

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

CFSM PUBLIC PROJECTS FOR YAP STATE
LACK OF COMPLIANCE WITH LAWS AND REGULATIONS
Audit Report No. 2019 – 06



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August 21, 2019

His Excellency David W. Panuelo, President
Honorable Members of the FSM 21st Congress
Federated States of Micronesia

RE: Audit of the CFSM Funded Public Projects in Yap State

We have completed our audit of the FSM Congress appropriations for public projects in the State of Yap for fiscal years 2016 to August 31, 2018. Between FY16 and August 31, 2018, the Congress of the Federated States of Micronesia passed eleven (11) public laws to appropriate funds from the General Fund to fund public projects and social programs in the four states of the Federated States of Micronesia (FSM) referred to as CFSM public projects. The objectives of this performance audit were to determine:

- whether appropriate processes for reviewing and selecting projects were developed;
- whether project funds were expended in accordance with their intended purposes; and
- whether implementations of CFSM public projects were in accordance with laws and regulations.

We conducted this performance audit in accordance with *generally accepted government auditing standards (GAGAS)* issued by the Comptroller General of the United States in 2011.

We noted that public projects initiated through the Yap Congressional Delegation Office and passed into public laws, were not reviewed or coordinated with the Yap State Governor's office. Yet, the Governor and the State are required to implement and manage these projects irrespective of the State's available resources or the priority the State may assign to these projects. We also noted that project costs are not analyzed with enough scrutiny before being enacted into public law resulting in the authorized appropriation becoming the budgeted amount to spend regardless of how reasonable the amounts are for the projects. With regards to management of public projects, we found instances where oversight was poor or lacking, contractual and financial regulations were not followed, record keeping was absent, and program guidelines were not followed.

Furthermore, the FSM National and the Yap State Governments have little assurance that the Congressional funded public projects in Yap were managed with the State's interest and priority, or compliment the State's infrastructure or development plans. Both governments can't be confident that the project costs were reasonable or appropriate. Moreover, management oversight did not ensure that regulations were followed. With enhanced

restrictions on Compact funds and with limited resources, FSM funds might have been better used to achieve the YAP State's development goals had efforts of the State Government, Communities and Congressmen been coordinated. Our findings and recommendations are described in detail in the attachment to this letter.

Respectfully yours,



Haser H. Hainrick
National Public Auditor

Xc: FSM Vice President
Governor, Yap State
Secretary, Department of Finance & Administration
Directors, Office of Administrative Services and Office of Planning and Budget, Yap State
Manager, FSM Finance Field Office in Yap

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1.0 INTRODUCTION

Complaints from government officials and the citizens prompted this audit on CFSM funded public projects throughout the FSM States. The last audit on CFSM funded public projects covered fiscal year 2013. The original scope coverage for this audit was from FY14 to FY17. However, after further review and discussion during planning, the audit team collectively decided to change our scope coverage of this audit. Therefore, this audit will cover fiscal years 2016 to 2018, through August 31, 2018 only.

1.1 Background

From FY16 to FY18 the Congress of the Federated States of Micronesia passed eleven (11) public laws to appropriate funds from the General Fund to fund public projects and social programs in the State of Yap, Federated States of Micronesia (referred to as CFSM public projects). Based on the public laws, the total projects appropriated and funded by Congress for the State of Yap were 71. However, only 59 projects were allotted by Budget Office from FY16 through August 31, 2018.

As of August 31, 2018, Congress amended nine (9) out of the eleven (11) public laws for the following purposes: 1) replaced original projects with new projects; 2) added new projects; 3) decreased or increased appropriation amounts; 4) changed allottees; and 5) changed the lapse dates.

1.2 Budget

From FY2016 to August 31, 2018, the total number of projects funded by the FSM Congress for the State of Yap was 71 with the total amount of \$5,750,000. Of the amount appropriated by Congress, the Budget Office allotted an amount of \$2,943,800 for 59 projects. The total amount unallotted was \$2,806,200. Out of the allotted amount, the total amount expended on Yap CFSM Public Projects was \$798,434. (See table 1 below for details)

Table 1.0: Schedule of Public laws and Project Funds

Year	PL No.	Appropriation	Allotment	Expenditure	Balance	Unallotted
2018	Public Law 20-95	400,000	-	-	400,000	400,000
2018	Public Law 20-92	200,000	-	-	200,000	200,000
2018	Public Law 20-60	850,000	405,000	133,677	716,323	445,000
2017	Public Law 20-31	600,000	468,800	298,969	301,031	131,200
2017	Public Law 19-170	50,000	50,000	29,017	20,983	-
2017	Public Law 19-152	100,000	100,000	-	100,000	-
2017	Public Law 19-124	1,750,000	700,000	24,765	1,725,235	1,050,000
2017	Public Law 19-121	600,000	570,000	14,823	585,176	30,000
2016	Public Law 19-89	200,000	200,000	115,000	85,000	-
2016	Public Law 19-60	300,000	300,000	72,798	227,202	-
2016	Public Law 19-54	700,000	150,000	109,383	590,617	550,000
Grand Totals		5,750,000	2,943,800	798,434	4,951,566	2,806,200

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1.3 Public Project Administration

The Project Control Document (PCD) is a key control document that, if prepared accurately and completely, should help in ensuring the CFSM funded public projects have accountability, traceability and that oversight for quality and completion exist for the project life cycle.

2.0 OBJECTIVES, SCOPE, METHODOLOGY

2.1 Objectives

The objectives of this performance audit were to determine:

- (a) whether appropriate processes for reviewing and selecting projects were developed;
- (b) whether project funds were expended in accordance with their intended purposes; and
- (c) whether implementations of CFSM public projects were in accordance with laws and regulations.

2.2 Scope

The audit covered Congressional appropriations made during the FY2016 to August 31, 2018 as per Public Laws (as amended thereon): PL 19-54; PL 19-60; PL 19-89; PL 19-121; PL 19-124; PL 19-152; PL 19-170; PL 20-31; PL 20-60; PL 20-92; and PL 20-95).

The gathering, reviewing and testing of relevant information and documentations included previous and subsequent periods for analytical purposes. The audit was conducted pursuant to Title 55 FSM Code, Chapter 5, which states in part:

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

2.3 Methodology

We conducted this performance audit in accordance with *generally accepted government auditing standards* issued by the Comptroller General of the United States in 2011. 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 objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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The audit fieldwork was conducted at the FSM Department of Finance & Administration (DoFA), the Yap State Government, specifically at the Office of Administrative Services as well as the Office of Planning and Budget and at the Congressional Delegation Office in the State of Yap. For our questions regarding selection methods, we interviewed the Senators at the Yap Delegation Office and their staff, Allottees, and Project Managers. We also reviewed the criteria used by the Compact Capital Improvement Projects (CCIP) and the Infrastructure Development Projects (IDP) in their project selection processes. Regarding the implementation of projects, we reviewed the detail expenditure reports and judgmentally selected projects that had already expended not less than 50% of the actual allocated project funds.

Audit procedures included analyzing appropriation laws, advice of allotments, project control documents (PCD), project contract agreements and expenditures for public projects. Accordingly, we reviewed contracts, checks, invoices, and receipts. We also conducted inspections on construction related projects, equipment purchased, and other assets to validate their existence. We interviewed National and State Government officials as well as project managers and inspection officials.

3.0 PRIOR AUDIT COVERAGE

This performance audit is on public projects funded by the Congress of the FSM for the State of Yap. *Review of Congressional funded public projects for Yap State, for fiscal years 2005-2006, was issued in April 26, 2007. Audit report for all four states public projects funded by the Congress of the Federated States of Micronesia, for fiscal years ended September 30, 1997, 1996, 1995 & 1994 was issued in April 7, 1999. The last full audit report for all four states CFSM funded public projects for fiscal year ended September 30, 2013, was issued in February 9, 2015.*

Throughout our audit, we identified findings that were previously reported. Please refer to **Appendix E** on page 28 showing the status of implementation of our recommendations thereon.

4.0 CONCLUSIONS

Based on our interview, review and analysis of the appropriation laws, project contract agreements, allotments of project funds and expenditure reports, we concluded that:

- 4.1. The Yap Congress Delegation office in collaboration with the Yap State Government have not yet established and implemented processes for reviewing and selecting of projects;
- 4.2. There were cases where disbursements were made for activities that were not related to the public's economic and social development projects.

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- 4.3. In some cases, project funds expended were not in accordance with their intended purposes;
- 4.4. Implementation of some of the CFSM public projects was not in accordance with the established laws and regulations, including the Financial Management Act of 1979 and its regulations;
- 4.5. Several Public Projects were not fully implemented in terms of performing their intended purposes; and
- 4.6. Yap State Scholarship Supplemental Project was not complying with its scholarship administration guidelines as well as its existing policies and procedures.

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

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5.0 FINDINGS AND RECOMMENDATIONS

5.1. Finding No. 1: Over \$36,580 Worth of Expenditures Were Not Focused On Achieving The Intent Of The Projects / Meet The Description Of The Projects

Part 10.2 (a) (c) of the Financial Management Regulations (FMR) states: Prior to an allotment of national government funds for any public project, the Allottee of those funds shall complete a Project Control Document (“PCD”) in a form specified by the Budget Officer. Among other things, the PCD shall:

- (a) describe the project and its public purposes in sufficient detail to permit determination of the legality of the proposed expenditures, including their relationship to the purpose of the line item of the applicable national appropriation law and, if Compact Capital funds are involved, their permissibility under Article II, paragraph 3(e) of the Fiscal Procedures Agreement; and*
- (b) provide such detail as to the nature and type of expenditures to be made as is called for on the form.*

The FMR and more specifically, the PCD under FMR Part X, section 10 is the governing document for all public projects that receive funding from Congressional appropriations. Before funds can be allotted, a PCD must be approved by the FSM Budget Office. The PCD specifies, among other things, the purpose, the objectives, and benefits expected, project budget, funding source, and types of expenditures to be made. It also lists responsible officials, such as the allottee, administering agency, project manager, and inspection official. The allottee signs the PCD certifying that the project will comply with all FSM regulations.

During our review of expenditures and the information in PCDs, we found 4 public projects that were not in compliance with the Financial Management Regulations and the PCDs.

Project funds incurred were on expenditures other than their intended purposes and descriptions. A few examples include the following:

(i) Tomil Marine Conservation Project Boats & Outboard Motor Engines

According to the PCD, the original intended purpose and description of this project was to purchase a boat and motor for the community to be able to monitor and enforce policies and regulations of the Marine Protected Area (MPA) in Tomil – the specifications of the boats were not adequate enough to enable effective purchase.

