

**REQUEST FOR PROPOSAL
FOR QUALIFIED AUDITORS
TO PERFORM ANNUAL SINGLE AUDITS
OF
THE FREELY ASSOCIATED STATES OF MICRONESIA
FOR
FISCAL YEAR ENDING SEPTEMBER 30, 2005**

**NATIONAL PUBLIC AUDITOR
Federated States of Micronesia
P.O. BOX PS-05
Tel: 011(691) 320-2862/2863
Fax: 011 (691) 320-5482
E-mail: hhainrick@fsmpublicauditor.fm**

**Federated States of Micronesia
Request for Audit Proposal
30 September 2005**

Table of Contents

I.	DESCRIPTION OF THE ENTITY AND RECORDS TO BE AUDITED.....	3
II.	FEDERAL FINANCIAL ASSISTANCE.....	4
III.	SYSTEMS AND RECORDS.....	6
IV.	SCOPE AND SERVICES.....	7
V.	TERM OF THE ENGAGEMENT.....	7
VI.	PROJECT SCHEDULE.....	7
VII.	SUBMISSION OF PROPOSALS.....	8
VIII.	SELECTION PROCESS.....	8
IX.	MANDATORY CRITERIA.....	9
X.	CONTRACT REQUIREMENTS.....	9
XI.	PROPOSAL CRITERIA.....	10
XII.	CONTACT PERSONS.....	11

I. DESCRIPTION OF THE ENTITY AND RECORDS TO BE AUDITED

The Freely Associated State of the Federated States of Micronesia (FSM) is a democratic, constitutional federation comprised of the national, state, and local governments as established by the constitution of the Federated States of Micronesia. It is a nation comprised of 607 islands that are spread across more than a million square miles of the Western Pacific Ocean within a chain of islands known collectively as the Caroline archipelago. While FSM is large in size, the total land area is small, 270 square miles. The climate is tropical, with temperatures ranging from the low 70's to the high 90's; mean humidity is 80 percent.

The most striking and pervasive physical characteristic of the FSM is the smallness and wide dispersion of the land area. The FSM consists of four island states including Kosrae (population 7,435), Pohnpei (population 33,346), Chuuk (population 48,853), and Yap (population 10,886). The culture of these islands is quite diverse and at least seven major languages are spoken by the different ethnic groups. English is the official language.

Politically, the FSM has been under foreign domination since the 1500's when the islands were first sighted by the Spanish. The Spanish remained as the dominant political power until the 1890's when the islands were sold to Germany following the Spanish-American War. Germany occupied the islands until after the First World War when the administration of the islands was transferred to Japan under the mandate of the League of Nations. Following Japan's defeat in World War II, the United Nations declared the area a UN Trusteeship and placed it under the administration of the United States Government. The mission of the United States, as the administering authority, was to prepare the islands for self government.

After more than three decades, the islanders opted for a democratic constitutional federation of the four states. FSM leaders negotiated a Compact of Free Association with the United States which was implemented on November 3, 1986. Under the Compact, the FSM is a sovereign nation with full control over its own affairs. The Compact contains substantial economic assistance, programs and services, and tax and trade benefits, in order to assist the FSM toward increased economic self-sufficiency.

Certain provisions of the Compact, particularly the financial provisions, expired with the fiscal year 2003. The expired financial provisions were renegotiated by the United States and the FSM, and beginning with fiscal year 2004 the revised financial provisions of the Compact following the renegotiation of the two governments came into effect.

The amended Compact provides that the Government of the United States shall provide for annual audits of the Federated States of Micronesia with the cost of the annual audits to be allocated to and paid for by the two governments. The revised fiscal procedures agreement provides, among other things that annual reports will conform to the standards of the Governmental Accounting Standards Board, that the United States and the FSM Governments will pay for audits conducted in conformance with the Single Audit Act 1984, as amended, and, notably the United States government has the final say as to if it will conduct the audits directly or by using the services of independent certified public accountants. The services of independent certified public accountants have been used annually since 1984.

Any contract entered into under this request for proposal shall be contingent upon the availability of funds and of the continued acquiescence of the US Secretary of the Interior to the procedures and contracts the FSM has implemented and entered into to provide for audits.

The entity to be audited includes the national and the four state governments which constitute the Federated States of Micronesia and any sub recipient expending more than \$500,000 in federal or compact financial assistance. The individual single audits of the national and state governments are to include reporting on financial statements prepared in accordance with generally accepted accounting principles including the requirements of the Government Accounting Standards Board. These audits shall be made in accordance with generally accepted government auditing standards covering financial and compliance audits. The audits shall cover the entire operations of the National and State governments to enable the auditor to report on the financial statements, internal controls and compliance with laws and regulations on each major Federal assistance program and a schedule of findings and questioned costs.

