

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**NORMA's Use & Management of the Project Development Fund: Characterized By Poor
Controls, Accountability and Transparency Issues
Fiscal Years 2012 - 2014**

REPORT NO. 2015-09



Haser H. Hainrick
National Public Auditor

OFFICE OF THE NATIONAL PUBLIC AUDITOR
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Poor Controls, Accountability and Transparency Issues
Audit Report No. 2015-09

September 30, 2015

His Excellency Peter M. Christian, President
Honorable Members of the FSM Congress
Federated States of Micronesia

RE: The Audit on the Project Development Fund

We have completed a *Performance Audit on the NORMA's Use & Management of the Project Development Fund: Characterized By Poor Controls, Accountability and Transparency Issues for Fiscal Years 2012 - 2014*. The audit on the Project Development Fund was conducted due to a special request from the Chairman, Committee on Resources & Development of the 18th FSM Congress. The Chairman asked the National Public Auditor to perform an audit on the use and management of the "*Project Development Fund*."

The objective of the audit was to determine whether the PDF was used for its intended purpose and, if management of it was consistent with the FSM's laws, financial regulations, policies and procedures.

With the objectives of maximizing the benefits from the development of the fisheries resources within the exclusive economic zones or fisheries zones, certain Pacific Island States and the United States of America signed a treaty called "The Multilateral Treaty on Fisheries" ("The Treaty")¹. The Treaty became effective on June 15 1988 for an initial five-year period (June 15 1988 – June 14 1993). It was extended for another 10 years (June 15 1993 – June 14 2003); then another 10 years extension (June 15 2003 – June 14 2013). Then, it went for an initial transitional period for 1½ years (June 15 2013 – December 31 2014), and currently for an additional one year transitional period (January 1 – December 2015). The last two extensions were transitional in nature pending agreement on outstanding negotiation clauses but the financial arrangement ends at the expiry date of each corresponding licensing period. The Treaty provides for financial package in which the amounts differ for each licensing period, including those in the transitional period. An item in the financial package is the fund set aside for "Project Development Fund" (PDF) wherein all Pacific Island parties shall have equal access (refer to Table 1).

Based on the results of our audit, we conclude that the Project Development Fund was not used for its intended purposes. For example, we found that numerous spending were made for travels and for general operations for NORMA such as equipment purchases, office lease

¹ The treaty consists of "The Treaty" and its subsidiary agreements namely – (1) "Agreement among Pacific Island States concerning The Implementation and Administration of the Treaty on Fisheries Between the Governments of Certain Pacific Island States and the Government of the United States of America" ("The Internal Agreement"); (2) "The Agreement between the Government of the United States and the South Pacific Fisheries Agency"; and (3) "Agreed Statement on Observer Program."

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rental payment, representation funds, purchase of a computer server, etc., which did not fit the economic development purposes of the PDF.

Additionally, we conclude that the management of the Project Development Fund did not follow FSM's financial regulations and procedures. For instance, we noted non-compliance deficiencies against the financial regulations and procedures, which resulted in weak internal controls and lack of reporting, disclosures and transparency for the PDF. Consequently, the accountability for the use of the PDF funds was a real audit concern.

We found the following weakness during our audit:

- The Project Development Fund was not used for worthy projects due to lack of clear definition of allowable uses of the fund;
- The spending of the Project Development Fund did not follow the FSM Financial Regulations nor provided transparency and accountability; and,
- Use of the PDF for representation purposes did not follow the FSM Financial Regulations.

Respectfully yours,



Haser Hainrick
National Public Auditor

XC: Vice President
Board Members, National Oceanic Resource Management Authority
Executive Director, National Oceanic Resource Management Authority

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INTRODUCTION

We conducted this audit in response to a request from the Chairman, Committee on Resources & Development of the 18th FSM Congress. The Chairman asked the National Public Auditor to perform an audit on the use and management of the “*Project Development Fund.*”

Background

Multilateral Treaty on Fisheries

With the objectives of maximizing the benefits from the development of the fisheries resources within the exclusive economic zones or fisheries zones, certain Pacific Island States and the United States of America signed a treaty called “The Multilateral Treaty on Fisheries” (“The Treaty”)². The Treaty became effective on June 15 1988 for an initial five-year period (June 15 1988 – June 14 1993). It was extended for another 10 years (June 15 1993 – June 14 2003); then another 10 years extension (June 15 2003 – June 14 2013). Then, it went for an initial transitional period for 1½ years (June 15 2013 – December 31 2014), and currently for an additional one year transitional period (January 1 – December 2015). The last two extensions were transitional in nature pending agreement on outstanding negotiation clauses but the financial arrangement ends at the expiry date of each corresponding licensing period. The Treaty provides for financial package in which the amounts differ for each licensing period, including those in the transitional period. An item in the financial package is the fund set aside for “Project Development Fund” (PDF) wherein all Pacific Island parties shall have equal access (refer to Table 1). The yearly share for FSM in the PDF for the last three years is \$156,250. Since its inception, the Treaty provides a yearly stream of revenues sourced from the United States and allocated to different funds that benefited the member countries. In FY 2014, the revenue from this source was \$63 million. The expenditures and the allocation of this revenue are as follows:

² The treaty consists of “The Treaty” and its subsidiary agreements namely – (1) “Agreement among Pacific Island States concerning The Implementation and Administration of the Treaty on Fisheries Between the Governments of Certain Pacific Island States and the Government of the United States of America” (“The Internal Agreement”); (2) “The Agreement between the Government of the United States and the South Pacific Fisheries Agency”; and (3) “Agreed Statement on Observer Program.”

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Table 1: Summary of Funds Contributed by USA		
FY 2014		
Income	Total	
USA Economic Development Fund	\$ 21,000,000	
USA Boat Association Funds	42,000,000	
Interest Income	550,100	
Total	\$ 63,550,100	
Allocations	Amount	FSM Share
FFA Treaty Administration Cost	\$1,165,249	N/A
Project Development Fund	2,500,000	156,250
15% Share Distribution	8,900,213	556,263
85% Share Distribution	50,984,638	5,813,285
Total	\$63,550,100	\$6,525,798

Source-FFA Financial Statements for the year ended June 14, 2104

The Pacific Island States that are parties to the Treaty, often called Pacific Island Parties (PIPs), are the 16 members³ of the Forum Fisheries Agency (FFA). The National Oceanic Resource Management Authority (NORMA) represents the Federated States of Micronesia (FSM) in the association.

Administrator of the Project Development Fund

Article 2 of the subsidiary agreement⁴ specifies that the Administrator of the PDF shall be the Director of the FFA appointed in accordance with the FFA Convention. FFA, in turn, administers the PDF in accordance with the procedures agreed between the Pacific Island Parties.

As the Administrator of the fund, the FFA receives the project funds for all members; keeps records of receipts and payments; maintains books of accounts for the fund; and accounts and monitors the fund balances for each member. At the end of each fiscal year, the FFA prepares the PDF financial statement (FS) and has it audited by an external auditor.

