

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



**VALUE FOR MONEY AND THE INTENTION OF THE LAW ARE NOT
ACHIEVED DUE TO NON-COMPLIANCE AND INEFFECTIVE OVERSIGHT
OVER CFSM PUBLIC PROJECTS AT SOKEHS MUNICIPALITY**

Inspection Report No. 2022-01



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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January 25, 2022

His Excellency President David W. Panuelo
Honorable Members of the 22nd Congress
Chief Magistrate, Sokehs Municipal Government, Allottee
Secretary, Department of TC&I, Allottee
Federated States of Micronesia

RE: Inspection of CFSM Appropriations for Public Projects in Pohnpei State

We have completed our inspection of the CFSM Pohnpei public projects that were appropriated under Public Laws 20-125, 20-141 and 20-178. The following public projects that were covered in our review were Sokehs Municipal Retaining Wall and Sokehs Community Water Projects.

This report presents the results of our review, which we conducted as an Inspection in accordance with the *Quality Standards for Inspections and Evaluations issued by the Council of the Inspector Generals on Integrity and Efficiency (CIGIE)* in the US federal government.

Based on our inspection, we found the following issues pertaining to the administration and implementation of the mentioned CFSM funded public Projects for the State of Pohnpei:

1. Incomplete planning and changing orders for the Sokehs Retaining Wall Project resulted in the increase of an initial contract award of \$48,392.80 to \$94,500;
2. Questioned costs of \$17,824.61 is due to lack of proper planning and oversight for the Community Water Project; and
3. Payment requests for the Sokehs Retaining Wall project were not authorized by the Allottee as required by the FMR.

We have referred some of the issues to our Compliance Investigation Division (CID) for further review and evaluation.

Sincerely,

Haser Hainrick
National Public Auditor

Xc: Vice President
Secretary, Department of Finance & Administration

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ABBREVIATIONS

CFMS	Congress of the Federated States of Micronesia
DoFA	Department of Finance and Administration
DTC & I / TC&I	Department of Transportation, Communication & Infrastructure
FMR	Financial Management Regulation
FSMNG	Federated States of Micronesia National Government
PCD	Project Control Document
SDG	Sustainable Development Goals
SMG	Sokehs Municipality Government
UN	United Nations

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1.0 INTRODUCTION

1.1 Reason for the Assignment

A request from a Sokehs Municipality official prompted the Office of the National Public Auditor (ONPA) to conduct an inspection of certain CFSM Pohnpei Public Projects due to concerns regarding the quality of the work. Such projects were appropriated under Public Law 20-125, 20-141 and 20-178 for Sokehs Municipal Government (SMG). The last audit on CFSM funded public projects for Pohnpei State covered fiscal year 2010 to 2011. For this review, we will be conducting an inspection rather than an audit given the nature and limited scope of the request by the SMG official.

1.2 Background Information

Public Laws 20-125, 20-141 and 20-178 were passed by Congress of the Federated States of Micronesia (CFSM) to appropriate funds from the General Fund to fund public projects in Sokehs Municipality, Pohnpei, Federated States of Micronesia (referred to as CFSM public projects). Based on the public laws identified, there were two (2) separate projects for which the Congress had appropriated funds for the SMG in Pohnpei State:

1. *Sokehs Municipal Government Retaining Wall*

- a. Public Law 20-125 was enabled and signed into law on September 22, 2018 to appropriate, among others, \$54,500 for the above project;
- b. Public Law 20-178 was enabled and signed into law on April 11, 2019 to appropriate, among others, another \$40,000 to continue the same project above to Phase II; and

2. *Sokehs Municipal Government Community Water Projects*

- a. Public Law 20-141, which was enabled and signed into law on October 26, 2018 to appropriate, among others, \$20,000 for the above project.

Both projects had been allotted by the FSM Department of Finance & Administration (DoFA) Budget Office and expended by the SMG through disbursements processed by the DoFA Treasury division.

