OFFICE OF THE NATIONAL PUBLIC AUDITOR

FEDERATED STATES OF MICRONESIA

REVIEW OF THE FSM PERMANENT MISSION TO THE UNITED NATIONS (FY 2005-2007)

REPORT NO. 2008-02

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February 21, 2008

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

Subject: Review of the FSM Permanent Mission to the United Nations

This report presents the results of our inspection of the FSM Permanent Mission to the United Nations (Mission) covering fiscal years 2005, 2006 and 2007 (up through April 30, 2007). Our inspection objectives were to determine whether: 1) fund disbursements complied with FSM laws, regulations, policies and procedures and 2) monthly operations fund reports were submitted complete and timely. We conducted our inspection in accordance with the *Quality Standards for Inspections* issued in 1993, as amended, by the U.S. President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency. Pursuant to the authority vested in the Secretary of the Department of Finance & Administration (DF&A) through Section 228 of the FSM Financial Management Act (Chapter 2 Title 55 of the FSM Code) regulations were set regarding the proper spending and reporting of public funds. Prior to the start of the fiscal year, FSM Congress directs the amount of funds available for the Mission's use and how the funds should be spent by specifying spending categories (personnel, travel, etc.).

Based on our inspection, we found that the Mission did not comply with FSM laws, regulations, policies and procedures in disbursing funds and submitting monthly operations fund reports. For example, the total operations fund budget and budget categories were over spent. An appropriation for UN membership contributions was improperly used to provide funding for the over spending without proper authorization. In addition, a significant portion of fund disbursements were not properly approved, certified, recorded and documented. Finally, all of the monthly operations fund reports reviewed were submitted to DF&A an average of 47 days past the deadline established by regulation. We made recommendations to the Permanent Representative to ensure all relevant laws and regulations are followed. To further ensure that our findings are resolved, we made recommendations to the Secretaries of the Department of Foreign Affairs (DFA) and DF&A to strengthen the level of oversight being provided. The findings, recommendations and responses are described in detail and attached to this letter. We provided a copy of the draft report to the Mission, DFA and DF&A for comment. Their comments are attached. This report is intended for the information and use of the two Department's management, President, Congress and, pursuant to the Public Auditor's Act, it is a matter of public record.

Respectfully yours,

Haser Hainrick
National Public Auditor

xc: Secretary, DFA; Secretary, DF&A and Permanent Representative

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BACKGROUND

The FSM Permanent Mission to the United Nations (Mission) under the Department of Foreign Affairs (DFA) was established pursuant to Title 10 of the FSM Code to provide a Permanent Representative (PR) to the United Nations (UN). The PR is appointed by the President with advice and consent from Congress. The Mission is staffed by a Deputy Permanent Representative (DPR), under the Public Service System (PSS), and a Second Secretary, Administrative Assistant/Executive Secretary and Driver under contract.

Funding – Table 1 below shows the Mission's total operations fund budget versus expenditures during fiscal years 2005 to 2007 (up to April 30, 2007).

Table 1 – Total Operations Fund Budget vs. Expenditures

Fiscal Year	Total Budget	Total Expenditures	Amount Under/(Over) Budget
2005	$ 636,994	$ 583,728	$ 53,266
2006	583,577	589,674	(6,097)
2007	576,296	316,763	259,533
Total	$1,796,867	$1,490,165	$306,702

Source: Approved Budget Booklet, Advice of Allotments and Detailed Transaction Reports
Note: expenditure amounts for fiscal year 2007 only cover the first seven months.

Oversight Visit – Department of Finance & Administration (DF&A) staff visited the Mission in November 2006 and reviewed and recommended changes to the disbursement process as part of its duties and responsibilities to monitor the Mission's accounts.

Payroll Processing Restrictions – Personnel funds are maintained by the Division of National Treasury (DNT) under the DF&A. On a bi-weekly basis, DNT calculates the salaries of the PR and DPR, deducts their income tax, social security and other authorized deductions, and remits the net/remaining amount to the Mission for direct payment. Moreover, as sanctioned by Congress, reprogramming personnel funds is restricted.

Monthly Operations Fund Reports – The FSM Financial Management Regulations (FMR) require that the Mission submit monthly operating reports to the Secretary of the DF&A within ten days of each month.

OBJECTIVES

This review is part of our efforts to inspect all the FSM diplomatic missions as a result of the adverse findings disclosed at the FSM Embassy in Washington DC. Our review objectives were to determine whether:

1) fund disbursements complied with FSM laws, regulations, policies and procedures; and
2) monthly operations fund reports were submitted complete and timely.

SCOPE

The review covered fiscal years 2005 and 2006 and part of fiscal year 2007. Specifically, it covered October 1, 2004 to April 30, 2007. However, gathering, reviewing and testing of relevant information and documentations included previous and subsequent periods for analytical purposes. Our inspection was conducted pursuant to the authority under Section 501(1) of the *National Public Auditor Act* (Chapter 5 Title 55 of the FSM Code) 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 conducted our review in accordance with the *Quality Standards for Inspections* issued in 1993, as amended, by the U.S. President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency. Our review included tests of records, transactions, and other auditing procedures that we considered necessary under the circumstances.

METHODOLOGY

Fieldwork was conducted at the DF&A, DFA and the Mission in New York. To accomplish our objectives, we reviewed accounting records, financial reports and other supporting documents related to the financial transactions of the Mission. We randomly selected expenditures from the operating fund and reviewed related checks, contracts, control forms (accounts payable vouchers, travel vouchers, miscellaneous payment requests, etc.), invoices and receipts to determine if FSM laws and regulations were followed. In addition, we interviewed employees at the Mission, DFA and DF&A and reviewed correspondence and other documentation related to our objectives.

