

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**REVIEW OF CONGRESS FUNDED PUBLIC PROJECTS
IN POHNPEI STATE
FISCAL YEARS 2005 - 2007**

ONPA NO. 2008-07



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FEDERATED STATES OF MICRONESIA

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December 5, 2008

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

RE: Review of Congressional funded public projects in Pohnpei State pursuant to Public Law 13-36

We completed our review of the FSM Congress appropriations for public projects in the State of Pohnpei for fiscal years 2005-07 as funded under Public Law 13-36, as amended. Our objectives were to determine whether: (a) appropriate reviews and selection of public projects were performed prior to funding; and (b) implementation of CFSM public project was in accordance with laws and regulations. Our inspection was conducted in accordance with the *Quality Standards for Inspections* issued 1993, as amended by the U.S. President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

Public projects funded by Congress should have clarity of purpose, proper justification and transparency in how projects are selected. The public projects selected for Pohnpei State did not exhibit these qualities. Instead, selections were based on preferences and individual choices of each Congress member in their own election district, fostering an appearance that favoritism and political influences may unduly decide where and how public funds are spent. By sponsoring and funding Election District offices, Congress members also were involved in managing the staff and public funds to implement projects and for other non-related activities. Involvement of Congress members in administering public funds conflicted with the separation of powers provision of the FSM Constitution leading to the inappropriate use of Election District offices.

The reasonableness of road construction costs was an issue due in part to Congress appropriating funds for projects without sufficient cost or pricing support for road work to be performed. As a result, the amount of funds appropriated by Congress became target prices for contractors to develop construction plans and for their cost estimates. For many roads there were no apparent standards for the types of roads constructed thus limiting the reliability of any cost estimates or price comparisons. In some instances, the allottee of the funds was also the contractor performing the work, an apparent conflict with 11 FSMC §512. Project Control Documents were not sufficiently clear or complete further diminishing controls for matching expenditures to project purposes. We discussed our findings with pertinent officials and provided them an opportunity to submit their written comments which are included in the appendix. Our findings and recommendations are described in detail in the attachment to this letter.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Haser H. Hainrick".

Haser H. Hainrick
National Public Auditor

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INTRODUCTION

Background

Congress overrode the President’s veto during its Third Regular Session of the 13th Congress to pass Public Law 13-36. The Public Law appropriated \$2.8 million from local revenues (non-Compact) to provide funding for social development and economic development projects in the four States of Federated States of Micronesia (referred to as CFSM public projects). The funds were allocated in proportion to the number of Congress members (\$200,000 per member). For the State of Pohnpei, which has four congress members, \$800,000 was initially apportioned \$200,000 to each of Pohnpei’s three election districts¹ and \$200,000 for statewide projects representing the single statewide elected member. After the initial law was passed, Pohnpei Congress members initiated eight amendments incorporating or modifying specific projects and their funded amounts. The total funded projects eventually were expended under the following categories:

	<u>Amount</u>
Road construction related projects	\$ 265,000
Election District Office operations	162,000
Other projects	<u>373,000</u>
Total	\$ 800,000

See Appendix I, page 14 for the CFSM public project descriptions and appropriations for the State of Pohnpei.

The FSM President, being the designated allottee for over three-quarters of the projects, was responsible for ensuring the projects were properly implemented. The allottee was also responsible for submitting a Project Control Document (PCD) to the FSM Budget Office² prior to national government funds being allotted. The PCD specified among other things, the purpose, the objectives, and benefits expected, project budget, funding source, and types of expenditures to be made. Congress members from Pohnpei also sponsored the funding of three Election District Office operations to perform project oversight duties using CFSM public project funds.

Objectives, Scope and Methodology

Objectives - The objectives of this review were to determine whether: (a) appropriate processes for reviewing and selecting projects were followed; and (b) whether implementation of CFSM public project were in accordance with laws and regulations.

¹ Because one Congress member represented the whole State, the State of Pohnpei with four Congress members has only three Election Districts.

² The FSM Budget Office previously under DF&A had merged under the New Office of Statistics, Budget, Overseas and Compact Management (SBOC) (2007)

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Scope - The review covers Congressional appropriations for public projects in Pohnpei State for fiscal years 2005-07 as established by Public Law 13-36 as amended. The review 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.”

We performed the review in accordance with the Quality Standards for Inspection issued by the PCIE and the ECIE³.

Methodology – This inspection is part of a full review of all four States undertaken by the Office of the National Public Auditor (ONPA) on FSM Congress funded public projects under Public Law 13-36. The audit fieldwork was conducted at the National Treasury and Budget Office in the Department of Finance & Administration (DF&A), Election District Offices in Palikir and Kolonia. Our inspection procedures included analyzing project control documents, funding reports, expenditures and contracting practices. Accordingly, we reviewed contracts, checks, invoices, and receipts. We also observed the current condition of construction related projects, equipment purchased, and other assets. We interviewed the four State Senators and their staff, project managers and sponsors, National, State and Municipal government officials at various organizations. Additionally, our review included tests of records, transactions, and other procedures that were necessary to meet our objectives.

We provided our draft findings at exit meetings held with the four Pohnpei Congress members as well as brief the President and the Speaker of Congress. We provided a copy of the draft report to the above individuals, all the allottees of the projects, and to the Director of Statistics, Budget, Overseas and Compact Management (SBOC), and to the Secretary of the DF&A requesting their written comments.

Prior Audit Coverage

This is the third review 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. The first report⁴ was issued April 26, 2007, and the second report⁵ was issued October 29, 2007. The last full audit report⁶ of all four states was issued April 7, 1999. Throughout this report, we identified findings that were previously reported.

³ U.S. President’s Council on Integrity & Ethics (PCIE) and the Executive Council on Integrity & Ethics (ECIE)

⁴ *Inspection of Congress Funded Public Projects in Yap State for Fiscal Years 2005-2006*

⁵ *Review of Congress Funded Public Projects in Kosrae State for Fiscal Years 2005-2006*

⁶ *Public Projects Funded by the Congress of the Federated States of Micronesia, Fiscal Years Ended September 30, 1997, 1996, 1995 & 1994*

CONCLUSION

Congress members from Pohnpei did not follow an appropriate process for reviewing and selecting public projects where project selections were made without clarity of purpose, proper justification, or transparency. The lack of transparency gives an appearance that favoritism and political influences decided which projects or activities get funded. Through funding of Election District offices to oversee project implementation, Congress members were also involved in managing the staff and administering funds that included activities that were outside the office's oversight functions. This involvement by Congress members conflicted with the separation of powers provision in the FSM Constitution and consequently an inappropriate use of Election District offices.