After further review of its PCD, we noted that it was amended to purchase two boats and a motor. The amended PCD also did not clearly state whether the boats were seaworthy, new or needed major repairs, leaving the decision to those

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involved in the execution of an informal contract. It was also noted that there was no formal contract or Purchase Order issued as per FMR 5.25 (2019)/5.1(2005). We also noted that there were no formal inspection reports filed to show whether the boats were seaworthy.

During inspection of this particular project, we found that the two boats that were purchased did not seem to be in good condition, let alone capable of performing its intended purpose of monitoring and enforcing the policies and regulations of the MPAs. As a result of the inspection, we questioned why the PCD was amended when it appeared to have been accurately and appropriately in line with its purpose and intention of the Project. Based on the communication between the seller and Yap State Finance, we noted that there was no reasonable cause for change except that the seller offered to sell the two boats and a motor in order to settle a loan relating to a fishing project financed by FSM Development Bank. (Refer to **Appendix F** for pictures)

(ii) YAP Traditional Navigation Society (TNS)

According to the PCD, the intended purpose of the funds was for program operations as well as compensation for both the instructor and its trainees for their time and effort to the program. The funds were also to be used to purchase supplies related to the program. However, upon review and inspection, we found that some of the funds were used for food consumption.

Please refer to **Appendix A** on page 22 for additional projects and more details.

5.1.1. Causes

- (i) Failure of allottees to comply with the requirements as stated under Part II-C of the PCDs: “The Allottees of project funds are responsible for ensuring that funds disbursed for public projects are expended in line with the intent of the approved PCDs”.
- (ii) The failure of Finance Field Office to comply with the FSM Financial Management Act and its regulations and financial and accounting leading practices where before effecting payments documents should be reviewed to ensure compliance with applicable laws and when they do not, such request for fund payment should be denied. At the same time the Finance Office is required to review the expenditure report filed by the allottee whether they sufficiently support the expenditures per their respective approved PCD instead of accepting whatever is accounted by the allottee and wait to see whether the National Public Auditor will raise any queries.
- (iii) Lack of punitive actions for non-compliance with the Financial Management Act of 1979 and its regulations: the most punitive actions had been directed to allottees whereas public officials from the Department of Finance and

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Administration who are responsible for releasing funds and approving expenditure reports were left untouched.

5.1.2. Potential Effects

- (i) As a result, over \$36,580.51 expended was not in accordance with the intended purposes and descriptions of projects;
- (ii) Possible failure in achieving social and economic goals of these public projects.

5.1.3. Recommendations

We recommend that:

- (i) The Secretary, Department of Finance and Administration should ensure that:
 - (a) The description of projects in the PCDs are specific, sufficient and achievable to enable performance evaluation of implementation of such projects at each stage of the stated milestones;
 - (b) All funds expended for activities other than public projects relating to economic, social or infrastructure development projects or government services are recovered;
 - (c) Requests for release of project funds are properly reviewed in order to provide reasonable assurance that they meet the requirements of the pertinent laws and regulations prior to disbursement of government funds; and
 - (d) Public officials in the Division of Finance, Division of Budget and Field Office comply with the requirements of the Finance Management Act 1979 and its regulations including those delineated in the PCD Form.
- (ii) The Allottee should ensure that projects are implemented as per the approved PCDs and funds are expended in accordance with FMRs requirements and other applicable laws and regulations.

5.2. Finding No. 2: Public Project Disbursements Appeared Not in Compliance with Laws and Regulations

The allottees of public project funds are responsible for ensuring that funds are expended in accordance with applicable National Laws, which include the Financial Management Act of 1979 and its regulations. The requirements in these laws, regulations, policies and procedures were established to provide guidance on the use of government funds as well as safeguarding of public assets.

The Secretary Department of Finance and Administration is responsible for ensuring that there is compliance to the laws and procedures before funds are disbursed to Allottee(s) and when accounting for expenditures.

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FSMC, Title 55. Government Finance and Contract, Chapter 2, Financial Management Section 224 Disbursement Procedures states:

Unless otherwise specifically provided by law, the following procedures shall control the administration and management of all funds appropriated from the General Fund of the Federated States of Micronesia or made available to the Federated States of Micronesia from other sources: (1) All such funds shall remain in the custody and control of the Secretary of Finance until they are obligated and disbursed by him in accordance with law. (2) Such funds shall be deemed to be obligated as of the date the person or entity to whom the funds are allotted enters into a legally binding written agreement supported by the documentary evidence required by section 219 of this chapter or rules and regulations issued pursuant to authority vested by section 228 of this chapter; (3) The Secretary of Finance shall disburse such funds as may be required to liquidate valid obligations within 30 days of their becoming payable, as indicated by valid documentary evidence of such obligation and a valid claim for payment, if required by the terms of the document evidencing the obligation

During our review of the disbursement records and inspection of the public projects, we found cases of non-compliance with the Financial Management Act of 1979 and its regulations, including those delineated in the Project Control Documents as follows:

- (i) *Project funds disbursements were not properly approved;*
- (ii) *Project funds disbursements were not properly supported;*
- (iii) *No blueprints and designs were attached to PCDs;*
- (iv) *PCDs were not signed by the designated allottees;*
- (v) *Several projects were not inspected nor supported by any progress or project close-out reports;*
- (vi) *Competitive Open Bidding not conducted for several required-bidding obligation amounts; and*
- (vii) *Bidding process was waived for several Public Projects*

The details of the above exceptions are listed below:

5.2.1. Project Funds Disbursements were not Properly Approved - \$174,319.83

The Financial Management Regulations requires at section 2.1(d) that:

“...Government funds may be obligated pursuant to a contract only if the contract, including all modifications and amendments thereto is certified by signature of the Secretary or his designee certification officer as to availability of funds.”

During our review of disbursements or reimbursements paid out at the FSM Finance Field Office in the State of Yap, we found several Accounts Payable Vouchers (APVs) that were neither approved nor certified by the designated certification officer. Some of these instances are listed in Table 2.0 below:

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Table 2.0: Summary of disbursements that were not approved

Project Title	Posted Amt.	Comments
1. Community projects matching for Yap CAP		
85-90-45214-16 8270 Contributions, Subsidies & Grants	100,000.00	Not approved by finance representative
2. Pigeol, Wottegai Multi-purpose Center		
85-90-45224-16 8310 Gen Contractual Services.	20,000.00	Not approved by finance representative
85-90-45224-16 8310 Gen Contractual Services.	10,000.00	Not approved by finance representative
3. Fadray, Ulithi Community boat and motor		
85-90-45218-16 8614 Vessels/ Boats	18,062.00	Not approved by finance representative
4. Others – See Attachment (B) on page 20		
	26,258.83	Not approved by finance representative
Total	174,319.83	

5.2.2. Project funds disbursements were not properly supported - \$355,000

Section 2.1 of the Financial Management Regulations (FMR) states:

“Government funds may be obligated pursuant to a contract only if the contract, including all modifications and amendments thereto:

(a) Written. Is in writing;

(b) Signature. Is executed (as indicated by signature) by the appropriate Allottee on behalf of the FSM Government or the contracting FSM Government Agency. The Allottee's signature shall not be affixed prior to the obtaining of those approvals (as indicated by signatures) required by paragraphs (c) and (d) of this subpart, and by subpart 2.2;

(c) Legal Sufficiency. Is approved by signature as to legal sufficiency;

(1) Executive Branch. With respect to contracts entered into by the Executive Branch, by the Attorney General;

(2) Legislative Branch. With respect to contracts entered into by the Legislative Branch, by the Legislative Counsel;

(3) Judicial Branch. With respect to contracts entered into by the Judicial Branch, by the designee of the Chief Justice;

(4) Other FSM Government Agencies. With respect to contracts entered into by FSM Government Agencies other than the Executive, Legislative or Judicial Branches, by the designee of the head of the Agency;....

Also based on Pass-Thru-Grant/Sub-Grant Agreement (transferring funds from the allottee to project executor) between the Allottee and Project Executor, Yap Community Action Program (Yap CAP), there was a provision requiring quarterly reports as follows:

Under item E. Grantee shall provide Grantor, through the Office of Planning and Budget (OPB) required quarterly expenditure reports no later than

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ten (10) working days after the end of each fiscal quarter. Such reports shall be in accordance with the reporting format prescribed by OPB.

Under item F. Grantee shall provide Grantor, through the Office of Administrative Services (OAS) required quarterly financial reports which shall be presented in accordance with the prescribed reporting format by OAS.

During our review of disbursement records at the FSM Finance Field Office as well as the State Finance in Yap, we found (2) CFSM projects with disbursements that were not properly supported with the necessary supporting documents as per FMR requirements and by terms in the Project Contract Agreement, as follows:

(i) Faith Christian Academy classroom construction

There was no *Formal Contract* in place prior to the disbursement of project funds. Upon further review, we noted that a Memorandum of Understanding was used instead of an actual contract. According to the FMR, Government funds may be obligated pursuant to a contract only. In addition, we also found that the contract was signed by the OPB director and not the Governor of the State, who is the allottee. At the same time, we were not provided with documentation to indicate delegation of authority to the OPB Director.

(ii) Community projects matching for Yap CAP

According to its Project Contract Agreement entered into with Yap State Government, Yap CAP was required to provide quarterly expenditure reports to the Office of Planning and Budget (OPB) and quarterly financial reports to the Office of Administrative Services (OAS) respectively. However, we found that both reports were not being submitted as required.

5.2.3. No Blueprints/Designs Were Attached to PCDs - \$275,163

Based on requirement of FMR in PCD, Section 3, Part VI (A)(4) General Assurance: General Administration, states:

All construction projects require a blueprint or design.

During our review of the PCDs, we found two (2) construction projects that had no blueprints/designs attached to its PCDs as per FMR requirement. In the appropriation law the two projects were named:

- (i) “Faith Christian Academy classroom construction”: which is construction of classrooms; and
- (ii) “Yap Women Association (YWA) Center supplemental to be matched by Yap State Government”: which is construction of building for YWA Center.

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5.2.4. PCDs Were Not Signed by the Designated Allottee - \$200,485

The Financial Management Regulations states:

Part 10.2: *Project Control Document. Prior to an allotment of national government funds for any public project, the Allottee of those funds shall complete a Project Control Document (“PCD”) in a form specified by the Budget Officer.*

Part 10.3: *PCD Processing. A PCD, completed and signed by the Allottee, shall be submitted to the Budget Officer for review.*

During our review of the Advice of Allotments and PCDs, we found six (6) projects with PCDs that were not signed or approved by the designated allottee.

