



**POHNPEI STATE GOVERNMENT  
OFFICE OF THE PUBLIC AUDITOR**

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May 07, 2019

Honorable Marcello Peterson  
Governor  
State of Pohnpei  
Kolonias, Pohnpei State, FM 96941

and

Mr. Koji Oda  
Second Secretary  
Embassy of Japan in the FSM  
Kolonias, Pohnpei State, FM 96941

Maing Ohlloakoa:

In his letter dated 18 March 2019, Governor Marcello Peterson of Pohnpei State requested our Pohnpei Office of the Public Auditor (POPA) to review and report on the status of the project for: "Construction of a Multi-Purpose Gymnasium" at the Nett Elementary School" in Pohnpei. We have conducted and completed our inspection of the project as requested and are pleased to report herein our findings and conclusions.

**Background**

At the request of the Pohnpei State Government, the Japan Embassy in the Federated States of Micronesia granted or donated the sum of \$180,970.00 for the purpose of funding the project for: "Construction of a Multi-Purpose Gymnasium" at the Nett Elementary School campus in Pohnpei. The Department of Education (DOE) was designated as the recipient of the grant funds on behalf of the Pohnpei Government. On March 10, 2017, a grant agreement was executed

and signed between the Japan Embassy in the FSM and the Pohnpei DOE. The agreement sets forth general guidelines and conditions for the use of the project grant funds and other project implementation related matters including, among others:

- a) An interim report to be prepared and submitted to the donor within six months after the project implementation date;
- b) A project completion report to be prepared and submitted to the donor to include among others: 1) a detail accounting and financial report on the allocation and disbursement of grant funds, and 2) A project progress and achievement report in accordance with the objectives and goals stated in the original project proposal. and,
- c) Requiring that the project should commence and be completed within one year after the agreement date.

In addition to the Japan grant of \$180,970, the FSM National Government contributed \$70,000 to the project increasing total project funds available to \$250,970.

### **Project Fund Accounting**

A bank account was established at the Bank of Guam, Pohnpei Branch for the purpose of receiving, accounting and reporting of the grant funds donated from the Japan Embassy in the FSM. Disbursement, accounting and financial reporting of these funds were performed directly by the Pohnpei Government Department of Treasury and Administration. The Office of Transportation and Infrastructure (T&I) was designated by the Governor as allottee of these funds.

Accounting management and financial reporting of the \$50,000.00 of the FSM Government's contribution were handled by the FSM National Government finance at the direction of the allottee (Department of Transportation, Communication and Infrastructure (TC&I)), while the administrative and disbursement management of the remaining \$20,000.00 was transferred to and handled by the Pohnpei Governor designee (T&I).

### **Project Contract**

In February 2017, T&I issued an Invitation To Bid for the project implementation. Three (3) local construction companies responded to the bidding invitation and on

June 14, 2017, the Pohnpei Government Construction Contract No. C170196 in the total amount of \$180,970.00 was executed and signed between the Pohnpei Government Contracting Office (T&I) and the winning bidder, Delco Construction Company (DCC), a locally based construction firm for the construction implementation of the project.

In October 2017, T&I became very much aware of Delco's inability to perform satisfactorily under the provisions of Contract No. C170196 and decided to issue the 2<sup>nd</sup> Invitation To Bid for the project. Only one bid proposal was submitted from a local construction company during the bidding period. In order to have wider selection process, T&I decided to rebid the project and in November 2017 issued the 3<sup>rd</sup> Invitation To Bid for the same project. During the same month, Delco management formally informed the contracting office (T&I) that due to inadequate resources (financial, manpower, equipment, etc.) the Company was in no position to perform satisfactorily in accordance with the Contract provisions and requested for an immediate termination of its contract with the government. As a result, Pohnpei Government Construction Contract No. C170196 between the Government and Delco was terminated by mutual agreement.

Two (2) local construction companies responded formally to the 3<sup>rd</sup> Invitation To Bid for the construction implementation of the project. Pohnpei Government Construction Contract No. C180115 in the amount of \$250,000 was executed and signed between the Pohnpei Government and the Black Sand Construction Company (the winner) in February 2018 for the completion of the project. Black Sand commenced construction work in March 2018 and completed the project in December 2018.

### **Contract Payment**

Financial and accounting records obtained from DoT&A show that of the \$180,970 donated from the Japan Embassy in the FSM, the sum of \$180,000.00 was disbursed to pay for expenses specific to the construction of the project. Records further indicate that all progress payments were prepared and issued to the Contractor after on-site inspection progress reports were prepared and submitted by the designate project Inspectors. An amount of \$970 remained unexpended from the Japan grant

Official accounting records further show that of the \$70,000 contributed from the FSM National Government, the sum of \$59,375.28 was already expended to cover costs directly related to project and \$10,624.72 remained unexpended.

### **Inspection Guideline**

We conducted the inspection in accordance with the CIGIE Inspection Standards. We obtained and reviewed all related documentary evidence (grant agreement, financial and accounting records, bidding documents, project contract, inspection reports, fund disbursements, progress reports, etc.) from the Department of Treasury and Administration (DoT&A), Office of the Infrastructure and Transportation (T&I) and from others. We selected and interviewed certain government officials and employees connected to the project implementation and conducted an on-site visit and inspection of the project location. We took pictures/photos of the facility after completion and some these photos are herein provided as part of our report for information and reference.