The reasonable costs of road construction projects was an issue due in part to the manner in which Congress appropriated funds for individual projects without obtaining sufficient cost or pricing support for the work to be performed. As a result, the funded amounts became the target price for contractors to develop their construction plans and their own cost estimates. There were no apparent standards for road construction for many of the roads thus limiting the reliability of any cost estimates or price comparisons.

Public projects were not implemented in accordance with laws and regulations. In some instances, the allottee of the funds was also the contractor performing the work, an apparent conflict with 11 FSMC §512. Project Control Documents were also not sufficiently clear or complete further diminishing controls for matching expenditures to project purposes.

FINDINGS AND RECOMMENDATIONS

1. Transparency and Justification an Issue in Selection of Public Projects

Public projects in the broadest sense are intended for public purposes or public use. However, in passing the legislation, Congress did not provide clear criteria or guidance for the selection of public projects. As a consequence, individual Congress members decided which projects or activities to fund based on their personal preferences and choices. The lack of documentation, selection standards, or justification for project selections further hampered any transparency for how selections were made. This lack of transparency gives an appearance that favoritism and political influences may unduly influence where and how public funds are spent.

No Clear Criteria for Public Projects

While the appropriations law indicated the purpose was to fund "social development and economic development" projects, it did not define those terms or provide guidance on which social or economic development projects are appropriate use of funds. Thus, individual Congress members had wide latitude in their ability to decide the kinds of activities to fund within their election districts. The FSM Department of Justice advised the National Public Auditor's Office that the law is "defective" because it failed to provide sufficient guidance on

how to determine what kind of project qualified for these funds. See Appendix II on page 16 for DOJ's letter.

Certain projects selected by individual Congress members gave an appearance that funds were used for other than public purposes or public use, such as where funds were intended to benefit a private organization, a municipal government, or the Election District office activities sponsored by Pohnpei Congress members. For instance, public projects were used to fund:

- \$100,000 to assist in the construction of additional classrooms for a private school;
- \$17,000 to purchase office furniture for a municipal government;
- \$40,000 to support nonspecific improvements in two municipal governments whose spending appeared indistinguishable from regular municipal activities; and,
- \$162,000 to support three Election District office operations whose activities and funds were used for other than overseeing public projects (See following section on Election District Offices Used Inappropriately).

Lack of Documents to Support Purpose or Need for Projects

Congress members from Pohnpei made their project selections without having documented the need for the project, its purpose, estimated costs or who would benefit. Nor were they able to provide us any written proposals or letters from constituents requesting funds for the projects proposed. The Congress members, however, attested to knowing the kinds of projects needed in their communities through their interaction with municipal officials and constituents, yet those interactions were not documented. Without such documents, we were unable to determine the basis for project selections, the priorities, and justification for the funds appropriated.

Although Congress members had neither guidelines nor standards for making project selections, we noted in a prior audit report⁷ that other regional agencies had project proposal requirements and selection standards that helped the selecting agency evaluate projects. The four selection standards commonly used by regional agencies required that:

1. A public project's purpose and methodology should be easily understood and 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 and therefore the proposal should have a detailed estimate of expected outlays and a justification for estimated costs.
3. A public project should provide a benefit to the community it serves and 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 and therefore a project proposal should contain a detailed implementation plan.

⁷ *Review of Congress Funded Public Projects in Kosrae State for Fiscal Years 2005-2006*

Lack of Transparency in Project Selections

Public project selection for the State of Pohnpei was not conducted in an open and transparent manner. From our prior audit, we noted other regional agencies would scrutinize and select public projects to fund through annual State and National budget processes or through the State’s infrastructure development planning committees. In contrast, CFSM funded projects were selected by the Congress members themselves without consulting with State government officials or referring project proposals to an independent review committee.

Even though the State Government of Pohnpei has primary responsibility for construction and maintenance of roads, CFSM projects for road construction were funded without coordination with State officials. Specifically, Congress designated nearly one-third of the CFSM funds (\$265,000 of \$800,000) in Pohnpei State for the construction or repair of secondary roads and farm roads, but had not advised State officials about the roads to be worked on until after the projects had already been formulated. The Assistant Secretary of the Infrastructure Division, TC&I⁸ pointed out that while funding for secondary and farm roads were made, the National government did not have sufficient maintenance funds to repair potholes or improve safety along stretches of primary roads heavily used by cars, people and school children. Coordination of project funding between the State and National governments could have prioritized road projects for the safety and benefit of more people.

Cause and Recommendation

The public law funding CFSM projects did not clearly identify overall objectives for what it wanted public projects to achieve regarding its “social development and economic development” intent. In their selection of projects, Congress members did not require nor did they follow proposal or selection standards used by other government entities because there was no requirement for CFSM public projects to meet such standards. Additionally, Congress members did not involve State officials to jointly review or select public projects even when projects involved the State. We indicated similar concerns in our previous audits of Yap and Kosrae CFSM projects.

We recommend that Congress:

- A. Provide clarity of purpose for what “social development” and “economic development” projects are intended to achieve when legislating new CFSM appropriation laws in order to determine the kinds of project suitable for CFSM funding. Furthermore, clarifying the purpose would correct an area that DOJ considered to be “defective” in the CFSM appropriation law as conveyed in their legal opinion to ONPA.

- B. Adopt guidelines for project proposals and a process for reviewing and selecting public projects based on selection standards similar to those commonly used by other agencies in the region.

⁸ Infrastructure Division within the National Government’s Department of Transportation, Communications & Infrastructure oversees infrastructure activities in all FSM States.

We recommend that the Congress Members for Pohnpei State:

- A. Require project proposals and project requests be documented in writing to justify the purpose, estimated cost, who benefits, and an implementation plan on how the project will be carried out.

- B. Consider forming a committee, including members from the State Government, to review and assess public projects proposals to ensure they meet the selection standards and to recommend projects for CFSM funding. The committee should document their assessment for the public record. A more coordinated effort in planning and reviewing public projects can increase the likelihood that proposed projects are consistent with the State's development plans and have the support and assistance of State resources if needed.

2. Election District Offices Used Inappropriately

The FSM Constitution provides for the separation of powers between the law makers (Congress) and those that administer and implement the law (Executive Branch). However, the Pohnpei Congress members were inappropriately involved in administering CFSM funds by directing Election District (ED) office staff in the use of operating funds, some of which were spent for activities outside the office's oversight function and can be considered questionable use of public funds. Contributing also to the diversion of office funds was the lack of any detailed budgets for how office funds were to be used. Through a number of amendments to the appropriations law, funding for ED office operations increased by over 40 percent to make up nearly 20 percent (\$162,000 of \$800,000) of Pohnpei State's total public project allotment, a seemingly high proportion for the purpose of administering public projects.