The audits of sub recipients that expend more than \$500,000 in Compact or federal financial assistance will include either single or program specific audit conducted under the revised OMB Circular A-133. Other sub recipients including enterprise fund types and other component units of the national and state governments may be subject to the audit requirements of OMB Circular A-128.

II. FEDERAL FINANCIAL ASSISTANCE

The Federated States of Micronesia received two distinct categories of Federal Financial Assistance in fiscal year 2005, Compact grant assistance and U.S. domestic program assistance.

For the purpose of auditing under the amended Compact, the only laws and regulations of the United States which are applicable are the amended Compact, its related agreements, and any other criteria adopted by mutual agreement. In general, applicable criteria will be the laws and regulations of the particular government expending the assistance.

U.S. Domestic Program Assistance remains subject to all applicable criteria, standards, reporting requirements, auditing procedures, and other rules and regulations applicable to such programs when operating in the United States.

For fiscal year 2005 Compact Financial Assistance will be distributed as follows (figures in thousands of dollars).

Compact II Sector Grant	National	Pohnpei	Chuuk	Kosrae	Yap	Total
Education Sector	\$4,511,317	\$7,469,772	\$8,804,369	\$2,070,432	\$4,249,157	<u>\$27,105,047</u>
Health Sector	\$763,235	\$6,200,560	\$5,595,636	\$1,674,212	\$3,197,090	<u>\$17,430,733</u>
Capacity Building Sector	\$608,028	\$1,542,488	\$3,001,410	\$1,113,866	\$1,520,446	<u>\$7,786,238</u>
Private Development Sector	\$0	\$657,602	\$1,403,876	\$988,025	\$989,025	<u>\$4,038,528</u>
Environment Sector	\$111,421	\$688,181	\$502,499	\$296,592	\$791,258	<u>\$2,389,951</u>
Infrastructure Development Sector						\$17,249,121
sub-total	<u>\$5,994,001</u>	<u>\$16,558,603</u>	<u>\$19,307,790</u>	<u>\$6,143,127</u>	<u>\$10,746,976</u>	<u>\$75,999,618</u>
Trust Fund						\$16,000,000
Grand total						<u>\$91,999,618</u>

The state governments of Chuuk, Pohnpei, Kosrae and Yap received federal grants as sub recipients of the National Government. The National Government, therefore, is responsible for monitoring the use of sub-granted funds. The Compact audit requirements, however, implies that each state be audited separately for its use of Compact funds and sub-granted funds as well.

For fiscal years 2005, U.S. Domestic Operating and Development Program Assistance include at least the following programs and amounts:

Fiscal Year 2005			
Grantor Agency	Program Title	CFDA #	2005
DOE	Special Education Program for Pacific Islands Entities (SEPPIE) Teacher Quality Enhancement Territory and Freely Associated States Education Grant Vocational Education Improvement Program Adult Education Program Robert C. Byrd Honors Scholarship Federal Pell Grant Federal Supplemental Education Opportunity Grant Federal Work Study Program TRIO-Student Support Services Program TRIO-Talent Search Program TRIO-Upward Bound Program Bilingual Education-Professional (Career Ladder) Bilingual Education - Professional Development (Career Ladder) Gaining Early Awareness and Readiness for Undergraduate Program Head Start Program Total for DOE	84.343 84.336 84.256 84.048 84.002 84.185 84.063 84.007 84.033 84.042A 84.044 84.047 384.290' 84.195 84.334A 93.600'	\$ 3,885,874 \$ 1,388,120 \$ 2,406,913 \$ 635,192 \$ 59,049 \$ 36,000 \$ 7,921,357 \$ 150,000 \$ 174,331 \$ 228,825 \$ 254,408 \$ 1,076,922 \$ 290,636 \$ 513,812 \$ 326,987 \$ 5,923,335 <u>\$ 25,271,761</u>
HHS	A. United States Dept. of Health & Human Services: Substance Abuse Prevention and Treatment Block Grant Community Mental Health Services Block Grant HIV/AIDS Prevention HIV/AIDS Care II and Surveillance Diabetes Prevention and Control Program Maternal and Child Health Block Grant Family Planning State System Development Initiatives (SSDI) TB Program Child and Adult Immunization Tobacco Control and Prevention Tobacco Coalition Community Health Center Public Health Preparedness and Response for Bio-terrorism Hospital Preparedness and Response for Bio-terrorism STD Program School Health HIV Prevention HIV Care GEF (OPS) Total Health Sector	93.959 93.958 93.940' 93.944 93.977 93.994 93.217 93.110' 93.166 93.268 93.203 93.283 93.224 93.283 93.003 93.977	\$ 502,504 \$ 157,854 \$ 166,810 \$ 17,593 \$ 139,996 \$ 314,864 \$ 368,592 \$ 100,000 \$ 185,814 \$ 779,595 \$ 212,335 \$ 25,913 \$ 162,362 \$ 429,400 \$ 703,671 \$ 61,137 \$ 96,258 \$ 50,000 \$ 240,000 <u>\$ 4,714,698</u>
DOL	Workforce Investment Act, Title I	17.255	\$ 1,931,560
DOI/National Park Service	A. US Dept. of Interior (National Park Service): Historic Preservation and Archives B. US Dept. of Agriculture (Forestry): Comparative Land Forest Health Management Forest Stewardship Program Urban and Community Forestry C. United Nations Environmental Program: FSM National Safety Framework D. US DEPARTMENT OF COMMERCE: Weather Services (NOAA) FSM E. USDA: Forestry Assistance Total Environment Sector		\$ 111,696 \$ 25,000 \$ 60,000 \$ 150,000 \$ 120,000 \$ 921,000 \$ 235,000 <u>\$ 1,622,696</u>
PUBLIC INFRASTRUCTURE DEVELOPMENT SECTOR	A. US Government: Airport Capital Improvement Program	20.106	\$ 9,450,000
OTHER PROGRAMS	A. US FEDERAL GRANTS: Land Grant-Hatch Act-AES Land Grant-Instruction ENEP Research-Smith Lever Act-CES B. US FEDERAL GRANT (DOI): OIA TA & OMIP OMIP NEG Title - I Chata'an & Sudal C. US FEMA: Disaster Response & Recovery Total Other Programs Grand Total	10.203 10.205 10.500' 15.875 15.875 17.260' 83.516	\$ 209,333 \$ 48,740 \$ 421,252 \$ 200,000 \$ 114,000 \$ 2,584,000 \$ 10,159,964 <u>\$ 13,737,289</u> \$ 56,728,003

III. SYSTEMS AND RECORDS

The Focus software has been in use by Chuuk State Government since 1997, at the National Government since 1998, and then finally by the Kosrae State Government since 1999. Yap State Government used a different software which is the Fundware, whereas Pohnpei State Government used the DILOG software at a newer version marketed by Information Development Consultants, Inc. DILOG has been in place for over nineteen years having been installed in 1984.

The National and State Governments have been audited annually by independent CPAs since fiscal year 1984. The FY-2003 audit is close to being completed and the resultant audit reports could be made available for your review upon request as they become available. The copies of the audit reports for the fiscal year 2002 and the prior fiscal years can be viewed and accessed at www.fsmpublicauditor.fm.

Included within the various governments reporting entities are some semi-autonomous entities or enterprise funds which independently account for their transactions.

For the national government, those entities included the FSM Social Security Administration, and five enterprise funds. These entities should be included under the scope of the audit as Component Units of the National Government.

For the State of Chuuk, there are 38 sub-recipient local governments, ten development authorities and three enterprise funds which are independently accounted for and should be included within the scope of Chuuk State audit. In Pohnpei there are seven scope of Pohnpei State reporting entity.

For the State of Yap, there are eleven entities which are independently accounted for and should be included within the scope of the reporting entity. Kosrae State has two which also should be included within the scope of Kosrae State's reporting entity.

Some of the above may fall below revised thresholds and may not require audits.

IV. SCOPE OF SERVICES

The audits will include financial and compliance audits of the Federated States of Micronesia pursuant to the Single Audit Act of 1984, as amended, OMB Circular A-133, and the Compact of Free Association between the Federated States of Micronesia and the United States of America, for the year ended September 30, 2005. The audits will encompass the separate reporting entities of the FSM National Government, the State of Kosrae, the State of Pohnpei, the State of Chuuk and the State of Yap.

The audits will cover each of the reporting entity of the Government of the Federated States of Micronesia as defined by U.S. Public Law 99-239 TITLE FOUR, Article VI, Section 461 (d). The audits will be performed in accordance with auditing standards generally accepted in the United States of America, provisions of the Compact of Free Association between the Federated States of Micronesia and the United States of America and its related agreement for Implementation of Economic Assistance Programs and Services, and Federal auditing standards in the United States; including:

1. *Government Auditing Standards*, issued by the U.S. Government Accountability Office (GAO)
2. The Single Audit Act of 1984 (P.L. 98-502), as amended
3. Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, issued by the U.S. Office of Management and Budget (OMB), as amended.

