

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

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**NORMA Should Improve Its Compliance  
with the Terms and Conditions of the PROP Project  
Audit Report No. 2018-01**



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



# FEDERATED STATES OF MICRONESIA

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June 25, 2018

Excellency Peter M. Christian, President  
Honorable Members of the FSM Congress

### RE: Audit of FSM PROP Project

The Financing Agreement between FSM Government and World Bank requires a performance audit to be conducted on the PROP project covering two years. We conducted this performance audit on the PROP project covering the period from March 2015 to September 2017.

The objective of the audit was to determine whether the implementation of the PROP project was in compliance with the terms and conditions of the Financing Agreement in the following three areas:

1. Component 1 on Sustainable Management of Oceanic Fisheries;
2. Component 2 on Sustainable Management of Coastal Fisheries; and
3. Component 3 on National Program Management, Monitoring and Evaluation.

We recognized that the PROP Project was still on-going within its approved 6 years term from March 2015 to September 2020. Based on our audit, we found the following:

1. Component 1 was not implemented in full compliance with the terms and conditions of the financing agreement specifically on the DLI reporting requirements and on the monitoring, control and surveillance activities.
2. The FSM Department of R&D and NORMA have approximately 1 year and 2 months under the terms of this Project to fully implement Component 2 as defined in the Financing Agreement. Further, a contractor was hired to help develop a coastal fishery management planning process and has until June 30, 2018 to complete the Plan. Both of the implementing entities are confident that this will be achieved by the due date.
3. Component 3 on National Program Management, Monitoring and Evaluation was not implemented in full compliance in four specific areas: (i) Project Operation Manual is still in its draft form; (ii) 3- months delay in executing agreement between the Forum Fisheries Agency and FSM Government; (iii) delayed in recruitment of the key personnel to provide supports to FFA's component part of the PROP as agreed with FSM; and (iv) 1-month delay in the recruitment of the FSM Project Coordinator.

Respectfully submitted,

Haser Hainrick  
National Public Auditor

XC: Director, NORMA  
Secretary, Department of Finance and Administration  
Secretary, Department of Resources and Development

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## **Introduction**

### **Background**

The Financing Agreement between the FSM Government and the World Bank requires a performance audit to be conducted on the Pacific Island Regional Oceanscape Program (PROP) Project covering two fiscal years.

The PROP was developed to strengthen the shared management of oceanic and coastal fisheries for selected Pacific Island countries, and the critical habitats upon which the fisheries rely on. This program aims to strengthen: (i) the national and regional institutions responsible for management of oceanic fisheries; (ii) the national and local institutions responsible for management of coastal fisheries; and (iii) the institutions responsible for conservation of the natural habitats that support the fisheries.

The FSM, Republic of the Marshall Islands, Solomon Island and Tuvalu were the first four island countries to receive funding from World Bank to implement the PROP Project. On March 30, 2015, the FSM Government and World Bank entered into an agreement. The duration of this project is 6 years, starting from March 2015 to September 2020. World Bank agrees to extend to FSM a grant in the amount of Special Drawing Right (SDR) 3.8 million, which is equivalent to \$5.5 million in US dollar. SDR is a basket of currencies consisting of the US dollar, Euro, the Chinese renminbi, Japanese yen, and the British pound sterling.

The National Oceanic Resource Management Authority (NORMA) and the Department of Resources and Development (R&D) are the agencies responsible to implement the PROP project in FSM.

FSM agrees to carry out the following three components of the Financing Agreement:

1. Sustainable management of oceanic fisheries;
2. Sustainable management of coastal fisheries; and
3. National program management, monitoring and evaluation.

#### Component 1: Sustainable management of oceanic fisheries

Component 1 aims to help the participating Pacific Island countries to strengthen the management of the region's purse seine and long line fisheries. NORMA is the implementing agency of this component. NORMA is to carry out program activities to: (i) strengthen its capacity for sustainable management of shared tuna fisheries; and (ii) strengthen its institutional capacity. Such activities are to include a comprehensive review of NORMA's roles, functions, human and financial resources and organizational structure, and thereafter to implement reforms agreed with the World Bank and any technical assistance required to improve its effectiveness and capacity for governance of the oceanic fisheries sector.

