

FOURTH CONGRESS OF THE FEDERATED STATES OF MICRONESIA

FIRST SPECIAL SESSION, 1985

CONGRESSIONAL BILL NO. 4-127, C.D.1, C.D.2

PRESIDENTIAL COMM. NO. 4-272
FSM CONGRESS

AN ACT

To provide for the approval and implementation of the "Agreement on Internal Budget and Finance Procedures under the Compact of Free Association"; to amend the Financial Management Act of 1979, as amended, consistent with such Agreement and the Compact of Free Association; to amend the Budget Procedures Act of 1981, consistent with such Agreement and the Compact of Free Association; and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

1 Section 1. Approval and Implementation of the Internal Budget
2 and Finance Procedures Agreement.

3 (1) The Agreement on Internal Budget and Finance Procedures
4 under the Compact of Free Association, the text of which follows, is
5 hereby approved and enacted as a public law of the Federated States
6 of Micronesia:

7 "PREAMBLE

8 The purpose of this Agreement is to establish internal budget and
9 finance procedures for the Compact period, including the establishment
10 of a Federated Development Authority. The provisions set forth
11 hereinafter recognize the right of the FSM States and the National
12 Government to appropriate and expend Compact funds in accordance
13 with their own respective laws, plans, policies and prerogatives. The
14 provisions also recognize the necessity of complying with the
15 conditions and restrictions attached to Compact funds, empowering
16 the President with the authority to ensure compliance with such
17 conditions and restrictions, and ensuring accountable financial
18 management of all Compact funds.

19 ARTICLE I

20 Budget Procedures and Policies

21 for Compact Funds

22 1. Three-year planning estimates. On January 15 of the

1 year preceding a given fiscal year, the President will transmit two
2 sets of Compact planning estimates to each State Governor, one
3 indicating the detailed levels of Compact and other funding expected
4 to be available to each respective State for the upcoming fiscal year,
5 and the second indicating general expected levels of Compact and
6 other funding for the 2 subsequent fiscal years. Both sets of planning
7 estimates will be based on the distribution formulae in the Memorandum
8 of Understanding on the Division of Grant Assistance.

9 2. Budget allowances.

10 2.1 No later than April 15 of the year preceding a
11 given fiscal year, the President will transmit a set of Compact budget
12 allowances to each State Governor indicating the firm levels of
13 Compact funding to be available to each respective State for the
14 upcoming fiscal year, according to the U.S. notification cited in
15 article II, section 1(b), of the Fiscal Procedures Agreement. The
16 budget allowances will be based on the distribution formulae in the
17 Memorandum of Understanding on the Division of Grant Assistance.

18 2.2 Each government's operating and development budget
19 intended for submission to the respective legislature, may not
20 include proposed expenditures relating to Compact funds exceeding the
21 amounts indicated in the Compact budget allowances. State and National
22 enacted budgets will be balanced in terms of all sources of revenue.

23 3. Executive budget and budget projection submissions.

24 3.1 No later than May 1 of the year preceding a given
25 fiscal year, each State Governor and the FSM Budget Officer for the

1 National Government will submit to the President an executive budget
2 for all sources of funds for the upcoming fiscal year and executive
3 budget projections for each of the 2 subsequent fiscal years, based
4 on the planning estimates for each of those years and on local fund
5 sources not included in the planning estimates.

6 3.2 Each executive budget will contain an operations
7 budget and a development budget, and include planned expenditures for
8 all sources of funds. The operations budget in the executive budget
9 will specify, for each government branch, department, office and
10 agency or authority, the existing commitment and new expenditure levels
11 of expenditures and staffing.

12 3.3 The executive budget projections for each of the
13 2 subsequent fiscal years will specify preliminary budget figures in
14 summary form, including existing commitment levels and estimated new
15 expenditures, by government branch, department, office and agency or
16 authority and a brief description of major new programs or equipment
17 acquisitions planned.

18 3.4 The executive budget will include all expected
19 sources of foreign aid and technical assistance, including funds
20 and assistance provided under Compact sections 224 and 226. The
21 executive budget will specify how the aid or technical assistance will
22 be used and whether it will require the expenditure of other funds or
23 cause the deployment of new staff or the redeployment of existing
24 staff.

25 3.5 The executive budget will include the annual

1 special block grant program plans for Compact section 221(b) grant
2 funds required by article XI, section 4, of the Federal Programs and
3 Services Agreement. The budgeted use of section 221(b) funds will be
4 in accordance and consistent with the guidelines and conditions set
5 forth in the Federal Programs and Services Agreement. The FSM Budget
6 Officer will review the special block grant program plans for
7 consistency with the Federal Programs and Services Agreement.

8 3.6 Each State Governor and the President will include
9 in their executive budget and budget projection submissions an
10 analysis of major trends over the 3 years budgeted as regards funding
11 sources, spending emphases, staffing levels and program expansions or
12 contractions. The analysis of major trends will also specify the
13 multi-year strategy for meeting any overall funding decrease
14 contained in the issued planning estimates.

15 3.7 The executive budget and budget projections of
16 the States and the National Government shall be as submitted by the
17 Governor or President to the legislature or Congress as the annual
18 budget document for that government.

19 4. Comprehensive annual budget.

20 4.1 The President will consolidate the executive
21 budget and budget projection submissions into a comprehensive annual
22 executive budget.

23 4.2 No later than May 15 of the year preceding a given
24 fiscal year, the President will submit the comprehensive annual
25 executive budget to the Congress of the Federated States of Micronesia

1 and to the State Governors and State legislatures for information
2 purposes. The submission will include a budget message, with a
3 presentation and analysis of trends as regards funding sources,
4 spending emphases, staff levels and program expansions and contractions
5 for the Nation as a whole. The budget message will evaluate the
6 adequacy of local revenue levels, the preparedness of the Nation as a
7 whole to meet the Compact funding step-downs scheduled for the sixth
8 and eleventh years following the effective date of the Compact and the
9 FSM strategy for foreign aid as it relates to funding needs.

10 4.3 The President may utilize the comprehensive annual
11 executive budget to support U.S. Government budget requests to the
12 U.S. Congress, as contained in article III, sections 1 and 3,
13 of the Fiscal Procedures Agreement. The budget projections section
14 may also be utilized to support FSM requests to the U.S. Government
15 for supplemental funding over and above Compact funding for fiscal
16 years subsequent to the upcoming fiscal year.

17 5. Reprogramming and Redesignation/Amendment to Overall
18 Economic Development Plan (OEDP).

19 5.1 Any reprogramming, redesignation or amendment to
20 the OEDP shall be authorized by the appropriate State or National
21 Government officials according to the specific legal process
22 established by each State government and the National Government.

23 5.2 Reprogramming prior to the beginning of any fiscal
24 year shall be as follows:

25 5.2.1 At any time prior to the beginning of a

1 given fiscal year, major block grant current account funds may be
2 reprogrammed as capital account funds by allocating more major block
3 grant funds to the capital account. The effect of this reprogramming
4 is to devote more major block grant funding to the capital account
5 than the minimum percentage required allocation for a given State or
6 the National Government as specified in the Memorandum of Understanding
7 on the Division of Grant Assistance. Such a reprogramming shall be
8 executed, if at all, by including the change in the apportionment/
9 allocation certification submitted by each Governor and the President
10 on August 10.