1.3 Funding

With the passage of Public Laws 20-125 (which came out to the amount of \$54,500 appropriation) and 20-178 (appropriation was in the amount of \$40,000), it was determined that the Secretary of the FSM Department of Transportation, Communication & Infrastructure (TC&I) will be the allottee for the project to conduct the procurement of the contract through bidding processes and to closely monitor the quality of the project until its completion, as it is subjected to FSM Procurement Act and the Financial Management Regulations (FMR) as the amount is above the threshold with regards to the requirements of the open and competitive bidding process for construction contracts. As for the additional appropriation made possible by Public Law 20-178, it was determined that the President of the Federated States of Micronesia (FSM) will be the allottee and no longer the Secretary of the TC&I. However, it should also be noted that the department of TC&I ensured close involvement of the Sokehs Municipal Government from beginning to the end of the project.

Whereas, Public Law 20-141 was signed into law and determined by Congress that the Chief Magistrate of Sokehs Municipal Government (SMG) would be the allottee for the project as it is equal to or below the threshold of \$20,000 for purchases and does not require any bidding process or any contract as required in the FMR. There was no amendment of any kind to the project except a

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reprogramming of fund from contractual budget category to consumable for continued purchase of water system materials.

1.3.1. Contributions from FSM National Government (FSMNG)

The FSM National Government provide financial contributions through public law appropriations that are appropriated for both projects: *Sokehs Municipal Government Community Water Projects*; and *Sokehs Municipal Government Retaining Wall*

Table 1

Appropriation for Sokehs Municipality, Pohnpei State PL. 20-125 & 20-178					
Project Title	Amount of Allotment (\$)	Allotee/Sub-allotee	Vendor / Contractor	Expenditures (\$)	Balance (\$)
Sokehs Municipality Government Retaining Wall	\$54,500	FSM Department of Transportation , Division of Infrastructure	Black Sand Construction	\$54,500	00
Sokehs Municipality Government Retaining Wall	\$40,000	President/FSM Department of Transportation , Division of Infrastructure	Black Sand Construction	\$40,000	00

Table 2

Appropriation for Sokehs Municipality, Pohnpei State PL.20-141					
Project Title	Amount of Allotment (\$)	Allotee	Vendor / Contractor	Expenditure (\$)	Remaining Balance (\$)
Sokehs Municipal Government Community Water Projects	\$20,000. 17,250 for Consumable Supplies; 2,500 for contractual service	Michael Liemen, Magistrate of Sokehs	Several local Hardware Stores for supplies; SA for contractual service	\$15,074 for consumable supplies; \$2,500 for contractual service	\$2,175.39 for consumable supplies; 00 for contractual service

Source: Advice of Allotment, Expenditure reports from the FSM Department of Finance & Administration

2.0 OBJECTIVE, SCOPE AND METHODOLOGY

2.1 Objective(s)

The primary objective of this inspection is to:

- determine whether CFSM funds used were in accordance with its intended purposes including compliance with all applicable laws and regulations.
 - The sub-objective is to determine whether funds were used effectively and efficiently in terms of the quality of the project outputs that were impactful to the community.

2.2 Scope

The inspection covered both projects for Sokehs Municipality of Pohnpei State appropriated under Public Laws 20-125, 20-178 and 20-141 including all its amendments or reprogramming for the Municipality of Sokehs, Pohnpei State.

We will conduct this inspection pursuant to the authority vested in the National Public Auditor as codified under Chapter 5, Title 55 of the FSM Code which states in part as the following:

“The Public Auditor shall inspect and audit transactions, accounts, books and other financial records of very 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 non-profit 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 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 objectives.

To determine whether CFSM funds used were in accordance with its intended purposes including compliance with all applicable laws and regulations, including assessment of the quality and impact of the projects, the inspection team had:

1. reviewed and assessed all information and records pertaining to the Scope of the inspection.
2. performed a 100% sample-testing on all expenditure reports for compliance purposes given the narrow scope of our coverage; and
3. Carried out physical inspection of the projects.

3.0 PRIOR AUDIT OR INSPECTION COVERAGE

The last audit conducted on CFSM Public Projects for the State of Pohnpei was for fiscal years 2010 to 2011 for all projects as a whole, including Sokehs Municipality projects.

