financial Management Regulations (FMR) sets forth the following requirement regarding 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:

*Such property shall be under the overall control and accountability of the Secretary [of the Department of Finance and Administration] or his designee.*

Additionally, the following are required by Section 7.2 of the FMR:

*The Secretary, or his designee, shall identify all property as follows:*

- a) With respect to FSM Government vehicles placed 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*

These regulations are designed to ensure that assets purchased with government funds are accounted for and do not become lost, stolen, and misused.

We found that neither the CSCIP nor the FSM Finance Field Office could account for vehicles, boats, and boat engines purchased with PL 13-36 funds. Our review of 39 projects revealed that seven vehicles, four boats, and ten engines had been purchased with project monies. We found the following:

- Six of the seven vehicles could not be located.
- The 7<sup>th</sup> vehicle was registered in the name of a former mayor, was being driven for personal use, and lacked decals identifying it as FSM property.
- No boats could be located.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

- No boat engines could be located.

Table 3 below provides detailed information regarding the missing assets.

**Table 3: Unaccounted Assets**

<i>Check/General Journal No.</i>	<i>Name of Project</i>	<i>Type</i>	<i>Quantity</i>	<i>Total</i>	<i>Condition</i>
243920	Oneop Municipal Vehicle	Vehicle	1	\$5,500	Registered in the name of a former mayor
245017	Faichuk Municipal Land Transport Vehicle	Vehicle	3	15,000	Unaccounted/missing
247462	Moch Municipal Vehicle	Vehicle	1	7,500	Unaccounted/missing
244422	CSCIP Operation	Vehicle	1	5,000	Unaccounted/missing
JVB0015	Northern Namoneas Development Authority Operations	Vehicle	1	6,313	Unaccounted/missing
244424	Piis-Emwar Fishing Project	Boat Engine	2	6,000	Unaccounted/missing
244314	Northern Namoneas Fishing Project Grant	Boat	4	14,200	Unaccounted/missing
244316	Northern Namoneas Fishing Project Grant	Boat Engine	8	22,512	Unaccounted/missing
	<b>Total</b>			<b>\$82,025</b>	

Source: ONPA created table from the FSM Finance Field Office voucher samples

As a result of the lack of inventory controls and poor record keeping practices, vehicles, boats, and engines totaling \$82,025 are not accounted for. It should be noted that the \$82,205 amounts to approximately 8.5% of the total appropriation given to Chuuk for the funding of public projects.

### **Cause and Recommendation**

Failure to account for the vehicles, boats, and boat engines is attributed to a general lack of proper record keeping and monitoring controls.

The CSCIP was the allottee for the majority of projects. However, we found that CSCIP records were not maintained in an orderly or complete fashion. CSCIP maintained a ledger detailing the cash balance of each project but the ledger did not specify the details of each expenditure. Moreover, CSCIP did not have any records documenting the details of the assets purchased.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

Additionally, the FSM Finance Field Office has not assigned staff to be responsible for inventory records, the performance of physical inventory inspections, or for implementation of other fixed asset procedures.

We recommend that the Secretary of Finance and Administration or his designee and the CSCIP:

1. Account for all fixed assets purchases and maintain property records (Fixed Assets Register) of all fixed assets. Such property records should include a description of the equipment, manufacturer's model number, asset tag number, acquisition date, acquisition cost, depreciation, net book value, and all pertinent information on the transfer, replacement, and disposition.
2. Conduct a periodic physical inventory of all CFSM fixed assets, reconcile the results of the counts with property records, update the property records, and obtain explanation for any discrepancies between records.

**5. Funds were not Always Expended in Accordance with the Project Control Documents or Within Authorized Appropriation Limits**

FMR Section 10.2 requires completion of a Project Control Document (PCD). One purpose of the PCD is to document what the funds will be used for.