Processing of Payment Request

The Treaty specifies that the PDF shall be used solely to support economic development purposes and not for military or para-military purposes. The PDF payment process consists of the following steps:

³ The 17 PIP members are Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

⁴ Agreement among Pacific Island States Concerning the Implementation and Administration of the Treaty on Fisheries between the Governments of Certain Pacific Island States and the Governments of the United States of America ("The Internal Agreement")

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NORMA

1. The concerned person prepares a memo requesting PDF payment and then forwards the request to the NORMA Executive Director together with the supporting documents. The types of payments requested are normally for travel, per diem (also known as Daily Subsistence Assistance), representation funds and others.
2. The NORMA Executive Director reviews, approves and transmits the payment request memo including the supporting documents to the Secretary of the Department of Foreign Affairs (DFA). The DFA Secretary endorses the PDF payment request by forwarding it to the FFA Director General for approval using their letterhead.

FFA

The payment request could be either for travel or for other form of payment.

3. Upon receipt of the payment request from FSM DFA, the FFA staff prepares "Payment Voucher" for checking and authorization.
4. Upon approval of the 'Travel Voucher', the FFA Finance Manager prepares a payment authority to the bank indicating the mode of fund transfer to the beneficiary (payee).

Auditing of the Project Development Fund

Article 9.2 of "The Internal Agreement" specifies that the Administrator shall permit each member state *to inspect any raw data, books and accounts that relate to the Administrator's functions. In addition, the agreement requires (Article 9.1) that the Administrator shall arrange for an external auditor of the FFA to audit any account in which amounts deposited are held. Since the beginning of the treaty, the PDF statements have been subjected to financial audit⁵ by an external auditor.*

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

To determine whether the PDF was used for its intended purpose and, if management of it was consistent with the FSM's laws, financial regulations, policies and procedures.

Scope

Our audit covered only the review of the financial and operational activities of the Project Development Fund for Fiscal Years⁶, 2012, 2013 and 2014. In addition, we extracted information from audited financial statements and reports since the start of the Treaty (1988). It

⁵ To express an opinion regarding the true and fair view of the financial position of the Multilateral Fisheries Treaty including the PDF

⁶ The fiscal years start on June 14 current year and ends on June 15 of the next year.

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did not cover the review of the 15% and the 85% share allocation of the Treaty funds as shown in Table 1. We performed the audit fieldwork at the NORMA office in Pohnpei and at the FFA office in Solomon Islands.

We were informed during the audit that NORMA's office and the Department of Foreign Affairs were not keeping any documents related to PDF payments. Thus, the observations made on this report were limited to the documents obtained at the FFA Office at Solomon Island.

We conducted this audit pursuant to the authority vested in the Public Auditor as codified under Chapter 5, Title 55 of the FSM Code, which states in part:

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

Methodology

To satisfy our objectives, we performed the following:

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We obtained and reviewed copies of "The Treaty" and its subsidiary agreements to understand the terms and conditions in creating the PDF.

We obtained and reviewed the PDF revenue and expenditure reports for Fiscal Years 2012, 2013 and 2014. We judgmentally selected a sample of expenditure transactions to test the propriety of transactions.

We also obtained a legal opinion from the Department of Justice to clarify the Public Auditor's authority to audit the PDF and to clarify some issues pertaining to the PDF, which is outside of the FSM General Fund and is also currently outside of the appropriation purview of the Congress.

Lastly, we interviewed key officials and staff from NORMA, DFA and FFA offices to confirm our understanding of the issues involving the spending and management of the PDF including its financial and operational activities.

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PRIOR AUDIT COVERAGE

This is the first audit of the Project Development Fund by the ONPA.

CONCLUSION

Based on the results of our audit, we conclude that the Project Development Fund was not used for its intended purposes. For example, we found that numerous spending were made for travels and for general operations for NORMA such as equipment purchases, office lease rental payment, representation funds, purchase of a computer server, etc., which did not fit the economic development purposes of the PDF.

Additionally, we conclude that the management of the Project Development Fund did not follow FSM's financial regulations and procedures. For instance, we noted non-compliance deficiencies against the financial regulations and procedures, which resulted in weak internal controls and lack of reporting, disclosures and transparency for the PDF. Consequently, the accountability for the use of the PDF funds was a real audit concern.

We found the following weakness during our audit:

- The Project Development Fund Was Not Used for Worthy Projects Due to Lack of Clear Definition of Allowable Uses of the Fund;
- The spending of the Project Development Fund did not follow the FSM Financial Regulations nor provided transparency and accountability; and,
- Use of the PDF for representation purposes did not follow the FSM Financial Regulations.

The findings and recommendations are discussed in detail in the following pages.

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FINDINGS AND RECOMMENDATIONS

Finding No. 1: The Project Development Fund Was Not Used for Worthy Projects Due to Lack of Clear Definition of Allowable Uses of the Fund

The terms of the Treaty on fisheries require that the project development fund shall be used solely for projects that support economic development purposes. According to Article 4 Section 4.2 of the Multilateral Treaty on Fisheries, *the Forum Fisheries Agency shall obtain assurance from Pacific Island States party to the Treaty on Fisheries that any payments made under this Agreement were used solely to support economic development purposes, and not for military or paramilitary uses.*

According to best practice, economic development regarding the management of pelagic fisheries are related to onshore developments. For example, other countries invest in canneries, cold storage, tuna processing, and storage facilities for transhipments and tuna processing plants. In addition, economic development could be related to coastal fishing management projects.

Review of the expenditure reports from fiscal years 2012–2014 (**Table 2 below**) revealed that 76% of the yearly PDF fund was used mainly for travel related expenditure such as airfares, daily subsistence allowance (per diem), and travel expenses; and for other operational expenditures such as office lease, representation expenses and others. The practice is that the operational expenditures for NORMA should be included in the annual operational budget for oversight review of the Congress. The audit findings regarding the use of funds for travel and representation expenses are further discussed under Findings 2 and 3.