Congress Members Involved in Project Management

Through the ED offices, Congress members were involved in managing and directing the staff and administering project funds which conflicts with the separation of powers provision in the FSM Constitution and was affirmed as inappropriate by a Supreme Court ruling on the Udot⁹ case. An opinion by the FSM Justice Department contends that Congress or the Senators individually, cannot subsequently (after passage of appropriations law) participate in the process of implementing and administering the project fund, as the Supreme Court held in the Udot case. More specifically:

“After the appropriation bill becomes law, it is the duty of those who execute the law and administer the funds to follow the guidance Congress has given them by consulting the language Congress put in the public law, and any applicable regulations, not by consulting individual congressmen.”

From discussions with ED staff, we noted that Congress members were directly involved in the operation and activities of staff members, including providing assignments and instructions to

⁹ Udot Municipality v FSM, et al., 10FSM intrm. 354(Chk.2001), aff'd, FSM, et al. v Udot Municipality, 12 FSM intrm.29 (App. 2003)

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the ED staff members. The ED staff commented that Congress members were also involved in deciding how operating funds would be used, including the purchase of vehicles, cell phones and for travel expenses.

By constantly amending the appropriations law, Congress members were continually involved in administering project funds to adjust individual project funding amounts, redirect funds between projects, as well as eliminating projects. Over the course of eight amendments, the Pohnpei Congress members introduced 77 changes that identified projects (42), reduced funds for projects (20), increased funds for projects (10), or eliminated projects (5). Of 42 projects approved for funding, 37 were eventually implemented. Congress members redirected remaining funds that were not expended or obligated to the three ED offices. Funds for the three ED office operations were initially set at \$113,000 but grew to \$161,527 (20 percent of \$800,000 apportionment) without any explanation for the need for funds or how the funds would be used.

No Transparency in Election District Office Operations

The operations of ED offices were intended to facilitate the implementation of public projects, yet there was no transparency in how they were to carry out their functions or how funds were to be used. There were no documents describing the office’s functions or responsibilities to administer and oversee public projects. The Project Control Documents (PCD) provided only a broad and general purpose for ED offices, such as “*to support the operation of the ED3 projects and administration.*” The PCD provided no further descriptions of duties, functions or responsibilities nor were there documents supporting the planned use of funds. Instead, a single lump sum dollar amount was put into the authorization account category (8501) of the PCD, allowing funds to be used across all budget categories.

A total of 13 employees were on the ED office payroll, 8 of whom had position titles related to the office’s oversight function, while 5 other employees were on the payroll for other purposes (school bus drivers). Of particular note is that while one ED office had one employee to oversee projects as the project coordinator, a second ED office hired five individuals to do the same work. ED staff hires were selected by the Congress members using Special Service Contracts without having to go through the normal hiring process of advertising a position, requiring applicants to have job related qualifications, or following the Personnel Service System for pay scale. See Table 1 for list of employees in Pohnpei ED offices and their bi-weekly salaries.

Table 1: Employee Payroll for Pohnpei ED Offices FY05 to FY07

No	Employee Title	Bi-weekly Salary
<i>Election District 1</i>		
2	Project Coordinator	\$600
	Assistant Project Coordinator	\$477
<i>Election District 2</i>		
5	Project Manager	\$450
	Administrator	\$400
	Field Coordinator	\$400
	Assistant Field Coordinator	\$200
	Assistant Field Coordinator	\$200
<i>Election District 3</i>		
1	Public Project Coordinator	\$611

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No	Employee Title	Bi-weekly Salary
5	School Bus Driver	2.29/hr
	School Bus Driver	2.29/hr
	School Bus Driver	2.29/hr
	School Bus Driver	2.29/hr
	School Bus Driver	2.29/hr

Source: ONPA Table from DF&A personnel records

Funds Used for Activities Other than for Oversight

A majority of ED operating expenses (65 percent) was for employee salaries and benefits (see Table 2 below) including wages for five school bus drivers. Of the remaining operating funds, 56 percent were expended for activities that we were unable to link to the offices' function of overseeing public projects and therefore are questionable expenses. See following Table.

Table 2: ED Offices Expenditures Charged Under PL 13-36 Funding

Major Expenses Categories	Cumulative		Questionable Expenses
	Amounts	Percentage	
Salaries & Benefits	\$102,257	65%	
Office Expenditures			
Travel	10,999	7%	\$10,999
Vehicles	14,000	9%	14,000
Office Supplies	7,388	5%	4,740
Rentals, Utilities & Freight	2,452	1%	
Repair Services	4,442	3%	
Communications	4,179	3%	
Petroleum Oil & Lubricants	5,109	3%	
Contractual Services	5,102	3%	1,382
Unidentified expenses	2,024	1%	
Subtotal	\$55,695	35%	\$31,121
Grand total	\$157,952	100%	
Percentage of Questionable Expenses (excluding salaries)			56%

Source: ONPA Table from DF&A data

The following examples are expenditure paid from ED office funds for activities outside the normal functions of the office which we question as to the proper use of public funds:

Travel:

Travel expense of \$3,712 was paid from ED2 operating funds for an 11-day trip by an employee of FSM DF&A to attend a conference in Palau; travel expense of \$4,929 was paid from ED1 operating funds for a student to travel to Fiji to participate in a training program; travel expense of \$501 was paid from ED3 operating funds to cover per diem of a youth representative to attend a youth conference in Chuuk.

Vehicles:

Three vehicles purchased for \$14,000 by the ED2 office were subsequently given to municipal government officials.

Office supplies:

Construction materials were purchased for \$3,000 under the office supply account. Six cell phones were purchased by ED3 for \$1,740. One was given to a bus driver, two to an elementary school and three phones were not accounted for.

Contractual Services:

Wages (\$1,382) paid from ED2 to a cook helper at a high school.

Cause and Recommendation

Congress members did not adhere to the provision in the FSM Constitution separating the duties and powers between legislators and the President (whom is entrusted to implement laws passed by the legislators). By sponsoring and funding ED offices for their individual election districts, Congress members inappropriately exerted control and influence over the ED office staff and its operating funds to the extent of directing the use of funds for activities not related to its oversight function. This inappropriate use of ED offices by Congress members was aided by the unclear purpose for ED offices and office staff members and the lack of a detailed budget explaining how ED office funds were to be used. Congress also allowed increased funding to ED office operations without justifying the purpose or why additional funds were needed.

