

STANDING COMMITTEE REPORT NO. 15-143

RE: P.C. NO. 15-170/W&M

SUBJECT: FY 2009 BUDGET

SEPTEMBER 23, 2008

The Honorable Isaac Figir  
Speaker, Fifteenth Congress  
Federated States of Micronesia  
Fifth Regular Session, 2008

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was jointly referred Presidential Communication No. 15-170 transmitting the National Government's proposed FY 2009 budget, begs leave to report as follows:

Presidential Communication No. 15-170 concerns the National Government's proposed budget for fiscal year 2009 as set forth in a publication entitled National Government Fiscal Year 2009 Proposed Budget ("Budget Book"). Pursuant to rule 7, section 1(b), of the Official Rules of Procedure of the Fifteenth Congress of the Federated States of Micronesia, your Committee has limited its review to those portions of the budget relating to matters under its jurisdiction. These are:

Operations Budget

- (a) Office of the President
- (b) Department of Finance
- (c) Congress
- (d) Public Auditor
- (e) Office of SBOC

Special Programs

- (f) National Authorizing Committee (Cotonou Agreement)

Grants, subsidies and contributions

Office of the President

- (g) Asia Pacific Inst. Broadcasting Development (AIBD)
- (h) Asia Pacific Broadcasting Union
- (i) Pacific Island News Association

Department of Finance

- (j) OCO Membership
- (k) Financial Management System - Maintenance fee
- (l) FSM Group Life Insurance

Office of SBOC

- (m) Budget and EM Consultative Meeting
- (n) CEC and EPIC meetings
- (o) Cotonou Membership fee

Other Grants

- (p) Compact Review Committee
- (q) Single Audit Fee (National Government and States)
- (r) MLFC loan payment

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Capital and Human Resource Development  
Department of Finance

- (s) National staff upgrading
- (t) Tax Reform
- (u) Staff Housing
- (v) Recruitment and Repatriation
- (w) Trust Fund

Capacity Building Sector

- (x) Sector performance reporting

Office of SBOC

- (y) Privatisation of Public Enterprises
- (z) Economic/ Statistics capacity building
  - (aa) Performance reporting / capacity building
  - (bb) FSM SDP update
  - (cc) 2010 Census

This report, and all previous and subsequent reports by this Committee, should be treated as policy for this Nation, as defined by the Congress. It is Your Committee's intent that any commentary found in this report should be treated as policy for the guidance of the relevant departments, agencies and offices.

During May 2008, Your Committee conducted public hearings with representatives of the relevant departments, agencies and offices and, in some instances, followed up with additional communications. This Standing Committee Report reflects the recommendations of Your Committee on Ways and Means regarding the proposed FY 2009 budget based on the consultations outlined above. Your Committee's findings and recommendations follow.

#### **INTRODUCTORY COMMENTS**

##### *Budget Book formatting*

As Your Committee noted last year, and the year before, the format of the Budget Book is somewhat cumbersome, and does not facilitate Congressional review. Further, many of the amounts contained in the FY2008 "appropriated" column are incorrect, as are staff salary levels. Further, all line items with the exception of Personnel do not contain an FY08 Appropriated description, making comparison with requests between FY08 and FY09 difficult.

#### **Public Hearings**

Your Committee noted a great improvement in the testimony of witnesses when compared to last year. Witnesses were aware of their budgets and the recommended amounts. Your Committee commends the executive for ensuring all departments are aware of their proposed budgets.

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**Travel**

Your Committee has observed with alarm a dramatic increase in the amount and cost of travel being undertaken by the Executive. With rising travel costs, travel should be limited to essential travel only, and certainly not increased. Your Committee is deeply disappointed with the fiscally irresponsible proposed travel budget.

Your Committee is highly sceptical of the costing of travel, especially international travel. The current practice of using fully flexible fares costs significantly more than restricted fares, and the benefits of being able to change a ticket without penalty are far outweighed by the cost. Further, international travel from Guam or Honolulu is usually ticketed with Continental or a One-pass member airline, resulting in significantly higher fares. Departments should be proactive in seeking to reduce the cost of travel. Your Committee has not recommended any increase in travel funding for FY09, despite the rise in ticket prices. Your Committee recommends that government officials instead utilise the cheaper tickets to ensure their travel obligations are met.

It is Your Committee's request that all international travel as detailed in the budget book (for all Departments and Offices) be used only for that purpose, instead of redistributed to other travel opportunities.

**Comments about this report**

Your Committee is mindful of the economic pressure being experienced by the FSM. It is fiscally irresponsible to increase National Government spending at this time. This report details the proposed levels of funding, and the testimony of witnesses, but for most budgets, the recommendations are for that of FY08, unless the proposed amount is lower than FY 08 funding. Some line items have increased, but only where Your Committee believes the funding is essential.

**Use of amended Compact funds**

Your Committee urges the Executive to continue to seek ways to use amended Compact funds for appropriations where possible and to utilize existing carryover funds from previous years.