PRIOR AUDIT COVERAGE

Our previous audit of the Mission covered fiscal years 1994 through 1996 (Report 128-97). We noted conditions disclosed in the previous report that are reiterated in this report.

CONCLUSION

Based on our inspection, we found that the Mission did not comply with FSM laws, regulations, policies and procedures in disbursing funds and submitting monthly operations fund reports. For example, the total operations fund budget and budget categories were over spent. An appropriation for UN membership contributions was improperly used to provide funding for the over spending without proper authorization. In addition, a significant portion of fund disbursements were not properly approved, certified, recorded and documented. Finally, all of the monthly operations fund reports reviewed were submitted to DF&A an average of 47 days past the deadline established by regulation.

FINDINGS & RECOMMENDATIONS

Finding 1 - Budget Authorizations Overspent

The Mission did not comply with the FSM Financial Management Act (FMA) during fiscal year 2005 and 2006. Specifically, the Mission overspent the total operations fund budget in fiscal year 2006 and most of the budget categories in fiscal year 2005 and 2006. Additional funds were not reprogrammed to authorize spending above the amounts set for the total operations budget and categories. An appropriation for UN membership contributions was improperly used to provide additional funds for the over spending without proper authorization. As a result, the total amount allotted to the Mission in fiscal year 2005 and 2006 were overspent. We also found that an unexpended balance existed from the fiscal year 2005 operations fund budget, which has not been transferred to the FSM General Fund at end of the fiscal year as required.

The FMA sets the general controls and duties and responsibilities over the management and oversight of National budgets. After receipt of the proposed budget from the President, the Congress sets the annual budget for the National Government through specific Departmental appropriations. Budgetary control is maintained at the Departmental level. The Secretary of DFA, as the allottee of the Mission's funds, has the authority to reprogram budget amounts between categories, DFA Divisions, and Missions. The Secretary of the DF&A, who is responsible for treasury and accounting duties, allots and reprograms funds upon request from the Secretary of DFA. At end of the fiscal year, any unexpended funds are to be returned to the General Fund as required by the FMA.

Total Budget for Fiscal Year 2006 Overspent – The total operations fund budget in fiscal year 2006 was overspent by $6,097. The amount budgeted in fiscal year 2006 for the Mission's operations fund was $583,577. But the Mission spent $589,674, which is 101% of the total budget. Additional funds were not reprogrammed to authorize the spending above the budgeted amount. Remaining funds from the contractual services category were used to fund the overspending without proper authorization. Additionally, an appropriation of $60,000 for UN membership contributions that was allotted to the Secretary of the DFA in November 2005 and disbursed to the Mission in January 2006 was improperly used to provide additional funds for the over spending.

Budget Categories Overspent – Most of the budget categories in fiscal year 2005 and 2006 were overspent. Specifically, the travel, consumables and fixed assets categories were overspent. The travel category was overspent by 163 percent in fiscal year 2005 and 175 percent in fiscal year 2006. The consumables category was overspent by 63 percent in fiscal year 2005 and 29 percent in fiscal year 2006. Finally, the Mission spent $3,574 in fiscal year 2005 and $5,399 in fiscal year 2006 in the fixed assets category even though funds were not reprogrammed to authorize spending in this category. The Mission also overspent the amounts budgeted in three of the five categories in both fiscal year 2005 and 2006.

As a result, the total amounts provided to the Mission in fiscal year 2005 and 2006 were overspent. Since all aspects of the personnel category budget and allotments were being maintained at the DNT, the actual amount provided to the Mission each fiscal year is the funding for the remainder of the budget categories. In this respect, the Mission was provided a total of

$473,241 in fiscal year 2005 and $417,778 in fiscal year 2006. A total of $499,179 was spent in fiscal year 2005 and $446,550 in fiscal year 2006. Therefore, the total amounts provided to the Mission were overspent in fiscal year 2005 and 2006 by $21,938 and $28,772, respectively. See Table 2 below illustrating the overspending by total budget and portion of budget provided to the Mission.

Table 2 – Overspending by Total Operations Fund Budget and Categories

Fiscal Year[1]	Category	Budget	Allotted	Expended	Expenses (Over)/Under Budget	Portion of Allotted Funds Provided to the Mission	Expenses (Over)/Under Portion Provided to the Mission
2005	Personnel	$159,753	$159,753	$131,053	$28,700	$0	$0
	Travel & Transportation	20,000	16,000	52,625	(32,625)	16,000	(32,625)
	Fixed Assets	0	0	3,574	(3,574)	0	(3,574)
	Consumables & Supplies[2]	19,000	19,000	30,917	(11,917)	19,000	(11,917)
	Contractual Services	438,241	438,241	412,063	26,178	438,241	26,178
	FY 2005 Total	**636,994**	**632,994**	**630,232**	**6,762**	**$473,241**	**(21,983)**
2006	Personnel	165,799	165,800	143,124	22,675	0	0
	Travel & Transportation	18,978	18,978	52,190	(33,212)	18,978	(33,212)
	Fixed Assets	0	0	5,399	(5,399)	0	(5,399)
	Consumables & Supplies	34,000	34,000	43,775	(9,775)	34,000	(9,775)
	Contractual Services	364,800	364,800	345,186	19,614	364,800	19,614
	FY 2006 Total	**583,577**	**583,578**	**589,674**	**(6,097)**	**417,778**	**(28,772)**

Source: National Executive Budget Booklet/Documents, Advice of Allotments issued by the Division of Budget, DF&A and Detailed Transaction Reports issued by the Accounting Unit, Division of National Treasury, DF&A.

