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Report to Congressional Requesters

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FOREIGN ASSISTANCE

Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations

GAO-02-70

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Abbreviations

FAA	Federal Aviation Administration
FASEG	Freely Associated States Educational Grants
FEMA	Federal Emergency Management Agency
FSM	Federated States of Micronesia
FSMTC	Federated States of Micronesia Telecommunications Corporation
HHS	Health and Human Services
JTPA	Job Training Partnership Act
MCH	Maternal and Child Health
MINTA	Marshall Islands National Telecommunication Authority
NWS	National Weather Service
RHS	Rural Housing Service
RMI	Republic of the Marshall Islands
RUS	Rural Utilities Service
SEPPIE	Special Education Program for Pacific Island Entities
USDA	U.S. Department of Agriculture
USPS	U.S. Postal Service

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

January 22, 2002

The Honorable James V. Hansen
Chairman
Committee on Resources
House of Representatives

The Honorable Tom Lantos
Ranking Minority Member
Committee on International Relations
House of Representatives

The Honorable James A. Leach
Chairman, Subcommittee on East Asia and the Pacific
Committee on International Relations
House of Representatives

The Honorable Doug Bereuter
House of Representatives

In 1986, the U.S. government entered into a Compact of Free Association (Compact) with the Federated States of Micronesia and the Republic of the Marshall Islands. Under the Compact, the United States was authorized to provide federal programs, such as grants, services, technical assistance, and loans to the two nations. The United States was also authorized to provide aviation, disaster relief, postal, and weather services.[1] The cost of program assistance extended to the two countries was about $700 million for the period beginning in fiscal year 1987 and ending in fiscal year 2001.[2] The United States designated the Department of the Interior as the agency responsible for coordinating and monitoring these federal programs, loans, and services.

[1] Under the Compact, the United States also provided direct financial assistance. We reported on this assistance in *Foreign Assistance: U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development* (GAO/NSIAD-00-216, Sept. 22, 2000).

[2] Relying on information from U.S. agencies, we previously documented the amount of program assistance provided during 1987-99. See *Foreign Relations: Better Accountability Needed over U.S. Assistance to Micronesia and the Marshall Islands* (GAO/RCED-00-67, May 31, 2000). We have estimated program costs for fiscal years 2000 and 2001. The figure of $700 million does not include payments to the Republic of the Marshall Islands related to nuclear testing compensation and is based on partial data, known to understate amounts.

In the fall of 1999, the United States and the two nations began negotiations on extending the financial provisions of the Compact, which expired in 2001. These negotiations also included discussions about the continued provision of several U.S. programs.[3] To assist the Congress in its review of proposals for extending assistance, you asked us to report on the effectiveness and accountability of U.S. programs, loans, and services provided to the Federated States of Micronesia and the Republic of the Marshall Islands. In response, we (1) assessed the use and effectiveness of key U.S. programs, loans, and services provided to both nations; (2) evaluated whether each nation's administration of these programs ensured financial accountability; and (3) evaluated whether the U.S. government's oversight of these programs ensured financial accountability.[4]

We selected 13 programs and services to review,[5] including those with the largest expenditures and loans over the past 15 years, as well as each of the services that the U.S. government agreed to provide under the Compact. To determine the use and effectiveness of U.S. programs and services, we reviewed legislation, regulations, and monitoring reports. We also interviewed program recipients and program managers in the United States, in Pohnpei and Kosrae States of the Federated States of Micronesia, and in Majuro, in the Republic of the Marshall Islands. We determined that these U.S. domestic programs were effective by using two separate measures. The first considered whether the programs met their program performance requirements and standards, as detailed in their legislation

[3] Compact provisions related to economic assistance, access to U.S. federal services and certain programs, and defense obligations were to expire on October 21, 2001, for the Republic of the Marshall Islands and on October 1, 2001, for the Federated States of Micronesia. The expiring provisions of the Compact remain in full force and effect for up to 2 additional years while negotiations are underway.