Subsection 10.2 (C) requires that the PCD:

*Provide such detail as to the nature and type of expenditure to be made as is called for on the form*

We found that funds were expended on items that were not included on the PCD and appeared to be outside the project scope.

Specifically, we found the following:

- Congress appropriated \$40,000 for the Chuuk Delegation Office project and \$20,000 for the Chuuk Delegation Office Operations project. Per PCD description, both appropriations were to be used to defray costs of the Chuuk Delegation Office operations. We found that funds were not used for the intended purpose. Funds were not used to defray costs of the Chuuk Delegation Office operation. Instead, funds were used to pay reimbursements to Congress members and to make contributions to constituents.
- The Congress appropriated \$8,000 for a project called "Piis-Emwar Fishing Project." According to the PCD description, the funding was to be used for purchasing boat engines, fishing gears and related fishing equipment. Instead, the money was used to purchase a vehicle in the amount of \$6,000 and \$2,878 worth of construction materials for Lomoreng community.



Similarly, we found that the FSM Finance Field Office has not implemented controls to verify the appropriateness of expenditures prior to authorizing payment.

We recommend that the CSCIP develop procedures that would ensure expenditures are reviewed and found to conform to the project purpose as documented on the PCD prior to CSCIP's submittal of the documents to the FSM Finance Field Office for fund certification and payment.

We recommend that the Secretary of Finance and Administration or his designee develop and implement procedures to ensure staff verifies that requests for payment conform to the project purpose as stated on the PCD prior to authorizing payment.

**6. Failure to Designate Inspection Officials and Require Submittal of Inspection Reports Resulted in Lack of Assurance that Work was Completed**

FMR 10.7 requires that the allottee designate a project inspection official in order to ensure proper oversight and accountability and to ensure projects are completed.

Section (b) of FMR 10.7 states:

*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.*

We found that the allottee routinely failed to designate a Project Inspection Official. We reviewed 68<sup>7</sup> PCDs and found that for 59 projects (87%) no Project Inspection Official had been designated.

For example:

- The project titled Facilities and Infrastructure Development was appropriated \$60,000. We tested a sample of 37 vouchers from 8 mini-projects totaling \$32,590 of the \$60,000. We found that all 37 vouchers were paid without completion of an inspection report. During our site visit, we noted several incomplete seawalls and an unfinished narrow stretch of paved pathway. In addition, decent roof materials of a community center were not found during our site visit instead we found old and rusted roofs. It appears that no roof replacement was made as planned per project documentation. Interview with the residence indicated that the last renovation was in the late 1990s.
- The project titled Meeting Hall Grant was appropriated \$35,000. We tested a sample of 12 vouchers totaling \$13,819 for construction materials. The materials were then

---

<sup>7</sup> One of the 69 PCDs was not provided to us during our review.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

provided to various recipients. 10 out of 12 vouchers were paid without completion of an inspection report. The majority of the recipients could not be tracked due to lack of documentation that specifies at least the addresses of recipients. In our site visit, we observed an incomplete meeting hall with no ceiling and flooring. It is unclear though whether the required materials were intended to finish the hall because there was no documentation of the scope of work for the project. Due to this documentation deficiency, we can't evaluate whether the materials were to be used to complete the hall.

- The project titled Senior Citizen **Housing** Assistance was appropriated \$19,777. We found that all 22 vouchers we tested, totaling \$17,476, were paid without completion of an inspection report. We listed seven recipients of construction materials for site visit. Two intended recipients of the **construction materials** we interviewed claimed they did not receive any of the materials listed on the invoice. In addition, four recipients cannot be located because addresses of recipients were not indicated. For the 7<sup>th</sup> recipient, whose construction materials she received were supposedly used for renovating an old house were used instead as additional materials for a new house which was under construction during our inspection.

As a result of the lack of completed inspections, there was no assurance that projects were completed and/or that funds were used for their intended purposes.

**Cause and Recommendation**

The failure to assign project inspectors and complete inspections can be attributed to several causal factors.

