

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

The Honorable Peter M. Christian
Speaker, Thirteenth Congress
Federated States of Micronesia
Third Regular Session, 2004

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was jointly referred Presidential Communication No. 13-153 which transmitted the National Government's proposed FY 2005 budget, begs leave to report as follows:

The *FY2005 Proposed Budget* book, transmitted by the Executive on April 1, 2004 (the "proposed budget book"), details the National Government's proposed budget for FY2005. Pursuant to rule 7, section 1(b) of the Official Rules of Procedure of the Thirteenth Congress of the Federated States of Micronesia, your committee has limited its review of the proposed budget to departments and offices falling within its jurisdiction. These include the Office of the President, the Department of Finance and Administration, the Legislative Branch, and the Public Auditor's Office. In addition, your committee reviewed the proposed appropriations for the National Staff Upgrading Program which is administered by the Department of Finance and Administration.

On May 19 and 20, 2004, your committee conducted public hearings with representatives of the above offices and, in some instances, has followed-up with additional communications. This Standing Committee Report reflects the recommendations of your Committee on Ways and Means regarding the proposed FY 2005 Budget, as follows:

General Comments on Performance Reporting and Budgeting

Your committee is concerned that the proposed FY 2005 budget, taken as a whole, appears to neither embody, implement nor otherwise relate to any agenda for positive change in the FSM. In numerous instances, departmental "strategic goals" are identified as "to effectively manage", "to maintain" or "to establish policy" in connection with some function. The committee submits that "management", "maintenance" and "establishment of policy" are not strategic goals, but, rather, merely tools to be used in accomplishing national goals. Every department needs true, clearly defined objectives, tied to the nation's overall strategic plan, to be used as a framework for

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

decision-making during the year and to provide a basis for evaluating the department's performance. Further, too often in the proposed budget, "outputs" are stated in terms of the number of meetings attended or the number of reports produced without regard to the proposed results of these activities. Your committee does not believe that the performance of any department should be judged on the basis of the number of meetings attended. In many cases, the budget also fails to challenge our government offices to improve their performance. FY 2005 targets are, in some instances, unchanged from the previous year. In other cases, objectives are stated in qualitative, rather than quantitative terms, making it difficult or impossible to measure performance.

Comments Addressing An Existing Deficit

Your committee recommends that the amount of \$500,000 be appropriated from FY 2005 local revenues to fund a portion of the deficit recorded by the National Government at the close of FY 2003. Your committee will be further recommending that the remainder of that deficit be retired through appropriations, in equal amounts, in each of the three succeeding years.

Your committee is dissatisfied with communications from the Executive Branch with respect to this deficit. The causes of the deficit have never been fully disclosed to Congress. Further, although chapter 1 of title 55 of the FSM Code requires that the President submit to Congress recommendations for addressing any anticipated budget deficit, no such recommendations have been transmitted. Your committee is of the opinion that, in the event of any deficit, the Executive Branch should provide to Congress a complete and timely analysis of its causes and a proposed program for funding the shortfall.

Certainly, the risk that the National Government will experience deficits is greatly increased by the unreliability of the revenue projections provided to Congress. Your committee is of the opinion that actual revenues have fallen short of projections due to two causes: (1) inadequate forecasting techniques employed by the Department of Finance and (2) a failure in the nation's tax collection effort. Your committee strongly urges the Department of Finance to undertake programs directed at substantial improvements in both of these areas. Your committee also requests the Executive Branch to

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

initiate a comprehensive examination of the nation's tax structure with the purpose of identifying ways in which revenues can be increased, greater equity can be achieved and economic development can be encouraged.

Your committee will now address the proposed budgets for each of the departments and programs within its jurisdiction.

OFFICE OF THE PRESIDENT - OVERVIEW

Your committee is disappointed that the Office of the President failed to submit a performance report for the first two quarters of Fiscal Year 2004, which prevented your committee from evaluating the office's performance budget in any meaningful way. In your committee's report on the FY 2003 and FY 2004 budgets, the Office of the President was urged to focus on developing meaningful indicators of progress and to use such indicators, together with descriptions and explanations of accomplishments and difficulties encountered, to compile a more useful performance report. Your committee again urges the Office of the President to concentrate on this goal, in order to allow the compilation of a more comprehensive and useful performance-based budget.