11 5.2.2 At any time prior to the beginning of a
12 given fiscal year, current account program funds may be reprogrammed as
13 capital account program funds. Such a reprogramming shall be
14 executed, if at all, by submission of a program account repro-
15 gramming notification to the President. The President shall review
16 the reprogramming to ascertain conformance of the use of the program
17 funds with the Compact. Reprogrammed use of program account funds will
18 be consistent with conditions on the use of funds specified in the
19 Compact and its related agreements. The effect of this reprogramming
20 is to amend the OEDP. The amendment to the OEDP may be for a single
21 year or for a number of years.

22 5.2.3 At any time prior to August 10 of the year
23 preceding a given fiscal year, capital account program funds may be
24 reprogrammed as current account program funds. Such a reprogramming
25 shall be executed, if at all, by submission before August 10 of a

1 program account reprogramming notification to the President, for his
2 review in accordance with section 5.2.2 above. The effect of this
3 reprogramming is to amend the OEDP.

4 5.3 Redesignation during the fiscal year shall be
5 as follows:

6 5.3.1 At any time during a given fiscal year,
7 major block grant current account funds may be redesignated to the
8 capital account. The effect of this redesignation is to allocate
9 more major block grant funds to the capital account than the minimum
10 allocation for a given State or the National Government, as specified
11 in the Memorandum of Understanding on the Division of Grant Assistance.
12 Such a redesignation may be executed by submission of a notification
13 of redesignation by the Governor or the FSM Budget Officer to the
14 President. The notification of redesignation will include justifi-
15 cation, in accordance with article II, section 3(e), of the Fiscal
16 Procedures Agreement. The President will record this notification
17 and issue two redesignation allotments showing the increase in
18 capital account and the decrease in current account, for the given
19 State or National Government, with the allotments to be effective
20 on the first day of the fiscal quarter at least 90 days after
21 receipt of such notification by the President.

22 5.3.2 At any time during a given fiscal year,
23 current account program funds may be redesignated as capital
24 account program funds. The effect of such a redesignation is to
25 amend the OEDP. Such a redesignation may be executed by submission

1 of a notification of redesignation, as in paragraph 5.3.1 of this
2 subsection.

3 5.4 Reprogrammed use of program account funds will be
4 consistent with conditions on use of such funds specified in the
5 Compact and its related agreements.

6 5.5 No reprogramming or redesignation of major block
7 grant capital account as current account below the minimum percentage
8 set in the Memorandum of Understanding on the Division of Grant
9 Assistance may occur for any fiscal year, except by mutual agreement
10 to amend the Memorandum of Understanding on the Division of Grant
11 Assistance.

12 5.6 No capital account program funds may be
13 reprogrammed as current account program funds after August 30 of
14 the year preceding the year in which the reprogramming is to be
15 effective.

16 5.7 The project listing in the development section
17 of the executive budget submitted by each State Governor and the
18 FSM Budget Officer for the National Government to the President,
19 in accordance with section 3 of this article, will concurrently be
20 the proposed amendment to the OEDP. The development budget on its
21 effective date will constitute an effective amendment to the OEDP.

22 6. Apportionment/Allocation certification.

23 6.1 No later than August 10 of the year preceding a
24 given fiscal year, the Governor of each State and the FSM Budget
25 Officer for the National Government shall submit a copy of the

1 enacted appropriation law and will certify to the President a
2 quarterly apportionment of current account and current account
3 program funds and specify the allocation for capital account and
4 capital program funds for each quarter of the upcoming fiscal year,
5 based on the appropriated budget of each State and the National
6 Government.

7 6.2 The apportionment for the current account and
8 current account program funds will be on a quarterly basis, with
9 each quarterly share comprising at least 20 percent and not more than
10 30 percent of the total amount available for the fiscal year in
11 question, as specified in article II, section 2(c), of the Fiscal
12 Procedures Agreement.

13 6.3 No later than August 25 of the year preceding
14 a given fiscal year, the FSM Budget Officer will consolidate the
15 State and National Government certifications and produce a nationwide
16 apportionment and allocation document.

17 6.4 The Budget Officer will ensure that the
18 specification of fund used and the level of funds in the nationwide
19 apportionment and allocation document are consistent with the
20 Memorandum of Understanding on the Division of Grant Assistance, the
21 OEDP and any official revisions of the OEDP.

22 6.5 The President will certify the apportionment and
23 allocation contained in the document to the U.S. Government no later
24 than August 30 of the year preceding the subject fiscal year, as
25 specified in article II, section 1(b), of the Fiscal Procedures

1 Agreement.

2 6.6 The certification by the President to the U.S.
3 Government will include a designation of a bank or commercial
4 financial institution into which the U.S. Government will transfer
5 Compact funds into the titled and numbered account of the FSM.

6 6.7 The quarterly apportionment schedule cited in
7 paragraph 6.1 of this section may be modified during a given fiscal
8 year by the submission to the FSM President of a quarterly apportion-
9 ment schedule change request; PROVIDED that the apportionment after
10 the change is in accordance with paragraph 6.2 of this section. In
11 accordance with article II, section 2(c), of the Fiscal Procedures
12 Agreement, revision in the quarterly apportionment schedule must
13 be made not less than 1 fiscal quarter in advance of the quarter
14 for which the revised apportionment is to be effective. The FSM
15 Budget Officer will issue an allotment incorporating the change for
16 the quarter in which the change is to be effective.

17 6.8 If a Governor fails to submit an apportionment
18 schedule by August 29, the President in his overall certification
19 to the U.S. Government will assume a 30/30/20/20 percentage
20 apportionment schedule for the State for the upcoming fiscal year.
21 If a State government or the National Government does not enact a
22 State or National budget prior to August 29 or approve an allocation
23 schedule for the upcoming fiscal year, the President in his overall
24 certification to the U.S. Government shall assume the current
25 fiscal year's allocation schedule.

1

ARTICLE II

2

Financial Management

3

of Compact Funds

4

1. Declaration of policy.

5

1.1 All obligation and expenditure of Compact funds

6

shall be in accordance with the Compact of Free Association and its

7

related agreements, the Financial Management Act of each respective

8

government, and this Agreement.

9

1.2 The financial reporting systems of each government

10

shall provide full disclosure of the financial positions and results

11

of operations of each accounting fund in accordance with a uniform

12

and standardized format set forth by the Secretary of Finance. The

13

financial information generated from these systems shall include, but

14

not be limited to, all pertinent information needed to prepare

15

comprehensive annual financial reports as required by the Fiscal

16

Procedures Agreement and section 211(c) of the Compact.

17

1.3 The Secretary of Finance and the State finance

18

officers, together with the Budget Officers of the State and National

19

Governments, shall continuously review accounting and financial

20

reporting systems for the Governments of the Federated States of

21

Micronesia and make recommendations for their improvement.

22

2. Secretary of Finance - Accounting duties. The

23

Secretary of Finance shall have full and complete oversight over,

24

and at all times full and complete access to all financial records

25

for, all Compact funds of the State and National Governments of the

1 Federated States of Micronesia.

2 3. Compact Financial Assistance Fund.

