



FEDERATED STATES OF MICRONESIA

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Office of The National Public Auditor

June 7th, 2001

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

Executive Summary

We respectfully submit this report regarding our review of travel by government employees of the National Government of the Federated States of Micronesia during the period from October 1, 1995 through September 30, 1999.

We conducted this audit to determine compliance with travel policies and procedures contained in the Financial Management Regulations, as amended and adopted on June 14, 1999. These regulations provide guidelines for the granting and settlement of travel advances issued to National Government employees and others. The objectives of the audit included determining the adequacy of internal control over travel advances and compliance with related procedures.

Our audit was performed pursuant to Title 55, Chapter 5, Section 505(1) and in accordance with generally accepted government auditing standards (GAGAS). Accordingly, we included such tests of the records and other auditing procedures as were considered necessary under the circumstances.

As a result of the audit, we concluded that:

1. Control procedures are currently inadequate and the inefficient use of travel funds creates potential loss to the government.
2. There are several instances of non-compliance with the FSM Financial Management Regulations.

This report is being issued without response from the Department of Finance & Administration. A letter was forwarded to the Department on May 9th, 2001, requesting that a written response to the findings be provided by May 29th, 2001. No response was received on that date.

We wish to thank the staff of the Department of Finance & Administration for their assistance and cooperation during the course of our review.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Mary K. Jimmy', is written over the printed name.

Mary K. Jimmy
Acting National Public Auditor

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I. Introduction

Background

Travel is one of the five (5) major expenditures of the FSM National Government. The government spent a total of \$15.9 million for official government travels during the 4 fiscal years from 1996 through 1999. This amount represents an average of 41 % of the government's three discretionary expenditures that include communication and supplies and materials.

All travel activities of the FSM National Government are regulated by section 4.10 to 4.20 of the FSM Financial Management Regulations, as last amended on June 14, 1999. Prior to commencement of travel, the Traveler must have an approved Travel Authorization (TA) processed through the Accounts Payable and Travel Section within the National Treasury Division, FSM Department of Finance & Administration (DOFA). Funds disbursed for authorized travel is an outstanding advance due from Traveler until liquidated and expensed when a travel voucher is filed with the required supporting documents.

Audit Objectives, Scope and Limitations

The Office of The National Public Auditor conducted this review 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 .."

The audit was performed in accordance with "Generally Accepted Auditing Standards" and accordingly included such tests of records and other auditing procedures that were considered necessary under the circumstances. The objectives were:

- 1) to report on the total cost of travel for the National Government as a whole and the cost of travel for each of the various government agencies;
- 2) to analytically review the relationship of the cost of travel as compared to other discretionary government expenditures and to determine reasonableness of government travels and whether the government benefits from such travels;
- 3) to determine whether the National Government's travel activities are in accordance with applicable procedures, policies, and regulations;
- 4) to determine whether adequate internal controls are in place to ensure operations involving processing and controlling of travel activities are properly administered; and
- 5) to determine timeliness of the Travel Section's, FSM DOFA, processing of Travel Authorizations as required under Finance's processing procedures.

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The scope of the audit covers the period from October 1, 1995 to September 30, 1999 (Fiscal Years 1996 to 1999). Audit fieldwork was conducted at the FSM Department of Finance & Administration in Palikir and covered only TAs originating from that department. TAs issued by and kept at the FSM overseas liaison offices and embassies were not included.

Prior Audit Coverage

This review represents the fourth audit undertaken by the Office of The National Public Auditor on government travels. The three previous audits were for the period from October 1, 1984 through March 31, 1985; from June 4, 1988 through April 30, 1990; and from October 1, 1994 through September 30, 1995.

Conclusions

The increasing and substantial amount of travel expenditures of the FSM National Government for the fiscal years covered by the audit indicate that there is a need to reevaluate the cost/benefit of such expenditures consistent with the cost reduction objective that is currently ongoing with the government spending. Very little improvement has occurred on the administration of government travels in terms of implementing procedures, reduction of long outstanding claims balances, efficient processing of TAs, and maintenance of accurate, reliable, organized and adequate records at the Travel Section of the FSM Department of Finance and Administration.

See Appendices on pages 6 through 15 for the listing of tables and graphs resulting from an analytical review of travel expenditures, as outlined throughout this report. See page 16, Attachment A - *Memo by FSM President* - for the initiation of a Temporary TA Approval Policy within the Executive Branch through the issuance of the memo.

Other Matters

We wish to thank the staff at the FSM Department of Finance & Administration for their assistance and cooperation during the audit.

Auditee Response

A draft of this report, in its entirety, was delivered to the Office of the Secretary, FSM Department of Finance & Administration, on May 9th, 2001 for his review and comment by May 29th, 2001 (Ref. Attachment B). Accordingly, no response was received.

II. Findings and Recommendations

Finding No. 1: Prior audit findings on internal control deficiencies and noncompliance matters are repeated in the current audit.

Background: The prior audit (Report No. 124-96) covering fiscal year 1995 reported three (3) findings. The conditions to all three findings were found to be continuing in the current audit.

1. The first finding reported that the government incurred unnecessary losses because of inefficiencies and deficiencies in the procedures for travel administration.