[4] At your request, we attempted to report on the administrative costs of implementing these programs in the islands. However, this information was not available. Most agencies administering programs in the islands from Washington, D.C., or San Francisco were unable to segregate their costs for running the programs.

[5] These programs were (1) Head Start for preschoolers, (2) Special Education Program for Pacific Island Entities, (3) Freely Associated States Education Grants, (4) Pell Grants for college education, (5) job training for adults (Job Training Partnership Act), (6) Maternal and Child Health, (7) U.S. Department of Agriculture's Rural Housing Service single family home loans, (8) U.S. Department of Agriculture's Rural Utilities Service Telecommunications loans, (9) U.S. Department of Agriculture's Rural Utilities Service Electrical loans, (10) Federal Emergency Management Agency's assistance, (11) U.S. Postal Service, (12) Federal Aviation Administration service, and (13) U.S. National Weather Service.

and regulations. The second measure considered whether the programs were able to achieve broader program goals given the conditions that existed in the Federated States of Micronesia and the Republic of the Marshall Islands, including those that could significantly reduce potential program accomplishments or increase costs. To be considered effective, the program had to meet all performance requirements and standards and had to overcome conditions that could significantly reduce broader program accomplishments or increase costs. To evaluate whether the joint U.S., Micronesian, and Marshallese administration of these programs ensured financial accountability, we identified requirements in legislation and regulations, reviewed monitoring reports and financial audits, and discussed accountability issues with program managers in each country. (For further details regarding our scope and methodology, see app. I.)

Results in Brief

The domestic programs extended by the United States to the Federated States of Micronesia and the Republic of the Marshall Islands were used to provide a wide range of critical services, such as health care, education, telecommunications, and job training, but in most cases local conditions have impaired their effectiveness. In total, we found that local conditions limited the effectiveness of 9 of the 13 programs in both countries.[6] We found that these programs, originally designed for the United States, faced a variety of problems operating in developing island nations because of differing geographic, economic, and social conditions.[7] For example, four education and health programs were hindered by the lack of local government financial support for each sector, the poor state of the local education system, or the lack of medical capacity commonly found in the United States. The four effective programs generally shared the following characteristics: they were focused in scope, they were principally managed by U.S. employees or well-trained nationals, and they used the same infrastructure that supported these services in the United States.[8] A

[6] Programs that either could not meet their performance requirements or faced local conditions that hampered their effectiveness were (1) Head Start for preschoolers, (2) special education, (3) elementary and secondary school improvements, (4) Pell Grants for college education, (5) job training for adults, (6) Maternal and Child Health, (7) housing loans, (8) disaster response, and (9) postal services.

[7] These programs were ineffective, despite generally meeting their performance requirements and standards, because of problems related to implementing domestic programs in the FSM and the RMI: (1) special education, (2) elementary and secondary school improvements, (3) Pell Grants for college education, (4) housing loans , (5) disaster response, and (6) postal services.

separate problem, loan repayment, may adversely affect the three loan programs in the future if U.S. Compact assistance to the two countries is reduced.

The two nations' administration of the 13 programs we reviewed generally did not ensure financial accountability. In all, 9 of the 13 programs we reviewed experienced accountability problems, including 5 that experienced instances of theft or misuse of program funds.[9] Instances of theft, fraud, or abuse of program funds were documented in (1) Head Start, (2) elementary and secondary school improvement grants, (3) rural housing loans, (4) disaster response, and (5) postal services. In general, the two nations lacked the administrative capacity necessary to meet the complex accountability requirements of federal programs, and federal program managers did not provide the necessary training. In contrast, accountability was adequate for aviation and weather services and for power and telecommunications loans, primarily because the United States controlled program funds and little direct funding was provided to each nation.

