

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



The collage contains the following elements:

- Application for a FSM Social Security Number:** A blue form with fields for personal information, including name, address, date of birth, citizenship, marital status, and employment history.
- QUESTIONNAIRE:** A white form with sections for 'Retirement', 'Disability', 'Surviving Spouse or Guardian', and 'Beneficiary's Declaration'. It includes questions about current and past employment, marital status, and children.
- SOCIAL SECURITY ADMINISTRATION:** A circular logo with the text 'SOCIAL SECURITY ADMINISTRATION' and 'FEDERATED STATES OF MICRONESIA'.
- SOCIAL SECURITY BENEFITS:** A blue sign with the text 'SOCIAL SECURITY BENEFITS'.

**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

**Office of the National Public Auditor**  
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**OF PREMIUM TO MEMBERS' ACCOUNTS**

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## **FEDERATED STATES OF MICRONESIA**

### ***Office of The National Public Auditor***

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Thursday, September 16, 2021

His Excellency David W. Panuelo, President  
Honorable Members of the 22<sup>nd</sup> FSM Congress  
Federated States of Micronesia

#### **RE: Inspection of the Social Security Benefits**

We have completed our inspection of the FSM Social Security Benefits. This inspection was initiated through an anonymous complaint that was received at our Compliance Investigation Division (CID) hotline. The complaint contained allegations of “mismanagement of the Social Security Administration (SSA) funds”. The complainant alleged that “there are some beneficiaries over 65 years of age who are receiving 100% of social security benefits even while they are gainfully employed”.

We conducted this inspection in accordance with the Quality Standards for Inspections and Evaluations (QSIE) issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our inspection objective(s).

Our inspection found instances of overpaid benefits that were not recovered for 5-7years. Our findings reflects the need to strengthen the management and operations capacity of the FSMSSA, including the need to improve internal controls and mechanisms that affect the processing of application for benefits, the monitoring of active beneficiaries and detection of ineligible beneficiaries. The following issues were noted:

- a) Uncollected Debt of over \$27,000 is Linked to Overpaid Retirement Benefits to Members that Were Reported to have Continued to Receive 100% Benefits Even After Returning to Active Employment;
- b) FSM SSA does not have sufficient measures in place to effectively monitor and adjust payments to beneficiaries who have passed; and
- c) Unaccounted contributions indicate lack of reconciliation and untimely posting to members' accounts.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

It is worth noting and echoing the observations by Deloitte in the single audit report for FY2019 on the FSM National Government that "the Administration may be unable to meet its future benefit obligations" when considering its total fund equity. This reflects the need to address and better manage the FSMSSA now and into the future.

We appreciate the opportunity to perform this inspection as requested.

Respectfully submitted,



Haser Hainrick  
National Public Auditor

Xc:     **Acting Administrator, FSM Social Security Administration (FSMSSA)**  
          **Chairman and Members, Board of FSM Social Security Administration**  
          **Governor, Chuuk State**  
          **Governor, Kosrae State**  
          **Governor, Pohnpei State**  
          **Governor, Yap State**

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

## **Contents**

<b>Abbreviations .....</b>	<b>1</b>
<b>1.0 INTRODUCTION .....</b>	<b>2</b>
<b>1.1 Reason for the Assignment.....</b>	<b>2</b>
<b>1.2 Background Information .....</b>	<b>2</b>
<b>1.3 Funding .....</b>	<b>2</b>
<b>1.3.1 Contributions from FSM National Government (FSMNG).....</b>	<b>3</b>
<b>1.4 Social Security Benefits.....</b>	<b>3</b>
<b>1.4.1 Retirement Benefits.....</b>	<b>3</b>
<b>1.4.2 Earning Test .....</b>	<b>4</b>
<b>1.4.3 Contributions collected versus Benefit payments.....</b>	<b>4</b>
<b>2.0 OBJECTIVES, SCOPE, METHODOLOGY .....</b>	<b>5</b>
<b>3.0 PRIOR COVERAGE .....</b>	<b>6</b>
<b>4.0 CONCLUSION .....</b>	<b>6</b>
<b>5.0 FINDINGS AND RECOMMENDATIONS .....</b>	<b>8</b>
<b>5.1 Finding No.1: Uncollected Debt of over \$27,000 is Linked to Overpaid Retirement</b> <b>Benefits to Some Members;.....</b>	<b>8</b>
<b>5.2 Finding No.2: FSMSSA Does Not Have Sufficient Measures in Place to Effectively</b> <b>Monitor and Adjust Payments to Beneficiaries who have Passed.....</b>	<b>11</b>
<b>5.3 Finding No.3: Unaccounted Contributions Indicate Lack of Reconciliation and</b> <b>Untimely Posting to Members' Accounts .....</b>	<b>13</b>
<b>6.0 MANAGEMENT RESPONSE .....</b>	<b>15</b>
<b>7.0 ONPA EVALUATION OF MANAGEMENT RESPONSE.....</b>	<b>18</b>
<b>8.0 NATIONAL PUBLIC AUDITOR'S COMMENTS.....</b>	<b>19</b>
<b>9.0 ONPA CONTACT AND STAFF ACKNOWLEDGEMENT .....</b>	<b>20</b>

