

STANDING COMMITTEE REPORT NO. 16-84

RE: C.B No. 16-102/W&M

SUBJECT: FISCAL YEAR 2011 BUDGET/RECOMMENDED NATIONAL GOVERNMENT
COMPACT BUDGET REQUEST

MAY 29, 2010

The Honorable Isaac V. Figir
Speaker, Sixteenth Congress
Federated States of Micronesia
Fourth Regular Session, 2010

Dear Mr. Speaker:

Your Committee on Ways and Means, to which was jointly referred C.B.
No. 16-102, entitled:

"A Bill FOR AN ACT TO APPROPRIATE \$53,044,445 FROM THE
GENERAL FUND OF THE FEDERATED STATES OF MICRONESIA FOR THE
FISCAL YEAR ENDING SEPTEMBER 30, 2011, TO PROVIDE FUNDING
FOR THE OPERATIONS OF ALL BRANCHED OF THE NATIONAL
GOVERNMENT OF THE FEDERTED STATES OF MICROENSIA, ITS
AGENCIES, VARIOUS PROGRAMS, GRANTS SUBSIDIES AND
CONTRIBUTIONS; AND FOR OTHER PURPOSE."

begs leave to report as follows:

Your Committee held a public hearing on C.B. No. 16-102 on May 19,
2010 for the limited purpose of reviewing those portions of the FY2011
Proposed Budget that are under the jurisdiction of your Committee on
Ways and Means pursuant to rule 7, section 1(b) of the Official Rules
of Procedure of the Sixteenth Congress of the Federated States of
Micronesia, and for which funding is being sought under the
Recommended National Government Compact Budget Request.

Witnesses at the hearings included: Pelsesar Petrus, Special Assistant
to the President; Haser Hainrick and Lover Haimin, Office of Public
Auditor; Suzanne Lowe, Ignacio Stephen, Sohs John, Esiri Edward and
Seminsin James, the office of Statistics, Budget, Overseas Development
Assistance and Compact Management SBOC; and Jackson Jack, Maria
Shoniber, Evelyn Adolph, Rose Nakanaga and Angie Lambert, Department
of Finance and Administration.

Recommended National Government Compact Budget Request

There are two portions of the FY2011 Proposed Budget under the
jurisdiction of your Committee on Ways and Means whereby the proposed
source funding is from funds available under the Amended Compact of
Free Association, specifically under the Capacity Building Sector
Grant in the Public Sector (hereinafter "Capacity Building").

1. Office of Public Auditor (OPA)

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The entire FY2011 proposed budget for the Office of Public Auditor is \$965,612. Your Committee heard testimony solely on that portion of the proposed budget that is recommended to be funded from the Capacity Building Sector Grant. The proposed amount to be funded out of the Capacity Building Sector Grant is \$173,405; the entire amount is to fund the budget of the Chuuk Branch of OPA.

Public Auditor Haser Hainrick offered testimony in support of the funding request. This is the fifth year that the Chuuk Branch of OPA has existed, and OPA is asking for a slight reduction in funding from FY2010. Mr. Hainrick explained that the Chuuk Branch is a small office but a crucial component of the work that OPA produces, and he asks Congress to continue funding the office.

When asked why Compact Funds, and the Capacity Building Sector Grant in particular, are being used for this purpose rather than to fund other projects, Ignacio Stephens from SBOC offered the following supporting testimony. The Chuuk Branch of OPA is currently funded from the Capacity Building Sector Grants for FY2010, and the Office of Interior Affairs(OIA) has indicated a desire to continue funding current projects. The plan according to SBOC is to maintain the status quo unless and until Congress directs that a change in the Compact Budget Request is made.

When asked about the shifting of Compact Funds away from Capacity Building and towards Private Sector Development and Environment, Sohs John from SBOC indicated that SBOC is waiting for a plan from the Department of Resources and Development to consider long-term options and planning in those sectors. Mr. Stephens reported that SBOC will follow up with OIA and the Executive Branch on availability of other Compact Sector Funding.

In discussions, your Committee members conveyed support for using Capacity Building Sector Funds for the purpose of funding the Chuuk Branch of OPA. The Chuuk Branch was established as a temporary office with a phase-out vision in place; as such, it is an appropriate use of Compact Funds. Your Committee supports the funding and mission of the Chuuk Branch of OPA in their efforts to provide guidance for detecting and deterrence of fraud, waste and abuse of government resources.

2. Capital and Human Resources Development
a. Department of Finance and Administration

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The Department of Finance and Administration (DOFA) has requested funding of \$242,716 for Capital and Human Resources Development to be funded from the Capacity Building Sector Grant. The proposed use of funds is \$81,500 for two financial advisors, and \$161,216 for the Tax Reform.

The Department of Finance and Administration has asked for funding for two financial advisors to assist in improving financial accounting and reporting of government funds at the Department, and to provide technical assistance on audit issues. This request represents a new budget request.

The Department of Finance and Administration has asked for \$161,216 for Tax Reform; this represents an increase from the \$128,000 that was appropriated in FY2010, all from the Capacity Building Sector Grant. A breakdown in the proposed use of funds was provided to your Committee. Evelyn Adolph from DOFA explained that part of the overall increase from the 2010 Tax Reform is due to an increase in Travel (\$67,031 in FY2011), which is necessary for project management meetings with the Executive Steering Committee and public education. Personnel costs are also a large segment of the Tax Reform overall budget (\$65,184 in FY2011); this provides funding for the Project Manager, administrative support, and the FSM contribution to the AUSAID Advisor. Ms. Adolph reminded the Committee that the Australian Government pays for the bulk of the AUSAID Advisor, but the FSM did agree to make an in-kind contribution. Finally, contractual services and the costs of printing of publications and supplies brings the total Tax Reform request to \$161,216.

In response to questions from your Committee, Ms. Adolph stated that OIA has indicated an intent to fund these requests. Your Committee is satisfied with the breakdown of use of these funds as provided by DOFA, and supports the Department's proposed use of Capacity Building Sector Grant funds for Capital and Human Resources Development.

Committee Recommendation

Your Committee on Ways and Means recommends no changes to the Recommended National Compact Budget Request for those areas under the purview of your Committee. Your Committee recommends funding the Chuuk Branch of the Office of the Public Auditor with \$173,405 from the Capacity Building Public Sector Grant, and funding Capital and Human Resources Development for the Department of Finance and

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Administration in part with \$242,716 from the Capacity Building Public
Sector Grant.

Respectfully submitted,

/s/ Dohsis Halbert
Dohsis Halbert, chairman

/s/ Claude H. Phillip
Claude H. Phillip, vice chairman

Roger S. Mori, member

Dion G. Neth, member

/s/ Setiro Paul
Setiro Paul, member

/s/ Peter S. Sitan
Peter S. Sitan, member

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