The following is a consolidated summary of the line item budgets of the three divisions under the Office of the President and your committee's comments:

	FY2004 Appropriated	FY2005 Request	Committee Recommends	% Change
Personnel	\$ 282,604	\$ 282,604	\$ 282,604	
0%				
Travel	160,960	160,960	160,960	0
Contractual Svc.	115,000	115,000	115,000	
0				
Other Current	92,300	92,300	92,300	
0				
Fixed Assets	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	
0				
Total:	\$ 670,864	\$ 670,864	\$ 670,864	0%

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Number of Employees 16 16 16

Your committee commends the Office of the President for submitting a budget proposal for the three divisions in the Office of the President that preserves the 10.5% budget reduction accomplished in FY 2004. The Committee also believes that it is appropriate that none of the budgeted funds are drawn from Compact sectors.

Office of the President - President's Office

1. Personnel

President recommends	9 at a total of \$189,919
Committee recommends	9 at a total of \$189,919

Your committee approves of the personnel request for 9 positions.

2. Travel

President recommends	\$139,038
Committee recommends	\$139,038

Your committee recommends approval of the \$139,038 requested for travel for fiscal year 2005, which is unchanged from the amount appropriated for fiscal year 2004. It is difficult for the committee to evaluate the benefits of individual conferences and state visits. It appears, though, that the Executive Branch proposes to expend a disproportionate amount of its total travel budget on sending multiple FSM representatives to a handful of international meetings. The committee questions whether the expectable benefits of those meetings justify the proposed expense and whether it is advisable to concentrate so much of the Executive Branch's travel resources on these few events. The committee encourages the President to assess what is to be achieved on each trip and to send only those people who are important to accomplishing those results.

3. Contract Services

President recommends	\$108,000
Committee recommends	\$108,000

Your committee approves of the full amount requested for Contract Services, which is unchanged from FY 2004.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

4. Other Current Expenses

President recommends	\$53,500
Committee recommends	\$53,500

Your committee recommends approval of the President's proposal, which is unchanged from FY 2004.

5. Fixed Assets

President recommends	\$10,000
Committee recommends	\$10,000

In the category of Fixed assets, the President's office has requested a desktop computer for \$3,000 and office furniture and fixtures for \$7,000. These requests are identical to those approved for FY 2004. Your committee recommends approval.

Your committee therefore recommends approval of the proposed budget of \$500,452 for the President's Office.

Office of the President - Office of Public Information

1. Personnel

President recommends	5 at a total of \$58,709
Committee recommends	5 at a total of \$58,709

Your committee approves of the personnel request for 5 positions.

2. Travel

President recommends	\$14,652
Committee recommends	\$14,652

The President's proposal is unchanged from the amount approved for FY 2004. Your committee recommends approval.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

3. Contract Services

President recommends	\$7,000
Committee recommends	\$7,000

Your committee gives its endorsement of the full amount requested for Contract Services, which is the same amount requested for fiscal year 2004.

4. Other Current Expenses

President recommends	\$38,800
Committee recommends	\$38,800

The President's proposal is for the same amount as approved for FY 2004. The committee recommends approval.

5. Fixed Assets

President recommends	\$7,000
Committee recommends	\$7,000

In the Fixed Assets category, your committee would recommend funding the Computer Accessories and Office Furniture & Fixtures in the total amount of \$7,000 as requested.

Your committee is, therefore, without objection to the proposal totaling \$126,161 for the Office of Public Information.

Office of the President - Office of Disaster Control

Your committee again reminds the Office of Disaster Control that, especially in light of the uncertainty concerning the extent of FEMA assistance in the future, it should identify possible disaster scenarios and develop specific plans to respond to each scenario. The better the office is able to anticipate the type of disasters that the FSM may encounter, the better equipped it will be to react quickly and effectively to limit the adverse consequences of the disaster.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

1. Personnel

President recommends	2 at a total of \$33,976
Committee recommends	2 at a total of \$33,976

Your committee recommends the full amount requested for Personnel, which is the same amount approved in fiscal year 2004.

2. Travel

President recommends	\$7,270
Committee recommends	\$7,270

This request is unchanged from the amount approved in FY 2004. The committee recommends approval.

3. Contract Services

President recommends	\$-0-
Committee recommends	\$-0-

No funds were requested by this division for Contract Services and none would be recommended by your committee.

