

Inspection of Chuuk Department of Education Concerns

REPORT NO. 2011-02



**Haser H. Hainrick
National Public Auditor**

February 22, 2011



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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

February 22, 2011

His Excellency Manny Mori, FSM President
The Honorable Members of the FSM Congress

RE: Inspection of Chuuk Department of Education Concerns

We completed an inspection of the Chuuk Department of Education (CDOE) in connection with a request made by its Director. The Office of the National Public Auditor (ONPA) could not adequately address the concerns expressed in the request made and whether further investigation was warranted because of a serious limitation in scope. We were not able to perform all of our intended inspection procedures because of limitations in the availability of documentation, information, and personnel. We have also established that some of these limitations should be referred for further investigation.

During our inspection, we noted certain other conditions that may require attention. These include indications of possible conflicts of interest in connection with the awarding of contracts for the supply of construction materials and food. Additionally, our inquiries and the information we gathered suggest a lack of adherence to, and possible circumvention of, competitive bidding procedures. Accordingly, we have established that these matters warrant further investigation.

Respectfully Yours,

Haser Hainrick
National Public Auditor

XC: Vice President
Governor, Chuuk State
Lt. Governor, Chuuk State
President, Chuuk Senate
Speaker, Chuuk House of Representatives
Director, Chuuk Department of Education (CDOE)
Chairman, Chuuk Board of Education
Director, DAS
Controller, Compact Free Control Commission (CFCC)

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

Background

This inspection was initiated based on a letter from the Director of CDOE. The Director, who took office June 8, 2010, wrote she received reports from concerned citizens that construction materials purchased for school renovations were not delivered to the intended schools in the Faichuuk Region, and that feeding program food and supplies, and fuel for transportation were not delivered to the intended recipients and taken by employees for personal use. The Director requested the Office of the National Public Auditor (ONPA) conduct an inspection to address these concerns.

CDOE was established pursuant to sections 1 through 5 of Article X of the Chuuk State Constitution and is responsible for delivering basic education throughout the five regions of Chuuk to children from kindergarten to grade 12. The Secondary and Elementary Education divisions have responsibility for 94 schools. Funding to CDOE is provided by the United States Department of the Interior and the Supplemental Education Sector (SEG) grants provided by the United States Department of Education.

Scope and Methodology

Our inspection reviewed activities involving the purchase and distribution of construction materials, fuel, and food supplies. In conducting our inspection, we interviewed CDOE officials and employees, including school principals and staff, vendors and suppliers, concerned citizens and other government officials. We examined records of purchases and the deliveries of food and construction materials to schools as stated in the letter, and conducted a tour of the warehouse. We also reviewed policies and procedures for the procurement and delivery of fuel for transportation of materials and food supplies to schools in remote locations, and made site visits to schools in the Faichuuk region. The pictures accompanying this report were taken during our tour of the warehouse and the site visits to schools in Faichuuk. This inspection is conducted pursuant to the authority vested in the Public Auditor as codified under Chapter 5, Title 55 of the FSM Code, which states in part:

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

Our Inspection was conducted in accordance with the Quality Standards for Inspections issued by the U.S. Council of Inspectors General on Integrity and Efficiency (CIGIE).

Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02

Objective

The purpose of this inspection was to address the concerns of the Director and determine if these warranted further investigation. The concerns are as follows:

1. Significant amounts of construction materials, purchased for schools in the Faichuuk Region, were not delivered.
2. Fuel or funds for fuel designated (allotted) for the boats for delivery of construction materials from the delivering vessel to the shores of the Faichuuk islands, was in significant part misused.
3. Significant amounts of food for the Secondary Schools were taken from the warehouse by employees for personal use.

Prior Audit Coverage

An inspection of procurement activities was completed by this office in 2009 and identified significant weaknesses in record keeping and internal controls. The following is a summary of the findings:

- Inadequate approval and authorization of purchases.
- Government assets taken for personal use.
- Insufficient competitive bidding procedures, conflicts of interest, and related party transactions.
- Poor condition of storage and warehouse facilities resulting in the spoilage of some foodstuffs.
- Uncontrolled use of fuel.
- Unaccounted for food for the Secondary School lunch program.

Scope Limitation

We were not able to and did not perform all of our intended inspection procedures because of certain circumstances beyond our control that limited the scope of our inspection. A scope limitation is a restriction placed upon us that precludes the achievement of our objectives. Accordingly, we were not able to perform necessary procedures that could have affected the outcome and results of our inspection. The limitations which affected our scope are as follows:

- The Department of Administrative Services (DAS) Supply & Procurement Specialist

Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02

declined our request for interview. In addition to reporting this limitation in scope, we have established this warrants further investigation.