**National Government car policy**

In the FY 2008 Report on the budget, Your Committee recommended:

- Tighter restrictions regarding when a car may be purchased

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- A default position whereby all new cars purchased are sedans unless there is a demonstrated need to purchase a more expensive pick-up or SUV
- The purchase of cars that run on diesel fuel, to enable them to be run on coconut oil.

However, Your Committee has noted this has not occurred. With the rising cost of gas, this is irresponsible financially as well as environmentally. The Government of the FSM should lead by example in fiscal prudence and environmental sustainability. Your Committee urges the President to enforce tight restriction on the type of vehicles used, whom is permitted to utilise the vehicles, and under what circumstances.

The existing policy effectively addresses the issue of when a National Government vehicle may be used, however, anecdotally; it appears that the policy is not routinely enforced.

Witnesses from the Office of the President testified that the President intends to reduce spending on vehicles and gas, and is considering car-pooling as a solution. Your Committee strongly supports this.

Your Committee is considering implementing legislation to ensure a sustainable vehicle policy is enforced if the situation does not improve during FY09.

**Budget Laws and Supplemental Appropriations: An overview to FY2008**

Public Law 15-11 is the initial budget act. Many supplemental requests were made in FY 08. These are reflected in Public Laws 15-18, 15-26 and 15-33. Further, Congress passed a supplemental budget bill, C.B. 15-123, but it has not been signed into law as yet.

**OFFICE OF THE PRESIDENT**

The following is an overview of proposed funding for the Office of the President in FY 2009.

Overview

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	232,766	281,816	260,016
Travel	116,148	226,209	115,250
Contract services	137,000	137,000	137,000
OCE	77,707	68,100	68,100
Fixed assets	12,000	5,500	5,500

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<b>Total</b>	<b>575,621</b>	<b>718,625</b>	<b>585,866</b>
<b>Employees</b>	<b>13</b>	<b>15</b>	<b>14</b>

A detailed discussion of each of the divisions of the Office of the President follows.

**Office of the President - President's Office**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	173,504	222,554	200,754
Travel	100,381	211,340	100,381
Contract services	134,000	134,000	134,000
OCE	49,107	39,500	39,500
Fixed assets	5,000	1,000	1,000
<b>Total</b>	<b>461,992</b>	<b>608,394</b>	<b>475,635</b>
<b>Employees</b>	<b>8</b>	<b>10</b>	<b>9</b>

There is a requested increase of \$146,402 for the President's Office in FY09.

There is a proposed \$49,050 extra in Personnel over FY08. This is for a total of 2 extra positions for the President's Office - both exempt.

The budget book states that \$21,800 was appropriated for the Chief of Staff last year. This is simply not the case. There was no appropriation or approval of a chief of staff position by Congress. Testimony at hearing revealed that the position is being paid for by the Department of Foreign Affairs, who have a vacant Deputy Secretary position. Your Committee is deeply concerned about this allocation of funds from the Department to the President's Office for Personnel. A hearing has been scheduled to investigate the matter. The request for FY09 is now for an extra \$27,250 for the position. Reluctantly, Your Committee recommends the hiring of the Chief of Staff.

In FY08, Your Committee removed the position of SAP/State Affairs, due to the long vacancy in the position and requested congressional supplemental transfer of \$20,000 from the personnel line item into other line items. This year, the President's office has requested the position be re-instated. Disturbingly, the witnesses testified that the President wishes to alter this position to "Legal Adviser and State Affairs". First, the request amount of \$21,800 is less than half the amount that would be required to employ a legal practitioner. Secondly, the legal advisor to the President is the Attorney General. If the President is not happy with the legal advice he is receiving from the Attorney General's Department, he should address those issues

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instead of employing his own advisor. Your Committee does not recommend this position.

The President's Office is requesting an **extra** \$110,959 for travel. Your Committee notes that it approved the President's travel budget in entirety for FY08, and has appropriated an additional \$15,000 and then another supplemental for travel for \$10,000. Your Committee is deeply concerned about the amount of expenditure and travel undertaken by the President's Office. Witnesses testified that last year a low amount was requested so it would be approved, and the office relied on anticipated supplemental appropriations to be passed. This is extremely poor planning and appears to be intended deceit. The large increase this year reflects the desire of the President to be transparent and reduce the number of supplemental appropriations. Your Committee notes, unfortunately, that the President also said this when presenting his budget for FY08.

Transparent or not, the amount requested for travel is at a level so high it cannot be justified. If the executive planned their trips effectively, secured competitive quotes for flights out of Guam and Honolulu, and considered using restricted class tickets, they could travel a great deal more for less cost.

Your Committee recommends the FY08 total amount for travel set out above for the President's Office.

Your Committee recommends approval of the proposed FY 2009 budget for the President's Office, except for the increase in travel and the SAP/State Affairs position.

**Office of the President - Public Information Office**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	59,262	59,262	59,262
Travel	15,767	14,869	14,869
Contract services	3,000	3,000	3,000
OCE	28,600	28,600	28,600
Fixed assets	7,000	4,500	4,500
<b>Total</b>	<b>113,629</b>	<b>110,231</b>	<b>110,231</b>
<b>Employees</b>	5	5	5

The Public Information Office Budget request is slightly less than last year.