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

**Abbreviations**

CY	Calendar Year (starts on January 1 and ends on December 31)
FSM	Federated States of Micronesia
FSMC	Federated States of Micronesia Code
FSMSSA	Federated States of Micronesia Social Security Administration
PL	Public Law
SS	Social Security
SSA	Social Security Administration

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

## **1.0 INTRODUCTION**

### **1.1 Reason for the Assignment**

This inspection was initiated based on an anonymous complaint that was received at our Compliance Investigation Division (CID) hotline. The complaint contained allegations of “mismanagement of the Social Security Administration (SSA) funds in relation to benefits paid out to beneficiaries who turned 60 years old after January 1, 2011, the 100% entitlement to those that reach the age of 65 years (subject to an earnings test) and the entitlement to those that remain working after 65 years old. The complainant alleged that “there are some beneficiaries over 65 years of age who are receiving 100% of social security benefits even while they are gainfully employed”.

Pursuant to Public Law (PL) 2-74 and Section 804 of Title 53 of the FSM Code, as amended by PL 5-120; 7-118; 9-56; 12-76; 14-34; 14-37; 14-86; 15-73 and 16-10, these 60 to 64 years old beneficiaries who are on active employment should only be allowed to receive 50% benefits, while the 65-year-olds and above should be receiving 100% when unemployed. However, those that become re-employed at or after 65 years of age and are receiving benefits, should report their employment status to SSA for their benefits to be made subject to the [Earnings Test](#) which involves the calculation of the reduction of their benefits.

### **1.2 Background Information**

The FSM Social Security Administration (FSMSSA), formerly known as the Trust Territory Social Security System, was established by PL 2-74, and began its full operation on January 1, 1988. The FSMSSA provides retirement, disability and survivor benefits to the citizens of the Federated States of Micronesia (FSM).

Under Title 53 of the FSM Code, the authority to administer the FSMSSA is vested in a six-member Board of Trustees, five of whom are nominated by the President and confirmed by the Congress of the FSM. The nominations to the Board take into account the need to have adequate geographical representation from each of the four (4) State governments and to have representatives from public and private sector employers and employees. The Administrator, who serves as an ex-officio member of the Board, is selected by the Board, and is responsible for the daily operations as well as supervision of branch managers for each of the four States of the FSM.

### **1.3 Funding**

The FSMSSA is financed by employer/employee contributions at a rate of 7.5% each, or a combined tax rate of 15% paid to the System every quarter. The maximum quarterly taxable wage base is \$7,000 and is slated to increase by \$1,000 every five years for a maximum of \$10,000 until January 1, 2028. Effective January 1, 2013, both the tax rate and the maximum quarterly taxable wage have been increased from 7% to 7.5% and from \$6,000 to \$7,000, respectively. After five years, on January 2018, the maximum quarterly taxable wage has been increased to \$8,000.

The FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

Additional revenues of the SSA are derived from interest and penalties charged to delinquent taxpayers, and other miscellaneous fees.

**1.3.1 Contributions from FSM National Government (FSMNG)**

The FSM National Government provide financial contributions through public law appropriations that are used to supplement monthly benefit payments. Records for the last 5 fiscal years are provided below:

*Table 1: Contributions from the FSM Congress*

<b>Fiscal Year</b>	<b>Appropriation Public Law</b>	<b>Supplement Contributions received by SSA from the FSMNG to supplement monthly benefit payments</b>
2020	21-42	\$1,000,000.00
2019	20-131	\$1,000,000.00
2018	20-42	\$1,000,000.00
2017	19-118	\$1,000,000.00
2016	19-32	\$2,000,000.00
<b>Total</b>		<b>\$6,000,000.00</b>

Source: Public laws on [cfsm.gov.fm](http://cfsm.gov.fm)

**1.4 Social Security Benefits**

**1.4.1 Retirement Benefits**

Social Security is an employer-employee-government benefit program designed to protect employees and their family while they work and after retirement. The intention of the social security benefit is to ease the burden the family may experience during sudden loss of income. Social Security is the only retirement/disability/death benefit program available in the FSM.