#### Component 2: Sustainable management of coastal fisheries

Component 2 of the Financing Agreement aims to support Pacific Island member countries to sustainably manage defined coastal fisheries and the habitats that support them, focusing on those with the greatest potential for increased benefits. This component will include activities to: (i) empower stakeholders to sustainably manage targeted coastal fisheries in participating countries; and (ii) link sustainable coastal fish

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products to regional markets. It will also provide climate change co-benefits by supporting adaptation in the form of better management of coastal fisheries and natural defenses. The Department of R&D is responsible to implement this component for the development and subsequent implementation of a coastal fishery management planning process in the FSM, focusing on the ecosystem approach. Ecosystem approach is a strategy for the integrated management of land, water, and living resources that promotes conservation and sustainable use in equitable ways.

**Component 3: National program management, monitoring and evaluation**

Component 3 aims to provide regional coordination, implementation support and project management to ensure a sound approach to program implementation and wide dissemination of results and lessons learned, as well as implementation support and training as needed for the program to achieve its objectives. NORMA is responsible to carry out this component by executing program of activities designed to strengthen its own capacity for project management and implementation, including for financial and procurement, monitoring and evaluation, and safeguards.

**Allocation of the SDR 3.8M**

The SDR 3.8M funding for the PROP project was allocated in two categories:

1. Goods, works, non-consulting services and consultants' services for the Project (except Component 1 Part 1 of the Project). The amount allocated for this category is SDR2M.
2. Disbursement Linked Indicators (DLI) Expenditures under Component 1 Part 1 of the Project in the amount of SDR 1.8M.

The allocation for the two categories is expressed in SDR. The percentage of expenditures to be financed (inclusive of taxes) is 100%.

**Disbursement Linked Indicators**

SDR 1.8M is allocated for the DLIs. The purpose of the DLI is to ensure that the participating countries are abiding by the rules of the Vessel Day Scheme (VDS), guaranteeing that each country stays within its allocated Parties Allowable Efforts (PAEs<sup>1</sup>).

DLI funds are disbursed as an advance and replenished to the Designated Account when the DLI targets are achieved. The required documents to be submitted for replenishment of the DLIs are statements of expenditures and third-party verification confirming that the agreed indicators have been met for each year.

The statements of expenditures and third-party verification are submitted to World Bank for review, ensuring that they are DLI eligible expenditures. These expenditures are DLI eligible if they are linked to Part1 of the project to strengthen the management of tuna (oceanic) fisheries. The independent reviewer verifies and reviews the following four DLIs to ensure that the PNA members abide by the VDS requirements for each year. The DLI requirements are as follows:

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<sup>1</sup> Parties Allowable Effort(PAE):is the total number fishing days for a management year allocated to a party and limits the level of fishing by vessels in their waters.



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- ❖ DLI 1: Number of purse seine tuna fishing days fished in the Recipient's water (*days fished as days fished in zone*)
- ❖ DLI2(i): Number of purse seine fishing vessel days in the Recipient's waters recorded annually according to agreed criteria (*Total days fished as days fished in zone*)
- ❖ DLI2(ii): Number of purse seine fishing days used and sold in the Recipient's water disclosed annually to the PNAO FIMS and other Parties to the Nauru Agreement
- ❖ DLI 3: Proportion of purse seine tuna catch within the Recipient's water that is encompassed within the VDS or a compatible system (*Days fished by vessels licensed by the Recipient to fish in the Recipient's EEZ*)

## **Objectives**

The audit objective was to determine whether the implementation of the FSM PROP Project was in compliance with the terms and conditions of the Financing Agreement, specifically in the following three areas:

1. Component 1 on Sustainable Management of Oceanic Fisheries;
2. Component 2 on Sustainable Management of Coastal Fisheries; and
3. Component 3 on National Program Management, Monitoring and Evaluation.

## **Scope**

The audit covered years from March 2015-September 2017.

Our fieldwork was conducted mainly at NORMA, Department of Resources & Development, and the Department of Finance & Administration (DF&A). The focus of the audit was on the compliance with the approved terms and conditions of the Financing Agreement between World Bank and the FSM Government.

We conducted this audit pursuant to the authority vested in the National Public Auditor as codified under 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."*

## **Methodology**

We conducted this audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

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

To determine whether the implementation of Component 1 was in compliance with the terms and conditions of the Financing Agreement, we developed compliance attributes and assessed with progress reports, mission reports and annual work plans. We also obtained and reviewed the tagged eligible DLI expenditures to assess their eligibilities. Finally, we inquired with key personnel on the activities that should be carried out to implement Component 1.

To determine whether Component 2 was implemented in accordance with the Financing Agreement, we reviewed and assessed annual workplans, terms of reference for contractor and scope of work, progress reports and output reports. Finally, we also inquired with key personnel regarding the outcome of Component 2 and the activities that should be implemented under this component.

