



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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August 1, 2002

The Honorable Members, FSM Congress
His Excellency Leo A. Falcam, FSM President
FSM National Government
Palikir, Pohnpei FM 96941

Executive Summary

We have completed an audit of CFSM funds appropriated in Fiscal Years (FY) 1996 to 1999 to the Rural Development Agency Offices based in each of the 4 FSM States. We performed this audit pursuant to Title 55, Chapter 5 of the FSM Code, and in accordance with "*Generally Accepted Auditing Standards*" and the Government Auditing Standards issued by the Comptroller General of the United States.

As a result of our audit, we indicated that the planning and review of the RDA offices FY 1996-1999 budget requests that were submitted and accepted by the FSM National Government were inadequate. Accountability was lost due to lack of enforcement and monitoring over Allottee (Fund Recipient)'s compliance with the FSM Financial Management Regulations. In view however, of the benefits to be delivered by the FSM over the RDA programs, we recommend to the FSM President continued support of the RDA operations subject to:

1. improved procedures in budget and accounting;
2. compliance with the required FSM financial management requirements and Allottee (Recipient)'s reporting; and
3. establishment of adequate internal control procedures over FSM funded costs.

We urge the National Government to ensure that, as required by FSM laws and regulations, funds appropriated to recipients such as the Rural Development Program are adequately planned, controlled, monitored and evaluated. Such an approach applied consistently will ensure that the collective greater goals of the National Government will be achieved.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Moses W. Russel".

Moses W. Russel
Acting National Public Auditor

Staff: Anita L. Ioanis, Audit Supervisor
Michael Henry, Staff Auditor
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In the
Federated States of Micronesia

Fiscal Years 1996 - 2000

PART I:
INTRODUCTION



***Audit of the Rural Development Agency (RDA) Offices
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PART I

Background

The Rural Development Agency (formerly Farmers Home Administration) is a branch of the US Department of Agriculture (USDA) responsible for administering the Direct Single Family Housing Loan and Grant programs of the Rural Housing Service (RHS). Per the Code of Federal Regulations (7 CFR 3550.2), "The purpose of the direct single-family housing loan programs is to provide low and very low-income people who live in rural areas with an opportunity to own adequate but modest, decent, safe, and sanitary dwellings and related facilities." Among the programs that the RHS has provided to the FSM are as follows:

1. Section 504 loans – Qualified applicant can apply up to a maximum amount of \$20,000 loan for repair to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards.
2. Section 504 grants – Qualified applicant can apply up to a maximum amount of \$7,500 for repair to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
3. Section 502 loan – Qualified applicant can apply up to a maximum loan amount of \$92,400 for home repair and new construction.
4. Community Facility Loan and Grant – for educational purposes and health and social services.
5. Water and Waste Disposal Loan and Grant – for sanitary drinking water projects and sanitary disposal system.

The extension/continuation of the RDA services in the FSM was part of the agreement made under the Compact of Free Association between the Governments of the United States and Federated States of Micronesia. The RDA offices have been in operations since 1976 in Chuuk and Pohnpei, 1978 in Yap and 1989 in Kosrae. The US government provides funding for the offices and two employees (Community Development Manager and Community Development Technician) at each state. In pursuing its mission, the RDA coordinates with the housing authorities of the States. Based on an understanding, the FSM National and State governments are to contribute funds to support the operations of the RDA to allow the efficient and effective delivery of programs and services. The annual contributions by each of these three (3) sources are presented as Appendix I.a, I.b, I.c., and I.d. on pages 9 through 12 of this report. Program delivery or loan funds usage in all FSM states from FY 1996 through FY2000 is presented as Appendix II.a and II.b on pages 13 and 14 of this report.

Audit Scope

The scope of the audit covers the period from October 1, 1995 through September 30, 2000 (fiscal years 1996 to 2000). The audit fieldwork was conducted at the FSM Department of Finance and Administration (DOFA) in Palikir, the DOFA's representative offices in Chuuk, Yap and Kosrae States, and as deemed necessary, the State Finance offices and divisions. Our

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review of documents was limited to transactions relating to funding by the Congress of the Federated States of Micronesia.

The audit was conducted pursuant to Title 55, Chapter 5 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, ... 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."

We performed the audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States and included tests of records and other auditing procedures that were considered appropriate under the circumstances.