*Effective January 01, 2011 New Retirement Law as stated in Section 804 of Title 53 of the FSM Code as amended by Public Law 16-10 pursuant to Public Law 2-74) requires that a fully insured wage earner who turns 60 years old on or after the effective date will become eligible for 50% of his or her total calculated benefits with the option of continued employment -excluding earnings test adjustments. This goes on until the new beneficiary reaches 65 years old, which will then make him or her become qualified for 100% of his or her total calculated benefits. However, if he or she decides to continue employment after reaching age 65, earnings test adjustments will be applied to their benefits again.*

In order to qualify for retirement, every person must satisfy the following requirements:

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

- Fully insured with at least \$2,500 in total contributions (a person can pay the difference in a one-time payment to earn eligibility if his or her contributions are less than \$2,500);
- Has a total coverage of at least 50 quarters.
- Attained age 60 years for 50% of total benefits without earnings test adjustments, and age 65 for 100% of total benefits subject to earnings test.
- Filed application for old age insurance and shall be entitled to an old age insurance benefit for each month, beginning with the month of which both paragraphs (1) & (2) are satisfied and ending with the month preceding the month in which he/she dies.

#### **1.4.2 Earning Test**

Social Security (SS) benefits are meant to replace, in part, earnings lost to an individual or family because of retirement, disability, or death. Therefore, the amount of SS benefits which a beneficiary may receive each year depends on whether the beneficiary is fully or partially retired. The earnings test is used to measure the extent of a beneficiary's retirement and to determine the amount, if any, to be deducted from monthly benefits. It is also used to measure the work activity of survivor benefits and thus the amount of benefits payable to them.

Any individual who receives retirement, disability, or survivor benefit and who works in covered or non-covered employment shall have his/her quarterly benefit reduced by \$1 for each \$2 earned in a quarter, except there shall be no reduction for the first \$300 earned in a quarter. The reduction shall be applied in one of the subsequent two quarters immediately after the quarter in which the earnings were made, or as soon as possible thereafter.

#### **1.4.3 Contributions collected versus Benefit payments**

The FSMSSA follows the calendar year (CY) as its financial and reporting year. The following graph ([Figure 1](#)) represents a summary of contributions collected by the SSA and the benefit payments made to beneficiaries for CY2019, CY2018, CY2017; revealing that the benefits exceeded the contributions<sup>1</sup>:

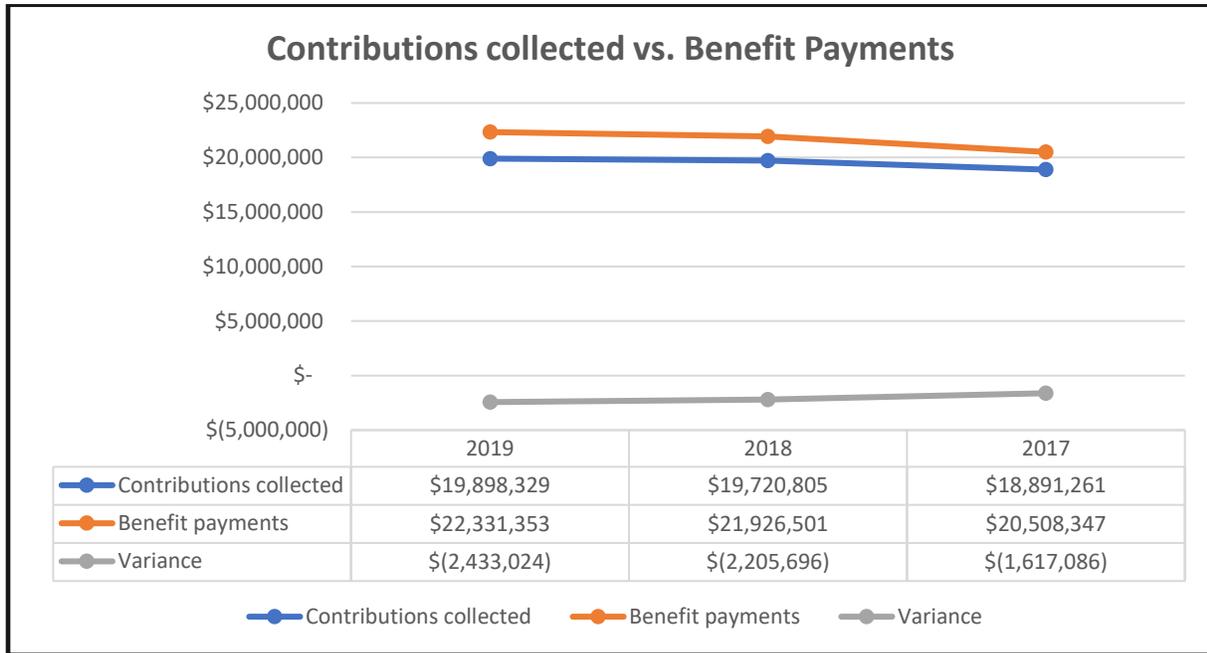
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<sup>1</sup> This may have negative impact for the future as indicated in the Emphasis of Matters of the Report on the audit of Financial statement in accordance with the Uniform Guidance for FY2019 whereby the auditor had stated that "FSM SSA may be unable to meet its future obligations". It was further stated that "The Administration is of the opinion that there are outstanding contributions due to the Fund; however, a reasonable estimate of this amount cannot be made due primarily to noncompliance by employers".

