

**CHUUK STATE POLITICAL STATUS COMMISSION:
FUNDS COULD HAVE BEEN USED MORE
PRODUCTIVELY AND ECONOMICALLY**

FISCAL YEAR 2013-2018

AUDIT REPORT NO. 2019-03

*It is the set of the sails, not the direction of the wind
that determines which way we will go.*

-Jim Rohn



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January 6, 2020

Honorable Johnson Elimo,
Governor
Chuuk State, FSM

Honorable Ishiro Choram,
President
House of Senate
Chuuk State Legislature

Honorable Innocente Oneisom,
Speaker
House of Representatives
Chuuk State Legislature

RE: Chuuk State Political Status Commission: Funds Could Have Been Used More Productively and Economically

We have completed the audit on how the Chuuk State Political Status Commission (Commission) handled their funds. The Commission was funded by the state's local revenue. We conducted this audit in accordance with the U.S. generally accepted auditing standards. The audit objective was to determine whether the Chuuk State Political Status Commission spent its funds in compliance with relevant laws, regulations, policies and prudent practices.

The results of the audit disclosed that certain expenditures of the Commission were not spent in accordance with laws, regulations and prudent practices. We believe that the funds could have been used more productively and economically.

As shown in Exhibit A on the next page, we found significant non-compliances indicating that certain expenditures were not in accordance with laws, regulations. Specifically, we noted this issue as a big one in the use of travel funds, which accounted for 37% of the commission's budget for fiscal years 2013-19. We noted that the travel regulations have to be clarified to promote an economical use of the fund for per diem and premium allowances. We also found issues such as travel costs not approved, questionable car rentals, travel liquidation not filed, travel tickets not supported by liquidation, circuitous travel, inadequate travel documentations/reports and others.

During our audit, we also found violation of state mandatory withholding of taxes for salary income, and social security, and for deduction of Chuuk Health Insurance Premium. For three local employees, there was under collection of salary income taxes, and non-collection of social security and Chuuk health insurance premium.

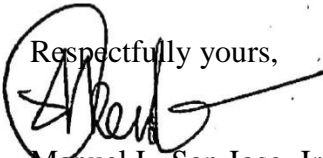
Lastly, we found that the commission did not maintain the assets properly to comply with the Chuuk Financial Management Regulations requiring that receipt of property shall be documented and property accountability records shall be maintained to track the assets. Purchases of small but attractive assets that include video camera, recorder, hand-held radio, and others were

susceptible to loss and theft because their receipts were not documented and accountability records not maintained.

The details of the findings are summarized in Exhibit A on the next page.

We have requested formal management response on this audit from both the Department of Administrative Services (Finance) and Political Status Commission. We received the management response from Finance, which generally agreed with our findings and observations. It was attached as part of this report. However, we did not receive the management response from the Political Status Commission, in spite of follow ups. Thus, we are issuing this audit report without the formal management response from the Political Status Commission.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Manuel L. San Jose, Jr.", with a long horizontal stroke extending to the right.

Manuel L. San Jose, Jr.,
CPA, CIA, CISA, CRMA, CGAP, CFIP
Public Auditor
Chuuk State, FSM

Exhibit A – Summary of Finding:

Certain Expenditures Not in Accordance with Laws, Regulations and Prudent Practices

We determined compliance of the travel expenditures in accordance with the Chuuk Financial Management Regulations (FMR) and with prudent practices. We noted exceptions as follows:

A. Some Opportunities Exist in Improving the Control for Travel

1. Travel Regulations Section on Per Diem Needs Clarification
2. Travel Regulations Section on Premium Allowance Needs Clarification
3. None or Incomplete Trip Reports
4. No Approved Travel Authorization
5. Various Issues on Car Rental
6. None/Late Submission of Liquidation
7. Circuitous Travel

B. Under Assessment of Income Tax, Social Security and Chuuk Health Insurance Premium

C. Small but Attractive Assets Not Recorded and Tracked

Other Matter

Opportunity Exists for Improving Record Management and Retention

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INTRODUCTION

We conducted this audit upon the request of Honorable Innocente I. Oneisom, Speaker of House of Representatives, 14th Chuuk State Legislature. The Speaker wants an audit on how the Chuuk State Political Status Commission handled their funds.

Background

Establishment of Chuuk State Political Status Commission

The economic assistance provided under the amended Compact between the Federated States of Micronesia (FSM) and the United States will end in 2023. The Chuuk State political leadership believes that the Chuuk State’s share of the Trust Fund created to contribute to the long-term budgetary self-reliance of the FSM *is not sufficient* to meet the social and economic development needs of Chuuk State now and beyond 2023.

The Eleventh Chuuk State Legislature then enacted an Act¹ establishing the Chuuk State Political Commission (The Commission) to review and recommend a political status suitable for the long-term financial survival of the Chuuk State after the expiration of the Compact Agreement. Specifically, it shall have the *authority to examine alternative political options for Chuuk State, and to make one or more recommendations regarding a desirable future political status to the Legislature and the Governor for approval by the people of Chuuk State in a plebiscite under applicable state or national laws.*

Through plebiscite under applicable and state laws, the people of the Chuuk State shall approve the political status recommended to the Governor and the Legislature.

Members of the Commission

The law provides for the creation of the appointment of the members of the Commission. The members of the Commission consist of 12 non-elected voting members and 2 non-voting-ex-officio members as follows:

Member	Remarks
12 Voting Members	
1. Former Vice President Redley Killion	Northern Namoneas
2. Johnny Meippen – Vice Chairman	Northern Namoneas
3. Sabino Asor	Southern Namoneas
4. Joe Suka	Southern Namoneas
5. Kachutosy O. Paulus – Chairman	Faichuuk
6. Pandinus N. Suzuki	Faichuuk
7. Epelllon	Mortlocks
8. Julio Marar	Mortlocks
9. Soupun Masachiro Christlip	Northwest

¹ Chuuk State Law CSL 7-04-08, as amended, (by CSL No. 11-12-08, Act No. 11-18 effective March 8, 2012)

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Member	Remarks
10. WiniplatBisalen	Northwest
11. Mayor Pintas Kenneth	Public
12. Cindy Mori	Private
Two Non-Voting Ex-officio Members	
1. Honorable Innocente I. Oneisom	Speaker of the House of Representatives
2. Honorable Mark Mailo	President of the House of Senate

Powers and Duties of the Commission

The Commission has the following power and duties:

1. To examine the present political and economic status of Chuuk State and assess the financial benefits it derives under the amended compact as one of the four states in the federation
2. To make such studies as it may deem necessary concerning the present and future political status of Chuuk State, including but not limited to, complete independence from any political state, independence with free association with the United States, maintain the status quo or as territory or state of the United States
3. To conduct education with the Chuukese people here and abroad, to conduct polls or otherwise to ascertain their desires regarding their present and future political status of Chuuk State
4. To recommend a status that is in the best interests of the Chuukese people, and to produce draft treaties, agreements and laws reflecting any such status
5. To submit report to the legislature and the Governor containing its final findings and recommendations no later than 18 calendar months after the date the Commission becomes operational. Before the final report is submitted to the Legislature and the Governor, the Commission shall conduct public hearings in the 40 municipalities and any place outside of Chuuk necessary to provide the public with adequate opportunity to comment on the proposed draft

Report and Recommendation by the Chuuk State Political Status Commission (CSPSC)

On December 19, 2014, the Chuuk State Legislature accepted the final report on the study with no amendment. In addition, the Legislature approved the recommendation that a plebiscite be held for eligible Chuukese voters to express their choice on the proposed initiative by the Commission that the Chuuk State secede as one of the four states of the Federated States of Micronesia.

The Commission analyzed the different options for the political status of the Chuuk State after the 2023 expiration of the amended Compact agreement with the US. The options include the (1) status quo, (2) becoming a US State or territory, (3) joining in a commonwealth with other nations, and (4) complete independence. After an investigation and confirmation of economic researcher, the Commission found that the

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national independence option offered the potential for a modern, healthy, productive and enduring Chuuk. The final report further stated that once independent, Chuuk would achieve its economic prospects.

On February 11, 2015, the Commission adopted a resolution expressing disappointment over the failure of the Chuuk State Election Commission to implement the plebiscite and recommended to the Governor to take appropriate remedial action.

On February 23, 2015, the Chuuk State Governor issued an Executive Order severing the Chuuk State Political Status from the National Election effort scheduled and to be held on March 3, 2015, citing shortcomings by the Chuuk State Election Commission on their ability to conduct plebiscite as scheduled. The plebiscite did not happen as scheduled.

The CSPSC Budget and Expenses FY13-FY18

The local revenue provided funds for the operations of CSPSC.

FY	Budget	Expenditures	Actual (Over)/Under
FY13	\$50,000.00	\$49,404.11	\$595.89
FY14	\$225,000.00	\$116,895.46	\$108,104.54
FY15	\$75,000.00	\$168,093.14	(\$93,093.14)
FY16	\$14,933.00	\$15,900.14	(\$967.14)
FY17	\$108,000.00	\$90,749.50	\$17,250.50
FY18	\$170,000.00	\$181,192.02	(\$11,192.02)
FY19	95,000.00	54,261.67	40,738.33
Total	\$737,933.00	\$ 676,496.04	\$61,436.96

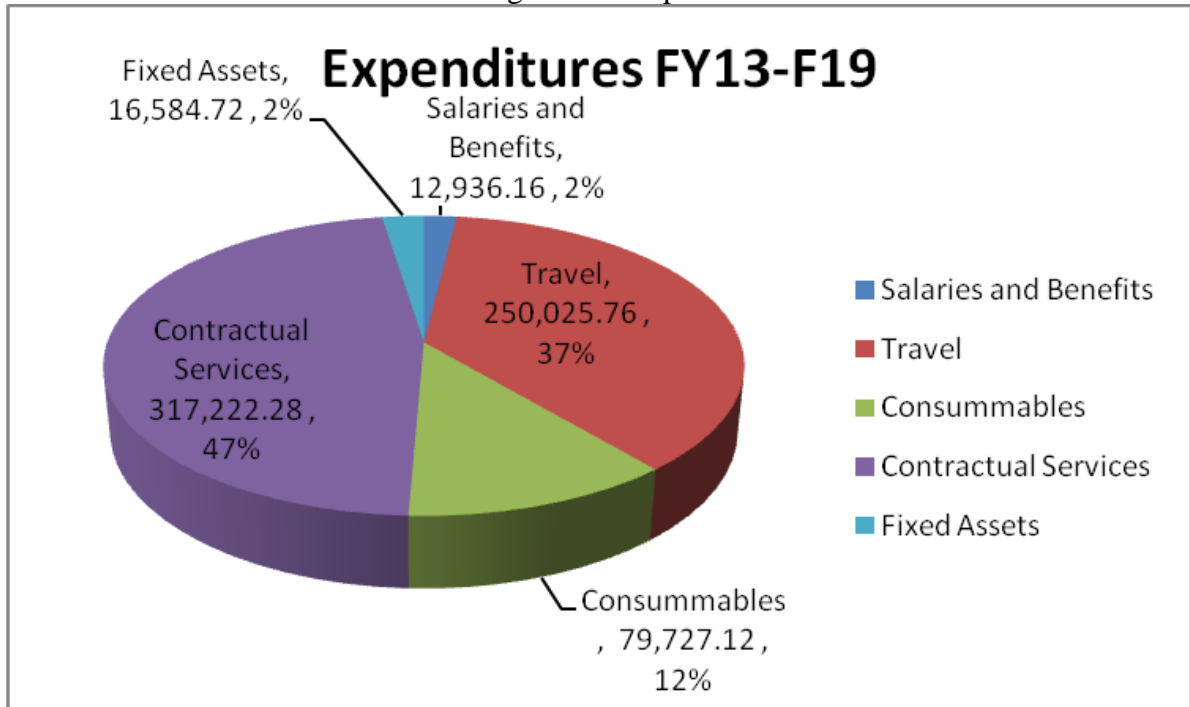
Source: Chuuk State Department of Administrative Services (DAS)

From the above table, there was over or under spending of budget through the years although, the overall spending was within budget. Section 9.e of the amendment (CSL No. 11-12-08) allows the spending of funds in any year. The law states that ...*'funds appropriated to the Commission may be spent without regard to the fiscal year limitation'*.

The details of the spending by items are on Appendix A of this report (Expenditures FY 13-FY19). Figure A shows that the major components of expenditure are travel with \$250,025 (37%) and contractual services with \$317,222 (47%). Altogether, these spending items account for \$567,247 (84%) of total \$676,496 spending.