To determine whether Component 3 was implemented in accordance with the Financing Agreement, we developed compliance attributes and assessed with progress reports, mission reports and annual work plans. Finally, we inquired with key personnel regarding the activities that should be carried out to implement Component 3.

### **Prior Audit Coverage**

This is our first performance audit on the World Bank Project-Pacific Island Regional Oceanscape Program.

### **Conclusion**

The implementation of the PROP Project is still on-going within its approved 6 years from March 2015 until September 2020, so we recognized that activities will continue to be made during the remaining term of the project. Generally, we observed compliance with terms and conditions of the Financing Agreement in most areas.

Notwithstanding the above comment, we found some areas that need attention to enhance compliance relative to the objectives we set out for this audit.

Based on our audit, we concluded that as of date, Components 1 and 3 of the PROP project were implemented not in full compliance with the terms and conditions of the Financing Agreement. In addition, Component 2 is still under implementation and is expected to be completed by June 30, 2018.

The final audit shows the following results as of to-date:

1. Component 1 was not implemented in full compliance with regards to the DLI reporting requirements and the approved monitoring, control and surveillance activities.
2. The FSM Department of R&D and NORMA have approximately 1 year and 2 months under the terms of this Project to fully implement Component 2 as defined in the Financing Agreement. Further, a contractor was hired to help develop a coastal fishery management planning process and has until June

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30, 2018 to complete the Plan. Both the two implementing entities are confident that this will be achieved by the due date.

3. Component 3 on National Program Management, Monitoring and Evaluation was not implemented in full compliance with the Financing Agreement.

The findings and recommendations are discussed in detail in the following pages.



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## **Findings and Recommendations**

### **Finding No.1: Component 1 was not in Full Compliance Specifically with the DLI Reporting Requirements and the Monitoring, Control and Surveillance Activities**

The Financing Agreement requires that NORMA carries out programs and activities to strengthen the management of Pacific Region's tuna fisheries, and such programs and activities include strengthening of NORMA's (1) capacity to sustainably manage shared tuna fisheries, and (2) own institutional capacity.

During our review, we noted non-compliances with respect to the reporting on the status of the Disbursement Linked Indicators targets and on the Monitoring, Control and Surveillance (MCS) activities.

- The Financing Agreement requires NORMA to report to the Forum Fisheries Agency (FFA) on the status of the DLI target achievement not later than January 31<sup>st</sup> of each year during the implementation of the project. However, the report for the period from March 2015 to September 2015 was submitted to FFA in February 2016 instead.
- Further, the Financing Agreement requires FFA to submit the DLI verification report to the World Bank by March 31<sup>st</sup> of each year during the implementation of the project. However, for the reporting period from October 2015 to September 2016, the DLI Verification was issued in May 2017, exceeding the submission date for FFA to report to World Bank as required in the Financing Agreement.
- We also noted during our review of tagged eligible DLI expenditures that it was difficult to identify whether some of the tagged expenses were eligible due to the nature of descriptions reflected in the report, and the lack of documentation support to justify the tagged DLI expenditures, which we were informed that the World Bank had already approved. *Refer to Appendix A for the unclear tagged eligible DLI expenditures for the reporting period from October 2015 to September 2016.*
- The Financing Agreement further requires that all monitoring, control and surveillance activities shall be under the control of a civilian fisheries officer or another civilian agency of the Recipient (FSM) acceptable to World Bank and shall be carried out under Terms of Reference limited to fisheries surveillance. Based on our review and inquiry, NORMA collaborated with the Department of Justice on the MCS activities at the beginning of the project using the PROP funding. On September 2017, DOJ decided not to utilize the PROP funding to support maritime surveillance activities. Up until now, the Terms of Reference required to govern the MCS activities is still lacking.

The expected results for the sustainable management of shared tuna fisheries were not reported in a timely manner.

#### Cause and Recommendation:

The issues occurred because:

- The DLI reporting period defined in the Agreement was not consistent with the date for which the information in the Fisheries Information Management System (FIMS) was officially close.
- The Independent Verifier had limited access to Fisheries Information Management System.

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- Descriptions of transactions in the expenditure report by the Department of Finance and Administration were not detailed and clearly stated.
- DOJ could not be part of this PROP project due to issues pertaining to confidentiality.

We recommend that NORMA Management should:

1. Propose new DLI reporting deadlines and seek necessary amendments to the Financing Agreement accordingly.
2. Comply fully with the approved terms and conditions of the financing agreement.

