

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**AUDIT OF POHNPEI STATE DEPARTMENT OF EDUCATION PROCUREMENT
ACTIVITIES
REPORT NO. 2010-05**



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

P.O. Box PS-05, Palikir, Pohnpei FSM 96941
Tel: (691) 320-2862/2863; Fax: (691) 320-5482;
CID Hot Line: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

June 1, 2010

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

RE: Audit of Pohnpei State Department of Education Procurement Activities

We have completed our audit of the Pohnpei State Department of Education's procurement and inventory management practices. This audit focused on the Pohnpei DOE's inventory management, textbook procurement, and budgeting processes during fiscal years 2006, 2007 and 2008. The objectives of the audit were to determine whether Pohnpei DOE adequately safeguarded its assets, provided a sufficient number of textbooks to the schools in a timely manner, and expended funds budgeted for the categories Other Consumable Expenses (OCE) and Fixed Assets equitably to schools.¹ This audit was conducted pursuant to Title 55, Chapter 5 of the FSM Code, and in accordance with Generally Accepted Government Auditing Standards issued by the Controller General of the United States.

The results of the audit reveal that continued improvement in the areas of centralized management and oversight are needed. Inventory management controls are not operating as designed, the Department did not adhere to its Textbook Procurement Plan, and there is no assurance that each school gets a fair and equitable share of funding.

In the present condition, the Department does not adequately safeguard its assets nor are its inventory records accurate. Audit tests revealed that listed assets such as laptop computers are missing. In conducting its last physical inventory, the Department did not complete the process. Approximately 28% of assets were not inspected to verify that the Department still had possession of the assets and the results of the physical inventory were not reconciled with the existing inventory listing. In its current state, the existing inventory listing is not accurate.

As designed, the Loan Agreement Form could serve as an adequate control to ensure laptops and other assets assigned to staff are not lost. However, it does not appear as though anyone is responsible for managing the process. No one makes sure the form is completed when assets are assigned, that the completed forms are retained, or that assets are returned when an employee resigns or retires. At least one employee did not return a laptop when he resigned. An additional 14 laptops could not be accounted for.

¹ OCE is a budget category for expenses that are not for personnel (payroll), fixed assets, contracts, or travel.

Similarly, limited oversight and monitoring occurred in the area of textbook procurement. A timeline for purchasing textbooks was developed and a Textbook Accountability Committee (TAC) formed, however books were not ordered in accordance with the timeline. As a result, some grades were missing the required math, science, and social studies books.

The audit also reports that the Department has not developed a 'per school' budget allocation and tracking system for OCE and Fixed Asset budget expenditures. As a result, schools cannot prioritize and budget for needed supplies with any assurance that the purchases will be made. Likewise, there is no established budget for fixed assets. This condition was reported in a 2006 Department of the Interior Office of the Inspector General Report. DOE reports that it has developed a budgeting and reporting system for School Improvement Plan (SIP) funds and that it will replicate the system for other areas such as OCE.

We provided a draft copy of this report to the Director of DOE for his review and comment. The Department agrees with the findings and recommendations included in the attached audit report. The Department's response is included as an attachment to the report.

Respectfully yours,



Haser Hainrick
National Public Auditor

XC: Vice President
Governor, Pohnpei State
Lt. Governor, Pohnpei State
Speaker and Members, Pohnpei State Legislature
Secretary of Education, FSM National Government
Chairman and Members, Pohnpei State Board of Education
Director, Pohnpei State Department of Education
Director, Pohnpei State Department of Treasury and Administration
Pohnpei State Auditor

TABLE OF CONTENTS

INTRODUCTION	1
Background	1
Objective, Scope and Methodology	2
Prior Audit Coverage	3
CONCLUSION.....	3
FINDINGS AND RECOMMENDATIONS.....	5
1. DOE Has Not Established an Adequate System of Internal Control Over Its Fixed Assets.....	5
Cause and Recommendation.....	7
2. DOE Did Not Adhere to its Five-Year Textbook Purchasing Plan.	8
Cause and Recommendation.....	10
3. DOE Has Not Developed a ‘Per School’ Budget Allocation and Tracking System for Consumable Expenses and Fixed Assets	11
Cause and Recommendation.....	13
APPENDIX 1: Copy of the Purchasing Schedule	14
MANAGEMENT RESPONSE.....	18
NATIONAL PUBLIC AUDITOR’S COMMENTS	20
ONPA CONTACT AND STAFF ACKNOWLEDGEMENT	Error! Bookmark not defined.