3 3.1 There is hereby created a 'Compact Financial
4 Assistance Fund' to be administered by and under the authority of the
5 Secretary of Finance.

6 3.2 The purpose of the Compact Financial Assistance
7 Fund is to account for Compact funds received from the U.S. Govern-
8 ment by the FSM National Government on behalf of itself and each of the
9 four States from the time of receipt of such Compact funding and until
10 such funding is drawn down by the respective government to which such
11 funding accrues.

12 3.3 The accounting records and accounts maintained for
13 the Fund shall be in sufficient detail to provide a full and complete
14 accounting of Compact funds accruing to each jurisdiction and within
15 each jurisdiction to provide a full and complete accounting of
16 current account, capital account, and as may be required, program
17 account funds. The Fund shall also account for funds obligated for
18 investment, investment income earned on behalf of each government,
19 and investment expenses assessed to each government related to such
20 earnings. The Secretary of Finance shall report on the status of the
21 account on a monthly basis.

22 3.4 Upon receipt of Compact funds from the U.S.
23 Government by the President of the FSM on behalf of the National
24 Government and each of the four State governments, the accounting
25 records of the Compact Financial Assistance Fund shall be updated to

1 reflect the amount of Compact funds received. Concurrently, the
2 President shall obligate and transfer to the Federated Development
3 Authority for investment purposes, all capital account funds received
4 and to the extent authorized by each Governor, current account
5 Compact funds, excluding program funds under section 221(b) of the
6 Compact.

7 3.5 Concurrently with paragraph 3.4 above, the FSM
8 Budget Officer shall verify that the Compact funds approved for
9 transfer to the Federated States of Micronesia from the U.S. Govern-
10 ment have been received and recorded in the accounts of the Compact
11 Financial Assistance Fund. Upon such verification, the President
12 shall immediately certify to each Governor the current account,
13 capital account and program account funds received on behalf of
14 each government and the amount of such funding obligated and
15 transferred to the Federated Development Authority for investment
16 purposes.

17 4. Federated Development Authority - Investment
18 authority.

19 4.1 As provided for in article III, the Federated
20 Development Authority is the designated agency under which Compact
21 funds available for investment are obligated and placed. All
22 Federated Development Authority investment funds shall be managed
23 by the Secretary of Finance for the Federated Development Authority
24 as provided in article III.

25 4.2 The Federated Development Authority shall maintain

1 such accounting systems and records as necessary to account for
2 investment funds placed with the Authority by the President on behalf
3 of each government. Such accounts and accounting records shall
4 also include, but not be limited to, records supporting the invest-
5 ment earnings of each government and investment expenses incurred
6 related to such investment earnings.

7 4.3 The Secretary of Finance will ensure that no
8 Compact section 221(b) program account funds are obligated or trans-
9 ferred to the Federated Development Authority for investment purposes
10 or held in interest bearing instruments by any Government of the FSM,
11 as required by the Federal Programs and Services Agreement, article
12 XI, section 5(b).

13 5. Allotment of funds.

14 5.1 'Allotment' means the delegation of authority
15 to a person to create legally enforceable financial obligations in
16 accordance with applicable FSM State or National law and the Compact
17 and its related agreements, within the limits specified in a National
18 and State appropriation act.

19 5.2 The authority to make allotments of Compact funds
20 shall be vested in the President or his designee.

21 5.3 Funds shall be allotted as follows:

22 (a) The President shall be allottee of all
23 Compact funds allotted to the National Government under this agree-
24 ment for subsequent allotment in accordance with National law.

25 (b) The Governor of a State shall be the allottee

1 of all Compact funds allotted to the State under this agreement for
2 subsequent allotment in accordance with State law.

3 5.4 The President shall withhold allotment of Compact
4 funds where allotment would cause obligations, expenditures or
5 disbursements in violation of the terms of the Compact or its related
6 agreements, with particular attention to the listing of qualified
7 capital account uses in article II, section (3)(f), of the Fiscal
8 Procedures Agreement.

9 5.5 The President will issue separate allotments for:

10 (a) Each major block grant current account
11 quarterly share;

12 (b) Each current account program fund quarterly
13 share by type, specifying an account number for each;

14 (c) Capital account and capital account
15 program funds in the aggregate or on a project basis as requested at
16 the beginning of the fiscal year or during the fiscal year for
17 projects which (1) have been appropriated, (2) are supported by a
18 project control document, and (3) are within the scope of the Compact
19 and its related agreements.

20 5.6 The project control document shall contain
21 information related to the implementation of the project, anticipated
22 or actual contractual terms with the contractor, if selected, and
23 the name of the inspector assigned to certify progress payments.

24 5.6.1 A project control document shall be
25 amended and resubmitted upon any amendment of the State or National

1 Government appropriation law affecting such document, and capital
2 account funds shall be reallocated by the President accordingly.

3 5.7 All project control documents shall be reviewed
4 by the FSM Budget Officer for compliance with the terms of the
5 Compact, its related agreements and applicable appropriation laws
6 prior to allotment of the funds specified in the project control
7 document.

8 5.8 The FSM Budget Officer shall maintain an
9 allotment control ledger.

10 6. Obligations.

11 6.1 For the purposes of this Agreement, the term
12 'obligation' shall have the same meaning as that term is used in
13 the respective Financial Management Acts of the Governments, as
14 in effect on October 12, 1984, unless otherwise mutually agreed
15 upon.

16 6.2 No officer or employee of any Government of
17 the FSM, or allottee of funds shall make or otherwise authorize an
18 expenditure from, or create or authorize an obligation pursuant to,
19 any allotment of Compact funds:

20 (a) In advance of availability of funds by
21 allotment;

22 (b) For purposes other than those for which an
23 allotment has been made; or

24 (c) In excess of the sum made available by Compact
25 fund allotment.

1 6.3 Each State Governor and the FSM Secretary of
2 Finance will immediately report to the President any violation of
3 section 6.2 above.

4 7. Drawdown procedures - Cash management.

5 7.1 No later than August 30 of the year preceding
6 a given fiscal year, each State Governor and the Secretary of
7 Finance will submit to the President an annual cash drawdown schedule
8 for the upcoming fiscal year, detailing by month the anticipated
9 current and capital cash disbursement requirements of the State or
10 National Governments based on appropriated budgets, payroll
11 information, additional data from government officials, and
12 anticipated project contract pay-out schedules.

13 7.2 Cash shall be disbursed by the Secretary of
14 Finance to State finance officers and the National Treasury
15 subsequent to allotment, for valid obligations and based upon an
16 annual cash drawdown schedule, a monthly submission of State cash
17 needs, and a correlated monthly budget execution report from the
18 State government. The monthly submission of State cash needs
19 should be based on the annual cash drawdown schedule and shall be
20 submitted to the Secretary of Finance by the twenty-first day of
21 each month. Cash disbursement shall be made not later than the
22 first day of the following month.

23 7.3 It is understood that the Secretary of Finance
24 cannot guarantee availability of cash in excess of the amounts
25 identified in the annual cash drawdown schedule.

1 7.3.1 In the event of early termination of
2 assets to provide a given government with cash in advance of the
3 availability according to the annual cash drawdown schedule, then
4 that given government will bear any and all penalties and loss of
5 interest incurred.