Furthermore, we recommend that the Management of the Department of Finance and Administration to should ensure that records of transactions are clearly described and stated in the financial reports.

**Finding No. 2: Component 3 on National Program Management, Monitoring and Evaluation was not in Full Compliance in Four Specific Areas**

The Financing Agreement requires that NORMA carries out program of activities designed to strengthen the capacity of NORMA for project management and implementation, including for financing and procurement, monitoring, evaluation and safeguards.

During our review, we noted the following non-compliances to the terms and conditions of the Financing Agreement to implement Component 3 of the project.

1. The Financing Agreement requires that an implementing agency should adopt a Project Operations Manual(POM) three months after the effective date which is March 15, 2015, to ensure that projects are carried out in accordance with. However, as of our audit cut-off date, Forum Fisheries Agency (FFA) has not finalized the project operational manual and it is still in its draft form.
2. To facilitate proper and efficient implementation of the Project, the recipient shall by not later than six months after the effective date, enter into and maintain, throughout the project implementation period, service Agreement with FFA. Based on our review, FFA and FSM entered into an agreement on December 2015, 9 months after the effective date.
3. Program Support Unit (PSU) located within FFA was established to provide support to the implementation agencies on project financial management and procurement. FFA was without the key personnel to provide support to FFA's component of the PROP project as agreed with the FSM. The Unit was without the service of the Procurement Specialist until late September 2017, and there still no recruitment for the Finance Officer and the Safeguard Specialist.
4. The Project Coordinator was contracted on August 2015, to coordinate and oversee the PROP project. The Financing Agreement requires that the Project Coordinator should be hired four months after the effective date. However, he was contracted 5 months after.

As a result, FFA was not providing full support as to what it was established for. The delay in the recruitment process may have impacted the work of management, slowing down the implementation process and important tasks may not be fulfilled.

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Cause and Recommendation

The issues occurred because:

- FFA has not finalized the Project Operations Manual due to some unresolved issues pertaining to the Disbursement Linked Indicators format and scheduling.
- Delay in recruitment for the key position to provide support to FFA's component of PROP project at FFA and the FSM Project Coordinator.

We recommend that NORMA Management should:

1. Coordinate with FFA to finalize and adopt the Project Operations Manual quickly.
2. Comply fully with the approved terms and conditions of the Financing Agreement.



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**Appendix A:** Unclear tagged eligible DLI expenditures for the reporting period October 2015-September 2016

Date	Type of Expenses	Account	Description	Amount
3/2/2016-9/6/2016	Bank Charges	Various NORMA'S Account	Bank related charges	\$424.99
9/30/2016-8/20/2016	Contributions, Food Freight and Insurance Fee	Various NORMA'S Account	Contributions, Food, Insurance Fee, Annual Premium and other	\$6,809.70
2/15/2016-9/30/2016	Travel and Transportation	Various NORMA's Account and DHSA	Official's Travel, Meeting, and Attend Funeral	\$54,208.42
<b>Total</b>				<b>\$61,443.11</b>

The above table shows summary of expenditures that were tagged as eligible DLI expenses for the period October 2015 to September 2016. Eligible DLI expenditures should be mainly for the purpose of Sustainable Management of Shared Tuna Fisheries. However, the audit team could not identify the transactions summarized in the table as to whether these expenditures were eligible or not based on the descriptions noted in the expenditure report.

- There were 8 transactions from 3/2/2016-9/6/2016 for bank charge. 2 for wiring fees, 4 for bank charges, 1 for to staff an official, and 1 for stop payment fee.
- There were 6 transactions relating to other types of expense such as contributions, Insurance fees, freight, food and to staff an official for the period 10/29/2015- 9/9/2016. 2 of the transactions were insurance fees, 1 was contribution, 1 was for freight, 1 was to staff an official, and 1 was for food.
- There were 39 transactions for travel and transportation for the period from 2/15/2016-9/30/2016. 29 out of the 39 transactions were for officials travel from NORMA Office, Health Food Safety Division and Foreign Affairs. The description provided for the 29 transactions were just the name of the travelers. 3 of the 39 transactions were for traveler to attend series of upcoming meetings, 2 of the 39 were to attend various meetings, and 1 of the 39 was to represent FSM to attend funeral.

The nature of the descriptions provided in the report did not provide clear description to determine whether these expenses were for the purpose of sustainable management of shared tuna fisheries. These expenses as informed was already approved by the World Bank. The total amount of these expenses was \$61,443.11.