Furthermore, we noted that the fund was used as travel funds not only by NORMA officers and staff but was also made available to other departments in the national government, specifically to the Department of Foreign Affairs. We attached an **Appendix A** in this report to provide the details of all payments from fiscal years 2012, 2013 and 2014

Table 2: Financial Statement FY 2012-2014				
		2012	2013	2014
1	Opening Fund Balance	\$249,553.85	\$309,506.79	\$405,201.36
2	Add: Distribution Receipts	156,250.00	156,250.00	156,250.00
3	Other receipts	310.00	623.63	338.00
4	Total Revenue (4=2+3)	156,560.00	156,873.63	156,588.00
5	Less: Expenditures			
6	Bank Fees/Charges	\$1,043.91	852.37	438.30
7	Air Fare	35,903.15	25,160.39	44,751.94
8	Consultants Fees	N/A	N/A	4,750.00

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Table 2: Financial Statement				
FY 2012-2014				
		2012	2013	2014
9	Daily Subsistence Allowance	35,462.37	22,483.80	37,924.00
10	Others	\$248.02	1,500.00	\$16.22
11	PDF Payment	20,068.61	11,182.50	23,476.00
12	Travel Expense	3,881.00	0	0
13	Total Expenditure (13=6+7+8+9+10+11+12)	\$96,607.06	\$61,179.06	\$111,356.46
14	Net Revenue: (14=4-13)	\$59,952.94	\$95,694.57	\$45,231.54
15	Ending Fund Balance (15=1+14)	\$309,506.79	\$405,201.36	\$428,070.34
16	(1)Travel Related Expenditures (16=7+9+12)	\$75,246.52	\$47,644.19	\$82,675.94
17	% of Travel to Total Expenditures (17=16/13)	78%	78%	74%

Source: FFA Expenditure Reports FY2012-2014

As a result, the PDF was not effectively and productively used to support worthy projects related to fisheries management or economic development.

Cause and Recommendations

Although we noted that there is no clear definition regarding the allowable uses of the PDF. The NORMA Board and Management did not implement its own internal control procedures to govern the spending of PDF. Since the fund was not under the administration of the Department of Finance and Administration, internal control procedures in the use of the government money⁷ were also not implemented.

We recommend that the NORMA Board and Management should develop and implement policies, procedures, and programs or projects to govern the spending of PDF consistent with the the terms and conditions of the fisheries treaty. We further recommend that the NORMA Board should require an annual evaluation of the project and programs supported by the PDF.

We also recommend that NORMA Board, the Executive Director, and the Congress should evaluate and then take appropriate action whether transferring the FSM share of PDF funds from FFA to the FSM National Funds would better serve the interest of and provide the necessary controls and accountability for the PDF which, according to a legal opinion from the Department of Justice, belongs to the FSM Government.

⁷ FSM share in the PDF is a public fund of the FSM National Government based on constitutional provision (Opinion from the Assistant General per memo dated December 10, 2014)

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Finding No. 2: The Travel Expenses in the Project Development Fund Were Not Supported by Documents Evidencing Actual Travel

The money representing the FSM's share in the PDF is a public fund⁸ of the FSM National Government. Therefore, NORMA should spend it not only in accordance with the procedures agreed between the Pacific Island parties but also using the FSM Financial Management Regulations (FMR).

The Financial Management Regulations (FMR), among others, regulate the amount of travel per diem allowance and vehicle rentals as well as provide the requirement for travel processing and documentation. The FMR further require that the travel advance should be liquidated thru filing of a Travel Voucher with supporting documents after returning from trip to evidence the actual travel. According to the FMR sections 4.15 and 4.16 (Travel Voucher processing and documentation), *a Travel Voucher supported by copies of the original TA, original boarding passes and the original airline, ship or train ticket stub, as applicable, shall be submitted after a traveler has returned from a trip .*

The review of the use of the PDF for travel expenses disclosed the following conditions:

- Travel voucher and supporting documents such as plane tickets, car rental agreements and payment receipts, boarding passes and others were not filed after a traveller has returned from a trip.
- The amount of the per diem rates paid were not in accordance with the FMR. We noted discrepancies in per diem rates between the actual and the FSM regulations as follows:

⁸ Opinion from the Assistant General per memo dated December 10, 2014

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Table 3: The Discrepancies in Per Diem Rates					
Traveler A: Travelling from Pohnpei to Canberra					
Transits/ Destinations	Travel Days	Actual Per Diem Rate	FMR Per Diem Rate	Per Diem Rate Difference	Total Difference
Honolulu	2	\$ 261.00	\$ 205.00	\$ 56.00	\$ 112.00
Canberra	7	\$ 362.00	\$ 284.00	\$ 78.00	\$ 546.00
Traveler B: Travelling from Pohnpei to Gurney					
Cairns	3	\$ 355.00	\$ 262.00	\$ 93.00	\$ 279.00
Port Moresby	2	\$ 510.00	\$ 485.00	\$ 25.00	\$ 50.00
Gurney	6	\$ 296.00	\$ 312.00	\$ (16.00)	\$ (96.00)
Traveler C: Travelling from Pohnpei to Honiara					
Guam	1	\$ 315.00	\$ 196.00	\$ 119.00	\$ 119.00
Cairns	1	\$ 355.00	\$ 262.00	\$ 93.00	\$ 93.00
Honiara	9	\$ 296.00	\$ 273.00	\$ 23.00	\$ 207.00

Source- Travel Advance

The non-filing of documents and receipts demonstrating the actual travel provided no transparency and accountability in the use of the PDF. Furthermore, the risk is increased that the cancellation of travels or changes in the travel itineraries may not be reported. Thus, the PDF was exposed to the risk of abuse and misuse.

We will refer this finding to CID for further investigation.

Cause and Recommendations

The NORMA Board and Management did not implement the FSM financial policies and procedures in the spending of the PDF. They were not aware that the PDF is subject to FMR Regulation. The Management explained that the PDF is being administered by the Forum Fisheries Agency (FFA) and as such, the procedures agreed between the Pacific Island parties for the PDF payments were the ones implemented. However, we noted from the review that the FFA internal procedures do not provide control requiring the filing of a travel liquidation supported by appropriate documentations evidencing actual travel such as airline ticket stubs, reimburseable receipts and other supporting documents to liquidate the travel advance.

We recommend that the NORMA Board and the Executive Director should also implement the FMR in the use of the PDF funds.

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Finding No. 3 Representation Expenses in the Project Development Fund Have No Attached Receipts to Verify the Expenses

Section 4.22 of the FMR requires in part that “...no obligation shall be recorded for representation expenses⁹ unless approved in advance by the appropriate Allottee, supported by documentary evidence sufficient to establish the purpose and amount of the expenditure and not otherwise prohibited by law...”

Representation expenses were not supported by receipts to determine the purpose and to provide the details and means to verify the nature of actual representation expenses.

As a result, the use of the PDF for incurring representation expenses did not provide transparency and accountability due to lack of supporting receipts. Without the proper documents to verify the expenses, the risk of fraud, abuse and misuse was increased.

We will refer this finding to CID for further investigation.

Cause and Recommendation

The NORMA Board and the Executive Director did not implement the FMR to govern the spending of PDF funds for representation expenses. In addition, the authority sent by the Department of Foreign Affairs to FFA to process the payment was requiring the presentation of receipts but this was not complied with.

We recommend that the NORMA Board and the Executive Director should implement not only the agreed procedures (with FFA) but also the control procedures in the FMR to govern the spending of PDF funds.

⁹ For the purposes of this subpart, "representation expense" shall mean an expense incurred in the course of official public relations or entertainment activities, which is certified by the appropriate Allottee to be necessary to advance the purposes and goals of the FSM Government.