Fiscal Year 2005 Unexpended Balance Not Transferred to the General Fund – Unexpended balance in the Mission's operations fund at DNT were not transferred to the FSM General Fund at end of the fiscal year as required. In fiscal year 2005, the Mission under spent its total operations fund budget by $6,762. Since $4,000 from the $20,000 budgeted for the travel category was not allotted into the operations fund a balance of **$2,762** remains. This balance has not been transferred back to the General Fund as required by the FMA ('*Reversion of unexpended funds, cancellation of obligations', 'closing out accounts and transfer of unexpended balance*' - *Section 225* and *227 Chapter 55 Title 55 of the FSM Code*). The under spending occurred because the Mission did not spend all of the funds budgeted for two of the five budget categories. Specifically, only 82 percent of the personnel category and 94 percent of the contractual services category were spent.

The Mission and Secretary of DFA did not comply with FSM laws and regulations by failing to request and justify the need for additional funds in travel, consumables and fixed assets. These funds were neither reprogrammed nor authorized leading us to question whether the spending was justified or needed. The over spending and lack of reverting unexpended funds at end of fiscal year indicates that funds were not properly managed and monitored.

[1] FY 2007 not listed because the total budget and categories cover only 7 months and have not been over spent.

Cause and Recommendation

The causes of this finding were that: 1) additional funds provided for UN membership fees remained; 2) the Mission did not require payment requests to be certified for fund availability in fiscal years 2005 and 2006; 3) the Mission and DFA management did not closely monitor the budget; 4) DF&A did not respond in a timely manner to unauthorized or unsupported expenditures; and 5) the PR was on leave or travel for a total of 198 working days during the scope of our review, resulting in the DPR approving a significant portion of the expenses incurred during our scope, even though he is not the Mission employee ultimately responsible for ensuring that spending is within the budget.

We recommend that the PR and Secretary of the DFA should:

1. Follow existing FSM requirements on managing and spending funds by verifying that payment requests are certified as to fund availability;
2. Regularly monitoring the budget versus expenditures and returning unexpended funds that lapse at end of the fiscal year to the General Fund;
3. Strengthen existing internal controls to ensure that spending is held within the authorized limits set for the total budget and categories in the advice of allotments; and
4. Reprogram funds when additional funds are necessary and available.

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

1. Establish a separate bank account for the appropriations for UN membership contributions funds;
2. Establish clearly defined policies and procedures to ensure that Foreign Missions are fully aware of their limitations and authority for advances and expenditures using National funds; and
3. Strengthen existing internal controls to ensure timely reporting and quick follow-up of unauthorized or unsupported items.

Finding 2 - Fund Disbursements Not In Compliance with FSM Requirements

Funds should be disbursed in accordance with the FSM Financial Management Act, FMR and other relevant policies and procedures. These requirements were established to safeguard the financial assets of the FSM. By not following these requirements, the Mission staff increases the risks of fraud and mismanagement.

Not Properly Approved – All payment requests should be approved to ensure that disbursements are properly authorized. We found that 45 expenditures out of 182 expenditures selected for testing totaling $67,470 were not properly approved. This represents **25 percent** of the total expenditures within our sample. Specifically, 18 expenditures totaling $30,601 were approved by the Deputy Chief of Mission although he was not delegated the authority to approve payments. In addition, Travel Authorizations for 27 travel expenditures totaling $36,869 did not contain evidence of approval.

Not Certified For Fund Availability – All payment requests should be certified for fund availability to ensure that funding categories are not overspent. We found that 139 expenditures out of 182 expenditures selected for testing totaling $173,277 did not evidence certification for fund availability. This represents **76 percent** of the total expenditures in our sample.

Not Adequately Documented – All expenditures should be adequately documented. The FMR specifies the type of documentation that is considered proper. Internal control standards also require that documentation is complete, accurate and readily available for review and/or audit. Payment Request forms such as Miscellaneous Payment Requests (MPR), control forms such as Accounts Payable Vouchers (APVs) and authoritative supporting documents such as Invoices and Receipts when properly completed, controlled and attached are the basis by which an entity ensures all valid and authorized transactions are made in the appropriate amount, account and time period. Also, use of these forms provides the physical evidence that designed controls are in operation. They are the means by which control over summary accounting records and management reports are obtained. The following weaknesses were noted:

- APVs Not Used – We found that 68 expenditures out of 182 expenditures selected for testing totaling $107,586 were not processed using an APV form. This represents **37 percent** of the total expenditures in our sample. The Mission started using the APV on November 28, 2006 to certify fund availability as instructed by DF&A staff.

- Incomplete Payment Request Forms – We found that 67 expenditures out of 182 expenditures selected for testing totaling $106,680 were supported by an incomplete Payment Request form. This represents **37 percent** of the total expenditures in our sample. The payment request forms were neither signed by the preparer nor assigned a control number.

- Inadequately Supported – We found that 39 expenditures out of 182 expenditures selected for testing totaling $41,227 were not adequately supported to justify the expense. This represents **21 percent** of the total expenditures in our sample. More specifically:

    a. Thirteen (13) expenses totaling $15,108 were not supported by timesheets.
    b. Three purchases totaling $13,721 were not supported by invoices.
    c. Nine travel claims totaling $8,448 were not supported by boarding passes.
    d. Eight (8) travel claims totaling $3,663 were not supported by receipts.

Misclassification – All expenditures should be classified to the correct object class and transaction code to ensure that only authorized and relevant transactions are expensed. Twenty-six (26) expenditures out of 182 expenditures selected for testing totaling $35,806 were misclassified. This represents **14 percent** of the total expenditures in our sample. For example, 18 travel advances totaling $32,373 were not charged to the travel advance category and a payroll salary expense of $994 was charged to the contractual category although the employee was funded under the personnel category.