6 7.3.2 In case a monthly cash needs submission
7 of a given government specifies more funds for a given period than
8 is specified in the annual cash drawdown schedule, the submitting
9 government may allow a certain period to elapse before the specified
10 funds can be drawn down without penalty or bear any and all penalties
11 and loss of interest incurred.

12 7.4 Cash drawdown shall be based on the following
13 procedures:

14 (a) Current account: Current account and
15 current account program funds may be drawn down on a monthly reimburse-
16 ment basis, on a monthly advance cash needs basis, or on a quarterly
17 advance basis.

18 (b) Capital account: Capital account and
19 capital account program funds may be drawn down on a monthly reimburse-
20 ment basis, on a monthly advance cash needs basis, or on an advance
21 basis for valid obligations.

22 8. Lapsing and reversion of current account program funds.

23 8.1 Allotments of Compact current account program
24 funds will specify an expiration date provided by the appropriation
25 laws of the respective State legislature or Congress, upon which

1 unobligated funds previously allotted will lapse.

2 8.2 Unobligated allotted funds will be available
3 for reallocation subsequent to:

4 (a) Determination by the State finance officer
5 or Secretary of Finance of the total level of unobligated funds for
6 each allotment; and

7 (b) Further appropriation of unobligated funds
8 by the State legislature or Congress.

9 8.3 Carried-over current account program funds
10 will be allotted by the FSM Budget Officer as current account
11 program funds or capital account program funds as specified by the
12 State Governor or President, in accordance with applicable law.
13 Carried-over current account program funds will be allotted by
14 the FSM Budget Officer for program account uses as specified in
15 appropriation laws.

16 9. Unallotted current funds. Funds unallotted from
17 current account and current account program funds to a given govern-
18 ment will be available for allotment upon appropriation in future
19 fiscal years, and will be included in the annual planning estimates
20 and budget allowances.

21 10. Close-out of capital project accounts. The State
22 finance officer will close out Compact capital project accounts upon
23 project completion and ensure that no obligation of funds occurs
24 after project completion. The close-out process will be conducted
25 on a timely basis. The Secretary of Finance will assist in the

1 close-out procedure of capital accounts after 3 months following
2 project completion, if such close-out has not been conducted by the
3 State finance officer. Unused spending authority resulting from
4 project close-out will revert to the unallotted capital account of
5 the respective government and shall be available for reallocation
6 after appropriation for valid capital account purposes.

7 11. Internal reporting requirements.

8 11.1 Each Governor and the Secretary of Finance will
9 submit to the President, on a monthly and year-to-date basis, the
10 following reports:

11 (a) Combined balance sheet, including all fund
12 types and account groups;

13 (b) Statement of actual and estimated revenues;

14 (c) Statement of encumbrances and expenditures
15 compared with budget on a department/office or project basis; and

16 (d) A State's cash drawdown request.

17 11.2 No later than January 1 of each year, each
18 Governor and the Secretary of Finance will submit a comprehensive
19 annual financial report to the President providing a full accounting
20 of each State or National legislature appropriation, including
21 obligations and expenditures, for all types of funds available to
22 the State or National Government, as of the end of the prior fiscal
23 year. Such reports will conform with the standards established by
24 the Secretary of Finance.

25 12. Annual report of the President to the U.S. Government.

1 No later than April 1 of each year the President will submit the
2 Annual Report to the U.S. Government to the U.S. President and U.S.
3 Congress, in accordance with article III, section 2, of the Fiscal
4 Procedures Agreement and section 211 of the Compact of Free
5 Association.

6 13. Implementation. The Secretary of Finance shall be
7 responsible for establishing procedures for each respective government
8 to comply with the provisions of this Agreement.

9 ARTICLE III

10 Establishment of the
11 Federated Development Authority

12 1. Creation of the Federated Development Authority. There
13 is hereby created an entity to be known as the Federated Development
14 Authority, hereinafter referred to as the 'Authority.'

15 2. Purpose. The purpose of the Federated Development
16 Authority is to provide an effective institutional framework for the
17 establishment of overall development goals, policies and strategies
18 for the Nation; the rationalization and coordination of development
19 efforts throughout the Nation, so that State and National development
20 programs will be complementary and mutually supportive, rather than
21 duplicative or competitive; and the sharing of information and
22 technical resources to ensure adequate program and project evaluation,
23 design and implementation.

24 3. Specific responsibilities of the Authority.

25 3.1 To receive funds from the President pursuant to

1 article II, section 3.4, of this Agreement, on behalf of the State
2 and National Governments.

3 3.2 To set policy directions and guidelines to be
4 followed by the Secretary of Finance in the administration of the
5 investment of Compact and other funds on behalf of the State and
6 National Governments.

7 3.3 To provide guidelines, advice, and assistance in
8 the formulation of economic development plans for the Nation.

9 3.4 To provide technical assistance upon request to
10 the State and National Governments on a project-by-project basis.

11 3.5 To provide a means for all the Governments to
12 share information and resource personnel.

13 3.6 To assist in the preparation of the annual
14 development reports required by section 10 of this article.

15 3.7 To assist in the coordination and solicitation
16 of aid and technical assistance from foreign governments and
17 international organizations.

18 3.8 To review and provide comments on the development
19 aspects of the budgets prepared pursuant to sections 3.1, 4.2 and 6.1
20 of article I of this Agreement, which shall be submitted to the
21 Authority by the President.

22 4. General powers of the Authority.

23 4.1 To adopt, alter, and use a seal.

24 4.2 To sue and be sued in its own name.

25 4.3 To adopt and amend bylaws governing the conduct

1 of its business and the exercise of its powers.

2 4.4 To enter into and perform such contracts,
3 leases, memoranda of understanding, or other transactions as may be
4 necessary in the conduct of its business and on such terms as it
5 may deem appropriate.

6 4.5 To acquire, in any lawful manner, real, personal,
7 or mixed property, either tangible or intangible; to hold, maintain,
8 use, and operate such property; and to sell, lease or otherwise
9 dispose of such property.

10 4.6 To retain and terminate the services of employees,
11 agents, attorneys, auditors, and independent contractors, and require
12 bonds for the faithful performance of their duties and to pay the
13 premiums for such bonds.

14 4.7 To determine the character of and the necessity
15 for its obligations and expenditures, subject to the provisions of
16 law, specifically, applicable to the Authority.

17 4.8 To execute all instruments necessary or
18 appropriate in the exercise of its power.

19 4.9 To do all such other things as may be deemed
20 incidental to, or conducive to, the attainment of the responsi-
21 bilities of the Authority.

22 5. Debts and liabilities of the Authority. The debts or
23 obligations of the Authority shall not be the debts or obligations
24 of the National Government or the State governments, nor shall they
25 be responsible for the same. No action shall be brought in any

1 court in the Federated States of Micronesia against the National
2 Government or the State governments or any political subdivision
3 thereof because of any activities, actions, or omissions of the
4 Authority, its board members, officers, employees or agents.

5 6. Policy Board.

6 6.1 The Authority shall be managed and its powers
7 exercised by the Policy Board. The Policy Board shall consist of the
8 chief executives of the State and National Governments of the FSM.
9 The Policy Board shall appoint a Chairman for a term of 1 year, who
10 may be reappointed by action of the Board.

