



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

Coronavirus Aid, Relief, and Economic Security Act Funds Awarded to the Federated States of Micronesia



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OCT 15 2020

Mr. Haser Hainrick
FSM National Public Auditor
Office of the National Public Auditor
Federated States of Micronesia
P.O. Box PS-05
Palikir, Pohnpei, FM 96941

Subject: Management Advisory – *Coronavirus Aid, Relief, and Economic Security Act Funds Awarded to the Federated States of Micronesia*
Report No. 2020-WR-041-C

Dear Mr. Hainrick:

Over the past few months, as a part of our oversight responsibilities, we have focused particularly on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) appropriations to the U.S. Department of the Interior (DOI). We have provided a variety of resources and reports to the DOI addressing potential risks associated with the expenditure of these funds and have looked to our own past work to identify potential lessons learned that may be applicable now. We have likewise reviewed the Office of Insular Affairs' (OIA's) initial oversight steps for the CARES Act grant funds to the Insular Area governments. As part of those efforts, we also reviewed the Federated States of Micronesia's (FSM's) grant documentation and pandemic plans and wanted to take this opportunity to share with you some of the lessons we have learned from auditing grant awards issued during emergency situations. In addition to these general lessons learned, we have attempted to contextualize this discussion by acknowledging some of the challenges unique to the FSM. We hope that our experiences may be helpful to your own future auditing efforts and would welcome the opportunity to continue working with you and your staff, whether through training programs or otherwise.

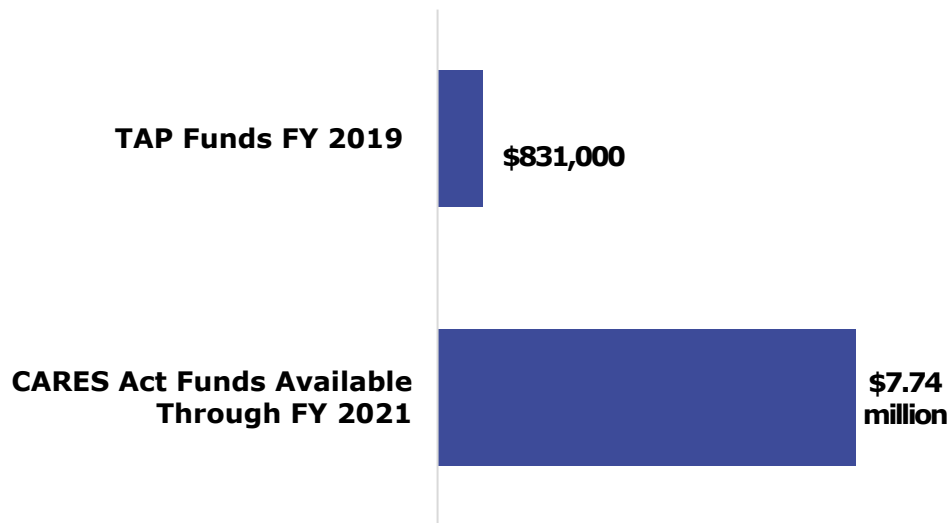
Background

The CARES Act provided the DOI with \$756 million to support the needs of its programs, bureaus, Indian Country, and the Insular Areas. The OIA was allocated \$55 million to be distributed to the seven Insular Area governments through its Technical Assistance Program (TAP) Office in April of this year, to help prepare for, prevent, and respond to the COVID-19 pandemic.

The FSM received \$7.74 million of the CARES Act funds, to be expended by September 30, 2021. These amounts are in addition to the annual TAP distributions, which are usually smaller amounts, even considering that they cover 12 months rather than 18 months. For example, in fiscal year (FY) 2019, the FSM received \$831,000 through TAP (see Figure 1).¹

¹ In FY 2019, the OIA distributed an additional \$8.2 million in TAP funding among the seven Insular Areas.