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4.0 CONCLUSION

Based on our inspection, we concluded that Proper Oversight's attention is needed to address public project funds being wasted and/or subjected to non-quality constructions, which have led to abandoned Water System Project in Pohras, Sokehs and the Retaining Wall situated next to the Sokehs local Municipal Government compound which may pose greater financial risks to the Public Project Funding in the future due to the low-quality construction. Below is the summary of our findings:

- (i) Incomplete planning and changing orders for the Sokehs Retaining Wall Project resulted in the increase of an initial contract award of \$48,392.80 to \$94,500;
- (ii) Questioned costs of \$17,824.61 is due to lack of proper planning and oversight for the Community Water Project; and
- (iii) Payment requests for the Sokehs Retaining Wall project were not authorized by the Allottee as required by the FMR.

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

5.0 FINDINGS AND RECOMMENDATIONS

5.1 Finding 1: Incomplete Planning and Changing Orders for the Sokehs Retaining Wall Project Resulted in the Increase of an Initial Contract Award of \$48,392 to \$94,500

Requirements of the Financial Management Regulation (FMR)

- Part 5.1.4(1)(b) (Obligations) of the FMR requires that the FSM National Government is legally obliged to make payment for goods and services based on an event like “Signing a contract (payment made upon satisfactory completion of services or successful delivery of goods purchased)”;
- Part 5.1.7(1)(d)(iii) Construction Contracts. With respect to contracts for construction projects involving the obligation of \$20,000 or more, or such other amount as may be prescribed by subpart 6.2, said contracts, including all modifications or amendments thereto “must contain provisions preventing the ten percent (10%) retainer from being disbursed until the Secretary of the Department of Transportation, Communications, or designee has certified that the contract has been satisfactorily completed”.
- Part 6.2.13(3)(b) (Award of Contract) of the FMR also requires that in deciding the ‘lowest responsible’ bidder for construction contracts, the bidding panel must consider and document the following in awarding the contract: “Ensure the full scope of works have been met to avoid future change orders”.
- Part 6.2.15(2) (Collusion or Advance Disclosure) states that “Under no circumstances must a bidder collude with others to pitch the original tender low with a view to submit a change order after a contract has been executed. If such a situation is found, this may render the contract null and void.

Expected activities and results in the approved Project Control Document (PCD)

- According to the PCD for Public Law 20-125 & 20-178 (Sokehs Retaining Wall project):
 - Part II-C (Project Information) states that “This project is expected to yield improvements in the drainage improvements along this area as well as providing man-made protection against possible landslides within the vicinity.”
 - Part III-A (Proposed Implementation) states that “Upon full executive of a contract, TC&I shall be obligated to constantly monitor the quality of work to ensure compliance with terms of the contract.”
 - Part V-1 describes how people in the community will directly benefit from this project and it was also stated that “With the construction of this retaining wall, the SMG shall experience safe occupancy of their existing office with minimized risk of landslide destruction of their office.”

Terms of the “Notice to Proceed”:

- In the official Notice to Proceed issued by DTC&I to the contractor, it is stated that the contractor is “hereby notified to commence work on the referenced contract on or within 10 days of acknowledgement, and shall fully complete all of the works said contract within 90 calendar days thereafter.”

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The following issues were noted during our review:

1. The PCD was approved by DoFA even though there was lack of justification to support the additional funds of \$40,000 as the proposed implementation strategies in both PCDs were the same. Duplicated information was evident in both the first and second PCDs except for the appropriation amount, the project timelines which had changed and that the Allotee for the additional funding above had changed to be the FSM President;
2. Apart from the retaining wall being built, the sidewalk and public road above the wall was also improved (Refer to Figures 10-13 below) even though the Scope of Work prepared by DTC&I nor the initial and the second PCD did not state any additional plans to construct a sidewalk or to improve the public road above the retaining wall;
3. In deciding and awarding the contract to the 'lowest responsible bidder', DTC&I did not ensure the full scope of works have been met to avoid future change orders;
4. There was a significant delay as the initial project target completion date of 90 calendar days turned out to be more than 300 calendar days for the project to be completed; (from mobilization payment on May 9, 2019 until 100% completion payment date on March 3, 2020); and
5. The calculation of the 10% retention fee (for the whole appropriated amount of \$94, 500) was not correct as it was overstated by \$657.20 without any clear justification in the Contract Performance Statement (May 18, 2020).