The allottee didn't specify the project inspector in the majority of the PCDs and allottee didn't ensure that the assigned project inspector inspect the projects. The Budget Officer processed the PCDs without a specified project inspector

We recommend that the Allottee or his designee ensure that a project inspector is identified in the PCDs and ensure that all projects are inspected before payment is approved.

We recommend that the Director of Statistics, Budget, Overseas and Compact Management (SBOC) or his designee direct the Budget Officer to ensure that all the relevant information are filled out including the assigning of the project inspector before funds are allotted for projects.

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

**APPENDIX I: CFSM Public Projects in Chuuk State**

PL 13-36, as Amended, CFSM Public Projects in Chuuk State Including Amounts Expended/Encumbered.

Project Title	Fund/Cost	Election District	Allottees	Allotted	Expended/Encumbered	Under (Over) Expended
<b>Municipal, Agency Operation Grants</b>						
Municipal office equipment	118757/336072	1	CSCIP	\$3,000	\$2,998	\$ 2
Municipal office operations supplement	118757/336079	1	CSCIP	3,500	3,500	0
Municipal vehicle	118757/336038	1	CSCIP	7,500	7,500	0
Municipal communication system grants	118757/336017	1	CSCIP	2,500	2,500	0
Municipal Operations supplement	118757/336035	1	CSCIP	7,000	10,065	(3,065)
Municipal Operations supplement	118757/336018	1	CSCIP	8,000	8,208	(208)
Municipal vehicle	118757/336039	1	CSCIP	5,500	5,500	0
Mortlock mayors office operations	118757/336012	1	CSCIP	49,500	51,986	(2,486)
Municipal Operations supplement	118004/336062	3	FSM President	45,000	40,003	4,997
Polle municipal operations supplement	118757/336025	4	CSCIP	20,000	19,687	313
Municipal land transport vehicle	118757/336048	4	CSCIP	15,000	15,000	0
NNDA Operation	118757/336011	2	CSCIP	58,000	51,921	6,079
SNDA operations	118004/336060	3	FSM President	50,000	19,618	30,382
FDA supplemental operations	118757/336027	4	CSCIP	10,000	11,488	(1,488)
Chuuk Delegation Office Operation	118757/336126	2	CSCIP	20,000	21,936	(1,936)
Chuuk Delegation Office	118757/336140	4	CSCIP	40,000	37,040	2,960
CSCIP Operations	118757/336001	1	CSCIP	60,000	68,224	(8,224)
<b>Subtotal</b>				<b>404,500</b>	<b>377,174</b>	<b>27,326</b>
<b>Fishing Grants</b>						
Fishing Project grants	118757/336019	1	CSCIP	8,000	11,696	(3,696)
Fishing gears/supplies	118757/336054	1	CSCIP	4,000	3,999	1
Fishing projects grants	118757/336015	1	CSCIP	4,000	3,982	18
Fishing project grants	118757/336014	2	CSCIP	55,000	53,951	1,049
PWP and Nomisofo fishing boat repair	118757/336049	4	CSCIP	20,000	20,000	0
Tolensom fishing project	118757/336028	4	CSCIP	20,000	20,890	(890)

