FAICHUK EDUCATIONAL DEVELOPMENT AND RESEARCH PROJECT: 
ISSUES FOUND ON EXPENDITURES AND ON PROJECT OUTCOMES AND 
DELIVERABLES

FISCAL YEAR 2017

AUDIT REPORT NO. 2018-01

“An investment in education pays the best interest”
-Ben Franklin

Enlighten them with the purpose of learning and the
Children will thrive

Manuel L. San Jose
Public Auditor
December 19, 2018

Honorable Johnson Elimo   Honorable Mark Mailo   Honorable Innocente Oneisom
Governor                  President                   Speaker
Chuuk State, FSM          House of Senate             House of Representatives
Chuuk State Legislature   Chuuk State Legislature

RE: Audit on RIC’s Faichuk Educational Development and Research Project

We have completed the audit on Rauchholz International Consulting (RIC) project called Faichuk Educational Development and Research Project. We conducted this audit in accordance with the U.S. generally accepted auditing standards. The audit objectives were to determine whether the spending of the project funds complied with the relevant FSM/Chuuk laws and regulations, and with the terms and conditions of the Memorandum of Understanding (MOU) agreement and the grant award; and, to determine whether the RIC effectively accomplished the agreed deliverable outputs and outcomes for the project.

The results of the audit are as follows:

- Finding 1 – Certain Expenditures Not in Accordance with Laws, Regulations and Agreement
- Finding 2 - Inadequate Delivery of Project Output and Accomplishment of Outcomes. Some activities need to be defined with Measures Demonstrating Impacts and Benefits to the student learning

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

The RIC was required under the terms and conditions of both the Chuuk State Department of Education’s agreement (Memorandum of Understanding-MOU) and the grant award to comply with laws and regulations relative to the use of the grant money.

The education sector grant is hard-earned money that should be used for productive and public uses directly benefiting the students. As shown in Exhibit A on the next page, we found significant non-compliances indicating that certain expenditures were not in accordance with laws, regulations, and with agreement/grant award terms and conditions. There were apparent abuses and misuses of funds. For example, the funds were spent for personal expenses, household supplies and gadgets such as iPhone and Mac Book laptop. We would like to highlight two non-compliances. The first one was the use of the fund for improving private facility by renovating and constructing houses for expat workers that cost about $198,000. Further, this transaction appeared to violate the law on conflict of interest. The control to mitigate the conflict of interest was not implemented.
The construction was against both the JEMCO and the Chuuk State constitutional policies. The JEMCO policy prohibits using the grant money to establish structure in a private land. The Chuuk State Constitution, on the other hand, requires that the government money shall be used only for public purposes. The RIC justified that the place was the only safe housing facilities in the area and that the activity to construct the houses was part of the approved project proposal. This justification, however, was not properly documented and approved.

The second highlight is the apparent violation of laws and regulations on income tax withholding, social security tax and the mandatory health care insurance deduction. The audit of these statutory deductions based on judgmental sample yielded a total underassessment of taxes amounting to about $61,000 for calendar years 2016 and 2017. Because of the continuous diminishing of collections, the Chuuk State government is very much in need of revenue to sustain its operations and the provision for public services especially for education and yet the taxes due to the government were not correctly assessed by the RIC, and voluntarily deducted and remitted to the government.

In addition, we also want to highlight the existing practice on reprogramming of budget when it comes to Compact funded activities. In our observation, it was not a sound practice and appears a violation of the existing laws. We noted that a detailed line-item budget (travel, consumables and contractual) was initially appropriated by the Legislature for the RIC and yet one day after the appropriation, the line-item was changed and totally lumped to contractual in the budget system and overridden merely by a request from the RIC to the Grant Manager.

We found this practice not sound and appearing to be inconsistent with the power, vested only to the Legislature, to appropriate funds pursuant to a public purpose and, more so, with the requirements for Finance to obligate funds for the purpose specified by an appropriation (CSL No. 10-09-10 Section 6.1). Thus, the existing line-item budget for RIC is not based on appropriation by the Legislature.

We raised the issue because the RIC is a recipient of a grant according to the intent and purposes of the Legislature (appropriated with several budget line-items). The entire budget was immediately re-classified into Contractual. Consequently, this led the RIC to insist and act as contractor and, accordingly, spent the grant money without the proper guidance of the related laws and regulations on incurring of expenditures/expenses. It should be noted that the requirements to be complied with by a grant recipient are more prescriptive and rigid (to abuses and misuses of funds) than the requirements for a contractor.

The performance measure; in terms of outcomes, impacts and benefits for a grant-funded project; for any major activities of the government is a law, or should be a law. In implementing the RIC project, the project manager must be able to demonstrate how the RIC is progressing towards the achievement of results, impacts and benefits to the beneficiary students of the services. Importantly, the improvement in the student learning in terms of academic achievement is the ultimate results that are expected and thus be reported and monitored regularly (e.g., quarterly and yearly) to ensure the achievement.
On the agreed deliverables for the RIC project, we found that there was inadequate delivery of outputs and accomplishment of outcomes. The summary of the related findings can be found in the Exhibit A of this report. Further, we were unable to assess the desirable results of some of the major activities in the project in the absence of defined outcomes and measures agreed in the MOU.

We discussed the draft report with the RIC Management and with the Board of Education during the exit conference. There was no conflict with the findings in the draft report with the Board of Education. The RIC Management, on the other hand, raised issues and we modified the draft report to include them, when found necessary.

We revised the draft because of the exit conference. We again gave the edited draft report to the RIC Management and to the Board of Education for formal management response. We did not receive any response from the Board of Education within reasonable time and so, we are issuing this final audit report without their formal management response. On the other hand, we received the management response from the RIC Management and their comments are in conflict with the findings in the edited draft report. Since we disagreed with the RIC’s comments, we explained the disagreement under the section for “OCPA’s Evaluation of Management Response”. Based on our professional judgment, it is not necessary to modify the report based on the comments of the RIC Management.

In this audit, we found apparent violations of laws and regulations. We recognized that whether those violations are in fact violations of laws and regulations, contracts or disagreement may have to wait final determination by a court of law or other adjudicative body.

Respectfully yours,

Manuel L. San Jose Jr., CPA, CIA, CISA, CRMA, CGAP, CFIP
Public Auditor
Chuuk State, FSM
Exhibit A – Summary of Findings 1 and 2

Finding 1 – Certain Expenditures Not in Accordance with Laws, Regulations and Agreement

1 Inadequate Financial Management and Internal Control System
   a. Inadequate Financial Management System
   b. Ineffective Internal Control System
   c. No Proper Segregation of Function in the Approval of Transactions
   d. No Monthly Bank Reconciliation
   e. Bank Account was Shared with Other Funds
   f. Duplicate Check Number
   g. Petty Cash Fund System Not Maintained
   h. Signer is the Same Person Writing the Check

2 Regulations requiring proper supporting documentations not followed
   a. Payment of Salaries not Supported with Time and Attendance Report $490,399.00
   b. Four individuals were paid with salaries and wages or with paid travel tickets without contract on file $14,452.85
   c. Additional Salary/Fee made the end of the Contract Period was Questionable and without Supporting Contract $20,400.00
   d. Duplicate Gasoline Invoice Numbers $3,582.00
   e. Reimbursement of Expenditures Incurred before the affectivity of the MOU and the funding period, and Not Supported by Proper Documentation (note: expenditures before 10/1/16 was approved though by the Grant Manager) $76,333.00
   f. Payment of lawyer services was not supported by proper documentations. No Contract on file. $82,000.00
   g. Rent Payment Based on Scribbled Notes and not supported by a contract $6,650.00

3 Various violations of the Regulations
   a. Regulations’ Restriction on Making Salary Advances was Violated $40,564.00
   b. Fully paid Salaries amounting to $30,250 before the actual Arrival date of workers to Chuuk State $30,250.00
   c. Excessive payments for Travel Allowance $30,254.53
   d. Overspending on Travel Expenses (versus approved
Financial Proposal) Without Prior Approval $45,400.00

e. Expenditure Incurred Not Within the Grant Funds Availability Period $2,500.00

f. Unallowable Household Supplies $18,088.00
g. Unallowable Meeting Expenses $6,112.13

h. Renovation/Construction of Houses in a Private School Compound $108,000.00

i. Procurement of Materials for the Renovation/Construction of Housing Facilities Not Competitive

4 Accounting Issues

a. Salaries Incurred and Paid in FY 2017 but booked in the 1st Quarter of FY2018 $18,345.00

b. Misclassified allowance $3,171.91

c. Expenditure incurred for airline ticket was erroneously coded under Salaries. $1,503.00

d. Travel Expenditures Incurred and Paid in FY 2017 but booked in the 1st Quarter of FY2018 $41,758.00

e. Purchases of Gas Range Ovens was Misclassified Under Travel Expenses $3,216.13

f. Small Amounts but Valuable Assets Not Monitored to Provide Accountability (note: included were purchases of iPhone cellphone and Mac Book computer) $7,635.00

5 Appeared Violation of the law

a. Under Assessment of Income Withholding Social Security Taxes and Health Care Plan $60,855.00

b. Withholding Statement not provided to Employees for Calendar years 2016 and 2017

c. Potential Issue on Conflict Interest
Finding 2 – Inadequate Delivery of Project Output and Accomplishment of Outcomes. Some activities Need to Have Measures for Achieving Desirable Results for the Students Who are the end-recipient of the Services

1. 10% Increase in Students Passing the FSM National Minimum Competency Test Not Achieved
2. 20% increase in Students Passing Various College Entrance Tests Not Achieved
3. No record to Verify Whether the RIC conducted Daily Classes for a total of 500 students.
4. No Outcomes and Measures were Set for the mentoring of 20 of Local Teachers
5. No Outcomes and Measures were Set for the 24 training sessions for the Teacher
6. No Outcomes and Measures were set for the Collection of data on weekly teacher and student attendance
7. No Outcome was set for the Monthly sessions with community leaders and students on the ethics, conflict resolution and aggression
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INTRODUCTION

We conducted this audit based on the request by the House of Representatives, Chuuk State Legislature.

Background

Chuuk State Government: Department of Education

Article X Sections 1 to 4 of the Chuuk State Constitution provides for the legal framework for the establishment of the education system in Chuuk. It states “…the State Government shall provide free compulsory public elementary and free public secondary education (Section 1). The State Government shall also provide for the establishment, management and support of nationwide system of public schools, which provide, within the limits of its resources, an education of quality and relevancy, free from sectarian control and available to all persons in the State of Chuuk…” (Section 2).

Further, the constitution provides that “…there shall be a governing Board of Education, consisting of eight members, with each member appointed by the Governor with the advice and consent of the Senate” (Section 3).

The eight members of the Board of Education (the Board) serving a five-year term compose of the following members: (Sections 3 to 5 of CSL No. 191-15)

- Five members appointed from the senatorial regions of Chuuk State shall possess at least an Associate degree in any field of studies.
- One member each (or two members) from Public School System and from Private School System shall possess at least an Associate degree in any field of studies and shall have at least five years of working experience in Education.
- One member who is an expert in the field of education shall possess at least a Master’s Degree in education or related field and shall have at least 10 years of teaching or administrative experience.

The Board members elect among themselves a Chairman, Vice Chairman and other officers as deemed necessary. The Director of Department of Education serves as the Executive Director of the Board and carries out such duties and functions assigned by the Board. The Executive Director attends all the meetings of the Board but has no power to vote.

The Board provides for a centralized control and direction and formulates policy for the Chuuk educational system that would improve the quality of education offered to the students. The Board also provides for the overall leadership and guidance for the education system from preschool to high school and to some elements of vocational education.

The Director of the Chuuk State Department of Education

The Director of the Department of Education is appointed by the Governor with the advice and consent of the Senate from among three candidates nominated by the Board of Education
(Section 4 Article X of the Constitution). The Director, who is responsible for the day-to-day administration for education system, reports to the Board of Education.

The Department of Education provides for a statewide system of public schools and instructions pursuant to Article X, Sections 2 and 4 of the Chuuk State Constitution. The Director heads the central office of the department consisting of three divisions linked to five regional service centers with the following responsibilities:

1. Division of Administration and Personnel – is responsible for budget, payroll, personnel, contracts, facilities and maintenance, transportation and communication.
2. Division of Planning and Development – is responsible for school data, grant writing, planning and research.
3. Division of School Support, Curriculum, and Instructions – is responsible for curriculum, assessment, training, certification, student services and accreditation.
4. Regional Service Center – is responsible for the establishment of regional service center in each region such as:
   4.1. Northern Namoneas
   4.2. Southern Namoneas
   4.3. Faichuk
   4.4. Mortlocks
   4.5. Northwest

Each regional center is responsible for school supervision, instruction, training, school data, communication, special education and administrative functions.

Chuuk State Department of Education Budget FY 2016-2017

The two-year Chuuk State Education Budget is presented below. On per line item budget, there was a budget increase of 25% and 22% from FY 2016 to FY 2017 for Contractual Services and Other Consumable Expenses, respectively. Overall, there was 7% increase in budget.

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual Services</td>
<td>2,698,896</td>
<td>3,395,306</td>
<td>25%</td>
</tr>
<tr>
<td>Other Consumable Expenses</td>
<td>2,899,379</td>
<td>3,544,210</td>
<td>22%</td>
</tr>
<tr>
<td>Personnel</td>
<td>7,523,748</td>
<td>7,237,540</td>
<td>(4%)</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>435,660</td>
<td>368,634</td>
<td>(15%)</td>
</tr>
<tr>
<td>Travel</td>
<td>146,568</td>
<td>165,357</td>
<td>13%</td>
</tr>
<tr>
<td>Total</td>
<td>$13,704,251</td>
<td>$14,711,047</td>
<td>7%</td>
</tr>
</tbody>
</table>

Strategic Development Plan for Education in the Federated States of Micronesia (FSM)

The 20-year period (2004 to 2023) Strategic Development Plan (SDP) of the FSM had laid down the goals, objectives, policies and strategies, which the Chuuk State should pursue for Chuuk State Education. The expected outcomes of the plan were to produce students with necessary knowledge, skills and attitudes; learners and achievers and who would in turn, do their share in
achieving the national goals of economic growth and self-reliance for the FSM. Particularly, the Department of Education should achieve the following goals for education:

1. Improve the quality of learning
2. Improve the quality of teaching
3. Consolidate performance monitoring and data based decision-making system
4. Strengthen participation and accountability of the education system to communities
5. Make education relevant to the lives and aspirations of the FSM people.

Aside from the strategic goals, the SDP also laid down the corresponding objectives, activities, target outputs, risks, target outcomes, and ways and means to achieve the strategic goals.

With an assessment that majority of students in high school were up to five years behind in their grade levels, it would seem that the SDP is still at infant stage for Faichuk region.

**Faichuk Educational Development and Research Project (The Project)**

Based on the background information provided in the MOU, Faichuk region is one of the most disadvantaged and neglected region in Chuuk State as far as education is concerned. Based on the yearly school assessment, the learning ability of both elementary and high school students in the region was continuously below par. The students, in this case, would require exceptional methodologies and multi-layered approach to enhance their education. The Rauchholz International Consulting (RIC) proposed the Faichuk Educational Development and Research Project (The Project), with a total first-year financial proposal amounting to $1,386,972.00, to provide for educational services and build human capacity in the region. The Board of Education, through its Chairman, forwarded the proposal to the Governor on March 24, 2016. On May 12, 2016, the Governor endorsed the proposal with instruction to the Board to secure the final stage of approval for the project’s immediate implementation.

The Chuuk State Government and the Chuuk State Department of Education (CSDOE), Federated States of Micronesia AND Rauchholz International Consulting (RIC) entered into a Memorandum of Understanding (MOU) to implement the project. The Board of Education reviewed, recommended and supported the MOU. The project focused on Foson Elementary School and Faichuk High School (Kindergarten to Grade 12), some schools in Manaio and other surrounding schools. As agreed in the MOU, the RIC would provide teachers for vocation and non-vocational purposes in the classroom and the community. The Governor approved the MOU on December 6, 2016. The period in the MOU began on May 1, 2016 and ended on July 31, 2017, renewable for another three-year period until July 31, 2020.

The approved MOU for the first year provides for three different periods:
1. Grant Award Period – October 1, 2016 to September 30, 2017 (12 months)
2. MOU Budget for full school year starting August, 2016 to July, 2017 (12 months)
3. MOU Duration – May 1, 2016 to July 31, 2017 (15 months)

To determine the allowable costs/expenditures incurred during the period of performance, we referenced to the grant award period, which is October 1, 2016 to September 30, 2017.
The MOU defined the respective roles and responsibilities of the RIC and the Chuuk State Department of Education for the project as well as the deliverable outputs and outcomes as shown in the following Appendices of the this report:

- Appendix A - Measureable Outcomes
- Appendix B - Responsibilities of the RIC
- Appendix C - Responsibilities of the Chuuk State Department of Education

Rauchholz International Consulting (RIC) as a Sole Proprietor

According to the MOU, the RIC is a profit organization but does not intend to generate profit from the project. It shall therefore integrate the project with integrity into a non-profit academic institutional framework based at Heidelberg University, Germany by June 30, 2016. Such a model shall maximize the availability of human and financial resources to be invested in the development of the best educational practices in order to optimize capacity building in the Faichuk region.

The RIC initially established itself as a Sole Proprietor type of business at Faichuk region. Tol Municipality in Faichuk, where the project is located, issued business license to RIC on December 1, 2016. On the other hand, the Division of Commerce and Industry under the Department of Administrative Services granted its foreign investment permit on May 31, 2017.

Rauchholz International Consulting (RIC) as Non Profit Organization

The RIC later incorporated itself as a non-profit organization. According to a document, the officers held the first meeting as a non-profit organization on September 11, 2017 (FY17) wherein the Board of Directors and Officers unanimously adopted By-laws and Articles of Incorporation with the same set Board of Directors and Officers:

- President – Dr. Manuel Rauchholz
- Vice President – Dr. Mihamm Kim-Rauchholz (wife of the President)
- Secretary and Treasurer – Mr. Matthias Schulz

On February 9, 2018 (FY18), the Chuuk State Governor approved the corporate charter (as non-profit organization). The Chuuk State Division of Commerce and Industry issued a certificate of Corporate Charter on the same date. However, the RIC President said that the conversion to a non-profit organization did not materialize immediately since the RIC was still implementing the grant (for FY17 and FY18) it received as a Sole Proprietorship entity. Mr. Rauchholz said that the operation of the RIC as a non-profit organization did start officially in October 2018 (FY19).

According to Articles of Incorporation, the objectives of the RIC as a non-profit organization are as follows:

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1 Based on the certificate, the actual date was February 9, 2017 (one year backward). Also, the original month which was December (December 9, 2017) was manually changed to February without the signature of the person authorized to issue the certificate.
1. To provide access to international academic and vocational educators who will enhance the quality of education delivered to students, teachers, and people of Chuuk State and the FSM and will provide job and life skills for many.

2. To cooperate with governmental and non-governmental agencies and any person where such cooperation is instrumental in promoting the goals and objectives of RIC to build human capacity in Chuuk State and the FSM.

3. To support and facilitate cooperative educational activities and research relevant to the goals and aims of RIC.

   This may include joint cooperation with FAS and forging institutions of higher learning to promote teacher education, research in education, public health, anthropology, history, law, the environment and/or developmental issues only to name a few.

4. To solicit and accept gifts, donations and support assistance, financially and in kind, from government entities and non-governmental organizations, agencies, foundations, and educational institutions both from within and outside of the United States and the FAS and to include International, Regional, and Sub-regional organizations whose goals and education, development and research are in alignment with those of the Chuukese and Micronesian societies.

FY 2017 RIC Budget

On October 17, 2016, the U.S. Office of Insular Affairs (OIA) obligated a grant award for the project amounting to $1,386,986 for the grant period (fiscal year 2017) from October 1, 2016 to September 30, 2017. The funding source came from prior year unused Chuuk State Sector grant for education. Based on the award, the OIA offered the funds as a lump-sum amount without line-item allocation (such as personnel, travel, contractual, fixed assets, and other consumable expenses).

The Chuuk State Legislature appropriated and obligated the grant initially under budget line items such as contractual services, travel and consumables. The OIA Grant Manager later on approved the RIC’s request to reprogram the whole budget to Contractual Service ($1,327,494). The approval was implemented in the budget system. On October 26, 2017, the Chuuk State Legislature appropriated an additional $59,492 to bring the whole appropriation equal to the grant amount of $1,386,986.

<table>
<thead>
<tr>
<th>Line Item Budget</th>
<th>Original</th>
<th>Reprogramming/Supplemental</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11/29/16</td>
<td>12/5/2016</td>
</tr>
<tr>
<td>8101 Travel</td>
<td>$112,360</td>
<td>0</td>
</tr>
<tr>
<td>8202 Consumables</td>
<td>50,000</td>
<td>0</td>
</tr>
<tr>
<td>8301 Contractual Service</td>
<td>1,165,134</td>
<td>$1,327,494</td>
</tr>
<tr>
<td>Total</td>
<td>$1,327,494</td>
<td>$1,327,494</td>
</tr>
</tbody>
</table>

Purposes per allotment form:
A. To allot educational sector carry-over funds

B. To reprogram travel funds ($112,360) and consumables ($50,000) to Contractual Services.
Note 1: After the allotment was made on November 29, 2016, the RIC requested for the reprogramming of its budget through email and the Education Sector Grant Manager approved the request through an email also dated December 1, 2016. The Budget Section implemented the reprogramming in the budget finance system on December 5, 2016.

Note 2: According to the RIC’s email, the reprogramming was requested to simplify the administrative process and to avoid the Chuuk State Finance Administrative processes (e.g., travel ticket processing, purchases of assets and supplies). The reprogramming (changing the original budget line-item appropriation authority) was effected without further appropriation (re authorization of expenditures) from or prior notice to the Legislature. The Budget Officer said that it has become a practice\(^2\) that for the reprogramming of budget funded by the Compact Sector Funds, only the approval of the concerned grant manager is sufficient.

Note 3: According to the RICs email, the request would change nothing with the reporting and compliance issues but speed up the issuing of funding for past and future expenditures much needed to continue their work on the ground.

C. To allot additional educational sector carry-over funds amounting to $59,492.

The RIC received the funds on installment and deposited them to its bank account:

<table>
<thead>
<tr>
<th>Date of Deposit</th>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 8, 2016</td>
<td>2017</td>
<td>$ 758,568.00</td>
</tr>
<tr>
<td>February 16, 2017</td>
<td>2017</td>
<td>379,284.00</td>
</tr>
<tr>
<td>August 3, 2017</td>
<td>2017</td>
<td>126,428.00</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>2017</strong></td>
<td><strong>$ 1,264,280.00</strong></td>
</tr>
<tr>
<td>October 6, 2017</td>
<td>2018</td>
<td>63,214.00</td>
</tr>
<tr>
<td>November 22, 2017</td>
<td>2018</td>
<td>59,478.80</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>2018</strong></td>
<td><strong>$ 122,692.80</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$ 1,386,972.80</strong></td>
</tr>
</tbody>
</table>

In this audit, the RIC presented the accounting of the total grant it received for the first year MOU amounting to $1,386,972.80 with the corresponding expenditures.

Sub-recipient and Contractor Determination

It is an important decision to distinguish between a grant recipient and a contractor. One of the biggest reasons is that a sub-recipient is required to comply with the applicable program requirements, which are passed-down from the pass- through entity (e.g., Chuuk State DOE) to the sub-recipient (e.g., RIC). A contractor is not subject to the same compliance requirements of the program. The compliance requirements for a grant recipient are more restrictive and rigid than the compliance requirements for a contractor.

\(^2\) This is not a sound practice and appears not consistent with the power of the legislature to appropriate funds pursuant to a public purpose (Article VII Section 2 of the Constitution) and for Finance to obligate funds for the purpose specified by an appropriation (CSL No. 10-09-10 Section 6.1)
The nature of the agreement (Memorandum of Understanding-MOU) between the RIC and the Chuuk State DOE to implement the Faichuk Educational Development and Research Project and the processing of the related payments had instigated questions to the auditor as to the type of relationship that exists between the Chuuk State of Education and the RIC. The MOU did not clearly define the relationship. The transactions, the requirements to be complied with and the appropriate funding mechanism fell into a grey area. Thus, we inquired and made an analysis to determine the relationship (Sub Recipient or Contractor) that existed.