**Figure 1: Funding the FSM Received Through TAP
Pre- and Post-CARES Act**



As part of the award, the FSM must meet the grant terms and conditions, which include a requirement to document how it used the funds to prevent and respond to the pandemic and how the funds supported its pandemic plan. We summarize the grant terms and conditions in our attached CARES Act flash report (*The Office of Insular Affairs Took Appropriate Action With CARES Act Funds*) on the OIA’s initial actions related to CARES Act grant funds.²

Monitoring Grants

Our past work demonstrates that awards issued during emergency situations create risks because they are awarded quickly to respond to public need, often without competition and adequate cost and pricing determinations, and have a higher purchase threshold than other acquisitions. We believe that these previously identified risks are equally applicable to the CARES Act grant funds, and we accordingly encourage you to consider including these grants in your future audit planning efforts. Our previously mentioned flash report summarizes the steps that the OIA has taken to appropriately administer CARES Act funds, including providing specific guidance to the Insular Area governments. The report also includes a list of lessons and risks that we have identified and reported on from past audit work:

- Ensuring sufficient workforce capacity
- Ensuring use of the appropriate award vehicle
- Maximizing competition in the source selection process
- Ensuring background research and risk assessments of potential recipients

² OIG Report No. 2020-WR-041, https://www.doioig.gov/sites/doioig.gov/files/DOIOIG_OIACARESAct_062520.pdf

- Monitoring documentation and use of funds by recipients
- Reviewing recipients' performance and financial reports

We have also attached another recently issued CARES Act flash report (*Lessons Learned for CARES Act Awards*) that describes these lessons in more detail, and we hope that you will find this information helpful as you consider your future audit planning efforts.³

Challenges Unique to the FSM

We have summarized above some of the challenges we have identified that are associated generally with receipt of large amounts of funds in an emergency setting. We are well aware, however, that—even aside from the challenges created by the COVID-19 pandemic—the Insular Areas as a group face challenges that may heighten financial risks or otherwise strain their governments' resources and ability to provide support in crisis situations. These concerns include economic dependence on a few key industries, scarce natural resources, shortages of skilled labor, and a reliance on Federal grants to fund basic services. In addition to these shared concerns applicable to the Insular Areas overall, we also know that the FSM faces its own unique set of challenges. For example, due to the pandemic, the FSM is projecting a substantial decline in its economy, the most significant since 2004. The tourism sector alone is projected to fall by 46 percent in the current fiscal year. The transportation sector, which includes shipping, port services, aviation, and airport ground handling, is projected to fall by 27 percent in the current fiscal year. Both sectors are projected to continue falling in the next fiscal year. Taken together, these concerns can simultaneously increase the need for careful oversight but make it more difficult to provide.

Conclusion

Your office has a unique perspective on the particular challenges facing both the Insular Areas and the FSM. The additional risks associated with CARES Act grant funds can exacerbate those challenges and lead to a heightened need for oversight of these funds. I want to reiterate that we would be pleased to serve as an audit planning resource for your office. In the past, we have provided audit and investigative training and assistance to Insular Area public auditors, including audit and investigative assistance on requested projects to enhance professional proficiency. In addition, we have provided tailored training opportunities to audit and investigative staff in the Insular Areas to improve technical skills, and we presented information at the recent Association of Pacific Islands Public Auditors conference regarding fraud awareness and the importance of oversight. Given these experiences, which we believe were very positive for everyone, we want to express our commitment to help you identify high-risk areas associated with the CARES Act money your government received and to assist you in planning for CARES Act assignments.

³ OIG Report No. 2020-FIN-037, https://www.doioig.gov/sites/doioig.gov/files/DOIOIG_CARESAcLessonsLearned_052020.pdf

If you have any questions or would like to discuss any of these issues, please contact me at 202-208-5745.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark Lee Greenblatt', written in a cursive style.

Mark Lee Greenblatt
Inspector General

Attachments (2)

cc: Stoney Taulung, Kosrae State Public Auditor, FSM
Ihlen K. Joseph, Pohnpei State Public Auditor, FSM
Achilles Defngin, Yap State Public Auditor, FSM
Manny San Jose Jr., Chuuk State Public Auditor, FSM

Report Fraud, Waste, and Mismanagement



Fraud, waste, and mismanagement in Government concern everyone: Office of Inspector General staff, departmental employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to departmental or Insular Area programs and operations. You can report allegations to us in several ways.



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