We recommend that Congress should:

- A. Adhere to the Constitutional principle of separation of powers prohibiting Congress members from participating in implementing projects and administering project funds (i.e. involvement in ED operations).
- B. Consider making the State Governor the allottee of all CFSM public projects in Pohnpei State. The State Governor has resources to provide oversight and the implementation of public projects without having to use election district offices.
- C. Require a detailed budget for each ED office and justification for any Congressional actions involving ED office operations, if State Governor is not the allottee.

3. Reasonable Cost an Issue with Road Construction Projects

Congress appropriated over \$265,000 to fund 15 road construction and maintenance projects in the State of Pohnpei without first assessing the scope of work or the cost and pricing support for the work to be completed. Because the funded amounts were often under the dollar threshold (\$20,000) required for competitive bids, projects were awarded to a single contractor without price comparisons. Consequently, the funded amount for a project became the target price for a contractor's construction plans and estimated costs. Road construction standards were also lacking or were not used, thus limiting the reliability of cost estimates or price comparisons. In some instances, the allottee of the funds was also the contractor performing the work, an apparent conflict with 11 FSMC §512.

Appropriated Funds Become Target Price for Construction Costs

A reliable cost estimate is the key element in appraising and determining an appropriate funding amount for projects. An analysis of these costs helps determine whether the costs are reasonable and whether the amount of funds is suitable or sufficient. In reviewing the basis and justification for project funded amounts, we noted that Pohnpei Congress members, who sponsored the road

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projects into the appropriations law, did have records or documents including cost estimates that supported the individual project appropriation amounts. The Congress members themselves determined the amount of funding based on their judgment of the project and available funds.

By specifying the funding amounts for each project in the public law, Congress essentially established the budget ceiling or target price to spend on the project, even if that amount was unreasonably high. Construction designs, procurements, and services requested are often developed to utilize all the funds since there is little or no financial incentive or government regulatory pressure to reduce the cost of projects once the allotment has been approved. Thus, the projects costs and expenditures tended to eventually match or come close to matching the appropriations in the public law (See Table 3 below).

Table 3: Appropriated and Expended Amounts for Road Construction Projects

Project Title	Appropriated	Expended	Percentage of Appropriated Amount
Soledi Road Paving/Concrete	\$11,961	\$11,961	100%
Nantakai Road Paving/Concrete	\$14,683	\$14,683	100%
Upper Ipwal Road Construction	\$50,000	\$50,000	100%
Lewetik & Tomwara Road Improvement	\$10,000	\$10,000	100%
Kinakapw Farm Road	\$18,000	\$18,000	100%
Nan Kepira New Secondary Road	\$18,000	\$18,500	103%
Nan Pahlap New Secondary Road Construction	\$18,500	\$18,000	97%
Dolotik New Secondary Road	\$10,000	\$10,000	100%
Uhmwe /Kepinmweli Secondary Road Improvement	\$14,000	\$14,000	100%
Mesisou Secondary Road	\$10,000	\$10,000	100%
Areu Powe Secondary Road Improvement	\$5,000	\$5,000	100%
Pohnpahntamw [Pahnpohtamw] new Secondary Road	\$5,000	\$5,000	100%
Palipowe Nett Road Improvement/Paving	\$40,000	\$40,000	100%
Nett District Road Improvement	\$15,000	\$10,232	68%
Nandong II Road Improvement	\$25,000	\$22,541	90%
Totals	\$265,144	\$257,923	

Source: FSM DF&A

Lack of Road Construction Standards Inhibits Comparison of Costs

To assess the cost reasonableness of the roads constructed we compared the unit cost (per square feet of road constructed) among roads similarly constructed (coral capped and paved) and found wide variances in their unit costs. The cost among seven similarly constructed coral capped roads varied between \$0.16 per square feet to as high as \$1.20 per square feet. For three asphalt paved roads the cost ranged between \$2.80 per square feet and \$5.23 per square foot. See Appendix III, page 18 for a Comparison of Road Construction Costs.

While construction costs variances occur for various reasons due to differences in the type of terrain, accessibility of equipment, and grade level of the road another reason was because there were no apparent road construction standards for the roads constructed. We noted that the roads constructed did not have to meet specific construction standards such as dimension (width and depth), composition of materials, grading steepness or pitch tolerances, roadside drainage or environmental impact considerations thus limiting the reliability of cost estimates or price comparisons.

The following examples illustrate the difficulty in determining whether road construction costs were fair and reasonable.

Nandong Road Improvement (phase II)

Congress appropriated \$25,000 for road improvement of the Nandong Road (phase II). The Pohnpei Transportation Authority (PTA), a State agency, was the designated allottee for the project and also the contractor, being the only island contractor having equipment to perform the paving roadwork. This arrangement is a conflict of interest noted in 11 FSMC 512 because the contractor cannot expect to set a fair price being also the allottee of the funds. Although PTA was suppose to be reimbursed for the cost of labor, materials, and other costs related to work on the Nandong Road, PTA submitted a request for payment with invoices worth \$20,852 for construction supplies and materials purchased after the road had been completed. We were unable to determine the reimbursable costs of the Nandong Road Improvement project or whether any of the purchased supplies and construction materials actually was used for the Nandong Road.

Nett District Road Improvement

Congress appropriated \$15,000 for the Nett Road Improvement project. The PCD indicated the purpose was to cover costs of repairs and maintenance of secondary and farm roads in the Nett District and that the work would be directed by the ED3 personnel as the project manager. We noted no job orders, scope of work or other documents relating to the work performed. The reasonableness of total costs (\$10,232), including material costs (\$7,000), cost for repair services (\$1,767), and contractual services (\$266), and was undeterminable because we were unable to establish how these materials and services were used.

Upper Ipwal Road Construction

Congress appropriated \$50,000 for the Upper Ipwal Road Construction project. A contract to construct a new road went out for open bids and was awarded to the low bidder for \$46,550. Subsequently, a change order to the contract was approved to change the location of a planned culvert (for water drainage) to a second location at an estimated cost of \$3,734, or nearly 450 percent higher than the \$837 cost at its original location. The price reasonableness of charging over four times the initial cost estimate to build the culvert is questionable. The change order resulted in increasing the contract price to \$49,550 and close to the full appropriations amount for the project.