<u>Conditions in the Prior Audit (Report No. 124-96)</u>	<u>Conditions in the Current Audit</u>
<p>A. Control measures necessary to reduce the balance of outstanding travel claims and overdrawn advances deteriorated. Outstanding travel claims and overdrawn advances increased by 103% from April 30, 1990 balance to \$574,474 in Sept. 30, 1995. Carrying overdrawn and outstanding advances cost the government \$157,838.</p> <p>B. Excess payment of airfare by \$1,349.</p> <p>C. Erroneous recording of travel amounts into the computer system.</p> <p>D. Disorganized filing system.</p> <p>E. Inaccurate records.</p> <p>F. Erroneous computation of actual cost of trip.</p>	<p>A. Travel claims and overdrawn advances increased each year. Pages 13 & 14 of this report are the tables showing the details of yearly increases and the amount of carrying cost of outstanding balances to the government.</p> <p>B. The Travel Section paid airfare in excess of authorized amount for 3 TA s.</p> <p>C., D., & E. – The records maintained by Travel Section remain cumbersome and difficult to audit. Subsidiary records were not reconciled with the general ledger balance. TA logbook and actual report have differences as depicted in the table on page 15.</p>

2. The second finding cited four (4) instances of non-compliance matters that were noted to have resulted in inefficient uses of travel funds:

<u>Conditions in the Prior Audit (Report No. 124-96)</u>	<u>Conditions in the Current Audit</u>
<p>A. 46% or 24 of 52 TA s reviewed did not file travel voucher within the 10 days requirement.</p> <p>B. 15% or 8 of 52 TA s reviewed were not properly authorized.</p> <p>C. 1 TA was used for a different date and location of travel.</p> <p>D. 13 of 18 Travelers did not comply with the trip report requirement.</p>	<p>A. 41% or 41 of 100 TA s reviewed did not file travel voucher within the 10 days requirement.</p> <p>B. 9% or 9 of 100 TA s reviewed were not properly authorized.</p> <p>C. 2 TA s were used for different travel location.</p> <p>D. 6 of 10 Travelers did not comply with the trip report requirement.</p>

3. The third finding was the problem of implementing completion of travel vouchers for repatriated overseas employees. The FSM Financial Management Regulations, as amended on June 14, 1999, has not address this finding.

To correct deficiencies and improve administration of government travels, we recommended (Page 9, Report No. 124-96) to the Secretary of the FSM Department of Finance & Administration to modify the Travel Authorization document, address the issue of overdue travel advance accounts, formulate effective procedures, investigate excess air fare, request the assistance and cooperation of department heads on implementation of travel regulations and refer to FSM Attorney General the matter of consistency between the Employee Service Contracts (ESC) terms with the FSM Financial Management Regulations. The current conditions would indicate that the recommendations have not been addressed. The weaknesses in the administration of travels continue to exist.

Recommendation: We recommend that the Secretary of the Department of Finance & Administration conduct an evaluation/appraisal of the operations of the Travel Section within the department and develop procedures that can effectively correct recurring findings.

<p>Finding No. 2: Annual increases in travel expenditures defeat the objective of reducing expenditures.</p>

Criteria: Considering stepdown in Compact Funding and to prepare for the uncertainty of funding levels beyond FY 2001, it is but prudent that the government should aim in reducing expenditures. Preparations to reduce expenditures are visible in the government restructuring program that resulted in the adoption of the Employees' Early Retirement Program in 1997 and utilization of the performance-based budgeting system beginning in fiscal year 1999.

Conditions: The exhibits presented on pages 6 through 15 of this report would indicate that the increases in travel expenditure of the government contradicted the objective of reducing government operating costs. Because of inadequate records at the Travel section, collecting data to be used for analysis of relevance of travels was not possible. Instead, we performed a review of location on 98 TA samples. The results of the review determined that 57% of travels were within the FSM, 43% were outside FSM (12 % within Micronesia and 31% other countries). Further review has indicated that 51% of the 98 TA s were for common purposes as conference/training/meeting.

Recommendation: In light of the need for the government to reduce expenditures, we recommend that the FSM President revisit the cost/benefit of travels to the government. Travels within the FSM are geographically necessary and unavoidable to accomplish work. However, international travels, which are usually expensive, are in many cases for work enhancement or employees' personal development purposes. International travels should be scrutinized and quantified in terms of costs, necessity, options and effects on the traveler's productivity at work.

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In agreement with the above recommendation, it was noted that the Office of The FSM President has already acknowledged the need for closer scrutiny of all Travel Authorizations of the executive branch with the issuance of a Temporary TA Approval Policy memo dated June 4, 1999 (see Attachment A). This is a very positive move towards reduction of travel expenditures and we commend the Office of The FSM President for initiating such move. We strongly recommend continued and strict enforcement of the procedures. We also encourage all the Heads of the other government branches and agencies to join and cooperate in the implementation of this same cost conscious policy. Such policy shall achieve not only costs savings to the government but also improved efficiency at work in the government entities as employees may have more time to pay attention to their work.

We additionally recommend to the Secretary of the FSM Department of Finance & Administration to address the matter of efficient records procedures in the Travel section. Good record procedures at the section would facilitate gathering of data to be used for analysis of travel purposes.

III. APPENDICES

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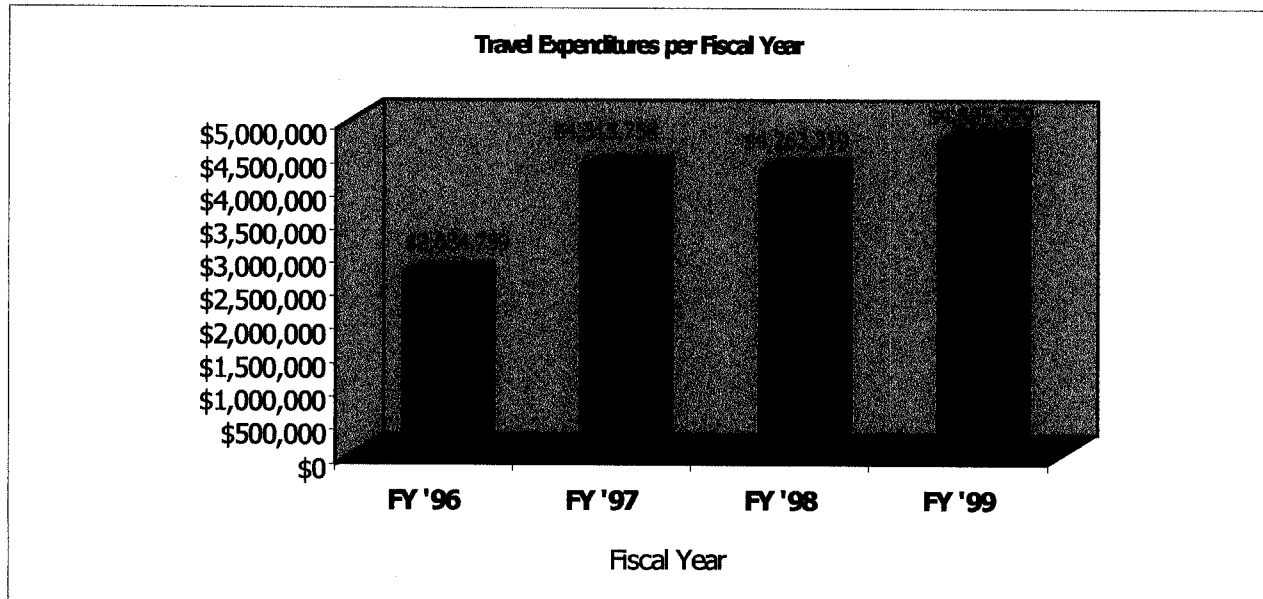
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Appendix 1-1