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Figure A – Expenditures FY13-FY19



The Commission incurred the expenditures for contractual services in connection with the hiring and payment of economist and lawyer, boat rental, and the hiring of local employees on contractual agreement.

On the other hand, the Commission incurred the travel expenditures in connection with international travels consisting of payments for airfare costs, per diem, car rental, premium allowance and others. The places visited outside of Chuuk State wherein public hearings and the committee organized and conducted “Education on Self-Governing” (ESG) include Pohnpei, Guam, Saipan, Hawaii and states/cities in the mainland USA such as Seattle and Portland.

The Commission has budget provision for the conduct of public hearings in the 40 Chuuk State municipalities to provide citizens with adequate opportunity to comment on the proposed draft. It incurred actual expenditures for big and small boat rentals. It rented a big boat in FY 14 and in FY 15 for \$12,600 and 10,500, respectively. On the other hand, it rented 22 small boats in FY15 for a total amount of \$3,157. However, the Commission did not accomplish the task. Mr. Johnny Meippen, Vice Chairman, said that only the mayors of the municipalities were given orientation.

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Status of the Political Status Commission

Section 7 of CSL No. 12-14-23 (12/22/2014) originally prescribed the adoption of the Commission's final report and dissolution of the Political Status Commission. The following were required:

1. To submit a final report to the legislature and the Governor containing the final findings and recommendations no later than 29 months (section 6.i)
2. At the next State's mid-term election², the Chuuk State Election Commission shall cause a plebiscite to be conducted by placing the political status question on the ballots indicating the names of the candidates for the States' mid-term election and shall certify and submit the results of the plebiscite to the presiding officer of the Legislature (section 7.c)
3. The Commission shall within 30 days after the results of the plebiscite have been certified to the presiding officers of the Legislature, continue and take any and all action necessary to accomplish the recommended political status that the Chuukese people approved in the plebiscite. The Commission (**Political Status**) shall remain active until the approved political status has been constitutionality established until **March 31, 2016, whichever comes first.**

The vote for referendum had originally been planned for March 3, 2015. However, the Governor of Chuuk State postponed the plebiscite.

A new law amended to defer the holding of the plebiscite to **March, 3, 2020**. Section 7.b of CSL No-14-18-23 (11/08/18)³states that ... *“the Legislature shall transmit to the Chuuk State Election Commission the recommended political status to be submitted to the Chuukese people for adoption in a plebiscite to be held on March 3, 2020. Upon the effective date of this Act, the Commission shall discontinue from exercising its powers and duties until the Chuuk State Legislature deems it appropriate. This suspension may not include the secretariat staff.”*

² March 3, 2015

³The Governor did not approve the law, so, it became law without such approval. The Legislature overruled the Governor's disapproval by the House of Senate on December 4, 2018 and by the House of Representatives on December 6, 2018.

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Objectives, Scope and Methodology

Objectives

The objective of the audit on the Chuuk State Political Status Commission was to determine whether the Chuuk State Political Status Commission spent its funds in compliance with relevant laws, regulations, policies and prudent practices.

Scope

The audit scope included the review of expenditures incurred by the Chuuk State Political Status Commission for the period FY 2013 to FY 2019 including the commission's accomplishment up to FY2019.

We conducted this audit pursuant to Article VIII Section 9 of the Chuuk State Constitution and TSL 6-21 which states in part: "*The Auditor shall conduct audits of all financial transactions of all branches, departments, offices, agencies and instrumentalities of the government, and of all accounts kept by or for them.*"

Methodology

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.

To determine whether the Chuuk State Political Status Commission complied with the relevant laws, regulations, policies and prudent practices in the spending of its approved budget, we judgmentally selected financial transactions and reports to test compliance with the requirements of relevant laws, regulations, policies, procedures and prudent practices.

However, because of the problem in the availability of transaction documents for review, the scope of the audit *did not include* review of documents for the period FY2013 through FY 2016. The Department of Administrative Services (Finance Department) was unable to provide these documents due to difficulty in finding them in the storage area. Instead of document examination, we performed an analysis of the expenditures during the period using the computer data. For the expenditures in FY18 and FY19, which have available documentation, we judgmentally selected a sample and performed tests of transactions.

Prior Audit or Related Examination on this Area

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The Deloitte &Touche LLP has been conducting the financial audit of the State of Chuuk, Federated States of Micronesia that include the expenditures of the Chuuk State Political Status Commission. Part of their audit procedures was to test compliance with certain provisions of laws and regulations. In its FY2018 financial audit report, Deloitte &Touche has no related findings on non-compliance of Chuuk State Political Status Commission's transactions.

Conclusion

Due to limitation to provide auditor with access to documents for all the years covered by the scope of the audit, we cannot provide an overall conclusion to this audit. However, we believe that the exceptions found in the documents that we examined in FY18 are more than likely the same in the documents not examined for the fiscal years FY13 to FY17.

We found certain practices and expenditures of the Political Status Commission were not in accordance with laws, and regulations. We found these during the examination of expenditures such as travel, contractor's payments and purchases of small but attractive assets. The use of travels funds need improvement in requiring pre-approval of all travel costs before a traveler is allowed to travel an in utilization of the fund to pay per diem, premium allowance, and car rental. Further, in payment of salaries, the workers should have been classified properly or tax purposes. We noted that certain workers should have been deducted statutory taxes such as salary withholding tax, social security and health insurance but were deducted with service tax. Lastly, improvement is needed to control the accountability for purchases of small but attractive assets such as video camera, hand-held radio, mini sonny recorder and others. These are not properly monitored and susceptible to theft and losses.

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FINDINGS AND RECOMMENDATIONS

**Finding 1 – Certain Expenditures Not in Accordance with Laws,
Regulations and Prudent Practices**

We determined compliance of the travel expenditures in accordance with the Chuuk Financial Management Regulations (FMR) and with prudent practices. We noted exceptions as follows:

A. Some Opportunities Exist in Improving the Control for Travel

1. Travel Regulations Section on Per Diem Needs Clarification

Section 5.7.c of the FMR states that ... *“authorized travelers shall be entitled to receive per diem allowance at the rate established by the Director. For high cost cities, and in special circumstances, the government may pay 100% for cost of lodging, and half of the per diem, subject to approval by the Director.”*

Prudent practices in paying Per Diem require that it cover payment for apartment or hotel, meals, and incidental expenses and not for staying with family member or second residence.