Cause and Recommendation

The reasonableness of road construction costs was questionable because 1) cost proposals and engineering estimates were not performed prior to funds being appropriated or work being performed, 2) road construction standards were not adhered to or did not exist for secondary roads, 3) funding for road work was often below the dollar amount required for competitive bids, thus removing any possibility for price comparisons, and 4) contractor job orders and payment invoices did not provide clear cost details for labor, materials, and equipment costs.

We recommend that Congress:

- A. Require minimum construction standards be established and followed for all road construction.
- B. Encourage competitive bids for road projects by grouping projects together or providing funds above the \$20,000 bid requirement.
- C. Designate an allottee that is not also the contractor for the project.

We recommend that Pohnpei Congress members:

- A. Obtain cost estimates, cost/benefits analyses or other documents to support a reasonable basis for funded amounts proposed into legislation.

We recommend that the Secretary of Finance and Administration:

- A. Direct the Assistant Secretary for the National Treasury to ensure contractor job orders and payment invoices provide clear cost details for labor, materials, and equipment costs before payments are issued to contractors.

4. Project Control Documents Not Clear or Complete

The FMR and more specifically, the PCD under FMR Part X, section 10 is the governing document for all CFSM public projects. Before funds can be allotted, a PCD must be approved by the FSM Budget Office. The FMR (Part X section 10.2a) states that information in the PCD “should describe the project and its public purpose in sufficient detail to permit determination of legality of the proposed expenditures.” Information in the PCD also includes benefits expected, project budget, funding source, and types of expenditures to be made, and whether the project conforms to national, and state strategic development plans. The allottee signs the PCD certifying that the project will comply with all FSM regulations.

Of the 39 PCDs we reviewed, we noted 85 percent of PCDs were not filled out clearly or completely, hampering finance officials’ ability to match expenditures with the project purpose. PCDs for the most part, were not clearly written as to description of project/expected project outputs, implementation plan, or intended benefits. Nor was information sufficiently filled out regarding project justification and approval information (Part V). See Table 4 below:

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Table 4: ONPA Review of PCDs for Clarity and Completeness

Exceptions Noted on PCDs	Number of PCDs with Exceptions Noted	Percentage of PCDs with Exceptions Noted
Lack Clear Description of Purpose (Operations)	16	41%
Lack Clarity of Benefits	28	72%
Implementation Plan Not Clearly Defined	32	82%
Not Filled Out Completely	33	85%
Number of PCDs Reviewed	39	

Source: ONPA Table Based on Review of Project PCDs

Note: 39 total PCDs filled out for 42 total projects proposed for funding

The PCDs lack of clarity and completeness limited its usefulness as a guide for controlling and managing project costs. The PCD’s description of purpose should be specific to a particular project or activity to allow determination of whether expenditures are related to the particular project. Often, PCDs are not sufficiently clear or detailed as the following examples illustrate:

Mwoakilloa Public Facilities Improvement

The PCD described the use of funds provided to the municipal government for “repairs and maintenance any public facilities...as well as transportation expenses.” Of the \$20,000 expended the municipal government purchased a Toyota pickup truck (\$3,900), provisioning fuel to conduct a field trip (\$6,015), gasoline and kerosene (\$4,130), a Yamaha outboard motor (\$1,920), and charter flights (\$1,920). Without clearer information on the project’s implementation plan, we were unable to see how these expenditures related to the project objectives. See Appendix IV, page 20 for exceptions noted on the Mwoakilloa Public Facilities Improvement project.

Vocational Training

The PCD stated the purpose of the project was to provide “hands on work experience” in a hotel and resort in Guam under a vocational training project for non-paid student interns. Expenses for two individuals were paid under this project, one for a round trip travel to Honolulu at \$2,533 and the other for a round trip travel to Saipan at \$2,019. We were unable to determine how these two expenditures related to the project purpose. We further noted that \$4,442 for Election District 2 salaries (pay period 2, 2005) was also charged to this project. The project is also listed in Appendix IV, page 20.

Cause and Recommendation

The lack of clarity for PCDs stemmed from original projects proposed by Congress members that did not always have purpose, costs, or benefits clearly stated. Without clarity of purpose, benefits, or implementation plans of original project proposals, the PCDs subsequently developed were often lacking similar detail. Also, the Budget Officer or his designee who was responsible for reviewing PCDs did not ensure the PCDs were properly filled out.

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We recommend that the Allottee or his designee should:

- A. Ensure that all information in the PCD is properly filled out and supported by appropriate documentation;
- B. Ensure that information provided in the PCD is sufficiently detailed in describing project purpose, cost, benefits and implementation plan;
- C. Ensure that part V (project justification and approval information) in the PCD is accurate, complete, and supported with documentation. In particular, can the allottee validate “whether the project has been reviewed in accordance with the procedure in the National or State Development Plan?”

We recommend that the Director of Statistics, Budget, Overseas and Compact Management (SBOC) or his designee should direct the Budget Officer to:

- A. Ensure that all information in the PCD is properly filled out and supported by appropriate documentation;
- B. Ensure that information provided in the PCD is sufficiently detailed in describing project purpose, cost, and implementation strategy;
- C. Ensure that part V (project justification and approval information) in the PCD is accurate, complete, and supported with documentation. In particular, can the budget officer validate “whether the project has been reviewed in accordance with the procedure in the National or State Development Plan.”
- D. Ensure that the above conditions are met before funds are allotted for projects.

We recommend that the Secretary of Finance or his designee should:

- A. Ensure that all expenditures are in compliance with the FMR and consistent with objectives set out in the PCD;

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APPENDIX I: CFSM Public Projects in Pohnpei with Amounts Expended