- (i) Falalis Island Community boat and motor A5 25 85-90-45219-16
- (ii) Pigeol, Wottegai Multi-purpose Center A5 25 85-90-45224-16
- (iii) Daboch Look Out Youth Organization A5 25 85-90-45223-16
- (iv) Community projects matching for Yap CAP A5 25 85-90-45214-16
- (v) Yap Traditional Navigation Society (TNS) A5 25 85-90-45238-17
- (vi) Waa'gey A5 25 85-90-45239-17

5.2.5. Several Projects Were Not Inspected nor Supported by Any Progress or Project Close-Out reports - \$427,633

The Financial Management Regulations (FMR) states:

Part 10.7 (a): The Project Inspection Official must be an employee or independent contractor of the national government. In the event no such national official is available for a particular project, the Budget officer may accept a non-national official of suitable skill and experience who is independent of the Allottee. Identifying and obtaining acceptance of a Project Inspection Official is the responsibility of the Allottee.

Part 10.7(b): The Project Inspection Official designated in the PCD shall provide project management and oversight so as to ensure the adequate accountability of funds expended and project completion of the project.

Part 10.7(c): No project funds shall be received, controlled, or handled in any manner by the Project Inspection Official unless otherwise provided by law.

During our interview with the Project Inspection Official and review of files related to these Public Projects, we found several projects that were not being inspected by the designated inspection official and also noted that there were no inspection or progress reports being submitted as required by the FMR and the PCDs. Some of these instances are shown in Table 3.0 below:

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Table 3.0: Public Projects Not Inspected by Designated Inspection Official

PROJECT TITLE PROJECT NUMBER	POSTED AMOUNT	DESCRIPTION
Faith Christian Academy classroom construction A5 25 85-90-45253-17	255,000.00	Not inspected by Designated Inspection Official nor provided progress and close-out reports of projects
Community projects matching for Yap CAP A5 25 85-90-45214-16	100,000.00	Not inspected by Designated Inspection Official nor provided progress and close-out reports of projects
Yap Women Association (YWA) center supplemental to be matched by Yap State Government A5 25 85-90-45261-18	20,163.10	Not inspected by Designated Inspection Official nor provided progress and close-out reports of projects
Pigeol, Wottegai Multi-purpose Center A5 25 85-90-45224-16	52,470.00	Not inspected by Designated Inspection Official nor provided progress and close-out reports of projects
Total	427,633.10	

5.2.6. Open Bidding Requirement Was Not Conducted - \$248,086

The Financial Management Regulations (FMR), Section 5.2 states that:

Open Bidding Required. Free and open competitive bidding by sealed bids, as described in this subpart of these regulations, shall be required before the letting by any FSM Government Agency of any and all:

Part 5.2 (a): Contracts for construction projects involving the obligation of \$20,000 or more of Government funds, or such other amount as may be prescribed by law; or

Part 5.2 (b): Contracts for the purchase of personal property involving the obligation, including the cost of freight and handling, of \$50,000 or more of Government funds, or such other amount as may be prescribed by law.

During our review of the disbursement records and inspection of the Public Projects, we noted that several payment obligations involving amounts of \$20,000 and up to more than \$50,000 were never subjected to the Open Bidding Requirement Process as required by the FMR and its regulations. Some of these incidents are shown in Table 3.0 below:

Table 3.0: Competitive Bidding Process Not Conducted

Project Title	Posted Amt.	Comments
Faith Christian Academy classroom construction A5 25 85-90-45253-17		
8226 Office Supplies & Materials		
05/16/2018 259839 APJ OPB FCA CLASSROOM CONSTRUCTION	44,892.17	Procurement of supplies in terms of open bidding was not conducted as required in the FMR;

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8232 Rental Services		
12/04/2017 243942 APJ OPB FCA CLASSROOM CONSTRUCTION	49,665.25	Procurement of supplies in terms of open bidding was not conducted as required in the FMR;
8234 Repair & Maint. Services		
02/06/2018 249366 APJ OPB FCA CLASSROOM CONSTRUCTION	70,944.72	Procurement of supplies in terms of open bidding was not conducted as required in the FMR;
03/22/2018 254206 APJ OPB FCA CLASSROOM CONSTRUCTION	54,660.92	Procurement of supplies in terms of open bidding was not conducted as required in the FMR;
04/11/2018 256266 APJ OPB FCA CLASSROOM CONSTRUCTION	27,923.52	Procurement of supplies in terms of open bidding was not conducted as required in the FMR;
	248,086.58	

5.2.7. Bidding Waiver Process was not Properly Followed for Several Public Projects - \$78,596

Section 5.15 of the Financial Management Regulations (FMR) states:

Exemption from Open Bidding. Notwithstanding any other provisions of these regulations, open bidding as described herein shall not be required:

- (a) *In case of emergency affecting public health, safety, or convenience so declared in writing by the President upon application by the head of any FSM Government Agency, setting forth the nature of the emergency and the danger to the public health, safety or convenience caused by the delay, to the extent necessary to meet the emergency without open bidding. Such action and the reasons therefore shall immediately be made public by the awarding authority;*

Pursuant to FSMC, Title 55. Government Finance & Contracts, Chapter 4: Government Contracts, § 403. Competitive bidding required states:

“All contracts for construction projects involving \$20,000 or more or for the purchase of personal property involving \$50,000 or more made on behalf of any National Government agency shall be let by free and open competitive bidding, by sealed bids, to the lowest responsible bidder in accordance with the provisions of this chapter”.

During our review of the disbursement records for Public Projects, we found that two (2) projects were waived from the Competitive Bidding Requirement by the Allottee. However, reasons or explanations for waiving the bidding requirement process were not sufficient to justify such waiver.

Explanations provided to us with regards to several projects being exempted from the competitive bidding requirement, which do not meet the requirement under FMR section 5.15(a) were:

- (i) Delay of Project Implementation – By waiving the bidding process, the implementing agency can right away select a contractor that will undertake the project thus saving a lot of time from going through the bidding process.
- (ii) Shipping Availability – For projects located on the outer islands, the progress of implementation is based solely on the availability of the shipping vessels that are

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servicing the outer islands. By waving projects from the bidding process, it would be more convenient in terms of shipping out materials and supplies needed in implementing the projects.

Based on FMR Section 5.15 (a), delay in implementing the project is not a sufficient reason to waive competitive bidding, unless the impact would adversely affects public health, safety, or convenience; also, the convenience of shipping availability may seem to be appropriate in terms of expediting project implementations, but it does not meet any criterion delineated in the FMR, thus, it is also not a sufficient reason for a project to be waived from the Competitive Bidding Requirement.

Some of these instances are listed in Table 4.0:

Table 4.0: Public Projects Waived from the Open Bidding Process

Project Title	Posted Amt.	Comments
1. Neighboring Islands Central High School (NICHHS) pickup truck		
A5 25 85-90-45265-17 8612 Vehicles	26,126.00	Project waived from Competitive Bidding Requirement with defective reasoning
2. Pigeol, Wottegai Multi-purpose Center		
85-90-45224-16 8310 Gen Contractual Services.	52,470.00	Project waived from Competitive Bidding Requirement with defective reasoning
	78,596.00	

5.2.8. Causes

- (i) There was failure to comply with existing laws and regulations that could be attributed to misinterpretation or intentional on the part of the Allottee.
- (ii) Failure of the Department of Finance and Administration official to comply with the Financial Management Act of 1979 and its regulations, specifically with respect to interpretation of FMR Section 5.15 and thus inability to advise the allottee accordingly.

5.2.9. Potential Effects

- (i) Public funds amounting to \$577,026.99 were disbursed without assurance that projects would be satisfactorily administered and implemented therefore exposing public funds to potential misuse.
- (ii) Value for money could not reasonably be guaranteed due to exposing the procurement process to high risks of fraud, waste and abuse that may go undetected and uncorrected.

5.2.10. Recommendations

We recommend that:

- (i) The Secretary of Department of Finance and Administration should ensure that:

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- (a) All officials within the Department of Finance and Administration, including those in the Field Offices, are conversant and perform their duties in compliance with Financial Management Act and its regulations;
 - (b) Requests for payments and APVs are approved prior to disbursement of government funds and are properly supported with necessary documents agreeing with the submitted PCD and/or Project Contract Agreements;
 - (c) Allottees are aware of the existing FMRs and requirements of the law in administering and implementing the entire projects;
 - (d) All Project Control Documents (PCDs) are valid, complete, approved by the designated officials and clearly represent the appropriated item in the respective Public Law and Allotment Advice; and
 - (e) Final project expenditure report is supported by the valid and complete documents relating to the approved PCD, inspection report (where required), approved contract or purchase order and allottee's certification to the validity of the report.
- (ii) The allottee should ensure that the project manager and inspection official are accurately identified and their duties and terms of the contract clearly defined in all public projects.

5.3. Finding No. 3: Public Projects Appeared Not In-Compliance with their Intended Purposes

Based on the PCDs filed for Public Project named "Fadray, Ulithi Community boat and motor" the funds were to be used to purchase a 22-footer boat and a 40 hp outboard motor that would be utilized by the 'Fadray, Ulithi Community' for their daily activities in their lagoon: transportation for both transporting of people and cargos between the islands and for fishing.

The PCD for the project named "Neighboring Islands Central High School for a pick-up truck" states that funds would be used to purchase a pick-up truck for the **High School on Falalop Woleai** and also covering the shipping cost and the pick-up truck would be utilized by the teachers for transportation and other purposes.

During our inspection of the public projects, we observed indications that the two (2) projects mentioned above, are gravitating away from their intended purposes that were stated and approved in the Project Control Documents.

(i) Fadray, Ulithi Community boat and motor

This Project was requested by the community of Ulithi for transporting people and cargo between the islands as well as utilizing the boat and motor in their daily fishing activities. However, upon review and inspection of the project, we found

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that the boat and motor were still on the main island and was being kept at the residence of the Senator of Ulithi:

- (a) The boat was ready for handover to Fadray, Ulithi Community on July 27th, 2018;
- (b) Inspection of the boat conducted (not stated who conducted the inspection) and confirmed to be in good condition by a community leader, Ulithi, through his letter to the Office of Planning and Budget, Yap State Government, on July 26th, 2018;
- (c) On October 23rd, 2018 when we conducted our inspection, the boat was still on the main island, 87 days later, at the house of one of Yap Legislative Senators; and

(ii) Neighboring Islands Central High School (NICHS) pickup truck

This Project was requested by the Neighboring Islands Central High School located on Falalop, Woleai primarily for transportation and other school related purposes. However, upon review and inspection of the project, we found that the truck was still on the main island and was being kept at the Office of the Department of Education. We were also told that the reason why the truck has not yet been shipped out to its destination was due to the lack of available shipping vessels that provide services to the outer islands:

- (a) The pick-up truck was ready for handover to NICHS on Falalop, Woleai on May 17th, 2017, as per the letter dated May 17th, 2018 from Management and Support Administrator to Chief Procurement & Property Management.
- (b) As of October 23rd, 2018, the audit team conducted inspection and found that the pick-up truck was still on the main island, over 16 months after the delivery of the pick-up and confirmation of its roadworthiness.
- (c) Our verification of schedules of shipping services provided to the outer islands, we noted that the project's destination, Woleai, was in fact being serviced almost on a regularly basis, and indication that the information given were excuses but not valid reasons for non-delivery of the pick-up truck to the intended users.