A flat per diem rate is given based on destination of travel and applicable rates. The per diem takes care of the hotel and meal.

We learned that the Chairman of the Commission, who has residential house in Chuuk State, is residing in Guam during the period covered by the audit. He is staying at his house in Chuuk when travelling to Chuuk for meetings. Based on the travel expenses incurred in FY18, the Chairman requested four travel requests that include Per Diem. In addition, these requests include payment of airfare and car rental. We further observed that in FY13 and FY14, the Chairman was given allowance inconsistently on the Travel Authorization such as stipend, allowance, premium allowance, special allowance and per diem. The only allowances defined in the regulations are Per Diem and Premium Allowance.

As a result, the state may not be paying reasonable and allowable amount for allowance. This could be the reason why the Chairman incurred the highest travel expenses for the period amounting to \$ 45,030.97 despite the fact that he only travelled once outside of Chuuk-in Pohnpei and in Saipan.

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The travel regulations were not clear when it comes to paying per diem when a traveler is staying with family member or in his residence.

We recommend that the Director of the Department of Administrative Services should clarify per diem in the travel regulations especially when a traveler stayed with family member or did not really incur bills for apartment or hotel.

We also recommend that the Fund Certification Officer from the Department of Administrative Services should properly check whether the allowance claimed on Travel Authorizations is correct in terms of terminology and allowable amount.

2. Travel Regulations Section on Premium Allowance Needs Clarification

Section 5.5.e of the FMR requires that *“in addition to per diem allowance, elected officials of the Chuuk Government and official appointed or as authorized by the Governor shall be entitled to a premium allowance of fifty dollar (\$50) or less per day while on authorized travel status outside of the Federated States of Micronesia.”*

Prudent business practices also require that receipts be required for representation expenditures. Receipts evidencing payments must support it.

Of the total Travel Authorizations we reviewed, nine include requests for Premium Allowance (\$9,700) and four include requests for Representation Fund (\$7,500).

Of the nine Premium Allowance requests, only two amounts were correctly computed considering the travel days and the \$50 allowance per day stated in the regulations. The seven remaining requests (\$8,700) were given as flat rate that ranges from \$1,000 to \$2,500.

We further noted that three travelers who attended the same events (conduct Education for Self-Government ESG awareness for Guam and Honolulu) each requested for premium allowance/representation fund for a total of \$4,000.

Of the four requests for representation fund, only one traveler liquidated his representation fund (\$2,000) with receipts while three (\$5,500) travelers did not liquidate.

As a result, the processing of the request and the liquidation of Premium Allowance/Representation Fund was not consistent. The only requirement was the approval of the Governor on the TA.

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The FMR regulations on premium allowance and representation did not provide clear guideline in the handling of premium allowance and representation fund. The regulation was not clear on the nature of expenses allowed and whether these be liquidated upon return from travel.

We recommend that the Director of the Administrative Services should revisit the policy on Premium Allowance and Representation Fund to clarify the expenditures authorized for Premium Allowance and for Representation Fund.

We also recommend that the Director of the Administrative Services should require justification on Travel Authorization (TA) for requesting Premium Allowance and Representation Fund especially when these are given in addition to Per Diem. The TA should show the purpose for requesting Premium Allowance.

We also recommend that the Director of Administrative Services should study whether the Premium Allowance and the Representation Fund be supported with itemized receipts, invoices, and other documentation upon liquidation.

3. None or Incomplete Trip Reports

Section 5.7 of the FMR requires that when it comes to Travel Documentation. The traveler should attached detailed ... *“Trip Report which outlines the exact purpose and nature of the trip and how the trip provides benefit to Chuuk Government. The Trip Report shall also include detailed listing the individuals, groups, agencies and commissions, or boards met with. Further, The Trip Report shall include a summary of the topics discussed during the trip as well as any recommendations to increase operational efficiency of Chuuk Government”.*

The purpose of the travel outside of Chuuk State was to conduct public hearings and awareness on the cessation issues to Chuukese citizens. Thus, it was very important for Trip Reports to provide information of the people meet, the crowd and probably a picture of size of the crowd during the hearings. This is to provide idea about the success of the public hearings.

Upon review of the required Trip Reports on the sample selected, we found that either there was no Trip Report or, if there is, the Trip Report did not include detailed listing of the individuals, or groups met with. For example,

- a. TA#194905 dated 2/2/2018 (present Status Commission in political symposium at University of Hawaii Manoa) with a total estimated costs of \$5,019.02 (including air fare) has no attached report on Travel Expense Report and Claim filed on 5/18/18.

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- b. The Trip Report for TA 195511 dated 4/4/18 (to conduct ESG meeting in Guam) with Travel Expense Report and Claim did not contain detailed listing of the individuals met with.
- c. The Trip Report for TA 194916 dated 3/26/18 (present Status Commission in political symposium at University of Hawaii Manoa) with Travel Expense Report and Claim did not contain detailed listing of the individuals met with. The report mentioned, though, in the Trip Report that 40-50 people attended the symposium.

As a result, documentation of contacts made and lessons learned were lacking to summarize overall observations and conclusions that a traveler can share with others in the organization.

The processor of Travel Expense Report and Claim did not strictly require filing of Trip Report with complete information as required by the regulations.

We recommend that, before signing the Travel Expense Report and Claim, the Director of the Department as well as the Director of the Department of Administrative Service should ensure that the Trip Report is prepared and complete with details of information required by the regulations.

4. No Approved Travel Authorization

All the estimated travel costs should be pre-approved. Sections 5.3 a, b and c of the FMR require that Travel Authorization shall be approved including any amendment and shall include among others, the estimated costs of travel.

It has been practiced that the Fund Certification Officer is not requiring TA, boarding pass and Trip Report whenever a Traveler was requesting only a reimbursement of plane ticket.

We found instances of ticket reimbursement without approved Travel Authorization:

- 1. Check # 98317 dated 11/09/18 amounting \$2,913.09. The period of travel is July 1, 2018 to July 11, 2018. The travel itinerary (based on passenger's ticket) was Chuuk/Guam/Tokyo Narita/Seattle/Portland/San Francisco/Honolulu/Guam/Chuuk.
- 2. Check # 98322 dated 11/09/18 amounting \$2,881.41. The period of travel is July 1, 2018 to July 11, 2018. The travel itinerary (based on passenger's ticket) was Chuuk/Guam/Tokyo Narita/Seattle/Portland/San Francisco/Honolulu/Guam/Chuuk.