Audit Objectives

The audit objectives were to determine:

1. total amount of yearly financial assistance provided by the FSM National Government to the USDA RDA operations;
2. whether the USDA RDA is achieving the purposes for which they are authorized and funded in the FSM;
3. whether controls surrounding the FSM National Government contributions were adequate and effective to require and enforce allottee's accountabilities for funds received and responsibilities in ensuring efficient and effective application of resources and in complying with financial management regulation and reporting requirements;
4. whether the USDA RDA offices have adequate office operating policies and procedures in place to properly plan, coordinate, account and report financial contributions received from all funding sources; and
5. whether the USDA RDA offices have adequate internal administrative and accounting controls to safeguard assets and prevent misuse and abuse of funds.

Audit Methodology

To achieve the audit objectives, we requested from the RDA and obtained information from audited reports, the total amount of financial assistance received by the RDA offices from the FSM National, FSM States and US Governments for the fiscal years 1996 through 2000. We use the information to determine total amount of annual operating costs of each office. The RDA provided the information on total loan fund usage with corresponding number of accounts each year by each office. They also provided information on their loan delinquency ratio. We visited the RDA offices in all FSM States and performed a review of their systems in accounting, file maintenance, personnel, budget preparation, transactions review and approval process, and asset procurement and maintenance procedures as they relate to FSM funds. At the FSM National

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Government, we obtained copies of RDA budget proposals, project control documents, allotment advices, accounting reports, and supporting documents. We reviewed those documents for propriety of expenditures and compliance with the financial management regulations. We also interviewed personnel at the FSM Budget office regarding review of budget and project control documents.

Prior Audit Coverage

This audit is the first audit undertaken by the Office of the National Public Auditor on the Rural Development Agency offices in the FSM.

Conclusions

Our audit have determined that during the FY 1996-1999, the process that the RDA used to prepare budgets that were submitted to and accepted by the FSM National Government for funding requests were inadequate in terms of planning and review. Accountability was lost due to lack of enforcement and monitoring over Allottee (Fund Recipient)'s compliance with the FSM Financial Management Regulations. In view, however, of the benefits to be derived by the FSM over the RDA programs, we recommend to the FSM President continued support of the RDA operations subject to an improved procedures in budget and accounting, compliance with required financial management requirements and Allottee (Recipient) reporting and establishment of adequate internal control procedures over FSM funded costs.

Other Matters

The new management and staff of the RDA offices in all the FSM States have been very helpful and attentive to our needs during the audit. Their commitment and aspirations to rebuild the image of RDA as a partner and contributor to FSM's goal toward sustainable economy is commendable. We would like to express our sincere thanks and appreciation to the RDA offices and to the FSM Department of Finance & Administration and respective State Finance offices for their assistance, support and cooperation during the course of our audit.

A copy of this report in its entirety was forwarded to USDA Rural Development Program for response.

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PART II:
FINDINGS & RECOMMENDATIONS

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Findings & Recommendations

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PART II

Findings & Recommendations

Finding 1. Budget Procedures.

Criteria - A sensible budget is a budget developed based on needs to achieve specific goals and targets for the year. Proper budget procedures require that budgets prepared and adopted must have working documents that will verify planning made, as well as, the review and approval process. For purposes of transparency with the different fund grantors, budgets must be simple, clear, and complete. A simple, clear and complete budget is a single budget document prepared for the organization's aggregate operating needs for the year and clearly identifies costs to be funded by each fund source. Proper budget procedures dictate that an office must maintain files of budget and working documents, record approved budget amounts and actual expenditures in the accounting records.

Condition - During our audit, we determined that all the RDA offices in the FSM have no procedures for maintaining complete file copies of budgets and working documents that were submitted to the funding sources. As such, we were not able to perform a detailed review of RDAs budget process and the basis for budgets each year. We were able to obtain copies of project control documents (PCD) and allotment advices from the FSM Budget office. There were also communications supporting the budget requests that were written by the RDA-Pohnpei CDM to the FSM President. Our review of all these documents indicated that the details of budgets each year were for purposes that were either a repetition of the previous years or for general RDA operations. We did not find any indication on the documents that an analysis or review was performed or questions were asked on the details of what were written on those documents by a responsible person at the FSM National Government. Our audit noted that the budget details written on the PCDs apply only to the funding requested from the FSM. The documents did not include information on the requests submitted to the US federal and FSM States' governments. The audit also found that, except for Kosrae local office, the rest of the FSM-based RDA offices were not maintaining records of approved budgets in the accounting records.