CFSM Public Projects pursuant to PL 13-36 as amended	Allottees	Amount Appropriated	Amount ^a Expended/ Obligated	Balance
A. Election District Operation Projects				
Election District 1 Operation	President	\$43,354	\$43,096	\$258
Election District 2 Operation [Project Management]	President	74,573	73,153	1,420
Election District 3 Operation	President	43,600	41,703	1,817
Total for ED Operation Projects		\$161,527	\$157,952	\$3,575
B. Road Projects				
Election District 1 Road Projects				
Soledi Road Paving/Concrete	Chief Magistrate, Sokehs	11,961	11,961	0
Nantakai Road Paving/Concrete	Chief Magistrate, Sokehs	14,683	14,683	0
Upper Ipwal Road Construction	President	50,000	50,000	0
Lewetik & Tomwara Road Improvement	President	10,000	10,000	0
Election District 2 Road Projects				
Kinakapw Farm Road Improvement	President	18,000	18,000	0
Nankepira New 2 nd Road Construction	President	18,000	18,000	(500)
Nan Pahlap New 2 nd Road Construction	President	18,500	18,000	500
Dolitik New Secondary Road	President	10,000	10,000	0
Uhmwe /Kepinmweli 2 nd Road Improvement	President	14,000	14,000	0
Mesisou Secondary Road	President	10,000	10,000	0
Areu Powe Secondary Road Improvement	President	5,000	5,000	0
Pohnpahntamw [Pahnpohtamw] New 2 nd Road	President	5,000	5,000	0
Election District 3 Road Projects				
Palipowe Nett Road Improvement/Pave	President	40,000	40,000	0
Nett Road Improvement	President	15,000	10,232	4,768
Nandong II Road Improvement	PTA	25,000	21,699	3,301
Total for Road Projects		\$265,144	\$257,075	\$8,069
C. All Other Projects				
Calvary Christian Academy	Mayor of Kolonia	100,000	0	100,000
Nukuoro Oyster Farm Operation	Chief Magistrate, Nukuoro	20,000	20,000	0
Sekere Youth Center	Chief Magistrate, Sokehs	10,000	9,942	58
Vocational Training	President	5,000	8,994	(3,994)
Kitti Agricultural Fair	President	15,000	15,000	0
Kitti Municipal New Office Furniture	President	17,000	13,040	3,960
Two Elementary School Cooks	President	3,500	648	2,852
Water Delivery Services	President	25,000	14,979	10,021
Nan Kepine [Kerpene] Bridge	President	8,000	8,000	0
Mand Section VII 50 th Anniversary	President	7,000	6,176	824
Civic Center	President	12,000	12,000	0
Madolenihmw Agricultural Fair	President	4,000	4,000	0
Senpehn Youth Artisanal Fisheries	President	10,000	7,715	2,285
Purchase of Boat for Students Transportation	President	5,000	5,000	0
Mwoakilloa Public Facilities Improvement/Transportation	President	20,000	15,377	4,623
Pingelap Public Facilities Improvement/Transportation	President	20,000	12,140	7,860
Purchase of Road Construction Equipment	PTA	61,400	61,400	0
School Bus and Heavy Equipment Repair/Maintenance	President	15,000	14,948	52
Scholarship Program	President	15,000	15,000	0
Total for All Other Projects		\$372,900	\$244,359	\$128,541
Total		\$800,000	\$659,728	\$139,343

Source: FSM Department of Finance and Administration reported as of 9/30/07

^a Actual Expenses for ED3 Projects were lumped in other expended projects in PL 15-07 effective 8/15/07

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APPENDIX II: Legal Opinion on CFSM Public Projects



DEPARTMENT OF JUSTICE

FEDERATED STATES OF MICRONESIA

P.O. Box PS - 105

Palikir, Pohnpei FM 96941

Phone: (691) 320-2608 / 2644 Fax: (691) 320-2234

October 16, 2006

Mr. Donald Yamada
Audit Supervisor
Office of the National Public Auditor
P.O. Box PS-05
Palikir, Pohnpei FM 96941

DOJ cited the heading "MLFC" by mistake. It should be CFSM Public Projects.

Re: Request for Legal Opinion on MLFC Audit and Investigation

Dear Mr. Yamada:

The Secretary has asked me to respond to your September 27, 2006 letter requesting our legal opinion on what the FSM Congress meant by the phrase "social and economic development projects" found in several sections of Public Law No. 13-36. As your letter suggests, the FSM Congress does not offer a definition of this phrase in P.L. No. 13-36, and with limited exception, does not provide any guidance on how to determine which social and economic development projects are appropriate uses of the funds appropriated pursuant to this law.

Unfortunately, nowhere in the Code of the Federated States of Micronesia is the phrase "social and economic development project" defined. Nor does the code provide general guidelines on how the allottee of such project funds is to determine whether a project qualifies as a social or economic development project – at least when the funds come from local revenue (in the case of Compact funds, such projects are governed by the provisions of the Fiscal Procedures Agreement). Historically, "social development projects" are typically, but not always, infrastructure development projects, while "economic development" projects are typically, but not always, private sector development projects. Moreover, it is not uncommon to find social and economic development project funds expended on the kinds of uses (*e.g.*, the purchase of vehicles, outboard motors, bags of rice, office supplies, etc.) that you list in your letter.

This is not to say that such a seemingly limitless interpretation of what constitutes a social or economic development project is in accordance with the law. We recommend that you review *Udot Municipality v. FSM, et al.*, 10 FSM Intrm. 354 (Chk. 2001), *aff'd*, *FSM, et al. v. Udot Municipality*, 12 FSM Intrm. 29 (App. 2003). Both the trial division and appellate division decisions are available on the FSM Legal Information website. Particularly relevant to your inquiry, the FSM Supreme Court enjoined the Executive from obligating or disbursing funds that were appropriated to an Election District in Chuuk

based, in part, on the findings that (1) the broad language of the appropriations law contained little guidance as to what specific projects were to be funded; and (2) there were no fair and transparent procedures to apply to the funds. Thus, arguably P.L. No. 13-36 is defective because it fails to specify the projects for which the funds are to be used or provide sufficient guidance on how to determine what kind of project qualifies for these funds.

Moreover, where the FSM Congress fails to specify the social and economic development projects funded by an appropriations law, Congress, or the Senators individually, cannot subsequently participate in the process of determining which projects to expend those funds on. As the Supreme Court held in the *Udot* case:

If Congress wishes to appropriate money for projects without designating by legislation the projects to be funded, it must then leave the administrative and executive decision-making as to which projects to fund to those whose duty it is to faithfully administer and execute the laws. Congress can give as much guidance as it wishes in the appropriation legislation about which projects will be funded, and much of this guidance will, no doubt, be the product of individual congressmen's consultation with their constituents. But this consultation takes place before the appropriation bill becomes law, not afterwards. After the appropriation bill has become law, it is the duty of those who execute the law and administer the funds to follow the guidance Congress has given them by consulting the language Congress put in the public law, and any applicable regulations, not by consulting individual congressmen. Congress may appropriate funds for specific improvement projects, or it may legislate rules for determining which projects are appropriate, or a combination of the two. What Congress, or individual congressmen, may not do is involve themselves in the administrative and executive process of determining which projects are to be funded after the money has already been appropriated.