Not Adequately Segregated – Key duties within the disbursement process such as authorizing, processing, recording and reviewing payment requests and disbursements should be properly segregated among different individuals to minimize the risk of fraud, waste and abuse. For example, the same employee should not authorize a payment, write and sign the check. If an entity has at least two employees involved in day-to-day operations, a careful allocation of duties could ensure that no individual would control a transaction from its initiation to its completion and record in the books of the entity. We found that 144 expenditures out of 182 expenditures selected for testing totaling $152,366 were disbursed without proper segregation of duties. This represents **79 percent** of the total expenditures in our sample. More specifically:

a. Fourteen (14) expenditures totaling $2,267 were reimbursed to the same employee who approved the payment request and signed the check. There was no secondary signature to indicate whether the payment request was independently processed, reviewed or verified.
b. One Hundred-Thirty (130) expenditures totaling $150,100 were approved by the same employee who signed the check. (*A similar condition was reported in the previous ONPA audit report*)

Personal Expenses – Purchasing items that appear to be for personal use or personal in nature not only appear to be self-serving but also are not authorized by *Part 8.11 of the PSS Regulations*. In addition, *Presidential Policy No. 36* restricts such expenses unless specifically provided in written contracts or conditions in employment statements. We found that 83 expenditures totaling $6,802 from the consumables account appear to be for personal use or personal in nature. For example:

a. Eighteen (18) expenditures totaling $1,174 reimbursed employees for expenses incurred for commuting from their homes to the Mission or vice versa.
b. Twenty-eight (28) expenditures totaling $1,583 reimbursed employees for expenses incurred for an employee's residential internet services.
c. An expense of $1,500 was reimbursed to an employee who purchased a computer table and other items for his residence. Since an invoice was not on file for this purchase, we could not determine the actual cost of the computer table.

No Prior Approval for Personal Credit Card Purchases – Purchasing items that appear to be for personal use and using a personal credit card without prior authorization can appear to be self-serving without the proper controls and safeguards. We found that personal credit card charges were reimbursed for 139 expenditures totaling $44,964 without sufficient supporting documentation to justify payment and substantiate prior authorization. These expenses includes cash advance, fuel, parking, tolls, car wash, representation expenses, online ticket purchases, office supplies, furniture & fixtures, education expenses, utilities, christmas cards and computer equipments and accessories. More specifically:

a. One claim included a $2,052 cash advanced to two FSM employees on an official trip without prior approval. The Mission reported this amount as a travel expense instead of travel advance.
b. One claim included a $1,500 personal credit card purchase for a mattress and computer table for personal use without evidence of prior approval.
c. Nine claims were for purchases of computer equipment and accessories without proper justification and evidence of prior approval.
d. Various claims for use of the representation fund contained no justification or evidence of prior approval.
e. Various claims included expenses for tolls, parking and gas without proper justification and evidence of prior approval.
f. Various claims included personal Internet usage fees without evidence of prior approval.

<u>Accounting of Fixed Assets Not Maintained</u> – A listings of fixed assets should be maintained by the Mission to provide sufficient details to ensure accountability and verification of fixed assets. We found that the Mission did not maintain a listing of all its fixed assets. A listing was provided to us during our fieldwork at the Mission but it did not include the date of purchase and acquisition costs nor was it complete and accurate. It did not include the furnishings purchased for the home residences. Also, there were no history of previously acquired assets and their disposal. As a result, the Supply Section within the Division of National Treasury, DF&A did not tag and include the fixed assets on their listing(s). (*A similar condition was reported in the previous ONPA audit report*)

<u>Cause and Recommendation</u>

The causes of this finding were that: 1) Mission management did not closely monitor disbursements to ensure that they were properly certified, approved, recorded and documented; 2) DF&A did not perform quick follow-up to mitigate and deter further non-compliance; 3) DF&A did not request the Mission to provide a listing of its fixed assets; and 4) the duties of the Mission staff have not been properly assigned to ensure separation of duties.

We recommend that the PR, in coordination with the Secretaries of the DFA and DF&A, should:

1. Establish a system that would provide reasonable assurance that Mission expenditures comply with FSM requirements. The system should:

   a. Require a thorough review of expenditure documentation to ensure that all the required documentation has been completed and attached prior to approval;

   b. Assign duties to staff to enable proper separation of duties;

   c. Discourage the use of personal credit cards for purchases;

   d. Require that purchases be pre-authorized using the appropriate forms such as MPRs, purchase requisition forms and/or purchase order forms. Appropriate levels of controls must be strengthened at the time of both the pre-authorization and final authorization of the claim; and

e. Require a complete fixed asset listing is maintained and submitted to DF&A that includes all fixed assets purchased with acquisition date, quantity, costs, property tag numbers, condition, custodian, location and dispositions.

We also recommend the Secretary of DF&A and Assistant Secretary of the DNT, DF&A should conduct timely and thorough reviews of the Monthly Operations Fund Reports and supporting documentation to detect further non-compliance.

Finding 3 - Monthly Operations Fund Reports Submitted Late

Subpart 6.5 of the FMR requires the PR to submit to the Secretary of DF&A on or before the tenth day of each month an Operations Fund Report (monthly report) on the preceding month supported by attachments such as a copy of the check register, cash disbursements journal, duplicate checks with supporting documents, original voided checks, purchase orders and contracts issued or executed against the fund account during the month.