The following pictures are showing the retaining wall and the road improvement:

BEFORE



AFTER



Figure 10 & 11: Sidewalk was well constructed while the wall was slanting

Source: Project inspector at DTC&I (Figure 10) and ONPA (Figure 11)

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BEFORE



AFTER



Figure 12 & 13: Road improvement with the sidewalk constructed

Source: Project inspector (Figure 12) and ONPA (Figure 13)

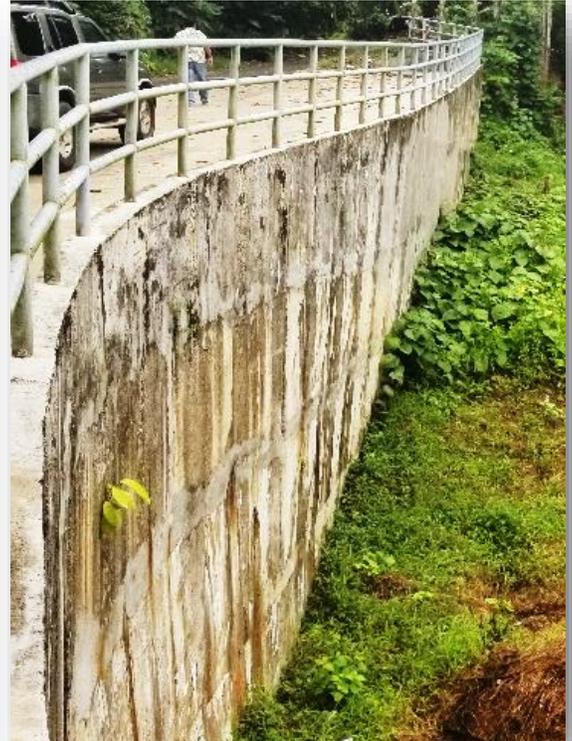


Figure 14 & 15: Slanting wall at the SMG compound

Source: ONPA

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5.1.1 Causes:

1. The duplicated project implementation information in the 2 PCDs:
 - a. Reflected inadequate planning by DTC&I to include a complete Scope of Work to accompany the PCD; and
 - b. Maybe due to shortage of staff at the DoFA's Division of Budget to carry out thorough verification of the high volume of PCDs that they receive and verify each month;
2. The Scope of Work that was prepared by DTC&I was not reviewed and approved (name of the preparer, approver and the date was not specified) and it did not state any works on the improvement to the sidewalk and public road above the retaining wall;
3. DTC&I had not carried out a thorough assessment of the works that would be required for the retaining wall and did not document a detailed Scope of Work that was properly reviewed and approved before commencing the bidding process;
4. Contract did not specify the timeline (commencement and completion dates) for completing the project and bad weather conditions; and
5. Project Manager prepared the Contract Performance Statement (May 18, 2020) without adequate justification on the adjustment of \$657.20 as the retention fee.

5.1.2 Potential Effects:

1. Lack of proper planning, effective review and oversight by DTC&I can give room to collusion and fraud as two (2) Changes Orders were made after the awarding of the contract to the lowest bidder totaling \$46,107.20. The 1st Change Order was made on July 31, 2019 (3 months since the issue of the Notice to Proceed on April 4, 2019) and the 2nd Change Order (for \$40,000) was made on September 12, 2019 (less than 2 months since the 1st change order):
 - a. The 1st Change Order or amendment in the amount of \$6,107.20 was made for the *"supply and installation of.. pipe railings ..."* which then increased the total project cost to exactly equal the total appropriated amount of \$54,500 on Public Law 20-125, with a new target completion date as September 30, 2019;
 - b. The 2nd Change Order or amendment of \$40,000.00 was for the same reason as the amendment in the 1st Change Order above with an additional amendment to *"continue the railing wall up.... to complete with sidewalk and site restoration either reinforced concrete or asphalt"*. A new target completion date of March 31, 2020 was stated. This amendment resulted in the need for an additional request to Congress for appropriation of funds for the same project (Sokehs Retaining Wall) which was approved on Public Law 20-178;
2. A 2nd Change Order was made to improve the public road which included the sidewalk even though it was not part of the initial design plan (Refer to the Figures 9 - 11 above for the final structure).
3. No value for money achieved as the project funds may have not been based on sufficient planning prior to execution. This puts the public funds in a risky and vulnerable situation. As the saying goes "failing to plan is planning to fail" (Benjamin Franklin).
4. Risk of the contractors submitting incomplete plans, designs that later require changes and more time;