4. Other Current Expenses

Department requests	\$-0-
President recommends	\$-0-
Committee recommends	\$-0-

No funds were requested by this division for Contract Services and none would be recommended by your committee.

5. Fixed Assets

Department requests	\$3,000
President recommends	\$3,000
Committee recommends	\$3,000

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

In the Fixed Assets category, your committee approves of the \$3,000 proposed for the purchase of VHS radios.

Your committee is, therefore, without objection to the proposed budget for this office totaling \$44,246.

DEPARTMENT OF FINANCE AND ADMINISTRATION - OVERVIEW

Your committee is particularly disappointed by the performance budget submitted for the Department of Finance and Administration. Congress has experienced recurrent problems with the accuracy and timeliness of information provided by the Department. The committee understands that other parts of the National Government have experienced similar problems with data from this Department. Both the operations and the credibility of the National Government are adversely affected by the poor quality of information issuing from the Department. This problem has been raised with the Executive Branch on a number of occasions. Still, the Department's FY 2005 performance budget neither acknowledges the need for improvements nor proposes any actions to remedy the problem. Your committee urges the Secretary to immediately begin the process of developing a plan to improve the quality and timeliness of information generated by his Department. An important ingredient of that plan should be the development of metrics relating to data accuracy and the measurement of performance against those metrics.

In general, the Department's performance budget appears to omit any meaningful program for change. Targets are stated primarily in terms of the number of transactions processed or the number of meetings attended. Many of those targets are unchanged from the FY 2004 performance budget. There is little evidence that Department personnel are being challenged to improve quality, reduce costs or otherwise improve performance.

Your committee would like to bring the attention of the Department of Finance and Administration and, in particular the Budget Office, to the fact that the budget book failed to accurately represent the budget submissions of some departments and agencies, including the Legislative Branch. Obviously, this creates enormous problems for the congressional committees reviewing the budget submissions. Your committee hopes that better care will be taken in the future to

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

accurately set forth the proposals made by the various branches, departments and agencies of the National Government.

The following is a consolidated summary of the proposed line item budgets of the six divisions under the Department of Finance and Administration and your committee's comments:

		FY2004	FY2005	Committee
	%	Appropriated	Request	Recommends Change
Personnel		\$1,076,914	\$1,142,095	\$1,142,095
6.0%				
Travel		177,416	185,250	
185,250	4.4			
Contractual Svc.		620,713	733,150	
702,027	13.1			
Other Expenses		209,537	209,660	231,660
9.6				
Fixed Assets		<u>10,000</u>	<u>34,900</u>	<u>34,900</u>
	<u>249.0</u>			
Total:		\$2,094,580	\$2,305,055	
\$2,295,932	9.5%			
Number of Employees		81	84	84

Your committee is recommending approval of the proposed increase in the total number of positions from 80 to 84, recognizing that additional personnel is required by the Department to meet the enhanced reporting requirements of Compact II and the Fiscal Procedures Agreement.

The recommendations set forth in the above-table do not include the \$500,000 that your committee recommends be appropriated to cover a portion of the deficit recorded at the close of FY 2003. It is recommended, therefore, that a total of \$2,793,932 be appropriated for the Department, with \$500,000 of that amount specifically earmarked for retiring the deficit.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

The President's proposal for the five divisions of the Department of Finance and Administration contemplates an 11% increase over the FY 2004 appropriation. This would return the budget to virtually the same level as before the reductions accomplished in FY 2004. The committee recommends approval of the President's proposed FY 2005 budget for the Department with the exceptions specifically identified below.

Department of Finance and Administration - Office of the Secretary

1. Personnel

President recommends	3 at a total of \$55,955
Committee recommends	3 at a total of \$55,955

Your committee approves of the personnel request for 3 positions. This represents a reduction of two in the number of positions in the Secretary's Office. However, no true cost reduction is involved. The employees are being reassigned to other divisions within the Department.

2. Travel

President recommends	\$14,524
Committee recommends	\$14,524

The President's proposal is approximately \$5,000 less than the amount approved in FY 2004. It appears, however, that this reduction is the result primarily of the elimination of one trip taken by the Secretary in FY 2004. It is proposed that this trip be taken in FY 2005 by the International Finance Coordinator, whose travel expenses are now reflected in the request for the Division of Investment and International Finance. No true cost savings will be realized.