In addition, the auditor will be expected to follow the recommendations of the AICPA State and Local Government Committee as set forth in the accounting guide, *Audits of State and Local Governmental Units*, Revised Edition.

The Government of the Federated States of Micronesia may accept proposals from interested bidders to conduct the audits for all or only some of the entities for the FSM National and State Governments.

V. TERM OF THE ENGAGEMENT

The term of the contract period will be for one year. Future contracts may be let to cover more than one fiscal year on the financial operations of the governments of the Federated States of Micronesia.

VI. PROJECT SCHEDULE

August 13, 2005	Request for Proposal Issued
September 30, 2005	Deadline for submission of audit proposals. No submissions post-marked after September 30, 2005, or received after October 8, 2005 at 4:30 p.m. if by postal delivery will be accepted.
October 15, 2005	Proposals evaluation and selection of the winning responsible bidder and contract negotiation.
November 30, 2005	Commencement of audit work.
December 31, 2005	Receipt by the auditor of all Financial Statements for all Governments
April 30, 2006	Delivery of draft reports and completion of exit conferences for all Governments
June 15, 2006	Delivery of final reports to National Public Auditor for distribution

VII. SUBMISSION OF PROPOSALS

Proposals must be post-marked no later than September 30, 2005 and received in the Office of the Public Auditor, Federated States of Micronesia no later than 4:30 p.m., local time, October 8, 2005. Proposals arriving later than this time by postal route will not be considered. Proposals not delivered by postal route must be received in the above office not later than 4:30 p.m. on September 30, 2005.

Proposals must be delivered with an original and 6 copies. The fee proposal should not be disclosed in the main proposal but should be submitted in a separate sealed envelope. Proposals must respond to all structured criteria as contained in part XI of this RFP.

Proposals shall not be any longer than 30 pages, exclusive of resumes, references, and work examples.

The Government of the Federated States of Micronesia reserves the right to:

- a. Reject all proposals and reissue an amended RFP.
- b. Request additional information from any firm submitting a proposal.
- c. Negotiate a contract with the firm selected for the engagement.
- d. Waive any non-material violations of rules set up in this RFP.

The Government of the Federated States of Micronesia will not reimburse or pay for any costs incurred in preparing and submitting a proposal in response to this RFP.

VIII. SELECTION PROCESS

Proposals will be evaluated by a committee consisting of seven members. Proposals will be opened only by the committee and information contained in a proposal will not be disclosed to the public until after the award.

Each response to one of the criteria contained in Section XI will be scored from 0 to 5, and then multiplied times the weight factor. The Committee will then evaluate the scores and may conduct phone interviews of the leading scores and check their references before selecting a firm to negotiate a contract with.

<u>Criteria</u>	<u>Points</u>	<u>Weight</u>	<u>Score</u>
Qualifications of Audit Firm	0-5	2	0-10
Qualifications of Individuals	0-5	3	0-15
Scope of Services	0-5	2	0-10
Fee Proposal	0-5	3	0-15

The evaluation committee will be comprised of the following members:

The National Public Auditor & Audit Manager of the Office of the National Public Auditor
One Representative from the FSM Department of Finance & Administration
One Representative from each State Government

The National Public Auditor reserves the right to appoint additional members to the committee or to appoint substitute members should any of the listed members is unable to complete his duties.

The results of the evaluation will be documented and used as guidance in the selection of the auditor. The National Public Auditor will make the final determination of which proposal is the most advantageous to the Government of the Federated States of Micronesia.

Special consideration will be given to proposers who represent audit firms owned and controlled by socially and economically disadvantaged individuals, or proposers who plan to sub-award portion of the audit engagement to small audit firms owned and controlled by socially and economically disadvantaged individuals. This special consideration however, will not compromise the necessary quality required of the audit report to be produced. Any sub-award plan should be specified for each section of the audit engagement in the proposal. Sub-award plan should be specified for each section of the audit engagement in the proposal. Sub-award plans should indicate at least a description of the specific portion(s) or entity (ies) and the relevant costs to be sub-awarded and how the proposer plans to supervise or coordinate the work of the sub-awardee.

All entities submitting proposals will be promptly notified of the determination of the National Public Auditor. Proposals will become the property of the Government of the Federated States of Micronesia and will not be returned.

IX. MANDATORY CRITERIA

All respondents must include the following positive affirmations in their proposals:

- a. An affirmation that the proposer is properly licensed for the public practice as a certified public accountant or public accountant in accordance with GAGAS.
- b. An affirmation that the proposer meets the independence requirements of the Government Auditing Standards, 2003 revision, published by the Government Accountability Office.
- c. An affirmation that the respondent does not have a record of substandard audit work. This should be accomplished by submitting a written report communicating the results of an external quality control review conducted within three years proceeding September 30, 2005.