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5. Public funds may have been vulnerable to waste, misuse, abuse and potential fraud due to the poor planning, implementation, monitoring, reporting of the actual public project that may lead to serious safety risks as the wall appeared to be slanted (Refer to Figure 14 & 15 above).

Therefore, we are referring this matter for further review by our Compliance Investigation Division.

5.1.3 Recommendations:

The DoFA (Budget division) must:

1. Ensure thorough verification of the PCD before approval;

The DTC&I (Infrastructure division) should:

2. Improve their communication/coordination with relevant parties (e.g., SMG) when working on public projects (preparing the Scope of work, PCD, Notice to Proceed, monitoring and performance assessment etc.) to:
 - a. Ensure that the PCDs they prepare contain complete and meaningful that supports the funding that has been appropriated;
 - b. Ensure that the progress monitoring and reports are prepared and based on actual performance of the contractor.
3. Conduct sufficient planning and document Scope of Works that are detailed (including enforcing structures if applicable), reviewed and approved based on their engineering and infrastructure expertise in line with the required project construction or works;
4. Ensure that the estimated timeline of the project is calculated based on reliable information and assessment and that it is captured in the Contract to make it legally binding; and
5. Carry out effective monitoring and review of the contractor's performance and provide justifications for all adjustments made to the project costs that are payable to the contractor.

5.2 Finding 2: Questioned Costs of \$17,824.61 is Due to Lack of Proper Planning and Oversight for the Community Water Project

Requirements of the Financial Management Regulation (FMR)

- Part 5.2.4 of the FMR requires that when using a Job Order for services being rendered, it is the responsibility of the FSM Government Agency to provide documentary support to show that services have been completed to a satisfactory standard.
- Part 10.2. of the FMR also requires that 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 designate the Project Inspection Official (PIO);
 - Part 10.2.5. of the FMR further requires that the PIO 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.

Expected activities and results in the approved Project Control Document (PCD)

- According to the PCD for the Public Law 20-141 (Sokehs Municipal Government’s Community Water Project):
 - Part II-C (Description and Expected Project Outputs) states that “The project fund will be used to finance various community water projects within Sokehs Municipality. Project is expected to alleviate water problems, common within the Sokehs Municipality...”;
 - Part III-A (Project implementation) states that “The Sokehs Municipal Government Treasury will administer funds and will disburse funds based on verification from preliminary inspection from SMG Chief Public Work and TC&I staff. ALL requests will be verified by the technical staff with subsequent of the BEST engineering approach depending on the need.”

Payment Terms for the Job Order

- According to the Payment Terms, “The Contractor shall get the first payment of \$1,250.00 upon completion of the Dam and second payment of \$1,250.00 upon the completion of the project.”

Water Dam & Water Tanks

Our inspection of the Water System Project revealed that the \$20,000 that was appropriated for the project was expended through purchasing of polyvinyl (PVC) pipes and connections, gravel, rebars, cubic sand, cement blocks, and cement bags from local suppliers for the purpose of constructing a water dam. Additionally, five (5) water tanks were purchased for communities within the Sokehs Municipality that needed it. The total amount expended for the whole Water System Project was \$17,824.61.

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The following issues were noted for the SMG Community water project:

1. Payments were made to the contractor without the completion of the water dam which was never operational and left abandoned. (Refer to the inspection pictures on Figures 1- 4); and
2. The water tanks purchased (were not utilized in the manner for which it was requested. Water tanks were abandoned, without any meaningful purpose and use. One of the tanks was retrieved by the Police department from Madolenihmw Municipality as the water project, as prescribed by law, were for Sokehs Municipality. (Refer to the inspection pictures on Figures 5-8 below).