3. Contract Services

President recommends	\$32,123
Committee recommends	\$ 1,000

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

This request includes \$31,123 for a tax adviser, which was not part of the FY 2004 budget. Your committee is of the opinion that the Department, if it needs such an adviser, should seek funding from a source other than local revenues. Therefore, the committee recommends that the proposed cost of the adviser be deleted from the budget.

4. Other Current Expenses

President recommends	\$25,293
Committee recommends	\$25,293

The requested amount is approximately \$3,000 less than the FY 2004 appropriation. Your committee approves this amount.

5. Fixed Assets

President recommends	\$2,900
Committee recommends	\$2,900

The Secretary's Office is requesting \$2,900 for office equipment. No funds for fixed assets were appropriated for FY 2004. The committee recommends the full amount requested.

Your committee is, therefore, recommending a total of \$99,672 for the Office of the Secretary for FY 2005.

Department of Finance and Administration - National Treasury & Investment

1. Personnel

President recommends	25 at a total of \$283,504
Committee recommends	25 at a total of \$283,504

A reorganization within the Department of Finance complicates the comparison of the FY 2005 proposed budget with the FY 2004 appropriation for the National Treasury and Investment division. Information Management has been eliminated as a discrete function within the division. Further, the Investment Management function has been transferred from this division to a newly-created division of

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Investment and International Finance within the Department of Finance. As a result of this reorganization, two individuals will be transferred out of National Treasury to the new division and another will be reassigned to take one of two new positions proposed for the Palikir accounting group. The committee understands that additional accounting personnel are needed to deal with Compact II reporting requirements.

In connection with the FY 2003 budget, your committee recommended that additional accounting positions be created in the Kosrae and Yap field offices. The committee is pleased to see that the Kosrae position was finally filled in FY 2004. The Department notes, on the other hand, that the position created for Yap remains vacant. Your committee urges the Department to treat the filling of the Yap vacancy as a priority matter.

As discussed above, your committee is of the opinion that the quality of certain information generated by the Department is not acceptable. While it is hoped that increasing the number of accounting personnel will improve this situation, your committee is of the opinion that this is a poor substitute for implementing necessary improvements in systems and procedures. Your committee again urges the Secretary to develop a plan directed at substantially improving the performance of his Department.

2. Travel

President recommends	\$23,847
Committee recommends	\$23,847

The proposed travel budget for this office appears to be 20% higher than the FY 2004 budget. Your committee recommends approval.

3. Contract Services

President recommends	\$98,400
Committee recommends	\$98,400

The President's proposal is \$80,000 higher than the amount approved for FY 2004. This incremental amount is needed because certain data processing personnel that have previously been paid with grant funds now must be added to the budget. The Department characterizes these

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

personnel as essential. Therefore, the committee recommends approval of the amount requested.

4. Other Current Expenses

President recommends	\$77,477
Committee recommends	\$77,477

The President's proposal appears to represent a 9% reduction from the amount appropriated for FY 2004. However, it should be noted that the investment management function and two employees have been transferred out of this office and into the new Investment and International Finance Office. It is likely, therefore, that the apparent cost reduction is illusory. Your committee does, though, recommend approval of the amount requested.

5. Fixed Assets

Department requests	\$-0-
President recommends	\$-0-
Committee recommends	\$-0-

No funds were requested by this division for Fixed Assets and none would be recommended by your committee.

Therefore, your committee approves a total of **\$483,228** for the Division of Treasury & Investment.

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

Now, more than ever, the National Government needs an effective program for collecting taxes. It is disappointing, therefore, that there is little evidence that increased effort is being put into this area. Although the FY 2004 performance budget for this division promised audits, levies and litigation aimed at collecting taxes, the performance report for the first six months of the year reflects that little or none of this has occurred. The division's FY 2004 target was indicated to be collection of 10 percent of delinquent taxes. The performance report shows that only a small fraction of this target number has been achieved. Nothing in the FY 2005 budget indicates

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

that changes are being made to improve tax collection performance. This is not acceptable. The division needs to promptly develop and implement a plan for improving its tax collection efforts. Congress will not continue to fund indefinitely a status quo agenda in this division.