INTRODUCTION

Background

The Pohnpei State Department of Education (DOE) was established pursuant to Article 7, Section 3 of the Pohnpei State Constitution for purposes that include providing compulsory education. The Department is headed by a Director who serves under the supervision of a six-member Board of Education. The Department has four divisions: Division of Early Child Education, Division of Elementary Schools, Division of Secondary Schools, and the Division of Curriculum and Instruction (C&I). Each division is headed by a chief who reports directly to the Director.

Pohnpei DOE Budget - The Pohnpei State DOE receives both Compact Sector and Supplemental Education Grant (SEG) funds through the FSM National Government. The total budgets appropriations for fiscal years 2007, 2008 and 2009 were \$11,017,024, \$11,289,276, and \$10,635,056, respectively. The budget for textbooks, instructional materials, and other supplies is included in the category Other Current Expenses (OCE). Table 1 below shows amounts of DOE budgets for the three fiscal years.

Table 1: Pohnpei DOE Appropriation of Operating Budget, FY 2007-2009

Category	Fiscal Year Appropriation		
	2007	2008	2009
Personnel	\$ 7,247,566	\$7,684,251	\$7,208,049
Travel	82,165	84,772	88,890
Contractual	-	-	7,318
OCE	3,687,293	3,520,253	3,330,799
Total Compact and SEG	\$11,017,024	\$11,289,276	\$10,635,056

Source: Pohnpei State Budget Office of the Pohnpei Department of Treasury and Administration

Fixed Asset Inventory Management

DOE routinely purchases fixed assets such as computers, copy machines and other office equipment. Occasionally, vehicles and boats are purchased as well. DOE employs one Supply Technician whose responsibilities include maintaining property records of all assets and conducting an annual physical inventory. He is also responsible for requisitioning, receiving, storing, and issuing purchases as well as maintaining the resulting records and documents. The Supply Technician reports directly to the DOE Director.

Textbook Management – The Division of C&I has the responsibility of providing course and program development for the Department and ensuring that textbooks and instructional materials are available at public elementary and secondary schools. As such, the Division is responsible for distributing textbooks and educational supplies and for monitoring school inventory levels of books and educational supplies. The division employs one specialist for each of the following subjects: math, science, social studies and language arts. The specialists assist the Chief of C&I

in setting curriculum standards, recommending which textbooks to order, and by initiating all purchase requests for textbooks and instructional materials.

Five-Year Textbook Procurement Plan – The DOE developed a five-year Textbook Procurement Plan (hereafter the Plan) for the school years 2006-2010 in response to a JEMCO resolution intended to ensure that the State Governments provide sufficient funding to purchase textbooks and other instructional materials for every student and teacher in the core subjects of language arts, social studies, mathematics, and science.¹ For the three-year period FY 2007- 2009, Pohnpei received an allocation of \$2,655,886 for textbooks and other instructional materials.

As part of the Plan, DOE established a Textbook Accountability Committee (TAC) comprised of the division chiefs, program managers, educational specialists, the Fiscal and Procurement Officers, and school representatives. The Committee was established to oversee procurement and distribution of textbooks and to ensure accountability.

Objective, Scope and Methodology

Objectives – The objectives of this audit were to determine whether Pohnpei DOE:

1. Adequately safeguarded its assets.
2. Provided a sufficient number of textbooks to the schools in a timely manner.
3. Expended funds designated for OCE and fixed assets equitably to schools.

Scope - This audit focused on the Pohnpei DOE's inventory management, textbook procurement, and budgeting processes during fiscal years 2007, 2008 and 2009. This audit was conducted pursuant to Title 55 of the FSM Code, Chapter 5, which states in part:

“The Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government.”

Methodology – The audit fieldwork was conducted at the DOE offices and warehouse, the Pohnpei Department of Treasury and Administration (DOT&A), and at site visits to six schools.

To determine whether Pohnpei DOE adequately safeguarded its assets, the audit team interviewed the Supply Technician responsible for inventory activities and reviewed property records and inventory listings. Audit tests were conducted to verify the accuracy of inventory

¹ Joint Economic Management Committee (JEMCO) in its annual meeting in 2005 adopted a resolution to apply special grant conditions to the education grant for the FSM and State Governments to develop a national process and procedure for the procurement of textbooks for the primary and secondary education systems on a 5-year purchasing cycle.

records and to determine whether DOE was in possession of listed inventory items. In addition, audit tests were conducted to determine if DOE's asset accountability forms were used on a consistent basis. Pohnpei DOT&A officials were interviewed and DOT&A records analyzed and compared to DOE records.²

To determine whether Pohnpei DOE provided a sufficient number of textbooks to the schools in a timely manner, the audit team analyzed whether DOE had adhered to the Plan by reviewing purchasing and receiving reports as well as distribution forms (Form Ts). The audit team also conducted inventories at six of 34 schools which accounted for 18% of all students and represented at least one school for each of the five municipalities of Pohnpei. Inventory results were then verified through interviews with school principals and the Chief of C&I.