Under the circumstances in our analysis on Appendix I of this report, the FSM National Government is the main recipient of the educational grant, the Chuuk State Department of Education acted as the sub recipient and a pass-through entity and the **RIC becomes the sub-sub recipient**. A sub-sub recipient determination is adequate because the RIC:

a. Has a responsibility for using the Compact Education grant funds to carry out a project/program approved by the Chuuk State Department of Education. The MOU provided the deliverable outcomes for the project that would support, improve, and advance the quality of the educational system in the Faichuk region. The project is not simply providing contractual services (like providing teachers and other services).

b. Has a responsibility for programmatic decision making as regards to the implementation of the approved project for the particular grant. The programmatic decision making for the project was provided for in the MOU under section II.A, which listed down the RIC’s responsibilities for the project,

c. Has a responsibility for adherence to applicable federal compliance requirements and Chuuk State laws and regulations. This was provided as the terms and conditions both in the MOU (Section IX Miscellaneous) and in the notice of grant award (section 2), which was both provided by the Chuuk State DOE to RIC.

**Objectives, Scope and Methodology**

**Objectives** – The objectives of this audit were to:

a) determine whether the spending of the project funds complied with relevant FSM/Chuuk laws and regulations, agreement, and with the terms and conditions of the contract; and,

b) determine whether the agreed output and outcomes for the project were effectively accomplished.

**Scope** – This performance audit covers the appropriated and obligated amount of $1,386,986 (Chuuk State Law 13-16 -11, as amended) to the RIC as sub recipient of the Compact Education Sector grant for Chuuk State, FSM. We conducted the audit fieldwork at the office of the RIC. We visited Foson Elementary School and Faichuk High School where majority of the RIC’s teachers were deployed. Likewise, we also visited the Faithwalk Christian College (FCC) compound wherein grant funds were used to renovate and/or to construct housing facilities for the expat teachers. Lastly, we made an ocular inspection of the assets that were purchased using the grant funds.
We performed the audit on the basis of the authority under Article VIII Section 9 of the Chuuk State Constitution and the Truk State Law (TSL), which states in part:

“The Auditor shall conduct audits of all financial transactions of all branches, department, offices, agencies and instrumentalities of the government, and of all accounts kept by or for them.”

Methodology

To determine whether the spending of grant funds complied with relevant FSM/Chuuk laws, regulations, policies and procedures; US Office Management Budget (OMB) Circular governing an NGO grant; Compact Fiscal Procedures Agreement; MOU terms and conditions; prudent practices, and others; we reviewed the RIC’s financial management system, accounting and bookkeeping procedures as well as the related financial reports. We, likewise, judgmentally selected a sample of transactions for analysis, re-computation (e.g.; salary and legal deductions), examination of supporting documentations, testing of controls, and testing of compliance with the requirements of relevant laws and regulations. We also inspected some assets that were purchased using the grant funds. Lastly, we interviewed appropriate personnel and officers to verify and confirm our understanding of the operation of certain controls and compliance requirements.

To determine whether the agreed outputs were actually delivered and the project outcomes were effectively accomplished, we reviewed and verified the actual outputs and outcomes of the project with relevant records and information. We also interviewed relevant officers and employees both from the Chuuk State Department of Education and the RIC.

We conducted this audit in accordance with the standards for performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

Prior Audit Coverage

This was the first audit conducted by OCPA for this project.

Conclusion

Based on our audit, we conclude that certain practices and expenditures of the Rauchholz International Consulting (RIC) were not in accordance with laws, regulations and the terms and conditions of the agreement. One of the most important requirements of an entity receiving grant money is to establish and maintain financial management and internal control system. We found that the RIC had inadequate financial management and internal control system. The weakness in internal control over the project expenditures is an indicative of higher risk. The contract with the RIC, which was documented using a Memorandum of Understanding (MOU), requires that the RIC should comply with all applicable laws, rules, and regulations. In addition, the grant terms and conditions of the notice of grant award also require compliance with all laws and regulations governing the use of federal grant funds.
We noted non-compliance with the requirements of the laws, rules and regulations. For example, the proper documentation supporting the expenditures was not followed. These include the expenditures made for personnel expenses, payment of lawyer services, payment for rent, and reimbursements. Further, we found violations of certain provisions of the regulations. For example, the regulations’ restriction on payment of salary advances was violated and there was overspending on travel costs and fixed assets compared to the related financial proposal (budget) amounts. We also noted unallowable expenditures.

In addition, it appeared that certain laws were violated. For example, we noted that there was under assessment of income withholding and social security (SS) taxes, as well as under deduction of insurance health care plan from workers’ payments.

We likewise noted potential appearance of conflict of interest involving transactions.

We also conclude that there was inadequate delivery of output and accomplishments of outcome and that some activities need to define outcomes and measures to be able to verify the performance in terms of impacts and benefits. We noted that the following agreed outcomes were not achieved: the increase in measurable outcomes on the FSM National Minimum Competency Standard-Based test, as well as the agreed increase in Faichukese students passing various college entrance tests. In addition, the agreement on teachers training for teacher competency examination was not conducted, and therefore, not accomplished.

Lastly, we were unable to verify the performance in terms of impacts and benefits for the following outputs in the absence of measurable outcomes and measures:

- teachers mentoring;
- collection of weekly teacher and student attendance;
- monthly sessions with community leaders and students;
FINDINGS AND RECOMMENDATIONS

Finding 1 – Certain Expenditures Not in Accordance with Laws, Regulations and Agreement

Laws, agreement, and regulations provided the requirements for the expending and accounting of funds provided for pursuant to the Compact, as amended.

The Fiscal Procedures Agreement\(^3\) with the United States provided the terms and condition concerning the procedures for the implementation of the Compact funds to including the provision allowing the Federated States of Micronesia the use of Compact Funds in accordance with the FSM laws and regulations.

Article V1 Section 1.(a).(1) of the Fiscal Procedures Agreement requires that the Government of the Federated States of Micronesia shall expend and account for funds provided pursuant to the Compact, as amended, in accordance with its laws and procedures for expending and accounting for its own fund.

The FSM Code Title 55, Chapter 3, supports “the right of the FSM States and the National Government to appropriate and expend Compact funds in accordance with their own respective laws, plans, policies and prerogatives.

In case of conflicting or duplicative guidance between the related US laws and regulations and the FSM laws and regulations, the practice has been to follow the more restrictive guidance.

In addition, the terms and conditions of the MOU between the RIC and the Chuuk State Department of Education specified, “...parties shall comply with all applicable laws, rules and regulations whether now in force or hereafter enacted and promulgated."

We found the following non-compliances with the requirements of the applicable laws, regulation, policies, procedures, and with the terms and conditions of the agreement for the spending of grant funds:

1. Inadequate Financial Management and Internal Control
2. No Proper Segregation of Function in the Approval of Transactions
3. Inadequate Handling of Cash and Cash in Bank
4. Expending of Funds for Certain Salaries and Wages Did Not Follow Laws and Regulations
5. Expending of Funds for Certain Travels Did Not Follow Regulations and the Restriction on the use of the Funds for Foreign Travel
6. Certain Expenditures Charged to Consumable were Not Allowable
7. Certain Expenditures Charged to Contractual Account was not Properly Supported and/or Unallowable
8. No Written Policies on Recording and Maintenance of Fixed Assets

The details of the above findings were as follows:

\(^3\) Agreement Concerning Procedures for the Implementation of United States Economic Assistance Provided in the Compact of Free Association, as amended,
1. Inadequate Financial Management and Internal Control

To provide for better stewardship, to safeguard assets & resources, and to provide for accountability of funds; the management should document and implement formal financial management system, internal control, budget and accounting policies and procedures. Further, the Financial Management System should allow preparation of financial statements (Balance Sheet, Cash Flow, others) and other financial reports.

Furthermore, an entity must establish and maintain an effective internal control to provide for a reasonable assurance of managing the grant in compliance with federal statues, regulations, and the terms and conditions of the award.

We found the following weaknesses in the Financial Management System:

a. Inadequate Financial Management System

The RIC was using spreadsheet (worksheet/excel sheet) to record, maintain and codify the transactions for the grant. However, this financial system was inadequate to satisfy the financial processing and reporting needs of the entity. While certain financial status reports can be generated from the spreadsheet, it has limitation when it comes to generating financial statements such as balance sheet, statement of cash flow, and other schedules needed for Financial/Single Audit. Further, the management did not maintain standard books of accounts such as General Ledger, Cash Receipts Books, Cash Disbursement Book and Journal Books to properly account its funds.

b. Ineffective Internal Control System

There has been ineffective internal control system in place. We found that there were no written internal control policies and procedures to provide for a reasonable assurance of compliance with laws, regulations, and with the terms and conditions of the award. For example, there were no written policies and procedures to comply with the budget spending, maintenance of accountability over purchases of assets or equipment, and safeguarding of funds from unauthorized and improper uses. Lastly, there were no written policies on conflict of interest.

2. No Proper Segregation of Function in the Approval of Transactions

The foundation of a good internal control system is segregation of duties. The duties of authorization (signing a check or releasing a wire transfer), custody (having access to the blank check stock or the ability to establish a wire transfer), and recordkeeping (ability to record the transaction in the accounting system) should be separated so that one individual cannot complete a transaction from start to finish. The concept behind segregation of duties is that in order to misappropriate cash, individuals would have to collude, rather than one individual acting alone.

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4 The US Office of Management and Budget (OMB) Guidance requires Single Audit for non-profit organization that received in federal funds of $750,000 or more per fiscal year be subject to single audit.
We found that there was no proper segregation of duties between cash handling and recordkeeping. The Treasurer who has been performing cash handling function has also been performing the recording function, which are incompatible functions.

As a result, the Treasurer is in a position wherein he could manage to create an irregular transaction yet could hide this from discovery through manipulation in the recording.

**Cause and Recommendations**

The Management explained that the RIC has limited staff to implement the proper segregation of function. Further, we observed that the Treasurer, who is keeping the spreadsheet to record the receipts and expenditures for the grant, has no skills in accounting.

We recommend to the RIC Management the following improvements in their financial operations:

a. Adopt/develop and implement accounting and bookkeeping procedures that would support the regular reporting of financial statements showing financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year;

b. Hire bookkeeper who will independently perform accounting and bookkeeping functions;

c. Adopt/develop and implement internal policies and procedures governing accounting, bookkeeping, chart of accounts, use of forms, cash receipt and deposit, disbursement, petty cash, bank accounts, approval of payments, procurement, employee/payroll, use of credit card, writing of check, wire transfer, conflict of interest, volunteers, fixed assets, travel, allowable activities/expenses, and others.

3. **Inadequate Handling of Cash and Cash in Bank**

   **Cash in Bank in Chuuk (Bank of Guam)**

   The RIC did not open its own account and instead used an existing personal bank account opened in March 2016 for the bank transactions. The account, though, was later changed from personal to Sole Proprietorship business account effective December 15, 2016. The bank account has only had a total deposit of $12,979.65, a total withdrawal of $12,343.98 and a balance of $635.67 on December 8, 2016 when the RIC deposited the first installment proceeds from the Compact grant amounting to $758,568.

   Based on this evidence, it appeared that the RIC did not have enough financial resources without the grant money. Thus, the grant money was practically provided to RIC in advance of the expenditures.

   We have accounted that the RIC had deposited the total proceeds ($1,386,972.8) from the Sector Grant to this account. We noted the following control weaknesses in the handling of bank account:
a. No Monthly Bank Reconciliation

All bank accounts should be reconciled on at least a monthly basis.

We found that there has been no bank reconciliation ever since the RIC used the account. As of the end of the fiscal year 2017, the bank account had a balance of $19,530.20. Furthermore, there was no controlling ledger for Cash in Bank to reconcile the actual receipts and expenditures in the spreadsheet maintained by the RIC with the transactions appearing in the bank ledger.

b. Bank Account was Shared with Other Funds

During the fiscal year, the RIC received a total of $31,434.87 from other donors as financial assistance to Faithwalk Christian College (FCC) and the Evangelical Church Chuuk (ECC) and deposited (on August 9, 2017) the amount to the bank account it was maintaining for the Compact grant. Of this amount, the $20,000 represents donation for the benefits of the FCC and the ECC; and the remaining $11,434.87 for use in buying books such as bible, and songbooks for the church.

In the absence of the bank reconciliation to reconcile the different funds and the bank balance, the sharing of bank account increased the risk that the expenditures for the different funds were mixed-up and not properly segregated and accounted for. Thus, there is risk that not all the accounted expenditures for the grant were valid.

c. Duplicate Check Number

An entity shall use serially numbered checks to document check related transactions and enhance reconciliation and accountability.

We found that 33 checks issued by the RIC worth $495,786.81 and cleared in the bank statements from October 2016 to June 2017, have duplicate numbers. Some of these duplicate check numbers cleared within the same month. Had there been bank reconciliation, the checks with duplicate serial numbers could have been found and thus, control could have been implemented. The table below showed some sample of checks with duplicate number that cleared by the banks:

<table>
<thead>
<tr>
<th>Check Number</th>
<th>Date of Check</th>
<th>Date Cleared With Bank</th>
<th>Amount</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per Bank Statement, the check # is 13017</td>
</tr>
<tr>
<td>No Check No on the face of the check when cleared (A)</td>
<td>1/30/17</td>
<td>1/30/17</td>
<td>$3,003.75</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1/30/17</td>
<td>2/6/17</td>
<td>$225.00</td>
<td>Per Bank Statement, the check # is 13017</td>
</tr>
<tr>
<td></td>
<td>3/23/17</td>
<td>3/27/27</td>
<td>$2,000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3/29/17</td>
<td>3/30/27</td>
<td>$1,855.00</td>
<td></td>
</tr>
<tr>
<td>Check Number</td>
<td>Date of Check</td>
<td>Date Cleared With Bank</td>
<td>Amount</td>
<td>Remarks</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
<td>-------------------------</td>
<td>-------------</td>
<td>---------</td>
</tr>
<tr>
<td>107 (B)</td>
<td>3/07/17</td>
<td>3/27/17</td>
<td>$1,289.75</td>
<td></td>
</tr>
<tr>
<td>109 (B)</td>
<td>3/17/17</td>
<td>3/24/17</td>
<td>$1,378.00</td>
<td></td>
</tr>
<tr>
<td>109 (B)</td>
<td>3/17/17</td>
<td>3/30/17</td>
<td>$3,200.00</td>
<td></td>
</tr>
</tbody>
</table>

Note:
(A) The RIC is manually assigning the check number as issued.
(B) The check number is pre-printed on the check

d. Petty Cash Fund System Not Maintained

During the fiscal year, the RIC withdrew a total cash of $175,203.75 for payment of operational expenditures. The cash was withdrawn either through Automated Teller Machine (ATM) withdrawal (five instances) or through a check payable to cash, or payable to the President or the Treasurer (check signers). We also observed that the President or the Treasurer was the signatory of the check payable to them.

Further, we noted that a $400 withdrawal made through ATM on June 30, 2017, was not part of the cash accounted for in the worksheet in FY 2017.

e. Signer is the Same Person Writing the Check

Internal control requires that a person approving payments should not be the person writing the check and reconciling the bank account.

We found that the RIC did not implement a ‘payment request form’. Further, the Treasurer or the President (check signer) has been making payment base on a bill or an invoice without an independent person approving the payment. Thus, there is risk that invalid payments were made.

**Foreign Bank Account in Germany (Evangelische Bank)**

The RIC also used an existing bank in Germany for its operation. On December 9, 2016, the RIC had an initial transfer of funds to this account (from Chuuk Bank account) amounting to €565,984.34 ($600,500).

The account had a balance of €16.20 at the time of transfer as follows:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Euro Amount</th>
<th>$ Amount (est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposits</td>
<td>€16,000.00</td>
<td>$16,975.73</td>
</tr>
<tr>
<td>Total Withdrawal</td>
<td>€15,983.80</td>
<td>$16,958.55</td>
</tr>
<tr>
<td>Balance</td>
<td>€16.20</td>
<td>$17.19</td>
</tr>
</tbody>
</table>

During the fiscal year 2017, the RIC transferred a total amount of $972,000 (€913,579.62) from its bank account in Chuuk to the bank account in Germany. It returned though some of the funds back to the bank in Chuuk. We have accounted for a

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5 The transaction was posted in the spreadsheet bank account monitor for Germany on December 14, 2016
total of $199,983 (€200,000) that was returned leaving a total net transfer of $772,517 (€713,579.62) to the bank in Germany. This means that the RIC had maintained about 56% of the total grant funds ($772,517/$1,386,972.80) at a bank in Germany to pay for its expenditures in Chuuk.

a. No Bank Reconciliation

Internal control requires that all bank accounts should be reconciled, at least, on a monthly basis.

There was no bank reconciliation performed to ensure that the Treasurer had fully accounted for all transactions in the bank account in Germany. Thus, discrepancies may exist but not known and reconciled.

As a result, the lack of internal control in handling of cash and cash in bank increased the risk that the grant funds may not properly accounted, protected and managed.

Cause and Recommendations

The Treasurer was not aware of the controls that should be in place for cash and cash in bank. Further, there was limited staff to segregate the functions with incompatible duties.

We recommend RIC Management to:

a) Perform reconciliation of bank accounts in Chuuk and in Germany to account all transactions posted in the bank ledger and reconcile them with the transactions posted in the spreadsheet (worksheet) record for expenditures. The bank balances should also be reconciled with RIC’s controlling account for bank balance. The differences be identified and properly explained.

b) Use check booklet with unique check number. The RIC should return to the issuing bank any check booklet having check numbers that are duplicates of previously used check numbers.

c) Operate/maintain a Petty Cash Fund (PCF) in a cash box under a custodian (accountability person). Regular replenishment should be maintained once the fund is about to deplete so that all transactions in the PCF could be recorded in a timely manner and in the proper fiscal year.

d) Implement an approval system and payment request form in signing of check such that a person requesting payment should not also be the one writing the check.

4. Expending of Funds for Certain Salaries and Wages Did Not Follow Laws and Regulations

Chuuk State FMR 4.1 requires that no funds shall be disbursed as payment for services of employees unless the following documents are on file:

a. An approved “Personnel Action Form” and /or Contract
b. A time and attendance report as to the number of hours worked by each employee during the applicable pay period.
c. Clearance form, in the event of termination,
Furthermore, the Chuuk State FMR 4.2 requires payroll deduction be made for salary tax, social security tax, and health insurance. Refer to Appendix D for the details of the related Chuuk State laws governing employee taxes.

Lastly, Chuuk State FMR 4.3 requires that payroll advances are strictly prohibited.

During the fiscal year, the RIC accounted for the following expenditures under Personnel:

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$490,399.09</td>
</tr>
<tr>
<td>Chuuk State Health Care Plan</td>
<td>16,867.08</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>33,174.05</td>
</tr>
<tr>
<td>Income Tax</td>
<td>17,303.35</td>
</tr>
<tr>
<td>Total</td>
<td>$557,744.17</td>
</tr>
</tbody>
</table>

We found the following deficiencies during our audit:

a. $422,435 payment of Salaries not Supported with Time and Attendance Report

The Chuuk State FMR requires that no funds should be disbursed as payment for services of employees unless time and attendance report are on file. We found that the RIC paid a total of $422,435 (86%) out of the $490,399 salaries and wages without properly supporting them with time and attendance report as required by the regulations.

b. Four individuals who were paid with salaries and wages or with paid travel tickets without contract on file - $14,452.85

Chuuk State FMR requires that no funds should be disbursed as payment for services of employees unless time and attendance report are on file. We found the following payments:

1. Salary payment to Employee A $9,010.85

   During the exit audit conference on October 22, 2018, the RIC Management justified that Employee A has an existing contract. We requested a copy of the contract but as of the date of this audit report, we did not receive the copy.

2. Airline ticket to Employee B - $1,730

   During the exit audit conference on October 22, 2018, the RIC Management justified that Employee B exited early and was not given any salary.

3. Airline ticket to Employee C - $1,550

   During the exit audit conference on October 22, 2018, the RIC Management provided a justification that Employee C has existing contract but for FY 2018. We requested a
copy of this contract for reference purposes but as of the date of this audit report, we did not receive a copy.

4. Airline ticket to Employee D - $2,162

During the exit audit conference on October 22, 2018, the RIC Management provided a justification that Employee D has existing contract but for FY 2018. We requested a copy of this contract for reference purposes but as of the date of this audit report, we did not receive a copy.

C. Salary Advances Were Made Amounting to $40,564

Chuuk State FMR 4.3 requires that payroll advances are strictly prohibited. However, we found that payments for salaries and wages amounting to $40,564 were made in advance. The cash advances though were later fully offset in the respective salaries of the concerned employees.

d. $18,345 Salaries and Wages Incurred and Paid in FY 2017 were booked in the 1st Quarter of FY2018

The Generally Accepted Accounting Principles require that an entity should record all financial transactions in the fiscal year they were incurred and/or paid.

From the subsequent review of payments for salaries and wages booked during the first quarter of FY2018, we noted that related expenditures amounting to $18,345 were incurred and paid in FY 2017 but were booked in the 1st quarter of FY2018. We provided the RIC with the details of these exceptions for their reference.

Thus, the FY2017 expenses for Personnel would increase by additional $18,345, making this reconcilable amount. Supposedly, this amount was accounted for as part of the expenditures for the FY2017 (first year) grant of $1,386,986.

e. Full payment of expat salaries amounting to $30,250 though they did not arrive in Chuuk on time before the start of their contracts.

Salaries are based on records that accurately reflect the work performed. Furthermore, the standard practice is to pay an expat worker salary upon the start of the travel date to the place of work.

The RIC fully paid the salaries of six expat employees even though they did not arrive in Chuuk on time before the start of their contracts. As a result, overpayment was made as follows:

<table>
<thead>
<tr>
<th>Employee</th>
<th>Monthly Fee</th>
<th>Period/Start of Contract</th>
<th>Date of Arrival in Chuuk</th>
<th>Overpayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee E</td>
<td>$ 600</td>
<td>8/01/16</td>
<td>12/2016</td>
<td>4 $2,400</td>
</tr>
<tr>
<td>Employee F</td>
<td>$ 1,200</td>
<td>8/01/16</td>
<td>11/01/2016</td>
<td>3 $3,600</td>
</tr>
<tr>
<td>Employee</td>
<td>Hours</td>
<td>Rate</td>
<td>Total Hours</td>
<td>Total Days</td>
</tr>
<tr>
<td>-----------</td>
<td>--------</td>
<td>-------</td>
<td>-------------</td>
<td>------------</td>
</tr>
<tr>
<td>Employee G</td>
<td>$1,200</td>
<td>8/01/16</td>
<td>10/21/16</td>
<td>3.5</td>
</tr>
<tr>
<td>Employee H</td>
<td>$1,700</td>
<td>8/01/16</td>
<td>11/01/16</td>
<td>4</td>
</tr>
<tr>
<td>Employee I</td>
<td>$2,500</td>
<td>10/1/16</td>
<td>01/05/17</td>
<td>3</td>
</tr>
<tr>
<td>Employee J</td>
<td>$600</td>
<td>8/1/16</td>
<td>01/2017</td>
<td>5</td>
</tr>
<tr>
<td>Employee K</td>
<td>$3,250</td>
<td>2/1/17</td>
<td>02/28/17</td>
<td>1</td>
</tr>
<tr>
<td>Employee L</td>
<td>$600</td>
<td>8/1/16</td>
<td>09/26/16</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

During the exit audit conference on October 22, 2018 to discuss the findings, the RIC Management explained that some workers did not arrive in Chuuk before the start of the contract due to the delay in the receipt of funding. The RIC management also explained that these expats did some preparation works for the job while waiting further instructions in their respective countries. Further, the RIC management explained that they honored the existing contracts with the workers.

f. Misclassified allowance for food amounting to $3,171.91

We noted some misclassified allowance for food amounting to $3,171.91 under salaries instead of coding under ‘Other Consumable Expenses’.

g. $60,855 Under Assessment of Income Tax Withholding, Social Security Tax and Health Care Plan

The laws and regulations provided the requirements with regard to the tax on salaries and wages:

- Wages and salary tax shall be assessed of all wages and salaries received by every employee, as defined. Section 121 (Taxes on Wages and Salaries) of the FSM Law Title 54 provides that… “there shall be assessed, levied, collected and paid a tax of 6% upon first $11,000 and 10% upon the amount over the first $11,000 of all wages and salaries received by every employee, as defined.”