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APPENDIX A – Detail Expenditures for Fiscal Years 2012 - 2014

Appendix A-1: Detail Expenditure Report for FY2012 - June 15, 2011 to June 14, 2012

Date	Type of Payment Per FFA	User¹⁰	Actual Description Based on Supporting Documents	Amount
5/14/2012	Airfares - duty	Secretary of Department of Foreign Affairs	Airfares for various PDF Members	\$ 7,945.36
6/14/2012	Airfares - duty	Deputy Director of NORMA	Airfares for various PDF Members	\$ 2,133.21
6/14/2012	Airfares - duty	NORMA Chief of Compliance and Statistics	PDF Airfares Invoices/Summary	\$ 4,339.58
6/14/2012	Airfares - duty	NORMA Chief of Compliance and Statistics	Being payments to FCM for various PDF airfares (clearing)	\$ 940.71
6/14/2012	Airfares - duty	FSM Department of Justice Assistant Attorney General	Being payments for airfares for various PDF members – Reverse charges	\$ (616.76)
6/14/2012	Airfares - duty	Deputy Director of NORMA	Being payments for airfares for various PDF members – Reverse Charges	\$ (462.55)
6/14/2012	Airfares - duty	Deputy Director of NORMA	Travel Cost to FFC Ministerial, Apia, Samoa	\$ 2,710.00
6/14/2012	Airfares - duty	Deputy Director of NORMA	FFC Ministerial Meeting, Apia	\$ 782.00
6/14/2012	Airfares - duty	Deputy Director of NORMA	Airfares for various PDF Members	\$ 4,996.46

¹⁰ Airfares paid directly to travel agencies.

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Date	Type of Payment Per FFA	User¹⁰	Actual Description Based on Supporting Documents	Amount
6/14/2012	Airfares - duty	Director of NORMA	Airfares for various PDF Members	\$ 13,135.14
6/14/2012	Bank fees & cha	N/A	Bank fees and other Charges	\$ 1,043.91
11/1/2011	Daily Subsistence	NORMA Chief of Compliance and Statistics	Daily Subsistence Assistance - FSM PDF	\$ 2,495.00
11/30/2011	Daily Subsistence	Travel Agency in Pohnpei	Airfare ticket from HNL/NAN/HNL/PNI	\$ 4,713.37
11/30/2011	Daily Subsistence	Director of NORMA	DSA to Attending UST RS4 Meeting, Nadi, Fiji	\$ 1,987.00
3/7/2012	Daily Subsistence	Consultant	Consultancy Fees NORMA Staff Training	\$ 2,995.00
5/1/2012	Daily Subsistence	Director of NORMA	Fiji PDF Funded - Travel costs to FFC81 meeting in Nukualofa, Tonga	\$ 3,408.00
5/3/2012	Daily Subsistence	Deputy Director of NORMA	Data Workshop in Korea and attending meetings regarding bilateral fishing agreements	\$ 750.00
6/14/2012	Daily Subsistence	Department Foreign Affairs Assistant Secretary for APAMA	DSA to attend WCPFC Meeting in Guam	\$ 2,540.00
6/14/2012	Daily Subsistence	NORMA Chief of Compliance and Statistics	DSA to attend WCPFC Meeting in Guam	\$ 4,115.00
6/14/2012	Daily Subsistence	Director of NORMA	Travel cost to FFC/WCPFC Meeting, Guam	\$ 3,500.00
6/14/2012	Daily Subsistence	Deputy Director of NORMA	DSA WCPFC Meeting & Guam	\$ 5,040.00

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Date	Type of Payment Per FFA	User¹⁰	Actual Description Based on Supporting Documents	Amount
6/14/2012	Daily Subsistence	Secretary of Department of Foreign Affairs	Being for Representation allowance for the PNA meetings in PNG	\$ 1,000.00
6/14/2012	Daily Subsistence	Deputy Director of NORMA	Per diem to attend UST TWG Meeting, Honiara	\$ 2,919.00
6/14/2012	Exchange loss	N/A	Exchange loss	\$ 248.02
12/30/2011	PDF payments	Computer vendor in Pohnpei	Procurement of computers and office supplies	\$ 9,802.00
6/13/2012	PDF payments	Director of NORMA	Support for UST RS7, Auckland	\$ 2,500.00
5/2/2012	PDF payments	Director of NORMA	Being travel cost to FFC81 Annual Meeting, Nukualofa, Tonga	\$ 5,891.61
6/14/2012	PDF payments	Bar & Grill vendor in Pohnpei	Funding support for hosting of PRE-TCC7 Meetings, Pohnpei	\$ 1,875.00
6/14/2012	Travel expenses	Secretary of Department of Foreign Affairs	DSA for travel costs to PNA Meetings in PNG	\$ 3,881.00
Fiscal Year 2014 Total				\$ 96,607.06

Appendix A-2: Detail Expenditure Report for FY 2013 - June 15, 2012 to June 14, 2013

Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
6/22/2012	Airfares - duty	NORMA Staff	Travel cost funded under PDF for April 2012 and May 2012	\$ 502.33
8/8/2012	Airfares - duty	Former FSM National First Lady	FSM PDF funded airfare to attend the foreign leaders meeting in Rarotonga	\$ 9,663.49

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
8/30/2012	Airfares - duty	NORMA Chief of Compliance and Statistics	Being for UST PDF Airfare Costs for the 14th of August statement	\$ 1,131.93
3/11/2013	Airfares - duty	Secretary of Foreign Affairs	Being for various PDF funded airfares - FCM	\$ 2,246.98
3/28/2013	Airfares - duty	Secretary of Foreign Affairs	Being for various PDF funded airfares for Month of December 2012	\$ 1,951.88
6/13/2013	Airfares - duty	NORMA Chief of Development and Management	Being airfares for various PDF member countries	\$ 2,957.88
6/14/2013	Airfares - duty	Secretary of Department of Foreign Affairs	Difference Between Economy & Business Class airfare	\$ 6,705.90
5/22/2013	Bank fees & cha	N/A	Bank fees and Other Charges	\$ 852.37
7/23/2012	Daily Subsistence	FSM Department of Justice Assistant Attorney General	Being DSA for delegates attending the 14th SPIP meeting in Honiara	\$ 1,810.00
7/30/2012	Daily Subsistence	NORMA Staff	pa1207252 clr-dsa 14SPIP_FSM PDF	\$ 538.80
8/8/2012	Daily Subsistence	NORMA Staff	FSM PDF - DSA, Pacific leaders Forum Meeting	\$ 3,622.00
11/29/2012	Daily Subsistence	Director of NORMA	DSA for attending WCPFC meeting to be held in Manila, Philippines	\$ 6,000.00
12/7/2012	Daily Subsistence	Secretary of Department Foreign Affairs	Being DSA to attend meetings - funded by FSM PDF Fund	\$ 2,181.00