We found that monthly reports were not submitted to DF&A within the tenth day requirement. Specifically, 24 of 24 monthly reports reviewed were submitted an average of 47 days past the tenth day. Seven of the monthly reports were submitted two months past the tenth day, representing **29 percent** of the total number of monthly reports reviewed. Our review is based on the dates stamped received on the monthly reports by the DNT. (*A similar condition was reported in the previous ONPA audit report*)

Cause and Recommendation

The causes of this finding were that: 1) the Mission did not prepare and submit the monthly reports in a timely manner; 2) DF&A did not follow-up when the monthly reports were not submitted in a timely manner; and 3) DF&A did not report problems discovered during their review and reconciliation of the monthly reports to the proper authorities such as the Secretary of the DFA.

We recommend that the PR should follow existing FSM requirements by submitting the monthly reports to the Secretary of the DF&A, as required, no later than the tenth day of each month.

We also recommend that, as the allottee of funds and the Department Head for the Mission, the Secretary of the DFA should closely monitor the submission of the monthly reports to ensure that they are submitted to the DNT, DF&A within the tenth day requirement.

Finally, we recommend that the Secretary of DF&A and Assistant Secretary of the DNT, DF&A should:

1. Conduct timely and thorough review of monthly reports and supporting documentation to ensure compliance with FSM laws and regulations. Any non-compliance and deficiencies should be reported to the Secretary of the DFA as the Department Head and allottee of Mission funds; and
2. Continue existing procedures to withhold funds until the monthly reports are submitted.

APPENDICES

Appendix I – Response from the PR - We provided an opportunity for the responsible officials from the DFA to discuss, review and respond to the draft report. Although the Secretary of the DFA did not provide a response, comments were received from the PR, as attached below. We have also included notes to respond to some of the comments.

PERMANENT MISSION OF THE FEDERATED STATES OF MICRONESIA
TO THE UNITED NATIONS
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MEMORANDUM

TO	:	National Public Auditor
	:	Secretary of Foreign Affairs Secretary of Finance & Administration
FROM	:	FSM Mission to the United Nations
DATE	:	06 February 2008
SUBJECT	:	Comments on Final Draft Report No. 2008-03, Review of the FSM Permanent Mission to the United Nations, FY 2005 to 2007 (up to April 30, 2007)

Please find below our comments on Final Draft Report No. 2008-03, Review of the FSM Permanent Mission to the United Nations, FY 2005 to 2007 (up to April 30, 2007), hereafter "Audit Report." Instead of addressing the issues in the order in which they were discussed by the Audit Report, we have aggregated some of the issues that may overlap with each other.

Late submission of monthly financial reports

The Mission submits its monthly financial reports via fax or e-mail. Hard copies are then mailed to the Department of Foreign Affairs (FY2005/2006) or to the Department of Finance (FY 2007). Submission by fax/email is done to address the fact that reliance on the postal service alone would mean that the reports would not arrive on time.

See ONPA Note 1 in Appendix II

Using the submission by fax/email as a gauge, the Mission was late in submitting some of these reports only by an average of five to ten days after the deadline. The Mission acknowledges the Auditor's findings and resolve to be more prompt in its submissions.

2. Budget authorizations overspent

Part of the said excess funds for FY 2005 was utilized by the Mission to pay in advance the first month's rent for the office and housing leases. This is the reason why no funds were returned to the government.

See ONPA Note 2 in Appendix II

One of the reasons for overspending in FY 2006 was that our Imprest Account was depleted and the Mission had to utilize the Operations Account to pay for medical claims. These claims have not yet been fully reimbursed by MiCare.

The Mission also advanced money for official expenses of other FSM offices, which expenses have not yet been reimbursed. For example, see our discussion on Page 5 regarding money advanced to personnel from another FSM agency.

On the matter of overspending within budget categories, the Mission was operating under the performance-based budget system, which allows for the reallocation of money from one category to another as long as spending remains within the total budget.

The Mission had to resort to using some of the UN Contributions fund to meet the payments for our leases (office space and staff housing) because sometimes there was a delay in the release of our allotments thereby resulting in the delayed payment of these leases and bills.

These delays in payment resulted in the Mission being penalized by closure of the office, court summons for the Mission's diplomatic personnel and notice of eviction from the diplomatic personnel's residences. Thus, to head off the possibility of having the same experience and jeopardizing our operations and causing embarrassment to the Government and the diplomatic staff, the Mission resorted to using the UN Contributions funds to meet the upcoming quarterly obligations. The Mission's error was in not reimbursing the Contributions fund upon finally receiving the quarterly allotments.

We acknowledge the mistake and resolve to be more prudent in maintaining the separation between the Operations and Contributions funds. To ensure this, the Mission recommends the creation of a separate bank account solely for the Contributions funds.

3. Fund disbursements not in compliance with FSM requirements

A) Approval of disbursements/Segregation of duties in disbursement process

Outlined below is the process by which the Mission prepares payment of an obligation.

- The request for payment or advance (e.g., billing statement from vendors, travel advance (TA) form, or memo from Mission personnel/local staff requesting reimbursement) is forwarded to the Permanent Representative (PR) for approval.
- Upon approval of the request, the Executive Secretary prepares the Miscellaneous Request Form (MRF) and APV for signature by the PR. The certification of fund availability, which is signed by the Deputy Permanent Representative (DPR), is included in the MRF.
- Once the MRF & APV are signed, the Executive Secretary prepares the check.

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- The check is signed by the PR, a copy is made for the files and then it is mailed/released by the Executive Secretary.
- In the case of payments to the PR, all documents are approved and signed by the DPR and vice versa.

This is the procedure observed for all payments, with as much segregation of duties as may be possible considering that there are only two persons in the Mission who are authorized to approve payments and sign checks. If either the PR or DPR is away from the Mission, then the remaining signatory has no recourse but to approve and sign all checks and the corresponding forms for obligations that fall due even if these may be payable to the signatory (e.g., payroll check).