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

**Figure 1<sup>2</sup>**



**2.0 OBJECTIVES, SCOPE, METHODOLOGY**

**2.1 Objectives**

The objectives of this Inspection are:

1. To determine whether FSMSSA complied with the requirements of the applicable provisions of Public Law 2-74 and Sections 804 & 805 of Title 53 of the FSM Code, as amended by Public Law 16-10, when paying out Social Security benefits to beneficiaries:
  - a. 60 years of age;
  - b. 65 years of age and have discontinued employment; and
  - c. 65 years of age and are continuing employment.
  
2. To determine whether FSMSSA has effective and efficient controls in place to monitor and adjust payments to beneficiaries who have passed.
  
3. To assess the effectiveness of the current process flow and controls to ensure timely and complete posting of premiums to members' accounts.

<sup>2</sup> **Source:** Audited Financial Statements, Additional Information and Independent Auditor's Report for years ended December 31, 2018 and 2019 for the FSM Social Security Administration.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

**2.2 Scope**

The inspection scope covered Fiscal Year (FY) 2020 ending September 30, 2020, however, relevant and updated information were obtained for the Calendar Year (CY) ending December 31, 2020 as they became available prior to the issuance of this report. We also considered the fact that the SSA follows the Calendar Year (CY) as its reporting year.

This inspection was conducted pursuant to *Title 55 FSM Code, Chapter 5* that 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, subdivision thereof, and nonprofit organizations receiving public funds from the National Government.”*

**2.3 Methodology**

We conducted this inspection in accordance with the quality standards for inspections and evaluations (QSIE) issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our inspection objective(s).

The inspection team performed a 100% sample-testing of all four (4) quarters of CY' 2020 on all beneficiaries that received 50% of Social security benefits at the age of 60 years and the 65-year-olds (that received 100% social security benefits) for compliance to the requirements of the applicable laws. The data for the last quarter of CY'2020 was not available during the fieldwork phase, however, was obtained during the reporting phase as it became available.

The inspection team also reviewed and assessed the list of beneficiaries with overpayments to determine which beneficiaries have previously passed and remained unreported. The team also requested for a copy of the last biennial survey conducted to determine its effectiveness.

The team had requested for the list of Unidentified Wage Earners for the period of September 30, 2019 until October 1, 2020 to determine the completeness and timeliness of SSA's posting of premiums into members' individual accounts. Updated reports for these were obtained for the CY 2020 ending on December 31, 2021.

**3.0 PRIOR COVERAGE**

This is the first inspection of the FSM Social Security Benefits conducted by the ONPA.

**4.0 CONCLUSION**

Based on our inspection, we concluded that Board and the Management's immediate attention is needed to address inadequate internal controls in the administration of social security benefits which have led to uncollected debt due to overpaid benefits and unaccounted contributions that pose greater financial risks to the FSMSS in the future. Below is the summary of our findings:

- d) Uncollected debt of over \$27,000 is linked to overpaid retirement benefits to some members;

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

- e) FSM SSA does not have sufficient measures in place to effectively monitor and adjust payments to beneficiaries who have passed; and
- f) Unaccounted contributions indicate lack of reconciliation and untimely posting to members' accounts.

The results of this inspection relating to findings and recommendations are discussed in detail in the following pages.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

## **5.0 FINDINGS AND RECOMMENDATIONS**

### **5.1 Finding No.1: Uncollected Debt of over \$27,000 is Linked to Overpaid Retirement Benefits to Some Members;**

According to:

- Section 805 (Reemployment after retirement) of Title 53 of the FSM Code, “In the event an individual who is receiving retirement insurance benefits returns to covered employment, the benefit shall be recomputed at the end of the calendar year and paid as provided in this subtitle beginning with the year after the calendar year the earnings were made”.
- Amendment of the Title 53 of the FSM code through Public Law 16-10 Section 603 (7) states that 'Earning test' means that an individual who receives a retirement, disability, or survivor benefit and who works in covered or non-covered employment shall have his quarterly benefit reduced by \$1 (one) dollars for each \$2 (two) dollars earned in a quarter, except there shall be no reduction for the first \$300 earned in a quarter. The reduction shall be applied in one of the subsequent two quarters immediately after the quarter in which the earnings were made, or as soon as possible thereafter. All benefit recipients have an affirmative duty to disclose to the FSM Social Security Administration all earnings from either covered or non-covered employment for which time they are receiving or claiming benefits”.
- Further amendment of Title 53 of the FSM Code through PL15-73 Section 605 (3) states that “Any person who receives benefits to which he or she is not entitled to shall be liable to repay the Social Security Administration those benefits, and in addition to the remedies under section 808 of this subtitle, may be subject to civil action for recovery of those benefits.”

Our inspection found that the FoxPro system at SSA has the capability to detect and generate the list of members that have turned 65 years old which are then used by the State branches to carry out monthly verification with the beneficiaries to determine their employment status.