To determine whether Pohnpei DOE funds designated for OCE were expended equitably, the audit team interviewed the DOE Director and the Board Chairman to gain an understanding of the budget process and existing issues. Interviews with eight school principals on the topics of budgeting, requests for supplies, and levels of supplies were conducted to gain an understanding of the budgeting process and results from the customer perspective. In addition, we attempted to analyze the FY2007-2009 spending on a per school basis however not all DOE expenditure records identified the specific school(s) receiving the purchased items.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Audit Coverage

This audit was the first review on procurement activities at Pohnpei DOE to be conducted by the Office of the National Public Auditor (ONPA). An audit of Pohnpei DOE had been conducted by the U.S. DOI Office of the Inspector General (OIG) in 2006. That audit found that essential supplies were not adequately controlled to ensure that they were available for use in classrooms and that no controlled inventory environment and accurate recordkeeping existed to ensure that books and supplies are purchased and distributed properly.

CONCLUSION

Continued improvement in the areas of centralized management and oversight are needed to ensure assets are safeguarded, textbooks are provided, and the funds are distributed equitably

² The Supply and Property Accountability Section of the DOT&A prepares the master fixed asset listing of all Pohnpei government agencies and departments such as the DOE.

among schools. Existing controls do not provide the needed assurance that fixed assets will be safeguarded or that the Department's Inventory Listing is correct. Monitoring of the textbook procurement and distribution function has not been occurring and as a result textbooks were not provided in accordance with the procurement plan. The lack of a formalized school budgeting and tracking system makes it difficult for all parties to prioritize and plan for the purchase of supplies.

As discussed in Finding 1, while some controls were established to safeguard assets, the audit results revealed that the controls were not fully implemented. For example, though a Loan Agreement Form was developed to hold employees responsible for laptops and other equipment assigned to them, forms were not on file for all laptops assigned to staff. Similarly, though the required physical inventory was initiated, it was not completed. Approximately 28% of assets were not inspected nor were the results reconciled with the existing listing of fixed assets. Moreover, discrepancies existed between DOE's inventory listing and official asset listings maintained by DOT&A.

As discussed in Finding 2, a timeline for purchasing textbooks was established. However, the audit revealed that no monitoring of the process occurred and DOE did not adhere to that timeline. Textbooks were not ordered by the dates established in the Textbook Procurement Plan and, as a result, some grades went without textbooks for math, science, and social studies.

As discussed in Finding 3, DOE has not developed a 'per school' budget allocation and tracking system for consumable expenses or for fixed assets. As a result, the Department lacked a systematic method for allocating funds to the schools or for determining how to approve or deny purchasing requests made by school principals. Similarly, the school principals were not aware of the allocations available to them and therefore could not prioritize and plan accordingly.

FINDINGS AND RECOMMENDATIONS

1. DOE Has Not Established an Adequate System of Internal Control Over Its Fixed Assets

Organizations need a system of internal control (policies, procedures, and activities) to protect assets from being lost, to ensure they are accounted for, and for the general purpose of inventory management. The Compact Fiscal Procedures Agreement (FPA) and the Pohnpei Financial Management Regulations (PFMR) include specific activities that DOE must perform.

Additionally, the U.S. Government Accountability Office (GAO) provides recommendations though adherence to GAO recommendations is not required by the Compact or existing law.

The FPA requires that:

- For each asset that is acquired, DOE must make a property record that documents a description of the fixed asset, the asset's serial number, the date it was acquired, the cost of the asset, where the asset is located, and other related pieces of information.
- At least once every two years, DOE must conduct a physical inventory of its fixed assets and then reconcile the results to its existing property records.

The PFMR requires that:

- Vehicles have government seals/license plates and all other fixed assets have property tag numbers affixed. (PFMR sub-part 7.6)
- There should be reporting to the Director when property has been lost, damaged, or destroyed and then there should be an investigation to determine how and why the property was lost, damaged, or destroyed. If the results of the investigation find that one more person was liable (at fault), then the Director should determine the fiscal amount of the liability. (PFMR Sub-Part 7.6 – 7.8)

GAO guidance suggests that access to equipment that is vulnerable to risk of loss or unauthorized use should be limited. It also recommends that accountability for resources and records should be assigned.

