



OFFICE OF THE FSM NATIONAL PUBLIC AUDITOR

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ONPA RELEASES REPORT ON THE INSPECTION OF THE TWO MEMORANDA OF UNDERSTANDING BETWEEN THE FSM NATIONAL GOVERNMENT AND THE STATES OF CHUUK AND KOSRAE

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2013-01, *Inspection of the Two Memoranda of Understanding (MOU) Between the National Government and the States of Chuuk and Kosrae*. A digital copy of the report is available for public review online at www.fsmopa.fm and printed copies are available at the ONPA offices in Palikir, Pohnpei and on Weno, Chuuk. The inspection was conducted in accordance with the 2011 *Quality Standards for Inspections and Evaluations* established by the U.S. Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The MOUs were made in response to the two state governments' financial crisis that resulted in the inability of the two states to advance their own money for the federal programs funded by U.S. grants. Under the MOUs, the Secretary of the FSM National Department of Finance & Administration (DF&A) assumed the responsibility of assisting the States of Chuuk and Kosrae in securing, disbursing and recording of cash funds under the MOUs. Prior to these MOUs, the States' departments of finance were responsible for these functions.

We conducted the inspection of the MOUs in response to the request of the Chairman of Ways and Means Committee to review the practice of advancing money (up fronting of cash) from the FSM National General Fund to implement the terms of the MOUs. He believed that using monies in the General Fund was not contemplated under the terms of the two MOUs.

Thus, the objectives of the inspection were to determine whether:

1. The terms of the MOUs allowed for the advancing of cash from the General Fund.
2. In implementing the terms of the MOUs, DF&A has been (1) advancing cash from the General Fund and (2) handling grant funds under the MOUs in accordance with applicable FSM laws.
3. The concerned departments from the FSM National Government have included only the discretionary grants, as agreed, in the implementation of the MOUs.

The results of the inspection revealed the following findings:

1. The terms of the MOUs implied for the advancing of money from the General Fund but subject to compliance with the FSM laws.
2. Cash advances from the General Fund were made to implement the MOUs but they were not appropriated by the FSM Congress as required by law.
3. The actual implementation of the MOUs was not limited to only discretionary grants, as agreed to in the MOUs, but also covered all other grants.

We also found that files were not available to verify compliance with the requirements mandated by the Program Fund law for receiving of grants.

We made the following recommendations for management actions:

For the Office of Statistics, Budget, Economic Management, Compact and Aid Coordination (SBOC) to:

1. Comply with the law by including the anticipated revenues and expenditures from all sources and uses, including the revenues and the expenditures of grants under MOUs, in the annual proposed budget submitted to the FSM Congress for appropriations.
2. Indicate the Congress resolution/appropriation number in the advice of allotment to ensure that the authority to incur obligations processed under the account of the FSM National Government, including the expenditures of grants under MOUs, has Congress approval.

For the DF&A to:

1. Disburse obligations for programs related to the US federal grants under the MOUs based on advice of allotment that has reference to a Congress resolution/appropriation number to ensure that the authority to incur obligations has the approval of the Congress.
2. Propose amendment to the Program Fund law **or** implement regulations/policies/procedures to consider the impact of receiving the actual funds from the grant through either the advance basis or reimbursement method.

For both SBOC and DF&A to:

1. Review thoroughly and revise accordingly the MOUs to reflect the true intent of all the parties to the two MOUs if the MOUs are to be continued/extended.
2. Collaborate in promulgating the implementing policies, regulations, and procedures regarding Foreign Assistance Fund and Program Fund to ensure sufficient compliance with the requirements of the related FSM laws. The implementing policies/procedures, starting from the grant application to receiving and depositing of grant funds or reimbursements, would provide clear guidance in the implementation and handling of the requirements of the laws particularly with respect to the handling and receiving of *reimbursable* grants where cash up fronting and reimbursements are involved.

We discussed our findings and recommendations with the officials from DF&A and SBOC. Their responses, which indicated their agreement, are included in the final report now available at www.fsmopa.fm.

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