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
2/25/2013	Daily Subsistence	Secretary of Department of Foreign Affairs	DSA for PNA meeting in Palau	\$ 1,414.00
5/1/2013	Daily Subsistence	Director of NORMA	DSA to attend the UST Meetings in Honiara then the Canberra meeting	\$ 3,056.00
5/10/2013	Daily Subsistence	NORMA Chief of Development and Management	DSA for FFC Meeting, Honiara	\$ 3,340.00
6/13/2013	Daily Subsistence	NORMA Chief of Development and Management	Being for additional DSA for Honiara following the FFC meeting DSA funded by FSM PDF	\$ 522.00
1/9/2013	PDF payments	Computer vendor in Pohnpei	Being for Procurement of NORMA's Server FSM PDF funded project	\$ 11,182.50
5/9/2013	Repatriation al	Director of NORMA	Representation fund	\$ 1,500.00
Fiscal Year 2013 Total				\$ 61,179.06

Appendix A-3: Detail Expenditure Report for FY 2014 - June 15, 2013 to June 14, 2014

Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
6/19/2013	Airfares - duty	NORMA Chief of Development and Management	Payment for various airfares	\$ 2,249.26
6/30/2013	Airfares - duty	N/A	Reverse-cancelled/void pa130170	\$ (2,957.88)
6/30/2013	Airfares - duty	N/A	Airfares Charges	\$ 2,945.04

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
7/30/2013	Airfares - duty	Secretary of the Department of Foreign Affairs	UST Funded airfares for Jul 14 2013 statement	\$ 11,299.44
8/23/2013	Airfares - duty	Deputy Director for NORMA	FCM-PDF airfares for July13 statement - Flight Centre Limited	\$ 1,905.57
11/14/2013	Airfares - duty	N/A	attendees to NZ host Meeting in BNE – cancelled/void	\$ (409.00)
11/26/2013	Airfares - duty	N/A	PDF funded airfares- 14Nov2013 statement - Flight Centre Limited	\$ 767.78
12/2/2013	Airfares - duty	Deputy Director for NORMA	PDF Funded airfares for Nov 28, 2013	\$ 2,153.38
12/27/2013	Airfares - duty	Deputy Director for NORMA	Payment for outstanding observer invoices with Corporate Traveler (FCM)	\$ 2,780.36
4/2/2014	Airfares - duty	Deputy Director for NORMA	PDF funded airfares for March 28, 2014 statement	\$ 4,016.93
5/5/2014	Airfares - duty	Department of Foreign Affairs Assistant Secretary of Americas and Europe Division	FFC89 Apia/TOK MTG, May 2014	\$ 2,726.38
5/5/2014	Airfares - duty	Director of NORMA	FFC89 Apia/TOK MTG, May 2014	\$ 6,345.91
6/14/2014	Airfares - duty	Secretary of the Department Foreign Affairs	Renegotiation Meeting, Auckland	\$ 6,377.15
6/14/2014	Airfares - duty	Director of NORMA	FFC Min. Meeting, Tokelau	\$ 4,551.62
6/14/2014	Bank fees & cha	N/A	Bank Charges	\$ 438.30

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
4/25/2014	Consultants' fee	Consultant	Payments for Consultant fees for delegation to Maritime Boundary meeting with the USA	\$ 4,750.00
6/26/2013	Daily Subsistence	Secretary of Department of Foreign Affairs	DSA to attend the Palau Meetings to be funded by FSM PDF	\$ 1,610.00
7/26/2013	Daily Subsistence	NORMA Chief of Compliance and Statistics	DSA for CMM2013 working group meeting, Tokyo	\$ 1,980.00
10/7/2013	Daily Subsistence	Deputy Director for NORMA	Hospitality funds for FSM delegation to Brussels for PACP-EU Meeting	\$ 3,020.00
10/21/2013	Daily Subsistence	Deputy Director for NORMA	FSM PDF - DSA to attend MOC/FFC87 and related meetings	\$ 3,282.00
10/29/2013	Daily Subsistence	Deputy Director for NORMA	DSA attending the MOC/FFC87 meeting held in Honiara. FSM PDF Funded	\$ 2,145.00
11/8/2013	Daily Subsistence	Director of NORMA	DSA payment for attendance at the WCPFC19 meeting, Cairns, Australia	\$ 4,545.00
11/13/2013	Daily Subsistence	Deputy Director for NORMA	DSA for attendance at WCPFC19 Cairns, Australia	\$ 6,084.00
3/6/2014	Daily Subsistence	Deputy Director for NORMA	Representation Allowance PNA meetings, Honiara FSM PDF funded for Participant	\$ 750.00

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
3/7/2014	Daily Subsistence	Regional Observer Coordinator	DSA attending the Regional Observer Coordinator Workshop held in Noumea	\$ 1,510.00
4/23/2014	Daily Subsistence	Secretary of Department Foreign Affairs	DSA to attend Global Oceans Action Summit for Food Security and Blue Growth in Hague, Netherlands.	\$ 2,850.00
4/24/2014	Daily Subsistence	Department of Foreign Affairs's Assistant Secretary of Americas and Europe Division	DSA to attend the Maritime Boundary Meeting, Honolulu, HI	\$ 2,352.00
4/24/2014	Daily Subsistence	Director of NORMA	DSA to attend the Maritime Boundary Meeting, Honolulu, HI and FFC meeting in Apia, Samoa	\$ 7,796.00
12/30/2013	Exchange loss	N/A	Exchange loss	\$ 16.22
7/3/2013	PDF payments	An Electrical & Refrigeration Services in Pohnpei	For payment of 6 new air conditioners for NORMA new office space	\$ 8,100.00
8/6/2013	PDF payments	Owner of NORMA office space (building)	FSM PDF Funding - NORMA's payment of new offices space lease	\$ 8,876.00
8/26/2013	PDF payments	Deputy Director for NORMA	FSM PDF support to the FSM delegation to WCPFC CMM workshop in Japan	\$ 1,500.00

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Date	Type of Payment Per FFA	User	Actual Description Based on Supporting Documents	Amount
11/18/2013	PDF payments	Director of NORMA	Entertainment Funds for bilateral with Japan and Chuuk	\$ 5,000.00
Fiscal Year 2014 Total				\$ 111,356.46

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MANAGEMENT RESPONSE



National Oceanic Resource Management Authority

FSM NATIONAL GOVERNMENT
P.O. Box PS122

PALIKIR, POHNPEI, FEDERATED STATES OF MICRONESIA 96941

Tel: (691) 320-5181/2700 Fax: (691) 320-2383 Email: norma@mail.fm Website: www.norma.fm



September 28, 2015

Mr. Haser Hainrick
National Public Auditor
Office of the National Public Auditor
P.O. Box PS-05
Palikir, Pohnpei FM 96941

for [Signature] 9/29/15

Dear Mr. Hainrick,

RE: Management Response-Audit Report on Project Development Fund (Report No. 2015-08)

This is to acknowledge with appreciation the draft audit report of the Project Development Fund (PDF) which is administered by the Forum Fisheries Agency on behalf of the Pacific Island Parties (PIPs) under the Multilateral Fisheries Treaty between Certain Pacific Island Parties and the United States of America (MFT). The Report itself provides the historical context in which the PDF was conceptualized and has operated for the last 27 years. I will focus my management response to the specific findings in the Report.