Travel Expenditures FY's 1996 - 1999.

Fiscal Year	Total Cost of TA s	% Difference – Over (Under) Compared to FY 1999
1996	\$ 2,684,759.00	(74.9) %
1997	\$ 4,315,758.00	(8.8) %
1998	\$ 4,262,319.00	(10.2) %
1999	\$ 4,695,729.00	-
Total	\$15,958,565.00	

Source: National Government's Audited Financial Statements for FY's 1996-1999.



Source: National Government's Audited Financial Statements for FY's 1996-1999.

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Appendix 2-1

Travel Expenditures vs. Other National Government Discretionary Expenditures.

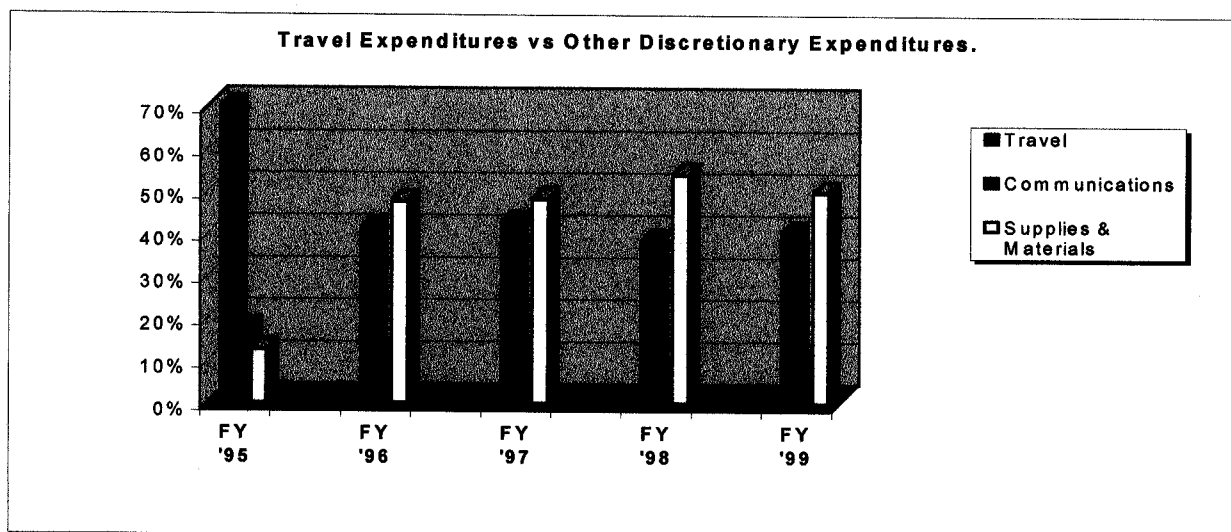
Expenditure Types	FY '95	FY '96	FY '97	FY '98	FY '99
Travel	\$ 2,839,749	\$ 2,684,759	\$ 4,315,758	\$ 4,262,319	\$ 4,695,729
Communication	\$ 711,676	\$ 713,638	\$ 895,284	\$ 836,225	\$ 931,217
Supplies & Materials	\$ 507,949	\$ 3,084,448	\$ 4,871,219	\$ 5,991,704	\$ 5,624,023
Total	\$ 4,059,374	\$ 6,482,845	\$10,082,261	\$11,090,248	\$11,250,969

Source: National Government's Audited Financial Statements for FY's 1996-1999.

% of Travel vs. Other Discretionary Expenditures.

Expenditure Types	FY '95	FY '96	FY '97	FY '98	FY '99
Travel	70.0 %	41.4 %	42.8 %	38.4 %	41.7 %
Communication	17.5 %	11.0 %	8.9 %	7.5 %	8.3 %
Supplies & Materials	12.5 %	47.6 %	48.3 %	54.1 %	50.0 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Source: National Government's Audited Financial Statements for FY's 1996-1999.



Source: National Government's Audited Financial Statements for FY's 1996-1999.