Overall we found that DOE had only partially implemented the required and recommended control activities. Specifically, we found that:

- *DOE has a system for documenting property records but it does not have a record for all its assets.* An Excel spreadsheet is used to document property records and, as such, all assets should be listed on the spreadsheet. However, the audit team randomly selected 17 laptops, computers, and printers from the DOE administrative and special education

offices and then checked to see if those items were included on the spreadsheet. Eight of the 17 items were not listed on the spreadsheet and another six were listed as being located at specific schools though the items were physically located at DOE central office.

- *An inventory was started in 2008 but it was not completed.* The DOE Fixed Asset Listing includes 791 items. The inventory records show that only 572 items were physically checked during the inventory process. The remaining 219 items or 28% were not checked. Additionally, there was no reconciliation process.

Typically, inventory/reconciliation process includes steps whereas all items that could not be located during the physical inventory are listed and then the organization attempts to locate the items. A report is made of the items that still can't be located and then they are removed from the inventory list. This did not occur at DOE.

- *DOE did consistently put license plates/seals on its vehicles and 'property of' stickers on its other assets.* Testing performed by the audit team found that 48 of 49 items were properly tagged.
- *DOE had only minimally implemented a process for reporting, investigating, and then assigning responsibility when assets were lost, stolen, and/or damaged.* At present, the DOE process has been to provide the Director with a spreadsheet listing of damaged items once a year in conjunction with the annual physical inventory. No similar listing of missing items is provided to the Director. Moreover, the intent of the regulation appears to be that the Director should be informed on a more immediate basis each time a fixed asset is lost, stolen, or damaged so that he may order an investigation.

DOE had not implemented a standard practice of investigating the causes of lost, stolen, and damaged items and then holding individuals financially accountable if they were found to be at fault. It was noted that when a DOE vehicle was involved in an auto accident, the Director had the accident investigated. However, this process has not become a standardized practice for other categories of fixed assets.

- *A process has been designed to control access and assign responsibility for vulnerable assets but the process has not been consistently implemented.* A Loan Agreement Form was developed to hold individuals responsible for laptop computers and similar assets. However, more often than not laptops are given to individuals without the Form being completed. The audit team randomly selected 63 computers, laptops, etc. and asked to see the Loan Agreement Forms. DOE could only provide the forms for 46 of the items. No form could be provided for 17 of the 63 vulnerable assets (27%). Either the forms

had not been completed or they had been lost. Additionally, 5% of the items had completed forms but they had not been signed by both the borrower and approver.

Inadequate internal controls lead to the loss of assets, resulted in inaccurate records, and prevented DOE from recouping any of the cost of lost and damaged items. Specifically:

- *Vulnerable items were lost or stolen.* Fifteen laptops and one digital camera that were part of the audit team's test could not be located. It was reported that one laptop had not been returned by a former employee. The whereabouts of the other items could not be determined. The items had a total cost of \$20,808.
- *DOE inventory records do not agree with records maintained by the Pohnpei DOT&A.* Per the DOT&A report, assets totaling \$675,113 are missing. Comparison of a sample of items on the DOT&A report with DOE's Inventory Listing suggest that approximately 50% of the missing items are still listed by DOE as part of their fixed asset inventory.

Additionally, inaccurate records misrepresent the extent to which assets have been provided to the schools. As noted earlier, six of 17 items that were listed as being in the possession of various schools were actually being used at DOE central offices instead.

- *Because the loss and damage of fixed assets was not being investigated, DOE missed the opportunity to recoup the cost of assets that were lost and/or damaged due to personal negligence.* Per DOE records, 254 assets totaling \$472,850 have been damaged between 1997 and 2008. The amount of damage caused by personal negligence is most likely only a fraction of that amount. Additionally, the value of the assets at the time they were damaged would have been less than the full purchase price. As a result, the audit team cannot determine the financial impact caused by the lack of investigations and assignment of fiscal responsibility.

Cause and Recommendation

Shortcomings in the inventory management system are attributed to a need for additional staff training, more involved monitoring by management, and formalized inventory management policies and procedures.

- *Training, formalized policies, and monitoring of the inventory process are needed.* The Supply Technician responsible for inventory functions has not received training in the reconciliation portion of the inventory process. Additionally, the process by which the inventory and reconciliation should occur has not been documented in formal policies and procedures. Moreover, the current system does not assign anyone the responsibility for monitoring the results of the Technician's work to ensure it is completed.

