

STANDING COMMITTEE REPORT NO. 17-12

RE: P.C. No. 16-369

SUBJECT: FY2012 COMPACT BUDGET REQUEST/W&M

MAY 30, 2011

The Honorable Isaac V. Figir
Speaker, Seventeenth Congress
Federated States of Micronesia
First Regular Session, 2011

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was jointly referred Presidential Communication No. 16-369 regarding the National Government's Recommended FY2012 Budget, begs leave to report as follows:

Presidential Communication No. 16-369 was transmitted to Congress with the *National Government Fiscal Year 2012 Recommended Budget* ("Budget Book"). Pursuant to 55 F.S.M.C. §103(5), as amended, Congress may recommend changes to the Recommended National Government Compact Budget Request on or before May 30 of each year. Pursuant to Rule 7, Section 1(b), of the Official Rules of Procedure of the Seventeenth Congress of the Federated States of Micronesia, your Committee has limited its review of the FY12 Budget Book to those portions of the recommended budget relating to matters under its jurisdiction and for which funding is being sought under the Recommended National Government Compact Budget Request.

Recommended National Government Compact Budget Request

There are two portions of the FY2012 Recommended Budget under the jurisdiction of your Committee on Ways and Means whereby the proposed source funding is from funds available under the Amended Compact of Free Association, specifically under the Capacity Building Sector Grant in the Public Sector.

1. Office of Public Auditor (OPA)

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The President has recommended that the entire operations budget of the Chuuk Office of OPA be funded from the Capacity Building Sector Grant in the amount of \$171,804.

Your Committee held public hearings with OPA on May 16 and 25, 2011. Witnesses at the hearing included: Haser Hainrick, Public Auditor, OPA; Neong Yoma, OPA; Marcellus Akapito, Special Assistant to the President; Jun Bacalando, Department of Justice; and Esiri Edward, SBOC.

OPA offered testimony in support of the funding request. The request of \$171,804 to fund the Chuuk Office is a small decrease from the FY11 level of \$173,405. Even with the recent increase in social security taxes, the Office was able to compensate with a small decrease in travel and contract services in order to fall below FY11 levels.

Your Committee noted concerns with the number and length of vacant positions at OPA overall, and specifically the two vacant positions at the Chuuk Office. OPA stated that salary levels are the main contributing factor to recruiting and retaining qualified staff. Even at Auditor I, where the salary level is quite low, the minimum requirement is a 4-year degree. OPA acknowledged that most graduates with a 4-year degree will successfully find jobs elsewhere at higher salaries. OPA stated that the vacant positions, including those at the Chuuk Office, are truly needed by OPA and the office continues to consistently recruit for those positions.

Your Committee voiced strong concerns with the continued existence of the Chuuk Office, in light of the apparent lack of a plan to transition the Office to Chuuk State or phase-out in some other manner. The Chuuk Branch was initially established as a temporary office that would be phased-out of the National Government at some point. Kosrae, Pohnpei, and Yap State all operate and fund their own State Auditor Offices; the Committee expressed concern with the possibility of other States experiencing unfair treatment regarding the National Government funding Chuuk State, but not other State Auditor Offices.

OPA confirmed that Chuuk State does not, for reasons unknown, have their own State Audit Office. The National Office was tapped to fill that void when a need was obvious. Furthermore, OPA stated that they

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consider their presence in Chuuk vital, and that many benefits have resulted from the OPA office in Chuuk; OPA considers the Chuuk office to be important not only for Chuuk State, but for the entire FSM. OPA stated that the work of the Chuuk Office is limited to funds received from the National Government, Federal Funds, and Compact Funds; the Office does not oversee local Chuuk State funds, but Deloitte and Touche does conduct a local revenues audit for Chuuk State each year.

OPA concurred that the ideal situation would be to transfer the office to Chuuk State control, and funded by Chuuk State. OPA supports a plan being set in place that everyone can agree upon and see through to fruition.

Your Committee on Ways and Means approves the Compact Budget Request of \$171,804 to fund the Chuuk Office of OPA. Your Committee urges the Executive and OPA to work together in FY12 to create a planned phase-out of National Government control and funding of the Chuuk Office; your Committee does not intend to approve funding for the Office beyond FY12.

2. Department of Finance and Administration

The Department of Finance and Administration has requested funding of \$162,450 under contract services in their operations budget to be funded from the Capacity Building Sector Grant. The proposed use of funds is \$123,650 for two Financial Advisors, and \$58,800 for a Tax Accounting Advisor.

The Department of Finance and Administration has asked for funding for two Financial Advisors to assist in improving financial accounting and reporting of government funds at the Department, and to provide technical assistance on audit issues. The positions were funded from Compact funds in FY10, and FY11, previously under Grants and Subsidies. The salary of the two positions is \$81,500 total; the remaining \$22,150 is to cover the costs of travel, contract, and OCE for the positions. Your Committee expresses concern with the length of time the Financial Advisors have been on contract with the National Government. It is the understanding of your Committee that part of the duties associated with the positions is to train local staff in order for the contract positions to be phased out. Your Committee emphasizes that this should be a priority in FY12, as your Committee

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does not intend to approve funding for this request beyond FY12 absent substantial evidence that the positions are necessary to the functioning of the Department of Finance.

The request of \$58,800 to fund a Tax Accounting Advisor is a new request in the FY12 Budget. The position has existed for 2 years at the Department, but has been funded under an ADB loan and not part of the Budget Book. The Tax Accounting Advisor is tasked with strengthening tax collection and management at the Division of Customs & Tax Administration, and providing training to customs and tax staff in audit and reconciliation of collection data. Your Committee was provided with a breakdown of the request: \$43,600 is to fund salary, and the remaining \$15,200 is to defray costs associated with travel, contract, OCE and fixed assets for the position. Your Committee expresses the same concerns as with the Financial Advisors. This will be the third year the position has existed, and a phase-out plan and local training should be emphasized. Again, your Committee does not intend to approve funding for this request beyond FY12 absent substantial evidence that the position is necessary to the functioning of the Department of Finance.

Committee Recommendation

Your Committee on Ways and Means recommends no changes to the Recommended National Compact Budget Request for those areas under the purview of your Committee. Your Committee recommends funding the Chuuk Branch of the Office of the Public Auditor with \$171,804 from the Capacity Building Public Sector Grant, and funding the operations budget of the Department of Finance and Administration in part with \$162,450 from the Capacity Building Public Sector Grant.

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Respectfully submitted,

/s/ Dohsis Halbert
Dohsis Halbert, chairman

/s/ Paliknoa K. Welly
Paliknoa K. Welly, member

/s/ Roger S. Mori
Roger S. Mori, member

/s/ Peter M. Christian
Peter M. Christian, member

/s/ Tony Otto
Tony Otto, member

/s/ David W. Panuelo
David W. Panuelo, member

/s/ Joseph J. Urusemal
Joseph J. Urusemal, member

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