Just as the two nations were unable to ensure financial accountability for their program administration, so too was U.S. government oversight unable to ensure financial accountability. The Department of the Interior, which was charged with coordinating and monitoring the individual federal programs, neither coordinated nor monitored the federal programs because it lacked the necessary resources, according to Interior officials. In addition, the State Department, whose chief of mission was responsible for direction and coordination of U.S. agency officials in foreign countries, could not meet its responsibility because the U.S. program managers often bypassed the State Department and U.S. embassies. Although some federal departments attempted to provide oversight, such as for the Head Start and Pell Grants programs, even these departments could not ensure effective accountability because of the travel cost, distance, and time involved, and

[8] Programs that generally met their performance requirements and did not face limitations attributable to local conditions were (1) aviation services, (2) weather services, (3) telecommunications loans, and (4) electric power loans.

[9] We found that several of the programs had met their program performance requirements yet still had accountability problems; in many cases, the program and finance offices were completely separate offices and operations. Programs that experienced accountability problems included (1) Head Start for preschoolers, (2) special education, (3) education grants, (4) Pell Grants for college education, (5) job training for adults, (6) Maternal and Child Health, (7) rural housing loans, (8) disaster response, and (9) postal services.

because of the relatively small size of the programs in the region, as compared with larger programs in the United States. During the Compact's existence, few U.S. program managers had ever visited the region to conduct on-site assessments.

In this report, we recommend that the Secretaries of the Interior and State report to the Congress on strategies for improving the performance and delivery of any future program assistance.

We provided a draft of this report to the Departments of the Interior, State, Agriculture, Commerce, Health and Human Services, Education, Labor, and Transportation, as well as to the Federal Emergency Management Agency (FEMA); the U.S. Postal Service; and the governments of the Federated States of Micronesia and the Republic of the Marshall Islands. The Departments of Agriculture, Commerce, Education, Labor, and Transportation, as well as FEMA and the U.S. Postal Service, chose to provide informal comments, which we incorporated into the report as appropriate. The Departments of the Interior, State, and Health and Human Services generally agreed with our draft report. The Federated States of Micronesia government generally agreed with our findings and recommendation. The government also provided technical comments and indicated that we did not fully appreciate that the programs have been "surprisingly successful against almost insurmountable odds." The Republic of the Marshall Islands government also generally agreed with the draft report but had numerous comments on individual programs, as well as a historical perspective on the Compact and its relation to U.S. program management and oversight options. Where we agreed that the additional information was appropriate, we incorporated the changes into the final report.