As a result, there is risk that travel reimbursement was not for authorized travel.

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We recommend that the Department Head should require approved TA, boarding pass and Trip Report whenever a Traveler only requested ticket reimbursement and to include this in the Travel Expense Report and Claim (liquidation). This is to ensure that the travel is authorized and there was actual travel.

5. Various Issues on Car Rental

Section 5.5.d of the FMR requires that... *“Car rental expenses shall be provided to a traveler only when it is approved on the TA. The amount provided shall be based on the actual expenses incurred.”*

We found the following issues during the audit of travel advances:

1. Cash Advances for car rental per TA#194912 dated 2/2/18 and Travel Expense Report and Claim for \$680 was not fully supported with payment receipt and car rental agreement. The traveler only attached \$164 worth of receipts as a support.
2. The claim for car rental supported by TA# 196017 dated 4/16/18 and Travel Expense Report and Claim for \$300 was supported by the same rental agreement (#169991) that was attached by another traveler in his liquidation.
3. The claim for car rental supported by TA# 195996 dated 4/16/18 and Travel Expense Report and Claim for \$255 was supported by the same rental agreement (#169991) that was attached by another traveler in his liquidation.
4. The car rental provider did not confirm the \$960 claim for car rental per Travel and Expense Report and Claim. The amount confirmed by the provider was only \$160 or an excess claim of \$800.

We further examined the TAs supporting this travel and found that the requestor amended original TA#184362. However, the requestor did not make clear in the old TA that it was amended. The requestor did not cancel the cash advances from the original TA and did not reflect it in the new TA (no number).

TA #	Date	Period of Travel	Purpose	Amount of Advances
184362	9/19/17	9/21/17 to 9/29/17 – 8 days TKK/GUAM/TKK	To meet with advocacy group and recruit ESG members in Guam	\$2,111.20
No TA No	12/6/17	10/14/17 to 10/30/17 – 18 days (increased to 18 days) TKK/GUAM/TKK	To meet with advocacy group and recruit ESG members in Guam	

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Further, we found that the Travel Expense Report and Claim (liquidation report) was not approved but was paid out.

5. The supporting car rental agreement for the car rental claim supported by TA# 1194916 dated 3/26/18 and Travel Expense Report and Claim for \$669.22 was in the name of another traveler. Further, we noted that the Travel Expense Report and Claim was not approved.
6. Advances for car rental per TA#195144 dated 4/2/18 for \$680 was not liquidated.

As a result, the payment for car rental has resulted in over payment by the state.

The Director of Political Status Commission did not ensure liquidation of all advances and correctness of computation and supports of travel costs in the Travel Expense Report and Claim.

We recommend the Director of the Department of Administrative Services to review the above cases and, if found correct, should collect back any over payment to the traveler.

6. None/Late Submission of Liquidation

The regulations require that the Traveler should liquidate the travel advances upon his return from trip. Section 5.6 of the FMR requires that ... *“any person travelling pursuant to valid Travel Authorization shall, no later than 10 working days after the completion of the trip, submit to the Director a completed Travel Voucher.”*

We noted that employees were not always submitting reimbursement in a timely manner. We found the following instances:

1. TA # 19960 dated 1/22/17 with approved travel itinerary from 6/30/18 to 7/11/18; cash advance of \$4,995.60, was liquidated late on 10/8/18 when it should have been liquidated on 7/21/18.
2. TA # 208155 dated 10/20/18 with approved travel itinerary from 10/19/18 to 10/29/18; cash advance of \$5,730.60 and paid plane ticket of \$2,672.79 was not liquidated.
3. TA # 185033 dated 9/28/17 with approved travel itinerary from 9/30/17 to 10/13/17; cash advances of \$2,500 and paid plane ticket of \$3,291.16. This TA was liquidated late on 12/5/17 when it should have been liquidated on 10/23/17.

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4. TA# 195511 dated 4/4/2018 with approved travel itinerary from 4/12/18 to 4/20/18; cash advance of \$2,121.20 and paid ticket of \$767.39 was liquidated late on 11/19/18 instead of 4/30/18.
5. TA# 189042 dated 12/7/2017 with approved travel itinerary from 12/11/17 to 12/17/17; cash advance of \$1,117.60 and paid ticket of \$767.39 was liquidated late on 1/8/18 instead of 12/27/17
6. TA# 200174 dated 4/23/2017 with approved travel itinerary from 7/7/18 to 7/13/18; premium allowance of \$500 and paid ticket of \$767.39, was not liquidated. Though this is premium allowance, we believe the Traveler should still liquidated with Travel Expense Report and Claim form and Trip Report to account the Trip Report and the boarding pass for the plane ticket. This will ensure that there was actual travel ever done.
7. TA# 195996 dated 4/16/2018 with approved travel itinerary from 4/22/18 to 4/25/18; cash advance of \$2,847 and paid ticket of \$499.49, was liquidated on 6/11/18 instead of 5/5/18.
8. TA#199686 dated 6/30/18 with approved itinerary of Chuuk/Guam from 6/30/18 to 7/11/18 and with Travel Costs request of only Premium Allowance amounting to \$700. The reason for travel as stated on the TA was “to conduct ESG in Hawaii and Mainland”. We observed that this reason was not consistent with the itinerary.

As a result, the accounting may not record the travel as expenditure in the proper fiscal year. Further, the accounting may not account the itinerary, boarding pass for the airline ticket and the Trip Report.

The Travel Section within the Department of Administrative Services is not properly monitoring the due dates of the travel advances.

We recommend that the Travel Section within the Department of Administrative Services strictly enforce the liquidation time limits and that employees should be made aware of the importance of submitting the travel liquidation in a timely manner.

We further recommend that the Director of Administrative Service should require filing of Travel Expense Report and Claim for TAs to account the boarding pass and Trip Report for each traveler. The Accounting should always confirm the actual travel through requiring boarding pass for all those who requested for liquidation and/or reimbursement of travel expenses.

7. Circuitous Travel

Prudent practices dictate that route between origin and destination should be the most economical, direct and frequently traveled.

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We found an instance of circuitous travel. In this trip, the main destinations were the following places:

- a. Honolulu- Accompanied the Governor in meeting with Chuukese Community. Met Political Status Commission ESG.
- b. Helena, Montana - Met the Attorney General and staff
- c. Oklahoma – Interviewed Assistant Attorney General
- d. Guam – Met Commission Chairman and Guam Education for Self Governance (ESG) Committee.