Cause: The budgets submitted by the RDA offices during the year FY 1996-1999 were accepted as it is by the FSM. The RDA offices relied on the FSM National Government for their record keeping, accounting, and reporting of subsidy funds.

Effect: The RDA Pohnpei office during the fiscal year 1999 spent funds for unbudgeted positions from planned of 5 positions to 9 positions, the office had excessive number of vehicles, allowances that were over FSM's maximum amount were paid for staff's housing, personnel actions were inconsistent with contract documents and actual employment, and the opportunity was opened and permitted for the former CDM to transact with his family businesses all the FSM funded expenditure for RDA staff housing and car rental, a condition that eventually created the

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impression of conflict of interest. The audit noted that even with all the above noted transactions, the FSM National Government's actual disbursement for RDA Pohnpei office's expenditures were within authorized budget.

Recommendations: The lack of implementation or follow-up of control procedures by a funding source should not prevent the RDA offices from instituting its own controls and procedures for accountability and transparency. The RDA offices as the responsible agency, must at all times demonstrate their financial management capabilities. As a US federal institution, there may already exist in the RDA offices in the FSM volumes of operating policies and procedures mostly applicable to its own directly funded personnel and programs. But there is a need to supplement those procedures with procedures consistent with local laws and regulations that are applicable to the unique operations of RDA offices in the FSM as a result of support arrangements with the FSM and local governments. An in-house office manual applicable to expenditures funded by sources in the FSM must be developed and adopted. We therefore recommend that the respective CDMs of all the Rural Development offices in the FSM states develop and adopt a manual of standard operating procedures for budget, accounting and reporting of funds received from the FSM National and State governments. In addition, the standard operating procedures must include the process of preparation, review and approval for goods and services procurement, records availability and retention, personnel hiring, work standards, performance evaluation and termination, and procedures for assets' use, maintenance and control.

Finding 2. FSM Financial Management Regulations applicable to Allottees and administration of funds from appropriations.

Criteria: Per the 6/14/99 FSM FMR, the requirements that apply to recipients of funds from the FSM National government are as follows:

Section 3.2(d) At a minimum, a prospective Allottee must demonstrate:

- (1) sufficient technical ability and experience in the industry, trade, or service for which government funds will be received;
- (2) that sufficient internal controls policies and procedures are in place to reasonably insure that all transactions involving government funds will be properly authorized and recorded; and
- (3) that all assets procured with government funds or supplied by the government will be properly protected.

Section 3.5 Allottee Reporting. The semi-annual reports required under 55 FSMC 225 to be sent by each allottee to the FSM Congress shall also be sent by each Allottee to the Secretary. Comparable reports shall be provided to the Secretary not later than each February 1 (as of the end of the first quarter of the fiscal year) and August 1 (as of the end of the third quarter of the fiscal year) by any Allottee to whom custody or control of funds has been transferred (rather than being retained by the Secretary for direct payment of obligations pursuant to 55 FSMC 223).

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Allottees shall provide such other reports, information, or documentation as the Secretary may request from time to time in reasonable furtherance of the declared policy of the Financial Management Act.

Part X. Administration of Public Projects Appropriations

10.1 Applicability. This Part X shall apply to all funds appropriated under national law by the Congress of the Federated States of Micronesia for public projects, whether such funds are the sole source of funds for a project or a partial source of funding, and regardless of who is the Allottee. The term "public projects" includes but is not limited to subsidies, grants, contributions, and appropriations for specified or unspecified public purposes, public uses, economic development, social development, or the like, except that

10.9(b) Upon completion of a project the Allottee shall promptly submit to the Secretary a final accounting of all expenditures made and reconcile those expenditures with the appropriation, PCD, allotment, and obligating documents to the satisfaction of the Secretary. The Project Inspection Official shall provide such reasonable assistance as the Allottee or Secretary may request. For purposes of this paragraph, a project is deemed to be completed if and when the Allottee or Project Inspection Official so states, all the money allotted for the project is spent, the appropriation lapses, or the Allottee fails to submit a new PCD within six months after termination of the prior one pursuant to subpart 10.9(a).

Condition – During the audits of all the RD offices in the FSM, we found *no reports to support that the RD offices complied with the FSM FMR.*

Cause – The FSM Department of Finance and Administration did not strictly implement the Allottee reporting requirements of the FMR. Except in FY 1997, the FSM President was the Allottee of funds appropriated to the RDA offices in the FSM.