5.3.2. Causes

- (i) Failure of the allottee to strictly comply with the purpose stated in the respective PCD's Part II-C;
- (ii) Appointed inspection officials failed to conduct inspection and document formal inspection reports on the status of implementation of the project; and
- (iii) Failure of the Department of Finance and Administration officials to verify the final expenditure report submitted by allottees which could indicate whether the intended purposes were achieved.

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5.3.3. Potential Effect

As a result, the communities or beneficiaries of the projects may not be benefitting from the intended purposes of the projects that were outlined and approved in the Project Control Documents. Moreover, the assets may also be vulnerable to fraud, waste and abuse.

5.3.4. Recommendations

We recommend that the Secretary of Department of Finance and Administration should ensure that:

- (i) The allottee and project inspection officials implement and administer the entire project as delineated in the PCDs; and
- (ii) Finance Field Office employees have the capacity to carry out their duties effectively and conduct thorough reviews of the expenditure reports submitted by the allottees on various public projects, including guiding the allottees on how to comply with the terms delineated in PCDs and requirements of the FMRs.

5.4. Finding No. 4: Over \$75,374 Worth of Scholarships Were Awarded Without Complying with Existing Scholarship Guidelines, Policies and Procedures.

Scholarship Guidelines in Administering Scholarships

- (i) **Eligibility Criteria:** To be eligible for the State Scholarship, pursuant to YSL 5-92, an applicant must:
 - (a) *Be a high school graduate or have the education equivalent;*
 - (b) *Be currently enrolled at a post-secondary institution or in receipt of an acceptance letter; and*
 - (c) *Have a Cumulative GPA of not less than 3.0 for graduating high school seniors who have no college credit or 2.5 for applicants with college credit.*
- (ii) **Supporting Documents:** In order for an application to be complete, applicants must submit the following supporting documents with their application:
 - (a) *An official copy of their most recent high school or college transcript (whichever is applicable);*
 - (b) *Two letters of reference from individuals possessing knowledge of applicant's prior accomplishments and academic potential;*
 - (c) *A letter of acceptance from post-secondary institution bearing proof of applicant's acceptance; and*
 - (d) *A one-page essay detailing the applicant's educational and career goals.*

During our review and analysis of Yap State Scholarship Supplemental Project, we found the following cases of non-compliance with Scholarship guidelines, policies and procedures as follows:

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- (i) Some of the beneficiaries (students) did not meet GPA requirement;
- (ii) Some of the beneficiaries (students) were not full-time students;
- (iii) Insufficient supporting documents for eligibility criteria (no acceptance letter, no official transcripts; and
- (iv) No scholarship applications for several students.

Please refer to **Appendix C** on page 24 for more details.

5.4.1. Causes

- (i) The Dept. of Yap R&D and the Scholarship Coordinator failed to comply with their established scholarship guidelines, policies and procedures intentionally as there was no any other reasons at all for non-compliance since each application and its supporting documents that were given to our audit team, clearly showed whether they met the eligibility criteria or not.
- (ii) The Scholarship Advisory Council did not fulfill its fiduciary duties by waiving the eligibility criteria for some of the scholarship applicants, without having mandate to do so.

5.4.2. Potential Effect

As a result, a total of \$75,374 was awarded not in accordance with scholarship administration guidelines, policies and procedures to students who did not meet the eligibility requirements, therefore exposing the public funds to potential misuse or loss of investment.

5.4.3. Recommendations

We recommend that:

- (i) The Secretary of Department of Finance and Administration should ensure that:
 - (a) CFSM public project funds are being managed in accordance with all applicable laws and regulations; and
 - (b) The Finance Field Office staff review thoroughly all payment requests and reimbursements prior to disbursements.
- (ii) The allottee and implementing agencies should properly review scholarship applications to ensure full compliance with existing scholarship administration guidelines and other applicable policies and procedures.

5.5. Finding No. 5: Lack of Appropriate Processes for Reviewing and Selecting Public Projects

The establishment of Project Control Documentation (PCD) focused among other things, to document and guide the application process for acquiring funding for various public projects. Guidance therein, while missing some important guiding information, yet the

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document is an important tool for all applicants for public projects funding. The gist behind the guidance therein was that applicants, consultants and public officials responsible for initiating, implementing and monitoring of public projects will comply with them fully. The establishment of the PCD was based on the Financial Management Act 1979 and its regulations thereon.

There should have been established application form or guidelines that meet the criteria set forth in the PCD forms rather than trying to fit each project to the requirement of FMA/FMRs after the appropriation law has been passed by the Congress. Applicants ought to know the requirements before applying for funds and the only institution that should have guided and set-up procedures for applying for CFSM Funded Public Projects is the Department of Finance and Administration, but it has not.

Based on clarification given by the CFSM Congress in February 2015, an ideal process require hearing, report and detailed paperwork before each application is submitted to the Congress. However, to-date, the Department of Finance and Administration has not yet established effective procedures for applying for CFSM Funded Projects. Currently the PCDs are filled based on applications already made and approved by the Congress even where they do not meet the description and requirements of the PCDs.

Absence of appropriate definition of ‘social development’ and ‘economic development’ projects and effective process based that will meet criteria described in the PCDs has created a loophole that has been utilized, not only by the allottees but even the FSM National Government departments to apply for funding that do not characterize ‘economic development, and social development’.

Other prudent practice requires that the Managing Authority will assess applications (request for projects) for funding against Program selection criteria which include the following.

The core selection criteria can be summarized as:

- (a) Strategic fit;*
- (b) Value for money;*
- (c) Management and control; Deliverability;*
- (d) Compliance with procurement; State Aid, publicity requirements and eligibility rules;*
- (e) Cross-cutting themes; and*
- (f) Sustainable Development.*

Based on our review of the appropriation laws and the PCDs, we found that there were CFSM Projects and other program activities where funds were applied for, applications were approved and funded by Congress but were not related to sustainable economic and social developments for the State of Yap. These expenditures are normally funded

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through annual budget, and are not expected to feature in CFSM Funded Projects. We also noted that Yap State does not have a Strategic Development Plan nor an Infrastructure Development plan in place to help them in prioritizing their Public Projects. The projects include the following expenses:

- (i) *Office of Planning and Budget: to purchase desktop computers*
- (ii) *Finance conference in November 2017 -Office of Planning and Budget (OPB) and Office of Administrative Service (OAS): to provide conference supplies, conference refreshments, and food and reception at the end of the training conference*

As a result, a total of \$9,500 was appropriated by Congress that could have been used to fund economic development, social development or infrastructure development were spent to subsidize government office expenditures.

5.5.1. Causes

- (i) The Department of Finance and Administration has not yet developed and implemented appropriate processes for submitting applications and selecting of public projects for funding by the FSM Congress. Projects were funded based on criteria that were not documented and were not availed to us, except that the projects were submitted to the Congress Delegation Office and later on submitted to the FSM Congress for funding.
- (ii) There was no coordination between the Congress Delegation Office, Yap State Government and the local governments with regard to economic and social development public projects prior to their submission to the FSM Congress for funding.

5.5.2. Possible Effects

- (i) Multiplication of misuse of public funds – with lack of appropriate procedures and laxity at the Department of Finance and Administration, many allottees would believe that they can apply and use public funds for any project;
- (ii) The CFSM Funded Projects may be used as a conduit for approving all expenditure that were earlier turned down or not approved by the executive branch at the state level, national level or even by the Congress;
- (iii) Continued behavior of applying for funding expenditure that the applicant(s) believe will be approved by Congress and later on change the PCD to fit their intended goals (e.g. buying Samsung galaxy book instead of buying desktop computers);
- (iv) Congress Funded Public Projects funds to be regarded as a source of funds for entertainment by public offices (e.g. funds spent for reception event after meeting); and

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- (v) Failure to achieve the intended social and economic development goals for the people of Yap.

5.5.3. Recommendations

We recommend the Secretary of the Department of Finance and Administration should:

- (i) Ensure that appropriate processes for application and selection of public projects are developed and operationalized (e.g., project proposal write-up, guidelines, etc.) in order to ensure that funds are allocated to public projects that meet the criteria delineated in the PCD.
- (ii) Work with the Yap State Government and Congressional Members to develop an appropriate system for reviewing and selecting of CFSM public projects before the same are submitted to the FSM Congress. A more coordinated effort in planning and reviewing public projects can increase the likeliness that proposed projects are consistent with the State's development plans and priorities.