- *There is no policy regarding the reporting and investigating of lost/damaged items.*
As noted earlier, a formalized process had not been developed nor has responsibility for these activities been assigned. As a result, these activities do not occur.
- *No one is responsible for vulnerable fixed assets.*
Though the Loan Agreement Form was developed to safeguard vulnerable assets, no one is responsible for ensuring the Form is completed and retained or that assets are returned. Because the Procurement Officer, Supply Technician, and School Principals are all involved in authorizing and providing equipment to employees, there appears to be confusion regarding the issue of responsibility for assets and completion of the forms.

We recommend that DOE management:

1. Develop written policies and procedures to govern the process of conducting the physical inventory and reconciliation. The policies/procedures should:
 - a. Give step by step directions on how to conduct the inventory/reconciliation and record the results, and
 - b. Document the management monitoring activity that will occur to ensure the inventory is completed in its entirety.
2. In conjunction with the development of an inventory policy and procedures, DOE should ensure that staff receive training and understand the process.
3. Develop a policy and procedures, as well as reporting tools, that address the need to report, investigate, and assign fiscal responsibility (as applicable) when assets are lost or damaged.
4. Develop a policy and procedures to ensure that property records and the inventory listing are updated when items are lost or damaged.
5. Develop better oversight of its vulnerable assets by assigning responsibility for ensuring that Loan Agreement forms are completed and retained when vulnerable assets are assigned to staff and/or borrowed.

2. DOE Did Not Adhere to its Five-Year Textbook Purchasing Plan

DOE established a five-year textbook purchasing plan in 2005. On a year by year basis, the plan established which grades/subjects should have books purchased that year. The plan listed the number of books to be purchased, the date by which the purchase order should be placed, and the timeline by which books should be received by DOE and then distributed to the classrooms.

The purchasing plan for school year 2007-2008 is presented below for illustrative purposes:

Purchasing Schedule
2007 - 2008
Elementary Division

Core Subject	Grade	Student Population	Textbooks Needed	Annual Budget	Order Date	Timeline
Math	1-8	2006 enrollment + 2% increase	8,432	-	11-07	1-07 to 1-08

Source: Five Year Textbook Procurement Plan School Year 2006-2010, Pohnpei State Department of Education

The full purchasing plan is attached as Appendix 1, page 14.

Overall we found that DOE did not adhere to the plan. Often books were not ordered by the dates established by the plan. Specifically:

- Math books for grades 1-4 were suppose to be ordered per the Plan by Nov 2007. Order was made in May 2008 (6 months late).
- Math textbooks for grades 5-8 were also suppose to be ordered in Nov 2007. They were ordered in Jun 2009 (1 year and 7 months late). They were received in February 2010.
- Social studies for grades 1-8 were suppose to be ordered by Nov 2008. Books for grade 7 were ordered in March 2009. No books have been ordered for grades 1-3 however the audit team was informed that these textbooks are in the process of being printed locally. Books for grades 4-8 were ordered on time.
- Language arts oral for grades 1-4 were suppose to be ordered in November 2006. They were ordered in February 2007.
- Language arts reading for grades 3-8 were suppose to be ordered in November 2006. Reading books for grades 7-8 were ordered on time but books for grades 4-6 were not ordered until May 2008.

Because textbooks were not ordered in a timely manner, students were without textbooks. Auditors conducted site visits at five elementary schools and one high school in December 2009. The auditors found the following:

- Math books – During the auditor site visits, grades 5-8 did not have math books. Math books were received in February 2010.
- Science books – Grades 1-3 had no science books. Additionally, the Lewetik Elementary School had no science books for its 6th or 8th grades and only one book for its seven 5th grade students.
- Social Studies – No third grade classes had social studies books and only two of the four elementary schools had social studies books for grade two. Additionally, Lewetik

Elementary School had no social studies books for grades 5-8 and Pohnlangas Elementary School had no social studies books for its 6th grade.

Cause and Recommendation

Use of a comprehensive purchasing plan was a new endeavor for DOE and as described by one DOE official, “the organization had to work through a learning curve.” The audit team found that DOE lacked management monitoring, that communication and information sharing was not adequate, and that distribution records were not complete. Primarily, staff were not monitored to ensure books were purchased on a timely basis or that specific problems were identified and addressed. Additionally, better communication and information sharing may have resulted in individual classroom shortages being addressed.