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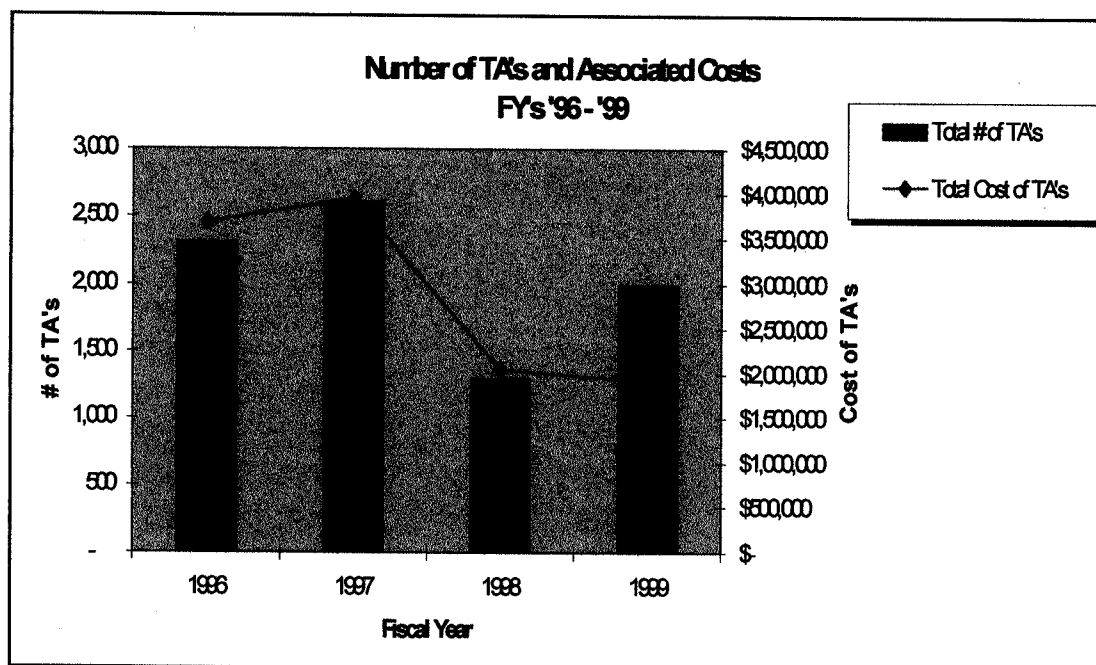
Appendix 3-1

Number of TA s per Fiscal Year.

FY	Total # of TA s	% of Total	Total Cost of TA s	% of Total	Avg. Cost / TA
1996	2,307	28.1%	\$3,677,058	31.8%	\$ 1,593
1997	2,605	31.8%	\$3,944,325	34.0%	\$ 1,514
1998	1,292	15.8%	\$2,046,270	17.7%	\$ 1,583
1999	1,994	24.3%	\$1,913,671	16.5%	\$ 959
Total	8,198	100%	\$11,581,327	100%	\$ 1,412

Note: Because of FSM DOFA's adopted practice of not excluding canceled TA s in the travel logs, the above chart includes TA s that may have been considered canceled. The chart also includes amended TA s. Both canceled and amended TA s are uncommon and therefore not considered significant in terms of overall TA numbers and dollars. FSM DOFA's manual records are not reconciled with automated records. See table and graph on page 15.

Source: FSM DOFA's TA Logbooks FY's '96 - '99.



Source: FSM DOFA's TA Logbooks FY's '96 - '99.

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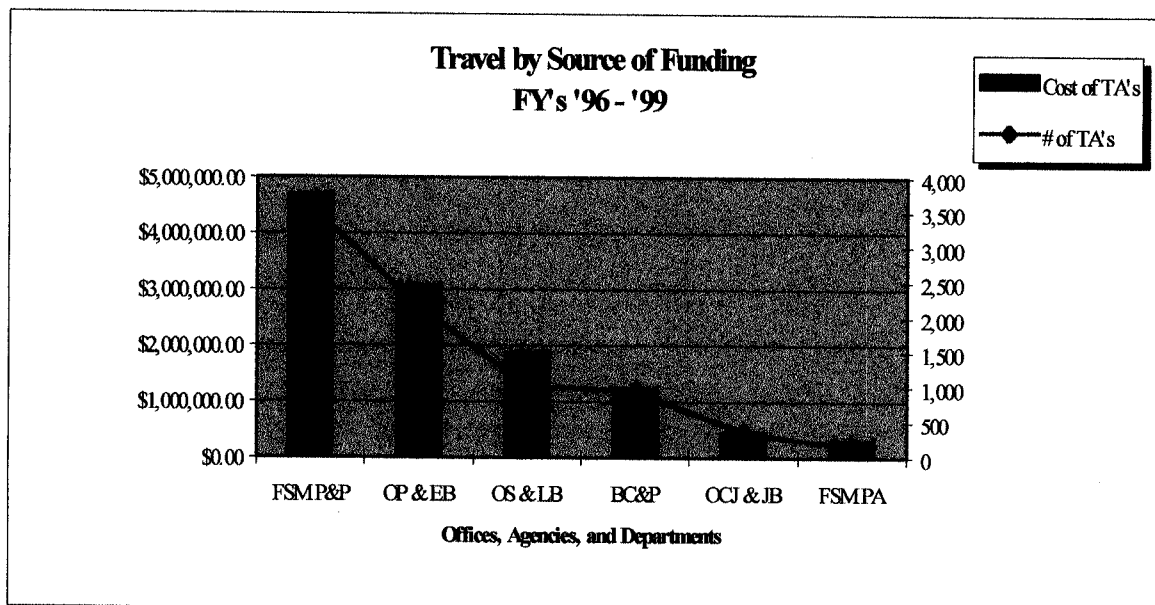
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Appendix 4-1

Number and Cost of travel by source of funding (Office, Agency or Dept).

Entity	# of TAs	% of Total	Cost of TAs	% of Total
FSM Projects & Programs	3,577	43.6 %	\$ 4,698,921	40.6 %
Office of The President & Executive Branch	2,150	26.2 %	\$ 3,064,025	26.5 %
Office of The Speaker & Legislative Branch	1,021	12.5 %	\$ 1,855,944	16.0 %
Boards, Commissions & Programs	946	11.5 %	\$ 1,229,280	10.6 %
Office of The Chief Justice & Judiciary Branch	359	4.4 %	\$ 450,928	3.9 %
FSM Public Auditor's Office	145	1.8 %	\$ 282,229	2.4 %
Total	8,198	100.0 %	\$11,581,327	100.0 %

Source: FSM DOFA's TA Logbooks FY's '96 - '99.



Note: FSM P&P = FSM Projects & Programs (U.S. & Non-U.S. supported Projects & Programs); OP & EB = Office of the President and the Executive Branch; OS & LB = Office of the Speaker and the Legislative Branch; BC&P = Boards, Commissions, and Programs; OCJ & JB = Office of the Chief Justice and the Judiciary Branch; FSM PA = FSM Public Auditor's Office.