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Your Committee notes that two positions appropriated for in FY08 are not yet filled - SAP/Information (\$21,800) and Secretary (\$6,599). These have been requested again. Testimony of witnesses stated the positions are indeed required, and they are currently recruiting.

Your Committee recommends approval of the proposed FY 2009 budget for the President's Public Information Office.

**DEPARTMENT OF FINANCE AND ADMINISTRATION**

An overview of proposed funding for the Department of Finance and Administration follows.

The Department's budget appears to have decreased by \$608,205, however \$720,411 of budget responsibility has been relocated: staff housing (\$591,000 for FY09) and recruitment and repatriation (\$86,411 for FY09) have been relocated to Capital and Human resource Development. Likewise, the FSM Government contribution to the FSM Group Life Insurance (\$43,000 for FY08) has been relocated to Grants, Subsidies & Contributions. Your Committee approves of these relocations.

The source of funds for the Department of Finance's budget identified in the Budget Book include \$1,934,186 of local revenue, \$221,089 Compact capacity building sector grant, requested for use by the Personnel office, and \$35,000 of FY04 carry-over from capacity building sector grant applied to contractual services within National Treasury.

**Overview**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	1,170,913	1,172,986	1,162,860
Travel	241,722	149,278	154,669
Contract services	1,082,088	617,548	140,748
OCE	259,007	238,682	216,557
Fixed assets	44,750	11,781	11,781
<b>Total</b>	<b>2,798,480</b>	<b>2,190,275</b>	<b>1,686,615</b>
<b>Employees</b>	<b>87</b>	<b>87</b>	<b>87</b>

**Department of Finance - Office of the Secretary**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
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Personnel	57,001	57,000	57,001
Travel	20,128	48,055	48,055
Contract services	1,500	1,500	1,500
OCE	40,484	42,500	40,484
Fixed assets	15,350	7,500	7,500
<b>Total</b>	<b>134,463</b>	<b>156,555</b>	<b>154,540</b>
<b>Employees</b>	<b>3</b>	<b>3</b>	<b>3</b>

For FY09, all travel related expenses have gone up. There were 4 trips in 2008, now there are 5. The biggest difference is that instead of just the Secretary going to the States (costing \$5,048 in FY08) now 3 staff from each division are going also (\$18,555). The Secretary testified that this was included to ensure that the assistant Secretaries are able to meet with each of the States. All States have unique issues, and it is very helpful to meet with them and to help resolve issues.

There is also an extra \$8,500 trip to San Francisco for JEMCO 'Consultation Meeting' and another JEMCO trip to Honolulu for \$7,500. There were no proposed trips for the Secretary for the purposes of JEMCO in FY08.

Although generally, Your Committee has attempted in all cases to contain the budget recommendations to the FY08 levels, with respect to these additional travel requests, Your Committee recognizes their importance and recommends their funding.

Your Committee recommends approval of FY08 expenditure for the FY 09 budget for the Office of the Secretary for all line items except for travel and fixed assets, for which Your Committee recommends funding the items identified in the FY09 request.

**Department of Finance - Treasury (National plus State Offices)**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	374,822	385,193	374,822
Travel	19,037	18,674	19,037
Contract services	26,800	103,800	26,800
OCE	84,000	80,000	80,000
Fixed assets	14,000	4,281	4,281
<b>Total</b>	<b>518,659</b>	<b>591,948</b>	<b>504,940</b>
<b>Employees</b>	<b>28</b>	<b>28</b>	<b>28</b>

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The Division of National Treasury has reclassified some of its staff members, resulting in promotions and demotions in salary classifications. Testimony was heard that these changes have all been approved by Personnel.

The contractual services line item has marked increase of about \$70,000. This is for:

Computer maintenance	\$30,000
Contractual Services (04 carry-over)	\$35,000
Storage space rental	\$12,000

Committee members requested information on what the carry-over capacity building revenue was initially approved for. Testimony was that this money is for an accounting advisor. Because the Compact capacity building sector grants have not been approved, Your Committee must recommend that the item funded by that grant's carry-over funds not be approved at this time.

The utilities line item is down from \$35,000 to \$16,000.

Your Committee recommends approval of the FY08 budget levels for Treasury for personnel, travel and contractual services at the FY08 level. Your Committee also approves the FY09 budget request for other current expenses and fixed assets.

**Department of Finance - Customs and Tax Administration**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	571,664	562,569	562,569
Travel	41,383	37,814	62,814
Contract services	66,588	80,448	80,448
OCE	67,391	87,500	67,391
Fixed assets	10,000	0	0
<b>Total</b>	<b>757,026</b>	<b>768,331</b>	<b>773,222</b>
<b>Employees</b>	<b>45</b>	<b>45</b>	<b>45</b>

Requested budget for both personnel is slightly less than last year. You Committee commends the amount requested.