Effect – Non-compliance with Section 3.5 and 10.9(b) of the FMR by the FSM President and the RD Offices in the FSM. Section 3.2(d) has not been verified.

Recommendations – Same as the recommendation to finding no. 1 above. If funding is requested and received from the FSM in the future, the RDA offices in the FSM must comply with the above requirements.

Finding no. 3 – Forms and Documents.

Criteria – The propriety of a transaction is usually determined by the essence of supporting forms and documents.

Condition - The operations of all the RDA offices in the FSM are partly funded by the respective States and FSM National governments. In the case of the RDA Pohnpei office, except for the CDM and CDT, all other employees of the office are employees of the Pohnpei State

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government and are subject to the Pohnpei State Government's public service system regulations. Our audit have determined that during the fiscal years 1996-1999, the RDA Pohnpei Office also submitted the names of these employees along with other additional employees to the FSM National government either for additional compensation when funding by state government is not sufficient or to serve on temporary appointments. At the Pohnpei State government, the hiring of personnel had a control mechanism. It followed the same rigid procedures as all the other state government employees. In addition, an agreement is executed by and between the RDA office and the Pohnpei State government citing all the requirements to comply with the public service system regulations. At the FSM National government, the process of drawing funds for payroll and other expenditure accounts is very simple. The accomplishment of the FSM forms with the signed contract or invoices would be sufficient. The opinion issued by the FSM Attorney General on June 16, 1997 that the RDA Pohnpei office's personnel are not subject to the FSM Public Service Regulations further loosened the disbursement control.

For the fiscal years covered by the audit, we also analyzed and collected the information of the amount funded by all funding sources of the RDA offices in the FSM. The office lease expenses are expenses funded by the US federal and Pohnpei state governments. We determined that RDA Pohnpei's amount of office lease agreement document equals the lease expenditure reported under Pohnpei State funding source. It appears that the RDA Pohnpei office used two (2) office lease agreements for two (2) fund sources.

Cause - The RDA office prepared and submitted to the different funding sources budget requests that were separate and did not provide complete information of their aggregate operation needs and specific costs assigned to fund sources. It appears that none of the funding sources required more information from the documents submitted.

Effect - The condition opened the opportunity for whoever is in control at the RDA office to manipulate disbursements of budgeted funds between funding sources. The condition is causing too much documentation for the personnel process at the RDA offices. The records of all the RD offices are not centralized in one location. The review of personnel files of the RDA offices was confusing and cumbersome. The actual cost of RDA Pohnpei office lease was not transparent with the funding sources.

Recommendations - We recommend the same recommendations for finding no. 1. Additionally, we also recommend that when the RDA offices request for funding from the different funding sources, they must request to be allowed to use their own forms and documents in drawing funds. The RDA offices must use their own original and authentic forms and documents supporting all their actual transactions.

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Finding no. 4 – Communication no. 99-0039
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Criteria – Communication no. 99-0039 from the embassy of the United States of America dated July 29, 1999 to the FSM Department of Foreign Affairs requested the FSM National government and the Congress of the FSM that no agency, department or the Congress should accept any funding proposal from the United States Department of Agriculture local offices in Pohnpei, Chuuk, Kosrae or Yap.

Condition – Our audit noted no direct funding by the FSM National government to the RD offices in the FSM during the fiscal year 2000. However, our audit also noted declining fund usage for loans by the RDA offices in the FSM from \$5.6 million in FY 1996 to \$3.97 million in FY 1997, to \$3.30 million in FY 1998, to \$2.36 million in FY 1999 and \$1.92 million in FY 2000.

Cause - The efficiency of all the RDA offices in the FSM in terms of collections to keep delinquency down and volume of loan processing largely depend not just with their counterpart agencies in the states, which are the housing authorities, but also on the availability of resources.

Effect – Substantial amount of opportunity loss on housing loans and community development programs in the FSM states.

Recommendations – We recommend that the CDM of the RDA offices in the FSM resolve the issue of communication 99-0039. In addition, the RDA CDMs must also resolve with the funding sources the issue of control and accountability. In view of the benefits to be derived by the FSM from the RDA programs, we recommend to the FSM President continued support of the RDA operations subject to an improved procedures in budget and accounting, compliance with financial management requirements and Allottee (Recipient) reporting and establishment of adequate internal control procedures over FSM funded costs.