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## MANAGEMENT RESPONSE



*National Oceanic Resource Management Authority*

FSM NATIONAL GOVERNMENT

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June 11, 2018

Haser Hainrick  
National Public Auditor  
Office of National Public Auditor  
FSM National Government  
Palikir, Pohnpei 96941

Dear Mr. Hainrick,

**Re: Audit of the Pacific Regional Oceanscape Programme (PROP) Project**

I acknowledge with appreciation the draft report on the audit of the Pacific Regional Oceanscape Programme (PROP) Project in the FSM. We thank you and your staff for the continued collaboration to ensure our projects and activities are implemented according to our agreements we sign with our donor partners like World Bank.

We provide our management response below and wish to also recommend revision of the Report title to a more positive outlook on the audit exercise, which we thought had a positive outcome where there was compliance in most areas.

The following are our responses per the items under the two findings:

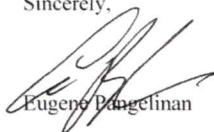
- Management concurs with bullet 1 bullet 2 of Finding 1 including cause and recommendation. NORMA has worked with PNA Office and determined that previous year's VDS data is finalized by March 31<sup>st</sup> and so the PROP participating countries are proposing an April 15 deadline for submission of Country DLI Reports with a June 15 deadline for FFA to submit verification reports to World Bank. As the verification process is an FFA responsibility, Management is unable to guarantee timely submission of verification reports to World Bank.
- Management further concurs with bullet 3 of Finding 1 and the corresponding cause and recommendation in that the expenses tagged are unclear when only viewing the transaction listings utilized in the tagging of DLI expenditures. However, details of the unclear expenses may be available from original documentation filed at FSM Finance.

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- Management disagrees with bullet 4 of Finding 1 as it verifies that all MCS activities funded by PROP Project have been carried out for the purpose of fisheries and also under the control of a NORMA fisheries officer. The fact that FSM DOJ is not utilizing the PROP funding for surveillance activities would mean NORMA has fewer activities to monitor to ensure they are within the requirement.
- Management concurs with finding 2 along with causes and recommendations. Management will continue to work with FFA, FSM Department of Finance & Administration and relevant agencies to ensure timely updating of operational documents and timely recruitments.

Thank you again for your time and we look forward to receiving the final report when available.

Sincerely,



Eugene Dangelinan



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## **ONPA EVALUATION OF MANAGEMENT RESPONSE**

The Management Response from NORMA appears on pages 10 and 11. Except for two items, Management has agreed to the findings, the causes for the issues, and the corresponding recommendations to rectify the issues. On the other hand, Management suggested that the Audit Title should be reworded and they also did not concur with our finding on monitoring, control and surveillance (MCS) activities, which appears as bullet #4 under Finding 1 on page 6.

### Action taken by auditor

Based on our evaluation of the Management Response, we agreed to modify the audit title. However, we decided not to make any changes to our audit comment on MCS activities and thus we left it as it was originally presented. We have provided further clarifications on this particular finding.

#### 1. Audit Title

Original audit title reads, *“The FSM Government Implementing Agencies Not Fully Complying with Terms and Conditions of the PROP Project with World Bank.”*

We agreed to revise the audit title to read as, *“NORMA Should Improve Its Compliance With the Terms and Conditions of the PROP Project.”*

We tested 19 compliance attributes. As a result, 12 complied and 7 did not comply. The compliance rate was at 63% as of the second year for this 6-Years PROP project.

#### 2. Monitoring, Control and Surveillance (MCS) Activities

We kept the finding as it was originally presented. As discussed in our finding, the MCS activities used to be performed by the FSM Department of Justice. Subsequently, DOJ ceased performing these activities and NORMA took them on by performing such. The Financing Agreement specifically requires a *Terms of Reference* to govern the implementation of the MCS activities. This essential piece of requirement has not been fulfilled and without such, there was uncertainty whether NORMA’s performance of the MCS activities complied with the accepted norm.

Finally, we also requested Management Response from the Secretary, Department of Finance & Administration. However, none was received from the DF&A.

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**NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank management and staff of the National Oceanic Resource Management Authority(NORMA) and Department of FSM Resource and Development(R&D), and Department of Finance and Administration (DF&A) for their assistance and cooperation during the course of the audit.

We have provided copies of the final audit report to the President and Members of the FSM Congress. Furthermore, we will make copies available to other interested parties upon request.

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



Haser H. Hainrick  
National Public Auditor

June 25, 2018

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## **ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

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

Erwihne David, Acting Audit Manager  
Rosadelima Alfons, Auditor-In-Charge  
Jane Gallen, Staff Auditor  
Brenda Carl, Staff Auditor

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