Specifically:

- *Monitoring of the purchasing function was not occurring.* The Chief of C&I was not monitoring the specialists assigned to him who are responsible for textbook purchasing. In addition, a Textbook Accountability Committee (TAC) comprised of all department chiefs, including the Chief of C&I, was established to provide oversight over the textbook procurement process. The TAC was activated but its activities did not include monitoring whether textbooks were purchased by the deadlines established in the Five-Year Purchasing Plan.
- *The Chief was not aware when specific school classes lacked books.* Though schools are required to submit end of year inventory reports, those reports are submitted to the Chiefs of the Elementary and Secondary Divisions. The Chief of C&I is not included in the report distribution list. Additionally, schools submit Quarterly Progress reports but the report format does not include a section for reporting on textbook inventory.
- *Not all principals were aware that there were textbooks shortages in their schools.* Principals serve as the communication link between teachers and DOE and should therefore be aware of and share this information with DOE officials.
- *DOE did not maintain complete records of distribution of textbooks to schools.* DOE’s Form T is designed to record delivery of textbooks from the DOE warehouse to individual schools. As such, it could serve as a mechanism for monitoring the provision of books to schools. However, complete and accurate records of all deliveries were not maintained. There appeared to be confusion regarding the issue of whether the C&I Specialists or the Supply Technician is responsible for making deliveries and maintaining Form T records.

We recommend that the DOE management should ensure:

1. The Chief of C&I monitors the performance of staff assigned to him and be held accountable by the DOE Director for ensuring that purchases are made by the deadlines included in the purchasing plan. In addition, in the future the TAC be more active in monitoring activities to ensure desired results are achieved.
2. End of year school textbook inventory reports be provided to the Chief of C&I to ensure that he is aware of textbook shortages/overages. In addition, the Chief should develop a system of distribution/transfer to ensure that all students have textbooks.
3. School quarterly reports include a section on textbook shortages so that all parties are aware of textbook shortages/overages on a continual basis.
4. DOE examine the function of textbook delivery and record keeping so that it may determine how responsibilities for delivery and record keeping should be assigned. The decision should be then documented in policy form and appropriate procedures developed.

3. DOE Has Not Developed a ‘Per School’ Budget Allocation and Tracking System for Consumable Expenses and Fixed Assets

The budget process should include a formula or process for determining how much funding is allotted to each school, for communicating that information to the schools, and for tracking the expenditures of each school.

We found that the current budget process lacks a formalized process for determining each school’s allocation, that schools are not told how much money they are allotted for supplies and assets, and that there is no tracking of expenditures on a school basis.

The audit team found that DOE accountants maintain an Excel spreadsheet of the ‘budget per school’ for supplies and other consumable expenses which is based on a per student formula.³ However, the budget is not used to determine whether to approve or deny request for purchases of supplies. The accountants stated that school supplies were all charged to the division’s consumables account and they cannot determine how much is being charged by each school.

It was reported that there is a budget for fixed assets but that “it is not on paper.” Because small schools would not be provided the amount needed to purchase computers, copy machines, etc. if funds were distributed on a ‘per student’ basis, no attempt has been made to allocate funds according to a per student formula. Instead, management decisions were made as to how funds should be allocated and which purchase requests should be approved.

The current condition is no different than conditions found in 2006. At that time, the U.S. DOI Office of Inspector General (OIG) reported that the 2006 fiscal budget “lacked detailed

³ Per DOE accountants computation, per capita is determined by the total school consumables budget divided by the number of enrollment.

breakdowns of actual and budgeted expenditures by type of cost for each school (e.g. salaries, equipment, instructional materials, and supplies)".⁴ The report also noted that "if such information had been available and provided to the Director of Education and the State Board of Education, we believe it could have alerted them of serious accountability problems within DOE and allowed them to better plan for future years."

Because current budget policies and practices do not require that all expenditures be tracked on a school by school basis, the audit team could not determine if each school gets a fair and equitable share. Approximately 2/3 of OCE expenditures in FY2009 could be tracked to individual schools but the remaining \$58,000 spent could not.

In interviews with the audit team, principals stated that information regarding their schools' budget is not communicated to them and that they do not know if requests will be approved, delayed, or declined. Elementary school principals reported the following:

- One principal stated that his school is not getting all of the supplies he requested. For example, he requested a copier machine last year and has not received one. He pointed out that he did not know what his school's budget was.
- A second principal reported his school did not always get the supplies it requested. He further noted that at times he must follow up many times with DOE to receive the requested items.
- A third principal reported that she was not aware that her school had a budget until she followed-up on a request at the DOE. She noted that her school had adequate classroom supplies but it lacks supplies that are necessary for maintaining the cleanliness of the school such as brooms and trash bags and keeping electronic records like flash drives. She also noted that she only received one of three computers she requested.
- A fourth principal reported that he was not aware or informed of the availability of a school budget. He noted that though DOE is 'very good' at providing classroom supplies, other requests have not been provided for. He received two of five computers he requested and he had not received items he requested such as book shelves, trash containers, powdered soap, and Clorox.
- Other principals also reported that their schools are short of supplies.
- The Chairman of the Board of Education also indicated that principals have complained to him that their requests for supplies were not being provided to them by DOE.