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*PART III:
APPENDICES
(Tables & Graphs)*

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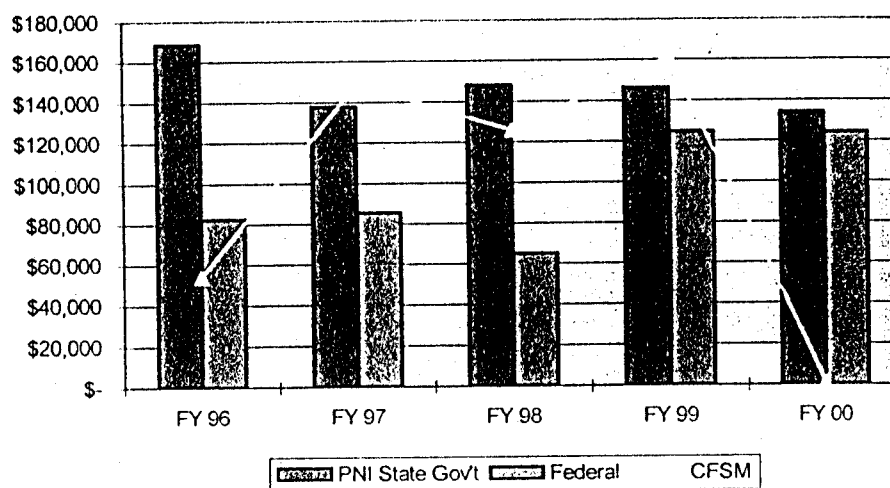
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Appendix 1.a

Actual Expenditures per FY by RD-Pohnpei, All Funding Sources (FY's 1996 - 2000).

Source of Funding	FY '96	FY '97	FY '98	FY '99	FY '00
CFSM	\$ 53,592	\$148,897	\$125,623	\$161,257	\$ 836
PNI State Gov't	\$168,684	\$137,836	\$148,112	\$146,067	\$134,057
Federal	\$ 82,471	\$ 85,921	\$ 64,901	\$124,665	\$124,017
Total	\$304,747	\$372,654	\$338,636	\$431,989	\$258,910



Source: Expenditure reports obtained at FSM Finance, DTT Single Audit Reports and RDA.

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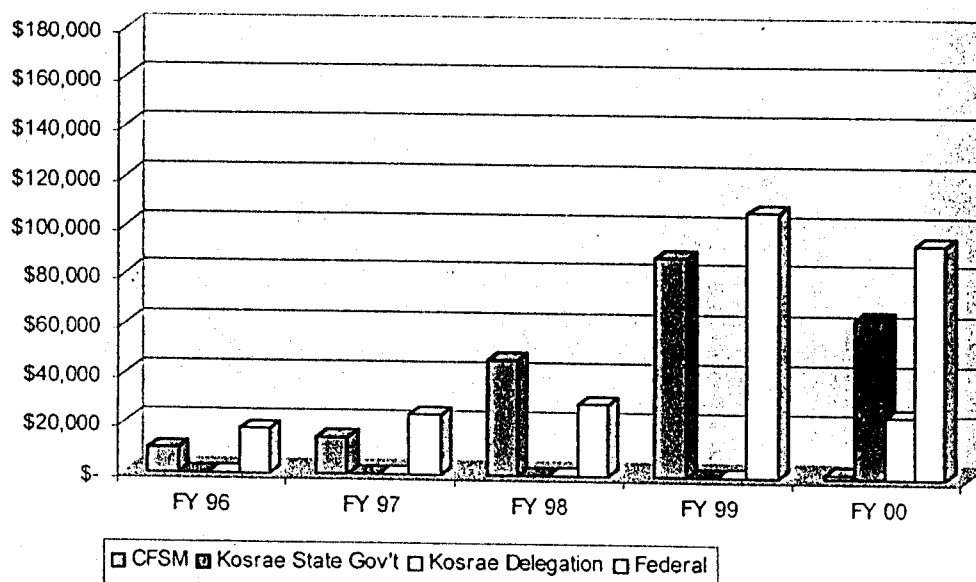
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Appendix I.d

Actual Expenditures per FY by RD-Kosrae, All Funding Sources (FY's 1996 - 2000).