1. Personnel

President recommends	40 at a total of \$515,442
Committee recommends	40 at a total of \$515,442

This division's personnel request is \$2,000 more than the amount approved for fiscal year 2004. Your committee recommends approval.

2. Travel

President recommends	\$13,856
Committee recommends	\$13,856

Your committee recommends approval of the President's request.

3. Contract Services

President recommends	\$74,988
Committee recommends	\$74,988

Your committee notes that the amount proposed for Contract Services is the same as the amount approved in fiscal year 2004 and, therefore, approves of the full amount requested.

4. Other Current Expenses

President recommends	\$72,158
Committee recommends	\$72,158

Your committee notes that the amount requested for Other Current Expenses is a 10.0% increase over fiscal year 2004, reflecting the

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

addition of costs associated with a new computer system. Your committee recommends approval of the amount requested.

5. Fixed Assets

President recommends	\$16,000
Committee recommends	\$16,000

The President proposes that this amount be appropriated to purchase computers. Your committee supports approval of the amount requested.

In summary, your committee recommends appropriation of \$692,444 for the Custom & Tax Administration.

Department of Finance and Administration - Division of Budget

Initially, your committee would like to encourage the Division of Budget to continue to work diligently toward improving the form and content of the Performance Report and Performance Budget, for reasons set forth previously herein.

1. Personnel

President recommends	8 at a total of \$124,122
Committee recommends	8 at a total of \$124,122

The President proposes an increase of two employees, at an additional cost of \$34,812 (39%), over levels approved for FY 2004. It is the intention to hire two additional budget analysts to help the Budget Division meet the requirements of Compact II. Your committee recognizes the increased workload resulting from the Compact and recommends approval of the full amount requested.

2. Travel

President recommends	\$11,531
Committee recommends	\$11,531

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

The requested amount is 6% higher than the FY 2004 appropriation. The committee recommends approval.

3. Contract Services

President recommends	\$2,000
Committee recommends	\$2,000

Your committee approves of the full amount requested for Contract Services, which represents no increase over FY 2004.

4. Other Current Expenses

President recommends	\$25,496
Committee recommends	\$25,496

Your committee notes that the amount proposed for Other Current Expenses is a 16% increase over fiscal year 2004.

5. Fixed Assets

President recommends	\$6,000
Committee recommends	\$6,000

Your committee approves the amount requested for Fixed Assets, which is to be spent to purchase computers.

Your committee recommends a total appropriation of **\$169,149** for the Division of Budget.

Department of Finance and Administration - Division of Personnel

1. Personnel

President recommends	4 at a total of \$57,652
Committee recommends	4 at a total of \$57,652

Your committee approves the amount requested for Personnel, which is \$1,446 higher than the amount requested for fiscal year 2004.

2. Travel

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

President recommends	\$98,861
Committee recommends	\$98,861

Your committee notes that the amount proposed for Travel is a 6% reduction from fiscal year 2004 and, therefore, recommends approval of the full amount requested.

3. Contract Services

President recommends	\$523,639
Committee recommends	\$523,639

Your committee approves of the amount requested by the Personnel division for Contract Services, which is not significantly changed from the amount approved for FY 2004.

4. Other Current Expenses

President recommends	\$9,236
Committee recommends	\$9,236

Your committee recommends approval of the amount requested.

5. Fixed Assets

President recommends	\$3,000
Committee recommends	\$3,000

Your committee recommends providing funding for the \$3,000 scanner proposed by the Personnel division under the Fixed Assets category.

Your committee, therefore, approves a total proposed budget of **\$692,388** for the Division of Personnel.

Department of Finance and Administration - Division of Investment and International Finance

1. Personnel

President recommends 6 at a total of \$105,420

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Committee recommends	6 at a total of \$105,420
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As mentioned above, the Department has created a new Division of Investment and International Finance that will, among other things, assume responsibility for certain functions previously within the offices of the Secretary and National Treasury. It is the Department's plan to staff the new office by reassigning four employees from other divisions within the Department and to hire two additional employees, a secretary and a grant writer. Your committee welcomes the consolidation of responsibility for management of foreign assistance grants. A focused effort, with the assistance of a grant writer, to obtain additional sources of funding is also to be encouraged. Therefore, the committee supports the full request for the personnel needs of this division.