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6.0 APPENDICES

6.1. Appendix A: Expenditures Not Related to the Intent and Description of Public Projects

Description	Posted Amount	Description of Disbursement
1. Yap Women Association (YWA) center supplemental to be matched by Yap State Government A5 25 85-90-45261-18		Funds disbursed for prior obligations made in the past;
8310 Gen Contractual Srvcs.		
05/04/2018 APJ DY&CA YWA CENTER SUPPL-MATCHED	\$20,163.10	
2. Tomil Marine Conservation project Boats & outboard motor engines A5 25 85-90-45237-16		Two smaller boats including an outboard motor were purchased instead; funds used in connection to a loan payment;
8610 Equipment		
05/31/2018 APJ OPB TOMIL M.C. PRJ B/OUTBRD MT	\$15,000.00	
3. Office of Planning and Budget (OPB) desktop computers A5 25 85-90-45244-17		Funds were used to purchase a Samsung Galaxy Book instead of a Desktop Computer;
8610 Equipment		
11/14/2017 APJ OPB DESKTOP COMPUTERS	\$1,299.00	
4. Yap Traditional Navigation Society (TNS) A5 25 85-90-45238-17		Funds were used to purchase food;
8250 Misc. Goods & Services		
10/20/2017 APJ OPB YAP TRDTNL NVGTN SOCIETY	\$118.57	
Total	\$ 36,580.67	

6.2. Appendix B: APVs Were Not Approved by FSM Finance Representative

Name of Beneficiary/Account	POSTED AMOUNT	DESCRIPTION
(a) Amin, Maap Youth Organization A5 25 85-90-45217-16		
8610 Equipment		APV was not approved by Finance representative;
(i) 12/23/2016 APJ Amin, Maap Youth Organization	\$6,142.50	
(ii) 1/31/2017 APJ Amin, Maap Youth Organ. (Equip.	\$682.50	APV was not approved by Finance representative;
	\$6,825.00	
(b) Falalis Island Community boat and motor A5 25 85-90-45219-16		
8270 Contributions, Subsidies & Grant		APV was not approved by Finance representative;
10/28/2016 APJ Falalus Island Community Boat & Motor	\$11,400.00	
	\$11,400.00	
(c) Pigeol, Wottegai Multi-purpose Center A5 25 85-90-45224-16		
8310 Gen Contractual Services		APV was not approved by Finance representative;
(i) 11/23/2016 APJ Pigeol, Wottegai Multipurpose	\$10,000.00	

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Centre		
(ii) 1/27/2017 APJ Pigeol, Wottegai Multi-Purpose Centre	\$20,000.00	APV was not approved by Finance representative;
	\$30,000.00	
(d) Daboch Look Out Youth Organization A5 25 85-90-45223-16		
8224 Expendable Equipment/Furniture		
(i) 9/2/2016 APJ Daboch Look Out Youth Org. (Eq	\$448.60	APV was not approved by Finance representative;
(ii) 1/10/2017 APJ Daboch Look out Youth Org	\$411.75	APV was not approved by Finance representative;
8228 POL		
(i) 9/2/2016 APJ Daboch Look Out Youth Org. (Eq	\$254.29	APV was not approved by Finance representative;
(ii) 10/11/2016 APJ Daboch Look Out Youth Orgn. (P	\$200.00	APV was not approved by Finance representative;
8250 Misc Goods & Services		
(i) 9/2/2016 APJ Daboch Look Out Youth Org. (Mi	\$667.65	APV was not approved by Finance representative;
(ii) 9/2/2016 APJ Daboch Look Out Youth Org. (Mi	\$274.00	APV was not approved by Finance representative;
(iii) 9/7/2016 APJ Daboch Look Out Youth Org. (Mi	\$122.41	APV was not approved by Finance representative;
(iv) 9/13/2016 APJ Daboch Look Out Youth Org. (Mi	\$248.40	APV was not approved by Finance representative;
(v) 10/28/2016 APJ Daboch Look Out Youth Org. (Mi	\$727.32	APV was not approved by Finance representative;
(vi) 11/23/2016 APJ Daboch Look Out Youth Org	\$1,604.91	APV was not approved by Finance representative;
8610 Equipment		
9/13/2016 APJ Daboch Look Out Youth Org. (Fi	\$3,073.50	APV was not approved by Finance representative;
	\$8,032.83	
Fadray, Ulithi Community boat and motor A5 25 85-90-45218-16		
8614 Vessels/Boats		
08/07/2018 APJ OPB FADRAY, U. COMM. BOAT & MO	\$18,062.00	APV was not approved by Finance representative;
	\$18,062.00	
Community projects matching for Yap CAP A5 25 85-90-45214-16		
8270 Contributions, Subsidies & Gra		
9/15/2016 APJ Yap Cap Comm. Proj. (Contribution)	\$100,000.00	APV was not approved by Finance representative;
	\$100,000.00	
	\$ 174,319.83	

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6.3. Appendix C: Exceptions Noted for Yap State Scholarship Supplemental Project

Eligibility Criteria					
Institution	Acceptance Letter	Transcript	Full-Time	Award Amount	ONPA Comments
University of Guam	n/a	✓	✓	2,600.00	no application provided;
Univ. of Maryland	n/a	✓	✓	4,350.00	no application provided;
Wheeling Jesuit Univ.	n/a	✓	✓	2,600.00	student appeared to have only one class for FA'18; past deadline;
Univ. South Pacific	n/a	X	✓	2,600.00	doesn't look like a transcript; insufficient academic records; signed scholarship agreement;
University of Hawaii at Manoa	n/a	✓	✓	2,600.00	no application provided;
University of Hawaii Hilo	n/a	✓	✓	2,600.00	no application provided; past deadline;
Wheeling Jesuit Univ.	n/a	✓	✓	2,600.00	no application provided;
University of Guam	✓	✓	no record	1,339.00	full-time or part time student cannot be determined; signed scholarship agreement;
University of Guam	n/a	✓	✓	2,600.00	no application provided; past deadline;
University of Guam	✓	✓	no record	2,600.00	full-time or part time student cannot be determined; signed scholarship agreement;
University of Hawaii Hilo	✓	✓	✓	2,600.00	transcript doesn't seem official; signed scholarship agreement;
WestValley College	✓	✓	X	1,750.00	Did not meet Cum. GPA Req. (3.00) for graduated high school seniors; acceptance letter not clear; signed scholarship agreement;
Western Oregon University	X	✓	no record	1,950.00	Did not meet GPA Req. (missing SP'18 academic records); no application provided; past deadline;
University of Guam	✓	✓	no record	3,250.00	full-time or part time student cannot be determined; signed scholarship agreement;
University of Guam	n/a	✓	X	5,520.00	Thesis incomplete (previous semester); no application provided;
University of Hawaii at Manoa	n/a	✓	✓	3,475.00	Part-time student based on courses in progress for FA'18; scholarship agreement seemed to be signature copied;
University of Hawaii at Manoa	n/a	✓	✓	3,475.00	Application provided but no signature of scholarship agreement;
University of Hawaii at Manoa	n/a	✓	✓	5,295.00	Graduate level; scholarship agreement seemed to be signature copied;
University of Guam	n/a	✓	✓	1,950.00	No application provided; past deadline;
University of Guam	n/a	✓	✓	1,950.00	Cannot determine current student status, full or part time student; Palauan student; no application provided; past deadline;
University of Guam	n/a	✓	✓	5,520.00	No application provided; past deadline;
University of Hawaii at Hilo	n/a	✓	X	2,600.00	Part-time student from previous semester (SP '18); no application provided;
no record	X	✓	no record	2,600.00	No acceptance letter; high school transcript; no proof of enrollment; not official without school seal; no application provided;
				75,374.00	Total Amount for Exceptions noted;
				100,000.00	Total CFSM Appropriation

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6.4. Appendix D: Master List of CFSM Funded Public Projects for the State of Yap as of August 31, 2018

#	Project Title		Appropriation	Allotment	Unallotted	Expenditure	Balance
	Public Law 20-95	400,000					
1	COM-FSM National Campus Yapese students' financial assistance; PROVIDED THAT, eligibility is based on students that maintain at least a 2.00 GPA and enrolled full time		50,000	-	50,000	-	50,000
2	Current and prior obligations/debts of Yapese patients at Palau National Hospital		50,000	-	50,000	-	50,000
3	Humanitarian assistance		30,000	-	30,000	-	30,000
4	Satawal and Paliyaw outboard motors		10,000	-	10,000	-	10,000
5	Maalay Community Men's house repair/renovation		50,000	-	50,000	-	50,000
6	Meerur Community Men's house repair/renovation		50,000	-	50,000	-	50,000
7	OKAW Multipurpose building renovation and other OKAW community projects		142,000	-	142,000	-	142,000
8	Solar LED lights		18,000	-	18,000	-	18,000
	Sub-total		400,000	-	400,000	-	400,000
	Public Law 20-88	200,000					
9	COM-FSM National Campus Yapese students' financial assistance; PROVIDED THAT, eligibility is based on students that maintain at least a 2.00 GPA and enrolled full time		50,000	-	50,000	-	50,000
10	Medical referral for non-insured patients		100,000	-	100,000	-	100,000
11	Current and prior obligation/debts of Yapese patients at Palau National Hospital		50,000	-	50,000	-	50,000
	Sub-total		200,000	-	200,000	-	200,000
	Public Law 20-60/20-65/20-97	850,000					
12	Amin road project		30,000	30,000	-	-	30,000.00
13	Amun Green Community (AMC) solid waste management scheme		50,000	50,000	-	4,417.25	45,582.75
14	Binik road access project		85,000	85,000	-	-	85,000.00
15	Lamer Village road restoration		30,000	30,000	-	3,544.50	26,455.50
16	Ifalik Giant Clam enhancement project		15,000	15,000	-	5,552.17	9,447.83
17	Peemeerur/Keng seawall		35,000	35,000	-	-	35,000.00
18	Yap State scholarship supplemental		100,000	100,000	-	100,000	-
19	Yap Women Association (YWA) center supplemental to be matched by Yap State Government		40,000	40,000	-	20,163.10	19,836.90
20	Woleai airport terminal improvement		365,000	-	365,000	-	365,000.00
21	Yap delegation outreach program		70,000	-	70,000	-	70,000.00
22	Fais runway cleaning/clearance		10,000	10,000	-	-	10,000.00
23	Ulithi runway cleaning/clearance		10,000	10,000	-	-	10,000.00
24	Yap DOE-teachers' UOG internship program		10,000	-	10,000	-	10,000.00
	Sub-total		850,000	405,000	445,000	133,677.02	716,322.98

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25	Office of Planning and Budget (OPB) and Office of Administrative Service (OAS) finance conference in November 2017		7,000	7,000	-	6,975.00	25.00
26	Office of Planning and Budget (OPB) desktop computers		2,500	2,500	-	2,500.00	-
27	Fadaraii water system improvement		13,000	-	13,000		13,000.00
28	4/4 Pick up trucks for use on Satawal and Fais islands (35,000) each)		70,000	70,000	-		70,000.00
29	Council of Tamol (COT) office rental operation, representation funds and subsidies		20,800	20,800	-	8,368.00	12,432.00
30	Faith Christian Academy classroom construction		255,000	255,000	-	255,000.00	-
31	Gachpar Women community center		28,500	28,500	-		28,500.00
33	Yap Catholic High School		28,200	-	28,200		28,200.00
34	Yap Delegation outreach program		90,000	-	90,000		90,000.00
35	Neighboring Islands Central High School (NICHS) pickup truck		35,000	35,000	-	26,126.00	8,874.00
36	Payments for prior and current obligations to Island Mortuary Services		30,000	30,000	-		30,000.00
	Sub-total		600,000	468,800	131,200	298,969.00	301,031.00
	Public Law 19-170/20-02/20-111	50,000					
37	Yap Traditional Navigation Society (TNS)		10,000	10,000	-	9,715.18	284.82
38	Waa' gey		10,000	10,000	-	9,302.36	697.64
39	Yap Saint Mayr's school repair and maintenance		20,000	20,000	-		20,000.00
40	Yap Catholic High School Robotics Team Competition and other activities		10,000	10,000	-	9,999.64	0.36
	Sub-total		50,000	50,000	-	29,017.18	20,982.82
	Public Law 19-152/19-162/20-27	100,000					
41	Chronic Medicine Refill for both Insured and Non-Insured Patients		100,000	100,000	-	-	100,000
	Sub-total		100,000	100,000	-	-	100,000
	Public Law 19-124/19-140/20-05/20-15	1,750,000					
42	Uliithi Community Health Center repair, renovation, and purchase of necessary medical equipment		150,000	-	150,000	-	150,000.00
43	Woleai Community Health Center repair, renovation and medical equipment purchase		150,000	-	150,000	-	150,000.00
44	Yap Southern Water System Improvement projects; PROVIDED THAT, such funding is matched by the state of Yap		150,000	150,000	-	17,344.03	132,655.97
45	Outer Islands elementary schools repair and renovations		400,000	400,000	-		400,000.00
46	Lamotrek Health center/dispensary		150,000	150,000	-	7,421.18	142,578.82
47	As much as is necessary for the purchase of real property in Guam or Honolulu; PROVIDED HOWEVER, that no funds shall be disbursed until the property is identified in the Project Control Document		750,000	-	750,000		750,000.00
	Sub-total		1,750,000	700,000	1,050,000	24,765.21	1,725,234.79