Source of Funding	FY '96	FY '97	FY '98	FY '99	FY '00
CFSM	\$ 9,304	\$ 14,798	\$ 46,535	\$ 88,530	\$ 1,621
Kosrae State Gov't	\$ -	\$ -	\$ -	\$ -	\$ 64,263
Kosrae Congress Delegation	\$ -	\$ -	\$ -	\$ -	\$ 24,937
Federal (U.S.)	\$ 17,905	\$ 23,804	\$ 28,621	\$107,235	\$ 94,087
Total	\$ 27,209	\$ 38,602	\$ 75,098	\$195,765	\$184,908



Source: Expenditure reports obtained at FSM Finance, DTT Single Audit Reports and RDA.

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Appendix II.a

Schedule of Loans & Grants

	Pohnpei		Chuuk		Yap		Kosrae		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Fiscal Year 1996										
504 Loans	196	1,758,630	145	633,810	38	90,180	125	233,180	504	2,715,800
504 Grants	28	84,500	49	147,540	23	104,700	33	88,900	133	425,640
502 Very Low	44	2,248,230	0	0	0	0	0	0	44	2,248,230
502 Low	3	217,000	0	0	0	0	0	0	3	217,000
HPG	1	75,000	0	0	0	0	0	0	1	75,000
TOTAL	272	4,383,360	194	781,350	61	194,880	158	322,080	685	5,681,670
Fiscal Year 1997										
504 Loans	165	1,817,790	0	-	52	122,880	68	235,800	285	2,176,470
504 Grants	50	182,670	2	6,360	50	216,690	18	47,500	120	453,220
502 Very Low	19	700,490	0	-	0	-	0	-	19	700,490
502 Low	6	343,100	0	-	0	-	0	-	6	343,100
CF Loan	2	247,850	0	-	0	-	0	-	2	247,850
CF Grant	2	50,000	0	-	0	-	0	-	2	50,000
HPG	1	20,000	0	-	1	40,000	1	40,000	3	100,000
TOTAL	245	3,361,900	2	6,360	103	379,570	87	323,300	437	4,071,130
Fiscal Year 1998										
504 Loans	93	916,850	0	-	61	143,550	55	392,220	209	1,452,620
504 Loans-Nat Dis	0	-	0	-	0	-	0	-	0	-
504 Grants	45	189,000	0	-	29	127,970	20	59,000	94	375,970
502 Nat Dis	0	-	0	-	0	-	0	-	0	-
502 Very Low	26	1,097,920	0	-	0	-	0	-	26	1,097,920
502 Low	7	377,000	0	-	0	-	0	-	7	377,000
HPG	1	64,160	0	-	0	-	0	-	1	64,160
TOTAL	172	2,644,930	0	-	90	271,520	75	451,220	337	3,367,670
Fiscal Year 1999										
504 Loans	24	371,350	111	364,560	47	109,205	89	686,890	271	1,532,005
504 Grants	14	98,500	34	102,000	19	94,850	28	83,910	95	379,260
502 Very Low	4	204,300	0	-	0	-	3	150,000	7	354,300
502 Low	1	43,000	0	-	0	-	1	59,900	2	102,900
HPG	0	-	0	-	0	-	1	16,490	1	16,490
TOTAL	43	717,150	145	466,560	66	204,055	122	997,190	376	2,384,955
Fiscal Year 2000										
504 Loans	30	300,400	117	404,400	31	77,170	48	332,350	226	1,114,320
504 Grants	15	71,390	34	100,000	26	119,930	35	106,500	110	397,820
502 Very Low	6	298,000	0	-	0	-	2	55,500	8	353,500
502 Low	0	-	0	-	0	-	1	56,300	1	56,300
HPG	0	-	0	-	0	-	0	-	0	-
TOTAL	51	669,790	151	504,400	57	197,100	86	550,650	345	1,921,940