⁴ U.S. Department of the Interior Office of Inspector General: Pohnpei State, Federated States of Micronesia Property Accountability Process Needs To Be Established, Report No. P-EV-FSM-0001-2006, October 2007

Cause and Recommendation

Development of a ‘per student’ budgeting and tracking system has not been a priority of DOE. However, DOE reported that last year it developed a budgeting and tracking system for School Improvement Plan (SIP) funds and that it plans to replicate that process for areas such as Other Consumable Expenses. It was further stated that during the summer there will be a “Principals Institute” which will include discussions and trainings related to budgeting.

We recommend that the DOE management:

1. Improve the budget process so that each school has a budget for fixed assets and OCE, and can then request items accordingly.
2. Develop a budget policy that it should communicate properly to the schools so that schools are able to plan and expend their budget accordingly.
3. In addition to improving the budget process and developing a budget policy, the DOE accountants should account and accurately monitor the school budget and expenditures for proper monitoring.

APPENDIX 1: Copy of the Purchasing Schedule

Pohnpei Department of Education Procurement 5-Year Plan Page 7 of 12

Textbook Monitoring

There shall be a textbook contract between the School Principals and Teachers, (FORM-PTC.doc), and between Teachers, Students and Parents, (FORM_C.doc).

Implementation of the Textbook Policy/Contract is a requirement that is intended to safeguard textbooks. It is a document that intends to let the students and the parents know the importance of text and the cost of purchasing these books. See the attached Textbook Policy/Contract.

Fine

A lost or unusable, textbook will result in a fine of the full price of the textbook at the time of purchase.

Purchasing Cycle

There shall be a purchasing cycle every 3-5 years, after an overall survey is done at every school (ECE-12) to determine the exact number of textbooks by grade to be purchased.

Purchasing Schedule 2006-2007

ELEMENTARY DIVISION

Core subject	Grade	Students population	Textbook needed	Annual Budget	Order Date	Timeline
LA (Reading)	3-8	5,667	5,667	340,020 *	11-06	1-06 to 02-07
LA (Oral)	1-4	4049	4049	242,940 *	11-06	1-06 to 02-07

SECONDARY DIVISION

Core Subject	Grade	Quantity	Student Population	Annual Budget	Order Date	Timeline
Math	9-12	2,600	2,600	159,000*	11-06	11-06 to 02-07
Science	9-12	2,600	2,600	159,000*	11-06	11-06 to 02-07

Narrative:

6 x 90,900

School Year 06-07 prioritize Language Arts (Reading Comprehension) for grades 1-8 and Math Textbook for grades 9-12. Based on prior standard-based assessment and other locally developed assessments, there is weakness in reading comprehension. There is already language arts textbook for the secondary schools that is the reason why math textbooks are being ordered at this time.

The next order schedule will be based on the textbook assessment result of 2007 and on for the core subject areas and others.

**Purchasing Schedule
2007-2008**

ELEMENTARY DIVISION

Core subject	Grade	Students population	Textbook needed	Annual Budget	Order Date	Timeline
Math	1-8	2006 enrollment +2% increase	8,432		11-07	1/07 to 1/08
LA (Reading)						
Science						
Social Studies						

SECONDARY DIVISION

Core Subject	Grade	Quantity	Student Population	Annual Budget	Order Date	Timeline
Social Studies	9-12	2006 enrollment + 2% increase	2,600	159,000	11-07	11-07 to 02-08
VOC. ED (T&I)	9-12					
VOC. ED (Agri)	9-12					

**Purchasing Schedule
2008-2009**

ELEMENTARY DIVISION

Core subject	Grade	Students population	Textbook needed	Annual Budget	Order Date	Timeline
Math						
LA (Reading)						
Science						
Social Studies	1-8	2007 enrollment + 2% increase	8,432		11-08	11-08 to 02-09

SECONDARY DIVISION

Core Subject	Grade	Quantity	Student Population	Annual Budget	Order Date	Timeline
Math	9-12	2007 enrollment + 2% increase	2,600	159,000	11-08	11-08 to 02-09
VOC. ED (Business)	11-12					
Science	9-12	2007 enrollment + 2% increase	2,600	159,000	11-08	11-08 to 02-09
VOC. ED (Home Arts)						