Before doing so however, I wish to make some initial comments:

1. The PDF was initially designed to provide funding support to PIPs to attend to matters where the MFT is involved. As small administrations back then and with very limited financial resources to attend to meetings related to the management and operation of the MFT, the PDF was established to provide that funding mechanism to PIPs to enable their full and active participation in meetings including the Broader Cooperation Talks and renegotiation sessions among others.
2. The references that the PDF did not follow the FSM's Financial Management Regulations (FMR) and procedures to be misleading as there were no requirements that when using the PDF, that its use was also governed by the FSM FMR and procedures.

Finding No.1: The Project Development Fund was not used for its intended purposes due to lack of clear definition.

The audit makes reference to Article 4, Section 4.2 of the MFT on the use of the PDF "*solely to support economic development purposes and not for military and para-military uses*".

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The audit refers to best practice, economic development regarding the management of pelagic fisheries are related to onshore developments such as canneries, cold storage, tuna processing and storage facilities for transshipment and tuna processing plants.

The report further reports that 76% of the expenditure report from fiscal years 2012-2014 was used mainly for travel related expenses such as airfares, DSA and travel expenses; and for other operational expenditures such as office lease, representation expenses and others. It notes that operational expenses of NORMA should be included in the annual budget for oversight by Congress.

Management Response:

The reference to “economic development purposes” has been interpreted and applied in accordance with established rules and regulations of the United States which provide the funds for the PDF. FFA, as the Administrator, provided the following:

“The Articles you refer to are provisions of the Agreement between FFA and USG (sometimes known as the economic assistance agreement) in which the financial contribution of the USG towards the Treaty is provided (refer attachment).

Art.4.2 refers to the FFA's obligation to ensure that the fund is used **solely to support economic development purposes, and not for military or paramilitary uses** in accordance with section 531(e) of the US Foreign Assistance Act 1961, as amended. This reads:

Sec. 531 Authority

(e) Amounts appropriated to carry out this chapter shall be available for economic programs and may not be used for military or paramilitary purposes. (refer -www.usaid.gov/sites/default/files/documents/1868/ffaa.pdf)

Economic development purpose and economic programs are not specifically defined in the Act, however, the Act does provide that, amongst other objectives, **the provision of development resources must be adapted to the needs and capabilities of specific developing countries** (refer Sec.102, page 20). This can be construed as providing authority for recipient countries to use the fund for any activity or project they deem useful for their economic development which could vary from attending meetings, training, funding other local projects, etc, BUT as long as these are not military or paramilitary. In other words, there is great flexibility for the funds to be used by the PIPs”.

The PDF could be used for investments in onshore development activities such as canneries, cold storage, etc. but the PDF is massively insufficient to do such. Conducting feasibility studies and research activities, meetings and travels to meetings could be supported by the PDF. The use of “economic development purposes” for purposes of the work of the Authority means to also represent, promote and safeguard the national interest of FSM in the management and development of the FSM tuna fisheries at national, regional, sub-regional and international forums, i.e. attending meetings at all fora to protect our national interests. The bulk of such work involves travel to meetings and also supporting other departments and agencies where appropriate namely Department of Justice, Foreign Affairs and Resources and Development. Meetings include, PNA, Trade related, FFA, SPC, WCPFC and UN process and tuna forums. These meetings, in our view, are consistent with the intent of the PDF's objectives and uses. The Authority agrees in principle that some uses of the fund such as office space rental and representation should be included in its operational budget. However, the PDF provides FSM some ability to respond to unexpected needs and activities. Nowadays, given the dynamic nature

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of tuna fisheries and the economic importance and management issues facing the region that affect our national development aspirations, meetings are called to address specific issues which we must attend and in most cases, more than one person must attend adding to the importance of the PDF.

The travel by other departments and agencies is provided by PDF where their participation is required but they are not budgeted in their operations budget.

On the report that the fund was never used to support projects related to economic development, in addition to the above explanations, in the early days when FSM was heavily invested in tuna fisheries through NFC, NORMA provided specific funding supporting NFC's commercial and development activities including training, travel and meetings attendance by industry and feasibility studies. These were carried out in the 1990's when NFC was active in piloting development activities.

The Authority agrees that the PDF should be governed by a Rules of Procedure to ensure its effectiveness and clarifies the intent of the PDF and its uses. A Rules of Procedure (ROP) has been agreed to by the Department of Foreign Affairs, FFA and NORMA taking into account the audits recommendations. It is attached for your perusal.

In regards to the suggestion that the PDF should follow the FSM's FMR, we hope that the ROP provided addresses your recommendations to be consistent with the FMR while maintaining its independence still with the FFA. The PDF is administered by the Director General of FFA who oversee's that its uses are consistent with the purpose. The NORMA Board was never expected to play a role in the decision making of the use of the PDF as it was Foreign Affairs that oversaw its use by approving requests for its use.

Transferring the FSM share of the PDF funds from FFA to the FSM General Fund would be possible however this would require a new account to be established to receive this fund and be utilized through the FMR. This money cannot be co-mingled with the FSM General Fund as it would then require an act of Congress to appropriate it.

Finding No. 2: The Travel Expenses in the Project Development Fund were not supported by documents evidencing actual travel.

Management Response:

FFA, as the administrator, follows its own internal financial management regulations and procedures and as such, provides the framework under which the PDF would be managed and controlled for all PIPs. It would be difficult, cumbersome and costly to expect the FFA to manage and control the PDF in accordance with all 16 members national FMR and procedures. This could be a matter for addressing at the national level through appropriate and established procedures agreed to by the national agencies involved without diminishing the purpose and effectiveness of the PDF.

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The Authority can and does issue TA's for travels by NORMA staff supported by the PDF but the TA would not specify any dollar amount. This was for the benefit of the traveler travelling on official government business. Appropriate vouchers were issued. Sometimes the PDF supports individuals who don't work for the national government. Those TA's however refer to our operations accounts. If we were to issue TA's against the PDF specifying the amounts for the travel, to whom should we file these TA's with? FFA or FSM Finance? Our discussions with FSM Accounting Division advises that if the FFA is the Administrator of this PDF, then the FFA FMR should apply.

The new Rules of Procedures developed now requires that travel authorizations be issued where transportation and DSA's are paid out and furthermore, filing a voucher and submitting boarding passes to accompany such voucher to demonstrate that the traveler did take the specified trip.

Finding No.3 Representation Expenses in the Project Development Fund have no attached receipts to verify expenses.

Management Response:

There was no requirement that the use of the PDF for representation expenses be reported in accordance with the FMR. Those receiving representation expenses under the PDF should maintain and be prepared to submit receipts documenting evidence sufficient to establish the purpose and amount of expenditure of the funds. Where NORMA staff are provided with representation funds, these receipts and reports are submitted to the Executive Director for record.