Benefit payments were put on hold for those members that had turned 65years old and were detected (automatically by the FoxPro system) to be paying wages and salaries tax which confirms that they are in active employment but have neither filed nor paid the SS tax. This is done to prevent overpayment of benefits. The benefits amount that was on hold for this category of members as at the end of CY2020 was **\$6,403.26** for a total of **15** members.

The following issues were noted and need to be addressed:

1. The trial balance for the CY 2020 showed accounts receivables of over \$27,000.00 that was made up of beneficiaries who had been discovered to have been overpaid in the past 5 to 7 years with an initial amount of over \$40,000.00. Majority of these overpayments are impossible to recover. Details are provided below on [Table 2](#).

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

2. The monthly verification process that SSA carries out on members that turned 65 years old has its limitations and may not be 100% effective as an internal control to prevent tax evasion that results in over payment of SS benefits.
  - a. One instance that was confirmed during our review is related to “Beneficiary C” on [Table 2](#) below, who was overpaid \$ 23,676.58 when it was discovered through word by mouth reporting that was made to SSA. An agreement was made between SSA and the beneficiary, who is currently paying back the overpaid benefits.

**Table 2: Details of Accounts Receivables due to overpaid benefits balances since the last 5-7 years on record for CY2020 and CY2019 for members that had turned 65 years**

Beneficiary	Initial Overpaid Benefit amount (when discovered)	Balance of Overpaid Benefit as at 12/31/20 (CY2020)	Recovered Amount (since initial discovery)	Age of Debt (years)	Remarks <sup>3</sup>
A	\$ 209.84	\$ 209.84	\$ -	7	No survivor claimant
B	\$ 104.23	\$ 104.23	\$ -	7	Spousal benefit
C	\$ 23,676.58	\$ 18,016.94	\$ 5,659.64	5	Agreement in place
D	\$ 4,573.80	\$ 2,573.80	\$ 2,000.00	7	No survivor claimant
E	\$ 4,467.12	\$ 817.12	\$ 3,650.00	7	No survivor claimant
F	\$ 278.82	\$ 278.82	\$ -	7	No survivor claimant
G	\$ 100.00	\$ 100.00	\$ -	7	Spousal benefit
H	\$ 869.25	\$ 69.25	\$ 800.00	7	No survivor claimant
I	\$ 429.36	\$ -	\$ 429.36	7	Deduction from survivor's benefit.
J	\$ 605.76	\$ -	\$ 605.76	7	Deduction from survivors' benefit.
K	\$ 5,133.96	\$ 4,739.04	\$ 394.92	7	No survivor claimant
L	\$ 287.62	\$ 143.81	\$ 143.81	7	No survivor claimant
	<b>\$ 40,736.34</b>	<b>\$ 27,052.85</b>	<b>\$ 13,683.49</b>		

**Source:** FSMSS Accounts Receivable records

<sup>3</sup> **No survivor claimant** - the beneficiary had passed and there was no surviving family member to repay the overpayment to SSA.

**Spousal benefit** – Spouse who was receiving the benefit has passed too and there was no one to repay the overpayment to SSA.

**Agreement in place** – there is an agreement in place between the beneficiary and SSA in regards to the repayment of the overpaid benefits.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

**5.1.1 Causes:**

1. Recovery of overpayment is challenging as:
  - a. Beneficiaries have passed and there are no surviving family members to make the repayment;
  - b. Surviving family members are not in a position to make the repayments to SSA as most do not have a stable income and mostly rely on benefits for their daily living; and
  - c. Using legal means to recover the overpayments is uneconomical as the legal fees would be greater than the overpaid benefit amount to be recover.
2. Difficult to detect beneficiaries who have returned to active employment as independent contractors and have failed to file their sales and wages tax, as it will be impossible for SSA to discover their employment status unless it is known through complaints or word by mouth reporting; and
3. Majority employers in FSM use manual filing system therefore it is a challenge to have real-time reporting to SSA that can enable an automatic detection of beneficiaries that are evading SS tax.

**5.1.2 Potential Effects:**

1. Undetected tax evasion by beneficiaries (Note: the team had identified a number of questionable beneficiaries, based on known members, who were possibly in active employment while receiving 100% benefits) however no further review was carried out due to limitations in communication with SSA;
2. Continued financial loss to the SSA as benefits payments are exceeding the premium received (As shown on [Figure 1](#));
3. Unethical actions and misconduct by the beneficiaries (including surviving family members) leading to uncollected SS tax and overpayments of benefits; and
4. Feeling of inconsistent and unfair treatment by complying members who are 65 years of age, in active employment and still paying SS tax as required by law.

**5.1.3 Recommendations:**

The Board of Directors and Management of the FSMSSA should:

1. Take immediate actions such as the following to strengthen the processes for timely detection and reporting of ineligible beneficiaries that should be subject to the earnings test. This may include:
  - a. Reinforcing the requirements of the law for the employers to report to SSA when they recruit employees aged 65 or over.
  - b. Thoroughly review the processes in place and make relevant changes to ensure timely detection and prevention of ineligible beneficiaries.
  - c. More active awareness through the use of local newspaper, local radio stations, website and social media to spread the messages and reminders on policies in place that should encourage employers and employees to be aware of their roles

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

in making timely reports to SSA about those that are employed at or after the age of 65.