- Salaries for services performed or rendered both within and without the Federated States of Micronesia (FSM) shall be presumed to have earned within the FSM, and thus, fully taxable within FSM. Section 124 (Sources of Wages) of the FSM Law Title 54 provides that…”If an employee is credited or paid salaries on wages derived from, or attributable to, personal services performed or rendered both within and without the Federated States of Micronesia, then the whole of the salaries or wages shall be presumed to have been earned within the Federated States of Micronesia.”

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6 RIC President, Treasurer cum Accountant and the Project Director.

7 MOU, the first installment payment should have been received by October 7, 2016 but was received by RIC on December 8, 2016. It should be noted, though, that the OIA issued the grant award on October 17, 2016, the Chuuk Legislature appropriated the related grant on November 29, 2016 and the agreement with RIC (MOU) was only signed by the Governor on December 6, 2016.
• The law defined an employee as any individual under the common law rule. According to Section 112.3 Title 54 FSMC, “Employee” means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee.

• Under the common law rule, anyone who performs services is your employee if you can control what will be done and how it will be done. This is even though you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. Furthermore, the FSM Income Tax law’s distinction between employees and business (independent contractor) reflects congressional expectation that businesses and employees are generally distinguishable on the basis of whether the generation of their income would require substantial expenditures by them, Rauzi v FSM, 2 FSM Intrm.8, (Ponphei 1985).

Some of the workers’ service contracts have indicated independent contractual relationship between the RIC and the workers classifying them as independent contractors (freelance contracts). However, the auditor noted that the RIC and the Department of Education have full control on their individual service. The teachers have to report to school on daily basis according to class schedule and have to deliver their services consistent with the school curriculum. A teacher neither can device class schedule nor can deviate from the standard FSM curriculum without proper consultation with and approval of the RIC Head and the Board. Therefore, the services of the teachers were controlled and so, they have the status of employees for income tax purposes.

We found that there was under assessment of salary deductions for income tax withholding, SS and Health Care Plan for Calendar Years 8 2016 and 2017 totaling $ 60,855 ($38,801.50 employee share and $22,053 employer share). Refer to Tables 1 and 2 below for the summary per type of deduction. We provided the RIC with details of the underassessment per employee.

Table 1 - Underassessment of Income Tax, SS Tax and Health Care Plan – Employee Share

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td># of Employees</td>
<td>Employee Share</td>
</tr>
<tr>
<td>Salary Income Tax</td>
<td>15</td>
<td>28</td>
<td>$7,349.12</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>15</td>
<td>28</td>
<td>$6,893.18</td>
</tr>
<tr>
<td>Health Care Plan</td>
<td>15</td>
<td>28</td>
<td>$3,052.14</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>28</td>
<td>$17,294.44</td>
</tr>
</tbody>
</table>

Table 2 - Underassessment of Social Security and Health Care Plan – Employer Share

---

8 For the assessment of due income tax, social security tax and health insurance premium, the basis for computation was income for the calendar year
<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># # of</td>
<td># of #</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employer Share</td>
<td>Employees</td>
<td>Employer Share</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>15 $6,893.18</td>
<td>28 $8,520.33</td>
<td>$15,413.51</td>
</tr>
<tr>
<td>Health Care Plan</td>
<td>15 $3,052.14</td>
<td>28 $3,588.15</td>
<td>$6,640.29</td>
</tr>
<tr>
<td>Total</td>
<td>15 $9,945.32</td>
<td>28 $12,108.48</td>
<td>$22,053.80</td>
</tr>
</tbody>
</table>

We noted that no tax deduction was made from employee income for calendar 2016 for the salary paid from August 2016 to December 2016. In calendar year 2017, the underassessment committed was evident. During the exit audit conference on October 22, 2018, the RIC Management explained that the workers filed and paid the corresponding taxes in their country of origin for 2016. However, the RIC did not give us a proof of filing and payment of tax, which we requested.

h. Each employee was Not Provided with Withholding Statement for Calendar years 2016 and 2017

The law requires that employers shall furnish each employee on or before January 31 of the succeeding year a written statement showing the wages or salaries paid by the employer to such employee during the year and the amount of tax deducted and withheld or paid with respect to such compensation. However, we noted that the RIC did not provide the yearly ‘Withholding Statement’ to each employee for calendar years 2016 and 2017.

During the exit audit conference on October 22, 2018, the RIC Management said that they indeed provided copies of the yearly ‘Withholding Statement’. The Treasurer even showed a sample in his computer of the withholding statement. We have requested for soft copies (for expat employees) as our file but as of the date of this audit report, we did not receive copies.

i. $20,400 Additional Salary/Fee made the end of the Contract Period was without Supporting Contract

Employee M has an existing contract with RIC providing $2,300 salary/fee per month as a Human Resource Manager. However, at the end of the contract period, the RIC paid an additional $20,400 without any supporting document on file. Further, the RIC did not subject the payment to income and social security taxes, and health insurance deductions. Thus, we question this additional payment without proper supporting documents.

During the exit audit conference on October 22, 2018 to discuss the findings, the RIC Management said that there was existing contract for the payment. We have requested a copy of the contract but as of the date of this audit report, we did not receive the copy.

j. $1,503 amount of expenditure incurred for airline ticket was erroneously coded under Salaries. This expenditure is questionable because the traveler is not entitled to additional
travel except for the travel allowance related to the hiring and bringing of dependents to/from Chuuk. The RIC had already paid the latter allowance.

As a result, the RIC apparently failed to comply with certain laws and regulations governing payment of salaries and wages that, in turn, led to question costs.

Cause and Recommendations

RIC’s Management was not fully aware of the Chuuk pertinent laws and regulations that they should comply with as regards to the payment of salaries and wages.

When it comes to employees and independent contractors contracted in the private sector or non-profit organizations, there was no process and guidance in determining employee-employer relationship consistent with the requirements and intent of the laws and regulations so that appropriate income tax would be collected. Further, there was also no process to assure that the first statutory deductions due on income (e.g., income tax, social security tax, health insurance premium) for newly contracted workers are correct. It should be noted that if the first deductions/payments for these new workers were correct, then the subsequent deductions/payments would also be correct. In the case of the RIC workers, there was no withholding and remitting of taxes for the workers’ income from August 2016 to December 2016 (paid in December 2016) but the FSM National Government Finance field office did not discover such failure.

We recommend that

a) The RIC Management should fully comply with the related laws, regulations, rules and procedures in spending the grant for personnel related expenditures.

b) The Supervisor at the FSM National Finance Field Office in Chuuk State should verify the correctness of the under assessment of withholding tax, impose the appropriate penalty and should demand the collections of the under payment. Since we only selected employees for testing, we recommend that the withholding taxes for the all employees both in FY216 and in FY2017 should be verified.

c) The Director of the Social Security (SS) Field Office in Chuuk State should verify the correctness of the under assessment of SS tax, impose the appropriate penalty, and demand the collections of the underpayment. Since we only selected employees for testing, we recommend that the SS taxes for the all employees both in FY216 and in FY2017 should be verified.

d) The Director of the Chuuk State Health Insurance should verify the correctness of the under assessment of health insurance payment, impose the appropriate penalty, and demand the collections of the under payment. Since we only selected employees for testing, we recommend that the health care plan deductions for the all employees both FY216 and FY2017 should be verified.

e) When it comes to employees and independent contractors employed in the private sector or non-profit organizations, we suggest that the Supervisor at the FSM National Finance Field should develop guidance to be able to determine the employee-employer relationship not only based on the contract but also according to the intent of the related laws and regulations.

f) When it comes to employees and independent contractors employed in the private sector or non-profit organizations:
• The concerned officials\(^9\) should check the correctness of the first statutory deductions made on income (e.g., income tax, social security tax, health insurance premium) of newly hired workers based on contract and on the intent of the related laws and regulations. This is to ensure that correct taxes would be collected from the very beginning.

g) The RIC Management, the Department of Administrative Services (finance) and the Board of Education should develop and implement an action plan to close the question costs.

5. Expending of Funds for Certain Travels Did Not Follow the State Regulations and the Restriction on the use of the Funds for Foreign Travel

Laws and regulations provided the different policies and guidelines that should be followed when incurring expenses for travel:

• Section 1.9 of the Chuuk State Financial Management Regulations (FMR) provides that an obligation of fund is not valid unless supported by evidence of any legal liability or obligation or any binding written agreement.

• Section 5.1 of the Chuuk State FMR provides that for a valid travel one must fill up Travel Authorization form. The TA must have the following information: name of traveler/s, official capacity of the traveler, traveler/s itinerary, dates upon which travel is to commence and complete, purpose of travel; estimated cost of travel, and travel approval.

• Section 5.5 of the Chuuk State FMR requires that for the purpose of the regulations, “Authorized Travel Expenses” must contain the following requirements: purpose of travel, mode of transportation, per diem (if any), vehicle rental, other travel expenses like taxi, departure fees, official telephone call and others.

• Section 5.7 of the Chuuk State FMR requires that travel claim documentation must be supported by original Travel Authorization; receipt of airline ticket stub, boarding pass; copy of car rental if applicable and others.

• JEMCO\(^10\) resolution restricted the use of fund for foreign travel.

During the fiscal year, the RIC accounted for the following expenditures under International Travel account:

<table>
<thead>
<tr>
<th>International Travel</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airfare</td>
<td>$141,072.08</td>
</tr>
<tr>
<td>Lodging</td>
<td>1,781.96</td>
</tr>
<tr>
<td>Car rental</td>
<td>2,546.80</td>
</tr>
<tr>
<td>Total</td>
<td>$145,400.84</td>
</tr>
</tbody>
</table>

\(^9\) The Supervisor at the FSM National Finance Field, the Director of SS, and the Director of the Chuuk State Health Insurance

\(^10\) The Federated States of Micronesia (FSM) and the United States bilateral Joint Economic Management Committee (JEMCO). As indicated in the Grant Award (4.b), this is pursuant to JEMCO Resolution 2013-2, Compact Sector Grant Assistance may not be obligated for international travel during the fiscal year 2017. (note: for expat workers, the travel related to hiring and expatriation are not covered by this policy)
Since the provision of the MOU requires the parties to comply with all applicable laws, rules and regulations, the RIC was expected to design their own policies and procedures to comply with the requirements of the Chuuk State laws, rules and regulations related to the spending of grant funds for travel.

We found the following deficiencies:

a. **Travel Authorization and the Requirements on Travel Documentation Not Complied**

   We noted that none of the expenditures for travel was documented with travel authorization to establish the itinerary, cost, nature, purpose and approval of travel.

b. **$30,254.53 Excessive payments for Travel Allowance than what was provided for in the contract**

   The contracts for RIC workers provide for travel expenses as additional benefit in the form of travel allowance that would take care of the roundtrip airfare and travel expenses not to exceed $2,500 per employee/dependent. This travel allowance when made part of the gross salary/fee in the contract was being deducted from the gross pay to get the net pay for withholding tax purposes. There were contracts however, that separate the gross pay/fee from the travel allowance, and, in this case, the travel allowance was not being deducted from the gross pay for withholding tax purposes.

We found that the actual amount of airfares paid to some employees was excessive for their travel allowance as shown in the table below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Travel Allowance</th>
<th>Actual Airfares</th>
<th>Excess</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIC President</td>
<td>$2,500</td>
<td>$16,729.04</td>
<td>$14,229.04</td>
<td>A</td>
</tr>
<tr>
<td>Employee M and dependents</td>
<td>$10,000</td>
<td>$20,891.49</td>
<td>$10,891.49</td>
<td>B</td>
</tr>
<tr>
<td>Employee N and dependents</td>
<td>$15,000</td>
<td>$17,777.00</td>
<td>$2,777.00</td>
<td>C</td>
</tr>
<tr>
<td>Employee O and dependents</td>
<td>$12,500</td>
<td>$14,284.00</td>
<td>$1,784.00</td>
<td></td>
</tr>
<tr>
<td>Employee P</td>
<td>$2,500</td>
<td>$3,073.00</td>
<td>$573.00</td>
<td></td>
</tr>
<tr>
<td>Total Excess</td>
<td>$40,500</td>
<td>$72,754.53</td>
<td>$30,254.53</td>
<td></td>
</tr>
</tbody>
</table>

**Remarks:**

A. It appears that the excess payments were used for international travels, which was non-compliance with a JEMCO resolution restricting the use of grant for foreign travel. We cannot establish though whether the purposes of the travels were related to the project because such information was not provided for in the documentations attached to the payments.

B. This appears to be an excess payment of travel allowance because the traveler was not entitled to any travel except for the travels related to hiring and bringing the dependents to/from Chuuk State.

During the exit audit conference on October 22, 2018 to discuss the findings, the Treasurer who was also did the bookkeeping function said that an error was
committed in entering the travel expenditures for the traveler. We requested an explanation of the error but we were not given explanation as of the date of this audit report despite the follow-ups.

C. The excess payment was not supported by a contract. During the audit conference on October 22, 2018 to discuss the findings, the Treasurer, who is the beneficiary of this amount, explained that this travel allowance was supported by a contract covering two months period from November to December 2016 with a total salary amounting to $6,000. The Treasurer further explained that the $6,000 consisted of $3,500 as salary payment/fee and $2,500 as travel allowance.

We question the contract because the best practice for contracting was to offer a long-term contract to save on hiring expenses that include travel. We noted that The RIC renewed the contract of the same employee for another 11 months from February 1, 2017 to December 31, 2017, that includes a new travel allowance. This renewal could have been prepared as part of the first contract with the employee.

c. $45,400 Overspending on Travel (versus the approved Financial Proposal) was Incurred Without Prior Approval

The financial proposal, which was the basis for the approval of the Project costs and served as the approved budget for the RIC, allocated $100,000 for travel related expenditures. However, the RIC incurred $145,400 actual travel expenditures or $45,400 overspending of travel funds. The overspending was incurred without prior approval.

Based on the result of matching the financial proposal and the actual expenditures, we noted that the funds used for the overspent travel came from the $197,000 savings from the budget for Personnel. Refer to Appendix F for information on the results of the matching of financial proposal versus the actual expenditures.

d. $41,758 Travel Expenditures Incurred and Paid in FY 2017 were booked in the 1st Quarter of FY2018

The Generally Accepted Accounting Principles require that transactions should be recorded in the fiscal year it is incurred and/or paid.

From the subsequent review of travel expenditures booked by the RIC in the first quarter of FY18, we noted that travel expenses amounting to $41,758 were incurred and paid in FY17 but were booked in the 1st quarter of FY18.

Thus, the FY2017 expenses for Travel would increase by additional $41,758, making it reconcilable amount in FY 2017 expenses. Supposedly, this amount was already accounted for as part of the expenditures for the FY2017 (first year) grant of $1,386,986.

e. $3,216.13 Purchases of Gas Range Ovens was Misclassified Under Travel
Travel costs are expenses for transportation, lodging, subsistence and related items incurred while in travel status on official business.

Further, the US Generally Accepted Accounting Principles require that an entity should record and classify transactions in the proper account.

We noted that the purchases of gas range ovens amounting to $3,216.13 were erroneously coded under airfare. Furthermore, we noted that these were booked in December 2016 (Fiscal Year 2017) yet actually paid one year later in January, 2018 (Fiscal Year 2018). Thus, we question the presentation of this purchase as part of the expenditures for the grant.

**f. An Expenditure Incurred for Airline Ticket was Not Within the Grant Funds Availability Period for the Fiscal Year 2017**

Travel costs are expenses for transportation, lodging, subsistence and related items incurred while in travel status on official business

We noted that $2,500 paid for Employee O’s airfare was incurred in March 2016 yet. Thus, we question the reimbursement of this ticket purchase as part of the expenditures for the grant

During the exit audit conference on October 22, 2018 to discuss the findings, the RIC Management provided the justification that Employee O came to Chuuk State as early as **March 2016** to visit the site and to plan for the construction of additional housing facilities.

As a result, the travel funds were not properly expended and managed in accordance with the approved financial proposal, laws, regulations, policies, procedures; and grant terms and conditions.

**Cause and Recommendations**

The RIC Management was not fully aware of the requirements of laws, regulations; and grant terms and conditions related to the spending of grant for travel expenses.

**We recommend** that RIC Management

- Develop and implement policies and procedures to comply with the requirements of laws, regulations, policies, procedures; and grant terms and conditions related to the spending of grant for travel expenses.
- Coordinate with the Chuuk State Department of Administrative Services, and the Department of Education and the Grant Manager to close the questionable travel expenditures.

**6. Certain Consumable Expenditures were Not Allowable**

Costs incurred for the performance using the grant money must be necessary and reasonable and must be consistent with existing policies and procedures.
As regards to housing provision, the FSM National Public System Regulations (12A.6) provides that “Home furnishings shall be the sole responsibility of an employee, except that the government shall supply a refrigerator, and a stove, if necessary. The government shall also supply beds and a dinette set.

During the fiscal year, the RIC accounted for the following expenditures under Consumable Expenses:

<table>
<thead>
<tr>
<th>Other Consumable Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel</td>
<td>$ 40,591.09</td>
</tr>
<tr>
<td>Household Supplies</td>
<td>29,436.23</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>16,061.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 86,088.63</strong></td>
</tr>
</tbody>
</table>

We found the following deficiencies during our review of the expenses:

- **Duplicate Gasoline Invoice Numbers Worth $3,582**

An entity shall ensure receiving serially numbered invoice from the same vendor to document purchases of goods and services.

We found that 25 gasoline invoices supporting the payments of fuel to the same vendor have duplicate numbers. An original and a duplicate copy of the invoice were being presented for reimbursement. We have observed that sometimes the duplicate invoices have the same dates but with different amounts or sometimes with different dates. For example, the following duplicate invoices were presented for payments:

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Note</th>
<th>Invoice Date</th>
<th>Invoice #</th>
<th>Amount</th>
<th>Invoice Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>December 7, 2016</td>
<td>1353-41</td>
<td>41.15</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>December 7, 2016</td>
<td>1353-41</td>
<td>66.45</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 12, 2017</td>
<td>2502-14</td>
<td>88.60</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 12, 2017</td>
<td>2502-14</td>
<td>88.60</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 17, 2017</td>
<td>2502-09</td>
<td>113.90</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>May 5, 2017</td>
<td>2502-09</td>
<td>107.60</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 22, 2017</td>
<td>2502-10</td>
<td>88.60</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>May 5, 2017</td>
<td>2502-10</td>
<td>132.90</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 19, 2017</td>
<td>2502-11</td>
<td>132.90</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>April 19, 2017</td>
<td>2502-11</td>
<td>132.90</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>November 44, 2016</td>
<td>612372</td>
<td>20.00</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor A</td>
<td>A</td>
<td>November 29, 2016</td>
<td>612372</td>
<td>69.60</td>
<td>Duplicate</td>
</tr>
<tr>
<td>Vendor B</td>
<td>B</td>
<td>April 6, 2017</td>
<td>331287</td>
<td>87.00</td>
<td>Original</td>
</tr>
<tr>
<td>Vendor B</td>
<td>B</td>
<td>April 6, 2017</td>
<td>331287</td>
<td>64.10</td>
<td>Original</td>
</tr>
</tbody>
</table>

A- Upon verification, the gas station employee said that they were not putting carbon paper to the duplicate copy of the invoice in order to re-use them as a new sales invoice for another sale.

B- Upon verification, the gas station was not able to show their copies of invoice.
As a result, this increased the risk of duplicative payments.

- **Unallowable Household Supplies amounting to $18,088**

  Costs incurred for the performance of Federal award must be necessary and reasonable and must be consistent with existing policies and procedures.

  The RIC were giving salaries to its workers and supposedly to take care of the personal expenses.

  During the review of the expenses for household supplies, we noted that some of the expenses were for personal use and therefore, not allowable expense per regulations. We have accumulated a total of $18,088 for this nature of expenses. For example, these purchases include clothing blanket, pot, pan, rice cooker, pillow, wall clock, plastic dish, bed cover, blender, machete, battery, flashlight, Tupperware, and others.

  As a result, the grant funds were exposed to abuse and misuse.

- **$7,635 Small Amounts but Valuable Assets coded as Office Supplies Were Not Monitored to Provide Accountability**

  We noted that the following assets worth $7,635, which was booked under ‘Other Consumables’ account were not monitored using fixed assets/property records to provide for accountability. We also noted that the purchase of Mac Book and iPhone cell were not appropriate uses of the grant money.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Qty</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mac Book</td>
<td>1</td>
<td>$3,744</td>
</tr>
<tr>
<td>iPhone Cell Phone</td>
<td>1</td>
<td>$1,079</td>
</tr>
<tr>
<td>HP Laser Pro</td>
<td>3</td>
<td>$740</td>
</tr>
<tr>
<td>Projector</td>
<td>1</td>
<td>$640</td>
</tr>
<tr>
<td>HP lap Top</td>
<td>1</td>
<td>$803</td>
</tr>
<tr>
<td>Wireless Battery</td>
<td>1</td>
<td>$629</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8</td>
<td><strong>$7,635</strong></td>
</tr>
</tbody>
</table>

**Cause and Recommendations**

There were no policies and procedures to ensure that the grant funds would be spent in accordance with the requirements of the related laws, regulations and, the terms and conditions of the grant agreement.

**We recommend that**

- The RIC Management should develop and implement the policies and procedures to comply with the requirements of the laws and regulations on the use of the grant. These policies and procedures must ensure consistent application of the cost principles and provide adequate documentation to support costs charged to the grant.
• The RIC Management should demand original copy of gas station invoice as documentation supporting any payment to prevent any duplicative payment. In the addition, the RIC should implement a monitoring tool for fuel consumption.
• The Director of the Department of Administrative Service should provide accountability, inventory the assets and should monitor them through Fixed Assets Register/Record.
• The RIC Management, the Director of the Department of Administrative Services, and the Board of Education should develop and implement an action plan to dispose the question costs.

7. Certain Expenditures Charged to Contractual was Neither Properly Supported nor Allowable.

Costs incurred for the performance of Federal award must be necessary and reasonable and must be consistent with existing policies and procedures.

During the fiscal year, the RIC accounted for the following expenditures under the Contractual Expenses

<table>
<thead>
<tr>
<th>Contractual</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>$ 239,238.40</td>
</tr>
<tr>
<td>Rent – Tol/One-Time Infrastructure Costs</td>
<td>198,104.63</td>
</tr>
<tr>
<td>Rent – Weno</td>
<td>30,713.45</td>
</tr>
<tr>
<td>School Material and Support</td>
<td>16,547.40</td>
</tr>
<tr>
<td>Rent Manaio</td>
<td>3,700.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 488,273.98</strong></td>
</tr>
</tbody>
</table>

We found the following deficiencies:

a. Reimbursement of $76,333 Worth of Expenses was Without Proper Supporting Documents

We noted that part of the Administrative Expenses ($239,238.40) was $76,333 expenses, reimbursed by the RIC’s President on December 27, 2016, were without supporting documentations and/or contract on file. The payment was made on the basis of copies of bank statements from the bank account in Germany (in which the transactions were written in German). Thus, we were unable to discern at first whether the payments were proper. For example, the payment for $53,011 was described in the worksheet in German language as “Aufwendungen für Projektaquiese (Aufwandapauschale Sommer 2015 bis August 2016)”.