Travel, likewise is requested at a lower level than in FY08. Your Committee, however, recommends additional funding of \$25,000 for travel between the states for customs officers in order that the division may reinstate the program under which each arriving cargo ship is cleared into a state by customs officers from at least three

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of the four states. Years ago when this program was carried out, the customs collections were increases significantly. In this time of ever decreasing Compact assistance, the division must be innovative in finding ways to increase local revenues. Your Committee recommends implementation of this program and asks the Secretary to report back to the Committee after the program has been in place for three months.

Contract Services have increased by \$13,860 because the office in Kosrae is moving to bigger premises. The rent will go from \$20,220 to \$34,080. There is also a \$20,000 increase in OCE due to increases in most line items. Your Committee urges the Secretary to continue cost cutting measures to try to keep the OCE budget within the FY08 level.

Your Committee recommends approval of the Customs and Tax Administration line items as requested with the exception of OCE, which Your Committee recommends be funded at the FY08 level.

**Department of Finance - Personnel**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	79,219	79,271	79,515
Travel	149,749	13,338	13,338
Contract services	985,200	429,800	30,000
OCE	52,234	15,284	15,284
Fixed assets	2,400	0	0
<b>Total</b>	<b>1,268,802</b>	<b>537,693</b>	<b>138,137</b>
<b>Employees</b>	<b>5</b>	<b>5</b>	<b>5</b>

The division of Personnel is requesting to delete the position of Assistant Secretary (\$23,339) and instead hire a training co-ordinator (\$19,795). They also propose to increase the salary of the OTHER assistant secretary from \$19,795 to \$23,339. Your Committee approves these changes.

Personnel subsequently submitted a correction to the budget book, stating that a staff member's salary was incorrectly posted. They have requested a total for \$79,515 for the personnel line item.

The division also informed Your Committee that the amount requested for capacity building grant (\$399,800) should have been \$221,089 as stated in the Personnel summary at page 102. The line item at page 104 required correction to this amount.

As the Compact capacity building sector grant has not been approved by JEMCO, Your Committee must recommend no funding for this item at this

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time, but does approve the \$30,000 for consultants in contractual services.

The OCE line item decreased by \$43,000 but this is because the FSM Govt Life Insurance payment has been moved to Grants, Subsidies and Contributions.

Your Committee recommends approval of the Personnel FY 2008 budget as set out above.

**Department of Finance - Investment and International Finance**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	88,207	88,953	88,953
Travel	11,425	31,397	11,425
Contract services	2,000	2,000	2,000
OCE	14,898	13,398	13,398
Fixed assets	3,000	0	0
<b>Total</b>	<b>119,530</b>	<b>135,748</b>	<b>115,776</b>
<b>Employees</b>	<b>6</b>	<b>6</b>	<b>6</b>

In the hearings for FY08, the witnesses were asked if there was sufficient money for travel. The Assistant Secretary said that this was the amount approved by the EBRC, although she constantly has to borrow within the Department Now, for FY09, the requested budget for travel has TRIPLED from \$11,425 to \$31,397. All the travel is for the assistant secretary: 5 trips - 4 of them international. One trip for \$8,500 has no justification (to Washington DC). Your Committee recognizes the need for travel to meet with the money managers, but in the current climate cannot increase travel funding to the extent requested. As with other departments, Your Committee recommends the Assistant Secretary use restricted fare (discount) airline tickets whenever feasible, to decrease the cost of individual trips.

In all other respects, Your Committee recommends approval of the Investment and International Finance FY09 budget as requested.

**CONGRESS**

The table below contains an overview of Congress' proposed FY 2009 budget.

**Overview**

	<b>FY08 App.</b>	<b>FY09</b>	<b>Committee</b>
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		<b>proposed</b>	<b>rec.</b>
Personnel	1,185,424	1,179,770	1,179,770
Travel	549,627	618,749	549,627
Contract services	631,100	641,100	631,100
OCE	687,000	667,000	667,000
Fixed assets	27,000	39,000	27,000
<b>Total</b>	<b>3,080,151</b>	<b>3,145,619</b>	<b>3,054,497</b>
<b>Employees</b>	<b>60</b>	<b>59</b>	<b>59</b>

A discussion of funding for each separate area of operations is set out below.

**Congress - Speaker and Members**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	415,290	415,290	415,290
Travel	439,881	490,497	439,881
Contract services	507,600	507,600	507,600
OCE	50,000	50,000	50,000
Fixed assets	0	0	0
<b>Total</b>	<b>1,412,771</b>	<b>1,463,387</b>	<b>1,412,771</b>
<b>Employees</b>	<b>14</b>	<b>14</b>	<b>14</b>

The expense summary for the Speaker and Members has not changed from the Congress proposal. This includes a \$50,616 increase in travel. This now includes travel to China and Washington DC for all delegations. Your Committee recommends appropriating the FY07 and FY08 amount for Travel, a reduction from the recommended \$490,437 to \$439,881. Your Committee is strongly committed to reducing governmental expenditure, or keep it at the same level in the face of rising costs.

Your Committee recommends the approval of all other line items detailed above.