B) Fund certification/adequate documentation

The Mission observes bookkeeping and accounting practices that were in place at the establishment of the Mission, and those that were subsequently modified based on instructions from the DF&A or the Department of Foreign Affairs.

After a review and advice by the DF&A in November 2006, we instituted changes that address the issues raised in the Audit Report regarding certification of fund availability and adequate documentation. Specifically, and as noted in the Audit Report, we have started using the Accounts Payable Voucher (APV) form. We have assigned control numbers for both the APVs and the Miscellaneous Request Form (MRF). The latter includes the certification of fund availability.

<u>Inadequately supported expenditures</u>

- The Mission has never paid a travel claim without a corresponding travel voucher. The travel advance and travel voucher for a specific trip are filed under their respective check numbers. Therefore, looking at the travel advance files alone will not show that said advance was subsequently liquidated under the corresponding travel voucher. The liquidation may be verified by checking the "Transaction Detail by Account Report" and the corresponding checks, which we submit in our regular financial reports.

  See ONPA Note 3 in Appendix II

  As for the submission of boarding passes – the original requirement was only for the submission of ticket stubs. In later vouchers, as e-tickets have become more in use, Mission's staff members started to submit boarding passes with their vouchers, as additional documentation of travel.

See ONPA Note 4 in Appendix II

- On the lack of time sheets for the payroll salaries, the Mission notes that the timesheets for the PR and DPR are faxed directly to the DFA and filed separately from the corresponding check payments. Copies of all the time sheets were provided to the auditors during their visit to the Mission.

Page 3 of 6

Please note that payroll calculations for Mission diplomatic personnel are processed by DF&A after submission of the timesheets. The net salary amount for each said personnel is emailed to the Mission, which actually prepares the salary check. The payroll calculation sheet from DF&A is then attached to the payroll checks.

As for the time sheets for local staff, the Mission attaches them to the checks for their contractual fees, although it may be possible that some time sheets were misplaced.

C) Misclassification

Travel Advances

The Mission classified them directly under travel expenses per standard practice, which we believed to be correct. Upon advice by the DF&A, we started in FY 2007 to classify them under the travel advance category. This is reflected in our subsequent financial reports.

Others

Other mistakes in classification are due to inadvertent errors in using the accounting software. For example, the misclassification of the payroll expense of $994 under the contractual category was due to the fact that in our accounting software, Quickbooks, when you type the name of a vendor/payee, the program will automatically fill in the details of the last transaction for that payee. In the cited example, the previous transaction for the payee was for an expense booked under the contractual category. In preparing the payroll check, only the amount of the last transaction was changed and there was failure to change account category under which it was supposed to be charged.

The Mission has already noted this peculiarity of the software and is doing its best to avoid future errors resulting from this Quickbooks macro.

See ONPA Note 5 in Appendix II

D) Personal expenses

It is standard practice for any overseas Mission to pay for the utilities of the Ambassador. In addition, Mission diplomats are entitled to household furniture. In the case of the use by a Mission diplomat of a personal credit card for the purchase of a mattress and computer table, said purchase had prior approval from the PR.

As for the payment of internet utilities for Mission diplomats, it is reasonable for the Mission to assume these costs. Due to the time difference between FSM and New York working hours, Mission personnel are sometimes required to perform work from their residences. In addition, they also need to access the UN work schedule (Daily Journal)

See ONPA Note 5 in Appendix II

and documents from their residences, especially in the morning before UN works begin. Accordingly, it is necessary for the personnel to have access to the internet at their residences to allow them to perform their duties.

It has also been standard practice to pay for the commuting costs of the local staff. This was instituted to allow the Mission to be competitive in obtaining the services of staff from the local market. Upon advice of the DF&A, said practice has been included in the staff's employment contracts.

See ONPA Note 6 in Appendix II

E) No prior approval for personal credit card purchases

There are instances when it is necessary for Mission personnel to use their personal credit cards for official expenses. In the instances where there is no written prior approval, there is at least verbal approval. The latter is now required to be noted in the memo submitted for reimbursement. Furthermore, the Mission believes that there are sufficient controls on the use of personal credit cards because such expenses are not automatically charged to the Mission but, instead, are still subject to approval before being reimbursed.

As for the cash advance of $2,052 to FSM employees, this was an emergency transaction the Mission effected upon the request of the Secretary of Justice. Because the FSM police officers were arriving past banking hours, the Mission coursed the payment through one of its staff. All the relevant documents, including receipt of the money by the police officers were attached to the check.

F) Accounting of Fixed assets

The Mission notes the findings of the Audit Report and will do its best to fully comply with the recommendations. However, we leave the tagging of said assets to the Supply Section of the Division of the National Treasury of the DF&A.

On a related matter, namely the finding in the Audit Report that the Mission spent money on fixed assets despite no funds having been allocated for this category, the Mission reiterates that it was operating under the performance-based budget system, which allows for the reallocation of money from one category to another, as long as it is within the budget.

Furthermore, as noted in our FY 2006 third quarterly report, many of the expenditures booked as Fixed Assets should be properly classified under either Contractual or OCE since these consist of items such as office supplies and computer accessories. They were retained under this category in Quickbooks to avoid confusion since they were already booked as Fixed Assets in the Financial Reports that were previously submitted.