We later learned that the $53,011 of the amount was reimbursement for expenses incurred during the summer of 2015 to August 2016 while the remaining $23,322 was reimbursement for the expenses incurred to recruit and interview job applicants, and train employees.

We question these payments because the expenses were incurred before the affectivity of the grant award and/or the MOU. In addition, the RIC President was being paid a monthly salary starting August 2016, which should take care of the expenses on recruiting and job interviewing of applicants.
During the exit audit conference on October 22, 2018 to discuss the findings, the RIC Management said that the Grant Manager approved such payments through email. We were able to obtain a copy of the email of the Grant Manager approving the request.

b. No contract on file and transactions not transparent regarding payments of services amounting to $82,000

No funds should be disbursed as payment for services unless an agreement or contract and proper supporting documents are on file.

We found that $82,000 (34%) of the $239,238 administrative expenses represents payments to a lawyer based in Germany with no existing contract and/or supporting documents on file. The descriptions of transactions on the worksheet were not clear and transparent. In addition, the documents supporting the payments were mostly bank ledgers and scanned copies of hotel bills. Thus, we were unable to determine the nature of services and whether such services were related to the project. The payments were also not subjected to any Chuuk State tax.

For example, the following descriptions of transactions were not transparent:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description Per Worksheet</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2, 2017</td>
<td>Grundungskostenpauschale GmbH</td>
<td>$6,890.65</td>
</tr>
<tr>
<td>March 3, 2017</td>
<td>Restguthaben 2874-2878</td>
<td>7,147.97</td>
</tr>
<tr>
<td>March 3, 2017</td>
<td>Restguthaben 2879-2883</td>
<td>5,851.93</td>
</tr>
<tr>
<td>May 2, 2017</td>
<td>Restguthaben 2884-2886</td>
<td>10,105.62</td>
</tr>
<tr>
<td>May 24, 2017</td>
<td>Meeting</td>
<td>91.70</td>
</tr>
<tr>
<td>May 24, 2017</td>
<td>Heidelberg</td>
<td>1,590.15</td>
</tr>
<tr>
<td>June 1, 2017</td>
<td>Overnight Stay</td>
<td>662.14</td>
</tr>
<tr>
<td>June 15, 2017</td>
<td>Beratung (receipt # 2894)</td>
<td>2,650.25</td>
</tr>
<tr>
<td>June 15, 2017</td>
<td>Beratung (receipt # 2913)</td>
<td>2,650.25</td>
</tr>
</tbody>
</table>

During the exit audit conference on October 22, 2018 to discuss the findings, the RIC Management showed a copy of the contract for the lawyer, which was written in German language. We requested a copy of such contract with English translation but we were not provided as of the date of this report.

c. $6,112.13 Unallowable Meeting Expenses

Costs incurred for the performance of Federal award must be necessary and reasonable and must be consistent with existing policies and procedures.

Our analysis of expenses coded under Administrative Expense includes meeting expenses amounting to $6,112.13 in which the description of payments was incomplete, and the purpose and nature of meetings were not clear and transparent. Thus, we question these payments. The following were the examples of meeting expenses, which appeared to be representation expenses because the attached supporting documents were vendor receipts for food:
<table>
<thead>
<tr>
<th>Date</th>
<th>Description per Worksheet</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 22, 2016</td>
<td>Meeting with …</td>
<td>$ 51.41</td>
</tr>
<tr>
<td>February 20, 2107</td>
<td>Meeting with …</td>
<td>43.46</td>
</tr>
<tr>
<td>May 15, 2017</td>
<td>Meeting with …</td>
<td>63.50</td>
</tr>
<tr>
<td>May 15, 2017</td>
<td>Meeting with …</td>
<td>108.13</td>
</tr>
<tr>
<td>May 15, 2017</td>
<td>Meeting with …</td>
<td>19.08</td>
</tr>
<tr>
<td>September 22, 2017</td>
<td>Meeting Business …</td>
<td>9.70</td>
</tr>
<tr>
<td>October 19, 2017</td>
<td>Meetings</td>
<td>2,059.52</td>
</tr>
</tbody>
</table>

d. $6,650 Rent Payment Based on Scribbled Notes and Without Supporting Contract

We found that part of the payments included in the Contractual Expense was a housing rent payment to ECC without proper supporting documents. The payments covered the rent for the period from September 2016 to December 2016. It was paid based on scribbled notes on a piece of paper and not supported by a rent agreement.

We requested a copy of such contract but we were not provided as of the date of this report.

e. Issues Concerning Renovation/Construction of Houses Amounting to 198,000

We noted the following issues with respect to one-time infrastructure costs.

i. Renovation/Construction of Houses in a Private School Compound Owned by a Church

The existing policy on grant requires that no structure must be built in a private land.

The RIC’s financial proposal allocated $90,000 for the housing rental of expats. However, the RIC used this money to renovate (five houses) and construct (two new houses) housing facilities in a private school compound since there were no enough safe houses to rent in the area. In renovating/constructing the houses, the RIC spent a total $198,000, which was more than the budgeted amount for the housing rent, thereby incurring an excess amount of $108,000 against the approved proposal.

Based on the results of matching the financial proposal versus the actual expenditures, we noted that the overspent funds on housing rent came from the $197,000 savings from the Personnel budget. Refer to Appendix F for the information on the results of the matching of financial proposal versus the actual expenditures.

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11 Estimate cost provided by the RIC for Constructing at $49,500/house-$49,599.
Using the grant funds, the houses were further furnished with home appliances such as refrigerator, gas/electric oven, gas range, freezer, dining tables, sofa and other household items to make them fit for the staff housing. These house furnishings cost the RIC about $17,300.

We further noted that there was no agreement on file for the arrangement of housing rental. We have requested for a copy but we were not provided as of the date of this report.

ii. Internal Control Not Implemented to Address the Issue on Conflict of Interest

The existing rules and regulations restrict conflict of interest on payments to be made using the Compact funds.

Further, the Compact Fiscal Procedures Agreement prohibits employees’ involvement in the selection, award or administration of contract if conflict of interest, real or apparent, is involved. It states that “…No employees, officers, or agent of the government of FSM 12 shall participate in the selection, award, or administration of contract supported by funds provided pursuant to the Compact as amended, if conflict of interest, real (in fact) or apparent (appearance), is involved (section VI.I.j.3)

Further, Section 6.42 of the Chuuk State FMR addresses the concern on potential conflict of interest. It says, “…any officer or employee of the staff that has interest in any form, company, and corporation interested in the procurement with the state shall disclose such interest in writing to those reviewing the contract in behalf of the state. It further state that he shall not participate in any committee, board, or staff in reviewing and deciding the said contract.’

The RIC renovated and constructed the houses inside a private compound wherein a Christian school and a Church are located. The Church Association owns the land. We noted that conflict of interest might have existed in the decision to renovate and construct these houses based on the following circumstances:

- The father of the RIC President used to be a missionary to the Christian churches (from the Mortlocks to the Lagoon) in Chuuk State that include the Church (Evangelical Church Chuuk, ECC) inside the compound where the RIC renovated/constructed the houses.
- The father of the RIC President was the first President of the Micronesian Institute of Biblical Studies (MIBS). The MIBS was now known as the FCC, the school inside a compound where the RIC had renovated/constructed some houses.
- The local President of the Church Association who is an official of Chuuk State government is the brother of the current Chuuk State Director of Education.
- The RIC had been giving financial assistance and/or collecting donations for the Christian school and the church. In fact, we have noted that among the deposits to

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12 In this case RIC
the RICs bank account were collections (from donors) for the benefits of the
Christian school and the Church.

The above conditions gave the perception of preferential treatment in the decision to
renovate and construct houses in a private compound using the grant funds. However,
this apparent conflict of interest was not disclosed in writing so that appropriate
internal control could be implemented before the spending of funds.

The RIC Program Director said that there was no connection between MBIS and
FCC. The MIBS moved to Guam and the FCC was resurrected by a new group. This
was also the related information provided by the Director of Chuuk State DOE.

During the exit audit conference with the Board of Education, the current Director of
Education explained that he was not yet the Director of Education when the DOE
signed the MOU. In addition, he said that he was not aware that the RIC would
construct the houses at FCC/ECC compound.

iii. Procurement of Materials for the Renovation/Construction of Housing Facilities Not
Competitive

The laws and regulations require that procurement should be done in a fair, open,
competitive and transparent manner. However, we noted that the procurement of
materials for the renovation and construction of houses in Foson were done in retail
(several small amounts of purchases); and not in bulk and competitive manner.

During the exit conference with the RIC on October 22, 2018 to discuss the findings,
the RIC Management explained that there were only very few island vendors to
source out the materials and that they have no warehouse to store the bulk of
materials that they would purchase.

As a result, the use of grant funds appeared not in compliance with the related laws, regulations, and
the terms and conditions of the agreement.

Cause and Recommendations

The conditions happened due to the following:

- There was no provision on conflict of interest in the agreement
- The RIC Management was not aware of all laws, regulations, policies and procedures
governing the use of the grant.
- The Board of Department of Education did not define properly (in the MOU) its relationship
with the RIC whether a sub-recipient or a contractor. The RIC had thought that they were an
independent contractor.

We recommend that the RIC Management to:

- Develop and implement policies and procedures to comply with the requirements of the
laws and regulations on the use of the grant. The policies and procedures must ensure
consistent application of the cost principles (laid down in the US Federal Register) and provide adequate documentation to support the costs that would be charged to the grant.

- Develop and implement a policy on conflict of interest.
- The RIC Management, the Department of Administrative Services and the Board of Education to develop and implement an action plan to close the question costs.

8. No Written Policies and Procedures on Purchases and Maintenance of Records for Fixed Assets

Policies and procedures for managing fixed assets should meet the following requirements:

- Property records must be maintained that include a description of the property (fixed assets), serial number or other identification number, who holds the title, the acquisition date, and the cost of the property.
- A physical inventory of the property must be taken and the results reconciled with the property records.
- Control system must be developed to ensure adequate safeguards to prevent loss and damage to the property.

Further, the ‘Fiscal Procedures Agreement’ provides that the… title to Assets/Equipment/Supplies acquired with funds provided pursuant to the Compact, as amended, will vest upon to the Government of the Federated States of Micronesia (note: in this case, the title will vest upon the Chuuk State Department of Education). Article VI.1.f

During the fiscal year, the RIC accounted for the following expenditures under Fixed Assets:

<table>
<thead>
<tr>
<th>Fixed Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boat</td>
<td>$ 80,150.07</td>
</tr>
<tr>
<td>Car</td>
<td>16,282.37</td>
</tr>
<tr>
<td>Household Appliance</td>
<td>13,032.74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 109,465.18</strong></td>
</tr>
</tbody>
</table>

The audited list of Fixed Assets and Small Amounts but Valued Assets was attached Appendix G of this report.

We found the following deficiencies:

a. No fixed Assets Policy The charges to fixed assets include many small items such as $4.50, $22.89, 57.24 and others. There was no capitalization policy for fixed assets.

b. Property Records Not Maintained There were no property records maintained to record the description of property, serial number, acquisition date, cost, accumulated depreciation and book value.

c. $69,465 Overspending on Fixed Assets (versus approved Financial Proposal) Not Approved The financial proposal, which was the basis for the approval of the Project costs, only budgeted $40,000 for fixed assets. However, $109,465 was the actual expenditures incurred or $69,465 overspending of budget for fixed assets. The overspent money was without prior approval. Refer to Appendix F for the information on matching of actual expenditures with financial proposal (budget)
As a result, the assets were exposed to theft and losses because the accountability was not established, and assets were not monitored and safeguarded.

**Cause and Recommendation**

The RIC Management did not see it as a priority to ensure that the fixed assets and small amounts but valuable assets are safeguarded and monitored.

We recommend that the RIC Management to:

- Develop and implement policies and procedures for monitoring and managing fixed assets
- Maintain Property Records to monitor and record fixed assets
Finding 2 – Inadequate Delivery of Project Output and Accomplishment of Outcomes. Some activities need to be defined with Measures Demonstrating Impacts and Benefits to the student learning

The performance of a project or a program that used a grant funds should be evaluated to assure accountability to the people in terms of contribution to their lives and aspirations. It is through looking at the outcomes in the form of impacts and benefits that this is achieved.

The terms of the MOU defined the outputs and outcomes that the project should deliver and accomplish. The details of which were indicated under Appendix A of this report.

We reviewed the accomplishment report (Appendix J – RIC’s Compact Sector Quarterly Report) for the year related to the project’s outputs and outcomes. We observed that the accomplishment report was not fully designed to monitor the agreed deliverable outputs and outcomes. We further observed that the project did not provide a clear performance report demonstrating delivery and/or achievement of the agreed outputs and outcomes. For example,

a) 10% Increase in Students Passing the FSM National Minimum Competency Test Not Achieved

The MOU provides a target of 10% increase on FSM National Minimum Competency\(^{13}\) (NMCT) test scores for 4\(^{th}\), 6\(^{th}\), 8\(^{th}\), and 10\(^{th}\) graders.

In the NMCT, the students are evaluated based on the level of performance such as:

1. Competency – refers to the level of performance at grade level performance expectation with mastery skills
2. Minimum Competency means a level of performance at grade level performance expectation with minimum mastery skills
3. Approaching minimum competency means a level of performance slightly below grade level performance expectation with least skill
4. Well below minimum competency means a level of performance well below grade level with no skills
5. Student Learning Outcome (SLO) refers to the specific skills derived from the benchmarks for specific student learning objectives for teacher lesson plans.
6. Benchmark means a standard by which something is evaluated and measured.

In the RIC’s quarterly report submitted, the following activities/accomplishments were mentioned:

Second quarter (Jan, Feb, March 2017)
- *Afternoon electives were taught.* NMCT and College Group were formed to prepare intensive lessons over holidays in January for the COM Entrance Test (COMET)
- *Seven (7) children passed the COMET* test.

\(^{13}\) NMTC is the nation’s standard instrument assessing elementary and secondary academic performance relative to the FSM National Curriculum Standards and Benchmarks
Third quarter (April, May, June 2017)

Another indicator of teacher’s success was the **20% improvement of students in 4th and 6th grade in NMCT testing in April 2017.**

However in our analysis of the NMCT for Foson Elementary School and Faichuk High School where the RIC deployed most of their teachers, we found that the project did not achieve the target 10% increase in passing the NMCT test scores during the two school years 2016-2017 (1st year of RIC’s operation) and 2017-2018.

We noted that the RIC’s quarterly report indicating 20% achievement of students in 4th and 6th grades in NMCT testing in April 2017 was not true. Based on the test results for school year 2016-2017 for Math for grades 4, 6, 8 and 10; there were increases in competency level by 8%, 3%, 4%, and a decrease of -5%, respectively, or an average of 2.5% for all levels but not 20% as reported. These percentages, however, decreased in the subsequent school year 2017-2018 by 0%, -4%, -9%, and -6%, respectively, or an average of -4.75% for all levels.

On the other hand, based on the test results for school year 2016- 2017 for Reading for grades 6, 8 and 10; there were increases in minimum competency level by 7%, 0%, and a decrease by -4% respectively or an average increase of 1% for all levels. These percentages, however, decreased in the subsequent school year 2017-2018 by -9%, -2%, and -10%, respectively, or an average of -7% for all levels.

The results of the NMCT tests covering the school years 2016-2017 and 2017-2018 for both Math and Reading are shown in the following tables:

### Math

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Competent</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
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<td>0%</td>
</tr>
<tr>
<td>Minimum</td>
<td>3%</td>
<td>11%</td>
<td>11%</td>
<td>5%</td>
<td>8%</td>
<td>4%</td>
<td>9%</td>
<td>13%</td>
<td>4%</td>
<td>18%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Competency</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Approaching</td>
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<td>27%</td>
<td>19%</td>
<td>29%</td>
<td>22%</td>
<td>23%</td>
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<td>19%</td>
<td>29%</td>
<td>28%</td>
<td>26%</td>
</tr>
<tr>
<td>Well Below</td>
<td>71%</td>
<td>56%</td>
<td>60%</td>
<td>75%</td>
<td>59%</td>
<td>72%</td>
<td>67%</td>
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<td>76%</td>
<td>49%</td>
<td>57%</td>
<td>67%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
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<tr>
<td>Student</td>
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<td>11</td>
<td>13</td>
<td>15</td>
<td>9</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Chuuk State Department of Education

### Reading

<table>
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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Competent</td>
<td>4%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Minimum</td>
<td>6%</td>
<td>13%</td>
<td>4%</td>
<td>7%</td>
<td>7%</td>
<td>5%</td>
<td>19%</td>
<td>15%</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competency</td>
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<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Approaching</td>
<td>31%</td>
<td>22%</td>
<td>22%</td>
<td>20%</td>
<td>29%</td>
<td>23%</td>
<td>33%</td>
<td>30%</td>
<td>23%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Well Below</td>
<td>59%</td>
<td>63%</td>
<td>73%</td>
<td>73%</td>
<td>62%</td>
<td>71%</td>
<td>48%</td>
<td>54%</td>
<td>63%</td>
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<td></td>
</tr>
<tr>
<td>Total</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
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<td>100%</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Student</td>
<td>13</td>
<td>6</td>
<td>13</td>
<td>15</td>
<td>9</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source – Testing Specialist, Chuuk State Department of Education
During the exit conference on October 22, 2018 to discuss the audit findings, the RIC Management said that 10% increase in NMCT was unrealistic and even said that...” the Department of Education did not expect that high of an increase. In addition, the problem in Faichuk was exacerbated by the fact that for decades, students have been promoted from grade to grade based on their age, not based on their academic achievement. Thus, it is unrealistic to expect 8\textsuperscript{th} or 10\textsuperscript{th} grade student who has 2\textsuperscript{nd} grade reading level to attain and increase scores. “

We believe that the target is realistic considering that in the 3rd quarter report for FY 2018, the RIC actually reported a positive trend in the performance of students’ average grades in Math and English for grades 3 to 8. Besides, the performance each year in terms of outcome should create lasting impact and sustainable change.

b) 20% increase in Students Passing Various College Entrance Tests not Achieved

The MOU provides that 20% increase in students passing the college entrance examinations would result.

Faichuk High School is the only high school in the Faichuk region. Every month of February, the COMET (College of Micronesia Entrance Test) administrators hold examination at the Faichuk High School for the incoming freshmen students. According to the Dean of the Chuuk College of Micronesia (COM), the school brings in the students to the testing room. We requested information from the Dean about the students who took and passed the COMET for the two school year periods (SY 2016-17 and SY 2017-18).

We found that the RIC did not achieve the target for 20% increase in students passing college entrance examinations during the school years 2016-2017 and 2017-2018. Based on confirmation with the COM College Dean, seven students passed the entrance test for school year 20016-2017, but five of these were foreigners who could easily pass such test leaving only two locals\textsuperscript{14} who passed the COMET entrance test. These foreigners were not the intended recipients of the project. For school year 2017-2018, there was no percentage increase because only three students had passed the test (only one student in Degree category and two students in Certificate category).

During the exit conference on October 22, 2018 to discuss the audit findings, the RIC Management asserted that they attained 100% given that over the past 10 years only one student passed the COMET test. They pointed out that this finding be removed from the audit report.

Based on audit judgment, we retain the finding because the big investment made on the project ($1.3 million) requires aggressive accomplishment and not just targeting one to three students passing the COMET test.

\textsuperscript{14}Note that the purpose of the project was to improve the learning ability of the local students.
c) **No record to Verify Whether the RIC conducted Daily Classes for a total of 500 students**

The MOU provides that the RIC would teach daily classes at all grade levels from K5-K12 in English Language, Math, Social Studies, History, Music Arts, and vocational training for 500 students.

Since the accomplishment of this output was not monitored in the performance report, we requested quality records to verify the output. However, there were no records to verify whether the RIC was able to conduct daily classes for 500 students.

During the exit audit conference on October 22, 2018, the RIC Management said that .. *the audit observation should more accurately state that the Chuuk State Department of Education was not able to provide the auditor with the verification of this objective. While no summary record of RIC student numbers was provided, you will see that the objective was meet if the RIC reports for individual teachers were read through.*

Based on audit judgment, we retain the finding because this output was expected to be delivered by the RIC and therefore, it should make summary record readily available to prove the actual delivery. It is the RIC’s responsibility to provide support, in concise information, on the delivery of output.

d) **No Outcomes and Measures were Set for the mentoring of 20 of Local Teachers**

The qualities of teachers, those most capable of helping their students learn, should have deep mastery of the subject matter, the teaching methods, and pedagogy. These affect the educational quality since the student achievement, especially beyond basic skills, depends largely on teachers’ command of subject matter and their ability to use that knowledge to help students learn. The MOU provides that the RIC would mentor 20 local teachers for eight months.

The RIC conducted the training for local teachers on teaching methods and problem solving in English and Math, in developing lesson plan according to benchmark and in applying the methods of learning. However, as to the performance of the teachers after the training, there was no indicator of quality performance. There were no outcomes and measures set to monitor and verify whether mentoring was effective.

During the exit conference on October 22, 2018 to discuss the audit findings, the RIC Management said.. *if no outcome was set in the MOU, then this is a problem with the MOU, not a problem with RIC. The output of teaching local teachers was established and this output was achieved, if one will read the RIC reports.’*

We believe that the difference between the output and the outcome could be the difference between mediocrity and the creation of lasting and sustainable change. Therefore, a decision should be made not because of output but on outcome, that demonstrates the true impact. We are retaining the finding because the capacity and qualification of teachers have been the biggest challenge for the longest time as far as the Chuuk State Education system was concerned. Thus, any training be tracked to determine whether it has resulted in quality, otherwise, continued intervention strategy be adopted for the mediocre ones. The failure to set the outcome for this activity was the responsibility of both the RIC and the Board of Education.
e) No Outcomes and Measures were Set for the 24 training sessions for the Teacher Competency Examination, FSM National Teachers Test

Professional development can help overcome shortcomings that may have been keep teachers abreast of new knowledge and practices in the field. The MOU provides that the RIC would provide 24 training sessions for Teacher Competency Examination and the FSM National Teachers Test.

We learned that no training was conducted to prepare the teachers for examination.

During the exit conference on October 22, 2018 to discuss the audit findings, the RIC Management said..’ if no outcome was set in the MOU, then this is a problem with the MOU, not a problem with RIC’s performance. However, it should be noted that the Chuuk State Department of Education changed their mind about this training and forbid us from conducting the training and would not give the RIC the materials for the course.’

The failure to set the outcome for this activity was the responsibility of both the RIC and the Board of Education. The decision not to further conduct the 24 training sessions for teacher was not documented in the performance report submitted by the RIC. We believe, though, that the training sessions should have been conducted because the qualification of teachers is one important aspect of quality of education that should be improved in Chuuk State. Passing the teachers’ board examination would provide enhancement to quality.

f) No Outcomes and Measures were set for the Collection of data on weekly teacher and student attendance

Regular attendance of both the teachers and the students in the school could demonstrate academic achievement. A child exposure to curriculum significantly influences achievement and the exposure to curriculum comes from being in school. The MOU provides that the RIC would collect data on weekly teacher and student attendance at schools where the teaching staff are present. However, there were no outcomes and measures set to verify whether the activity was effective.

During the exit audit conference on October 22, 2018, the RIC Management said ..if no outcome was set in the MOU, then this is a problem with the MOU, not a problem with RIC’s performance. This item should be deleted from your report If you want to address the output, the data is in the RIC’s reports’

The difference between the output and the outcome could be the difference between mediocrity and the creation of lasting and sustainable change. Therefore, the decision should be made not because of output but on outcome to demonstrate the true impact. Based on our judgment, we are retaining the finding because the attendance in school of teachers and students has been one of the biggest challenges as far as the Chuuk State Education system was concerned. Thus, the attendance be tracked to determine whether it has resulted in improvement and quality, otherwise, continued intervention strategy be adopted to ensure the regular attendance in school of both the teachers and the students.
The failure to set the outcome for this activity was the responsibility of both the RIC and the Board of Education.

g) No Outcome was set for the Monthly sessions with community leaders and students on the ethics, conflict resolution and aggression

The MOU provides that the RIC would conduct monthly sessions with community leaders and students on ethics and conflict resolution and aggression.