Source: FSM DOFA's TA Logbooks FY's '96 - '99.

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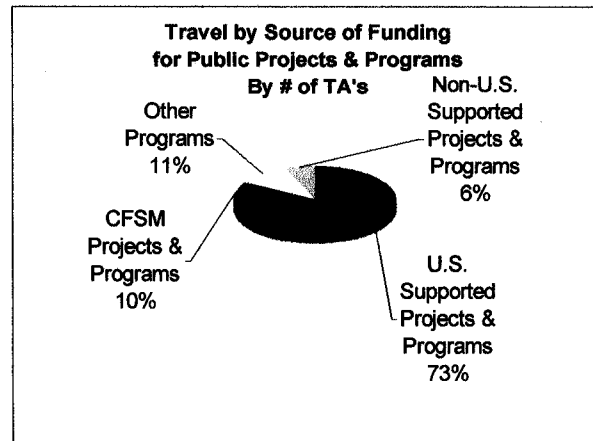
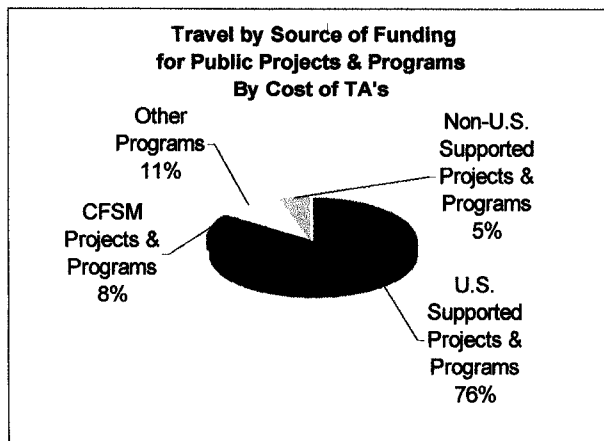
Appendix 5-1

Number and Cost of travel by source of funding (Projects and/or Programs).

Source of Funding	# of TAs	% of Total	Cost of TAs	% of Total
U.S. Supported Projects & Programs	2,630	73.5 %	\$3,593,058	76.5 %
CFSM Projects & Programs	357	10.0 %	\$ 384,965	8.2 %
Other Programs	383	10.7 %	\$ 497,753	10.6 %
Non-U.S. Supported Projects & Programs	207	5.8 %	\$ 223,145	4.7 %
Total	3,577	100.0 %	\$4,698,921	100.0 %

Note: U.S. Supported Projects & Programs – Funded by Compact & U.S. Agencies; Non-U.S. Supported Projects & Programs – Funded by Foreign Assistance, i.e. World Health Organization, Forum Fisheries Agencies, Japan Foreign Assistance, etc.; CFSM Projects & Programs – Funded by FSM Congress; & Other Programs – Funded by Revolving Fund Programs, i.e. Passport Revolving Fund, Health Insurance Fund, Sea Transportation Fund, Asian Development Bank Loan Fund, etc.

Source: FSM DOFA's TA Logbooks FY's '96 - '99.



Note: U.S. Supported Projects & Programs – Funded by Compact & U.S. Agencies; Non-U.S. Supported Projects & Programs – Funded by Foreign Assistance, i.e. World Health Organization, Forum Fisheries Agencies, Japan Foreign Assistance, etc.; CFSM Projects & Programs – Funded by FSM Congress; & Other Programs – Funded by Revolving Fund Programs, i.e. Passport Revolving Fund, Health Insurance Fund, Sea Transportation Fund, Asian Development Bank Loan Fund, etc.

Source: FSM DOFA's TA Logbooks FY's '96 - '99.

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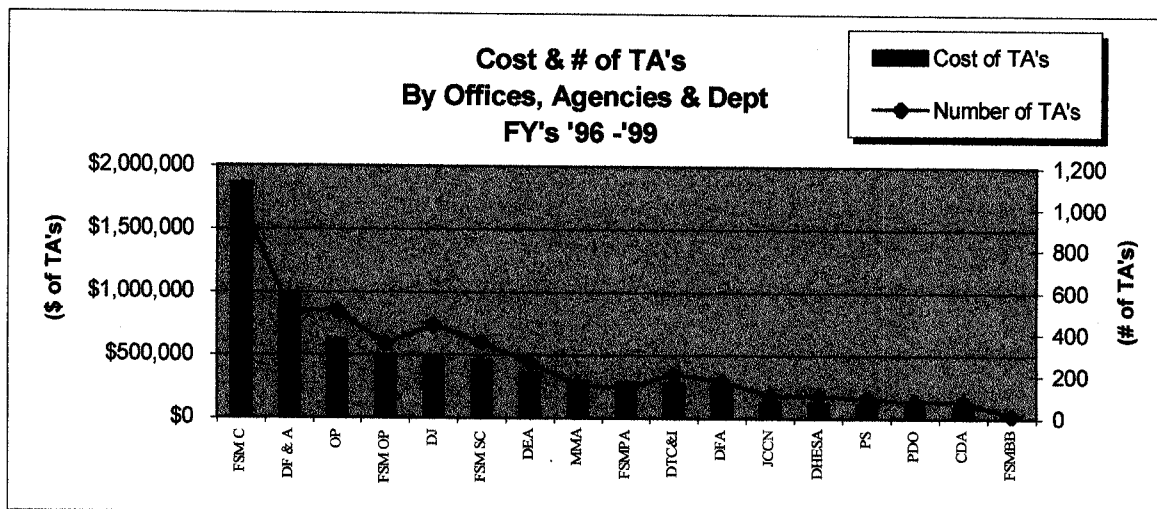
Appendix 6-1

Number of TA's per Office/Agency/Dept.