2. Travel

President recommends	\$22,631
Committee recommends	\$22,631

After reviewing the proposed list of trips, your committee is concerned that creation of the new division may result in an unnecessary increase in the number of National Government officials traveling to certain meetings. For example, the President's FY 2004 budget proposed that only the Secretary attend the annual ADB meeting. The proposed FY 2005 budget, in contrast, seeks funds so that both the Secretary and the International Finance Coordinator can travel to this meeting, resulting in additional expense of \$5,000. Similarly, FY 2004 funds were approved for travel by the Secretary and three staff members to a budget conference in Yap. For FY 2005, the Department seeks an additional \$2,000 so that the Assistant Secretary of the new division can also attend. Your committee supports the mission of this new division and does not want to imperil its work. The committee recommends approval of the full amount requested, but urges the Secretary and Assistant Secretary to avoid unnecessary duplication of travel expenses.

3. Contract Services

President recommends	\$2,000
Committee recommends	\$2,000

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Your committee approves of the amount requested by the Division of Investment and International Finance for Contract Services.

4. Other Current Expenses

President recommends	\$ -0-
Committee recommends	\$ 22,000

The request for this division was mistakenly omitted from the budget. At the committee's hearing, it was requested that \$22,000 be added to the budget for this item. The committee recommends approval of that amount.

5. Fixed Assets

President recommends	\$7,000
Committee recommends	\$7,000

Your committee recommends providing funding for the \$7,000 to be used to buy computers for this new division.

Your committee, therefore, approves a total proposed budget of **\$157,051** for the Division of Investment and International Finance.

LEGISLATIVE BRANCH - OVERVIEW

Your committee is again disappointed that no performance report was submitted by the Legislative Branch. This committee, therefore, urges the Director of Administration to devote significant time and thought to determining meaningful indicators of progress and to using such indicators, together with descriptions and explanations of accomplishments and difficulties encountered, to compile a performance report that will be useful to both this committee and the Legislative Branch itself.

The budget book contains numerous errors relating to the Legislative Branch proposed budget for FY 2005 and the FY 2004 appropriation. As a result, it is difficult to make meaningful comparisons between the committee's recommendations and the budget book data. For example,

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

the budget book correctly states the total FY 2004 appropriation to have been \$3,099,446, but the amounts shown for certain individual expense items do not accurately reflect the intentions of Congress in passing the budget bill. References herein to the FY 2004 Legislative Branch appropriation are based upon the figures contained in SCR 13-54 and SCR 13-99, not on the budget book. Similarly, the budget book reports the amount requested for FY 2005 to be \$3,157,980. The actual request is for \$3,180,980. The budget book also contains errors in a number of line items of the FY 2005 proposed budget. References herein to the FY 2005 proposal are based on the proposal actually submitted by the Legislative Branch, not on the budget book.

For FY 2004, your committee originally recommended a Legislative Branch budget of \$2,765,946. The total appropriation was ultimately increased to \$3,099,446 due, primarily, to certain non-recurring expenses. Recognizing that National Government revenues for FY 2005 are projected to be lower than FY 2004 levels, your committee submits that the Legislative Branch FY 2005 budget should be held at substantially the same level as originally recommended for the previous year.

The following is a summary of the line item budget of the Legislative Branch and your committee's recommendations:

	FY 2004 Appropriated	FY 2005 Congress Request	FY 2005 President Recommends	FY 2005 Committee Recommends
Personnel	\$1,099,786	\$1,165,559	\$1,131,070	\$1,091,510
Travel	644,900	546,063	443,983	469,267
Contract. Svc	786,200	679,300	647,700	563,300
Other Cur Exp	543,300	692,238	556,600	603,300
Fixed Assets	<u>25,260</u>	<u>97,820</u>	<u>1,260</u>	<u>30,700</u>
Total	\$3,099,446	\$3,180,980	\$2,780,613	\$2,758,077

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

No. of Employees	58	58	58
	55		

Congress - Speaker and Members

1. Personnel

Department requests	14 at a total of \$407,700
President recommends	14 at a total of \$407,700
Committee recommends	14 at a total of \$407,700

Your committee recommends approval of the full amount requested for Personnel, which represents no increase over FY 2004.