We noted that the RIC has conducted the sessions with community leaders and students on ethics, conflict resolution and aggression. However, there were no outcomes and measures set and monitored to be able to verify whether the life skills and the processes that students and community leaders encountered during the sessions have led to the desired results and effective change of attitudes, behaviors and expectations.

One of the main challenges raised in the MOU was the peace and order in the area. There were mentioned of threats of personal violence and safety risks. It was not clearly demonstrated however, whether the sessions with the community leaders and students on the ethics and conflict resolution and aggression have reduced these violence and safety risks and demonstrated an improvement in the attitudes and behavior of the participants.

During the exit audit conference on October 22, 2018, the RIC Management said ...if no outcome was set in the MOU, then this is a problem with the MOU, not a problem with RIC’s performance. This item should be deleted from your report if you want to address the output; the data is in the RIC’s reports.

We are retaining the finding because the RIC should track and monitor whether the lessons learned on the life skills, as a component of quality of education, were promoting lasting peace in the community. The failure to set the outcome for this activity was the responsibility of both the RIC and the Board of Education.

As a result, the favorable outcomes of the project like an improvement in the academic learning of the students were not achieved.

**Cause and Recommendations**

The following caused the above conditions above:

1. **Too Many Responsibilities, and Deliverable Outputs and Outcomes listed in the MOU**

   Too many responsibilities and deliverable outputs and outcomes listed in the MOU created psychologically high expectations. We believe that some did not come from the real needs of the students but borne by the desire to impress and, thus, they were included as nice to have items without realistic plan of accomplishing. The lack of documented plan, specific actions (interventions/changes), the absence of project monitoring, and the lack of collaborative effort in discussing project issues and concerns provided no clear direction on how the defined goals and objectives in the MOU would be achieved and the responsibilities would be fulfilled. The concepts as well the approaches that would zero in on improving effectively the learning...
achievements of the students were not clearly expounded among the project activities. The lessons learned from the implementation of the project were not clearly discernible. Further, if an activity was done successfully during implementation; it is hardly duplicable because of the absence of documentation. The nice to have items in the MOU included the following:

- Include a local canoe builder to teach and train in the construction of and sailing of canoes
- Potential of exchange programs for Chuukese students to work on advanced degrees in Germany and Heidelberg University
- Access to U.S. accredited continuing college education for Faichuk teachers and students

2. **Quality outcomes and measures were not defined in all the activities.**

To provide for accountability for the project, the results or outcomes and measures on important activities related to student learning achievement should be defined and periodic results reported.

3. **No collection of Project Monitoring Information to Evaluate the Effectiveness of the Project in Achieving its Goals and Outcomes**

There was no collection of relevant information to monitor the achievement of outcomes (summative evaluation). Typically, a program employs a survey, as well as some interviews or, perhaps, a focus group to gather an evaluation. Based on the evaluations, new interventions should be continuously agreed and implemented to ensure the project success and ensure that in the end of the program, the students would be able to demonstrate the knowledge, skills, attitudes and values that they need.

4. **No Effective Sub-Recipient Monitoring and therefore, there was no effective collaboration between the RIC and the Board of Education**

Chuuk State Department of Education did not perform an effective sub-recipient monitoring of the grant to ensure compliance with the administrative and programmatic requirements and to determine whether the grant purposes are being achieved. The RIC quarterly report had indicated that no official of the Department of Education ever visited the campus of Foson High School and Faichuk High School.

**We recommend**

1. The RIC should define, monitor and evaluate the outcomes and related measures for the following reasons:
   A. Determine whether the effectiveness of the intervention has improved the academic achievement of the students in terms of ability to demonstrate the knowledge, skills, attitudes, and values they have learned.
B. Identify effective practices
C. Identify practices that need improvement. Discuss (with the Board of Education) and implement new interventions.
D. Get clarity and consensus around the purpose of the project.
2. The RIC should have a focus strategy to improve the students who are performing well below grade level in the NMCT test because their services were precisely sought for this purpose.
3. The Board of Education and the RIC should collaborate to collect relevant information to monitor the achievement of outcomes (summative evaluation). Further, they should agree on the method/s of collecting such information.
4. The Board of Education should effectively monitor the RIC to ensure that solutions to any problem could be discussed and implemented with action plan.
5. Each class teacher is given target to deliver an outcome demonstrating the grade average improvement of the students in the class. For example, there should be quarterly report based on average grade performance of the student in the class. The interventions for below performers (e.g., mentoring, meetings) should be discussed with the principal and be implemented, documented, monitored and modified, if necessary.

OTHER MATTERS

1. **Conflict of Interest among Members of the Board of Directors**

Best practices suggest that no one family should dominate the board of a non-profit that accepts outside funding.

Currently, RIC has only three members of Board of Directors. These members have also been performing functions as officers of the organization. Two of the members were spouses.

By having both spouses on the same non-profit board can make the organization suffer if the spouses do not get along or if even they got along too well. On the other hand, if the spouses’ function as a perfect unit, the effect is much like having one board member with two votes.

**Cause and Recommendations**

No explicit provision in the RIC’s by laws prohibiting quorum consisting primarily of family member. Further, there was no provision for conflict of interest in its by-laws.

We recommend that more members be added to the Board. To provide good stewards of the fund, RIC should find individuals within the community whose passions and experiences align with the NGO’s mission and explicitly provide in the by laws prohibiting quorum consisting primarily of family member. Further, conflict of interest should be provided in the by-laws.
APPENDICES

Appendix A - Measureable Outcomes

Faichuk Educational Development and Research Project
Source: MOU Addendum No. 1

1. Daily classes will be taught at all grade levels from K5-12 in the following subjects:
   1.1. English
   1.2. Math
   1.3. Social Studies
   1.4. History
   1.5. Music Arts
   1.6. Vocational Training

2. 10% increase in Measurable Outcomes on NMCT test scores for 4\textsuperscript{th}, 6\textsuperscript{th}, 8\textsuperscript{th}, and 10\textsuperscript{th} graders at Foson Elementary and Faichuk High School. Testing is scheduled to take place in April 2017 with results expected in June 2017.

3. 20% increase in Faichukese students who pass various college entrance tests (i.e. COM Entrance Test (COMET), or PIU) in 2017 and will be appeared into a post high-school educational program.

4. 20 local teachers received eight months of mentoring.

5. Access to US accredited continuing college education for Faichuk teachers and students

6. 24 training sessions for Teacher Competency Exam, FSM National Teachers Test.

7. Collection of data on weekly teacher and student attendance at schools where teaching staff are present.

8. The following vocational programs will be started and 200 students will be trained in one or more of the following areas:
   8.1. Small scale poultry raising
   8.2. Composting, use of compost toilets,
   8.3. Agriculture and gardening
   8.4. Woodworking
   8.5. Landscaping
   8.6. Canoe/Boat Construction
   8.7. Child Development and Nutrition
   8.8. Home Economics
   8.9. First Aid
   8.10. Computer and typing Skills

9. Monthly sessions will be held with community leaders and students on the ethics of conflict resolution and aggression

10. Drafts of the above curriculum will be presented to the department by the end of 2018.
Appendix B – Responsibilities of RIC

- Provide sufficient amount of classroom teachers at Foson Elementary School in Tolenson, Faichuk and surrounding schools, which are to be identified (i.e., Amwachang/Fewupe, Manayiyo, Wichukumo, and Mvuuniene) so the school and Kindergarten can fully become operational studying with the approved FSM National Curriculum.
- Strengthen English and Science and Environmental Studies in elementary and high school. Introduce students and train them in the use of computers (word, excel, powerpoint, etc.)
- Develop a program of electives for students, which will include woodwork (carpentry, cabinet making skills and basic accounting and business math skills as well as traditional canoe carving, sailing and traditional fishing techniques).
- Include a local canoe builder to teach and train in the construction of and everyday use of sailing canoes (mid-size) and smaller size.
- Provide school nurse who can train students in first aid, basic health and nutrition.
- Teachers training of Chuukese school teachers, in-classroom training and partnering with master and PhD level mentors.
- Potential of Exchange programs for Chuukese students to work on advanced degrees in Germany and Heidelberg University and work on cross-cultural education.
- Develop conflict resolution strategies with children families and their communities.
- Organize medical and dental teams from Germany and the USA paid for FSM National Department of Health.
- Monitoring of daily student and teacher attendance at surrounding schools
  Provide overall programmatic and fiscal management of all activities
- Conduct ongoing and program evaluations that will be submitted annually to the department
- Bring specialists for community driven education reform (Prof Weingardt, Lugwigsburg University of Education).
- Develop outdoor environmental kindergarten that contextualizes local resources management and development, climate change adaptation. Focus on developing solutions with local resources for local challenges.
- Cooperate with Chuuk State Department of Education staff, regional and local levels.
Appendix C – Responsibilities of Chuuk State Department of Education

- Ensure that children from Tol can get to school safely
- Coordinate the stationing of additional police officers on Tol with Chuuk State Department of Public Safety to ensure safe pathway to school.
- Coordinate the station of at least 4 state police officers at Foson Elementary and Faichuk High School, for the protection of teachers and students.
- Ensure the proposed and budgeted fence built around Foson Elementary and Faichuk High Schools campus by December 31\(^{st}\) 2016.
- Provide classroom materials an outlines of FSM national curriculum for all classes taught by RIC ad local staff by December 31\(^{st}\) 2016.
- Provide access to computers and internet services at Foson Elementary, Faichuk High School and teachers housing to improve learning environment and prepare the students for the 21\(^{st}\).
- Provide support and assistance wherever is necessary to ensure safety of teachers and students. Assist to coordinate services with other providers and state entities where necessary.
- Coordinate with project leader and RIC staff to successful collaboration for the benefits of Faichukese students and their communities.
- Provide support for development of school projects (sporting equipment, classroom toolkits, poultry projects) and recreational facilities.
Appendix D: Law on Taxes on Wages and Salaries

Section 121 (Taxes on Wages and Salaries) of the FSM Law Title 54 provides that… “There shall be assessed, levied, collected and paid a tax of 6% upon first $11,000 and 10% upon the amount over the first $11,000 of all wages and salaries received by every employee, as defined.

Further, Section 124 (Sources of Wages) of the FSM Law Title 54 provides that…” If an employee is credited or paid salaries on wages derived from, or attributable to, personal services performed or rendered both within and without the Federated States of Micronesia, then the whole of the salaries or wages shall be presumed to have been earned within the Federated States of Micronesia.”

Further, Section 131 (Resident Employers – Withholding Tax) of the FSM Law Title 54 provides that…” (1) the tax imposed by section 121 of this chapter shall be collected by the employer by deducting and withholding the tax imposed on any wages and salaries as and when paid or credited to the employees. (2) Every employer required to deduct and withhold the tax imposed shall be liable for payment and shall pay such tax to the National Revenue Officer of the State in which the employer has his principal place of business, or to the Secretary, if the employer has no place of business in the Federated States of Micronesia. (3) Any employer who violates any of the provisions of this section shall be subject to the penalties prescribed in this chapter.”

Further, Section 132 (Resident Employers – Employers to file tax returns-Reporting and Payments) of the FSM Law Title 54 provides that…”The employer shall, on or before the last day of the month following the close of each quarter, to wit, on or before April 30, July 31, October 31, and January 31, pay the tax withheld, and make full, true, and correct return showing all wages and salaries covered by section 131 of this chapter paid by him during the preceding quarter, and the tax due and withheld thereon, which return shall be filed at the place prescribed in section 131 of this chapter for payment of the tax and shall include such other information as shall be required or prescribed by the Secretary.

Further, Section 133 (Resident Employers – Withholding Statements to Employees) of the FSM Law Title 54 provides that…”(1) Every employer required to deduct and withhold any tax on the salaries and wages of any employee shall furnish to each employee on or before January 31 of the succeeding year (or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of compensation is made) a written statement showing the wages or salaries paid by the employer to such employee during the year and the amount of the tax deducted and withheld or paid with respect to such compensation.”

Further, Section 135 (Employer’s Responsibility for Withheld Taxes) of the FSM Law Title 54 provides that…” (1) All taxes withheld by any employer under Section 131 of this chapter shall be held in trust by such employer for the Government and for payment to the Secretary in the manner and at the time required by this chapter. (2) if any employer shall fail, neglect, or refuse to deduct and withhold from the compensation paid to an employee, or to pay over, the amount of the tax imposed by this chapter, such employer shall, moreover, be liable to pay to the Government the amount of tax, which amount shall (whether or not tax withholdings constituting trust funds have been commingled with said employer’s assets) for a lien on the employer’s entire assets, having priority over all other claims and liens.”
Social Security Tax

Section 901(1) (Employee Contribution) of the FSM Public Law No. 15-73 requires that... “there is hereby imposed to every employee a tax equal to the percentage of wages received by him with respect to employment: (g) with respect to the wages paid on or after January 1, 2013, the rate is seven point five (7.5%).

Employee or Independent Contractor

According to Section 112.3 Title 54 FSMC, “Employee” means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee.

The common law for the FSM is based upon the law of the United States, the Trust Territory and other nations in the common law tradition up to initiation of constitutional government in 1979. Rauzi v FSM, 2 FSM Intrm.8, 17 (Pon 1985).

Under the common law rules, anyone who performs services is your employee if you can control what will be done and how it will be done. This is even though you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed (reference IRFS). Furthermore, the FSM Income Tax law’s distinction between employees and business reflects congressional expectation that businesses and employees are generally distinguishable on the basis of whether generation of their income would require substantial expenditures by them, Rauzi v FSM, 2 FSM Intrm.8, (Pon 1985)
## Appendix E: RIC Financial Proposal

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<th>Per Month</th>
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<th>Mos.</th>
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\(^{15}\) Not all the contracted workers started their contract on August 2016. In our example of expat workers, only 15 of the 29 workers started in August 2016. Some started at a later months in 2016 and in 2017.
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<thead>
<tr>
<th>Item</th>
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## Appendix F- Comparison of Actual Expenditures Versus Financial Proposal

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<th>Per Financial Proposal (Appendix E)</th>
<th>Actual Under/ (Over)</th>
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<td>Weno Base- Office Rent</td>
<td>$ 6,000.00</td>
<td></td>
<td>6,000.00</td>
</tr>
<tr>
<td>Rent – Manaio</td>
<td>$ 3,700.00</td>
<td></td>
<td>(3,700.00)</td>
</tr>
<tr>
<td>Rent-Weno</td>
<td>$ 30,713.45</td>
<td>$ 60,600.00</td>
<td>29,886.55</td>
</tr>
<tr>
<td>Administrative</td>
<td>$ 239,208.49</td>
<td>$ 222,828.80</td>
<td>(16,379.69)</td>
</tr>
<tr>
<td><strong>Consumable Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel/Local Travel</td>
<td>$ 40,591.09</td>
<td>$ 8,224.00</td>
<td>(32,367.09)</td>
</tr>
<tr>
<td>Household Supplies</td>
<td>$ 29,436.23</td>
<td></td>
<td>(29,436.23)</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>$ 16,061.31</td>
<td></td>
<td>(16,061.31)</td>
</tr>
<tr>
<td><strong>Fixed Assets &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boat</td>
<td>$ 80,150.07</td>
<td>$ 30,000.00</td>
<td>(50,150.07)</td>
</tr>
<tr>
<td>Car</td>
<td>$ 16,282.37</td>
<td>$ 10,000.00</td>
<td>(6,282.37)</td>
</tr>
<tr>
<td>Household Appliances</td>
<td>$ 13,032.74</td>
<td></td>
<td>(13,032.74)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,386,972.80</td>
<td>$ 1,386,972.80</td>
<td>-</td>
</tr>
</tbody>
</table>
Appendix G – List of Audited Fixed Assets

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Qty</th>
<th>Per Unit</th>
<th>Total Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Boat</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19ft boat with 40hp engine</td>
<td>1</td>
<td>6,000.00</td>
<td>6,000.00</td>
</tr>
<tr>
<td>Boston Whaler Fiberglass Boat (no engine)</td>
<td>1</td>
<td>1,500.00</td>
<td>1,500.00</td>
</tr>
<tr>
<td>32ft boat plus 2 engines (big boat)</td>
<td>1</td>
<td>66,521.36</td>
<td>66,521.36</td>
</tr>
<tr>
<td>Boat with 2stroke 40XMHL engine</td>
<td>1</td>
<td>4,310.00</td>
<td>4,310.00</td>
</tr>
<tr>
<td><strong>Vehicle</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Van</td>
<td>1</td>
<td>5,872.00</td>
<td>5,872.00</td>
</tr>
<tr>
<td>BMW X3</td>
<td>1</td>
<td>7,840.00</td>
<td>7,840.00</td>
</tr>
<tr>
<td>Mitsubishi Pajero</td>
<td>1</td>
<td>1,500.00</td>
<td>1,500.00</td>
</tr>
<tr>
<td>Battery Balancer</td>
<td>1</td>
<td></td>
<td>2,544.00</td>
</tr>
<tr>
<td><strong>Refrigerator/ Freezer</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4CF Refrigerator – Freezer</td>
<td>2</td>
<td>317.99</td>
<td>635.98</td>
</tr>
<tr>
<td>7.4CF Refrigerator – Freezer</td>
<td>3</td>
<td>635.99</td>
<td>1,907.97</td>
</tr>
<tr>
<td>9.9CF Refrigerator – Freezer</td>
<td>2</td>
<td>741.99</td>
<td>1,483.98</td>
</tr>
<tr>
<td>11.5CF Refrigerator – Freezer</td>
<td>1</td>
<td>826.79</td>
<td>826.79</td>
</tr>
<tr>
<td>15 CF Refrigerator – Freezer</td>
<td>1</td>
<td>863.99</td>
<td>863.99</td>
</tr>
<tr>
<td>Seasco Company - Solar Freezer Man</td>
<td>1</td>
<td>1,378.00</td>
<td>1,378.00</td>
</tr>
<tr>
<td>Refrigerator</td>
<td>2</td>
<td>737.18</td>
<td>1,474.36</td>
</tr>
<tr>
<td><strong>Oven</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freestanding Gas Range – Oven</td>
<td>4</td>
<td>630.00</td>
<td>2,519.99</td>
</tr>
<tr>
<td>Freestanding Gas Range – Oven</td>
<td>2</td>
<td>348.07</td>
<td>696.14</td>
</tr>
<tr>
<td><strong>Water Filter</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Katadyn TRK Drip Gravidyn Water Filter</td>
<td>5</td>
<td>264.83</td>
<td>1,324.14</td>
</tr>
<tr>
<td>Katadyn TRK Drip Gravidyn Water Filter</td>
<td>2</td>
<td>258.91</td>
<td>517.81</td>
</tr>
<tr>
<td>Katadyn TRK Drip Gravidyn Water Filter</td>
<td>3</td>
<td>284.64</td>
<td>853.91</td>
</tr>
<tr>
<td>Katadyn TRK Drip Gravidyn Water Filter</td>
<td>5</td>
<td>321.37</td>
<td>1,606.84</td>
</tr>
<tr>
<td><strong>Furniture and Fixtures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture (5 Sets)</td>
<td>5</td>
<td></td>
<td>1,200.00</td>
</tr>
<tr>
<td><strong>Laptop, Printer, &amp; Projector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HP Laserjet Pro M477fdw (Weno Office)</td>
<td>1</td>
<td>456.00</td>
<td>456.00</td>
</tr>
<tr>
<td>HP Laptop 15 BW</td>
<td>1</td>
<td>803.67</td>
<td>803.67</td>
</tr>
<tr>
<td>HP LaserJet Pro M130fw (Tol Office)</td>
<td>1</td>
<td>167.97</td>
<td>167.97</td>
</tr>
<tr>
<td>Dashbon Flicks Mobile Cordless Projector</td>
<td>1</td>
<td>640.84</td>
<td>640.84</td>
</tr>
<tr>
<td>First Alert Wireless Battery Smoke Alarm</td>
<td>1</td>
<td>629.15</td>
<td>629.15</td>
</tr>
<tr>
<td>MacBook - SN C02T83C4H03Q</td>
<td>1</td>
<td>3,743.62</td>
<td>3,743.62</td>
</tr>
<tr>
<td>Apple iPhone</td>
<td>1</td>
<td>1,079.18</td>
<td>1,079.18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>121,015.40</td>
</tr>
</tbody>
</table>
Appendix H – Samples of Asset

A. Sample of Newly Constructed House

B. Motor Boat
Appendix I - Determination of Recipient and Contractor

The Public Auditor made an inquiry and analysis to determine the relationship (Sub Recipient or Contractor) that existed when the Compact Educational Sector allocated a grant specifically to RIC.

The following circumstances were established with respect to this particular grant award:

1. The RIC submitted a Project Proposal to Chuuk State Department of Education called Faichuk Educational Development Project (FEDRP). It documented its project proposal using the internal form required by the US-Office of Insular Affair for project proposal with the following information on statement of problem, objective and relation to strategic development plan (SDP):
   - **Statement of Problem** - The region of Faichuk, especially the island of Tol, has a large number of schools which are drastically underperforming. All but one of the schools has failed two rounds of accreditation and are at risk of being defunded by FY2017.
   - **Objective** - The FEDRP will bring in a team of German and American educators who will not only teach in the classroom but will also work closely with the community and education personnel to develop a safe, progressive and successful school system, starting in Tol and spreading through the rest of the island grouping.
   - **Relation to SDP** - The project is directly related to Education Sector Strategic Goal #2: Improve services and programs.

2. In October 16, 2017, the FSM Government received a US Compact Educational Sector Grant amounting to $27,777,345. This was documented in the US Grant and Cooperative Agreement (D17AF00006, with an effective period from 10/01/2016 to 09/30/2017). The grant was allocated to the FSM National and the States’ Department of Education (DOE) such as Pohnpei, Chuuk, Kosrae and Yap.

3. In the Grant Agreement, an asterisk was used to emphasize that portion of the $27,777,345 was allocated for partnership with RIC to assist in Faichuk schools (Chuuk State). The RIC was specifically mentioned in the award and allocated with an amount of $1,386,986 to be taken from the Chuuk State Prior Year Funds ($1,926,986). The fund was allocated to the RIC for the implementation of “Faichuk Educational Development and Research” project. With that specific allocation and identification from the grant award document, the project apparently was one of the program/projects for funding using the education sector grant.

   This indicated that the RIC was a sub recipient of the grant.

4. To implement the project, the Chuuk State DOE entered into an agreement with the RIC through Memorandum of Understanding (MOU). According to the MOU, the project would aim at developing, providing educational services and building human capacity in the Faichuk region. Furthermore, the RIC provided an undertaking in the MOU that they will provide the best education possible for children living and growing up in the Faichuk region.

   It is evident from the nature of the services that would be provided by the RIC that they would carry out the program of the Department of Education to improve the education system in the Faichuk region and not merely act as a contractor that would provide teachers.
5. It was specified in the MOU that “…the RIC is a profit organization but does not intend to
generate profit from the project. It shall integrate the project with integrity into a not-for-profit
academic institutional framework based at Heidelberg University, Germany.”

This indicates that based on the RIC’s representation, it will operate the project as a not for profit
entity. Thus, there was no reason why RIC could not be a grant recipient.

6. The grant fund was used to maintain the RIC’s Administration Office that includes: the RIC
President, Treasurer, Human Resource Manager, Project Manager and a local Administrative
Officer. The maintenance of the office had a yearly budget salary amounting to about $239,000
in FY 2017.

This indicates that the RIC exercises management and decision making to accomplish the
objective of the project.

7. The MOU agreement specified the responsibilities indicating that the RIC is a recipient of the
grant as follows: (note: the details of RIC’s responsibilities were enumerated in Appendix B of
the audit report)
   a. Provide overall programmatic and fiscal management of all activities (Ref MOU II.A) This
      means that the RIC has responsibility for programmatic decision making.
   b. Conduct ongoing evaluation and program evaluations that will be submitted annually to the
department.
   c. Cooperate with Chuuk State Education staff at the state, regional and local levels.