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**Congress - Staff Offices**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	770,134	764,480	764,480
Travel	109,746	128,252	109,746
Contract services	123,500	133,500	123,500
OCE	127,000	127,000	127,000
Fixed assets	27,000	39,000	27,000
<b>Total</b>	<b>1,157,380</b>	<b>1,192,232</b>	<b>1,151,726</b>
<b>Employees</b>	<b>46</b>	<b>45</b>	<b>45</b>

The Staff Offices have been recommended for a \$5,654 reduction for personnel from FY 08 funding.

Unfortunately, the budget book is incorrect regarding the number of positions within the Staff Offices. SCR 15-34 clearly approves the inclusion of 4 positions for the Staff Offices, to convert contractual employees to fall under the public service system. They are listed as new positions in the FY09 budget.

Your Committee recommends approval of the proposed Staff Offices' budget at the FY08 levels for travel, contractual services, OCE and fixed assets. Your Committee approves the FY09 budget request for personnel as set out in the table above and seeks correction of the Budget Book to include the 4 positions erroneously listed as new.

**Congress - Delegation Offices**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Kosrae	70,000	70,000	70,000
Pohnpei	140,000	140,000	140,000
Chuuk	230,000	210,000	210,000
Yap	70,000	70,000	70,000
<b>Total</b>	<b>510,000</b>	<b>490,000</b>	<b>490,000</b>

The \$20,000 decrease in funding from FY08 levels appears to be a decrease in allocation to Chuuk Delegation Office. This is not really the case as the Chuuk delegation had a supplemental \$20,000 for the delegation office in lieu of \$20,000 in public projects, for renovation of the delegation office. Your Committee recommends approval of the proposed delegation office funding.

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Your Committee is also conscious of the recent audit report from the Public Auditor, which recommends that the delegation office budget be reported as line item expenditure.

**PUBLIC AUDITOR**

The table below contains an overview of Office of the Public Auditor's proposed FY 2009 budget.

Your Committee notes that the source of funds for the Public Auditor's Office identified in the Budget Book includes local revenues (\$801,726) and Compact capacity building grant (\$174,357). Your Committee further notes that the entire Compact capacity building grant was to fund the Chuuk Public Auditor's Office.

**Overview**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	550,156	528,881	528,881
Travel	207,027	182,027	182,027
Contract services	120,400	181,400	181,400
OCE	91,000	75,575	75,575
Fixed assets	7,500	8,200	8,200
<b>Total</b>	<b>976,083</b>	<b>976,083</b>	<b>976,083</b>
<b>Employees</b>	<b>25</b>	<b>25</b>	<b>25</b>

**Public Auditor - National Office**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	443,399	421,764	421,764
Travel	187,027	162,027	162,027
Contract services	95,000	156,000	156,000
OCE	67,800	54,435	54,435
Fixed assets	7,500	7,500	7,500
<b>Total</b>	<b>800,726</b>	<b>801,726</b>	<b>801,726</b>
<b>Employees</b>	<b>20</b>	<b>20</b>	<b>20</b>

The Public Auditor testified that the decrease in the level of funding for personnel is due to a reduction in the salary of two exempt positions. These are the Chief Investigator and the Audit Supervisor. The reductions are due to the fact the positions will be awarded to local staff, not expatriates who get field based loadings. The expatriates have completed their contracts (or will do so soon) and will not renew them. Staff have been selected to replace them, and

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have all required skills. In doing this, the Public Auditor is in line with the strategic development plan, by supporting, training and promoting local staff who achieve.

The increase in contractual expenses is for peer review and individual development plans - to ensure the office and its staff perform at their best and are satisfied with their personal growth.

Committee members noted that the travel line item remained the same even though travel costs had gone up (in fact, travel will be less than FY08 as \$25,000 was shifted to travel from personnel by Congress by request). The Public Auditor stated that they were conscious of not increasing their budget and would manage as best they could.

The decrease in OCE is based on actual use last year. Even with increasing costs, the Public Auditor is convinced the figures have been calculated correctly and they office will have sufficient funds.

Committee recommends approval of the FY 2009 budget of National Office of the Public Auditor's as set out in the table above.

**Public Auditor - Chuuk Office**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	106,757	107,117	107,117
Travel	20,000	20,000	20,000
Contract services	25,400	25,400	25,400
OCE	23,200	21,140	21,140
Fixed assets	0	700	700
<b>Total</b>	<b>175,357</b>	<b>174,357</b>	<b>174,357</b>
<b>Employees</b>	<b>5</b>	<b>5</b>	<b>5</b>

The Chuuk Public Auditors office was established in FY07 and was funded in FY07 and FY08 by Compact capacity building grants of \$261,284 and \$174,357. For FY09, it has been proposed to again fund the office through the Compact capacity building grant. However, JEMCO Resolution 2008-02 indicates that only limited Compact capacity building grant funds will be authorized. It appears that none of the \$600,000 approved by JEMCO for the Compact capacity building sector grant will be available to the National Government. Therefore, Your Committee recommends that the Public Auditor's Office - Chuuk be funded through local revenues.

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Your Committee is informed that the two vacant positions listed in the budget book have been filled and therefore the personnel figure is an accurate estimate.