2. Work closer with the Customs and Tax Administration (CTA) division of the FSM Department of Finance & Administration (DoFA) to identify and prevent tax evasion by beneficiaries and in particular, the independent contractors; and
3. Increase the capacity of the state branches (in terms of human resource, communication etc.) to carry out more timely and effective verification and investigations on beneficiaries in a timely basis.

**5.2 Finding No.2: FSMSSA Does Not Have Sufficient Measures in Place to Effectively Monitor and Adjust Payments to Beneficiaries who have Passed**

According to the FSM Code Title 53, Section 605(3) as amended by PL15-73;

*Any person who receives benefits to which he or she is not entitled shall be liable to repay the Social Security Administration those benefits, and in addition to the remedies under section 808 of this subtitle, may be subject to civil action for recovery of those benefits.*

Additionally, according to Section 808 (Adjustments to correct for overpayments and underpayments to an individual) of the same Title 53 of the FSM Code;

*(1) Whenever an error has been made with respect to insurance payments to an individual proper adjustment shall be made, under regulations promulgated by the Board by increasing or decreasing subsequent payments to which such individual is entitled. If such individual dies before such adjustment has been completed, adjustment shall be made by increasing or decreasing subsequently paid survivor benefit payments payable with respect to the wages which were the basis of benefits of such deceased individual.*

*(2) No adjustment shall be made when adjustment or recovery would be against equity and good conscience.*

Based on our inspection and interviews, we found that upon the death of a beneficiary, the surviving spouse and/or surviving children need to apply for the surviving spouse and/or surviving children benefit.

The following issues were noted:

1. Although FSMSSA has an informal or undocumented procedure in place (biennial surveys) to confirm if, in fact, a beneficiary is still alive, we noted that the surveys were not 100% effective as there have been cases where the death of a beneficiary was not reported resulting in overpayments of benefits;
2. Reported cases of overpayment for deceased beneficiaries only occur when a concerned citizen comes to request for an investigation into a specific beneficiary;
3. There were cases of overpayment for deceased beneficiaries that were caught and seized years after the passing, causing financial loss in irrecoverable overpayments; and

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

4. There is a lack of human resources at the state-levels and HQ to monitor the status of beneficiaries if they are still alive, therefore SS is relying on good faith from family members to report.

**5.2.1 Causes:**

1. The biennial (every 2 years) survey conducted is too wide of a gap and not 100% reliable to monitor and update current changes in status of beneficiaries while the Benefits Policy of 1994 needs to be updated;
2. Beneficiary surviving spouse and/or beneficiary surviving children do not report deaths of their SS benefits recipient in order to keep receiving payment without adjustments;
3. There is no law that mandates the issuance of death certificates; and
4. Lack of Staff and resources to conduct physical visits to residences of beneficiaries in the states and outer islands of the FSM States to monitor living beneficiaries versus deceased beneficiaries.

**5.2.2 Potential Effects:**

1. Inappropriate and unethical conduct by the beneficiaries may lead to unwanted national and state-level issues with inaccurate tax collection and overpayments;
2. Funding of FSMSSA may not be sustainable mainly because benefit payments exceed annual collection due to overpayments;
3. Feeling of Inconsistency and unfair treatment by members who are in compliance (65 years of age who are in active employment and consistently paying SS tax as required by law); and
4. Long-term potential effects will negatively occur towards the next generation who will eventually turn to retirement and SS benefits once they become eligible.

(Refer to [Table 1](#) unrecoverable overpayment that had been reported to SSA)

**5.2.3 Recommendations:**

The Board of Directors and Management of the FSMSSA should:

1. Review the process and develop or update the policy and procedures to include current practices such as the biennial surveys that are carried out for beneficiaries to ensure it is relevant and effective;
2. Propose for the revision of the law/code to:
  - a. require beneficiary's surviving spouse, children or next of kin to report beneficiary's death to SSA no later than 30 days after passing;
  - b. impose penalties/fines on responsible individuals for unreported deaths;
3. Lobby for a law that mandates the issuance of death certificates and real-time reporting of death certificates through data-sharing between SSA and the Hospitals (responsible for the issuing of death certificates); and
4. Develop and implement more effective strategies (including increasing staff and resources) to enforce strict implementation to the following mandates:
  - a. FSMC Title 53 Section 605.3 as amended by Public Law 15-73;
  - b. FSM Code Title 53 § 808. Adjustments to correct for overpayments and underpayments to an individual.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**5.3 Finding No.3: Unaccounted Contributions Indicate Lack of Reconciliation and Untimely Posting to Members' Accounts**

According to leading accounting practices, timely and accurate reconciliation should be carried out for unaccounted amounts (or postings) in the financial ledgers. Those in key roles should define procedures that include the timing of the reconciliation and any follow-up corrective actions to be performed to ensure complete and accurate records.