2. Travel

Department requests	\$338,767
President recommends	\$338,767
Committee recommends	\$338,767

The budget proposed by the Legislative Branch is reduced by \$104,000 or 23% from the amount appropriated for FY 2004.

3. Contract Services

Department requests	\$502,800
President recommends	\$502,800
Committee recommends	\$420,800

The amount requested would restore representation fees to the levels approved for FY 2003---i.e., \$30,000 per member/ \$6,000 per committee. Your committee recommends that, for FY 2005, representation fees instead be set at \$25,000 per member and \$4,000 per committee, resulting in a \$80,000 reduction from the amount requested.

4. Other Current Expenses

Department requests	\$75,000
President recommends	\$75,000
Committee recommends	\$54,800

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Of this amount, \$4,800 appears to represent the annual FPOC membership fee. The remainder is requested to cover expenses associated with visits by foreign dignitaries. Your committee recommends full funding of the FPOC fee and a reduction to \$50,000 of the amount appropriated to cover the costs of receiving visitors.

5. Fixed Assets

Department requests	\$-0-
President recommends	\$-0-
Committee recommends	\$-0-

No funds were requested for Fixed Assets and none would be recommended by your committee.

Your committee recommends a total of **\$1,222,067** for the Speaker and Members of Congress, a 23% reduction from fiscal year 2004.

Congress - Staff Offices

1. Personnel

Department requests	45 at a total of \$749,979
President recommends	45 at a total of \$715,489
Committee recommends	43 at a total of \$683,810

The Legislative Branch has requested an increase of 10% over the amount approved for FY 2004. The additional funding is sought for selected staff salary increases and for a sixth attorney position in the Legislative Counsel's Office. Your committee recommends that two proofreader positions and one of the attorney positions be eliminated from the budget. It is also recommended that the number of salary increases be reduced from the number proposed. The committee has also moved funding for the Congressional Pages from this section to contract services.

2. Travel

Department requests	\$207,296
President recommends	\$105,216
Committee recommends	\$130,500

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

The amount requested represents a 52% increase over the \$136,500 appropriated for FY 2004. The President, in contrast, recommends a sharp reduction in staff travel. For example, the President recommends the elimination of virtually all travel by legal staff in connection with committee hearings. Your committee submits that, in this time of declining National Government revenues, it is inappropriate to significantly increase the amount approved for staff travel. On the other hand, funds need to be available to ensure that the members and your committees receive adequate staff support when working outside of Pohnpei.

3. Contract Services

Department requests	\$184,381
President recommends	\$152,781
Committee recommends	\$142,500

The numbers above include funding for the Congressional pages. Inexplicably, the President recommends elimination from the budget of all funding for janitorial services. Your committee does not agree with that recommendation, but does recommend reductions in the requests for training, the Code supplement and the project to put the FSM Code on CDs.

4. Other Current Expenses

Department requests	\$155,500
President recommends	\$118,500
Committee recommends	\$128,500

For FY 2004 Congress, upon the recommendation of your committee, substantially reduced the amount requested for "Other Current Expenses" from \$160,800 to \$118,500, the same level as approved in FY 2003. For FY 2005, a large increase has again been requested. Your committee recommends a much more modest increase.

5. Fixed Assets

Department requests	\$97,820
President recommends	\$ 1,260
Committee recommends	\$30,700

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

With respect to Fixed Assets, your committee believes that Congress can do without the vast majority of requested items. Your committee recognizes that certain computer and photocopy equipment requires upgrading, but does not believe that the purchase of additional furniture and household appliances is warranted.

Your committee recommends a total of **\$1,116,010** for the Staff Offices of Congress, for FY 2005.

Congress - Delegation Offices

Other Current Expenses

Department requests	\$461,738
President recommends	\$363,100
Committee recommends	\$420,000

The department's request represents an increase of 10% over the amount approved for FY 2004. Your committee does not recommend this increase. Your committee approves funding the current expenses for the Delegation Offices in the following amounts: Chuuk - \$180,000; Kosrae - \$60,000; Pohnpei - \$120,000; Yap - \$60,000; representing \$30,000 per member from each delegation.

Your committee recommends a total of **\$420,000** for the Delegation Offices of Congress.