Date	From	To	Auditor's Remarks
10/27/17	Chuuk 10:30 am	Honolulu 2:50 am	
10/30/17	Honolulu	San Francisco	
10/31/17	San Francisco 9:46 am	Denver 1:30 pm	Circuitous
10/31/17	Denver 6:40 pm	Helena 8:55pm	Circuitous
11/2/17	Helena, Montana 6:50 am	Denver 9:10 am	The traveler can fly direct from Honolulu to Helena
11/2/17	Denver 9:31 am	Oklahoma 12:22 pm	
	Oklahoma	San Francisco	Attached boarding pass not readable
	San Francisco	Honolulu	No attached boarding pass
11/4/17	Honolulu 2:00pm	Guam 6:05 pm	
11/8/17	Guam 8:05 am	Chuuk 10:08 am	

Source: Boarding pass

Further review of the related Travel Authorization (TA) supporting the travel above disclosed that two TAs had authorized the travel. One TA (#185033) was for the account of Attorney General Office and the other TA (186595) for Political Status Commission. It appeared that the TA 185033 was amended, however, there was no amended TA on file.

TA #	Date	Period of Travel	Purpose	Amount of Advances
185033	9/28/17	9/30/17 to 10/13/17 TKK/HNL/SFO/DEN/HLN/ DEN/HNL/TKK	To attend meeting in Honolulu	\$2,500
186595	10/20/17	10/27/17 to 11/8/17 HNL/Guam/TKK	Recruit staff and organize commission ESG support groups in Hawaii and Guam for 5 days	\$2,245

As a result, the state incurred more airfare costs than what is necessary.

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The FMR on travel did not provide restriction for indirect or circuitous travel.

We recommend that:

- The Traveler as well as the Department Head should request an approval of the TA if there are any changes in the TA.
- Director of the Department of Administrative Service to revisit the regulations on travel and consider putting restriction on circuitous travel. The policy should consider charging the traveler for additional costs due to indirect route.
- The Travel Staff should ensure that all the documentations be attached to the Travel Expense Report and Claim. In this case, the amended TA should be on file.

B. Under Assessment of Income Tax, Social Security and Chuuk Health Insurance Premium

The laws specify the following requirement for salaries and wages:

Wages and Salary Tax

1. Wages and salary tax be imposed on all wages and salaries received by every employee, as defined. Section 121 (Taxes on Wages and Salaries) of Title 54 FSM Code provides that ... *“there shall be assessed, levied, collected and paid a tax of 6% upon first \$11,000 and 10% upon the amount over the first \$11,000 of all wages and salaries received by every employee, as defined.”*
2. The law defined an employee as any individual under the common law rule. According to Section 112.3 Title 54 of the FSM Code, “Employee” means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee
3. Under the common law rule, anyone who performs service is your employee if you can control what and how to get the service done. This is even though you give the employee freedom of action. What matters is that you have the right to control the details of how the service is performed. Furthermore, the FSM Income Tax law’s distinction between employees and business (independent contractor) reflects congressional expectation that businesses and employees are generally distinguishable on the basis of whether the generation of their income would require substantial expenditure by them, *Rauzi v FSM*, 2 FSM Intrm.8, (Pohnpei 1985).

FSM Social Security (SS) Tax

As provided under sections 804,901 and 902, **FSM Public Law 16-10 SS tax is 7.5%** for employee contribution, and 7.5% for employer contribution (15% in total) effective January 01, 2013.

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Chuuk Health Insurance Premium

3% payroll deduction with employer match

Of the five local workers with special contract, we reviewed and re-computed the net pay of three workers. The Accounting deducted 5% service tax from the gross pay. From the analysis of the nature of work, we noted that workers were actually employees under the common law rule definition of an employee; thus, subject to salary withholding tax, SS tax and Chuuk Health Insurance Premium and not service tax. The head of the Political Commission has control of what and how they will do their daily work.

As a result, there was under collection of salary taxes compared to service tax collected. Further, there was non-collection of social security and Chuuk health insurance premium. Our re-computation of deductions showed under collection of taxes for all (three):

Tax	2017	2018	2019	Total
Salary Income Tax	364.50	772.62	507.99	1,649.11
SS Tax	1,905.00	2,287.50	1,443.75	5,640.25
Health Insurance	762.00	915.00	577.50	2,258.50
Total	3,031.50	3,975.12	2,529.24	9,547.85

Source- Recomputed

There was under-collection of tax because of the fact that the Special Service Contract signed by the employee with Public Service Commission (Personnel) specified not only the Gross Pay but also the 5% service tax and the Net Pay that would be given to the employee. The Payroll Section of the Department of Administrative Services merely implemented the terms (5% service tax) stated in the independent contract.

Recommendation

1. The Director of the Public Service Commission should be cautious in classifying the income of a worker for tax purposes.
2. The Head of the Payroll Section of the Department should always validate the correctness of the financial terms included in the independent contract.
3. We recommend that the independent-contracts of the said employees be corrected with the correct mandatory deductions for salary income and SS taxes, and health insurance.

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C. Small but Attractive Assets Not Recorded and Tracked

There are various requirements and best practice regarding the purchase and handling of fixed assets and small but attractive assets

1. Parts 7 (7.5) of the Chuuk Financial Management Regulations require that receipt of property shall be documented and property accountability records shall be maintained.
2. Section 7.f of the of the Chuuk State Law 12-14-23 requires that at the time of the dissolution of the Political Status Commission, all assets shall become the properties of the Legislature.
3. Prudent business practices require that small and attractive assets below the government's established capitalization threshold for fixed assets be subject to internal control procedures like assets tracking or monitoring.

The Commission has no fixed assets listing. We analyzed the expenditures booked under the accounts equipment, furniture and fixtures, vehicles, supplies. We found the following exceptions during our review:

1. There were no documented receipts of assets as well as no property accountability records maintained.
2. Some small but Attractive Assets were missing or nowhere to be found during our physical count of the items. These assets include video camera, recorder, hand-held radio, and cabinet. (See Appendix C)

As a result, assets, specifically small and attractive assets are susceptible to loss, theft and misuse.

There were no written policies developed for managing and tracking small and attractive assets

We recommend that the Director of the Department of Administrative Services (DAS) should develop policies and procedures for managing and tracking the accountability of small but attractive assets for the implementation of all concerned.