While the appropriation of social and economic development project funds by state and election district has been common, this practice opens the door for violations of the type at issue in the *Udot* case to occur. When the allottee is given no legislative guidance regarding how money should be spent under a public law, there is no way for the allottee to ascertain how the funds should be used. Typically, election district staff provide the allottee with guidance on how the funds should be spent, but because the election district staff frequently communicate with the Senator for that district, the allottee has no way of knowing whether or to what extent a Senator was involved in making such requests.

Frequently, this Department raises the Supreme Court's findings in the *Udot* case when providing the President with legal sufficiency review of appropriations legislation transmitted by Congress for his signature into law. Sometimes, our concerns are included in the President's transmittal letter to the Speaker of the FSM Congress. However, rarely is a congressional act vetoed based on these issues alone. From a policy standpoint, it is

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often perceived as inexpedient to veto the appropriations legislation, as Congress may simply override the veto in the subsequent session.

With regard to your inquiry as to what to do in the event that you find that an expenditure was an inappropriate use of social and economic development project funds, we recommend that you report such instances to the FSM Department of Finance, the Compliance Investigation Division in your Office and this Department. Together, we can then investigate the matter and determine the best way of retrieving the property at issue.

Please do not hesitate to contact us if you have any questions regarding the above.

Best regards,



Matthew L. Olmsted

Xc: Secretary, FSM Department of Justice
National Public Auditor

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APPENDIX III: Comparison of Road Construction Costs by Type of Material Used

Project Title	Appropriated Project Amount	Job Orders & Contracts	Cost Estimates	Actual Costs	Road Dimensions	Actual Cost Per Square Foot
Road Paving						
<i>Concrete</i>						
Nantakai Road Paving/Concrete	\$14,683 ^b	\$19,000	\$19,000	\$ 14,683	390'x14'x4"	2.69
Soledi Road Paving/Concrete	\$11,961 ^c	\$19,999	\$20,000	\$ 11,961	400'x14'x4"	2.14
<i>Asphalt</i>						
Palipowe Nett Road Improvement/Paving	\$40,000	\$40,000	\$40,000	\$ 40,000	450'x17'x4"	5.23
Nett District Road Improvement	\$15,000	None ^d	\$15,000	\$ 10,232	180'x17'x2"	3.34
Nandong II Road Improvement	\$25,000	None ^e	\$25,000	\$ 21,699	485'x16'x4"	2.80
Road Construction and Maintenance						
<i>Coral Capped</i>						
Upper Ipwal Road Construction	\$50,000	\$46,550	\$ 74,518	\$49,550	2,577'x16'x6"	1.20
Mesisou Secondary Road	\$10,000	\$10,000	\$10,000	\$ 10,000	1,000'x16'x6"	0.63
Nan Kepira New Secondary Road	\$18,000	\$18,500	\$18,500	\$ 18,500	1,837'x16'x6"	0.63
Dolotik New Secondary Road	\$10,000	\$10,000	\$10,000	\$ 10,000	1,440'x16'x6"	0.43
Kinakapw Farm Road	\$18,000	\$18,000	\$18,000	\$ 18,000	3,200'x16'x6"	0.35
Uhmwe/Kepinmweli Secondary Road Improvement	\$14,000	\$14,000	\$14,000	\$ 14,000	2,800'x16'x6"	0.31
Nan Pahlap New Secondary Road	\$18,500	\$18,000	\$18,000	\$ 18,000	7,000'x16'x6"	0.16
Lewetik & Tomwara Road Improvement	\$10,000	\$10,000	\$10,000	\$10,000	Not Available	N/A
Areu Powe Secondary Road	\$5,000	\$5,000	\$5,000	\$5,000	Not Available	N/A
Pahnpohtamw New Secondary Road	\$5,000	\$5,000	\$5,000	\$5,000	Not Available	N/A

Source: ONPA developed table with data from DF&A

Notes:

^b Funding for this project was initially \$19,000 and subsequently reduced by PL 14-52, effective 2/22/06. The balance of funds was reapportioned into the ED Office Operation.

^c Funding for this project was initially \$20,000 and subsequently reduced by PL 14-52, effective 2/22/06. The balance of funds was reapportioned into the ED Office Operation.

^d No contract was made. Allottee purchased construction and other consumable materials.

^e No contract was made. Allottee purchased construction materials.

^f The two roads were funded as one project.

^g Not Available - dimensions for these projects were not available.

APPENDIX IV: Project Description and Exceptions Noted for Selected Projects

1. Nandong II Road Improvement

Congress appropriated \$25,000 for Nandong II Road Improvement. This project was intended for the phase two paving of the Nandong secondary road (Nanwelin Rohi in U Municipality). The PCD indicated funds would be used to reimburse costs of the contractor for labor, material, and other costs related to the project. The project was completed using other sources of funding for which PTA did not get reimbursed for its costs. Instead, PTA used the project funds to procure other road construction related materials worth \$20,852. Specifically, we noted that:

1. The allottee for this project was also the contractor who performed the work, a conflict of interest per FSM Code 11 FSMC 512.
2. The project's dollar threshold required bids, but it was not bided out as required under Part V of the FMR and under PTA's own procurement policies.
3. No contract was drawn up for work to be performed.
4. The responsible inspection official (FSM Department of TC&I) did not certify the request for payments to ensure that the procurement of construction materials were for the intended project.
5. The materials were purchased 6 months after the project had been completed.

2. Upper Ipwal Road Project

Congress appropriated \$50,000 for the Upper Ipwal Road Project. The project was bided out and was awarded to the low bidder for \$46,550. Exceptions noted were:

1. A change order to the contract changed the location of building a culvert (for water drainage) at a cost of \$3,734 or 450 percent more than the original \$823 estimated cost at its original location, which can be considered an unreasonable cost.
2. The change order increased the overall contract price to \$49,550 which was allowed because the total cost was still under the appropriated amount for the project.
3. The project took eight months to complete instead of the 30 calendar days stipulated in the contract.
4. Non-compliance with contract terms and conditions
 - a) No retainer amount (\$5,000) was held in accordance with Section 23 of the General Provisions of the contract.

3. Nukuoro Oyster Farm Operations

Congress appropriated \$20,000 for Nukuoro Oyster Farm operations. Project funds were provided to the Mayor of Nukuoro as the allottee. As Mayor, he also acted on behalf of the Nukuoro Oyster Farm because the Nukuoro Municipality was an owner of the oyster farm.

Noted exceptions were:

1. An apparent conflict of interest existed with the Mayor being the allottee and also the recipient of the funds that represented Nukuoro Oyster Farm.
2. The Nukuoro Farm incurred expenditures prior to funds being allotted. This is contrary to 55 FSM §221(2) restricting obligations (spending) in advance of the availability of funds.