8. The RIC President was able to request an approval from the Grant Manager for the
reimbursement of expenses amounting to about $70,000 incurred prior to the start date of the
MOU agreement and the funding period (pre-award costs). This was not provided in the financial
proposal and not normal to a contractor to request such reimbursement. The payment to
contractor is always for future expenditures. This is a typical for a grant recipient.

9. Aside from the request of the reimbursement of pre-award costs above, the RIC President also
managed to make another direct request to the Grant Manager, this time, to reprogram the
Legislature’s line-item appropriation to RIC for travel ($112,360) and for consumables ($50,000)
and lumped all to Contractual Account. Such request was implemented in the accounting system.
The Legislature appropriated the detailed budget on November 29, 2016. However, the
reprogramming was done immediately on December 1, 2016.

This indicates also that the RIC was a recipient and was considered as another internal
department account within the financial system. If it were a contractor, it would not have been
initially appropriated with line-item budget. According to the RIC’s email (to the Grant
Manager) requesting for reprogramming, the only reason for the request was to avoid going to
finance every time they will process their travel documents.

10. In addition, we also determined if the RIC has the characteristic of a Contractor using the
following attributes taken from the US Federal Register for contractor determination:
   1. Provides the goods and services within the normal business operations;
2. Provides similar goods and services to many different purchasers;
3. Normally operates in competitive environment;

There was no evaluation whether the RIC possessed the above characteristics as a contractor at the time the grant money was allocated. The Chuuk State Finance Officer said that they have no other records or information on file about the RIC except the project proposal it submitted. The Chuuk State Finance Officer has no idea about the business of RIC and its number of clients.

In another matter, the RIC was selected through non-competitive proposal (sole source provider) and there was no analysis of the cost it offered to the Chuuk State DOE Finance. In addition, the Chairman of the Board of Education during our meeting with the Board stated that he never seen the financial proposal but only the project proposal. Thus, it was not determined whether the costs\(^{16}\) indicated in the financial proposal were fair, reasonable and had offered the best value for the government.

Under the above circumstances, the FSM National Government is the main recipient of the educational grant, the Chuuk State Department of Education acted as the sub recipient and a pass-through entity and the **RIC becomes the sub-sub recipient**. A sub-sub recipient determination is adequate because the RIC:

a. Has a responsibility for using the Compact Education grant funds to carry out a project/program approved by the Chuuk State Department of Education. The MOU provided the deliverable outcomes for the project that would support, improve, and advance the quality of the educational system in Faichuk region. The project is not simply providing contractual services (like providing teachers and other services).

b. Has a responsibility for programmatic decision making as regards to the implementation of the approved project for the particular grant. The programmatic decision making for the project was provided for in the MOU under section II.A which listed down the RIC’s responsibilities for the project,

c. Has a responsibility for adherence to applicable federal compliance requirements and Chuuk State laws and regulations. This was provided for among the terms and conditions both in the MOU (Section IX Miscellaneous) and in the notice of grant award (section 2), which was both provided by the Chuuk State DOE to RIC.

During our meeting with the Grant Manager at the OCPA Office, he confirmed our understanding that the RIC is a grant recipient.

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\(^{16}\) The term *costs* was used because RIC did not intend to profit in this project. Refer to page 4 paragraph 1 under the section for Rauchholz International Consulting (RIC) as a Sole Proprietor.
Appendix J – RIC’s Compact Sector Quarterly Report (1st to 4th Quarter)

COMPACT SECTOR QUARTERLY REPORT
Public Sector Capacity Building, Private Sector Development, Environment, & Enhanced Reporting & Accountability
Government of the Federated States of Micronesia

Project Title: Faichuk Educational Development and Research Project

<table>
<thead>
<tr>
<th>State</th>
<th>Sector</th>
<th>Fiscal Year</th>
<th>Quarter</th>
<th>Agency</th>
<th>Contact Person + Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chuk State</td>
<td>Education</td>
<td>17</td>
<td>1-4</td>
<td>Rauchholz International</td>
<td>Dr. Manuel Rauchholz</td>
</tr>
<tr>
<td>DoEducation</td>
<td></td>
<td></td>
<td></td>
<td>Consulting</td>
<td>CEO/Project Director</td>
</tr>
</tbody>
</table>

Statement of the Problem
The region of Faichuk, especially the island of Tol, has a large number of schools which are drastically underperforming. All but one of the schools has failed 2 rounds of Accreditation and are in danger of being defunded by FY2017.

Objective
The FEDRP will bring in a team of German and American educators who will not only teach in the classroom but will also work closely with the community and education personnel to develop a safe, progressive and successful school system, starting in Tol and spreading through the rest of the Island grouping.

Relation to SDP:
This project is directly related to Education sector strategic Goal2. Improve the quality of Education services and programs.

Activity 1:
Living facilities will be constructed or renovated on the campus of Faithwalk Christian College to house all faculty for their summer arrival.

<table>
<thead>
<tr>
<th>Indicated Output</th>
<th>Actual Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Carpenters will do and finish up renovations at both FCC and Faichuk High school/Fason Elementary school</td>
<td>1st Quarter</td>
</tr>
<tr>
<td>1.1. 2 Carpenters, 1 electrician, and 2 wood technicians came at own expense from August through December to FCC and Faichuk High school/Fason and renovated 4 housing units and did small repairs at Faichuk High School. Teachers helped to renovate for many hours after classes. Project funding was not available until second half of December. Hence, these activities could not be planned for and completed as laid out in the proposal.</td>
<td></td>
</tr>
<tr>
<td>1.2 Housing in both Weno and Faichuk will be constructed</td>
<td>1.2 Project funding was not available until second half of December. Hence, these activities could not be planned for and completed as laid out in the proposal. Plans were made, though, to develop more housing units once the funding becomes available.</td>
</tr>
</tbody>
</table>

2nd Quarter
1.1. Three more housing units were completed in a combined effort by GEMVI and local staff to house six more teachers. Housing construction options in Weno were not able to be realized due to extended document processing time with Land Management Office. Negotiations are ongoing and depending on receipt of full funding for project amount they may or may not be realized, and therefore housing on Weno was rented instead.

3rd Quarter
1.1. Another housing unit was completed to house four teachers and solar unit for housing cluster. Three volunteers from Germany (carpenter, cabinetmaker, electrical engineer) came to assist and train 16 local staff on house building (cement mix types, woodworking, plumbing, and house design. This
COMPACT SECTOR QUARTERLY REPORT
Public Sector Capacity Building, Private Sector Development, Environment, & Enhanced Reporting & Accountability
Government of the Federated States of Micronesia

housing unit will house the solar system to provide electricity for staff housing and enable use of electronic work devices and to provide power to the satellite system to provide internet access to staff housing and public library. Towards the end of the third quarter most staff were finally able to have their own private room. One housing unit is left to be renovated and one more to be built to ensure minimum housing availability for all staff.

4th Quarter
1.2 House renovations and staff housing completed. New concrete path created to ensure safe access to hillside houses.

<table>
<thead>
<tr>
<th>Activity 2: Improve effectiveness of teachers in Faichuk region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicated Output</td>
</tr>
</tbody>
</table>
| 28 teachers and staff will be contracted to teach and train at the following schools: Faichuk High school, Foson Elementary, Anwachang, Foup, Faro, Chukuram, and Munien El. Of the teachers 5 will hold Ph Ds. 4 masters, 12 bachelors and 5 staffs (3 vocational, 1 nurse, 1 project manager) | 1st Quarter

2.1 Despite the 7.5 month delay of funding, 28 staff were contracted by Dec 2016. Of these staff, five (5) quit their engagement prematurely while five (5) others decided to exit before Dec 2016 while yet others had to postpone (21) their arrival to late 2016 or 2017 due to the delay of funding. Additional costs and delays in implementing the project activities were therefore incurred and quality of work inhibited by delayed availability or loss of quality staff activity in project. 4 PhD’s were involved in preparatory training of teachers prior to departure first week of August in Germany. Two came to the field and one exited the project (could not hold off committing elsewhere) due to insecurity and delay of funding. Seven (7) MA qualified educators and project staff came to Chuuk during this period but one left after funding and future of project was not secured by Nov, 2016. Further, six (6) additional MA qualified teachers who had agreed to join our project exited the program during this time period because I could not secure the funding for their contracts in time. Project manager, nurse and three vocational teachers were delayed as were four (4) PhD qualified staff. Two (2) BA qualified teachers came while others were delayed to 2017.

2.2 Faichuk Highschool, Foson Elementary School and Foup were serviced between November and December 2016. These three schools were assessed in English and Math, the results of which we published in our first quarterly progressive report submitted to DOE in early January. During this time visitations in Chuukese teacher’s classes took place at the three abovementioned schools and a new teaching schedule was designed to be implanted in the 3rd quarter (January). Students were grouped according to test results and their competency in English and one college prep group put together at Faichuk High School. Planning for teachers training in the new year was also planned based on our staff’s observations of local teachers, students and identified needs.

2nd Quarter
2.1 RIC staff were teaching English, Math, Science, Social Studies, Chuukese Language Arts at four schools on a daily basis: Faichuk
COMPACT SECTOR QUARTERLY REPORT

Public Sector Capacity Building, Private Sector Development, Environment, & Enhanced Reporting & Accountability

Government of the Federated States of Micronesia

Highschool, Foson Elementary School, Fewup Elementary School and Manayiyo Elementary School. Visitations and weekly provision of English student and teacher materials and student worksheets were prepared and provided for two additional schools not serviced with RIC teachers on a daily basis: Epín, Paata and Wolip Central on Tol.

2.2. Courses taught in Faichuk Highschool, Foson Elementary and Manayiyo included Electives in Basic Health and First Aid (wound hygiene and treatment etc.) At Faichuk Highschool two courses were taught in woodwork with 15 registered students each per group and two courses in home economics with 15 students registered per group as well. Afternoon electives included swim lessons, woodwork, sports (volleyball), music/choir, woodwork for elementary children, advanced math for elementary students and high school students, NMCT prep groups and a College prep group preparing with intensive lessons over the holidays in January for the COMET test. 7 children passed the COMET test.

Scores indicate that two more additional students could have passed the COMET test but they spontaneously left the testing classroom because they had lost interest in completing the COMET exam. Their attitude reflects a general undisciplined attitude towards education in the region. They were missing one point each to pass. Nevertheless, it was a great success given that over the past 10 years only one student passed the COMET test over 7 students this year. The indicated chicken raising project was postponed because the supplier of layers (ASAGI Hatcher in Hawaii) did not receive their order from the US mainland due to shortage on eggs (chicks arrived in May instead).

Fewup Elementary was serviced with a math and English teacher that covered these courses from 3rd-8th grade.

2.3. Rather than train directly at the Tol schools mentioned top left, RIC provided training on Mondays and Tuesdays from 13:00-16:15 over the course of 8 weeks. Teachers from Tol came to Chuukiyenu and Foson to attend the weekly training session. Certificates were issued for all participating teachers with the title and content summary of each session. The training content consisted of teaching methods and problem solving in English and Math, developing a lesson plan according to benchmarks and applying different methods of learning. A detailed compilation of all documents will be attached to the final year-end report for detailed reference. Up to 30 plus teachers were invited and participated in this training program offered in Chuukiyenu and Foson each Monday and Tuesday of the third school year quarter. The village chief provided refreshments (coconuts and a local snack).

3rd Quarter

During the third quarter we continued the teacher training program for the Faichuk region, this time focusing not on Tol schools but on Nomvisefè and PPO schools providing access to training for all teachers. Like during the second quarter training sessions were held every Monday and Tuesday for a group of up to 30 teachers, this time in Wutet and Foson. Certificates were issued for all participating teachers with the title and content
summary of each session. The training content consisted of teaching methods and problem solving in English and Math, developing a lesson plan according to benchmarks, and applying different methods of learning. A detailed compilation of all documents will be attached to the final year-end report for detailed reference. Up to 30 plus teachers were invited and participated in this training program offered in Chuukiyenu and Foson each Monday and Tuesday of the third school year quarter. Next to the teaching of the same elective courses with new projects students could develop and more elevated benchmarks (i.e. woodworking or home economics level 2), our staff began to visit each home in Chuukiyenu and Manalio and assess the number of children in school, not in school or in school irregularly. These activities were performed after regular school hours and with our medical staff (one gynecologist, three nurses, local health aid etc.). These activities will be continued in the fourth quarter in Foson and had to be postponed due to the murder of the Faichuk High School principal’s son. The village outreach is part of our educational activities to train parents in child care, hygiene and encourage them to send their children to school. Our findings show for both villages that only 20-25% of children attend school on a regular basis, ca. 50% attend school 50% of the time and 30-35% are not/never in school. Teachers cannot teach effectively because most school age children are not in school most of the time. We are trying to work with the community and schools to improve school attendance and thereby improve effectiveness of teachers in the region.

Another indicator of teacher’s success was the 20% improvement of students in 4th and 6th grade NMCT testing in April 2017. We have not had access to the direct results to date so making further reference is not possible yet.

4th Quarter

During the 4th Quarter RIC conducted summer school programs for three villages; Chuukiyenu, Foson, and Manalio. Chuukiyenu and Foson were combined for one week ... une 26-30. Because Manalio failed their accreditation, we wanted to apply a special emphasis there. We conducted summer school classes for 5 weeks from July 10th through August 11th. Through enhanced community outreach we were able to realize a 98% participation rate among the school-age children in the village. Five self-paying volunteers from Germany provided support for two weeks and Chukese expat youth from Guam also volunteered for five weeks in the Manalio summer school program.

In July, the Chuuk State Department of Education asked RIC to submit proposals to engage in the ReStart of three schools that lost their accreditation and funding. Our proposal and the ensuing negotiation has consumed countless dollars, hours and trips to Weno and has just recently resulted in a partnership agreement whereby RIC will supervise, manage, train and mentor principals and teachers at Manalio and Neirenomw Elementary Schools beginning January 2018.
On September 4th we began providing teachers at Foson Elementary School, Faichuk High School, and Manaio Elementary School. We were able to participate at Manaio because it was not officially defunded until September 30, 2017.

At Foson and Faichuk High School we provide teachers for English, Math, Social Studies, Science, Health, and Home Economics classes.

After September 30th, Manaio Elementary School lost its funding and the Department of Education re-assigned their teachers to other schools. With the permission of the Director of Education and in anticipation of Board approval of our ReStart Plan by late September/early October, RIC continued to provide teachers to Manaio on a volunteer basis so that the children’s education would not suffer. Five of our staff were deployed to Manaio and taught the children for two and a half weeks in October, until the land owner objected to RIC’s presence, wrote a letter to the Governor and closed the school, forbidding access to education for the children of Manaio.

<table>
<thead>
<tr>
<th>List any problems or issues encountered, reasons, and impact on Grant activities and performance measures</th>
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</thead>
<tbody>
<tr>
<td>The main problem encountered was the delay of funding (check issued Dec 7th, but it took another ca. 10 days until funds became available for use). The second was related to the routing and post-JEMCO re-approval, negotiation, signing of the contract with Chuuk State and issuing of the first installment. This process (hand carrying contract package through different state directors' offices) took up most of the project directors time between September-December 2016, thus reducing time to accompany new teachers in their new and challenging classroom working and cultural environment in Faichuk. The third was related to lack of funding which consequently resulted in:</td>
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<tr>
<td>lack of housing,</td>
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<td>lack of transportation</td>
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<td>lack of communication possibilities,</td>
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<td>loss and/or delay of committed teachers -&gt; lack of teachers and staff, gradual arrival and buildup of staff and program.</td>
</tr>
<tr>
<td>Altogether the funding delay resulted in delays or slowing down administrative processes and adding pressure on teachers and staff living environment who committed to begin work without being backed by needed funding. Teachers and staff nevertheless did an amazing job under dire circumstances, living in construction sites and unfinished housing, while at the same time teaching full loads. FCC was also most cooperative and helpful to ensure the success of our project.</td>
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<tr>
<td>Over the course of the second and third quarter our housing situation eased up with the completion of renovations and new housing units. We were able to recruit professional short term teachers and</td>
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compact sector quarterly report
public sector capacity building, private sector development, environment, & enhanced reporting & accountability
Government of the Federated States of Micronesia

Volunteer teachers and begin outreach into the communities. Working with more short-term staff than long-term staff (one-year assignments) requires more logistics and mentoring.

Finally, regular school attendance of children is the largest reason why there is little overall learning progress of students in the Faichuk region. Evidence here are daily student attendance records in Foson, Manaio and Fewup. To compliment these records, RIC staff surveyed each household in Manaio and Chuukiyenu (where most RIC staff are residing and whose children go to Foson or Wichukuno schools) and found that in both villages 30-35% of the children are or were never in school this school year, 50% were in school about 50% of the time and 20-25% were in school every day. This means that 75%-80% of children are not receiving 180 days of schooling per year, or they are receiving between 0-80 days of schooling. The irregular presence of the majority of children in the classroom was named as the greatest challenge by RIC and Peace Corp volunteer teachers alike, the latter working at Udot Elementary and Junior High School. Their estimates on school attendance concur with RIC data collected in Tol and Pwene Islands in 2016-2017. When asking families whose children did not go to school (30-35%) poverty and unsafe pathways to school were the two key indicators for not sending children to school as they were unable to clothe their children appropriately or guarantee the safety of their children on route to and from school. This fact was witnessed by our staff at the dwellings of these families. Providing school uniforms may therefore help marginalized families to send their children to school.

As a result of these findings we planned an intensive community based summer school program for Foson, which had to be cut down to a one week program relocated to Chuukiyenu due to a homicide in Foson leading to unrest in the village (principal’s son was killed). A five-week community based program was established with our new team leader Orich Orichiro in Manaio. It resulted in 98% school attendance with 4 hours of math and English teaching daily and afternoon activities (sports, crafts, community clean up, road improvement, traditional lore and Fayiro lessons. See next extensive report for more details). We engaged 9 English speaking local teens and tweens to partner with our teachers and the community leadership and school became a community event and a great success.

In the 4th quarter we experienced major delay to the implementation of our program due to FSM immigration delay of Visa processing. Complete Visa applications for new staff scheduled to arrive in August were submitted on July 7, 2017, but not processed until mid-to-end September 2017. After numerous meetings with DOE executives, the FSM Vice-President and NDOE Director as well as the Secretary of Justice, the Visas were finally issued. These delays forced us to re-arrange our teaching schedule for the schools we are serving. This also incurred additional costs for travel, personnel and the orientation and placement of our new staff.

List additional pertinent information including, when appropriate, an analysis and explanation of cost overruns or any budget reprogram

Elements of budget were reprogrammed to contractual (from travel and OCE/consumable expenses) to allow for an effective, cost-efficient administrative process of airline ticket, fuel purchasing and renovation activities. Approval was given by OIA/Ryan Edgar, CFCC and Chuuk State DOE. Recruitment processes, project management and development became more complex due to delays in funding.
and lead to costs increase, loss of committed staff, delay of arrival of others committed. So far, costs have not been overrun, but budget has been decreased by 5% service tax – which according to CFCC is covered by Chuuk State and should be reimbursed - and roughly 6% removal of funds from the JEMCO appropriated amount by Chuuk State Legislature leading to a loss and reduction of actual project funding of $122,692.80. This latter amount is supposed to be reimbursed by a renewed decision (public law) of Chuuk State Legislature in June and is part of an addendum to our contract. Purchasing a safe vessel for commute between Tol and Weno and between Islands in Faichuk was more costly than expected due to false information in the application process regarding actual vessel purchasing costs.

Additional costs have been incurred due to the need to improvise in finding staff to cover teaching and community outreach programs as laid out in our MoU. More costs were incurred when purchasing school supplies for vocational courses as the local school administrator has not provided any such requested materials to date.

At the request of the Department of Education, RIC submitted a proposal for the restart of three elementary schools that had lost the accreditation and funding. Following the submission of our proposal we entered into four months of negotiations with the Board of Education. Since they do not meet very often and then frequently cancel meetings that they have called, we incurred extensive additional costs in terms of dollars and time due to frequent trips to Weno.
December 5, 2018

Mr. Manuel San Jose
Chuuk State Public Auditor
Weno, Chuuk FM 96942

RE: Chuuk State Auditor’s Final Report on Rauchholz International Consulting

Dear Mr. San Jose:

This letter and the following documents constitute RIC’s management response to your final report and findings that are the result of your audit of Rauchholz International Consulting.

As you know, this audit was initiated by the Chuuk State House Floor Leader, Kenruo Nero from Manayiyo, village, Pwene island.

Our response contains our summary response to points contained within your report and supporting documents. We are also providing you with printed copies of all of our reports. These are reports that were originally made available to you with the expectation that you would read them and base your findings on the contents of those reports.

Please acknowledge below that you have received our management response.

This has been a long and arduous process. We have learned much through this process, but honestly, we have also felt harassed and discriminated against. The end result is that quality education is being denied many children in Faichuk. In addition, Chuuk State has lost thousands of dollars in revenue to local businesses, and denied the Chuuk State Government access to several hundred thousand dollars of tax revenue.

If you have any questions or comments, please feel free to reach out to me.

Sincerely,

Patrick Chiles
Program Director, RIC

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Rauchholz International Consulting
Dr. Manuel Rauchholz

Faichuk Educational Development and Research Project

Rauchholz International Consulting’s Management Response to the Chuuk State Auditor’s Report

December 5, 2018

Submitted to:
Chuuk State Auditor
Mr. Manuel San Jose

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Introduction and Comments Regarding Finding #1: The audit report developed by the Chuuk State Public Auditor enveloped over the past 10 months is based on the false assumption and misconception that Rauchholz International Consulting (RIC) is a Subrecipient of a US Federal grant and not a contractor (Vendor). The arguments presented, policy and regulatory assumptions therefore juxtapose that JEMCO, the Office of Insular Affairs, Chuuk State Government, Chuuk State Department of Education and the Compact Funds Control Commission (CFCC) have all failed in their understanding of their own set rules and regulations pertaining to the hiring or contracting of a sole proprietorship in Germany to implement an educational development project under the auspices and oversight of the Chuuk State Department of Education in the Faichuk Region of Chuuk State, FSM. The logical consequence of the Auditor’s reasoning is that all the entities mentioned above have been wrongful in their monitoring requirements of RIC over the past two years. 

Aside from this misconception of the audit report it is lacking in substance with regards to its basic reflection of the real life circumstances, workload and livelihood conditions involved in developing said educational project in the Faichuk region. If in fact the report states it is reviewing project outcomes and deliverables it must also acknowledge achievements first and then state deficiencies or areas of improvement. That is international reporting standard which is not visible in the report. Also, in its attempt to evaluate performance outcomes and deliverables it is lacking in reference to the actual data and more than 320 pages of documented extensive quarterly reports submitted by RIC on a quarterly basis for FY 2017. It is in fact operating in denial of said qualified documentation by professional educators and record of educational evaluation of student learning outcomes and achievements. As part of its reporting requirements, RIC went beyond the scope of required reporting and compiled results from student evaluation and internal testing in four elementary schools in Faichuk, Foson, Fewupw, Epin and Manayiuo and one Highschool to monitor student progress over the course of the first contract year. These reports were compiled with much effort and diligence and submitted to Chuuk State Department of Education, OIA, CFCC and other Chuuk State government officials and entities to demonstrate compliance of meeting the objectives of the program Chuuk State DOE had hired RIC to implement under its guidance. Finally, the Auditor measures NMCT outcomes of an exam given only after teachers were present in schools for an average two months due to delay of payments by Chuuk State DOE and proclaims inadequate delivery of project output and accomplishments of outcome. Needless to say that in itself discredits
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Finding 2 of this report. Additionally, it is in neglect of the length of performance expecting serious improvement after seven (7) years and not 7-8 weeks.

It must be stated here as well that upon review of the US Federal Register and additional documents compiled and consulted that help determine entities whether or not they are a sub recipient of a US federal grant or a contractor/vendor, we have found that RIC and the above mentioned entities have performed their duties in compliance with the law, rules and regulations governing the relationship between a Subrecipient of a US Federal Grant (Chuuk State DOE) and the Contractor (See attached Checklist for determining if a Transferee is Vendor or Subrecipient or Quasi-Public). Below, we outline the reasoning of OIA, CFCC, Chuuk State DOE and RIC that defined their joint working and management relationship over the past two years.