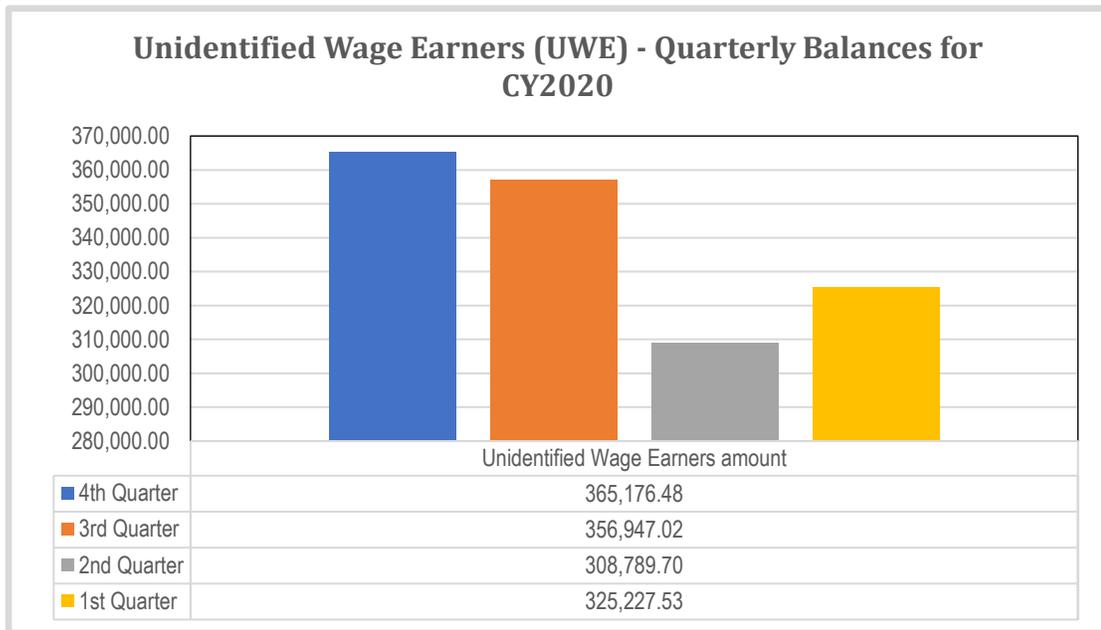
During interviews, we were informed that the Information Technology (I.T) Section handles the posting of SSA premiums (contributions collected/received) to individual members' accounts, as well as the posting of the unposted premium to the Unidentified Wage Earners (UWE) account, and the resolving of the same.

Based on our verification, we found that:

1. There was a material amount of premiums which are not posted and credited accordingly to the members' accounts. These are referred to as the Unidentified Wage Earners (UWE) and are posted temporarily in the UWE account while awaiting reconciliation by the I.T team.

[Figure 2](#) below shows the balances in the UWE account for each quarter of CY2020:

*Figure 2*



*Source: Unidentified List from the I.T section (SSA Headquarters)*

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

---

2. Based on our analysis, there was an increase of \$8,229.46 (2.3%) from the 3<sup>rd</sup> to the 4<sup>th</sup> Quarter, while there was a bigger increase of \$48,157.32 (15.6%) from the 2<sup>nd</sup> to the 3<sup>rd</sup> Quarter with a reduction of \$16,437.83 (-5.1%) from the 1<sup>st</sup> to the 2<sup>nd</sup> Quarter of CY2020; and
3. Increasing balance in the UWE account is an indication that efforts exerted by FSMSSA to identify and post premiums received to the correct members' accounts require greater attention and improvement.

**5.3.1 Causes:**

1. There are no documented procedures for these processes of posting and reconciling contributions received through premiums (social security tax).
2. Discrepancies in the member's personal data such as having 1 person with the same first name but different last names, disparity in the dates of birth and error in the social security numbers; and
3. Ineffective and lack of timely reconciliation of these unposted premiums which are supposed to be resolved at the end of every quarter.

**5.3.2 Effects:**

1. Increasing balances of the UWE account;
2. Delay in the processing of a members' claim for benefits; and
3. Members lose trust in the efficiency of the SSA system.

**5.3.3 Recommendations:**

The Board of Directors and Management of the FSMSSA should:

1. Update the Manual to include detailed procedures and timelines in the reconciliation and posting of members' premiums to resolve any unidentified premium within 30 days from posting and target zero balance in the Unidentified Wage Earners account at the end of every quarter;
2. Consider carrying a data cleaning project to work on clearing and correctly posting very old transactions in the Unidentified Wage Earners (UWE) account; and
3. Increase the human resources in and build the capacity of the I.T Section to ensure strict monitoring of the Unidentified Wage Earners account during every Quarter.