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Other Matter

Opportunity Exists for Improving Record Management and Retention

Prudent practices and certain statutes of limitations require records be maintained continuously.

There must be storage method that must be complete and reliable and be accessible for retrieval of relevant elements of information.

The scope of our audit covered FY13 to FY19 transactions, when we requested transaction documents pertaining to FY13 to FY19, the person responsible for keeping the documents had difficulty finding them in the storage.

As a result, documents not protected and, as mentioned, under the “Methodology” above, we were not able to audit documents pertaining to the period FY2013 through FY 2017.

There were no regulations and established policies, standards, and guidelines for recordkeeping, including the creation, identification, maintenance, retention, disposition, custody and protection of records.

We recommend that the Director of the Department of Administrative Services should develop and and implement policies and procedures for recordkeeping especially retention for pre-defined period of time and accessibility of documents.

We further recommend that the Director of the Department of Administrative Services to implement a system of archiving of physical documents to allow faster and easier retrieval of electronic copies of documents for future review, examination, and investigation purposes.

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APPENDICES

Appendix A - Expenditures FY13-FY19

1 of 3

Account	FY2013		FY2014		FY2015	
	%	Expenditures	%	Expenditures	%	Expenditures
Salaries and Benefits	5%	\$2,580.79	3%	\$3,534.84	2%	\$2,747.48
Travel	13%	6,177.44	14%	16,278.32	51%	85,382.25
Consumables						
Consumable Goods		256.86		-		-
Communications		627.47		1,797.13		1,393.38
Food Stuff				7.5		1,917.03
Office Supplies		5,017.68		5,441.96		5,406.08
POL		2,227.35		1,903.38		3,368.21
Advertising, &Printing				661.5		367.6
Rental Services						4,464.75
Repairs and Maintenance				52.5		
Utilities		2,013.55		3,150.72		3,087.91
Miscellaneous Goods and Services				8,089.25		-1,994.17
Sub-total Consumables	21%	10,142.91	18%	21,103.94	11%	18,010.79
Contractual Services						
General Contractual Services		19,627.99		52,788.35		48,499.24
Meeting Allowance		340.00				3,195.00
Training				3,739.00		1,067.39
Office Rental		5,950.00		9,812.25		8,820.00
Professional Service						
Sub-total Contractual Services	52%	25,917.99	57%	66,339.60	37%	61,581.63
Fixed Assets						
Equipment		3,747.59		1,391.98		370.99
Furniture and Fixtures		837.39		1,038.78		
Vehicle				7,208.00		
Sub-total Fixed Assets	9%	4,584.98	8%	9,638.76	0%	370.99
Total	100%	\$49,404.11	100%	\$116,895.46	100%	\$168,093.14

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Appendix A Expenditures FY13-FY19

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Account	FY2016		FY2017		FY2018	
	%	Expenditures	%	Expenditures	%	Expenditures
Salaries and Benefits		\$ 4,073.05				
Travel	26%	4,093.39	38%	34,661.98	48%	87,853.63
Consumables						
Consumable Goods						
Communications		101.85		330.28		1,444.86
Food Stuff		647.56		1,829.41		9,760.39
Office Supplies		27.59		1,525.06		5,777.37
POL		25.00		1,610.20		1,408.40
Advertising, & Printing						577.50
Rental Services		157.50		30.00		
Repairs and Maintenance				51.00		
Utilities		685.90		105.00		694.11
Miscellaneous Goods and Services		220.50		1,000.00		1,515.00
Sub-total Consumables	12%	1,865.90	7%	6,480.95	12%	21,177.63
Contractual Services						
General Contractual Services		5,132.80		47,436.58		71,300.76
Meeting Allowance				180.00		860.00
Training						
Office Rental		735.00				
Professional Service						
Sub-total Contractual Services	37%	5,867.80	52%	47,616.58	40%	72,160.76
Fixed Assets						
Equipment				1,440.00		
Furniture and Fixtures				549.99		
Vehicle						
Sub-total Fixed Assets			2%	1,989.99		
Total	100%	\$ 15,900.14	100%	\$ 90,749.50	100%	\$ 181,192.02

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Appendix A Expenditures FY13 to FY19

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Account	FY2019		ACCUMULATED TOTAL FY 2013 TO FY 2019	
	%	Expenditures	%	Expenditures
Salaries and Benefits			2%	\$ 12,936.16
Travel	29%	15,578.75	37%	250,025.76
Consumables				
Consumable Goods		-		256.86
Communications		315.00		6,009.97
Food Stuff		-		14,161.89
Office Supplies		-		23,195.74
POL		-		10,542.54
Advertising, Printing and Reproduction		315.00		1,921.60
Rental Services				4,652.25
Repairs and Maintenance				103.50
Utilities		315.00		10,052.19
Miscellaneous Goods and Services		-		8,830.58
Sub-total Consumables	2%	945.00	12%	79,727.12
Contractual Services				-
General Contractual Services		32,207.92		276,993.64
Meeting Allowance		280.00		4,855.00
Training				4,806.39
Office Rental				25,317.25
Professional Service		5,250.00		5,250.00
Sub-total Contractual Services	70%	37,737.92	47%	317,222.28
Fixed Assets				-
Equipment		-		6,950.56
Furniture and Fixtures				2,426.16
Vehicle				7,208.00
Sub-total Fixed Assets		-	2%	16,584.72
Total	100%	\$ 54,261.67	100%	\$ 676,496.04

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Appendix B - Travel Summary by Traveler FY13-FY19

1 of 2

	Traveler	FY17	FY18	FY19	Total
1	Kachutosy O. Paulus	\$ 10,999.34	\$ 16,973.51	\$ 376.10	\$ 45,030.97
2	Johnny Meippen	2,523.65	12,811.19	4,562.09	39,948.78
3	Sabino Asor	8,861.44	17,603.65	2,672.79	39,976.88
4	Karsom Enlet	500.00	7,204.42	2,612.36	19,934.86
5	Joseph Commor	3,231.39	7,818.78	2,474.00	13,524.17
6	Winiplat A. Bisalen	500.00	332.21		13,275.33
7	Angelino Rosokow	2,710.16	5,725.38		10,006.93
8	John Michael Ormsby				9,278.80
9	Pintas Kennet		4,705.38		8,120.16
10	Pandinus N Suzuki	1,034.00			7,071.59
11	Epel Ilon				6,065.00
12	Julio Marar				5,850.48
13	Jack Fritz		4,961.83		4,961.83
14	Joe Suka	300.00			4,929.00
15	Redley Killion				4,128.29
16	RosaliaShamuelMeippen		730.00	2,881.41	3,611.41
17	Johnson Elimo	1,000.00	1,500.00		3,224.00
18	David Leddy		3,236.16		3,236.16
19	Erickson Marar		3,005.99		3,005.99
20	Mark Mailo	2,022.00			2,620.00
21	Etop S Malon		1,849.00		1,849.00
22	Mike Robert		1,267.39		1,267.39
23	Kathlyn Selleck		576.00		576.00
24	Cindy Mori	980.00			980.00
24	Reconciling items		(2,447.26)		(2,447.26)
	Total	\$ 34,661.98	\$ 87,853.63	\$ 15,578.75	\$ 250,025.76