11 6.2 Members of the Policy Board will be fiduciaries
12 with respect to the direction of investment policy and supervision
13 of the Secretary of Finance for all investment funds.

14 6.3 The President and each Governor may designate
15 in writing a person to represent the National Government or his
16 State for Policy Board meetings and activities.

17 6.4 A quorum shall consist of four representatives
18 of the Policy Board. No action shall be taken by the Policy
19 Board unless a quorum is present. Decisions of the Board shall be
20 made by majority vote.

21 6.5 Members of the Policy Board shall not be
22 entitled to compensation.

23 7. Annual directive on investment policy.

24 7.1 The Policy Board shall issue an annual directive
25 on investment policy to the Secretary of Finance no later than June 30

1 of each year for the upcoming fiscal year, providing investment
2 policy guidelines on all Compact and other funds held by the
3 Authority for investment.

4 7.2 The goal of investment policy shall be to
5 maximize investment returns while maintaining adequate liquidity and
6 high standards of safety and quality of assets, and giving due
7 consideration to the need to stimulate the Nation's economy.

8 7.3 Each member of the Board and each employee,
9 agent, and contractor of the Federated Development Authority shall be
10 considered a 'public official' within the meaning of subsection (2) of
11 section 1301 of title 11 of the Code of the Federated States of
12 Micronesia.

13 8. Investments.

14 8.1 The Secretary of Finance and staff members
15 designated by him will be fiduciaries with respect to the management
16 of investment and disbursement of funds on behalf of the States,
17 the National Government and the Federated Development Authority.

18 8.2 The Secretary of Finance, with the concurrence
19 of the Authority Policy Board, may select and contract with a
20 public or private sector investment counsel to manage the portfolio
21 of investments. Such investment counsel shall be a fiduciary with
22 respect to services rendered. Such fiduciary relationship shall be
23 specified in a written agreement between the investment counsel and
24 the Secretary of Finance.

25 8.3 Funds invested will include all Compact and other

1 funds prior to drawdown by the Governments except Compact section
2 221(b) funds.

3 8.4 The Secretary of Finance will maintain an
4 investment control ledger with one account for each government.

5 8.5 Funds may be invested on an aggregate basis.

6 8.6 Net earnings on invested funds will be credited
7 to the account of each government based on the proportion and
8 duration of the funds of a given government in the investment
9 portfolio. 'Net earnings' shall be defined as the excess of interest
10 earned over costs of administering the investments.

11 9. Director of the Authority. The National Planner shall
12 serve as the director of the Authority and shall provide necessary
13 administrative support to the Federated Development Authority.

14 10. Utilization of State and National personnel by the
15 Authority. The technical staff of the Authority will be drawn from
16 the existing staffs of the State and National Governments, to the
17 extent practicable. The director of the Authority may request and
18 assign technical staff from the Governments for temporary assignment
19 with the Authority, with the cost allocation of such assignment to be
20 arranged by the director.

21 11. Annual development reports required. No later than
22 January 15 of each fiscal year, each government will submit to the
23 Authority an annual development report for the prior fiscal year,
24 including:

25 (a) Material describing the implementation of

1 the relevant State or National portion of the OEDP in the prior year,
2 including how Compact funds were used in the achievement of the
3 goals, objectives and general and specific programs set forth
4 in the relevant portions of the OEDP; and

5 (b) Material describing amendments to the OEDP by
6 the respective government, and comparing the planned use of Compact
7 funds as projected in the OEDP with the actual use.

8 12. Annual report on Authority operations. No later than
9 January 1 of each fiscal year, the Authority shall issue an annual
10 report on Authority operations during the prior fiscal year to the
11 Speakers of the Congress and the four State legislatures. The
12 report shall include:

13 (a) A description of the scope of technical
14 assistance and advice provided to the State and National Govern-
15 ments in the prior fiscal year; and

16 (b) A comprehensive report on the investment
17 activity including net earnings on investment and cost of
18 operations.

19 ARTICLE IV

20 General Provisions

21 1. Delegation of Authority. The President and each
22 Governor may designate officials of the National and State Govern-
23 ments, respectively, to act on their behalf with respect to the
24 duties and responsibilities vested in them by this Agreement.
25 Such designation shall be in writing.

1 2. Approval and effective date.

2 2.1 This Agreement shall come into effect subsequent
3 to:

4 (a) Execution by the President of the Federated
5 States of Micronesia and the Governor of each State; and

6 (b) Submission, for review, to the Congress of
7 the Federated States of Micronesia and the legislature of each
8 State.

9 2.2 The President, Governors, and other officials
10 designated in this Agreement are authorized to take such actions
11 as are necessary to ensure that this Agreement can be fully
12 implemented on the effective date of the Compact of Free Association;
13 PROVIDED that the requirements of the Agreement shall not be
14 construed or interpreted as applicable to any funds until the
15 effective date of the Compact.

16 3. Amendment. The provisions of this Agreement may be
17 amended at any time by mutual agreement of the Governments.

18 4. Termination. This Agreement may be terminated at
19 any time by mutual agreement of the Governments.

20 5. Duration. The provisions of this Agreement relating
21 to the creation, authority, and responsibilities of the Federated
22 Development Authority shall remain in full force and effect for 5
23 years after the effective date of the Compact of Free Association,
24 and may be extended thereafter by mutual agreement of the Govern-
25 ments. The remaining provisions of this Agreement shall remain in

1 full force and effect during the effectiveness of title II of the
2 Compact of Free Association.

3 6. Penalties. Any officer or employee of any State or
4 the National Government who shall knowingly and willfully violate
5 paragraphs 6.2 and 6.3 of article II of this Agreement shall, upon
6 conviction, be subject to the penalties specified in section 220 of
7 title 55 of the Code of the Federated States of Micronesia.

8 7. Definitions. For purposes of this Agreement only, the
9 following terms shall have the following meanings:

10 (a) 'Annual report' means the annual report of
11 the President to the U.S. Government in compliance with section
12 211(c) of the Compact.

13 (b) 'Capital account' means the capital account
14 funding defined in sections 211 and 461(j) of the Compact and
15 as further defined and described in the Fiscal Procedures
16 Agreement and this Agreement.

17 (c) 'Capital account program funds' means program
18 account funds specified in the OEDP as being programmed for capital
19 account use, as defined in article II, section 3(f), of the Fiscal
20 Procedures Agreement.

21 (d) 'Current account' means the current account
22 funding defined in section 461(k) of the Compact and as further
23 defined and described in the Fiscal Procedures Agreement and this
24 Agreement.

25 (e) 'Current account program funds' means program

1 account funds specified in the OEDP as being programmed for
2 operational type uses, and subject to quarterly drawdown.

3 (f) 'Existing commitment level' means the spending
4 level needed in a fiscal year to maintain existing activities and
5 including no new programs, travel or staff, limited equipment
6 replacement and increases over the prior year based strictly on
7 increases of non-discretionary costs, such as utility cost, air
8 fares, personnel step or grade increases and inflation-driven cost
9 increases.