The pictures below were taken during our inspection of the water dam and the relevant tank that should be connected (via PVC pipes) to the water dam (Source: ONPA):



Figure 1: Abandoned Water Dam in Pohras, Palikir in Sokehs



Figure 2: Water Dam did not appear to be 5'x 6' in length and height; PVC pipes still intact at the Water Dam in Pohras, Sokehs but not operational



Figure 3: PVC pipes for the Water Dam in Pohras, Sokehs are going up-hill without any bump to support the flow



Figure 4: This tank was left outside a residence in Pohras area and was unused. Supposedly, the tank was to be connected to the Water Dam that is located in the mountain area

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The pictures below were taken during our inspection of the Water Tanks:



Figure 5: One (1) of the 2 smaller tanks left outside a house in Nan Mal, Palikir in Sokehs with no water inside and no water catchment above



Figure 6: 2nd of the 3 bigger tanks left unused outside a residence in the Sekere community in Sokehs.



Figure 7: The 2nd smaller tank purchased also left outside a residence in Nan Mal abandoned and not in use



Figure 8: Last of the 3 bigger tanks that was left unused behind the Sokehs Municipal Government Building after it was retrieved from Madolenihmw Municipality

5.2.1 Causes:

1. DoFA (Division of Budget) had approved the PCD even though:
 - a. the assigned PIO in the PCD was not specific and did not state the name of the person to carry out the inspection but rather stated as “SMG Public Works/DTC&I assigned staff”; and
 - b. one of the agencies assigned for the PIO role (SMG Public Works) was not independent of the Allottee and out of which an official was assigned to prepare the inspection report which DoFA had relied on for processing of the final payments to the Contractor; and
2. Poor planning and oversight by the Allottee in terms of ensuring that the needs of the community are met and that the CFSM funds were utilized effectively.

5.2.2 Potential Effects:

1. Denial of basic human rights and lack of implementation of the UN Sustainable Goal 6 as:

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- a. Human rights of access to water and sanitation¹ are denied to the residences of Sokehs municipality that are still facing difficulties with accessing clean water;
 - b. SDG Goal 6 (Ensure availability and sustainable management of water and sanitation for all²) is not implemented as people residing within the Sokehs Municipality that are still facing difficulties with accessing clean water remain vulnerable to health risks; and
2. Waste of public funds as a total of \$17,824.61 was expended for the water project that did not meet the intended purpose of the appropriation law.

Therefore, we are referring this matter for further review by our Compliance Investigation Division.

5.2.3 Recommendations:

1. Secretary of DoFA should:
 - a. ensure that the PCD is only approved if, among other information, the individual assigned as PIO is independent of the Allottee as required in the FMR; and
 - b. issue a relevant disciplinary action (e.g., verbal warning or warning letter) to the responsible official that had assessed and approved the PCD without effective verification of the assigned PIO.
2. The Allottee (Chief Magistrate of the SMG) should,
 - a. take immediate appropriate actions to inspect the water dam and tanks and put them to use for the community's benefit; and
 - b. provide proper oversight and close monitoring of public projects that they request CFSM funding for, to ensure quality and impactful project outputs that are beneficial to the public as intended by law.

5.3 Finding 3: Payment Requests for the Sokehs Retaining Wall Project Were Not Authorized by the Allottee as Required by the FMR.

According to the FMR Part 5.2.6 (1) (Authorization of expenditure), "All prepared purchase requisition forms must be approved by the Allottee, certified by the Certification Unit and verified by the Procurement Unit (evidenced by signature)";

(7) At payment stage, the Allottee must sign the Miscellaneous Payment Request form approving payment and also submitting adequate documentation to support the amount to be paid and that the goods and services have been received.

During our review we found that payments were made without the approval or authorization of the designated allottee passed by Public Law 20-178. Instead, these were approved by the Acting Secretary of DTC&I.

¹ Source <https://www.unwater.org/water-facts/human-rights/>

² Source: <https://sdgs.un.org/goals/goal6>

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5.3.1 Cause:

Lack of proper and thorough review by the DoFA Treasury Division prior to processing and releasing payments.