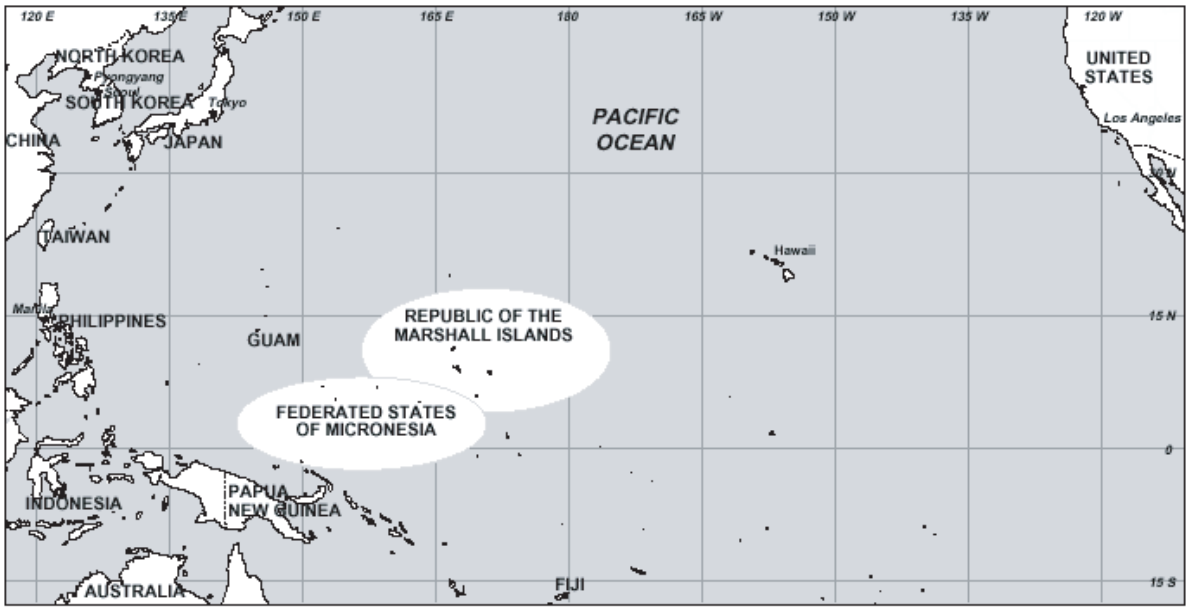
Background

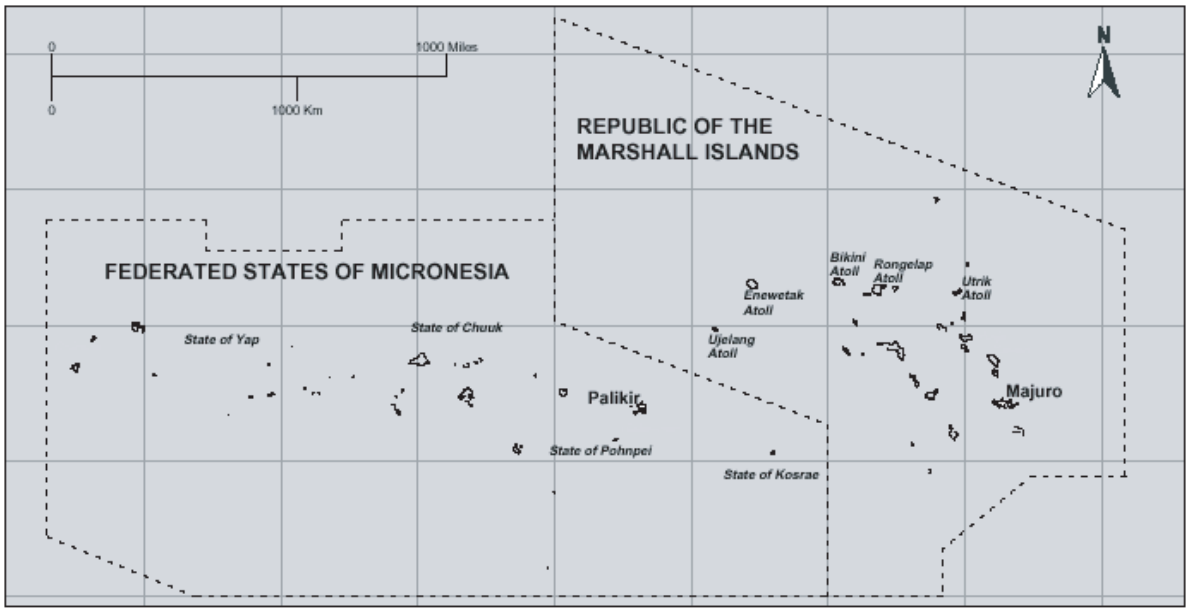
The Federated States of Micronesia (FSM) is a grouping of 607 small islands with a total land area of about 270 square miles. FSM is located in the western Pacific, about 2,500 miles southwest of Hawaii, lying just above the equator. FSM comprises four states—Chuuk, Pohnpei, Yap, and Kosrae—that had an estimated total population of 107,000 in 2000.[10] The Republic of the Marshall Islands (RMI) is made up of more than 1,200

[10] The FSM Department of Foreign Affairs provided this population figure to us. The FSM Department of Economic Affairs is finalizing the FSM 2000 census results and has not yet released the updated FSM population figure.

islands, islets, and atolls, with a total land area of about 70 square miles. RMI is located in the central Pacific, about 2,100 miles southwest of Hawaii. The RMI had a total population of approximately 50,840. See figure 1 for a map of the FSM and the RMI.