Office/Dept/Agency	# of TA's	% of Total	Cost of TA's	% of Total
FSM Congress	1,021	22.1 %	\$1,855,943.51	27.0 %
Dept. of Finance & Admin.	514	11.1 %	\$ 984,721.46	14.3 %
Other Programs	504	10.9 %	\$ 610,604.17	8.9 %
Office of the President	352	7.6 %	\$ 493,471.94	7.2 %
Dept. of Justice	442	9.6 %	\$ 465,435.39	6.8 %
FSM Supreme Court	359	7.8 %	\$ 450,928.49	6.5 %
Dept of Economic Affairs	262	5.7 %	\$ 357,033.16	5.2 %
Micronesian Maritime Authority	155	3.4 %	\$ 289,364.47	4.2 %
FSM Public Auditor	145	3.1 %	\$ 282,228.96	4.1 %
Dept of Trans., Comm. & Infra. (DTCI)	206	4.5 %	\$ 277,873.67	4.0 %
Dept. of Foreign Affairs	174	3.8 %	\$ 267,098.51	3.9 %
Joint Commission Compact Negotiation	108	2.3 %	\$ 127,276.06	1.8 %
Dept of Health, Ed. & Social Affairs	110	2.4 %	\$ 116,920.20	1.7 %
Postal Services	93	2.0 %	\$ 108,403.03	1.6 %
Public Defenders Office	80	1.7 %	\$ 89,156.80	1.3 %
Coconut Development Authority	80	1.7 %	\$ 86,466.19	1.2 %
FSM Banking Board	14	0.3 %	\$ 19,385.29	0.3 %
Total	4,619	100.0 %	\$6,882,311.30	100.0 %

Note: FSM C = FSM Congress; DF&A = Dept. of Finance & Administration; OP = Other Programs; DJ = Dept. of Justice; FSM SC = FSM Supreme Court; FSM OP = FSM Office of the President; DEA = Dept. of Economic Affairs; DTC&I = Dept. of Transportation, Communication & Infrastructure; DFA = Dept. of Foreign Affairs; MMA = Micronesian Maritime Authority; FSM PA = FSM Public Auditor; DHESA = Dept. of Health, Education & Social Affairs; JCCN = Joint Commission Compact Negotiation; PS = Postal Services; PDO = Public Defender Office; CDA = Coconut Development Authority; FSMBB = FSM Banking Board.

Source: FSM DOFA's TA Logbooks FY's '96 - '99.



Source: FSM DOFA's TA Logbooks FY's '96 - '99.

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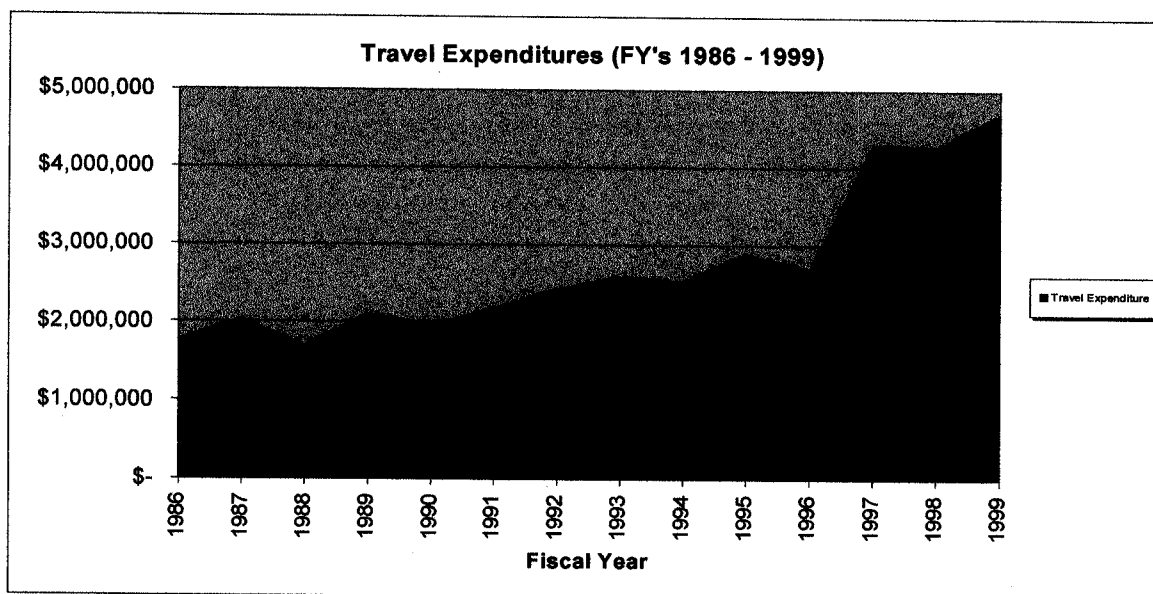
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Appendix 7-1

Travel Expenditures per Fiscal Year (FY's 1986 - 1999).

Fiscal Year	Travel Expenditure
1986	\$ 1,756,969
1987	\$ 2,035,555
1988	\$ 1,681,702
1989	\$ 2,104,254
1990	\$ 1,963,587
1991	\$ 2,175,597
1992	\$ 2,429,218
1993	\$ 2,590,367
1994	\$ 2,534,290
1995	\$ 2,895,981
1996	\$ 2,684,759
1997	\$ 4,315,758
1998	\$ 4,262,319
1999	\$ 4,695,729
Total	\$38,126,085

Source: National Government's Audited Financial Statements for FY's 1986-1999.



Source: National Government's Audited Financial Statements for FY's 1986-1999.