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**6.0 MANAGEMENT RESPONSE**



**FSM Social Security Administration**  
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Tel. No. (691) 320-2708 Fax No. (691) 320-2607  
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September 13, 2021

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

***Subject: Draft Inspection Report on Social Security Benefits***

Dear Mr. Hainrick:

Thank you for your letter dated August 31, 2021 regarding the above subject matter. We have thoroughly reviewed the Draft Inspection Report and are pleased to provide you attached herewith our management response to the findings and recommendations. We hope it is sufficient in relation to the audit requirements. Otherwise, please let us know what else that needs to be done. Rest assured that the management and staff of FSMSSA is committed to take every possible step to strengthen controls on the weak spots uncovered in your inspection.

We would also like to take this opportunity to thank you and your staff for their hard work during the inspection. Your invaluable input and recommendations are very much appreciated.

Sincerely yours,

  
Francky Hai  
Acting Administrator

Attachment: Management Response

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**FSM Social Security Administration**  
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**FSMSSA MANAGEMENT RESPONSE TO THE FINDINGS AND**  
**RECOMMENDATIONS OF THE INSPECTION REPORT NO. 2021-03**

**Finding No. 1:** Uncollected debt of over \$27,000 is linked to overpaid retirement benefits to some members.

**Management Response:**

We agree to the finding and recommendations. Management recognizes that overpaid benefits will exist from time to time. In 2012, we created and hired 2 new positions for our Chuuk and Pohnpei branch, namely Investigation Officers whose main function is to investigate beneficiary's eligibility. Our Investigation Officers also work closely with our authorized depository institutions to ensure that overpaid benefits are returned in time once beneficiary's eligibility to benefits ceases. The hiring of Investigation Officers proved to be beneficial. Once they were hired most overpaid benefits are caught in time and collected accordingly. Unfortunately, \$9,000 of the \$27,000 uncollected debt needs to be written off as collection proved to be futile at this time due to lack of survivors willing to pay the debt. Management acknowledges that current procedures need to be improved. We agree to the auditor's recommendations and will implement them as soon as possible.

**Finding No. 2:** FSMSSA does not have sufficient measures in place to effectively monitor and adjust payments to beneficiaries who have passed.

**Management Response:**

We agree to the finding and recommendations. Management acknowledges that there have been deficiencies in processes, which will be addressed through detailed review of the current procedures. We will update our policy and procedures to include current practices as soon as possible. We will also begin to review our current staffing structure to be able to know if we need to increase our staff to do the task of monitoring beneficiary's eligibility.

**Finding No. 3:** Unaccounted contributions indicate lack of reconciliation and untimely posting to members' accounts.

**Management Response:**

We agree to the finding and recommendations. While contributions collected from employers are accounted for, reconciled with bank accounts on a monthly basis, and posted in the general ledger in a timely manner, management acknowledges that there have been deficiencies in processes of posting Unidentified Wage Earners' contributions

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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to individual member's account. We agree to the auditors' recommendations and the following action will be taken to improve the situation. We will have the IT division supervisor to develop a detailed procedure on reconciling and posting Unidentified Wage Earners account to be incorporated in the manual. We will create a new position to add to the 3 current position at our IT Division to do the task of reconciling and posting of UWE.

Respectfully submitted,

  
Francky Hai  
Acting Administrator

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**7.0 ONPA EVALUATION OF MANAGEMENT RESPONSE**

We requested for a Management Response from the FSM Social Security Administration. The Acting Administrator agreed with our findings and recommendations (provided in the previous [Section 6.0](#) of this report).

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**8.0 NATIONAL PUBLIC AUDITOR'S COMMENTS**

We would like to thank the Management and Staff of the FSM Social Security Administration for their assistance and cooperation during the course of the Inspection and for their positive response to address our audit findings and recommendations.

We have provided copies of the final inspection report to the President and Members of the 22<sup>nd</sup> FSM Congress. 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 conducted the inspection and prepared this report.



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

**September 16, 2021**

**Office of the National Public Auditor**  
**IMMEDIATE ACTIONS NEEDED TO ADDRESS OVERPAYMENT OF SOCIAL SECURITY BENEFITS AND LATE POSTING**  
**OF PREMIUM TO MEMBERS' ACCOUNTS**

**Inspection Report No. 2021-03**

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**9.0 ONPA CONTACT AND STAFF ACKNOWLEDGEMENT**

ONPA CONTACT: Haser H. Hainrick, National Public Auditor  
Email: [hhainrick@fsmopa.fm](mailto:hhainrick@fsmopa.fm)

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

Miriama Naivalu, Audit Manager  
Susana Saballe, former Audit Supervisor CPA  
Trifonovitch Sound, Auditor-In-Charge  
Neong U. Yoma, Assisting Auditor  
Ethel James, Assisting Auditor

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ONPA MISSION We conduct quality audits and investigations to improve good governance and to prevent and deter fraud, waste and abuse for the stakeholders' benefit

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