Figure 1: Location and Map of the Federated States of Micronesia and the Republic of the Marshall Islands





Note: These maps do not represent the actual territory of the FSM and the RMI.

Source: GAO.

Since World War II, the United States has provided government support to the FSM and the RMI and extended federal programs, such as housing and food assistance.[11] In addition, the United States provided for their defense; built roads, hospitals, and schools; provided support for government operations; and funded health and education systems. In 1986, the United States entered into a Compact of Free Association with the FSM and the RMI, a process that ended U.S. administration under a United Nations mandate and secured both nations' self-governance and certain defense rights for the FSM, the RMI, and the United States. The Compact provided direct financial payments to promote economic development in each nation. These annual financial payments totaled about $2 billion from fiscal year 1987 through fiscal year 2001. Previously we reported that these payments supported general government operations but had led to little improvement in economic development, with both nations remaining highly dependent on U.S. assistance. Economic self-sufficiency at current living standards remains a distant goal for the FSM and the RMI. In addition, in reviewing these expenditures, we found that the island governments and the U.S. Departments of the Interior and State have provided limited accountability over the Compact expenditures.[12]

The Compact also stated that U.S. federal agencies could provide direct program assistance as authorized by the Congress, which included the grants, loans, and technical assistance provided by individual federal agencies. In addition, the Compact identified several federal services to be supplied by specifically identified agencies: postal services, aviation, and weather were to be provided by specific agencies (and then reimbursed by Interior), while the Federal Emergency Management Agency was to provide disaster relief. In total, the program assistance provided by 19 U.S. departments and agencies from 1987 through 2001 totaled about $700 million, which included money for the 13 grant, loan, and service programs that were the focus of this report.

[11] See David Hanlon, *Remaking Micronesia: Discourses over Development in a Pacific Territory, 1944-1982* (Honolulu: University of Hawaii Press, 1998). Having driven the Japanese from these islands in World War II, the U.S. Department of the Navy began civil administration of Micronesia and the Marshall Islands on July 18, 1947, as part of the United Nations Trust Territory of the Pacific Islands. This responsibility was transferred to the Department of the Interior in July 1951.

[12] *See Foreign Assistance: U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development* (GAO/NSIAD-00-216, Sept. 22, 2000). Our estimate of Compact payments excludes payments to the RMI related to nuclear compensation.

Under the Compact's implementing legislation and by executive order, Interior was made responsible for supervising, coordinating, and monitoring program assistance to the FSM and the RMI.[13] The Foreign Service Act of 1980 (P.L. 96-465) stated that the Department of State Chief of Mission was responsible for the direction and coordination of all U.S. government employees in foreign countries. Further, presidential instructions to U.S. chiefs of mission in foreign nations charged them with the direction, coordination, and supervision of all executive branch offices and personnel in their nation.[14]

The FSM and the RMI were developing countries that, like other Pacific island nations, faced significant development challenges because of their small economies, few natural resources, remote location, and limited institutional capacity.[15] The economies of both nations were dependent on U.S. assistance provided through the Compact for most of their income, as they had almost no commercial production. U.S. assistance accounted for a majority of government revenues in both nations, and the governments were the primary employer in both nations. Significant unemployment existed and has increased as the governments have cut employment in response to scheduled reductions in U.S. payments made under the Compact, contributing to outward migration.[16]

The FSM and the RMI, as developing nations, faced unique challenges in operating their health and education programs, as compared with the United States. According to a 1998 study, challenges for the FSM and the RMI's delivery of health care services included (1) lack of preventive health care, (2) long distances to travel in order to provide care in remote places, (3) dependence on declining levels of U.S. foreign aid, (4) inadequate fiscal and personnel management systems, (5) poorly maintained and equipped

[13] The Compact of Free Association Act of 1985, Public Law 99-239. The Compact implementing legislation said that all programs and services provided to the FSM and the RMI may be provided only after consultation with and under the supervision of the Secretary of the Interior. This role and responsibility was reinforced in Executive Order 12569, issued in 1986.