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

Foupo fishing project	118757/336047	4	CSCIP	5,000	4,993	7
<b>Subtotal</b>				<b>116,000</b>	<b>119,511</b>	<b>(3,511)</b>
<b>Leadership</b>						
Leadership exposure and travel program	118757/336037	1	CSCIP	15,000	11,950	3,050
Leadership exposure and travel program	118757/336128	2	CSCIP	15,000	14,709	291
Leadership activities	118004/336154	3	FSM President	10,000	6,415	3,585
Faichuuk leadership exposure and travel	118757/336005	4	CSCIP	40,000	40,186	(186)
<b>Subtotal</b>				<b>80,000</b>	<b>73,260</b>	<b>6,740</b>
<b>Road, Infrastructure and Repair</b>						
Road maintenance	118757/336022	2	CSCIP	10,000	11,424	(1,424)
Classroom renovation/repairs grants	118757/336101	1	CSCIP	5,000	5,441	(441)
Dispensary renovation/repair grants	118757/336100	1	CSCIP	5,000	4,906	94
Classroom renovation/repairs grants	118757/336051	1	CSCIP	5,000	4,518	482
Facilities and infrastructure development	118004/336061	3	FSM President	60,000	68,709	(8,709)
Aniwachang elementary school site prep.	118757/336129	4	CSCIP	10,000	10,000	0
<b>Subtotal</b>				<b>95,000</b>	<b>104,998</b>	<b>(9,998)</b>
<b>Medical supplies and referrals</b>						
Medical supplies	118757/336076	1	CSCIP	1,500	1,495	5
Medical referrals	118757/336124	2	CSCIP	3,000	3,000	0
Medical referrals	118004/336063	3	FSM President	40,000	23,947	16,053
Medical needs	118757/336026	4	CSCIP	10,000	10,767	(767)
<b>Subtotal</b>				<b>54,500</b>	<b>39,209</b>	<b>15,291</b>
<b>Community Halls</b>						
Suppl/comm. Meet. Hall gr/(Lemoreng)	118757/336119	1	CSCIP	5,500	1,727	3,773
Suppl/comm. Meet. Hall gr/(Misin)	118757/336118	1	CSCIP	3,000	2,628	372
Supplemental community hall grants	118757/336058	1	CSCIP	3,000	2,954	46
Community halls grants	118757/336053	1	CSCIP	3,000	1,537	1,463
Meeting Hall Grant	118757/336030	2	CSCIP	35,000	35,147	(147)
<b>Subtotal</b>				<b>49,500</b>	<b>43,993</b>	<b>5,507</b>
<b>Financial Aid</b>						
Student financial aid grants	118757/336055	1	CSCIP	2,500	2,500	0
Student financial aid grants	118757/336059	1	CSCIP	3,000	3,000	0
Student financial aid grants	118757/336056	1	CSCIP	4,000	4,285	(285)

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

Travel/Nurse Anesthetists/Refresher Ann	118757/336123	1	CSCIP	5,000	4,350	650
Student assistance grant	118757/336020	2	CSCIP	8,000	8,155	(155)
Student and school needs	118757/336024	4	CSCIP	10,000	10,000	0
<b>Subtotal</b>				<b>32,500</b>	<b>32,290</b>	<b>210</b>
<b>Disaster Relief</b>						
Disaster relief grants	118757/336016	1	CSCIP	7,500	7,500	0
Disaster relief aid	118757/336006	4	CSCIP	20,000	19,990	10
<b>Subtotal</b>				<b>27,500</b>	<b>27,490</b>	<b>10</b>
<b>Others</b>						
Constitution Day	118757/336074	1	CSCIP	2,000	2,000	0
Municipal Mayoral inauguration	118757/336075	1	CSCIP	2,000	390	1,610
Oneop Constitution Day Celebration	118757/336013	1	CSCIP	7,000	7,000	0
Traditional festivities and celebrations	118757/336078	1	CSCIP	5,000	5,505	(505)
Senior citizen housing assistance grant	118757/336029	2	CSCIP	19,777	27,295	(7,518)
Dispensary communication system/others	118757/336073	1	CSCIP	4,000	3,999	1
Island wide POL grants	118757/336057	1	CSCIP	2,000	2,000	0
Governor rep. Office supplemental grants	118757/336077	1	CSCIP	3,000	2,646	354
Beautification program grants	118757/336050	1	CSCIP	6,000	6,000	0
Dispensary needs grants	118757/336052	1	CSCIP	3,000	2,998	2
Basketball court grants	118757/336155	1	CSCIP	5,500	5,500	0
School bus maintenance contract	118757/336021	2	CSCIP	2,000	1,900	100
Construction equipment parts	118757/336023	2	CSCIP	4,223	5,000	(777)
Tolensom office rental	118757/336071	4	Mayor Polle Municipality	8,000	0	8,000
Tolensom office rental	118732/336174	4	Mayor Polle Municipality	2,000	2,000	0
Faichuuk Commission retainer fee	118757/336070	4	CSCIP	5,000	0	5,000
Foupo Beautification	118732/336172	4	Mayor Polle Municipality	10,000	10,000	0
Nikumy Tolensom sewing project	118757/336120	4	CSCIP	5,000	5,000	0
<b>Subtotal</b>				<b>95,500</b>	<b>89,233</b>	<b>6,267</b>
<b>Grand Total</b>				<b>\$955,000</b>	<b>\$907,158</b>	<b>\$47,842</b>