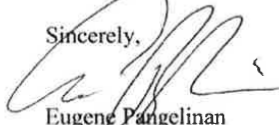
Management fully agrees that representation funds be properly reported along with evidence including receipts for such expenses. Under the new Rules of Procedure, control procedures are included such as the requirement that such documentation evidencing use of the funds for representation purposes be followed including its purpose and amounts.

With respect to the difference's in per diems (DSA) used between FFA and FSM, the PDF is governed under the FFA FMR and as such, uses UN per diem rates for all member countries PDF's.

I hope the attached Rules of Procedure address' some of the recommendations in the audit report.

Thank you for your time and the opportunity to provides these responses.

Sincerely,



Eugene Pangelinan
Executive Director

Attachment: Rules of Procedure For Use of FSM PDF

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September 22, 2015

National Oceanic Resource Management Authority
Project Development Fund
Rules of Procedures for the use of the Project Development Fund
Administered by the Forum Fisheries Agency

PURPOSE: These Rules of Procedures have been developed as a guideline for the use of the Project Development Funds (PDF) under the U.S. Multilateral Treaty on Fisheries (UST) administered by the Pacific Islands Forum Fisheries Agency (FFA) as the designated Administrator of the UST.

1. IMPLEMENTING AGENCY

- a. The National Oceanic Resource Management Authority (Authority) shall be the Implementing Agency for the FSM PDF.
- b. The Authority shall be responsible for initiating all PDF requests in writing to the Secretary of Foreign Affairs (Secretary) using the format provided in Section 5 below.
- c. The Authority shall maintain a Database for all PDF requests, including the amount and purpose involved.

2. SUBMISSION OF FORMAL REQUESTS

- a. The Secretary, as the FFA Focal Point, shall submit all requests to the FFA Director-General for funding under the PDF.
- b. Any substantive changes in the original requests shall require the endorsement of the Secretary in writing.

3. SCOPE (INTENDED PURPOSES)

The PDF shall be used to support economic development purposes. These may include the following activities:

- a. Travel- to fund travel of FSM National Government Employees, including Consultants and State Officials to attend national, sub-regional, regional or international meetings on fisheries, or other meetings as may be determined by the Authority. For travels, appropriate Travel Authorizations shall be prepared in accordance with the FSM Financial Management Regulations including the filing of vouchers demonstrating evidence of such travel.
- b. Representation- to fund expenses related to representation allowances for the purpose of social events or hosting meetings/workshops that preserve and promote FSM's national management and economic interest in fisheries.

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- c. Procurement of Goods/Materials- to fund the procurement of goods and materials that promote and support fisheries management and development, including public awareness campaigns on tuna and other fisheries related activities.
- d. Workshops- to fund workshops and participants that enhance capacity in the FSM tuna and other fisheries related activities.
- e. Trainings/Attachments-to fund individuals' participation in trainings and work-attachments to build national capacity in tuna fisheries management and other related development activities.
- f. Other activities that the Authority may consider in the best interest of the FSM.

4. PROHIBITION

The PDF shall not be used for these purposes:

- a. Military, and
- b. Para-Military (including Police, Prison and Navy, etc.).

5. FORMAT FOR PDF REQUESTS

All PDF requests must follow this format, or such other formats and guidelines as may be required by the Authority:

- 1. Project Title:
- 2. Requesting Department (Office, etc):
- 3. Purpose & Other Intended Use:
- 4. Amount Required (estimates):
- 5. Local Contribution (if any):
- 6. Assessment of Economic Benefit:
- 7. Beneficiary(ies):
- 8. Duration (whether travel or activity):
- 9. Coordinating Staff (responsible for submitting Acquittal Report):
- 10. Implementing Authority: *Executive Director, NORMA*

6. ACQUITTAL REPORT

The Acquittal Report is required at the completion of the project. The Report must be submitted to the Authority and a Copy is provided to the Secretary. The Report must reach the Authority within 5 working days of completion of the project.

The Report must include the following information:

- a. Full report on how the PDF was utilized – the amount received, the amount expended with the list of expenditures, the balance of funds unspent or exceeded, the problems

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encountered during the implementation period and actions taken to address these problems, and the assessment of the economic benefits achieved, etc.

- b. A brief financial statement (summary statement) of the funds to illustrate the expenditures and any balance of the funds unused or overspent.
- c. All boarding passes for requests where air transportation and per diem (DSA) is included along with a summary of the travels itinerary.
- d. All expenses must be supported by accompanying receipts.
- e. Any other information deemed useful for the attention of the Authority and the Secretary in the implementation of future projects under the PDF.

7. UNUSED FUNDS

Any unused funds shall be returned to the Authority:

- a) Unused funds of less than \$2,500.00 shall be retained by the Authority for re-allocation to new projects that are endorsed by the Secretary, and the FFA is advised accordingly.
- b) Unused funds of more than \$2,500.00 shall be returned to the FFA for transfer to the FSM PDF Account.

8. DISBURSEMENT OF FUNDS BY ADMINISTRATOR (FFA)

- a. FFA shall require a formal request from the Secretary for project funding under the PDF.
- b. The formal request shall provide the information required to access the PDF as advised by the FFA. The request will be processed in accordance with the procedure outlined by FFA from time to time.
- c. FFA will transfer the approved amount for the project to the designated bank account identified in the formal request, or any other mode of payments advised by the Secretary.
- d. FFA shall pay per diems (DSA) using the FFA rate¹ except where specifically requested by the FSM to use FSM Per Diem Rates.
- e. Travels organized by FFA using PDF shall be the most economical route. Upgrades to business class shall only be accorded to Secretary's of Departments or Heads of Government. The Executive Director may request for upgrades where flights are over 8 hours.

9. ANNUAL REPORT

- a. The Authority shall provide an Annual Report on the use of the PDF.
- b. The Report shall confirm that the PDF were not used for military or paramilitary purposes.
- c. The Report shall be provided to the Secretary who will forward it to the FFA.
- d. The Report shall be made available within the first month of the end of the Calendar Year.

¹ United Nations Per Diem rates as updated from time to time.