In FY08, an additional \$1,000 of domestic revenue was appropriated for fuel for the generator and this amount was added to the sector grant. The increased amount is not approved for FY09.

Your Committee recommends approval of the FY09 budget of the Chuuk Office of the Public Auditor's as set out in the table above, funded by local revenues.

**OFFICE OF STATISTICS, BUDGET AND ECONOMIC MANAGEMENT, OVERSEAS DEVELOPMENT ASSISTANCE AND COMPACT MANAGEMENT**

An overview of proposed funding for the Office of SBOC follows.

The source of funds for the Office of SBOC's budget identified in the Budget Book include \$1,245,086 of local revenue and \$46,798 of Compact capacity building sector grant, requested for use by the Division of Compact Management.

**Overview**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	604,011	679,609	604,011
Travel	114,781	161,409	105,259
Contract services	252,000	266,307	202,000
OCE	124,059	160,059	124,059
Fixed assets	13,500	24,500	13,500
<b>Total</b>	<b>1,108,351</b>	<b>1,291,884</b>	<b>1,048,829</b>
<b>Employees</b>	<b>39</b>	<b>42</b>	<b>39</b>

The Office of SBOC was a new creation in the Executive reorganization in FY08, and contained four divisions. In FY09, another division is proposed - "Office of the Director".

Your Committee heard testimony that the current level of funding for SBOC is not sufficient to complete all of its mandated activities. Your Committee notes that the Office has 18 pages of outputs included in the Budget Book.

Your Committee is concerned about the scope of SBOC's activities and powers. When initially formed, it was promised SBOC would reduce government spending and increase efficiency by streamlining and centralizing processes. However, the FY09 budget contains little

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reduction in the operating budgets of the departments that have lost duties to SBOC, and a large increase in the SBOC operating budget.

Your Committee is deeply disappointed that the SBOC budget is increasing, not decreasing. Your Committee cannot recommend further increases in funding and extra personnel for the Office of SBOC, as it appears counter productive to the President's promise of a 2<sup>nd</sup> phase of the reorganisation. The President promised Congress that after the initial reorganisation, there would be significant cuts to governmental expenditure and the number of positions within the government. The exact opposite is occurring.

**Office of SBOC - Office of the Director (Administration)**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel		93,747	
Travel		8,853	
Contract services		0	
OCE		30,000	
Fixed assets		18,000	
<b>Total</b>	<b>0</b>	<b>150,600</b>	<b>0</b>
<b>Employees</b>	<b>0</b>	<b>6</b>	<b>0</b>

This is an entirely new office - the Office of the Director. Its requested budget is \$150,600 in total. The office has six staff members, with

**3 new positions:**

Deputy Director \$25,000  
Secretary I \$ 6,598  
Executive Secretary \$12,154

**Taking other positions from:**

Director \$28,340 OCM  
Admin Officer II \$15,056 OCM (was \$14,263)  
Secretary I \$ 6,599 Statistics

The Office also requests a representation fund. Currently, all executive departments have a central fund administered by the Office of the President for representation expenses. Testimony from SBOC stated that it is inconvenient for them to access the shared fund. However, Your Committee notes that the general fund has not been decreased by this amount in the FY09 budget. Further, if one Office manages its own representation fund, all should. It does not recommend funding the representation expenses.

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There is travel for Director and Admin Officer (2 trips). Your Committee notes that travel for the Director is dispersed throughout the other offices of SBOC, resulting in a great deal more travel for the Director than listed for his office.

Under fixed assets, a new copier is requested. Your Committee approved the purchase of a new copier last year for SBOC (Statistics). Testimony from witnesses revealed that this money was reprogrammed for office renovation.

Your Committee does not recommend the establishment of this division.

**Division of Statistics**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	247,908	259,400	247,908
Travel	7,686	17,352	7,686
Contract services	0	5,307	0
OCE	67,000	67,000	67,000
Fixed assets	13,500	0	13,500
<b>Total</b>	<b>336,094</b>	<b>349,059</b>	<b>336,094</b>
<b>Employees</b>	<b>21</b>	<b>21</b>	<b>21</b>

This department has some personnel shifting. They have acquired an IT Technician from Compact management, and lost a Secretary 1 to the office of the Director.

\$10,000 in extra travel (all domestic) is requested.

The FY09 request includes \$5,307 for lease of office space in Yap, which was not in the FY08 budget. Testimony revealed that this was paid in FY08, via reprogramming. This expense is incurred as a result of the original office being damaged years ago in the typhoon. New office space is yet to be provided (at no cost, as specified by an MOU) by the Yap State Government, citing no available space, and the rental on the privately leased office space must be paid.

Your Committee recommends approval of only the FY08 level expenditure for this division's FY 2009 budget as set out above.