Source: USDA Rural Development Agency

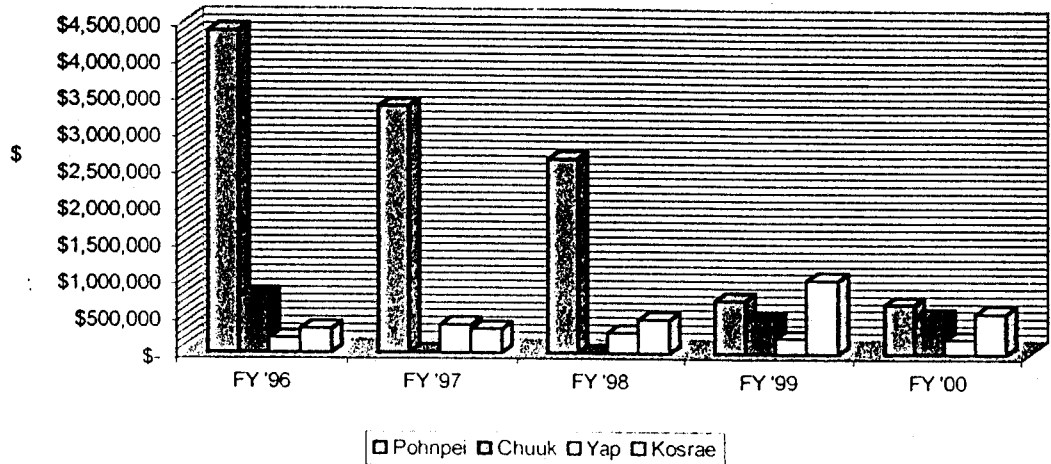
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Appendix II.b

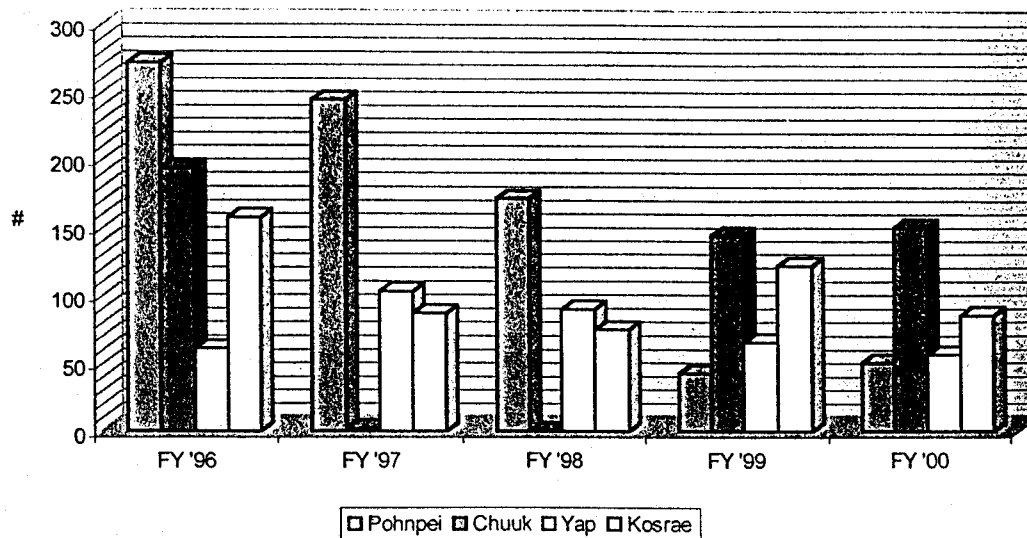
Program Delivery: \$ of Loans in the FSM



Note. Refer to Page 14 for the "Schedule of Loans & Grants".

Source: USDA Rural Development Agency

Program Delivery: # of Loans in the FSM



Source: USDA Rural Development Agency

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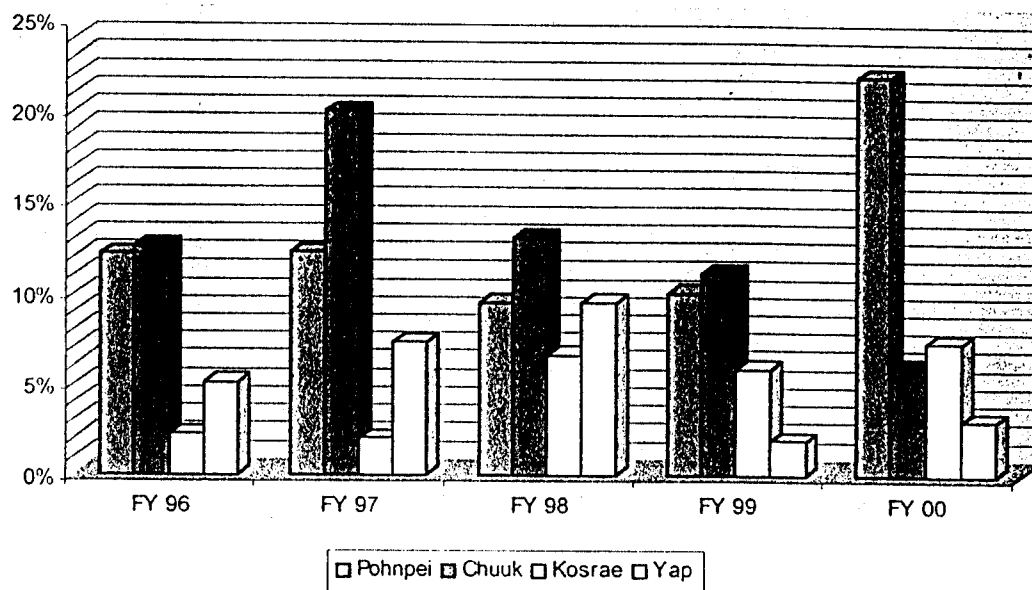
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Appendix III