### **Conclusion**

Based on our inspection, we conclude that the initiation, implementation and completion of the project for: "Construction of a Multi-Purpose Gymnasium" at the Nett Elementary School Campus in Pohnpei were carried out in accordance with the provisions or terms of the Grant Agreement, the Construction Contract agreement, and the Pohnpei Laws specific to the administration and management of public project construction contract processes. We further conclude that in all material respects, the facility is now completed, fully functional and is serving the very purpose in which it was originally conceived.

### **Recommendation**

We offer the below indicated areas/issues for consideration. These include:

- 1) The formulation and implementation of an efficient and effective maintenance program to ensure longevity and usefulness of the facility for the school and the community is highly recommended.
  
- 2) The feeling of facility ownership should be established and clearly communicated and shared with all concerns, i.e. Nett School PTA and students, DOE, the community, the governments at all levels and the public in general.

- 3) A well and easy to understand written utilization guidelines and processes will assist and contribute to effective management, security, protection and long-term preservation of the facility. We recommend formulation of such be considered by responsible management officials.

During our review, we identified certain internal control weaknesses involving the T&I's management and administration of the general bidding, selection and awarding of contract related processes. These issues have no material impact on our findings and conclusions herein presented for the purpose of ascertaining proper compliances with the project grants' conditions and construction contract provisions. A Management Letter Report will be prepared and transmitted to the T&I Management concerning these administrative deficiencies. A copy of the special report will be provided to the Japan Embassy in the FSM and others concern for information and reference purposes.

We appreciate the opportunity of working with you all on these important matters. Please do not hesitate to contact our Pohnpei Office of the Public Auditor (POPA) for assistance, if required.

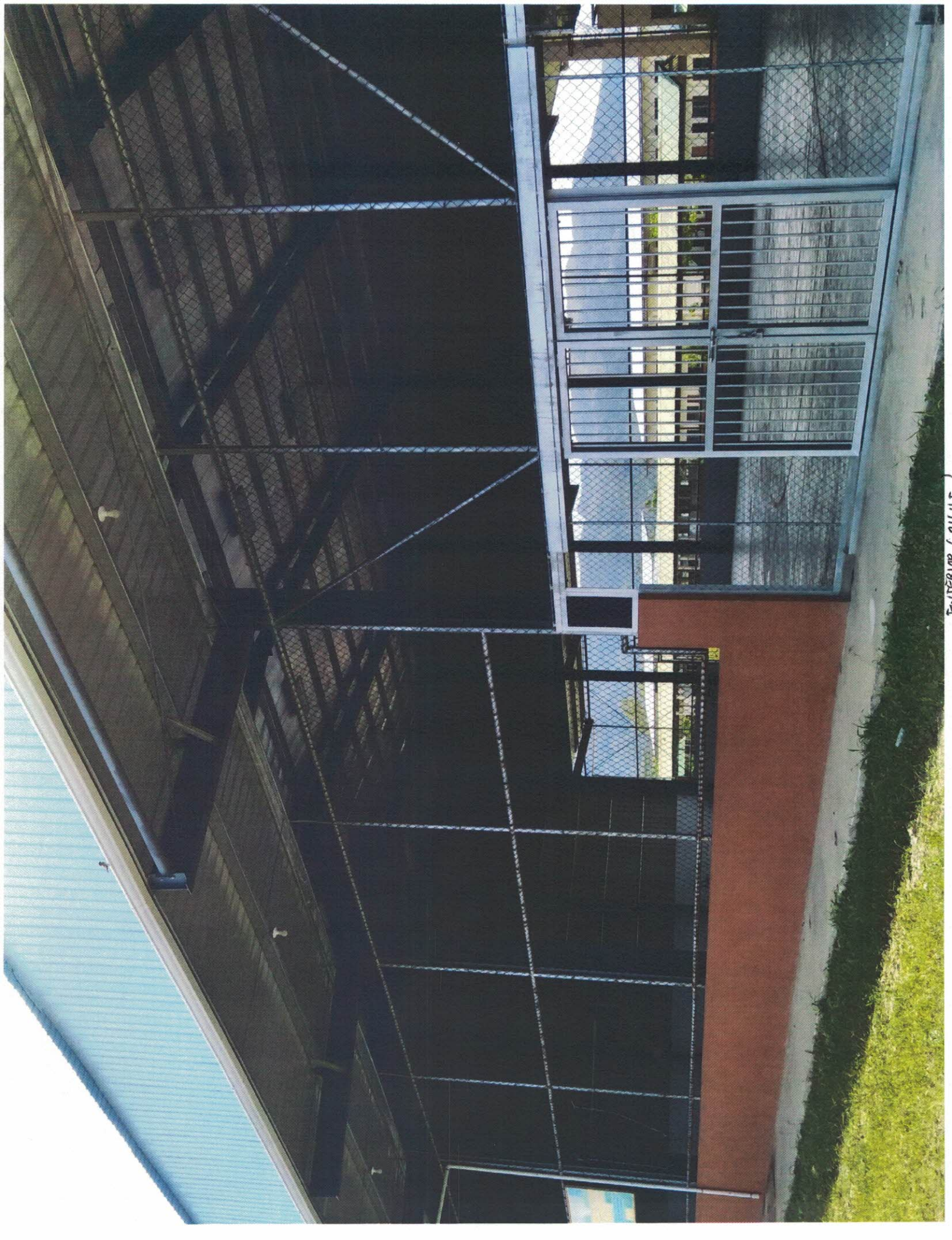
With warm regards, I am.

Sincerely,

  
Ihlen K. Joseph  
State Auditor  
Pohnpei

Enclosure

cc: Speaker, 9<sup>th</sup> Pohnpei Legislature  
Director, DoT&A



PHOTOGRAPH (ALL)