[14] This does not apply to employees under the command of U.S. area military commander.

[15] See *Foreign Assistance: Lessons Learned from Donors' Experiences in the Pacific Region* (GAO-01-808, Aug. 17, 2001).

[16] The Compact grants the citizens of the FSM and the RMI the right to live and work in the United States. See *Foreign Assistance: Migration from Micronesian Nations Has Had Significant Impact on U.S. Island Areas* (GAO-02-40, Oct. 5, 2001).

health care facilities, (6) the enormous costs associated with sending patients off-island for specialized care, and (7) shortages of adequately trained health professionals.[17] Likewise, the education system in both countries faced challenges not found throughout the United States, including high drop-out rates, poorly trained teachers, lack of adequate buildings and supplies, and low academic achievement. The education systems of both nations were also dependent on declining levels of U.S. aid, which may place additional challenges on the education systems. In the RMI, 68 percent of education funding came from the United States; in the FSM, 98 percent of education funds were from the United States.

In June 2000, the Department of State's negotiator for the Compact testified that the general approach to the new negotiations with the FSM and the RMI included sector grants, a trust fund, and continued provision of some U.S. program assistance for the term of the annual financial assistance. The negotiator testified that the executive branch was considering reporting annually to the Congress on actions that could improve program effectiveness, including the consideration of grant consolidation across programs. The November 2000 U.S. proposal to the FSM for future economic assistance through fiscal year 2016 included a reduction in total assistance but an increase in U.S. Compact funds for health and education, as compared with current levels. The proposal also included a section on services and program assistance scheduled through 2016. Weather and aviation services were to be continued at a level to be negotiated. The proposal eliminated the commitment of disaster relief from the United States, but it included a modest disaster preparedness grant for the first 5 years of the agreement. Additionally, the USPS was to continue service, with the provision of special services set forth in a subsidiary agreement. These special services to be negotiated may include "express mail" and money orders, but not collect-on-delivery. The proposal stated that the United States would continue to provide, through fiscal year 2016, the programs of the Departments of Education, Health and Human Services, and Labor on the same basis or to the same extent as they were provided on October 1, 1999. The United States did not propose providing Department of Agriculture programs to the FSM.[18] The United States had not presented an assistance proposal to the RMI.[19]

[17] See *Pacific Partnerships for Health, Charting a New Course* (Washington, D.C.: National Academy Press, Institute of Medicine, 1998).

Federal Programs Provided Important Services, but Effectiveness Was Generally Hindered by Many Factors

The 13 federal grant, loan, and service programs we reviewed provided a wide array of assistance to the FSM and the RMI that U.S. embassy and country officials viewed as critical to these nations. However, local conditions limited the effectiveness of 9 of the 13 programs. We determined that these U.S. domestic programs were effective by using two separate measures: first, whether the programs met their program performance requirements and standards, as detailed in their legislation and regulations; second, whether the programs were able to achieve broader program goals, given the conditions that existed in the FSM and the RMI, including those that could significantly reduce potential program benefits or increase costs. To be considered effective, the program had to meet all performance requirements and standards and to overcome conditions that could significantly reduce broader program accomplishments or increase costs.

We found that, even in programs that met their requirements and standards, local conditions often reduced their potential effectiveness. Almost all of them faced problems caused by attempting to implement programs in the FSM and the RMI that were designed for the United States. Such problems included (1) the lack of complementary public and private health care services and financing typically found in the United States, necessary to support the Head Start, special education, and Maternal and Child Health programs; (2) limited opportunities for graduates of the job training program; and (3) the lack of contractors, building supplies, and support services typically found in the United States and used to respond to disasters. In addition, the federal education and health programs and resources usually supplement state and local resources in the United States. These resources did not exist in the FSM or the RMI, where federal programs were the primary and often the only funding source for an activity.