Delinquency Rates by State and FY.

State	FY '96	FY '97	FY '98	FY '99	FY '00	Avg./State
Pohnpei	12.2%	12.3%	9.5%	10.1%	22.0%	13.2%
Chuuk	12.6%	20.1%	13.1%	11.1%	6.0%	12.6%
Kosrae	2.2%	2.0%	6.6%	5.9%	7.3%	4.8%
Yap	5.1%	7.3%	9.5%	1.9%	3.0%	5.4%

Loan Delinquency Rates by State & FY



Source: USDA Rural Development Agency

ATTACHMENT I

No. 99-0039

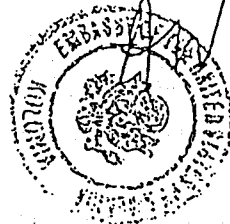
The Embassy of the United States of America in the Federated States of Micronesia presents its compliments to the Department of Foreign Affairs and has the honor to request the Department of Foreign Affairs to inform departments and agencies of the Government of the Federated States of Micronesia and the Congress of the FSM that no agency, department or the Congress should accept any funding proposal from the United States Department of Agriculture local offices in Pohnpei, Chuuk, Kosrae or Yap. Funding proposals for any aspect of the operations of the USDA offices will be provided from the USDA regional office in Hilo, Hawaii through the U.S. Embassy. Action on any funding proposals for USDA offices currently before the Congress should be suspended.

The Embassy also requests that the Government of the FSM conduct an audit of all funds allocated to the USDA offices since the beginning of these allocations.

The Embassy of the United States of America avails itself of this opportunity to renew to the Department of Foreign Affairs assurances of its highest consideration.

Embassy of the United States of America

Kolonla, July 29, 1999





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April 25, 2002

Mr. Moses W. Russel
Federated States of Micronesia
Public Auditor's Office
P.O. Box PS05
Palikir, Pohnpei FSM 96941

Dear Mr. Russel:

Subject: Draft Audit Number AD-01-0006 for Fiscal Years 1996-2000

Thank you for the opportunity to comment on the Draft Audit Report. We share your desire to return to full compliance with FSM financial management regulations, and value the benefits of improved procedures. These changes should focus on a strong partnership with increased benefits to program participants. We generally agree with all of the findings and recommendations. We have included our thoughts and minor clarifications for your consideration.

Finding 1. Budget Procedures

We agree with the need to develop procedures consistent with local laws and regulations that are applicable to the unique operations of RDA offices in the FSM. It is desirable that they not conflict with the regulations of the U.S. Federal institution, and that all parties strive to create the most cost and time effective standards for operation. We are very supportive of seeing a budget proposal that enables all participants to see the aggregate operating needs as described under the "Criteria" section of this finding.

Finding 2. FSM Financial Management Regulations applicable to Allottees

We concur with the finding and recommendation.

Finding 3. Forms and Documents

We concur. This finding clearly reinforces the need for consistency as recommended in Finding Number 1. Care should be taken to clearly identify proper form usage. The multiple funding sources could lead to a cumbersome process and lead to confusion.

Mr. Moses W. Russel
April 25, 2002
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Finding 4. Communication No. 99-0039

We concur, although the CDM's authority is limited to recommending how to resolve these issues. Final approval for actions required by the RDA Office is reserved for the State Director in Hawaii.

Thank you again for the opportunity to provide input to the draft report. We look forward to using the final report as a tool for continuing our efforts to rebuild the image of RDA as a good partner and a contributor to FSM's goals.

Sincerely,



LORRAINE P. SHIN
State Director