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Appendix B Travel Summary by Traveler FY 13 to FY19
(2 of 2)

	Traveler	FY13	FY14	FY15	FY16
1	Kachutosy O. Paulus	\$ 2,904.72	\$ 7,448.45	\$ 4,778.46	\$ 1,550.39
2	Johnny Meippen			20,051.85	
3	SabinoAsor			8,883.00	1,956.00
4	KarsomEnlet			9,618.08	
5	Joseph Commor				
6	Winiplat A. Bisalen			12,443.12	
7	Angelino Rosokow			1,571.39	
8	John Michael Ormsby			8,691.80	587.00
9	PintasKennet			3,414.78	
10	Pandinos N Suzuki	2,244.72	3792.87		
11	Epelllon	1,028.00	5,037.00		
12	Julio Marar			5,850.48	
13	Jack Fritz				
14	Joe Suka			4,629.00	
15	RedleyKillion			4,128.29	
16	RosaliaShamuelMeippen				
17	Johnson Elimo			724.00	
18	David Leddy				
19	Erickson Marar				
20	Mark Mailo			598.00	
21	Etop S Malon				
22	Mike Robert				
23	KathlynSelleck				
24	Cindy Mori				
24	Reconciling items				
	Total	\$ 6,177.44	\$ 16,278.32	\$ 85,382.25	\$ 4,093.39

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Appendix C -Small but Attractive Assets

FY19

Fiscal Year Purchased	Item Description	Total	With Asset Records (Y/N)	Physically Counted
Fixed Assets				
FY14	Toyota Rav 4 (4 Doors)	7,208.00	Yes	Yes
Small but Attractive Assets				
FY13	Toshiba Laptop	1,020.00	No	Yes
FY13	HP Office Printer	487.60	No	Yes
FY13	Wooden Conference Table	636.00	No	Yes
FY13	Copier Canon D420 Multifunction	529.99	No	Yes
FY13	Compaq D/Top PC	1,074.00	No	Yes
FY13	Drawer 4 Vertical BLK	423.99	No	Yes
FY13	Office Chair W/arm	413.40	No	Yes
FY14	Mini Sony Recorder	287.96	No	Not Found
	Hand-Held CB Radio	190.69	No	Not Found
FY17	Desktop Computer	1,440.00	No	Yes
FY17	Aircon 12,000 BTU	549.99	No	Yes
FY18	Video Camera	295.00	No	Not Found
FY14	Steel Desk	1,038.78	No	Yes
Total		8,387.40		
Grand Total		15,595.40		

Source : Extracted from Invoice Details Printout

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MANAGEMENT RESPONSE



**DEPARTMENT OF ADMINISTRATIVE SERVICES
CHUUK STATE
FEDERATED STATES OF MICRONESIA**

Tel.No.(691) 330-2230

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Jesse R. Mori
Director

Tesime Kofot
Deputy Director

December 17, 2019

Mr. Manuel L. San Jose, CPA, CGPA, CIA, CISA, CRMA, CFIP
Public Auditor
State of Chuuk
Office of the Public Auditor
P.O. Box B, Weno, Chuuk FM 96942

Re : Audit of Chuuk Political Status Commission

Dear Mr. San Jose,

This is to acknowledge receipt of the subject draft audit and I want to thank you for sharing and discussing it with me during our exit conference.

Accordingly, I wish to inform you that we agreed to all of the audit findings relevant to the Department of Administrative Services and further assure you that we will do our part to ensure an overall review of the internal processes and procedures and ensure that proper internal controls are implemented to prevent same issues from occurring again in our overall financial management apparatus.

We will seek guidance from your Office from time to time as we embark on this important overview in the near future.

Sincerely,


Jesse R. Mori
Director

cc : Deputy Director, DAS
Chief, Finance

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OCPA's EVALUATION OF MANAGEMENT RESPONSES

Public Auditor's counter response to the Chuuk State Political Status Commission's Final Management Response

We received a management response from the Department of Administrative Services which was in agreement with the audit findings and observations. We characterized the comments as responsive because they focused well on the issues raised in the audit report with much positivity in moving towards improvement in the Finance Department.

We gave the draft audit report to Mr. Johnny Meippen, Political Status Commission, initially for exit conference to **discuss** the draft and later on for their formal management report. However, despite follow-ups, we did not receive any reaction or formal management response. Thus, we are issuing the final report without any reaction or response from the representative of Political Status Commission.

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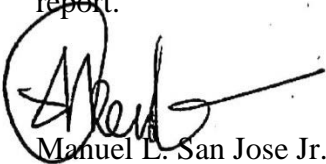
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PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff at the office of the Chuuk State Political Status Commission and the Department of Administrative Services for their assistance and cooperation during the course of the audit.

We have provided copies of the final report to the Governor, Members of the House of Representatives and House of Senate for their use and information. Furthermore, 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 Public Auditor and staff that made major contributions to this report.



Manuel L. San Jose Jr.
Public Auditor
Chuuk, State

January 6, 2020

**Chuuk State Political Status Commission: Funds Could Have Been Used More
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OCA CONTACT AND STAFF ACKNOWLEDGEMENT

OCA CONTACT: Manuel L San Jose, CPA, CGAP, CIA, CISA, CRMA, CFIP
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ACKNOWLEDGEMENTS In addition to the contact named above, the following staff made key contributions to this report:

Rosalinda Mori, Senior Auditor
Troy Chiwi, Audit Assistant

OCA MISSION We conduct audits and investigations to improve government operations, efficiency, and accountability for the public's benefit.

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