10 (g) 'Federal Programs and Services Agreement' means
11 the 'Federal Programs and Services Agreement Concluded Pursuant to
12 Article II of Title two and Section 232 of the Compact of Free
13 Association' as executed on October 1, 1982, by the Government of
14 the Federated States of Micronesia and the Government of the United
15 States.

16 (h) 'Federated Development Authority' means an
17 entity with juridical existence organized in accordance with the laws
18 of the Government of the Federated States of Micronesia, subject to
19 the control of the FSM at least insofar as Government accounts are
20 concerned, subject to the provisions of the Compact and the Fiscal
21 Procedures Agreement to the extent specified in the Fiscal
22 Procedures Agreement and described, by inclusion of its organization,
23 in the OEDP and as further defined and described in this Agreement.

24 (i) 'Fiscal Procedures Agreement' means the
25 'Agreement concerning Procedures for the Implementation of United

1 States Economic Assistance, Programs and Services Provided in the
2 Compact of Free Association,' entered into in June 1983 by the
3 U.S. Government and the FSM Government.

4 (j) 'Fiscal year' means the fiscal year of the Govern-
5 ment of the United States commencing on the first day of October of 1
6 calendar year and ending on the thirtieth day of September of the
7 following calendar year, or as may subsequently be provided by the
8 laws of the United States.

9 (k) 'Memorandum of Understanding on the Division of
10 Grant Assistance' means the 'Memorandum of Understanding with respect
11 to the Division of Grant Assistance under the Compact of Free
12 Association among the National and State Governments of the
13 Federated States of Micronesia,' entered into in January and
14 February 1984 by the State and National Governments of the FSM.

15 (l) 'New expenditure level' means the spending
16 level requested for any new operational projects, programs, travel,
17 staff, contracts, equipment or other object or expenditure.

18 (m) 'OEDP' means the 'Official Overall Economic
19 Development Plan,' as defined in sections 211(b) and 461(1) of the
20 Compact and as further described in the Fiscal Procedures Agreement.

21 (n) 'Program account' means the twelve Compact fund
22 types as specified in Compact sections 212, 213(b), 214(b), 215(a)(2),
23 215(b)(2), 216(a)(1), 216(a)(2), 216(a)(3), 216(b), 221(a)(2),
24 221(b), and 221(c).

25 8. Concluding provisions.

1 8.1 It is the solemn obligation of the National and
2 State Governments to uphold the provisions of this Agreement.
3 They pledge that they are so committed.

4 8.2 Each of the Governments of the Federated States
5 of Micronesia shall take all necessary steps, of a general or
6 particular character, to ensure, not later than the effective date
7 of the Compact of Free Association, the conformity of its laws,
8 regulations and administrative procedures with the provisions of
9 this Agreement."

10 (2) Compact Financial Assistance Fund. Funds deposited
11 in the Compact Financial Assistance Fund, created by paragraph 3 of
12 article II of the Agreement on Internal Budget and Finance Procedures
13 under the Compact of Free Association, shall be administered,
14 allotted to the State governments, obligated and transferred to the
15 Federated Development Authority, and drawn down by the State govern-
16 ments in accordance with such Agreement, without requirement for
17 an appropriation by the National Government.

18 (3) Amendments to Agreement. Mutual agreement by the
19 Government of the Federated States of Micronesia as provided for
20 in paragraphs 3, 4, and 5 of the Agreement on Internal Budget and
21 Finance Procedures under the Compact of Free Association which
22 results in the amendment, extension or termination of all or any
23 part of such Agreement shall be effected only by an act of the
24 Congress.

25 (4) Reports. The President shall report immediately to

1 the Congress of the Federated States of Micronesia on any failure
2 to comply with the provisions of the Agreement on Internal Budget
3 and Finance Procedures under the Compact of Free Association and on
4 any withholding or withdrawal of allotment pursuant to paragraph
5 5.4 of article II of the Agreement or this section.

6 (5) Compliance. If the President of the Federated States
7 of Micronesia determines that any government is not acting in
8 compliance with one or more provisions of the Compact of Free
9 Association or its related agreements, the Agreement on Internal
10 Budget and Finance Procedures under the Compact of Free Association,
11 or rules and regulations promulgated pursuant to such Agreement, he
12 shall confer with the appropriate government in an effort to remedy
13 the effects of such non-compliance and to ensure future compliance
14 with such provisions. The President may withhold or withdraw
15 allotment of Compact financial assistance until such time as such
16 government has taken adequate steps to comply with such provisions.

17 Section 2. Section 202 of title 55 of the Code of the
18 Federated States of Micronesia is hereby amended to read as
19 follows:

20 "Section 202. Declaration of Policy. It is the declared
21 policy of the Government of the Federated States of
22 Micronesia that:

23 (1) the accounting of the Federated States of Micro-
24 nesia Government shall provide full disclosure of the
25 results of financial operations, adequate financial

1 information needed in the management of operations, and the
2 formulation and execution of the national budget and shall
3 ensure effective control over income, expenditures, funds,
4 property, and other assets, whether tangible or intangible.

5 (2) The accounting of the Federated States of Micro-
6 nesia shall be performed in a manner consistent with
7 generally accepted accounting principles as established
8 by the United States Governmental Accounting Standards
9 Board.

10 (3) full consideration be given to the needs and
11 responsibilities of both the legislative and executive
12 branches of the Government in the establishment of
13 accounting and reporting systems and such other fiscal
14 requirements.

15 (4) it is the responsibility of the executive
16 branch to maintain accounting systems and to produce
17 financial reports with respect to the operations of the
18 executive departments and staff offices, including
19 central facilities which gather and disseminate
20 information on the results of the financial operations
21 of the Federated States of Micronesia Government as
22 a whole.

23 (5) emphasis shall be placed on effectuating
24 systematic and orderly improvements in financial
25 management of the Federated States of Micronesia

1 Government in order to formulate, adopt, and maintain
2 simplified and more effective accounting systems, financial
3 reporting procedures, budget processes, auditing require-
4 ments, and procedures and to safeguard against duplication
5 and to eliminate systems and processes that do not serve
6 a purpose commensurate with the costs involved.

7 (6) the Secretary of Finance, together with the
8 Budget Officer, shall conduct a continuous review program
9 for the improvement of accounting and financial reporting
10 in the Government of the Federated States of Micronesia."

11 Section 3. Section 209 of title 55 of the Code of the
12 Federated States of Micronesia is hereby amended to read as
13 follows:

14 "Section 209. Deposits to the General Fund.

15 (1) Unless otherwise provided by this act or other
16 law, the following shall be deposited in the General
17 Fund:

18 (a) All public moneys raised or received by
19 the Federated States of Micronesia National Government
20 pursuant to laws imposing taxes on income or other taxes,
21 duties, or tariffs based on imports, or other revenues
22 collected based on fines, fees, licenses, interests, rents,
23 or other collections of the Federated States of Micronesia
24 made specifically applicable within the jurisdiction of
25 the Federated States of Micronesia;

1 (b) All funds allotted to the Federated States
2 of Micronesia National Government from the Compact
3 Financial Assistance Fund; and

4 (c) All other funds received by the Federated
5 States of Micronesia National Government from the United
6 States Government and designated for the Federated States
7 of Micronesia National Government.