5.3.2 Effect:

A total of \$40,000 in Public Funding may have been potentially gone to waste, misuse, abuse or fraud without proper authorization of issuing payments.

5.3.3 Recommendations:

The Secretary DoFA or his designee should take accountability of Finance processes and resources by making the needed changes and a strong stand to help eradicate the culture of non-compliance throughout the years over the use of National Government funds appropriated for CFSM public projects.

- For instance: strengthening the verification / scrutinization procedures (in the Division of National Treasury) for payment requests to ensure that all relevant supporting documents are sufficient before authorizing payments, keeping in mind the requirements of the approved PCD. (As previously recommended in many past audit/inspection reports for CFSM projects)

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INSPECTION REPORT NO. 2022-01

6.0 MANAGEMENT RESPONSES

6.1 Chief Magistrate, Sokehs Municipal Government



Office of the Chief Magistrate

SOKEHS MUNICIPAL GOVERNMENT

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA 96941

P.O. Box 2247
Tel: 320-3616/2179
E-mail: sokehsgovt@gmail.com

**Sokehs Government Management Response to the Findings and Recommendations of
Inspection Report No. 2021-05**

Finding No. 1: Incomplete Planning and Changing Orders for the Sokehs Retaining Wall Project Resulted in the Increase of an Initial Contract Award of \$48,392.80 to \$94,500.

Management Response:

We agree to the finding and recommendations. Management agrees that communication between TC&I and stake holders like Sokehs needs to improve. Before any project in Sokehs, the Sokehs Municipal Government should have a well understanding of the project with plans and estimates so we could be able to assist in monitoring the project the absence of PIO or TC&I. We will make sure our public project funds in Sokehs will be based on an already prepared plan with cost estimate, instead of appropriation first and plan later.

Finding No. 2: Questioned cost of \$17,824.61 due to Lack Proper Planning and Oversight for the Community Water Project.

Management response:

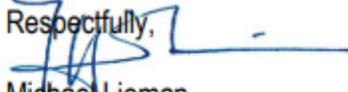
I agree to the finding and recommendations. Management acknowledges the huge failure on this project from planning, hiring, monitoring and inspection. We will have to improve our understanding on the projects plans and be more careful in hiring labors or contractors with valuable experience next time. We will make sure TC&I inspects our FSM funded projects and scope of works being complied to.

Finding No. 3: Payment Request for the Sokehs Retaining Wall Project Were Not Authorized by the Allottee as Required by the FMR.

Management response:

I agree to the finding and recommendations. Management will improve its involvement in any Sokehs Public Project funded by FSM. We will follow the projects make sure we have copies of project documents to able to do our own monitor and inspection of the project to make sure the PIO and FSM finance passed and compensated them as scoped.

In general, we agree with the auditor's findings & recommendations and the actions need to be taken are the careful working together between the stakeholder agencies, PIO, Soke public Works and FSM finance from planning, monitoring, inspection and payment. We also look forward to your guidance to improve our project management ability. Thank you.

Respectfully,

Michael Lieman
Chief Magistrate, SMG

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6.2 Secretary, FSM Department of Finance and Administration



Secretary of Finance
&

Administration

December 15, 2021

**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

Haser Hainrick
National Public Auditor
Palikir, Pohnpei
FM 96941

Dear Mr. Hainrick:

Season Greetings to you and your staff, this is to submit herewith our management response for your audit Report No. 2021-05. We thank you for the opportunity and look forward to working with you to enhance compliance and accountability of CFMS public project funds. Below are our response to the findings.

Finding 1: Incomplete Planning and Changing Orders for the Sokehs Retaining Wall Project Resulted in the Increase of an Initial Contract Award of \$48,392.80 to \$94,500

Management Response: We generally agreed with this finding. We note that some change orders occur after Congress was able to put up move funding towards the projects. We will work closely with the Department of TC&I and local government allottees to improve project planning and budgeting at PCD stage. We also note your recommendations for corrective action and reference.

Finding 2: Questioned Costs of \$17,824.61 is Due to Lack of Proper Planning and Oversight for the Community Water Project

Management Response: We agree that there is significant for improvement in project planning and oversight. Finance rely on allottees who are responsible to ensure proper planning and oversight throughout full implementations of such projects. We are now requiring that TC&I be inspection official for all projects that are construction in nature, and conduct inspection prior to each payment stage.