PUBLIC AUDITOR'S OFFICE - OVERVIEW

The following is a summary of the line item budget for the Public Auditor's Office and your committee's recommendations:

	FY 2004 Appropriated	FY 2005 Auditor's Ofc Request	FY 2005 President Recommends	Committee Recommends
Personnel	\$331,209	\$402,055	\$331,029	\$331,029
Travel	103,413	155,813	126,659	126,659
Contract Svc	33,000	85,000	45,000	152,000
Other Cur Exp	34,930	70,160	46,160	46,160

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Fixed Assets	<u>3,000</u>	<u>16,000</u>	<u>9,000</u>	<u>9,000</u>
Total	\$505,552	\$729,028	\$557,848	\$664,848

No. of Employees	16	18	15	15
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The budget submitted by the Public Auditor's Office is 44% higher than the amount approved for fiscal year 2004. The committee's recommendation is set forth above. The \$152,000 recommended for Contract Services includes \$107,000 to cover the National Government's share of the costs of the Single Audit that is required annually. This amount was not included in the budget presented by the President, but was later requested in Presidential Communication No. 13-154. The President has recommended that the appropriation for the Visitors Bureau be reduced in an equal amount so that the amount of the total National Government budget will remain the same.

The work of the Public Auditor's Office has become increasingly important due to the requirements imposed by Compact II and the emphasis on transparency in the National Government. Your committee does not believe that cost cutting in this Office is justified. On the other hand, the dramatic budget increase sought by the Auditor is simply infeasible in this period of contracting revenues. The committee also notes that a comparison of the Auditor's proposed FY 2005 performance budget with performance budgets submitted in prior years leaves open the question of what additional value would result from significantly ramping up this Office's funding. Further, the Public Auditor's performance report for the first six months of FY 2004 shows that, at the midpoint of the year, the Auditor's Office has expended substantially less than one-half of its FY 2004 appropriation and is well-short of having accomplished half of its performance objectives for the year. This raises the question of whether the office is fully utilizing the financial resources that are currently available to it, and whether it would be prepared to effectively use a substantially larger amount.

The committee agrees with the President's recommendation that the travel budget be reduced, but does not adopt the suggestion that funds be cut for audits in Chuuk State while maintaining funding for similar audits in Yap and Kosrae. Your committee submits that the audit effort must be maintained in all states. On the other hand, your committee is of the opinion that there is no need to send ten members

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

of the staff to Palau for a week to attend the APIPA Conference. A smaller contingent should suffice. Nor does the committee recommend funding the trip by two auditors to Chuuk and Yap for which no explanation is provided in the Budget Book.

Your committee agrees with the President's recommendation that the costs of the Public Auditor's Office, with the exception of the Single Audit expense, be funded from a Compact II capacity building sector grant.

Your committee again urges the Office to focus on operating as independently as possible from the other governmental offices and agencies.

SPECIAL PROGRAMS

National Authorizing Committee

Department requests	\$ 15,000
President recommends	15,000
Committee recommends	15,000

Your committee supports funding the full amount requested by the Department of Finance and Administration for the National Authorizing Committee.

CAPITAL AND HUMAN RESOURCE DEVELOPMENT PROJECTS

National Staff Upgrading

Department requests	\$50,000
President recommends	50,000
Committee recommends	50,000

Your committee recommends **\$50,000** for National Staff Upgrading for fiscal year 2005, which is the same amount appropriated for fiscal year 2004.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

CONCLUSION

Your Committee on Ways and Means has reviewed the proposed FY 2005 Budget and carefully scrutinized all of the information provided by the Office of the President, the Department of Finance and Administration, the Legislative Branch, the Public Auditor's Office, including the information regarding the National Authorizing Committee, and National Staff Upgrading program, which are within your committee's jurisdiction. Based upon that information and its deliberations, your committee recommends each of the sums set forth above in the "Committee recommends" lines.

STANDING COMMITTEE REPORT NO. 13-126

RE: P.C. NO. 13-153 W&M/J

SUBJECT: FY 2005 BUDGET

MAY 31, 2004

Respectfully submitted,

/s/ Sabino S. Asor
Sabino S. Asor, chairman

/s/ Roosevelt D. Kansou
Roosevelt D. Kansou, vice
chairman

/s/ Henry C. Asugar
Henry C. Asugar, member

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

/s/ Isaac V. Figir
Isaac V. Figir, member
W/reservations

/s/ Dohsis Halbert
Dohsis Halbert, member

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