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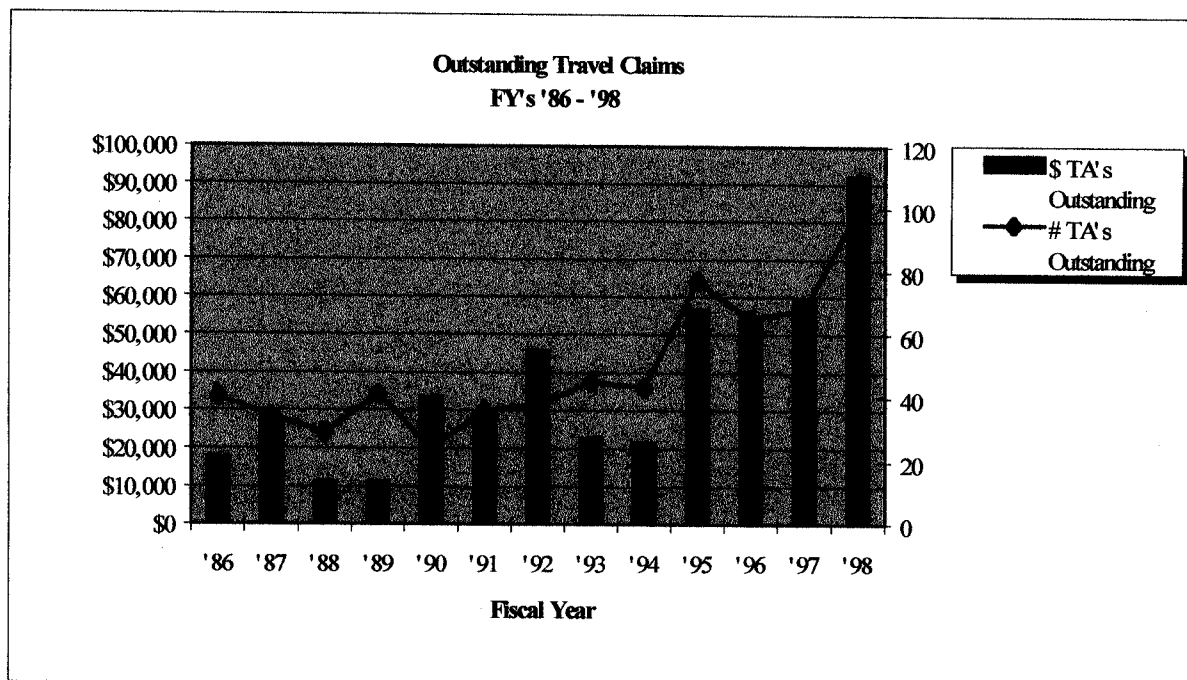
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Appendix 8-1

Total Outstanding Travel Claims per Fiscal Year

FY	# of TA's	Amount	Cumulative	Prime Int. Rate	Annual Carrying Cost
1986	40	\$ 17,804.50	\$ 17,804.50	10.0%	\$ 1,780.45
1987	34	\$ 27,656.44	\$ 45,460.94	10.0%	\$ 4,546.09
1988	29	\$ 11,208.12	\$ 56,669.06	9.3%	\$ 5,270.22
1989	41	\$ 11,243.00	\$ 67,912.06	10.9%	\$ 7,402.41
1990	24	\$ 33,521.00	\$101,433.06	10.0%	\$ 10,143.31
1991	36	\$ 29,084.90	\$130,517.96	8.5%	\$ 11,094.03
1992	38	\$ 45,754.43	\$176,272.39	6.3%	\$ 11,105.16
1993	45	\$ 22,828.91	\$199,101.30	6.0%	\$ 11,946.08
1994	43	\$ 21,554.00	\$220,655.30	7.1%	\$ 15,666.53
1995	77	\$ 56,623.53	\$277,278.83	7.4%	\$ 20,518.63
1996	65	\$ 54,340.29	\$331,619.12	8.3%	\$ 27,524.39
1997	68	\$ 59,066.79	\$390,685.91	8.4%	\$ 32,817.62
1998	100	\$ 91,968.56	\$482,654.47	8.4%	\$ 40,542.98
Total	640	\$482,654.47	\$482,654.47		\$200,357.90

Source: FSM DOFA's Schedule of Outstanding Travel Claims as of 9/30/98.
The National Financial Services Network (<http://www.nfsn.com/library/prime.htm>)
and Previous Travel Audit FY '95, Audit No. 124-96.



Source: FSM DOFA's Schedule of Outstanding Travel Claims as of 9/30/98.

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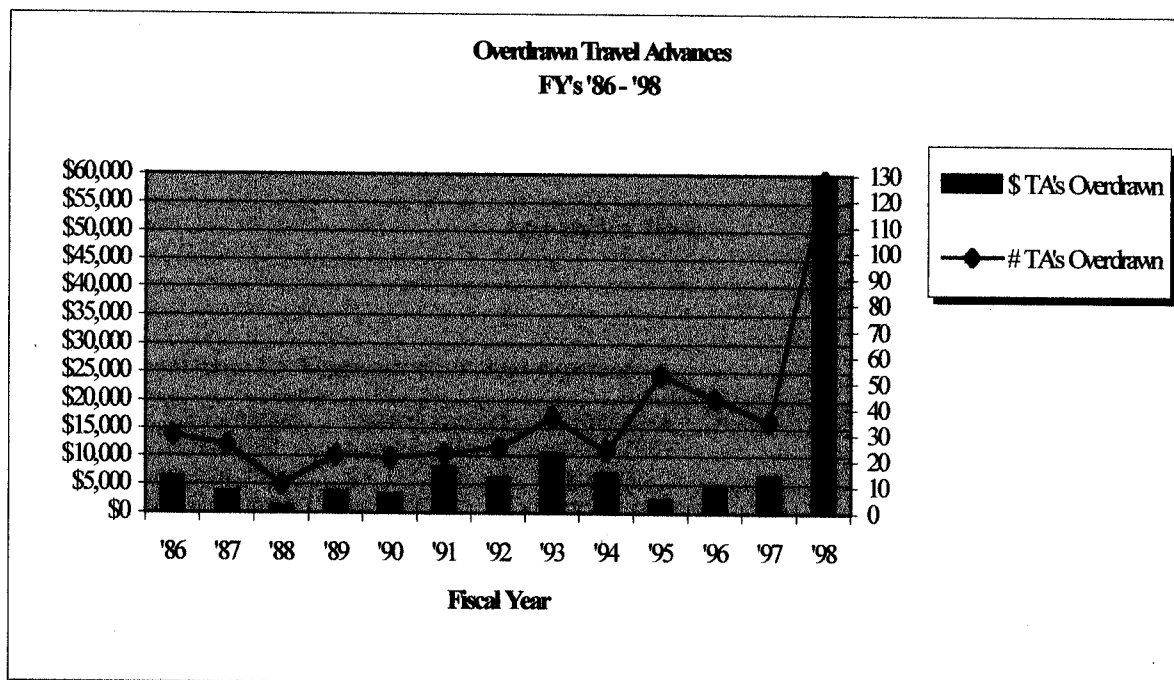
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Appendix 9-1