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4. Conclusion and Recommendations

The Mission recommends further evaluation of the following recommendations contained in the Audit Report:

See ONPA Note 7 in Appendix II

a) *Require second signatory on checks that exceed a certain dollar amount*

Given that the Mission only has two authorized signatories, requiring both of them to sign on a check may result in delays in payment of obligations that may incur late fees, should one of the signatories be away from the Mission.

b) *Use of debit check card for the Mission*

See ONPA Note 8 in Appendix II

Use of debit check card may not be feasible. If only one card is issued, then the card becomes unusable whenever the authorized user is away from the Mission. The alternative, which is to issue multiple cards, may make it more complicated to keep track of and control Mission expenses since these expenses will be automatically debited from the Mission's account. Whereas, in the current practice of using personal cards, such expenses are subject to approval before being charged to the Mission.

The Mission likewise recommends the creation of a bank account for the Contributions fund that is separate from the Operations Account.

As previously stated, the Mission has already instituted changes in its financial procedures to ensure compliance with FSM requirements. Nevertheless, we have taken into account the findings and recommendations of the Auditor's Report to ensure that we further improve our performance

We thank the National Public Auditor for its report and recommendations, which were very helpful to us, and for allowing us sufficient time to comment on the same.

Masao Nakayama
Permanent Representative

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Appendix II – ONPA's Comments to the PR's Response

Note 1 – Page 1 of the comments stated that by using the transmittal dates indicated on the faxes/emails some of the monthly reports were submitted late only by an average of five to ten days.

ONPA's Response – The Mission submitted 20 transmittals as part of the PR's response to the monthly reports. The transmittals covered 83 percent of the reports reviewed. We found that 14 or 70 percent submitted the reports to the DFA rather than the DF&A, as required. The reports submitted to the DFA were already late by an average of ten days. The remainder of the transmittals, 6 or 30 percent, submitted the reports to the DNT accountant responsible for monitoring the Mission's accounts. However, these transmittals were not filed and corresponding monthly reports filed at DF&A were stamped received over a month later.

Item No.	FY	Reporting Month	Due Date	Stamp Received Date	Transmittal Dates
1	2007	October	11/10/06	01/17/07	12/12/06
2	2007	December	01/10/07	02/21/07	01/10/07
3	2007	January	02/10/07	03/15/07	02/5/07
4	2007	February	03/10/07	04/5/07	03/12/07
5	2007	March	04/10/07	05/22/07	04/13/07
6	2007	April	05/10/07	06/1/07	05/10/07

In his official response to the draft report dated January 29, 2008 the Secretary of the DF&A stated that based on previous reviews by the ONPA, DF&A implemented in fiscal year 2007 a procedure to withhold release of funds until the monthly reports were submitted. (*See Appendix III for the DF&A Secretary's response*)

Note 2 – Page 2 and 5 of the comments stated that regarding overspending within budget categories, the Mission was operating under the performance-based budget system, which allows for the reallocation of money from one category to another as long as spending remains within the budget.

ONPA's Response – While it is true that the system allows the reallocation of funds from one category to another, the reallocation requires the approval of the Department Head. Specifically, the PR is required to obtain approval from the Secretary of the DFA and authorization from the FSM Division of Budget to reprogram available funds from one budget category to another. Of course, reprogramming personnel funds are restricted. The requests for reprogramming were never made.

In his official response to the draft report dated January 29, 2008 the Secretary of the DF&A stated that he agreed with the finding on budget authorizations overspent and will work closely with DFA to provide a categorical break down of the funds being wired to the Mission and to also advice DFA on the need to reprogram funds to other categories if necessary. (*See Appendix III for the DF&A Secretary's official response*)

Note 3 – Page 3 of the comments stated that "*As for the submission of boarding passes - the original requirement was only for the submission of ticket stubs*."

ONPA's Response – The requirement that boarding passes are submitted is not new. FMR Subpart 4.16 on travel voucher documentation states in part that "*in all instances, a travel voucher shall be supported by copies of the original TA…as approved, and by the original boarding passes and airline, ship or train ticket stub…*"

Note 4 – Page 3 of the comments stated, "*On the lack of time sheets for the payroll salaries, the Mission notes that timesheets for the PR and DPR are faxed directly to the DFA and filed separately from the corresponding check payments. Copies of all the timesheets were provided to the auditors during their visit to the Mission*."

ONPA's Response – We reviewed the supporting documents filed with corresponding check payments for a sample of 38 payroll salary expenses of which 7 expenses or 18 percent was not supported by timesheets and 31 expenses or 82 percent were properly supported by timesheets.

Note 5 – Page 4 of the comments stated that it is standard practice to pay for the utilities of the PR and commuting costs of the local staff, diplomats are entitled to household furniture and residential internet utilities/services are reasonable expenses for the Mission to pay.

ONPA Response – Although it might be standard practice to pay for the utilities of the PR, PSSR Subpart 12B.4. C(4) states in part that "Appropriate furniture shall be supplied to the President, the Vice-President and the Speaker, if necessary. Appropriate furniture and utilities shall be provided to each Justice of the Supreme Court. All other exempt employees must supply their own furniture, except that a refrigerator and stove shall be supplied by the Government, if necessary. The Government shall also supply beds and dinette set, if necessary, to exempt employees hired for the first time after June 1, 1992."

The Mission also stated that it is reasonable to pay for internet utilities of the Mission diplomats due to the nature of their work. We questioned reimbursements made to the DPR for his residential internet services (utilities) because this practice is contrary to PSSR Part 8.11 (b) which states that "no National Government employee is entitled to direct payment for local transportation, utilities, telephone or other expenses which are personal in nature."

Regarding the payment of commuting cost for the local staff, we would like emphasize that the commuting cost in question for the Second Secretary was not covered in his employment contract for FY 2005 and FY 2006.