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	Public Law 19-121/19-130	600,000					
48	Outer Islands' women food security project (purchase of hand tools, gardening tools, wheel borrows and POL)		40,000	40,000	-	-	40,000.00
49	Gilman, Yap men' house		90,000	90,000	-	-	90,000.00
50	Weloy, Yap multi purpose building improvement (land fills and path rooms)		150,000	150,000	-	-	150,000.00
51	AFF, village, Yap community multi purpose building		90,000	90,000	-	-	90,000.00
52	Wottegai, Woleai community water project		20,000	20,000	-	4,259.30	15,740.70
53	Falalus Woleai community water projects		20,000	20,000	-	-	20,000.00
54	Falalop, Woleai community water catchment repair		20,000	20,000	-	-	20,000.00
55	Rumu village, Yap men' house		65,000	65,000	-	-	65,000.00
56	Precinct 12 and Precinct 15 Ablul village community centers and bath rooms		30,000	-	30,000	-	30,000.00
57	Yap Island women food security project		70,000	70,000	-	10,564.62	59,435.38
58	Catholic Church Youth multipurpose conference room		5,000	5,000	-	-	5,000.00
	Sub-total		600,000	570,000	30,000	14,823.92	585,176.08
	Public Law 19-89/19-94/20-06	200,000					
59	Community projects matching for Yap CAP		100,000	100,000		100,000.00	-
60	Yapese students attending COM-FSM National Campus debts; PROVIDED THAT, the students maintain a 2.00 GPA		80,000	80,000	-	-	80,000.00
61	Tomil Marine Conservation project Boats & outboard motor engines		20,000	20,000	-	15,000.00	5,000.00
	Sub-total		200,000	200,000	-	115,000.00	85,000.00
	Public Law 19-60/19-71/19-103/19-148/19-165/20-30	300,000					
62	Chronic Medicine Refill for both insured and non-insured patients		180,000	180,000	-	20,235.18	159,764.82
63	Fuel/provisioning for the FSM operated vessels		120,000	120,000	-	52,563.19	67,436.81
	Sub-total		300,000	300,000	-	72,798.37	227,201.63
	Public Law 19-54/19-129/20-04	700,000					
64	Tagreng channel dredging		50,000	-	50,000	-	50,000.00
65	Falalis Island Community boat and motor		19,000	19,000	-	19,000.00	-
66	Eauripik Multi-purpose center repair and typhoon shutters		39,000	39,000	-		39,000.00
67	Daboch Look Out Youth Organization		10,000	10,000	-	9,997.23	2.77
68	Pigeol, Wottegai Multi-purpose Center		53,000	53,000	-	52,470.00	530.00
69	Amin, Maap Youth Organization		10,000	10,000	-	9,854.00	146.00
70	Fadray, Ulithi Community boat and motor		19,000	19,000	-	18,062.00	938.00
71	Yap Delegation Renovation and land acquisition		500,000	-	500,000		500,000.00
	Sub-total		700,000	150,000	550,000	109,383.23	590,616.77
	Grand Totals		5,750,000	2,943,800	2,806,200	798,433.93	4,951,566.07

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6.5. Appendix E: Prior Audit Findings and Recommendations

Audit No	Findings	Recommendations	Implemented (Yes/No?)
2015-04	Lack of definitive parameters led Congress to appropriate \$1.6 million for all sorts of activities and programs under “public projects” which did not yield any meaningful and lasting public benefits	<p>We recommend that:</p> <ul style="list-style-type: none"> • The FSM President should develop and propose for an act that will define the intent and the allowable “public projects” and “social programs” to provide definitive parameters and guidance in the selection of the kinds of projects suitable for the use of CFSM funds. • FSM Congress should review and take into consideration any proposal by the President in regards to definitive parameters on the types of projects and purposes for which the CFSM Public Projects and Social Programs fund can be used. • Furthermore, we recommend that the allottee/sub-allottee should develop and implement the criteria for selecting the CFSM project proposals and program recipients. 	No
	At least \$93,381 CFSM funds were spent for badly constructed and unimplemented projects, unused materials and equipment, and unaccounted expenditures	<p>We recommend that:</p> <ol style="list-style-type: none"> 1. Allottees should have adequate planning to ensure that capable manpower and materials are in place before requesting the allotment of project funds. 2. TC&I should comply with the requirements on project monitoring and completion reports. 3. DoF&A to ensure that required project supporting documents are submitted before disbursing the funds. 	No
2013-02	Failure to execute key control	<p>Director of the Office of SBOC should review procedures to:</p> <ol style="list-style-type: none"> 1. Ensure awareness and compliance with the existing guidelines, requirements, laws and regulations for preparing the PCDs. 2. Properly execute key controls that exist to ensure that PCDs are completely and accurately filled out by rejecting incomplete PCDs and requesting allottee to resubmit. 3. Ensure an independent Project Inspection Official is a requirement in PCD whenever an inspection of project progress/completion is applicable to the project or program before a payment is made. 4. Consider collaborating with DF&A in helping to implement a strong annual education and certification 	No

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Audit No	Findings	Recommendations	Implemented (Yes/No?)
		<p>program for eligible allottees, as identified by DF&A's list of eligible</p> <p>Secretary of DF&A should:</p> <p>5. Ensure that the allottee and/or sub-allottee become aware of and comply with existing guidelines and requirements of the law to consistently monitor, track and properly close out the projects as required.</p> <p>Solicit collaboration from SBOC (as mentioned above) as they (DF&A) manage and monitor the eligible allottee program, including annual education and certification.</p>	
	Assets were being misused (personal use) or lost	<p>We recommend that the Secretary of DF&A should:</p> <p>Implement procedures to ensure that the allottees/sub-allottees:</p> <ul style="list-style-type: none"> • Are fully aware of their responsibilities, and • follow the laws, procedures and regulations pertaining to labeling of projects. 	No
	Disbursement for \$401,619 without certifications	<p>We recommend that the Secretary of DoF&A should ensure that:</p> <ol style="list-style-type: none"> 1. The allottee and/or sub-allottee become aware of the existing guidelines and requirements of the law to implement and administer the entire project administration process, and to review every payment request accordingly. 2. The project inspection officials become aware of their responsibilities to manage, inspect and report the status of public projects. 3. Consistently review and certify payment requests in accordance with the requirements of the regulations and procedures. 	No
2008-01	<p>Selection of CFSM Public Projects Should Include State Review for Better Use and Coordination of Limited Resources</p> <p>More Review and Scrutiny of Project Costs Are Needed Before Congressional Funds are Enacted into Public Law</p>	<p>Yap Congressional Members:</p> <p>A. Should include the State Government in a review of CFSM public projects before selecting and submitting them to Congress.</p> <p>A more coordinated effort in planning and reviewing public projects can increase the likeliness that proposed projects are consistent with the State's development plans and have the support of the State's management to oversee projects.</p> <p>B. Should obtain sufficient justification and documentation for cost estimates, cost/benefits analyses, or feasibility studies to support a reasonable basis for individual project funding amounts proposed into Congressional legislation.</p>	No

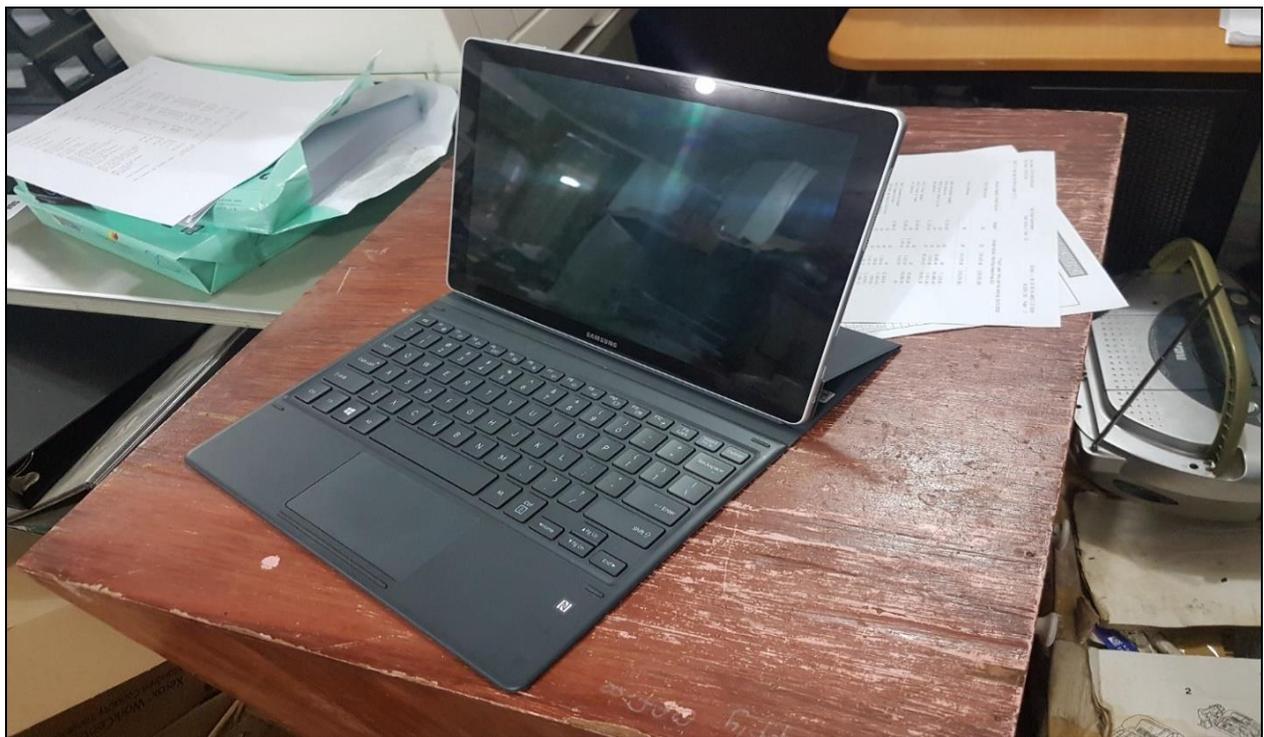
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Audit No	Findings	Recommendations	Implemented (Yes/No?)
	Better Management and Oversight of Projects Are Needed to Ensure Compliance with Regulations	<p>2. The FSM Secretary of Finance and Administration direct the FSM Finance Representative Office in Yap: A. Recover the double payment (\$2,580.80) from the contractor who performed the renovation on the Delegation office.</p> <p>3. The FSM Budget Office ensure that the Project Control Documents are properly filled out, including the designation of the project inspection official before funds are made available.</p> <p>The Director of Yap State Office of Budget and Planning: A. Ensure that the project manager and inspection official are identified on all public projects. C. Retrieve the unused funds of \$6,579 from the publisher of a newsletter. We formally requested this action be taken by the Director of OPB in a letter dated November 7, 2006.</p>	No
	Clearer Guidance of Scholarship Awards Could Help Match Awards to Student Needs	4. The FSM Secretary of Health, Education, and Social Affairs: A. Provide clear distinctions between the different types of financial assistances provided to FSM students with the view to clarify the applicable administrative guidelines and criteria for the different types of available assistances; B. Update policies, guidelines and criteria for national scholarship awards and for how the Scholarship Board should carry out its responsibilities; C. Ensure that the Board follows guidelines and criteria for the selection of scholarship recipients.	No