8 (2) Compact of Free Association financial assistance
9 shall be accounted for in accordance with financial
10 accounting and reporting requirements of the Compact.

11 (3) All balances of the United States Grant Special
12 Fund are hereby transferred to, and deposited in, the
13 General Fund of the Federated States of Micronesia."

14 Section 4. Section 210 of title 55 of the Code of the
15 Federated States of Micronesia is hereby repealed in its entirety.

16 Section 5. Section 211 of title 55 of the Code of the
17 Federated States of Micronesia, as established by Public Law No.
18 2-68, is hereby amended to read as follows:

19 "Section 210. Program Fund.

20 (1) Definitions. The term 'programs' shall include
21 all funds made available to the Federated States of
22 Micronesia pursuant to sections 221(a), 221(c), and 224
23 (program funds) of the Compact of Free Association and
24 United States statute through categorical, block,
25 consolidated project, or discretionary grants. It shall

also include grants received from any international or United Nations organization. It shall not include other funds received pursuant to the Compact of Free Association, or funds received from the United States Department of the Interior derived from its annual departmental budget, or those funds known as transition funds, nor indirect costs received for the administration of Federal programs.

(2) Program review. Prior to the submittal of any application, proposal, or preexpenditure report to any United States Federal agency, the President or his designee shall submit such application, proposal, or preexpenditure report to the Congress of the Federated States of Micronesia for its review and approval by resolution. If Congress is not in session, the appropriate committee shall review and approve the application, proposal, or preexpenditure report. The scope of such review shall be complete, with the ability to approve any aspect of any application, proposal, or preexpenditure. The approval of any application, proposal, or preexpenditure report by the appropriate committee shall not obligate funds from the National Treasury where they were not otherwise appropriated pursuant to law. The Congress or the appropriate committee shall complete its review within 30 days of submission.

(3) Program Fund. There is hereby created within

1 the National Treasury of the Federated States of Micronesia
2 a Program Fund into which all funds received by the
3 Federated States of Micronesia from program sources, as
4 defined in subsection (1) above, shall be deposited. The
5 President or his designee shall notify Congress of grant
6 awards and deposits to the fund. Funds shall be
7 administered and withdrawn by the President or his
8 designee. Funds derived from United States program
9 sources shall be accounted for and shall be in accordance
10 with reporting requirements of the United States Government.
11 Initially, the Program Fund shall consist of all prior
12 year unobligated balances of program funds and all program
13 funds designated for the National Government of the
14 Federated States of Micronesia and made available
15 beginning October 1, 1982."

16 Section 6. Section 213 of title 55 of the Code of the
17 Federated States of Micronesia, as established by Public Law No.
18 3-28 and as amended by Public Law No. 3-81, is hereby further
19 amended to read as follows:

20 "Section 212. Capital Improvement Program Fund.

21 (1) There is hereby created within the National
22 Treasury of the Federated States of Micronesia a Capital
23 Improvement Program Fund.

24 (2) All United States grant funds, including United
25 States federal program funds, but excluding funds made

1 available pursuant to the Compact of Free Association,
2 allotted to the President of the Federated States of
3 Micronesia by the Trust Territory Government or other
4 agency of the United States Government specifically for
5 capital improvement projects in the States shall be
6 deposited in the Capital Improvement Program Fund.

7 (3) United States grant funds and federal program
8 funds for the Capital Improvement Program shall include
9 funding for the development of the basic infrastructure
10 of the Federated States of Micronesia in conformance with
11 the intent of the original Capital Improvement Program
12 and other funding transferred under any agreement between
13 the National Government of the Federated States of Micro-
14 nesia and the Government of the Trust Territory of the
15 Pacific Islands, or other agency of the United States
16 Government, regarding the transfer of capital improvement
17 project funding and administration.

18 (4) The President or his designee shall notify
19 Congress of all grant awards and deposits to the Capital
20 Improvement Program Fund.

21 (5) Any portion of capital improvement funding
22 made available to and accepted by the National Government
23 to cover its costs for the administration of the Capital
24 Improvement Program shall be deposited in the General Fund
25 and may be withdrawn by appropriation laws enacted by the

1 Congress of the Federated States of Micronesia.

2 (6) Deposits in the Capital Improvement Program Fund

3 shall be made available to and administered by the

4 President or his designee in accordance with written

5 agreements between the National Government of the

6 Federated States of Micronesia and the Trust Territory

7 Government or other agency of the United States Govern-

8 ment for the transfer of capital improvement project

9 funding and administration. The funds shall be allocated

10 among the States in accordance with the terms of the

11 appropriation laws of the United States, or by the actions

12 of the High Commissioner or other authorized official of

13 the United States Government pursuant to authority set

14 forth in the appropriation laws of the United States.

15 To the extent that the terms of the appropriation laws of

16 the United States do not allocate such funds specifically

17 to the States, and such laws do not so empower the High

18 Commissioner or an official of the United States Govern-

19 ment to act in this regard, or the High Commissioner

20 or official chooses not to act, such funds shall be

21 allocated by the President in an equitable manner which

22 reflects the needs of each State, subject to the approval

23 of Congress by resolution. If Congress is not in session,

24 the appropriate committee shall review and approve the

25 manner of distribution of the funds. The Congress or the

1 appropriate committee shall complete its review within
2 30 days of submission. If the Congress or the appropriate
3 committee fails to act within 30 days of submission, the
4 proposed distribution of funds shall be deemed approved.
5 The President shall be the allottee of the funds and shall
6 have the authority to make suballotments to the Governors
7 at such times and in such manner as may be required by
8 sound financial management techniques. All funds which
9 have been allotted to the President or suballotted to the
10 Governors of the States shall be administered, managed and
11 accounted for in accordance with applicable law, including,
12 but not limited to, the Financial Management Act of 1979,
13 and regulations pursuant thereto."

14 Section 7. Sections 211, 212, 213, 214, 215, 216, 217, 218,
15 219, 220, 221, 222, 223, 224, 225, 226, 227, and 228 of title 55
16 of the Code of the Federated States of Micronesia, as amended, are
17 hereby renumbered as sections 210, 211, 212, 213, 214, 215, 216, 217,
18 218, 219, 220, 221, 222, 223, 224, 225, 226, and 227, respectively.

19 Section 8. Section 102 of title 55 of the Code of the
20 Federated States of Micronesia is hereby amended to read as
21 follows:

22 "Section 102. Definitions. When used in this chapter:

23 (1) 'Agency' means any agency, commission, authority,
24 board, bureau, or other organization of the National
25 Government established by law, and not specifically part

1 of one of the three branches of the National Government.

2 (2) 'Annual budget' refers to the annual request for
3 new obligation and expenditure authority during the
4 ensuing fiscal year by all branches and agencies of the
5 National Government for all purposes, including, but not
6 limited to, Government operations, development programs and
7 projects, special programs, contributions, grants, and
8 subsidies.

9 (3) 'Appropriation' refers to a law enacted by
10 Congress which authorizes the National Government to incur
11 obligations and to make payments out of the National
12 Treasury in accordance with law.

13 (4) 'Congress' refers to the Congress of the
14 Federated States of Micronesia.

