

**STATEMENT  
OF  
NIKOLAO I. PULA, JR.  
DIRECTOR, OFFICE OF INSULAR AFFAIRS  
DEPARTMENT OF THE INTERIOR**

**BEFORE THE  
SUBCOMMITTEE ON FISHERIES, WILDLIFE, OCEANS AND INSULAR AFFAIRS  
HOUSE COMMITTEE ON NATURAL RESOURCES**

**REGARDING  
Government Accountability Office Report  
*Compact of Free Association: Micronesia and the Marshall Islands Continue to Face  
Challenges Measuring Progress and Ensuring Accountability (GAO-13-675)***

**January 7, 2014**

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to discuss the Government Accountability Office's September 2013 Report entitled *Compacts of Free Association: Micronesia and the Marshall Islands Continue to Face Challenges Measuring Progress and Ensuring Accountability* (GAO-13-675).

**BACKGROUND**

In 2003, the United States government approved the amended compacts of free association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) for the period 2004 through 2023. The amended compacts' twenty years of grant assistance was intended to assist the governments' promotion of education, health, economic advancement and budgetary self-reliance of their peoples. The amended compacts target funding for six development sectors: education, health, private sector development, the environment, public sector capacity building and public infrastructure. Education and health are the highest priorities. The amended compacts also provide supplemental education grants that take the place of certain United States federal domestic grants previously made available to the two freely associated states (FAS).

The Office of Insular Affairs (OIA) is responsible for administering and monitoring the grants. Under the amended compacts, United States grant funding decreases annually but is paired with equal, increasing contributions to two separate trust funds established for the FSM and RMI. Earnings from the trust funds are intended to provide for each FAS a source of revenue when compact sector grants expire at the end of fiscal year 2023. The amended compacts' subsidiary fiscal procedures agreements require the FSM and RMI governments to monitor the day-to-day operations of sector grants and activities, submit periodic performance reports and financial statements, and ensure annual financial and

compliance audits. In addition, the compacts and fiscal procedures agreements require the respective United States - FSM Joint Economic Management Committee (JEMCO) and United States - RMI Joint Economic Management and Financial Accountability Committee (JEMFAC) to monitor compact implementation and spending in order to make assistance more effective. The FSM and RMI are also required to conduct annual audits within the meaning of the Single Audit Act for an independent review of their financial positions.

## **GAO REPORT**

In examining the implementation of the compacts of free association with the FSM and RMI, the Government Accountability Office (GAO) developed five recommendations. Recommendations (1) and (2), for FSM and RMI respectively, address plans, data and audit findings. Recommendations (3) and (4), for the FSM and RMI respectively, concern high-risk designations for non-compact grants. Recommendation (5) calls for additional Interior staffing for compact grant implementation and oversight.

### **PLANS, DATA, AND SINGLE AUDITS**

The first two recommendations can be summarized as follows:

In order to improve the ability of the U.S. agencies participating in the Joint Economic Management Committee (JEMCO) and Joint Economic Management and Financial Accountability Committee (JEMFAC) to conduct required oversight of compact funds, the Secretary of the Interior should direct the Director of Insular Affairs, as Chairman of JEMCO and JEMFAC, to coordinate with other JEMCO and JEMFAC-member U.S. agencies to have JEMCO and JEMFAC take all necessary steps, or, as the administrator of compact grants, to ensure that the FSM and RMI (1) complete satisfactory plans to address annual decrements in compact funds, (2) produce reliable indicator data used to track progress in education and health, and (3) address all single audit findings in a timely manner.

**Decrement Planning.** The United States members of JEMCO and JEMFAC have taken steps to help ensure that the FSM and RMI address decrement planning (anticipated decreases in compact funding) and improve performance. All four FSM states have completed decrement plans that are directly linked to their respective annual compact sector budget proposals. In November of 2013, the FSM national government outlined what it described as its very limited role with respect to addressing the JEMCO's

concerns to ensuring that the health and education budget challenges are addressed on a country-wide basis given growing revenue streams at the national level. The JEMCO will discuss the responsiveness and adequacy of the FSM's plan at the mid-year meeting in March 2014. Similarly, JEMFAC has requested that the RMI present its fiscal framework for managing annual decreases in compact funding over the medium term as required by the terms of the compact law. JEMCO, with FSM membership, and JEMFAC, with RMI membership, have adopted resolutions that address these declines in compact funding. The FSM and RMI governments, however, have deferred the policy reforms that are necessary for sound budget planning in this era of decreasing compact assistance. JEMCO and JEMFAC have requested information on FSM and RMI plans and will monitor FSM and RMI progress. OIA will recommend that the JEMCO and JEMFAC take appropriate action if it is determined that acceptable plans are not developed, adopted, and implemented by FSM or RMI, respectively, by September 30, 2014.

**Data.** The GAO report states that both the FSM and RMI established education and health indicators between 2004 and 2006, by which progress could be judged. The authors of the report further observe that the data collection systems for these indicators are deficient in many cases. Additionally, the authors note that JEMCO and JEMFAC, composed of United States and FAS members, have raised concerns regarding the reliability of data and have required that each country obtain an independent assessment and verification of data.