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6.6. Appendix F: Inspection Photos of CFSM Public Projects for Yap State

(i) OPB Desktop Computers



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(ii) Tomil Conservation Boat & Motor

(a) Boat No. 1



(b) Boat No. 2



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(iii) Neighboring Island Central Highschool Truck



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(iv) Fadray, Ulithi Community Boat and Motor

(a) The Boat without Motor



(b) Motor for the Boat



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(v) Faith Christian Classroom Construction



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(vi) Yap Women Association (YWA) center supplemental to be matched by Yap State Government



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(vii) Pigeol, Wottegai Multi-purpose Center



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MANAGEMENT RESPONSE

FSM Department of Finance & Administration Response



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration
P.O. Box PS 158
Palikir, Pohnpei FM 96941
Tel: (691) 320-2640/5852 Fax: (691) 320-7728
E-mail: fsmsofa@mail.fm



August 16, 2019

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

Dear Mr. Hainrick:

We wish to thank you for the opportunity to review and respond to the recently completed YAP CFSM Public Project Audit. Below is our response to each of the finding.

1. Finding No. 1: Over \$36,580 Worth of Expenditures Were Not Focused On Achieving The Intent Of The Projects / Meet The Description Of The Projects

Management response: We have reviewed the finding and would like to note that all disbursements being done at finance field office in Yap must comply with the intended purpose of the project. We would also like to stress that more scrutiny by the allottee and finance is needed to ensure compliance and also to safeguard the project to achieve its intended purpose. Assistant Secretary of National Treasury will work closely with field office in Yap to ensure more compliance is enforced. We note your recommendation for our improvement.

2. Finding No. 2: Public Project Disbursements Appeared Not in Compliance with Laws and Regulations

Management response: Regarding all public project disbursements, the allottee should ensure compliance toward any applicable laws and regulations stated in the contract. Every public project should comply with the existing procurement policy and any applicable laws and regulations stated in all contracts. We further agree that blueprints should be attached to each contract as well as all the required supporting documents for

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each awarding contract. By law, all open bid contracts can only be waived by the President. We note the recommendations to be utilized for our own internal improvement.

3. Finding No. 3: Public Projects Appeared Not In-Compliance with their Intended Purposes

Management response: As stated by Secretary, please rephrase the wording of the finding but again we duly note your recommendation for our improvement with Yap field office.

4. Finding No. 4: Over \$75,374 Worth of Scholarships Were Awarded Without Complying with Existing Scholarship Guidelines, Policies and Procedures.

Management response: We agree with this finding. Assistant Secretary for National Treasury will work closely with Field Office in Yap to ensure any scholarship requests are in compliance with applicable laws and regulations. Also the allottee of the scholarships should ensure they have internal guidelines and policies in awarding scholarships.

5. Finding No. 5: Lack of Appropriate Processes for Reviewing and Selecting Public Projects

Management response: We agree with this finding and duly note and require more compliance on public projects.

Please have your staff contact us for further information.

Thanks.



Senny L. Phillip
Acting Secretary of Finance & Admin.

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Yap FSM Congress Delegation Office Management Responses



*Congress of the Federated States of Micronesia
Yap Delegation*

August 6, 2019

Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
Government of the Federated States of Micronesia
P. O. Box PS-05, Palikir, Pohnpei FSM 96941

Dear Mr. Hainrick:

This letter is to acknowledge receipt of the draft Yap CFSM Funded Public Projects audit report covering fiscal years 2016 to August 31, 2018. Our delegation has reviewed the draft and appreciates the work of your office.

The Yap Congressional Delegation also wishes to respond to your preliminary "Finding No. 5: Lack of Appropriate Processes for Review and Selecting Public Projects", under which the draft report list one of the causes as "[t]here was no coordination between the Congress Delegation Office, Yap State Government and the local governments with regard to economic and social development public projects prior to their submission to the FSM Congress for funding."

As discussed in our Exit Conference on July 24, 2019, our delegation's general practice requires that all requests for congressional grants be submitted in writing to our office through the Yap State Governor's Office and or through one of the Council of Traditional Leaders wherein the project or program is community based. In instances when a requesting community, non-governmental organization, special interest group, state government entity, etc. is directed by the State to submit a request directly to our office, or opted to independently, our delegation also requires of the requesting entity that courtesy copies of such a request be submitted to the Governor's Office and to the relevant Traditional Council. We feel this inclusive process with the State and the municipal communities allows for a more coordinated review of priority development public projects.

The Yap Congressional Delegation would like to thank you and the Office of National Public Auditor's staff assigned to this audit for their courtesy and professionalism. Our delegation is committed to working to improve the processes of public projects, and will take the recommendations offered in the draft audit under advisement.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Urusemal".

Senator Joseph J. Urusemal
Chairman
Yap Congressional Delegation
Twenty-First Congress of the Federated States of Micronesia

PO Box 219, Colonia Yap, Western Caroline Islands FM 96943

Yap Tel: (691) 350-2199/3375 Fax: (691) 350-2220

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Congress of the Federated States of Micronesia

Yap Delegation

August 6, 2019

Haser H. Hainrick
National Public Auditor
Office of the National Public Auditor
Government of the Federated States of Micronesia
P. O. Box PS-05, Palikir, Pohnpei FSM 96941

Dear Mr. Hainrick:

In addition to the response of Chairman Urusemal on behalf of the Yap delegation I would like to submit a separate statement to supplement it.

I am objecting at the outset to the scope of the audit, which states in Objectives 2.1(a) whether appropriate processes for reviewing and selecting projects were developed, with the conclusion 3.1 that the Yap Congress Delegation office in collaboration with the Yap State Government have not yet implemented processes for reviewing and selecting of projects.

My understanding of what an audit is supposed to do is to compare an actual performance to a set standard. My objection is about where you found the set standard that required collaboration with the State Government in the selection of projects.

The way I see it, the Yap delegation is elected by the people of Yap to respond to their needs. How the delegation does that is up to it. The delegation:

1. Was not elected by the Yap State Government
2. Is not responsible to the State Government for the delegation-funded projects

In actuality there is, as Chairman Urusemal pointed out, a lot of consultation with the State Government. However, that is a political decision and not any legal requirement from Constitution, law, or international standards, unless you can point them out. It is therefore improper to mention any selection or reviewing processes in an audit as if the Yap delegation has failed to live up to some standard. That is not the case. In the choice of projects the only responsibility of the delegation is to the people of Yap. The yardstick of whether the proper projects were selected is whether the people chooses to re-elect us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Isaac V. Figir', is written over the word 'Sincerely'.

Senator Isaac V. Figir
Member
Yap Congressional Delegation
Twenty-First Congress of the Federated States of Micronesia

PO Box 219, Colonia Yap, Western Caroline Islands FM 96943

Yap Tel: (691) 350-2199/3375 Fax: (691) 350-2220

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Yap FSM Finance Field Office Management Response

	<p>Government of the Federated States of Micronesia Department of Finance & Administration P.O. Box PS158 Palikir, Pohnpei FM 96941</p>	
<p><u>Office of the Secretary</u> August 2, 2019</p>		
TO:	Public Auditor	
FROM:	Acting Secretary of Finance & Administration 	
SUBJECT:	Audit of CFSM Projects Yap	
<p>Please see the attached responses prepared by the auditee and I am submitting them as the final responses. I will recommend that effective October 1, 2019, all CFSM Project processing will go through the FSM NTD Field office –Yap.</p> <p>Should you have any further questions, please let the Acting Secretary know.</p> <p>Thank you</p>		
<p>Tel: (691) 320-2640/5852 Fax: (691) 320-7728 E-mail: fsmsofa@mail.fm</p>		

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Note: FSM Finance Field Office generally agrees with most of the findings and recommendations noted herein. The Field Office has relied mainly on the allottee and implementing agencies of CFSM appropriated funds to ensure that they are complying with all applicable rules and regulations. Moving forward, the Field Office will take a more proactive role in working collaboratively with the allottee and implementing agency of all relevant CFSM appropriated funds to ensure sound administration, accounting and reporting.