As a result of these problems, the effectiveness of the U.S. programs was limited. The aviation and weather programs, as well as two of the three loan programs, were effective in large part because they were narrow in scope or relied on well-trained local staff and dedicated U.S. resources. In

[18] The U.S. proposal discusses additional programs and services that were not part of this report's scope. In addition, there were sections dealing with sector grants, a trust fund, and accountability requirements.

[19] During 2001, the United States has met with both the FSM and the RMI regarding extending Compact provisions.

addition, all three loan programs (two of which were effective, and one ineffective) may experience future repayment problems if U.S. Compact assistance levels are reduced. (See app. II for a more detailed discussion of each program, including the program performance requirements and standards, our assessment against those standards, and our assessment of whether the program encountered conditions in the countries that significantly reduced potential program accomplishments.)

Programs Provided Diverse and Important Services

We found that the 13 programs we reviewed, which encompassed grants, loans, and operational support, provided numerous, and in many cases important, services to the citizens of the FSM and the RMI. For example, because of the U.S. programs, preschool children received health, education, and nutritional services; special needs children received special education services; elementary and secondary schools received school supplies and teacher training; and college students received tuition grants. In addition, mothers and children were provided health services, and adults received job training to improve their employment prospects. The housing stock, telecommunications capacity, and electrical supply were improved through U.S. loan programs, while disaster response, postal delivery, aviation, and weather forecasting were provided by U.S. agencies.

U.S. embassy, FSM, and RMI officials reported that these were critical programs in each country. Without exception, FSM and RMI program officials said that their countries were dependent on these programs. For example, according to FSM and RMI officials, the loss of U.S. programs would end special education assistance, the poorly supplied school systems might stop functioning entirely, and the sole U.S.-accredited colleges in the FSM and the RMI might collapse. Program officials further stated that the loss of disaster assistance, postal services, aviation programs, and weather services would severely affect their economic development. Program managers doubted that their own governments would have sufficient resources to finance these activities in the absence of the U.S. federal programs.

Table 1 identifies the 13 programs we reviewed, the purpose and funding level of each program, and a brief description of program accomplishments in each country.

Table 1: Overview of 13 Programs Reviewed by GAO

Program, department, and purpose funding – FY 1987-1999/ FY 2000	Accomplishments	
	FSM	**RMI**
dollars in millions		
Head Start: Department of Health and Human Services (HHS) Provides health, education, and other services to pre-kindergarten children FSM: $12.8 /$4.1 RMI: $17.6/$2.6	Head Start provided comprehensive health, education, and nutrition services to about 1,800 preschool children each year through 94 centers and 391 support staff. Accomplishments included (1) helping children with health, nutrition, and learning deficits; (2) creating preschool programs; (3) encouraging parental support for the children's education; and (4) initiating a preschool teaching certificate program at the College of Micronesia.	Head Start provided comprehensive health, education, and nutrition services to about 1,200 preschool children each year. Services were provided through 48 centers and 74 teachers, 54 teachers' aides, and 71 support staff. The program has served more than 8,400 children since it began in 1994. Accomplishments included (1) helping children with health, nutrition, and learning deficits; (2) preparing children for school; and (3) fostering parental support for education.
Special Education Program for Pacific Island Entities (SEPPIE): Department of Education Provides direct service needs and long-term capacity building for children with special needs FSM: $ 23.7/ $3.8 RMI: $ 9.4/ $1.7	This grant provided the majority of program funds for children with disabilities needing special education. In school year 1998-99, about 2,074 students were in the special education program in the four states of the FSM. They were taught by about 191 teachers. The special education program provided assistants for home-bound children, transportation to schools, and facility modifications. Because of the low educational level of special education teachers, approximately 16 percent of the grant was spent providing teacher training. SEPPIE funded almost all special education expenses. The remaining expenses were covered by U.S. Compact funds passed through the FSM governments. In instances where disabilities were so severe that the children would never achieve independence, parents reported that SEPPIE training made the children less of a burden at home.	This grant provided the majority of program funds for children with disabilities needing special education. In September 2000, about 625 students were in the special education program in the RMI. They were taught by about 86 teachers. The program was at work in 54 public schools throughout the RMI. The special education program provided assistants for home-bound children, transportation to schools, and facility modifications. Because of the low educational level of special education teachers, almost 19 percent of the grant was spent providing staff training. SEPPIE funded all special education expenses. In instances where disabilities were so severe that the children would never achieve independence, parents reported that SEPPIE training made the children less of a burden at home.