X. CONTRACT REQUIREMENTS

The auditor shall:

- a. Perform the services as described in the auditor's proposal for a Financial and Compliance Audit of the governments, which will be incorporated as an attachment to the resulting contract, to the satisfaction of the National Public Auditor.
- b. Provide sufficient copies of final reports to the Cognizant Audit Agency, and Federal Audit Clearinghouse.
- c. Provide five copies of each draft report and up to 230 copies of each final report of the national and state governments to the National Public Auditor.
- d. Provide five copies of each final report for each sub recipient that expends more than \$500,000 in compact or federal financial assistance and for each enterprise fund type or component unit covered under the scope of the audit.
- e. Provide 5 copies of engagement letter along with listing of required reports and documents from each Government for entrance conference.
- f. Provide 5 copies of draft report for each Government for exit conference.
- g. Be responsible for all interfacing with the cognizant Audit Agency.
- h. Comply with the U.S. Executive Order 11246, entitled, "Equal Employment Opportunity" as amended by Executive Order 11375, and as supplemented in Department of Labor regulations (41 CFR Part 60).
- i. Retain audit work papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the Cognizant Agency to extend the retention period. Audit work papers shall be made available upon request of the National Public Auditor or his designee or cognizant Agency or its designee or the Government Accountability Office.
- j. Provide the Public Auditor or his designee with access to review the Audit Plan, Materiality and Risk Assessment, and sampling Plan for the financial and compliance audit of the national and state government.
- k. Provide the Public Auditor or his designee with access to the audit working papers for review along with the preliminary audit reports prior to conducting the exit conference for the national and state government.
- l. Obtain all necessary licenses and permits to conduct business while auditing within the Federated States of Micronesia. The Office of the National Public Auditor will provide assistance in obtaining a foreign investment permit, if necessary.
- m. If, during the course of the audits, the auditor uncovers indications of possible fraud or other situations which need to be brought to the attention of the government, they shall immediately notify the National Public Auditor in writing. The auditor shall perform sufficient field work to be able to clearly describe and document the situation.

XI. PROPOSAL CRITERIA

1. Qualifications of the firm
 - a. Describe the organization and size of the firm and whether it is local, regional, national or international in operations.
 - b. Describe the office from which the work is to be staffed including the number of professional staff by staff level employed at that location.

- c. Describe the range of activities performed by the local office such as auditing, accounting, tax service, and management service.
 - d. Discuss your staff's capability to audit computerized systems, including the number and classifications of personnel skilled in computer science who will work on the audit and their experience in auditing computerized systems. A list of the type of systems and the hardware and software audited would be helpful.
 - e. Include positive affirmations as discussed in the section on mandatory criteria.
 - f. Describe your experience in performing governmental audits in accordance with the requirements of OMB Circular A-128 and OMB Circular A-133. Give the names, addresses, and telephone numbers of client officials responsible for three of the audits described.
2. Qualifications of Individuals
- a. Identify the audit managers and field supervisors and other staff who will work on the audit, including staff from other than your local office. Resumes including relevant experience and the number and nature of CPE hours for all auditors, including supervisors, managers and the individual with final responsibility for the engagement, should be included.
3. Scope of Services
- a. Opinion reports on financial statements and the supplementary schedules of federal financial assistance.
 - b. Reports on the study and evaluation of internal controls.
 - c. Reports on the organizations' control systems to assure compliance and whether the organizations that may have an effect on each major federal assistance program.

Give a positive affirmation that you will be able to complete the audits in accordance with the project schedule in section VI.

Describe the type and estimated amount of support you expect from the employees of the government of the Federated States of Micronesia. List the types of documents that will be required to be produced before your staff arrives here, and while they are here.

Emphasize any special or extraordinary services your firm can provide that would distinguish it from its competitors.

4. Fee Proposal

The fee proposal should be submitted in a separate sealed envelope and the fee amount should not be disclosed anywhere else in the proposal.

The auditor will be expected to provide transportation, temporary housing and meals while performing the audits. State the fee proposal and reimbursable costs and give a not-to-exceed amount to complete all work for the five governmental entities. Give your best estimate of all reimbursable costs to be included and give a not-to-exceed figure for all reimbursable costs.

XII. CONTACT PERSON

The contact person is:

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

Telephone: 691 320 2862
Fax: 691 320 5482
Email: hhainrick@fsmpublicauditor.fm