Reference No.	Project Description	Cause	Response
<p>Finding No.1</p> <p>Over \$36,580 Worth of Expenditures were not focused on achieving the Intent of the projects / meet the Description of the Projects</p>	<ol style="list-style-type: none"> 1. Tomil Marine Conservation Project Boat & Motor 2. Yap Traditional Navigation Society 	<ol style="list-style-type: none"> (i) Failure of allottees to comply with the requirements as stated under Part II-C of the PCDs: "The Allottees of project funds are responsible for ensuring that funds disbursed for public projects are expended in line with the intent of the approved PCDs". (ii) The failure of Finance Field Office to comply with the FSM Financial Management Act and its regulations and financial and accounting leading practices where before effecting payments documents should be reviewed to ensure compliance with applicable laws and when they do not, such request for fund payment should be denied. At the same time the Finance Office is required to review the expenditure report filed by the allottee whether they sufficiently support the expenditures per their respective approved PCD instead of accepting whatever is accounted by the allottee and wait to see whether the National Public Auditor will raise any queries. (iii) Lack of punitive actions for non-compliance with the Financial Management Act of 1979 and its regulations: the most punitive actions had been directed to allottees whereas public officials from the Department of Finance and Administration who are responsible for releasing funds and approving expenditure reports were left untouched. 	<ol style="list-style-type: none"> 1. We partially agree with this finding regarding boat and motor for community of Tomil. It is our understanding that due to lack of bidders that the course of action was taken to opt for 2 used boats instead of 1 new boat. PCD was amended to reflect this intent. Yap State Office of Budget and Planning was the suballottee of the funds and can be requested to provide further documents if necessary. 2. We have taken note of this finding and will work with relevant implementing agencies to ensure all relevant laws and regulations are complied with.
<p>Finding No. 2</p> <p>Public Project Disbursements Appeared Not in Compliance with Laws and Regulations</p>	<ol style="list-style-type: none"> 1. Community projects matching for Yap CAP 2. Pigeol, Wottegai Multi-purpose Center 3. Fadray, Ulithi Community boat and motor 4. Faith Christian Academy classroom construction 	<ol style="list-style-type: none"> (i) There was failure to comply with existing laws and regulations that could be attributed to misinterpretation or intentional on the part of the Allottee. (ii) Failure of the Department of Finance and Administration official to comply with the Financial Management Act of 1979 and its regulations, specifically with respect to interpretation of FMR Section 5.15 and thus inability to advise the allottee accordingly. 	<p>We agree with this finding and will work collaboratively with the implementing Yap State Government agency to ensure all applicable laws and regulations are complied with in future appropriations.</p>
<p>Finding No. 3</p> <p>Public Projects</p>	<ol style="list-style-type: none"> 1. Neighboring Islands Central High School 	<ol style="list-style-type: none"> (i) Failure of the allottee to strictly comply with the purpose stated in the respective PCD's 	<p>We partially agree with finding, but it is our understanding that lack of transportation to and from the</p>

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<p>Appeared Not In-Compliance with their Intended Purposes</p>	<p>(NICHS) pickup truck. 2. Fadray, Ulithi Community boat and motor</p>	<p>Part II-C; (ii) Appointed inspection officials failed to conduct inspection and document formal inspection reports on the status of implementation of the project; and (iii) Failure of the Department of Finance and Administration officials to verify the final expenditure report submitted by allottees which could indicate whether the intended purposes were achieved.</p>	<p>Outer Islands led to delay in the delivery of both assets.</p>
<p>Finding No. 4 Over \$75,374 Worth of Scholarships Were Awarded Without Complying with Existing Scholarship Guidelines, Policies and Procedures</p>	<p>1. Scholarship Guidelines in Administering Scholarships</p>	<p>(i) The Dept. of Yap R&D and the Scholarship Coordinator failed to comply with their established scholarship guidelines, policies and procedures, either intentionally as there was no any reasons at all for non-compliance since each application and its supporting documents that were given to our audit team, clearly showed whether they met the eligibility criteria or not. (ii) The Scholarship Advisory Council did not fulfill its fiduciary duties by waiving the eligibility criteria for some of the scholarship applicants, without having mandate to do so.</p>	<p>We agree with this finding and will work collaboratively with relevant officials in the Yap State Government to ensure that such appropriations are administered in accordance with sound practice and in compliant with all applicable laws and regulations.</p>
<p>Finding No. 5 Lack of Appropriate Processes for Reviewing and Selecting Public Projects</p>	<p>(Overall)</p>	<p>(i) The Department of Finance and Administration has not yet developed appropriate processes for submitting applications and selecting of public projects for funding by the FSM Congress. Projects were funded based on criteria that were not documented and were not availed to us, except that the projects were submitted to the Congress Delegation office and later on submitted to the FSM Congress for funding. (ii) There was no coordination between the Congress Delegation Office, Yap State Government and the local governments with regard to economic and social development public projects prior to their submission to the FSM Congress for funding.</p>	<p>We agree with this finding and will do what is in our capacity to improve on the administration of all public funds.</p>

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ONPA EVALUATION OF MANAGEMENT RESPONSE

We requested for a management response from the Allottee, Congressmen, Secretary of Finance and Administration, and the Manager, Yap-FSM Finance Field Office. Some management responses generally agreed with the findings and recommendations in the report. However, we would like to clarify some statements made in the management responses as follows:

1.0 Yap-FSM Finance Field Office

Finding No. 1: Over \$36,580 Worth of Expenditures Were Not Focused on Achieving the Intent of The Projects / Meet the Description of the Projects

(iii) Tomil Marine Conservation Project Outboard Motor Boats & Engines

(iv) YAP Traditional Navigation Society (TNS)

1.1. Response by FSM Finance Field Office in Yap:

(i) We partially agree with this finding regarding boat and motor for community of Tomil. It is our understanding that due to lack of bidders that the course of action was taken to opt for 2 used boats instead of 1 new boat. PCD was amended to reflect this intent. Yap State Office of Budget and Planning was the sub-allottee of the funds and can be requested to provide further documents if necessary.

(ii) We have taken note of this finding and will work with relevant implementing agencies to ensure all relevant laws and regulations are complied with.

1.2. ONPA Evaluation:

We evaluated the management response and decided to retain the findings based on the following:

The matter in question is not necessarily on the notion of the PCD being amended but rather more on the intent and purpose of the project.

Funds were used for paying a loan for a certain FSM Development Bank's debtor who happened to be the contracted party for the supply of a new boat. This debtor, requested that instead of supplying a new boat his two used boats be bought by the allottee for the same project, and the money be paid in full direct to the FSM Development Bank. However, ONPA is not questioning these changes, but the fact that the transaction defeated the intended purpose as indicated by the PCD. Moreover, such an amendment may be legal, but it may also be not ethical. Physical inspection of the two boats indicated that the two boats are not seaworthy and are in very poor condition. It is obvious that the transaction was coined to assist the contractor to pay his debt at the expense of the community needs which can also be linked to the facts that there was no official inspection conducted in order to ensure that the two boats were sea worthy before paying for the same.

Based on these facts and lack of any other evidences to the contrary, the finding will be retained as it is.

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2.0 Yap-FSM Finance Field Office

Finding No. 3: Public Projects Appeared Not In-Compliance with their Intended Purposes

- (i) Fadray, Ulithi Community boat and motor
- (ii) Neighboring Islands Central High School (NICHS) pickup truck

2.1. Response by FSM Finance Field Office in Yap:

- (i) We partially agree with finding, but it is our understanding that lack of transportation to and from the Outer Islands led to the delay in the delivery of both assets.

2.2. ONPA Evaluation:

We have evaluated the management response and decided to retain the finding based on what we found during our review and inspection of both assets at that particular point in time.

3.0 Yap-FSM Congress Delegation Office

Finding No. 5 - Lack of appropriate processes in selecting public projects

- (i) Office of Planning and Budget: to purchase desktop computers
- (ii) Finance conference in November 2017 -Office of Planning and Budget (OPB) and Office of Administrative Service (OAS): to provide conference supplies, conference refreshments, and food and reception at the end of the training conference

3.1. Congressman Response:

My understanding of what an audit is supposed to do is to compare an actual performance to a set standard. My objection is about where you found the set standard that required collaboration with the State Government in the selection of projects.

The way I see it, the Yap delegation is elected by the people of Yap to respond to their needs. How the delegation does that is up to it. The delegation:

- 1. Was not elected by the Yap State Government
- 2. Is not responsible to the State Government for the delegation—funded projects

In actuality there is, as Chairman Urusemal pointed out, a lot of consultation with the State Government. However, that is a political decision and not any legal requirement from Constitution, law, or international standards, unless you can point them out. It is therefore improper to mention any selection or reviewing processes in an audit as if the Yap delegation has failed to live up to some standard. That is not the case. In the choice of projects, the only responsibility of the delegation is to the people of Yap. The yardstick of whether the proper projects were selected is whether the people chooses to re—elect us.

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3.2. ONPA Evaluation:

We reiterate the finding in the audit report based on the following:

During our meeting with the Senator at the Yap FSM Congress Delegation Office, we were told that public projects are usually selected based on requests from the communities, interest groups and the State Government as well. In our exit meeting with the Senators, they emphasized that, most of the project applications that are submitted to the two representatives, are also submitted to the office of the Yap State Governor who is the allottee and head of the executive branch.

The ONPA Team appreciated the view expressed by the two senators regarding the need for concerted efforts that will not only ensure that these Congress Funded Projects achieve the intended goals, but also that the efforts that the two-senators put in soliciting for development funds for the state of Yap will not be in vain. During the exit meeting, the ONPA team explained to the senators the unsatisfactory performance of the state's government given the number of appropriations that were made for the State of Yap but with very little accomplishments, which was one of the issue that drew ONPA attention to the question of whether the efforts of Yap State governments are coordinated in order to achieve the state's short, medium- and long-term goals. For example, it was noted that the allottee, the Governor in most cases is not aware of what projects were submitted to the Congress and those approved for funding. Between fiscal year 2016 to 2018, the Congress appropriated \$5,750,000 and up to December 2018 the funds expended were on 798,434, i.e. 14% of the total amount appropriated during that period.

With regards to the particular objection specified above, we are not questioning the responsibility of the delegation office to the people of Yap State. Our finding and recommendations are focused more on the basic rights of the people of Yap who elected into the office both branches of government (for good governance and management principle, specifically unity of direction: that require their leaders to work in tandem, efficiently and effectively for the development of their State. Coordinated effort between the executive, local government and representatives definitely would be more effective than where each branch organizing its own course of action which in most cases may results into duplication of efforts or working against each other.

In addition to the requirement for concerted efforts, both levels of government and all other concerned offices and departments can be more cognizant in terms of project selection and its administration. Therefore, it is vital to put in place documented processes and criteria to guide the use of public funds.

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NATIONAL PUBLIC AUDITOR COMMENTS

We would like to thank the management and staff of the Department of Finance and Administration in Palikir, Pohnpei and at the Field Office in Yap State, the Senators from the Congressional Delegation Office in Yap, Management and staff of the Office of Administrative Services and the Office of Planning and Budget in Yap State and the Governor 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, the Secretary of Finance and Administration and the Governor for their use and information. 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 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

August 21, 2019

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