Note 6 – Page 5 of the comments stated that "*there are instances when it is necessary for Mission personnel to use their personal credit cards for official expenses. In the instances where there is no written prior approval, there is at least verbal approval. The latter is now required to be noted in the memo submitted for reimbursement.* "

ONPA's Response – Using personal credit cards for official expenses should be discouraged. Although the appropriate verbal approvals were obtained, there is a need to provide written approval prior to acquisition of goods and/or services. We found that the PR did not provide written approval on purchases prior to the staff obtaining goods and/or services on behalf of the Mission. The PR's approval is received only upon the presentation of invoices for payment, which is usually at a later stage in the transaction rather than at the inception of the transaction.

Note 7 – Page 6 of the comments stated that since the Mission only has two authorized signatories, requiring both of them to sign on a check could result in delays in payment of obligations that may incur late fees, should one of the signatories be away from the Mission.

ONPA's Response – We agree with the Mission's response and have removed the specific recommendation. Our issue, based on reviewing checks and supporting documents, was the lack of documentary evidence of independent review. The payment request forms for 37 percent of the checks selected were not signed by the preparer. Moreover, 37 percent of the checks reviewed did not use an APV to indicate that a transaction has properly taken place with the required authorizations and certifications.

Note 8 – Page 6 of the comments stated that use of a debit check card might not be feasible.

ONPA's Response – We agree with the Mission's response and have removed the specific recommendation. However, we have added another recommendation to discourage the use of personal credit cards for purchases. The Mission's use of personal credit cards for purchases did not help in ensuring proper safeguarding of funds. We found 139 expenditures totaling $44,964 without sufficient supporting documentation to substantiate prior authorization.

Appendix III – Response from the Secretary of the DF&A - We also provided an opportunity to the Secretary of the DF&A to discuss, review and respond to the draft report. His official comments are attached below.

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

P.O. Box PS 158
Palikir, Pohnpei FM 96941
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Secretary of Finance
&
Administration

ONPA - Administration
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Date 01-30-08
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January 29, 2008

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

Dear Mr. Hainrick:

Thank you for giving my department the opportunity to respond to the findings stated in your review of the FSM permanent mission to the United Nations for FY2005-FY2007.

Budget Authorizations Overspent

We agree with the finding. Ms. Cora Norman along with the Assistant Secretary-NT and the Accounting Advisor Mr. Noel Pascua will do a full review of all supporting documentation submitted to ensure that the mission is in compliance with the FMR and that all expenditures are properly documented and classified. In addition, DOF&A will work closely with DFA to provide a categorical breakdown of the funds being wired to the mission and to also advise DFA on the need for reprogramming of funds to other categories if necessary

On January the 21st of this month, DoF&A transmitted a letter to Honorable Lorrin Robert, Secretary DFA requesting that all remaining cash balances as of 09/30/07 be remitted back to DoF&A as stipulated in the FMA (Section 227 Chapter 55 Title 55 of the FSM Code). I am attaching the letter for your information.

Monthly Operations Fund Reports Submitted Late

Upon discussion with Ms. Donna Amaraich who was responsible for monitoring the mission, we were informed that the Mission does submit their monthly reports regularly and timely through e-mail. The submission of the monthly report is done in two parts. A summary of the mission's monthly expenses is submitted through e-mail and the supporting documentation is then sent later on to DoF&A through mail.

Based on previous reviews by the office of the national Public Auditor, DoF&A implemented in FY07, a procedure to withhold release of funds until the monthly expense report is submitted.

Accounting of Fixed Assets Not Maintained

We agree with the finding. DoF&A will develop a procedure that will ensure proper accountability of fixed assets This procedure will be provided to your office no later than the end of February 2008.

Again, thank you for giving me the opportunity to respond to the finding stated in your report and I hope that we continue to work together to improve on areas needing improvement and to ensure compliance with all required laws and regulations.

Thank you

Finley S. Perman

Attach.

GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA
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Secretary of Finance
&
Administration

January 21, 2008

MEMORANDUM

TO : Secretary, Department of Foreign Affairs

FROM : Secretary, Department of Finance and Administration

SUBJECT: Remaining Cash Balance at FSM Embassies and Consulate offices

The National Treasury has recently closed its books for fiscal year 2007 ending September 30, 2007 and record shows that significant large amount of cash remains in the embassies and consulate offices. Following is the cash balance of each embassy and consulate office as of September 30, 2007.

FSM PERMANENT MISSION TO UN	$ 83,639.29
FSM EMBASSY TOKYO JAPAN	32,589.41
FSM CONSULATE HAWAII USA	6,781.83
FSM CONSULATE GUAM USA	9,463.41
FSM EMBASSY WASHINGTON DC	1,302.33
TOTAL	$ 133,776.27

We request that the FSM embassies and consulate offices return back the remaining cash at the end of fiscal year 2007 amounting to $133,776.27 as required by law.

Thank you and we look forward for your prompt action on this matter.

Sincerely yours,

Finley S. Perman
Secretary of Finance and Administration

NATIONAL PUBLIC AUDITOR'S COMMENTS

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

The ONPA will perform a follow-up review within the next 9-12 months to ensure that the DFA and Mission have taken corrective measures to address all the findings and recommendations provided in this report.

In conformity with general practice, we presented our draft findings and recommendations to the Secretary of the DFA and PR for comment. We also sent a copy of the draft report to the Secretary of the DF&A for comment. Their written comments to the draft report are attached to this report.

We have provided copies of the final report to the President and Members of the Congress for their use and information. We will make copies available to other interested parties upon request.

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

Haser H. Hainrick
National Public Auditor

February 21, 2008

ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

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ACKNOWLEGEMENTS	In addition to the contact named above, the following staff made key contributions to this report: Donald Yamada, Audit Supervisor Michael Henry, Auditor-In-Charge Erwihne David, Staff Auditor
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