Source: ONPA created table from SBOC unaudited data

**Office of the National Public Auditor**  
**Audit of Congress Funded Public Projects in Chuuk State**  
**Report No. 2009-04**

---

**NATIONAL PUBLIC AUDITOR'S COMMENT**

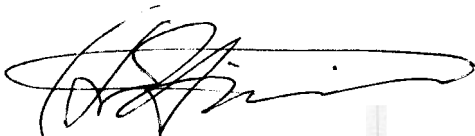
We would like to thank management and staff of FSM Department of Finance & Administration, FSM Finance Field Office in Chuuk, FSM Office of SBOC and CSCIP Office for their assistance and cooperation during the course of our audit.

The ONPA may perform a follow-up review within the next 9-12 months to ensure that CSCIP, FSM Department of Finance & Administration and SBOC have taken corrective measures to address all the findings and recommendations provided in this report.

In conformance with government auditing standards, we provided a copy of the draft report to the Executive Director of CSCIP and Chuuk Congress members. We also sent a copy of the draft report to the Director of SBOC and Secretary of FSM Department of Finance & Administration for comments. The CSCIP Executive Director declined to provide a response to the audit report. Likewise, the Chuuk Delegation office declined to provide a response to the audit and no responses were provided by individual members of Chuuk Congress. We also did not receive any response from the SBOC and FSM Department of Finance and Administration.

In addition to providing copies of this report to the President, Vice President and Members of the 16<sup>th</sup> Congress, we also sent copies to the Governor and Lieutenant Governor of the State of Chuuk, Speaker and Members of Chuuk State Legislature, CSCIP, the Chuuk Delegation Office, SBOC, FSM Department of Finance and Administration, FSM Budget Office and Chuuk State Governments. A copy of this report is posted on our website.

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



Haser H. Hainrick  
National Public Auditor

August 10, 2009

**Office of the National Public Auditor  
Audit of Congress Funded Public Projects in Chuuk State  
Report No. 2009-05**

---

**ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

**ONPA CONTACT**

Haser H. Hainrick, National Public Auditor  
Email: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

**ACKNOWLEDGEMENTS**

In addition to the contact named above, the following staff made key contributions to this report:

Eric Spivak, CIA, Audit Manager  
Edwin Barnuevo, CPA, Audit Supervisor  
Julinida Weital, Auditor-In-Charge  
Aisi Mori, Staff Auditor

**ONPA'S MISSION**

We conduct audits and investigations to improve government operations, efficiency and accountability for the public's benefit.

**OBTAINING COPIES OF  
ONPA AUDIT REPORTS**

The fastest and easiest way to obtain copies of ONPA documents at no cost is through the ONPA Web site <http://www.fsmopa.fm>.

**ORDER BY MAIL OR  
PHONE**

Office of the National Public Auditor  
P.O. Box PS-05  
Palikir, Pohnpei FM 96941

To order by Phone: (691) 320-2862/2863

**CONTACT**

Website: <http://www.fsmopa.fm>  
Hotline: 691-320-6768