✓

**Purchasing Schedule
2009-2010**

ELEMENTARY DIVISION

Core subject	Grade	Students population	Textbook needed	Annual Budget	Order Date	Timeline
Math						
LA (Reading)	1-8	2008 enrollment +2% increase	8,432	505,920	11-09	1-09 to 02-10
Science						
Social Studies						

SECONDARY DIVISION

Core Subject	Grade	Quantity	Student Population	Annual Budget	Order Date	Timeline
Math	9-12	2008 enrollment +2% increase	2,600	159,000	11-09	11-09 to 02-10
Science	9-12					
VOC. ED						
LA, Oral	9-12					
Social Studies	9-12					

MANAGEMENT RESPONSE

POHNPEI STATE GOVERNMENT
Department of Education
Post Office Box 250
Kolonia, Pohnpei State, FM
Tel: (691) 320-2102/2103
Fax: (691) 320-5510



Office of the Director
Email: jvillazon@pohnpeidoe.fm


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

Haser
6-1-2010

Dear Mr. Hainrick:

Submitted herewith, please find my respond to the finding you have sighted us when you audit our department. I do not have any contest against the findings except that we will do our best to work by your recommendations to improve the control of our fixed assets.

I appreciate your assistance.

Respectfully,

Joseph Villazon
Director of Education

Finding No. 1, DOE has not established an adequate system of internal control over its fixed assets.

Since the beginning of the Compact II period, the Department of Education has gone through some changes and improvements in terms of fixed assets control. There were forms developed, the creation of supply technician position, and the establishment of regulations, but we still found that great deal of improvement need to be done to the control of fixed assets.

The management of the Department of Education will take all the recommendations addressed and use them as driving force to resolve all the issues relating to fixed assets control. However, the department is in process of developing a Professional Standard Guideline to control the missing and lose of the fixed assets.

Finding No. 2, DOE did not adhere to its five-year text book purchasing plan.

The Department was aware of the issue. The problem the department was facing was that we did not have local publishing companies. We have to conduct all publishing companies to inform them of procurement bidding. There were number of occasions that we did not have bidders so this forced us to re advertise the same bid again. In addition, it took almost a year to have the book arrived in Pohnpei from the time of bidding to the time of receiving the books.

Finding No. 3, DOE has not developed a "per school" budget allocation and tracking system for Consumable Expenses and Fixed Assists.

The Department of Education has started a per school budget allocation in the School Improvement Program for instructional materials line item, where each school is given an amount of money for each school year to use. It is required that all school submits a School Improvement Plan (SIP) at the beginning of the school year. The SIP addresses the need of the school for that school year and the only items that can be purchased are those addressed in the SIP. The department may extend the SIP idea and apply to all consumable expenses and fixed assets.

**Office of the National Public Auditor
Pohnpei State Department of Education Procurement Activities
Report No. 2010-05**

NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank management and staff of Pohnpei State DOE and Pohnpei State DOT&A for their assistance and cooperation during the course of our audit.

The ONPA may perform a follow-up review within the next 9-12 months to ensure that Pohnpei State DOE has taken corrective measures to address all the findings and recommendations provided in this report.

In conformance with government auditing standards, we provided a copy of the draft report to the Director of the Pohnpei State DOE to provide a response to the audit. A reply was received from him indicating concurrence with our report. We have printed his reply in the Management Response section of this report.

In addition to providing copies of this report to the President, Vice President and Members of the 16th Congress, we also sent copies to the following officials:

- Governor and Lt. Governor, Pohnpei State
- Speaker and Members of Pohnpei State Legislature
- Secretary of Education, FSM National Government
- Chairman and Members, Pohnpei State Board of Education
- Director, Pohnpei State Department of Education
- Director, Pohnpei State Department of Treasury and Administration
- Pohnpei State Auditor

A copy of this report is posted on our website. Furthermore, we will make copies available to other interested parties upon request.

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



Haser H. Hainrick
National Public Auditor

June 1, 2010

**Office of the National Public Auditor
Pohnpei State Department of Education Procurement Activities
Report No. 2010-05**

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:

Eric Spivak, CIA, CGAP, Audit Manager
Edwin Barnuevo, CPA, CGAP, Audit Supervisor
Moses Russel, Auditor-In-Charge (until January 2010)
Aisi Mori, Staff Auditor

ONPA'S MISSION

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

**OBTAINING COPIES OF
ONPA AUDIT REPORTS**

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

**ORDER BY MAIL OR
PHONE**

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

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

CONTACT

Website: <http://www.fsmopa.fm>

Hotline: 691-320-6768