1. The basic assumptions prepositioned by the current Chuuk State Public Auditor are false because they are counter to the governing principle Rauchholz International Consulting (RIC) was hired to be working under, namely that RIC was hired as an independent Contractor/Consultant. The whole RIC project is funded through a so called contractual services contract/ MoU with Chuuk State and the funding is earmarked to Chuuk State as a sub recipient of a US unallocated grant for “contractual services” like the US Graduate School which has been managing and consulting Chuuk State Department of Education’s reform process.

On November 8, 2018, RIC Program Director, Patrick Chiles met with the Deputy Director of the Chuuk State Finance Department, Mr. Jonas Paul. Mr. Paul was RIC’s main contact in that office during the inception of the program. When asked about his understanding of RIC’s relationship with the Department of Education, he said, “RIC’s relationship with the Chuuk Department of Education was that of a contractor, contracted to carry out certain educational objectives.”

The payment procedure and reporting procedure has followed this legal principle over the last two years in close transparent cooperation and consultation with Sernina Namelo, Chief Financial Officer at Chuuk State Department of Education (CSDOE), the leadership and management of the Compact Funds Control Center (CFCC) as well as with the US Office of Insular Affairs (OIA). RIC staff have met regularly with these entities and presented documentation of expenditures and received confirmation of compliance with rules and regulations pertaining to those of an Independent Contractor/Consultant. The key section in the text of Chuuk State Financial Management Regulation reads on p. 8 under section b.: “Independent contractor/ Consultant: payment shall be made in the manner specified in the contract and as requested by the employing department or agency head [Chuuk DOE] on the “Miscellaneous Payment Request Form”, with an attached memorandum stating the total contract amount, previous payments to date, current payment amount and remaining contract balances.” During the exit conference process in the week of October 22, 2018 the Senior Auditor of the Chuuk State Public...
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Auditors office confirmed that the pathway of the funds indicated clearly that RIC was not a Sub or Sub-Subrecipient of a Federal grant but an Independent Contractor or Vendor and must therefore be treated as such an entity. In compliance with this defined regulatory process, the documentation used by Chuuk State Finance to disburse funds to RIC followed the procedure outlined in the Chuuk State Financial Management Regulation of page 8 section b. by using the "Miscellaneous Payment Request Form" to disburse funds to RIC. This procedure has been established as a legally binding fact over the past two years and not been questioned by Chuuk State and its different agencies, nor by CFCC, OIA or JEMCO which after receiving and reviewing all reports concurred with the financial management procedures after the first year and approved funding for a second year in acknowledgement of the successful implementation of project goals to bring teachers and support staff to Tol and Faichuk against all odds and the establishment of a teaching presence in three public elementary school and the regional Faichuk High School, developing the needed infrastructure to securely house and transport said teachers to school each day.

From the very beginning of our project in 2016, RIC has complied with each and every requirement and advice from CFCC and Sermina Namel, Chief Financial Officer at DOE to ensure our compliance with laws, rules and regulations pertaining to our work and budgetary process and financial procedures. We were advised by OIA to work with these entities which we did very closely because we were told that they are the ones who can tell us what to do and how to do it. RIC leadership and business manager met with the financial management of CFCC (including with their accountant) to get confirmation about how to proceed and manage the financial issues and to ensure we were complying with rules and regulations. RIC business manager also met with DOE Chief Financial officer and CFCC management to show them his book keeping an financial reporting and documentation procedures as we wanted to be as transparent as possible with the use of funds and comply. We submitted our quarterly reports with a detailed description of our work and accounting and never did we receive any correction that we are doing something wrong and in need of correction. The simple answer was that as a contractor we were complying with the rules and regulations of a contractor and that our internal financial management was to proceed at our own discretion as long as all spending was properly documented and traceable and that our work was about achieving our outlined goals. Which was the reason why we stuck to the advice and recommendations of CFCC, DOE Chief Financial Officer and OIA grant management team.

For the past two years we were treated as a sole vendor "Independent Contractor/Consultant" providing "contractual services" and Dr. Hausmann the former Chuuk State public auditor who we also consulted showed me the requirements in the Chuuk State Financial Management Regulation which reads on p. 8 under section b.:
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"Independent Contractor/Consultant: payment shall be made in the manner specified in the contract and as requested by the employing department or agency head [DOE/education] on the "Miscellaneous Payment Request Form", with an attached memorandum stating the total contract amount, previous payments to date, current payment amount and remaining contract balances." This is the procedure that was being applied each time we were being paid by DOE.

Our signed MOU/contract with the DOE, outlined the services that we will provide etc...

Towards the closing of budget year FY 17 we were planning an audit through Deloitte, because they have been working in the FSM and with the FSM and Chuuk State governments and also have a presence in Germany. We wanted to ensure best financial practices and get their counsel to improve administrative processes for the second year which we were hoping would run more smoothly now that the new director of education was in place and wanted to see the success of our work in Faichuk. When funding was withheld we were not able to proceed with these plans. We have made contact again with Deloitte and were given a time slot for end January/February 2019 should we have funding available by then to proceed with said independent audit.

We had also expected that a professional organization like Deloitte would be the organization sending an auditor possibly in conjunction with the FSM public auditor or where we can be sure that they will be neutral and not be susceptible to influences from outside.

When we talked to the auditor, he told us that all his actions and review is based on the assumption that we are a "Grant/Sub-Subrecipient" and have to comply with governmental administrative procedures i.e. use forms X Y Z when procuring travel or purchases etc. From the beginning we were never treated nor instructed that we were the recipient of a US grant but that Chuuk State was the recipient and the DOE the Subrecipient, which is the reason why we had our MOU/contract stating (and signed) that RIC will be lending its services to the DOE to bring in teachers for the region in Faichuk. From what I have learned reading through policy handbooks is that it is not even possible for a sole proprietorship to be the recipient Sub, Subrecipient of a US federal grant. So by default we could not have been the recipient or Sub, Subrecipient of a US federal grant. Upon inquiry of need to present a DUNS number we were told we did not need to comply with that because we were not the recipient of the grant. I know from being on the Board of another NGO in the FSM that this organization was unable to apply for or receive a Federal grant because they did not have a DUNS number and therefore did not qualify as a Subrecipient of a US federal grant.
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Therefore, Finding 1, which states that "certain expenditures are not in accordance with laws, regulations and agreement" can be dismissed as these regulations did not apply to RIC and RIC never received any documentation or requirements from OIA, CFCC, Chuuk State Finance or Chuuk State DOE that would indicate the responsibility to manage expenditures according to Federal regulations applicable to the Recipient or Subrecipient of a US Federal grant. Recommendations on the management of a petty cash system are on the other hand well received and will assist in the future improvement of management of expenditures.

We will cite only two tidbits from the draft audit report on international travel that demonstrate lack of understanding of the US Federal grant system by the auditor.

The audit report sites JEMCO disallowing international travel, but does not cite their decision and where it can be found, reference to the policy. His footnote just says what JEMCO stands for. Our complete travel budget is international travel because we all came to Chuuk from Germany, USA and Canada etc.. So what he concludes is: our whole travel budget to bring the teachers to Chuuk is misspending against JEMCO regulations and in violation of Chuuk State and FSM laws on Compact spending, etc... The Director of Education, CFCC, DOE Chief Financial officer and other government officials such as CFCC always claimed the opposite stating that we could travel internationally but Chuuk State DOE officials could not without OIA concurrence, because RIC funding was under contractual services and not bound to these regulations as an independent contractor. What the auditor does not say is that JEMCO and OIA endorsed our budget and it was intentional to send teachers from overseas to the FSM and Chuuk because Chuuk has not enough teachers. Also, JEMCO regulations clearly state that travel funds can be used for hiring of overseas contractors and for their repatriation. Chuuk State DOE and CFCC (which is in charge of supervising DOE spending/book keeping) have always made note to that difference, that our travel is approved internationally. How in the world would we travel to Chuuk if spending money on travel to and from Chuuk were illegal for people residing outside of Chuuk.

A second point the audit report argues is "overspending on teacher salaries": the auditor admonishes overpayment because we had teachers under contract for the beginning of the school year according to our contract with the DOE. Then, when DOE and Chuuk State was late in making payment by 5 months, the auditor cites RIC for "overpaying" teachers for these five months citing back payment as over payment in ignorance of the DOE responsibility to make payments on time and thus being the cause for the need to back pay the teachers we contracted. These arguments are without importance because they were only to apply - if valid - which they are not - to the sub recipient of a Federal grant and not to a contractor.
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3. RIC has gone through the Federal Register Vol. 78, No. 248/Thursday, December 26, 2013/ Rules and Regulations which the auditor gave us for review. The wording here is very clear as to who we are and not are in § 200.92 Subaward: "It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program." RIC has been a beneficiary but NOT a sub-awardee as claimed by the auditor against RIC treatment the past two years by all key stakeholders involved.

4. § 200.53 Subrecipient: ....; "but does not include an individual that is a beneficiary of such program"... As a sole proprietorship i.e. Doing business as (DBA) as RIC we and the individual teachers we had contracted not as employees but as individual contractors, we were doing the project as individual contractors and the DOE was responsible for Federal reporting requirements related to disbursement and use of funds for contractual consultant services. We reported on that basis and got regular assurance that we were operating within their approved framework.

Further proof of this fact is that in the unallocated grant proposals it is always the Director of Education, in 2017 it was Alfios William as acting Director of Education, applying for the grant amount, earmarked as contractual services and not RIC. RIC became a beneficiary as a contractor and as a sole proprietor was not eligible to apply for this grant. It had to be applied for by Chuuk State DOE through Chuuk States Board of Education and FSM government. That is why the DOE and Board of Education are the subrecipients of the grants.

The Check lists attached by RIC and the Auditor outline criteria for determining a sub recipient and a contractor. All four (4) criteria listed under Section 1 Subrecipient apply to Chuuk State DOE and not to RIC.

   a. Chuuk State DOE could determine who is eligible to receive what Federal assistance. This is confirmed in the fact that DOE and its Board could decide to whether or not RIC would receive Federal assistance or not.

   b. DOE as recipient and controller of said funds, evidenced in multiple delays of payments to RIC over the past two years. In other Federal grant programs I have witnessed from the US or the EU, the Subrecipient of a grant is the entity that receives the full grant amount and controls the funds and then hires additional entities to assist in performing services it cannot do or perform within the limitations of its own institutional abilities.
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- Chuuk State and its governing Board of Education have the responsibility in programmatic decision making. When RIC attempted to make changes to its program for year to year, these processes were administered through the Chuuk State DOE and its officers and the Chuuk State Board of Education and not by RIC which did not have the authority and freedom for such programmatic decisions.

- The funds dispersed to RIC by Chuuk State DOE were given to RIC to provide goods and services.

RIC in turn meets the requirements of Section 2 of a Contractor:

- Provides the goods and services within normal business operations since 2011, the year of its founding in Germany.

- Provides similar goods and services to many different purchasers: Example: Prior to the Chuuk Project, RIC did an EU research project that worked the same way as this one: The University of St. Andrews was the sub recipient of an EU grant and needed someone to provide a component who was an expert on Micronesia so amongst a number of contestants RIC was hired as a contractor to provide the services. RIC received lump sum payments to provide the services, collect and compile data, write up the reports, etc. meeting all the requirements of a contractor on the free market. The University of St. Andrews had to comply with EU regulations in their reporting to the EU but RIC did not.

- RIC operates in a competitive environment as a sole proprietorship and consulting firm. The Auditor also wrongly operates under the assumption that RIC is an NGO when in fact all operations in Chuuk over the past two years were conducted by RIC as a sole proprietorship. In early 2018 a RIC not for profit corporation was founded to form the basis of cooperation with Chuuk State DOE in FY 2019.

- Provides goods and services ancillary to the operation of the federal program.

Chuuk State officials were adamant about this factor in all negotiations, emphasizing that we were to support the DOE in its activities and RIC teachers were to work under local principals and school officials, required as independent contractors to report to them as well on a daily basis, submit lesson plans etc.

These last four points is where the auditor also makes assumptions without factual documentation. RIC contracts and protocols from contract negotiations as well as a policy paper presented by the Chuuk State Board of Education in July 2017 clearly
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stated that RIC would be and remain in the position of an ancillary to the operations of the Chuuk States federally funded program.

The following pages of said document on Federal Grants: Subrecipient v Contractor posted Oct 7, 2015 only underline more clearly in multiple points that RIC is a contractor and Chuuk State has been the primary recipient of the US federal grant. It must be noted that in compliance with said policy, Chuuk State DOE as the "Awarding Entity must submit a comprehensive closeout package at the end of the agreement. This fact was confirmed by OIA and CFCC and even the auditor confirmed this fact hence contradicting himself during the audit exit conference in the week of October 22.

5. After RIC and Stakeholders meeting with the Chuuk State AG on February 7th, 2018, that cleared the allegations of religious entanglement the AG had produced on behalf of the Floor Leader of Chuuk State Legislator. The following day, February 8th said Floor leader requested the audit of the RIC program.

RIC Chuuk was founded as a sole proprietorship as RIC Germany was informed by government agencies (Industry and Commerce, FSM AG and Chuuk State AG, FSM Tax and Revenue, Chuuk State Social Security Office and the Bank of Guam in Chuuk that it could only operate locally in Chuuk with a local business license, business social security number etc. The legal form of the business followed the format (paralleled the format) of the mother company in Germany. In Summer of 2017 it became clear to all parties that it would be best to incorporate RIC as a not-for-profit corporation in Chuuk State. In parallel this process was also begun with RIC in Germany which was established as a corporation in October 2017 (step one of the procedure) and then further processed to become a not-for-profit corporation in Germany which was established end of August 2018. This process in Germany was facilitated with a tax councilor, law office and lawyer working pro bono to ensure proper legal procedure in Germany.

All key business documents pertaining to business operations in Germany are kept in Germany and those pertinent to Chuuk were kept in Chuuk according to each countries local business law. Upon request by the Chuuk State auditor original documents were hand carried to Chuuk and auditor was informed that they would become available in Summer 2018 for his review but he chose not to review the documents despite RIC management informing his staff about the availability of said documents. The fact that he did not bother to review documents and then accuse RIC of failure to present them is a false statement libeling RIC and is not the work of a neutral auditor. It is an abuse of his office to make such untruthful and misleading statements that we must assume intentionality in these statements. At the exit conference documents in the German language were translated orally and auditor was informed that translations could be provided in writing by end of November.

Because the first two contract and funding years were with RIC sole proprietorship in
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Germany all operations involving DOE funded activities were completed under the sole proprietorship business. This had to be coordinated also with German authorities and was a structured process following the timeline of our legal advisors and tax advisors.

FY 19 (October 2018) is the cut-off date where RIC has transferred or was going to transfer all activities to the newly founded and accredited RIC NGO’s. This process was guided again by our legal and tax advisors and also depended on the accreditation of RIC Corporation in Germany as a Not for Profit, tax deductible organization which was finally achieved in late August (August 26) 2018. In Germany this process involved careful review of RIC annual tax and revenue reports. RIC therefore had to hire specialists for tax and revenue law to prevent additional taxation and prepare the lengthy process of establishment as an NGO. In the FSM this process also received guidance from FSM AG and AG office (we met with the FSM AG to discuss these matters), Chuuk State AG, Chuuk State Industry and Commerce and even the Governor of Chuuk State among others. It is no secret to anyone working in and with governmental agencies and navigating between legal systems of multiple nations that this task is lengthy and requires specialist counsel.

From the beginning RIC was transparent to the fact of developing and advancing operations through the search of additional funders and funding sources to lower the financial burden of Chuuk State and to reduce the amount offederal funding needed to keep the educational program going even beyond COMPACT 2 in 2023. RIC has always been transparent about these activities and documented them in its reports, foremost in the first extensive quarterly report.

Travel: all travel management procedures were approved by CFCC and Sermina Namele as well as OIA. These funding items being part of our contractual funding are not processed through the DOE but by the business itself and at its own discretion.

All travel funding of RIC employees is regulated in RIC employment contracts. For the auditor to state overspending is incorrect and undocumented by the auditor in his report. The reports lacks reference to employee contracts terms and conditions of travel allowing for the cheapest routing.

If RIC had been legally bound to process TA through the DOE then the amount spent on travel would have been more than double of what was actually spent by RIC management.

a) DOE and Chuuk State Government Procedure always purchases the more costly Y tickets for employees. A roundtrip Y ticket with United Airlines from Guam to Chuuk will cost in the area of 750-776 USD while the cheaper R (restricted fare tickets) will cost from 430USD-590USD. Tickets to and from Germany to Chuuk in the Y class will generally cost between 4,500-7,000USD per ticket. RIC calculated with half that amount.
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b) RIC did not pay a per diem to traveling staff like Chuuk State regulations would require for their employees. It was not budgeted from the beginning to keep travel costs down.

Program management reimbursement for required travel to Germany for recruitment of teachers, tax and revenue consultations and processing of annual tax and revenue reports did not see any per diem payments to RIC staff. If applied, a Per Diem of 300-450 USD applies per day for Germany (FSM Per Diem table for exact numbers). Instead, RIC only reimbursed actual costs. A neutral auditor would in fairness to his review note these obvious factors and mention them. Instead he chooses to present partial truths that amount to a libeling and thrashing of RIC.

Out of a contract period from May 1 2016 until September 30, 2018 Chuuk State and DOE were late in making payments to RIC by 12 months total for the first initial payments and additional months delayed for second and third instalments, some of which were hard fought to be paid out to RIC. The auditor report is biased in that it does not recognize with a single word the failure on the side of DOE and Chuuk State to comply with their contractual requirements that form the basis of all educational and business activities. The DOE's power to control funds is again yet another indicator that RIC is not the Subrecipient of the funds it uses.

RIC is being libeled in the report for having spent its own money up front to get the project off the ground in summer 2016 after approval of funds by JEMCO. The activities of RIC were planned and implemented in close communication with CFCC and Sermina Namelo and other representatives of the DOE as well as with the US grant manager. In addition, at the request of the Director of Education, RIC donated two full months of services to Chuuk State DOE from August 1, 2017-September 30, 2017, as these two months were not covered by the grant for FY17. In all respects RIC expended funds to minimize expenses wherever possible to allow for expenditures in areas where activities were under budgeted. This included cost planning for motorized boat(s). RIC calculated that purchasing one 32ft boat would minimize costs and reduce the amount of employees and increase the safety of transporting teachers to and from school and to Weno. In FY 17 over 35 contracted teachers and dependents were residing on Tol and in Pwene. To accommodate transportation needs four new boats could have been purchased at a cost of 12,000USD a piece plus a 60HP engine at 7,000 a piece to accommodate transportation needs. Higher maintenance and four times the employees would have been needed to manage this general purpose equipment.

The grant proposal clearly stated that housing would be built for teachers and that inventory (furnished housing) would be provided for the teachers. There is no housing available for teachers in Tol. This is reflected and reported on in the Compact Sector Reports for FY 2017. This was approved by the acting Director of Education, The Board of Education, the FSM National Department of Education, CFCC and OIA.
Rauchholz International Consulting

RIC was contracted for services by Chuuk State DOE and was tasked with providing these services. Providing services were conditioned on the DOE providing the funding for these services and providing support locally for the proper implementation of programming.

Funding for this project was transferred to Germany for easier processing and management (online banking options are more cost efficient than with the Bank of Guam). Auditor is making up his own laws regarding the legal foundations of our MoU with Chuuk State.

The audit report generally paints and armchair perspective that omits central historical facts in the real life evolvement of the project under the most cumbersome circumstances. Any quality report on performance outcomes and deliverables will also recognize achievements on the one hand of all parties involved and then also areas where improvement is necessary. This international standard procedure is not visible in the report. It is detached from the actual chronological processes from inception to implementation and challenges of implementation in light of infrastructural deficiencies (no electricity, telecommunications, housing, transportation in Faichuk along with delayed payment of available funds to independent contractor RIC, not to mention daily safety hazard of teachers contracts by RIC to work in the Faichuk region). The review of performance outcomes and deliverables are beyond the scope of qualification of the Chuuk State Public Auditor and therefore lack validity. Also, the report lacks reference to documentation which RIC provided to the Auditor and Chuuk State DOE, OIA and CFC, Chuuk State Legislature and other government agencies who acknowledged the documented educational achievements.

Management Response to Finding 2 – Inadequate Delivery of Project Output and Accomplishment of Outcome

a) 10% Increase in Students Passing the FSM National Minimum Competency Test Not Achieved

During the Exit Conference, we pointed out that this goal was unrealistic as a 1-year goal. Our project was designed to be a 7-year project. In that time-frame, perhaps 10% might be achievable. We also pointed out that we were told by the Director of the Department of Education that they only expected a 2% increase in test scores.

Additionally, we pointed out that he did not read the scores correctly, thus coming up with wrong statistics and a wrong conclusion.

Our comments were dismissed with the personal statements, “We believe that the target is realistic”. This belief is not based on facts but only on our comment that there was some academic improvement. The fact is that a child in the 8th grade who has a 2nd grade reading level can improve 100% and still not show any improvement
Rauchholz International Consulting

on an 8th grade NMCT test. The comment demonstrates a lack of understanding of education in general and the long-term educational crisis that exists in Faichuk.

It seems unreasonable to be held to a standard that no one who understands the educational environment in Faichuk would deem achievable.

b) **20% increase in Students Passing Various College Entrance Tests not Achieved**

During the Exit Conference we pointed out that calculations were incorrect and that the achievement was actually 100%. Therefore this item should be removed from this report.

In his final report, the Public Auditor cited the amount of the grant award and the size of the data sample as a reason for including this evaluation. We maintain that the size of the grant award is irrelevant. No amount of money can turn lead into gold.

Furthermore, the size of the data sample is even more reason to discard this finding, not a reason for its inclusion. Statistical accuracy improves as the data sample grows. Likewise, statistical accuracy loses its integrity as the data sample decreases.

c) **No record to Verify Whether the RIC conducted Daily Classes for a total of 500 students**

We pointed out during the Exit Conference that records of our classes are contained in the reports that we submitted AND those same records of classes and attendance are also kept by the Department of Education.

The fact that we did not provide the Auditor with a "summary" report is irrelevant. The data is available in our reports which were made available.

The fact is that we did meet this objective. Please refer to our reports to verify.

It should also be noted that nowhere is it specified, nor were we ever corrected regarding the format of how the reporting should be done.

d) **No Outcomes and Measures were Set for the mentoring of 20 Local Teachers**

This one is confusing because if no outcomes or measures were set, then what are we being evaluated on? In other words, why is this an issue that is brought up under performance outcomes.
Rauchholz International Consulting

Again, our objection to the inclusion of this in his report is summarily dismissed by the comment, “We believe”. This reasoning injects a personal opinion and not is based on fact. The lack of inclusion of specific outcomes and measures may have been left out intentionally by those who crafted the MoU because they understand education and the specific situation in Faichuk. So how can someone who knows nothing about education criticize a MoU that is crafted, approved and signed by professional educators? Is it possible, that in their wisdom, these professionals thought that it would be great if such training simply took place when no such training existed before?

If there is a weakness in the MoU, then that should be addressed separately, not under this category of Inadequate Delivery of Project Output and Accomplishment of Outcome.

e) No Outcomes and Measures were Set for the 24 training sessions for Teacher Competency Examination, FSM National Teachers Test

Here again, wisdom of those who crafted, approved and signed the MoU, which includes Master and PhD-level educational professionals with decades of educational experience is called into question. They would have simply been happy for that training to take place. Chuuk State was responsible for planning and organizing said trainings but failed to organize them within the FY 17.

We explained to the Public Auditor that before we could begin the training, we were directed by the Department of Education to not conduct the classes and they refused to give us the training materials.

Again, our objection is dismissed not on fact, but on the author’s personal “belief”. He believes that RIC should have ignored the Department of Education’s directive and taught the course anyway, even though we had no course material. RIC working in support of the DOE cannot command the implementation of such training without DOE sending its teachers for the training. That is against the DOE definition of RICs ancillary function.