Total Overdrawn Travel Advances per Fiscal Year

FY	# of TA's	Amount	Cumulative	Prime Int. Rate	Annual Carrying Cost
1986	30	\$ 6,295.90	\$ 6,295.90	10.0%	\$ 629.59
1987	26	\$ 3,801.09	\$ 10,096.99	10.0%	\$ 1,009.70
1988	11	\$ 1,027.66	\$ 11,124.65	9.3%	\$ 1,034.59
1989	22	\$ 3,692.26	\$ 14,816.91	10.9%	\$ 1,615.04
1990	21	\$ 3,271.45	\$ 18,088.36	10.0%	\$ 1,808.84
1991	23	\$ 8,053.52	\$ 26,141.88	8.5%	\$ 2,222.06
1992	25	\$ 6,155.22	\$ 32,297.10	6.3%	\$ 2,034.72
1993	37	\$ 10,587.69	\$ 42,884.79	6.0%	\$ 2,573.09
1994	24	\$ 7,025.65	\$ 49,910.44	7.1%	\$ 3,543.64
1995	53	\$ 2,242.37	\$ 52,152.81	7.4%	\$ 3,859.31
1996	44	\$ 4,532.54	\$ 56,685.35	8.3%	\$ 4,704.88
1997	35	\$ 6,415.11	\$ 63,100.46	8.4%	\$ 5,300.44
1998	128	\$ 59,604.76	\$122,705.22	8.4%	\$ 10,307.24
Total	479	\$122,705.22	\$122,705.22		\$ 40,643.14

Source: FSM DOFA's Schedule of Overdrawn Travel Advances, as of 9/30/98.
The National Financial Services Network (<http://www.nfsn.com/library/prime.htm>)
and Previous Travel Audit FY '95, Audit No. 124-96.



Source: FSM DOFA's Schedule of Overdrawn Travel Advances, as of 9/30/98.



ATTACHMENT: A

The President
Palikir, Pohnpei
Federated States of Micronesia

June 4, 1999

MEMORANDUM

TO: All Department, Office and Agency Heads
FROM: The President
SUBJECT: Temporary TA Approval Policy

For the remainder of the fiscal year and until further notice the Vice President's approval will be required for all executive branch Travel Authorizations. This is a temporary centralization of travel control in order to enable the Vice President and me to better understand and, perhaps, restrict existing travel patters within the executive branch.

As part of our Government Restructuring effort it will be necessary to nationalize travel patters. We must take greater account of the cost of having executive branch officials away from their core duties while on travel. Having reduced redundancies through the ERP there is clearly less scope for extended absences of our employees. Certain conferences and events may need to be missed and the past practice of two or more FSM officials to attend meetings may have to be curtailed or discontinued.

The TA review will involve greater scrutiny of the justifications and expected benefits to be realized by the FSM. In addition, the review will involve greater scrutiny of the travel patters of individual travelers. To achieve these purposes all TA approval requests should include an attachment with information on the individual's previous travel during the fiscal year, in-depth justification of the specific trip under consideration, and projected trips for the remainder of the fiscal year (sample attached).

Your understanding and cooperation is expected.


Leo A. Falcam

xc: Speaker, FSM Congress
Chief Justice, FSM Supreme Court



FEDERATED STATES OF MICRONESIA

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Attachment: B

Office of The National Public Auditor

May 9, 2001

The Honorable John Ehsa
Secretary
Department of Finance & Administration
FSM National Government
Palikir, Pohnpei FM 96941

Subject: *Draft Audit Report (No. AD-01-0001)*

Dear Secretary Ehsa:

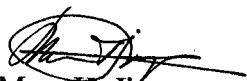
We are forwarding the draft copy of report number AD-01-0001, *Travel Review, FSM National Government, Fiscal Years 1996 – 1999*. Our review was limited to TA's originating from your Department and does not include TA's issued by and kept at the FSM overseas liaison offices and embassies. It was conducted pursuant to T55 FSMC Chapter 5, and encompassed the period from fiscal years 1996 to 1999. We performed the audit in accordance with *generally accepted government auditing standards (GAGAS)*. Accordingly, it included tests of records and other auditing procedures that were considered appropriate under the circumstances.

The results of our review indicate that the existing system of internal controls in administering national government travel in terms of implementing procedures, reducing long outstanding travel balances, efficient processing of TA's and maintenance of accurate, reliable, organized and adequate records is currently inadequate. We also concluded that the increasing and substantial amount of travel expenditure during the course of the audit and in prior audits is not consistent with the cost reduction objective that is ongoing with government spending.

Specifically, the accounting system cannot be relied upon to effectively monitor and report on the travel activities of the National Government. The conditions noted within the body of this report should be strengthened or improved in order to allow timely detection of errors, discrepancies, and areas of noncompliance.

Should you require further discussion, please contact this office to arrange for a meeting. If, however, you believe further discussion is not necessary, please provide this office with a written response to the findings and recommendations cited within the Draft Report by May 29, 2001. If a response to the findings and recommendations is not received by the above underlined date, we will issue the report in final without the response.

Respectfully submitted,



Mary K. Jimmy
Acting National Public Auditor

xc: AWP CF: AD-01-0001