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ONPA's EVALUATION OF MANAGEMENT RESPONSES

Finding No. 1: The Project Development Fund Was Not Used for Worthy Projects Due to Lack of Clear Definition of the allowable Uses of the Fund

Management Response: *"...The reference to 'economic development purposes' has been interpreted and applied in accordance with established rules and regulations of the United States which provide the funds for the PDF.*

1. *The Articles you refer to are provisions of the agreement between FFA and US Government (sometimes known as the economic assistance agreement) in which the financial contribution of the US Government towards the Treaty is provided*
2. *Article 4.2 refers to the FFA's obligation to ensure that the funds is used solely to support economic development purposes, and not for paramilitary uses in accordance with section 531(e) of the US Foreign Assistance Act 1961.*
3. *Section 531.e provides that "...amounts appropriated to carry out this chapter shall be available for economic purposes and may not be used for military and paramilitary purposes.*
4. *The PDF could be used for investments in onshore development activities such as canneries, cold storage, etc. but the PDF is massively insufficient to do such. Conducting feasibility studies and research activities, meetings and travel to meetings could be supported by PDF.*
5. *FFA's own interpretation of Economic Development Purposes and Economic Programs - Economic development purposes and economic programs are not specifically defined in the Act (US Foreign Assistance Act 1961), however, the Act does provide that, amongst other objectives, the provision of development resources must be adapted to the needs and capabilities of specific developing countries (refer Sec 102, page 20). This can be useful for their economic development which could vary from attending meetings, training, funding other local projects, etc. BUT as long as these are not military or paramilitary. In other words, there is great flexibility for the funds to be used by the PIPs."*
6. *NORMA's own interpretation of Economic Development Purpose - The use of 'economic development purpose' for purpose of the work of the authority means also to represent, promote and safeguard the national interest of FSM in the management and development of FSM tuna fisheries at national, regional, sub-regional, and international fora to protect our national interest. The bulk of such work involves travel to meetings and also supporting other department and agencies where appropriate namely Department of Justice, Foreign Affairs, and Resources and Development. The meetings include PNA, trade related, FFA, SPC, WCPFC and UN process and tuna forums. These meetings, in our view, are consistent with the intent of PDF's objectives and uses.*
7. *The PDF is administered by the Director General of FFA who oversee that its uses are consistent with the purpose. The NORMA Board was never expected to play a role in the decision making of the use of the PDF as it was Foreign Affairs that oversaw its use by approving the request for its use.*
8. *Transferring the FSM share of the PDF funds from FFA to the FSM General Fund would be possible, however, this would require a new account to be established to receive this fund*

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and be utilized through the FMR. This money cannot be co-mingled with the FSM General Fund as it would require an act of Congress to appropriate it.

ONPA Comments:

- Comments on Items 1 to 6 – ONPA wish to point out, that the regional institutions e.g. FFA, SPC, etc., are responsible for management and conservation of tuna fisheries in the region, thus, such institutions can be considered as extension offices of NORMA management. The expenses, therefore, in going to the said offices for regular meetings and other purposes are operational in nature which in practice is to be included in the department's budget for Congress scrutiny. Likewise, the travel expenses that are incurred while trading the fishing days are operational in nature because of the revenue that would result in such trading activities. It is clear that distinction be made between operational and project activities.

It was indicated in the management response that the term 'economic development purposes' and 'economic programs' are not specifically defined in the *US Foreign Assistance Act 1961* (Item No. 5). However, it should be noted that the US development policy requires the need for setting up the criteria and for following principles regarding how the resources (assistance) be carried out for development purposes. The current documentations in the use of the PDF resources did not demonstrate clearly how these criteria and principles were followed.

- Comments on Item # 4- There could be many small but worthy projects related to fisheries management and conservation that need only small amount of resources, which the PDF funds could provide. These could be the projects related to development of coastal fishing management. What is only needed is the creativity and innovation to be able to explore those possible projects. It should also be noted that the PDF could be allowed to accumulate and then use it later as a source for funding big projects. In fact, the management response indicated that, in the past, NORMA had used the PDF to provide specific funding to support the NFC's commercial development activities.
- Comments on Item # 7 – The ONPA included NORMA Board in the recommendations because the NORMA Board should provide the overall guidance; control and monitoring to ensure that the PDF would be spent on worthy development programs and projects. The control objectives of the Board should not conflict with the objectives of the Department of Foreign Affairs and the Director General of FFA.
- Comments on Item # 8- The ONPA's recommendation is for NORMA Board, the Executive Director, and the Congress to evaluate and then take appropriate action whether transferring the FSM share of PDF funds from FFA to the FSM National Funds would better serve the interest of and provide the necessary controls and accountability. The Congress could create another revolving fund or special fund for this purpose.

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Finding No. 2: The Travel Expenses in the Project Development Fund Were Not Supported by Documents Evidencing Actual Travel

Management Response: *"..FFA, as Administrator, follows its own internal financial management regulations and procedures and as such, provides the framework under which the PDF would be managed and controlled for all PIPs. It would be difficult, cumbersome and costly to expect the FFA to manage and control PDF in accordance with all 16 members national FMR and procedures."*

ONPA Comments: The issue at hand was the filing of proper supporting documents to ensure transparency and accountability. These documentations provide the support for the actual expenditures, which the FFA's internal financial management regulations and procedures do not require. The ONPA's recommendation regarding the proper filing of documentations supporting expenditures could be implemented without necessarily changing the FFA's FMR. Thus, a process could be added regarding the proper filing of supporting documents at the NORMA's office.

Regarding the travel per diem rate, a decision to ensure equity should be made by the Secretary of the Department of Finance and Administration regarding the allowable travel per diem rate. This is considering that the PDF funds are providing higher per diem rates compare to FSM per diem rates.

Finding No.3: Representation Expenses in the Project Development Fund have no attached receipts to verify expenses.

Management Response: *"...There was no requirement that the use of the PDF for representation expenses be reported in accordance with the FSM FMR. Those receiving representation expenses under the PDF should maintain and be prepared to submit receipts documenting evidence sufficient to establish the purpose and amount of expenditure of the funds. Where NORMA staffs are provided with representation funds, these receipts and reports are submitted to the Executive Director for record."*

ONPA Comments: The NORMA Management fully agrees that the representation expenses be properly reported along with evidences such as receipts. In fact, the New Rules of Procedures for the use of the PDF included the control procedures requiring the filing of documentations evidencing the use of the funds for representation purposes.

Regarding the management response saying that the NORMA staff who were provided with representation funds had submitted their receipts and reports to the previous Executive Director, ONPA would like to point out that the audit team were informed during the audit fieldwork by the NORMA Management that they were not keeping any documents related to the PDF spending. It was for this reason that the audit team had to travel to Solomon Island, where the FFA office is located, just to obtain and examine the documents supporting the use of the PDF. The observations in the audit report were based on the supporting documents provided by the FFA.

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NATIONAL PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff of NORMA, DFA and FFA and other departments for their assistance and cooperation during the course of the audit.

In addition to providing copies of the final report to the President and Members of the FSM Congress, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office can be found on the last page of this report along with the National Public Auditor and staff that made major contributions to this report.



Haser Hainrick
National Public Auditor

September 30, 2015

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ONPA CONTACT AND STAFF ACKNOWLEDGEMENT

ONPA CONTACT Haser H. Hainrick, National Public Auditor
Email: hhainrick@fsmopa.fm

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Manuel San Jose CPA, CGAP, CIA, CISA, CRMA, Audit Manager
Elina Paul, Auditor-In-Charge
Erick Paul, Staff Auditor

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P.O. Box PS-05
Palikir, Pohnpei FM 96941
Phone: (691) 320-2862/3

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