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**Division of Budget and Economic Management**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	187,583	221,276	187,583
Travel	22,425	48,252	22,425
Contract services	2,000	1,000	2,000
OCE	23,059	24,059	23,059
Fixed assets	0	2,500	0
<b>Total</b>	<b>235,067</b>	<b>297,087</b>	<b>235,067</b>
<b>Employees</b>	<b>11</b>	<b>11</b>	<b>11</b>

This Division has requested an extra \$33,693 for Personnel. There were four vacant positions last year, only one has been deleted for FY09. Two of the 2 vacant positions have SALARY INCREASES:

- a. vacant chief economist from \$27,250 to \$30,000; and
- b. vacant Macro economic analyst from \$15,056 to exempt at \$27,250.

Testimony from witnesses stated that they are having trouble filling the chief economist position, so are increasing the salary. The Macro economic position is highly specialised, and therefore should be exempt. However, the micro economic analyst stays at \$15,056. Witnesses stated this was because the microeconomic specialist is not as crucial as the macroeconomic specialist.

The other new position requested is the Chief Budget Officer (\$23,359). To accommodate this, SBOC witnesses stated that they deleted a Secretary 1 position and deleted the Vacant Economic Analyst position (\$15,056).

The travel for this division has more than doubled - rising costs were cited as the reason.

Your Committee recommends approval of only the FY08 level expenditure for this division's FY 2009 budget as set out above.

**Division of Overseas Development Assistance**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	34,989	34,989	34,989
Travel	0	11,804	0
Contract services	0	60,000	0
OCE	0	5,000	0

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Fixed assets	0	4,000	0
<b>Total</b>	<b>34,989</b>	<b>115,793</b>	<b>34,989</b>
<b>Employees</b>	<b>1</b>	<b>1</b>	<b>1</b>

This Division Budget has increased from \$34,989 to \$115,793 - an \$80,084 increase

When the President requested the approval of this new division in FY08, this "Division" contained only one staff member, a Grant Writer transferred from the Department of Finance and Administration.

Your Committee clearly expressed its reservations about the effectiveness and necessity of a Division staffed by only one member, but deferred to the President's vision and approved of this division's FY 2008 budget. As predicted, this Division is now requested and additional \$80,084 for FY09. Your Committee cannot foresee how the President intended this Division to function, and is deeply disappointed with the way in which the division has been created.

The \$60,000 for contractual services is intended for one or two part-time employees to assist with grant writing as needed. Peace corps volunteers or COM teachers were mentioned as the envisaged staff. Your Committee cannot see how 2 part time casual grant writers could cost \$60,000 per year, as the Full time grant writer receives \$34,989.

In addition, new fixed assets are requested, an air conditioner, 2 laptops, and office furniture.

Your Committee recommends the FY08 level of funding be maintained.

#### **Division of Compact Management**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	133,531	70,197	133,531
Travel	84,670	75,148	75,148
Contract services	250,000	200,000	200,000
OCE	34,000	34,000	34,000
Fixed assets	0	0	0
<b>Total</b>	<b>502,201</b>	<b>379,345</b>	<b>442,679</b>
<b>Employees</b>	<b>6</b>	<b>3</b>	<b>6</b>

The Division of Compact Management has had \$63,334 removed from it Personnel line item:

- o Remove IT Tech to Statistics

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- o Remove Director to Office of the Director
- o Remove Admin Officer II to Office of the Director

The positions of education specialist and health specialist were funded by Compact capacity building sector grants in the past and the Budget Book identified this source of revenues again for FY09. Although the Budget Book indicates that the positions are vacant, they have in fact both been filled. Unfortunately, JEMCO Resolution 2008-02 did not indicate any Compact capacity building sector grants were to be released to the FSM National government. Your Committee therefore approves continuation of these positions, funded from local revenues.

Travel for this division contains **DIRECTOR** travel for over \$25,000. The \$50,000 less in OCE is a reflection of a \$50,000 per year reduction in the salary for the legal counsel in Washington.

Last year, Your Committee noted with disappointment that the Division of Compact Management had exactly the same budget as the initial proposed FY 07 Budget. It was hoped that the re-organization plan would make the Compact Management process more effective and more streamlined, but that did not occur. In deference to the President, with the exception of the Personnel line item, Your Committee recommended approval of this division's FY 2008 budget, but expressed the desire that after the first year, the Division of Compact Management would be revitalised and streamlined to perform optimally. This does not appear to be the case.

Your Committee will not recommend any changes to this division until it is satisfied that the President has a clear goal for the improvement of delivery of services. It is not satisfied the proposed changes fulfil this requirement. Your Committee recommends the amounts set out above.

**SPECIAL PROGRAMS**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
Personnel	0	0	0
Travel	0	10,000	0
Contract services	0	0	0
OCE	0	0	0
Fixed assets	0	0	0
<b>Total</b>	<b>0</b>	<b>10,000</b>	<b>0</b>
<b>Employees</b>	<b>0</b>	<b>0</b>	<b>0</b>

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The President requests \$10,000 for travel for the National Authorizing Committee (ACP/EU). This would enable the 5 members of the National Authorizing Committee to travel to Brussels and also for three state counterparts to travel to Pohnpei for discussions.

While recognizing the importance of the Cotonou Agreement, Your Committee would recommend that the President seek other funding sources for this activity. Therefore, Your Committee recommends \$0 for this travel.