- We requested, but did not receive, lists of related parties and businesses where “the described conflict of interest exists.” DAS represented, in its response to the findings and recommendations contained in our 2009 procurement inspection, it would compile a list of related parties and this would be implemented by September 30, 2009. Likewise, the Compact Funds Control Commission (CFCC) represented it would compile the conflict of interest listing.
- We were advised that periodic counts of inventory are not performed and no records of inventory counts could be provided, including a count that was performed at the request of our inspection team during a preliminary review this past September. Because of the lack of inventory records, we were not able to determine the degree of accountability in the purchasing and distribution of food and food supplies.
- There is some obsolete inventory (cooking oil), the disposition of which we are not able to obtain a reasonable explanation for. The warehouse manager insists the items are not used and not needed, but there are no plans for its removal or alternative use (Exhibit C).
- We were not provided information and, accordingly, could not ascertain the proper accountability for and disposition of certain damaged and expired food items we observed during our tour of the warehouse (See Exhibits A & B).
- We did not have access to copies of documents evidencing the procurement and delivery of fuel and construction materials, which are maintained in locked file cabinets in the warehouse office. During our inspection, the warehouse manager departed for a trip to visit some of the remote schools. Keys to the warehouse were left with warehouse personnel, but the manager did not leave keys to the file cabinets.
- We did not have access to copies of the forms 1017, which evidence delivery of construction materials, because these are maintained by the Vocational Specialist, who is presently on sick leave.
- Officials from two of the schools in the Faichuuk region we visited were not available for interview.
- We requested, but did not receive, policy and procedure manuals and other written materials.
- We requested, but did not receive, certain payment data from the DAS Chief of Finance.

Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02

Other Conditions:

Based on certain conditions which came to our attention during our inspection, we have established that the following matters require referral for further investigation:

1. A supplier we interviewed asserts some competitors are receiving preferential treatment in contract awards and this is due to conflicts of interest and disregard of competitive bidding procedures. He cites examples, the most recent occurring in February 2010, of losing bids despite submitting the lowest price. He also alleges a conflict of interest in one of his competitors, the owner of which is related to other officials of the government who are in decision-making roles regarding the award of contracts. The supplier has also expressed concern that he has been black listed, noting he no longer receives invitations to bid from CDOE.
2. Another supplier we met with said there have been complaints concerning the bid selection process. This supplier cited one example in 2008 in which it was the low bidder and had been awarded the contract to supply, among other things, rice. Prior to actual delivery it was notified of cancellation of the award, and the reason given was that the supplier could not deliver the product. Notwithstanding this, the supplier had already purchased from its distributor and had on hand the required quantity of rice, and vehemently disputes any allegation that it could not make delivery. According to this supplier, the product was re-bid and awarded to another supplier at a higher price.
3. Additional inquiries we made did not reveal a clear understanding and consistent application of competitive bidding procedures among some officials and staff. We were advised by one supplier who received notice of cancellation of their award by an individual in the Planning Division of CDOE, which we subsequently followed up with. Notwithstanding the FSM and Chuuk State financial management regulations, and the Compact Free Association Financial Procedures Agreement (FPA) are silent with respect to cancellation of awarded contracts, we were advised by this individual the procedures he follows are referral to the state Attorney General, who then forwards the cancellation determination or request to the CDOE bidding committee.

Another supplier provided us with a copy of an internal CDOE memorandum discussing the cancellation of an award that was signed by a CDOE official. When asked about this memorandum, this CDOE official insisted the circumstances were an emergency which justified his action. We note that, in accordance with the Chuuk State financial management regulations, there are no emergencies, except where there exists a threat to public health, safety, or welfare under conditions declared by the Governor.

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT A – Warehouse Manager pointing to damaged bags of rice



Source: Inspection team, December 9, 2010

EXHIBIT B1 – Inventory past expiration date



Source: Inspection team, December 9, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT B2 – View of boxes of expired crackers



Source: Inspection team, December 9, 2010

EXHIBIT C1 – Storage of unused cooking oil



Source: Inspection team, December 9, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT C2 – Stored cooking oil



Source: Inspection team, December 9, 2010

EXHIBIT D – Cinder blocks outside warehouse unsecured



Source: Inspection team, December 9, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT E1 – Faichuuk schools renovation



Source: Inspection team, December 14, 2010

EXHIBIT E2 – Faichuuk schools renovation



Source: Inspection team, December 14, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT E3 – Faichuuk schools renovation



Source: Inspection team, December 14, 2010

EXHIBIT E4 – Faichuuk schools renovation



Source: Inspection team, December 14, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

EXHIBIT E5 – Faichuuk schools renovation



Source: Inspection team, December 14, 2010

**Office of the National Public Auditor
Inspection of Chuuk Department of Education Concerns
Report No. 2011-02**

ONPA CONTACT AND STAFF ACKNOWLEDGEMENTS

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:

Patrick J. Zacchini, CPA, Audit Supervisor
Evelyn Paul, Auditor-In-Charge
Cherisse Irons, Staff Auditor

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

Copies Available at: www.fsmopa.fm

Copies by mail or phone: Office of the National Public Auditor
P.O. Box PS-05
Palikir, Pohnpei FM 96941

Phone: (691) 320-2862/3

CONTACT Website: www.fsmopa.fm
Hotline: (691) 320-6768