Finding 3: Payment Requests for the Sokehs Retaining Wall Project Were Not Authorized by the Allottee as Required by the FMR.

Management Response: We agreed to this finding and note your recommendations for strict review for compliance to be improved to prevent these oversights. In some cases, the allottee may designate a sub-allottee that is under the Allottee's direct control to be responsible for executing the project. In other cases, when the Allottee is out of Office, the acting automatically resumes the Allottees

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responsibility and would sign and submit document as the project continue to advance. In these cases, we will ensure our files are updated to include copies of designation for sub-allottee or actingship.

Again, I thank you for emphasizing these weak areas in your report and we certainly note this as opportunity to improve our internal compliance and/or implement necessary internal controls to prevent issues from re-occurring.

Thank you,



Eugene Amor
Secretary,
Department of Finance and Administration

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**6.3 Secretary, FSM Department of Transport, Communications &
Infrastructure**



**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Transportation, Communications & Infrastructure
P.O. Box PS-2, Pohnpei, FM 96941
Tel.: (691) 320-2865 Fax: (691) 320-5853

Office of the Secretary

December 16, 2021

FSM National Public Auditor
P.O. Box PS-05
Palikir, Pohnpei FM 96941
Federated States of Micronesia

Dear Mr. Hainrick,

SUBJECT: Management response To Non-compliance and Ineffective Oversight Over CFSM Public Project at Sokehs Municipality.

Below is our management Response to the above-mentioned report.

Finding No. 001 – Incomplete planning and Change orders for the Sokehs Retaining Wall Project Resulted in the Increase of an Initial Contract Award of \$ 48,392.80 to \$ 94,500.00

Management response: The finding regarding incomplete planning and changing orders for the Sokehs Retaining Wall Project resulting in the increase of the initial contract amount is well noted. Furthermore, management accept the absence of records to support this transaction is noted.

Finding No. 002 – Question cost of \$ 17,824.61 due to lack of Proper Planning and Oversight for Community Water Project.

Management Response: The finding regarding the question cost of \$17,824.61 due to lack of proper planning and oversight is noted. Management accepts the recommendation and is well noted.

Finding No. 003 – Payment request for Sokehs Retaining Wall Project were not authorized by the allottee as required by the allottee.

Management Response: The findings regarding payments for Sokehs Retaining wall were not authorized by the allottee. The management acknowledges the oversights and accepts the recommendations and notes the absence of records to support this transaction. Management also note that DTC&I should institute more effective measures for the timely monitoring and coordination of project implementation and that documents are recorded properly.

Sincerely,

A handwritten signature in black ink, appearing to read "Carlson Apis".

Carlson Apis

7.0 ONPA EVALUATION OF MANAGEMENT RESPONSE

We requested for management responses from the following officials who have all generally agreed with the findings and recommendations in the report:

- Chief Magistrate of Sokehs Municipal Government (SMG),
- Secretary of FSM Department of Finance and Administration (DoFA); and
- Secretary of FSM Department of Transportation, Communication & Infrastructure (DTC&I).

Management also provided assurance that they will be assessing the needs and overall procedures of its operation and improving procedures and guidelines to ensure compliance with rules, laws, and regulations.

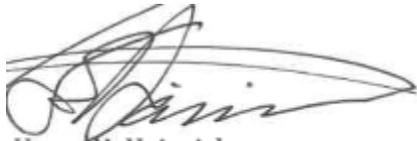
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8.0 NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the relevant staff of the FSM Department of Transportation, Communication and Infrastructure (TC&I) and the Sokehs Municipal Government (SMG) as well as the FSM Department of Finance and Administration for their assistance and cooperation during the course of the Inspection.

We have provided copies of the final inspection report to the President and Members of the 22nd FSM Congress and those charged with governance. 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

January 25, 2022

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9.0 ONPA CONTACTS AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT: Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

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

Miriam Naivalu, Audit Manager
Trifonovitch Sound, Team Leader
Brandon Rodriguez, Assisting Staff
Jimmy Ponapart, Assisting Staff

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