4. Soledi Road Paving/Concrete

Congress appropriated \$20,000 for road paving the Soledi Road. The unused balance of \$8,039 after the road project was completed was reallocated to ED1 office operations.

Exceptions noted were:

1. An amount of \$1,737 was expended without an inspection report from the project inspection official.
2. The Job Order for this project was not signed or certified by the certification officer.

5. Vocational Training

Congress appropriated \$5,427 for a Vocational Training project that according to the PCD would provide a “hands-on work experience” for non-paid interns to work at a hotel and resort in Guam. Travel expenses of two individuals amounted to \$4,552. Exceptions noted were:

1. The travel voucher submitted by one individual (retired teacher) was for a round trip travel to Honolulu costing \$2,533. The other travel voucher listed a round trip travel to Saipan costing \$2,019. Neither travel expenses appeared to be related to the project objective.
2. Salary payments of \$4,442 for ED2 employees were paid from this account in calendar year 2005. The reason is unknown.
3. Project expenditures were listed at \$8,994, however only \$5,427 was appropriated. This resulted in an overpayment of \$3,567.

6. Mwoakilloa Public Facilities Improvement and/or Transportation Expense

Congress appropriated \$20,000 for Mwoakilloa municipal government operations to repair and maintenance any public facilities as well as for transportation expenses. The following purchases (95 percent of appropriated funds) were personal use items that could have been used for other purposes:

1. Purchase of Toyota pickup truck – \$3,900,
2. Purchase of 15 hp Yamaha outboard motor – \$1,915,
3. Supplies and materials – \$1,136,
4. Two charter flights – \$1,920,
5. Gasoline and kerosene – \$4,130,
6. Provision of fuel for a patrol boat to conduct a field trip – \$6,015.

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APPENDIX IV: Responses to Report



Office of the Speaker

CONGRESS OF THE FEDERATED STATES OF MICRONESIA
P.O. Box PS 3
Palikir, Sokels
Pohnpei State, FM 96941
Tel: (691) 320-2324/2325/2326/2327/2337/2338/2707
Telex: (691) 320-6809 Fax: (691) 320-5122

November 17, 2008

Haser H. Fainrick
National Public Auditor
Palikir, Pohnpei FM 96941

Haser
11.20.2008


Dear Mr. Public Auditor:

Thank you for submitting for comments the final draft of your audit report for the Inspection of Pohnpei CFSM-funded Public Projects for Fiscal Year 2005 to 2007.

I cannot speak for the other members of the Pohnpei delegation, but as far as I am concerned, I agree with the findings and recommendations of the auditors.

I thank you for a good report.

Sincerely,


Resio S. Moses
Vice-Speaker, 15th Congress

Office of the FSM Public Auditor
Review of Congress Funded Public Projects in Pohnpei State
ONPA 2008-07



Secretary of Finance
&
Administration

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

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November 26, 2008

Mr. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
Federated States of Micronesia
Palikir, Pohnpei FM 96941

Re: Comments for the audit report for the Inspection of Pohnpei CFSM
Public Projects.

Dear Mr. Hainrick:

Thank you for giving us the opportunity to review and comment to the recently concluded inspection of Pohnpei CFSM Public Projects for Fiscal Years 2005 to 2007.

The audit report provides useful basis to formulate measure aimed in improving the operations and financial management of public projects funded by Congress.

We generally agree with the findings attributed to the citation to the Department of Finance and noted its recommendation. We take seriously the audit findings and recommendation. The Assistant Secretary for National Treasury had instructed the certification accountant to be vigilant in reviewing the documents to ensure that all expenditures are in compliance with the Financial Management Regulations (FMR) and consistent with the objectives set out in the Project Control Document (PCD). The certification accountant is further instructed to accept only PCD that is properly filled out, contains all information, describing project purpose, cost benefits and implementation plan. Incomplete information shall be returned.

Attached is the memorandum issued by the Assistant Secretary for National Treasury relative to the above audit.

Sincerely,


Finley S. Perman
Attachment

Office of the FSM Public Auditor
Review of Congress Funded Public Projects in Pohnpei State
ONPA 2008-07



Office of the
Assistant Secretary
National Treasury

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
DEPARTMENT OF FINANCE & ADMINISTRATION
Division of National Treasury
P.O. Box PS158, Pohnpei, FM 96841
tel: (691) 320-2645 / 2576 fax: (691) 320-2597 / 8783 / 2380

November 26, 2008

MEMORANDUM

TO: FSM Field Office Manager
Certification Section

FROM: Assistant Secretary, National Treasury

RE: CFSM Public Projects

The recent audit report from FSM National Public Auditor for CFSM Public projects contain audit findings relative to the non compliance with the financial Management Regulations and incomplete information in the Project Control Documents submitted by SBOC office.

In line with the Division of National Treasury to correct the audit findings and in adherence to its recommendation, effective immediately, following requirements are to be observed prior to certification and disbursements of funds:

1. All field office manager and certification accountant will only accept PCD that provide complete information describing the project purpose, cost benefits and implementation plan. Incomplete information shall be returned.
2. Prior to certification and disbursement, ensure that PCD are in place and such request for payments is in accordance with the objective set out in the PCD.
3. Expenditures are in compliance with the Financial Management Regulations.

No certification and disbursement are to be made without complying with the above requirements

For your guidance and strict compliance.


Juliet Jimmy
Assistant Secretary

NATIONAL PUBLIC AUDITOR'S COMMENTS

We wish to thank the staff of the FSM Department of Finance and Administration, Pohnpei Election District Offices, FSM Department of TC&I, and Pohnpei Transportation Authority, for their assistance and cooperation during our review.

In conformance with general practice, we provided a copy of the draft report to the President, the Speaker of the FSM Congress, and Chairman of the Pohnpei Delegation. We also provided pertinent portions of the draft report to the Director of SBOC (Budget Officer), FSM Secretary of DF&A, the Secretary of TC&I, the FSM Assistant Secretary of Infrastructure, and Commissioner of PTA for their review and comment. They generally agreed with our findings.

In addition to providing copies of this report to the President and Members of the Congress, we also sent copies to the Governor of Pohnpei State. 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 (ONPA) and staff who made major contributions to this report.



Haser H. Hainrick
National Public Auditor

December 5, 2008

ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT

Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

ACKNOWLEDGEMENTS

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

Donald Yamada, Audit Supervisor
Eric E. Elias, Auditor-In-Charge
Keller Phillip, Staff Auditor
Julinida Weital, Staff Auditor

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