If there is a weakness in the MoU, then that should be addressed separately, not under this category of Inadequate Delivery of Project Output and Accomplishment of Outcome.

f) No Outcomes and Measures were set for the Collection of data on weekly teacher and student attendance
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Again, the wisdom of those who crafted, approved and signed the MoU, which includes Master and PhD-level educational professionals with decades of educational experience is called into question. They understood that this data is kept by school officials and the Department of Education as RIC was working under and alongside the local school principals.

Again our objection is dismissed, ignoring facts and inserting personal opinion. While he explains about the difference between output and outcome, this is irrelevant to whether an objective was set and met. If there is a weakness in the MoU, then that should be addressed separately, not under this category of Inadequate Delivery of Project Output and Accomplishment of Outcome.

g) No Outcome was set for the Monthly Sessions with community leaders and students, on the ethics, conflict resolution and aggression

Once again the wisdom of those who crafted, approved and signed the MoU, which includes professionals who understand the educational and social issues of Fauchuk is called into question. They understood that simply to have such meetings would be a good thing.

The question that should have been asked is “Did such meetings take place, yes or no?” The Public Auditor acknowledges that indeed, these meetings took place.

If there is a weakness in the MoU, then that should be addressed separately, not under this category of Inadequate Delivery of Project Output and Accomplishment of Outcome.

In our opinion, the entire section under Finding 2 should be discarded because:

a) This goal was unrealistic. Furthermore, the goal in the MoU is confusing. Even the Auditor admitted that he was not sure if the goal is “number of students passing” or in “test scores”. So why include a metric that is confusing to all and not achievable anyway?

b) This goal actually was achieved, even though the data sample was small.

c) This goal actually was achieved. Just check our reports.

d) This is incorrectly categorized. This is a problem with the MoU, not and issue of RIC's Inadequate Delivery of Project Output and Accomplishment of Outcome.

e) This is incorrectly categorized. This is a problem with the MoU, not and issue of RIC's Inadequate Delivery of Project Output and Accomplishment of Outcome.

f) This is incorrectly categorized. This is a problem with the MoU, not and issue of RIC's Inadequate Delivery of Project Output and Accomplishment of Outcome.
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g) This is incorrectly categorized. This is a problem with the MoU, not and issue of RIC's Inadequate Delivery of Project Output and Accomplishment of Outcome.

Conclusion: The audit report generally paints an armchair perspective that omits central historical facts in the real-life evolution of the project under the most cumbersome circumstances.

Any quality report on performance outcomes and deliverables will also recognize achievements on the one hand of all parties involved and then also areas where improvement is necessary. This international standard procedure is not visible in the report. It is detached from the actual chronological processes from inception to implementation and challenges of implementation in light of infrastructural deficiencies (no electricity, telecommunications, housing, transportation in Faichuk along with delayed payment of available funds to independent contractor RIC, not to mention daily safety hazard of teachers contracts by RIC to work in the Faichuk region).

Finally, the report lacks reference to documentation which RIC provided to his office and Chuuk State DOE, OIA and CFCC, Chuuk State Legislator and other government agencies who acknowledged the documented educational achievements.
**OCPA’s EVALUATION OF MANAGEMENT RESPONSES**

Public Auditor’s counter response to RIC’s Final Management Response

The management response was totally in disagreement with the audit findings and conclusions. We could understand the response because the 3rd year continuation of the project was stopped officially on August 23, 2018 when the audit draft report was about to be completed. We became officially aware of this development though only on November 27, 2018 when we were about to issue the final draft for management response. This is the reason why some of the audit recommendations in the report were still addressed to the RIC.

We characterized the management comments as not responsive because they did not focus on the issues raised in the audit report. This was actually a revised version of the first management response letter. The first version was changed because of our communication to the RIC President and CEO that the first management response had full of insults, which are uncalled-for.

The revised management response still contained an attack to the qualification of the Public Auditor and the ability of the office to conduct a performance audit. They were meant to discredit the audit report. It was timely though that the OCPA externally peer reviewed by other auditors in the FSM and were issued an opinion that the quality control system of the OCAP was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements.

On Finding 1, the RIC management mainly argued that they were not a grant recipient but a contractor and therefore compliance with laws and regulations on program were not applicable. We made a determination on sub recipient and contractor relationship and came up with an analysis that the RIC is a sub sub recipient. The Grant Manager further confirmed this recipient relationship during our discussion with him on this issue. The RIC management was informed of the position of the Grant Manager during our exit conference with them.

On Finding 2, the same reasoning and disagreements were raised by the RIC Management during the exit conference. We have revised the wording of our findings in the final report to capture certain details and not necessarily put the burden and the responsibility to the RIC on some of the findings. The main contention by the RIC was whether to define the yearly outcome measures to monitor performance and activities if effective.

We have evaluated the RIC’s management response and decided to document our counter comments to put perspective on some of the responses and to correct some of the misconceptions. These were as follows: (note: those in words in italics were taken 'word-for-word' from the management response)

1. Per RIC – “..The audit report was developed by the Chuuk State Public Auditor for the past 10 months. It is a false assumption that RIC is a sub-recipient of a US Federal Grant and not a Contractor.”

   OCPA Comments- The standard time for performance audit is six to nine months assuming the audit team of three or more members is complete. The audit team was never a complete one. Anyway, we have completed the audit within six months and have forwarded the draft report for
exit conference on September 21, 2018. RIC’s schedule and OCPA’s attendance to various
trainings delayed the finalization of report.

We have analyzed the relationship that existed between the RIC and the Chuuk DOE and the
results of such analysis had indicated that the RIC is a sub sub recipient of the grant award. Refer
to page 6 of the report and to Appendix 1 on page 52 for the Sub recipient and Contractor
Determination.

2. Per RIC – “If in fact the report states it is reviewing project outcomes and deliverables it must
also acknowledge achievements first and then state deficiencies or areas of improvement. That is
international reporting standard which is not visible in the report.”

OCPA Comments – We indicated in the report under the section for ‘Methodology’ that we
conducted the audit using the US General Auditing Standards (GAS) and not using the
international standard. Under the audit reporting section of the GAS, there is no requirement for
the auditor to acknowledge the achievement first and then the findings. What we are required is
to state the objectives and then the findings and conclusions to answer the objectives. Even the
international audit standard for performance audit does not require acknowledging the
achievement first.

3. To evaluate outcomes and deliverables – Per RIC - “it is lacking reference to the actual data
and more than 320 pages of documented extensive quarterly report submitted by RIC.”

OCPA Comments : During the start of audit fieldwork in April 2018 (or seven months from
the closing of the performance period for the grant on October 1, 2017), RIC provided the
auditor with four quarterly reports – 1st quarter (95 pages), 2nd quarter (158 pages), 3rd quarter
(7 pages), and 4th quarter (8 pages) or a total of 268 pages. The reports during the first and
second quarters were in long form, which requires patience and time to be able to read them
through, while the 3rd and 4th quarter reports were short and followed the standard US Office
Insular Affairs’ reporting for a project. The RIC prepared the accumulated performance reports
for 3rd and for 4th quarter. This means that the RIC had been including performances from
previous quarter/s in the current quarter report. In the 4th quarter report, the RIC included the
performances from 1st to 4th quarters; therefore, we used this as sufficient reference for audit
purposes. We attached the 4th quarter report as Appendix J of this report for reference. Since the
report was not designed to monitor the agreed outputs and deliverables, we requested
information both from the State DOE and the RIC to provide the auditor with deliverables, we
requested information both from the State DOE and the RIC to provide the auditor with
evidence of the delivery of outputs and the accomplishment of outcomes.

Now, the report became 320 pages. It is most likely that reports were made up.

4. Page 3 of 17:
Per RIC – “The auditor measures NMCT outcomes of an exam given only after teachers were
present in school for an average two months due to delay in payments by Chuuk State DOE and
proclaims for an average delivery of output and accomplishment of outcome……. It is in neglect
of the length of performance expecting serious improvement after seven (7) years and not 7-8
weeks.”
OCPA Comments – If the RIC has issues that the teachers were present in school for an average of only two months when the NMCT testing was conducted then why did the RIC state the following the accomplishment in the 3rd (April, May, June 2017) quarter report... another indicator of teacher's success was the 20% improvement of students in 4th and 6th grade NMCT testing in April 2017. This achievement even surpassed the 10% agreed deliverable outcomes for NMCT. Did RIC lie in their quarterly report?

Further, the term of the agreement specified that the MOU is renewable for another three-year period. This means that the MOU was good only for four years and not for seven years. How was it possible to agree on deliverable outputs and outcomes that would not be achieved with the lifetime of the agreement?

5. **Page 4 of 17:**
RIC staff have met regularly with entities (CSDOE, CFCC, OIA) and presented documentation of expenditure and received confirmation of compliance with rules and regulations pertaining to independent contracts and consultant.

OCPA Comments - We are doing an independent assurance audit to ensure that laws, policies, and procedures are complied with and to determine whether the use of the government money resulted in efficiency, economy and effectiveness. It is within the mandate of the auditor to question approval processes, policies, and procedures if they are resulting in inefficiency and ineffectiveness.

**Page 4 of 17:**
6. Senior auditor of the Chuuk State Public Auditor’s Office confirmed that the pathway of the funds indicated clearly that RIC was not a sub-sub-recipient of federal grant but an independent contractor.

OCPA Comments – The RIC misquoted the statement of the Senior Auditor during the exit conference on October 18, 2018 wherein the topic of recipient and contactor relationship was discussed. She did not mention any statement that RIC was a sub recipient. This issue had already been clarified before the RIC revised its original management response. Nevertheless, the RIC retained the tone of its original statement.

7. **Page 5 of 17:**
Mr. David Hausman, former Chuuk State Public Auditor, who we also consulted showed me the requirements in the Chuuk State Financial Management Regulations

OCPA Comments – When this statement was confirmed with the former Public Auditor, he denied providing consultation with anybody.

8. **Page 6 of 17:**
Towards the closing of the budget year (In September) FY 2017, we were planning an audit through Deloitte, because they have been working in the FSM and with the FSM and Chuuk State governments and also have presence in Germany... When finding was withheld we were not able to proceed with these plans. We have made contact again with Deloitte and were given
a time slot for end January/February 2019 should we have funding available by then to proceed with said independent audit.

OCPA Comments - Our office is the only one authorized to conduct the audit and account all the monies that were received from and used by the Chuuk State government.

If RIC would want to be audited by another auditor, that would be for its expense. The expenses for the external audit is not part of the MOU agreement. However, this request for audit with another auditor, will not stop our office from auditing the RIC as it received money from the Chuuk State government.

9. Page 6 of 17:
We had also expected that a professional organization like Deloitte would be the organization sending an auditor possibly in conjunction with the FSM Public Auditor or where we can be sure that they will be neutral and not be susceptible to influences from outside.

OCPA Comments - The organization structure of the Public Auditor Office was created in the constitution independent of the Legislative and Executive branches of the government. The audit function is an independent body in every country. We never allowed to be influenced. The RIC has no basis in stating that our office was biased in this audit.

Page 6 of 17:
10. From what I have learned reading through policy handbook is that it is not even possible for a sole proprietorship to be the recipient of a federal grant. So, by default we could not have been the recipient or sub-sub-recipient of a US Federal Grant.

OCPA Comments – In the MOU, there was representation that… the RIC is a profit organization but does not intend to generate profit from the project. It shall therefore integrate the project with integrity into a non-profit academic institutional framework based at Heidelberg University, Germany by June 30, 2016. Such a model shall maximize the availability of human and financial resources to be invested in the development of the best educational practices in order to optimize capacity building in the Faichuk region.

OCPA Comments - It is irrelevant whether the RIC is a sole proprietor or not as far as the MOU is concerned. When the RIC was allotted with the grant money, it is an entity that shall operate as a non-for-profit while implementing the project.

Page 8 of 17:
11. RIC became a beneficiary as a contractor and as sole proprietor was not eligible to apply for this grant.

OCPA Comments- Refer to the analysis on Appendix I of this report.

Page 7 of 17:
12. Therefore, Finding 1 which states that certain expenditures are not in accordance with laws, regulations, and agreement can be dismissed as the regulations did not apply to RIC and RIC
never received any documentation for requirements from US OIA, CFCC, Chuuk State Finance and Chuuk State DOE ---

OCPA Comments- The terms and conditions both in the MOU (Section IX Miscellaneous) and in the notice of grant award (section 2), which was provided by the Chuuk State DOE to RIC, requires your adherence to applicable federal compliance requirements and Chuuk State laws and regulations.

CFCC also conducted financial workshop with regard to requirements of the existing laws and regulations, which RIC attended.

Page 7 of 17:
13. The audit report cites JEMCO disallowing international travel, but does not cite their decision and where it can be found, reference to the policy. His footnote first says what JEMCO stands for.

OCPA Comments –The failure to provide explanation was not noticed. We know how to use and put footnote in the report. The RIC could have informed us on this deficiency during the exit conference. Anyway, we updated the footnote to explain the restriction policy. That policy was specified among the terms and condition in the grant award, of which copy was provided to RIC at the start of the project.

Page 7 of 17:
14. “Overspending on teacher salaries”: the auditor admonishes overpayment because we had teachers under contract for the beginning of the school year according to our contract with the DOE. Then, when the DOE and Chuuk State was late in making payments by 5 months, the auditor cites RIC for overpaying teachers for these five months citing back payment as over payment in ignorance of the DOE responsibility to make payments on time and thus being the cause for the need to back pay the teachers we contracted.

OCPA Comments - At the time the RIC prepared the effective date of the contracts for 13 expat workers with August 1, 2016 as the starting date, there was no approved agreement yet between the RIC and the Chuuk State (signed by the Governor as the authorized officer). The grant award that would fund the project was only released on October 17, 2016 for the funding period from October 1, 2016 to September 30, 2017. The Chuuk State Legislature appropriated the grant in November 29, 2016 while the Governor signed the MOU agreement (with RIC) only in December 2016. Therefore, there was no authority yet, as of August 2016, from both the Legislature and the Governor to release the money to the RIC. However, when the RIC received the money in December 2016, they fully paid the teachers according to the start date indicated in the contract. In addition, some of the teachers did not arrive yet in Chuuk State because they were waiting for the fund to be released.

We cited in the audit report about the delay in payment according to the payment terms in the MOU.

This case is a legal matter that needs the Attorney General’s evaluation.
15. C. Chuuk State and its governing board of education have the responsibility on programmatic decision-making.

OCPA Comments – The MOU specified that the RIC has overall programmatic and fiscal management of all activities (Ref MOU II.A), which means that the RIC has responsibility for programmatic decision-making. The RIC had been implementing their interventions and their so-called methodical and multi-layered approach to the ongoing enhancement of education in the Faichuk region. This enhancement of education is the essence or the purpose of the Education Sector. The DOE management never interfered with the RIC in the implementation of these approaches. The discussion and coordination with Chuuk State DOE department, however, is necessary to ensure that the RIC’s activity will be consistent with the overall policy of the Chuuk State DOE.

Page 8 of 17,
On assessment of the RIC as a contractor and not a recipient of the grant
16. Letter A: *RIC Provides the goods and services within normal business operations since 2011, the year of its founding in Germany.*

17. Letter D: *RIC provides goods and services ancillary to the operation of the Federal Program*

OCPA Comments – The RIC takes ownership of the project. The grant provided the necessary funds to support the RIC’s management and staff to run the project and become successful. The work of the RIC was not an ancillary support but integral to the actual realization of the project purpose. The project is an integral part to support the purpose of Education Sector grant in Faichuk region.

Page 9 of 17:
18. *RIC contracts and protocols from contract negotiation as well as policy paper prescribed by the Chuuk State Board of Education in July 2017 clearly stated that RIC would be and remain in the portion of ancillary to the operation if the Chuuk State federally funded program.*

OCPA Comments – The timeline of the mentioned policy paper was July 2017. The first-year operation of the project was approved in 2016. Thus, the mentioned policy paper was not
applicable yet at the time the Chuuk State Board of Education recommended the project. Apparently, this policy pertains to the second-year renewal of the agreement.

Page 10 of 17:

19. After the RIC and Stakeholders meeting with the Chuuk State AG on February 7, 2018, that cleared the allegations of religious entanglement the AG had produced on behalf of the Floor Leader of the Chuuk State Legislator. The following day, February 8th, the said Floor Leader requested the audit of the RIC program.

OCPA Comments – The issue that we discussed in the audit report was about conflict of interest which was different from religious entanglement or “separation of church and state”. In our audit, we actually looked also about this issue on religious entanglement but were only able to establish the fact that the grant money was used to assist the development of the church property by renovating and constructing houses. The total money that was spent for the renovation/construction was beyond the allocated yearly rental payment for the houses.

Though mindful of our independence, our office can entertain any audit request. When we received the audit request from the Floor Leader of the House of Representatives of the Chuuk State Legislature, we made an audit survey to determine the related issues and concerns and decided to do a full-blown audit. Further, the amount of money ($1.3 million) is mandated for audit per the US federal regulations.

Page 9 of 17:

20. Upon request by the Chuuk State Public Auditor original document were hand carried to Chuuk and auditor was informed that they would become available in Summer 2018 for his review but he chose not to review the documents despite RIC management informing his staff about the availability of said documents. The fact that he did not bother to review the documents and then accuse RIC of failure to present them is a false statement libeling RIC and is not the work of a neutral auditor. It is an abuse of his office to make such untruthful and misleading statements that we must assume intentionality in these statements. At the exit conference documents in the German language were translated orally and auditor was informed that translations could be provided in writing by the end of November.

OCPA Comments- My staff and I are denying these allegations. We never refused anything when it comes to audit work. If ever, we were not made aware of such availability of documents. Besides, if the documents came from Germany and written in German language, we will not be able to understand the contents.

We requested for the translation of the contract (written in German language) with the lawyer because the text was long and not possible for us to mentally retain the translation and, so, we wanted to retain a copy of the agreement. Further, the RIC President was tightly holding the contract document when shown to us during the exit conference. He did not permit us to have a copy of the said contract.

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21. The auditor report is biased in that it does not recognize with a single word the failure on the side of Chuuk DOE and Chuuk State to comply with their contractual requirements that form the
basis of all educational and business activities. The DOEs power to control funds is again yet another indicator that RIC is not the Sub-recipient of the funds it uses.

OCPA Comments - The statements are NOT TRUE. The audit subject was all about compliance and performance of the RIC. The financial transactions and the performance records were all from the RIC. Naturally, all the findings and issues would relate to the RIC. However, we also mentioned in the report if Chuuk DOE could be the cause of the findings or the issues. We made several recommendations in the report that were addressed to the Chuuk State DOE.

The problem on the release of the funds was related to timing but not on contractual relationship.

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22. At the request of the Director of Education, RIC donated two full months of services to Chuuk State DOE from August 1, 2017-September 30, 2017, as these two months were not covered by the grant for FY 17.

OCPA Comments – The RIC has to identify their workers who donated their services. Otherwise, there was no basis to this claim. From the review of payments made to workers, the RIC paid 15 workers in August and September 2017. The workers whose contracts ended in September 2017 have all exited in Chuuk.

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23. The grant proposal clearly stated that housing would be built for teachers and that inventory (furnished housing) would be provided for the teachers.

OCPA Comments – The construction of houses in a private land using government funds is prohibited. The owner could have constructed them on their own instead of the RIC doing the construction.

The MOU agreement and the Project Proposal did not specify the furnishings to the houses. For the recipient relationship, we have indicated in the audit report what could be furnished to the housing units as a matter of policy.

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24. Funding for this project was transferred to Germany for easier processing and management (online banking options are more cost efficient than with the Bank of Guam. Auditor is making up his own laws regarding the legal foundations of the MOU with Chuuk State

OCPA Comments - We did not make our own laws regarding the legal foundation of the MOU with Chuuk State. We described in the audit report the money transfers from the Bank of Guam to the Bank in Germany and vice versa to understand the source and the accounting of funds,

Page 13 of 17;

25. The review of performance outcomes and deliverables are beyond the scope of qualification of the Chuuk State Auditor and therefore lack validity. Also, the report lacks reference to documentation which RIC provided to the auditor and Chuuk State DOE, OIA, CFCC, Chuuk
State Legislature and other government agencies who acknowledged the documented educational achievements.

OCPA Comments – We are attending yearly training on performance audit which is conducted by the US Graduate School. The Public Auditor had been doing performance audit for more than 20 years.

The quarterly reports submitted by the RIC did not focus on reporting all of the agreed deliverable outputs/outcomes. They lacked substance as far as reporting the agreed outputs and outcomes.

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26. Our project was designed to be a 7-year project.

OCPA Comments - The RIC should have designed the project for a four-year period only consistent with the period in the MOU.

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27. Additionally, we pointed out that he did not read the scores correctly. Their coming up with wrong statistics and a wrong conclusion.

OCPA Comments – As indicated in the report, the statistics on the results of NMCT testing was sourced from and certified by Chuuk State DOE Testing Specialist. We rephrased our finding in the final report on the analysis of the NMCT results. Instead of focusing on Well-Below Competency level, we focused the analysis on the performance on the Minimum Competency Level.

However, we noted that more than 50% of the students’ performance in the NMCT was ‘well below’ the normal grade level. It was precisely because of this problem that the Chuuk State DOE required the services of the RIC.

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28. In his final report, the Public Auditor cited the amount of grant award and the size of the data as reason for including this evaluation. We maintain that the size of the grant is irrelevant. No amount of money can turn lead into gold.

OCPA Comments – It is but normal to expect returns from the investment. The main purpose of the project was to improve the quality of students’ learning. The Chuuk State government invested $1.3 million and $800k during the first-year and second-year implementation of the project, respectively. Yet, the RIC was avoiding to categorically state the outcomes in terms of improvement in the number of students passing the NMCT and the college entrance test on yearly basis. In fact, the performance in NMCT did not improve and the students passing the COM entrance were less than three students.

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29. Furthermore, the size of the sample is more reason to discard this finding not a reason for inclusion. Statistical accuracy improves as the data sample grows. Likewise, statistical accuracy loses its integrity as the data sample decreases.

OCPA Comments – Faichuk High School is the only high school in the Faichuk region. Every November, the COMET (College of Micronesia Entrance Test) administrators are administering examination at the Faichuk High School for the incoming freshmen students. According to the COM Dean, the school brings in the students to the testing room. He said that the information provided to the auditor were the only passers of the college entrance test conducted during the two school year periods (SY 2016-17 and SY 2017-18). There was no need for sampling as the result was from the 100% population of those who took the test. We were given information as to the number of students in Faichuk High School who passed the COM entrance test.

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30. We pointed out during the Exit Conference that records of our classes are contained in the reports that we submitted AND those same records of classes and attendance are also kept by the Department of Education.

OCPA Comments – We retain the same observation. It is not the duty of the auditors to tally and come up with a count to determine whether the RIC have served 500 students - it is too detailed for our work. It is a normal audit procedure just to conduct an audit testing on the accuracy of the entries in a report.

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31. “We believe.” This reasoning injects a personal opinion and is not based on fact (para. 1). Again, our objection is dismissed not on fact, but on the author’s personal “belief” (para. 5).

OCPA Comments – Normally, auditors are given the right to exercise professional judgment and to provide opinion on matter under audit based on evidence.

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32. RIC is being libeled in the report for having spent its own money up front to the project off the ground in summer 2016 after approval of funds by JEMCO.

OCPA Comments – It is not libel. We only described what was found during the audit that reimbursements prior to funding period were not properly supported and that the justification was not properly documented.
PUBLIC AUDITOR’S COMMENTS

We would like to thank the management and staff at RIC, Chuuk State DOE and at the Foson High School for their assistance and cooperation during the course of the audit.

We have provided copies of the final report to the Governor, Senate and Members of the Representatives for their use and information. Furthermore, we will make copies available to other interested parties upon request.

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

[Signature]
Manuel L. San Jose Jr.
Public Auditor
Chuuk, State

December 19, 2018
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