Both countries are to be commended for establishing numerous indicators for which statistic should be gathered for analysis. The problem occurs in the gathering of the data. The FSM and RMI, respectively, are spread over 2,000 miles and 1,000 miles of the central North Pacific Ocean. Such distances often make communication difficult. Data collected often travels by inter-island ship for substantial periods of time. Follow-through by education and health employees, however, is another problem, which, in certain instances, also can be affected by long-distance communication.

OIA and other United States federal grantor agencies are assisting the FSM and RMI to improve the relevance and accuracy of information collected to track education and health system strengths and weaknesses. The results expected are more reliable performance measures, uniform definitions, uniform measurement factors, and consistently and accurately applied tracking methods. OIA will assess the performance data and advise the FSM and RMI by July 31, 2014.

**Single Audits.** Although the FSM and RMI have resource constraints in the areas of technical expertise and technology, improvements in the timeliness of addressing single audit findings are occurring each year. In addition, the interagency Council on Financial Assistance Reform is leading Federal efforts to more pro-actively engage with grant recipients to resolve Single Audit findings, and has recently released a major reform of Single Audit policies which strengthen requirements for audit resolution. In accordance with both current OMB policy in Circular A-133 and the recently issued revised guidance in 2 CFR 200, OIA's processes for ensuring that progress continues include monitoring FSM and RMI actions to resolve audit findings, providing technical advice and training to help ensure resolution, and providing financial assistance for expertise and technological upgrades. Additionally, OIA staff members perform reviews and assessments onsite to verify actions taken, and, as necessary, OIA will withhold funding and approvals until sufficient action is taken, respectively, by the FSM or RMI. It must be noted, however, that although OIA, in its role as Cognizant Agency for Audits has responsibilities for monitoring the resolution of specific findings, only the federal grantor agency may resolve other single audit findings. OIA will continue its actions to help ensure that the FSM and RMI address all single audit findings in a timely manner, and provide information on the progress of the FSM and RMI at the mid-year meetings of the JEMCO and JEMFAC in March 2014.

## **HIGH-RISK DESIGNATION**

The next two recommendations (numbered 3 and 4) on high-risk designations, respectively for the FSM and RMI, can be summarized as follows:

In order to improve financial accountability of non-compact United States grant assistance provided to the FSM and the RMI, the Secretary of the Interior should consult with other grantor agencies to determine whether the FSM National Government or its component states or the RMI meet the criteria to be designated as a high-risk grant recipient for non-compact funds, or whether other steps should be taken to improve accountability.

Although the Department of the Interior is not aware of any interagency practice of jointly designating a grantee as high risk, OIA has discussed the GAO recommendation as part of OIA's ongoing communications with other United States federal agencies, both directly and through Region IX's Federal Regional Council and its Outer Pacific Committee. Moreover, annual single audit reports from the FSM and RMI are made available to all United States federal grantor agencies. The reports identify issues of United States federal grant programs and whether or not the entity being audited may be

considered low-risk. The Department notes that the respective annual single audit reports have identified consistently that the RMI government, FSM national government and the FSM state governments are not low-risk audit subjects. The Department understands that all “high risk” designations are grantor agency decisions based on specific circumstances found in a grant program. Through review of the single audit reports and other assessments, a United States federal grantor agency would have information upon which to base a decision to declare high risk. In order to assist other United States federal grantor agencies to determine appropriate action for their federal programs, the Department will continue to help ensure that information, such as single audit reports and GAO and OIG recommendations, are made available.

## **OIA STAFFING**

The fifth and last recommendation concerns OIA staffing.

In order to ensure that Interior is providing appropriate resources for oversight and monitoring of the FSM and RMI compacts, the Secretary of the Interior should take actions to correct the disproportionate staffing shortage related to compact grant implementation and oversight.

The Department acknowledges that additional staffing would result in increased oversight of compact activities in the FSM and RMI. The Office has been managing its staffing needs prudently during the period of the sequester. Appendix VII of the GAO report is a GAO analysis of OIA data on “projected need” and “actual supply” of personnel related to compact implementation and oversight. It posits that eleven full-time equivalent (FTE) employees are needed, but that only five are so employed. Three or four of these “needed” employees may have been requested from time to time, but may be no more essential than other employee needs in OIA. Additionally, there are at least eight headquarters staff members that devote differing amounts of partial time to compact matters. Also, since information for the GAO report was gathered, OIA has hired a second education specialist.

OIA will review staffing for the whole office, including compact grant implementation and oversight, when the appropriations legislation applicable for full fiscal year 2014 is enacted.

## **CONCLUSION**

Mr. Chairman, all involved with compact implementation in the FSM and RMI appreciate the work of the General Accountability Office that has highlighted needs

related to the compacts of free association. Like the United States agencies that are a part of JEMCO and JEMFAC, the FSM and RMI have great concern for, and significant investment in, the accumulation of data that will allow them to properly analyze progress in the areas of education and health. The well-being of their respective citizens are at stake. Working together in an effort to gather meaningful statistical data, the Department of the Interior sees the United States agencies, FSM and RMI as partners in attaining improved education and health results in the islands.