**GRANTS SUBSIDIES AND CONTRIBUTIONS**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
<b>Office of the President</b>			
Asia Pacific Inst. Broadcasting Development (AIBD)	4,500	4,500	4,500
Asia Pacific Broadcasting Union	800	800	800
Pacific Island News Association	350	350	350
<b>Department Of Finance</b>			
OCO Membership	4,000	4,000	4,000
Financial Management System - Maintenance fee	60,000	30,000	30,000
FSM Group Life Insurance*	43,000*	43,000	43,000
National Authorizing Committee ACP/EU	10,000	10,000	0
<b>SBOC</b>			
Budget and EM Consultative Meeting	0	30,000	0
CEC and EPIC meetings	0	35,000	0
Cotonou Membership fee	10,000	10,000	10,000
<b>Other</b>			
Compact Review Committee	50,000	200,000	0
Single Audit Fee (National Government and States)	329,250	329,250	329,250
MLFC loan payment	196,000	200,000	0
Former Presidents Allowance	0	0	50,000
<b>Total</b>	<b>664,900</b>	<b>886,900</b>	<b>471,900</b>

**\*This amount was formerly appropriated under The Department of Finance.**

Your Committee notes that an appropriation for "National Authorizing Committee ACP/EU" for \$10,000 was included in the Budget Bill transmitted by the President, however, the Budget Book does not include a grant for this item, therefore Your Committee does not recommend allowing the grant for this item.

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After considering the request for \$30,000 for "Budget and EM Consultative Meetings"; the request for \$35,000 for "CEC and EPIC meetings", both of which are new grant requests that did not exist in last year's budget; and the request for \$200,000 for "Compact Review Committee", which is a requested increase of \$150,000, Your Committee does not recommend funding these grants.

Likewise, Your Committee recommends against funding \$200,000 for the MLFC loan payment.

Your Committee recommends an additional grant item be added to the Budget Bill for \$50,000 for allowances for the former Presidents of the FSM for FY09. Congress recently passed legislation to establish the Former President Benefit Trust Fund. This Trust Fund is intended to be a long-term solution to providing for the former Presidents.

This small grant of \$50,000 is not intended to be paid into the Trust Fund, but rather to be paid out as a pension in FY09 and subsequent years in accordance with the requirements of Title 2, Section 210(2) that limit the amount to be paid to each former President to not more than \$700 per month, provided they meet the eligibility requirements. In order to be eligible to receive the pension, the former President must not earn more than \$25,000 for the year, unless they are over the age of 60, in which case they may receive the pension regardless of their annual earnings. Your Committee is hopeful that by next fiscal year, investment conditions will have improved and contributions will be able to be made to the Trust Fund by the Congress or from outside sources. Your Committee recommends that the Secretary of Finance administer this allowance and recommend to Congress improvements in its operation.

Your Committee recommends approval of funding for the grants, subsidies and contributions in the amounts set out in the table above.

**CAPITAL AND HUMAN RESOURCE DEVELOPMENT**

	<b>FY08 App.</b>	<b>FY09 proposed</b>	<b>Committee rec.</b>
<b>Department of Finance</b>			
National staff upgrading	50,000	150,000	50,000
Tax Reform	0	128,000	0
Staff Housing**	585,400	591,000	591,000
Recruitment and Repatriation**	0	86,411	86,411
<b>President's Office</b>			
Trust Fund	1,500,000	1,500,000	1,500,000

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<b>Office OF SBOC</b>			
Perform reporting/capacity build	350,000	200,000	0
Privatization Pub Ent.	0	50000	0
Econ/Stats capacity building	300,000	280,000	0
FSM SDP update	0	150,000	0
2010 Census	0	1,261,019	0
<b>Total</b>	<b>2,785,400</b>	<b>4,396,430</b>	<b>2,227,411</b>

**\*\*These amounts were formerly appropriated under The Department of Finance.**

Your Committee notes that the \$200,000 requested for Sector Performance Reporting was to be funded by Compact capacity building sector grant carry-over funds from FY04.

Your Committee recommends approval of funding for only the Capital and Human Resource Development line items in the amounts set out above in the column "Committee Rec".

**CONCLUSION**

Your Committee on Ways and Means has reviewed the proposed FY 2009 budget and carefully scrutinized all the information provided by the Office of the President, the Department of Finance and Administration, the Office of SBOC, the Legislative Branch and the Office of the National Public Auditor, including information relating to grants, subsidies and contributions and capital and human resource development which are in Your Committee's jurisdiction. Based upon the information and its deliberations, Your Committee recommends appropriation of each of the sums set forth above in the column entitled "Committee rec".

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Respectfully submitted,

/s/ Dohsis Halbert  
Dohsis Halbert, chairman

/s/ Setiro Paul  
Setiro Paul, member

/s/ Moses A. Nelson  
Moses A. Nelson, member

/s/ Claude H. Phillip  
Claude H. Phillip, member

Fredrico O. Primo, member

/s/ Peter Sitan  
Peter Sitan, member

Joseph J. Urusemal, member