15 (5) 'Fiscal year' refers to the twelve-month
16 period from October 1 of one calendar year through
17 September 30 of the succeeding calendar year.

18 (6) 'National Government' refers to the National
19 Government of the Federated States of Micronesia and
20 includes all branches and agencies of the Government."

21 Section 9. Section 103 of title 55 of the Code of the
22 Federated States of Micronesia is hereby repealed in its entirety
23 and a new section 103 is hereby enacted to read as follows:

24 "Section 103. Annual budget.

25 (1) No later than May 1 of each year, the President

1 shall submit to the Congress a proposed budget for the
2 National Government for the ensuing fiscal year. The
3 proposed budget shall contain an operations budget and
4 a development budget, and include planned expenditures
5 for all sources of funds. The proposed budget shall set
6 forth the following information in such form and detail
7 as the President may determine or as the Congress may
8 require by law:

9 (a) Planned operational expenditures for each
10 department and office of the executive branch, Congress,
11 the judicial branch, and agencies of the National Govern-
12 ment other than agencies or entities which receive
13 National Government appropriations on a subsidy,
14 contribution, or grant basis, and operational budget
15 projections for each of the 2 subsequent fiscal years;

16 (b) Planned development expenditures for the
17 ensuing fiscal year and development budget projections
18 for each of the 2 subsequent fiscal years, with details
19 of all development programs or projects to be funded or
20 undertaken by the National Government in the ensuing
21 fiscal year, relating such programs and projects to
22 specific development goals and objectives set forth in
23 the National Development Plan of the Federated States of
24 Micronesia, as approved by the Congress, and identifying
25 any amendments to the program and project listings

1 contained in such plan; and

2 (c) Planned subsidies, contributions, or grants
3 for the ensuing fiscal year and projected subsidies,
4 contributions, or grants for each of the 2 subsequent
5 fiscal years, for the FSM Telecommunications Corporation,
6 the College of Micronesia, international and regional
7 organizations, and such other public and private
8 entities as authorized by law.

9 (2) The President shall submit along with the
10 annual budget the following:

11 (a) A budget message which shall include such
12 supporting financial, statistical, program performance,
13 and other information and data and such recommendations
14 as the President may determine are in the public
15 interests;

16 (b) Proposed legislation to appropriate funds
17 for the National Government during the ensuing fiscal
18 year reflecting the President's recommendations as
19 contained in the proposed budget;

20 (c) Anticipated revenues and other money to
21 be made available to the National Government from all
22 sources in the ensuing fiscal year and each of the 2
23 subsequent fiscal years including, but not limited to,
24 taxes, fees, fines, interest income, revenue from fishing
25 agreements, Compact financial assistance, United States

1 Federal programs, foreign financial and technical
2 assistance, reimbursements, and loans;

3 (d) If the total of the planned expenditures
4 exceeds the total of the funds estimated to be available
5 for appropriation during the ensuing fiscal year, or the
6 2 subsequent fiscal years, recommendations as to how
7 the deficiency is to be met, either through additional
8 revenues or reduced appropriations and expenditures;

9 (e) Statements of the balance of the General
10 Fund and any special funds of the National Treasury for
11 the fiscal year last concluded, including the actual
12 revenue by source, all appropriations, and the obligations
13 and expenditures pursuant to each appropriation;

14 (f) Statements of the projected balance of
15 the General Fund and any special funds of the National
16 Treasury for the fiscal year in progress including all
17 appropriations, estimated revenues by source, and
18 anticipated obligations. If the projected balance for
19 any fund indicates a deficit, recommendations as to how
20 the deficiency is to be met;

21 (g) An analysis of major trends over the
22 3 years budgeted regarding funding sources, spending
23 emphases, staffing levels, and program expansions and
24 contractions; and

25 (h) Such other financial information and

1 data as may be necessary or desirable in order to make
2 known in reasonable and practicable detail the financial
3 condition of the National Government.

4 (3) The Congress, the judicial branch, and agencies
5 of the National Government shall transmit to the President
6 on or before April 1 of each year or at such other time
7 as the President may determine, planned operational and
8 development expenditures for the ensuing fiscal year,
9 budget projections for each of the 2 subsequent fiscal
10 years, and such other information as the President may
11 determine or as may be required by law. The President
12 shall include such planned expenditures and budget
13 projections in the proposed budget without revision,
14 but subject to his recommendations."

15 Section 10. Section 106 of title 55 of the Code of the
16 Federated States of Micronesia is hereby amended to read as
17 follows:

18 "Section 106. Appropriations by Congress.

19 (1) The Congress, after receipt of the proposed
20 budget from the President and no later than August 29
21 of each year, shall by act, adopt the annual budget of
22 the National Government of the ensuing fiscal year.

23 (2) Congress may alter the budget submitted by
24 the President in any respect.

25 (3) The budget alteration authority of Congress

1 shall be executed by means of appropriations legislation.
2 Appropriations or authorizations for the expenditure of
3 funds shall be made by law, except as provided in section
4 108 of this chapter.

5 (4) Congress may restrict by law the expenditure
6 of funds for a specific purpose."

7 Section 11. Section 107 of title 55 of the Code of the
8 Federated States of Micronesia is hereby amended to read as follows:

9 "Section 107. Requests to the United States Government.
10 The President shall consult with the Congress in the
11 formulation and submission of all requests made to the
12 United States Government for additional assistance,
13 services, and programs pursuant to section 211(c) or
14 224 of the Compact of Free Association."

15 Section 12. Section 108 of title 55 of the Code of the
16 Federated States of Micronesia is hereby amended to read as
17 follows:

18 "Section 108. Continuing resolution. In the event a
19 budget has not become law prior to the beginning of a
20 fiscal year, the head of each branch of Government
21 and the head of each agency established by law may
22 continue to expend funds for National Government operations
23 expenses after the beginning of the fiscal year upon the
24 adoption by Congress of a continuing resolution. Such
25 expenditures shall be in accordance with appropriations

1 laws appropriating funds for the immediately preceding
2 fiscal year. A continuing resolution of the Congress
3 which would authorize the expenditure of Compact financial
4 assistance is hereby made conditional on such funds being
5 available to the National Government as of the beginning
6 of the relevant fiscal year, either pursuant to a
7 continuing resolution adopted by the United States
8 Congress or pursuant to appropriation acts of the United
9 States Congress."

10 Section 13. Section 109 of title 55 of the Code of the
11 Federated States of Micronesia is hereby amended to read as
12 follows:

13 "Section 109. Emergency account. In the event of a
14 major natural disaster requiring immediate Governmental
15 action, an emergency account shall be established in the
16 Department of Finance. All Governmental expenses related
17 to such emergency shall be charged to such account. The
18 President is hereby authorized to reprogram up to
19 \$200,000 of the funds appropriated from local revenues
20 or other funds not dedicated to specific purposes under
21 the Compact of Free Association or other agreements with
22 foreign governments to such account. The President shall
23 present funding requests to the Congress to cover
24 emergency expenditures."

25

1 Section 14. This act shall become law upon approval by the
2 President of the Federated States of Micronesia or upon its becoming
3 law without such approval and shall take effect upon the effective
4 date of the Compact of Free Association.

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

December 17, 1986

Tosiwo Nakayama
President
Federated States of Micronesia