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Program, department, and purpose funding – FY 1987-1999/ FY 2000	Accomplishments	
	FSM	**RMI**
dollars in millions		
Freely Associated States Educational Grant (FASEG) Program:[a] Department of Education Provides funds for direct educational services in elementary and secondary schools such as school supplies, teacher training, and school improvement FSM: $8.3/ $3.1 RMI: $2.4/ $0.860	This grant has provided most of the school supplies in the FSM. Each state administered its own grant. Nationwide, 166 public elementary schools served about 23,600 children, and 28 public secondary schools served about 5,500 students. Generally FASEG's $3.1 million in grants provided most educational materials, books, school supplies, copiers, computers, air conditioners, etc. It also provided teacher training funds. Generally, teachers' salaries were paid by using Compact funds.	This grant has provided most of the school supplies in the RMI. Throughout this island nation, 77 public elementary schools served almost 8,800 children, and 3 public secondary schools served almost 1,200 students. Generally, FASEG's $860,000 grant provided most educational materials, books, vocational education materials, computers, etc. It also provided teacher training funds, with about 200 teachers trained annually. Teachers' salaries were paid from Compact funds.
Pell Grants: Department of Education Provide access to college education FSM: $19.3/$4.4 RMI: $6.6/$1.7 [The Department of Education provided an additional $6 million for Pell Grants from 1987 through 1991 but could not report the amount by country.]	Pell Grants provided 13,704 students with grant assistance to attend the College of Micronesia (a 2-year, U.S.-accredited college) between 1988 and 2000. In addition, Pell Grants also provided grant assistance for FSM students attending U.S. colleges. Pell Grants were the major source of funding for the college; loss of Pell Grants would bankrupt the college and eliminate the sole opportunity for most citizens to obtain a local, U.S.-accredited college education.	Pell Grants provided 4,375 students with grant assistance to attend the College of the Marshall Islands (a 2-year, U.S.-accredited college) between 1993 and 2000. In addition, Pell Grants also provided grant assistance for RMI students attending U.S. colleges. Pell Grants were the major source of funding for the college; loss of Pell Grants would bankrupt the college and eliminate the sole opportunity for most citizens to obtain a local U.S.-accredited college education.
Job Training Partnership Act (JTPA): Adult Training Department of Labor Provides job training for adults for increased employment and earnings FSM: $10.9/$0.2[b] RMI: $5.5/$0.4[b]	FSM JTPA officials said that 3,263 adults and teenagers were trained from 1995 to 1999, of whom 1,204 were employed 90 days after their training. JTPA was the primary job training program in the FSM. The Pohnpei program employed 23 staff in training and administrative positions. Officials said that the training significantly contributed to their ability to improve the lives of trainees through employment. This included 210 youths working in the United States as nurses and amusement park attendants. The Kosrae program trained 270 clients, and 65 were placed in employment. Many trainees have moved overseas for better-paying jobs.	The JTPA program reported that it provided training to 2,474 clients from 1995 to 1999. JTPA was the primary job training program in RMI. It employed 28 staff persons to administer the program and provide training. RMI officials said that JTPA was critical in helping the disadvantaged improve the lives of trainees through employment.

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Program, department, and purpose funding – FY 1987-1999/ FY 2000	Accomplishments	
	FSM	**RMI**
dollars in millions		
Maternal and Child Health (MCH) Block Grants Program: Department of Health and Human Services Provides health services to mothers and children FSM: $7.0/$0.56 RMI: $3.9/$0.24	The FSM reported that health services were provided to 70,810 mothers and children in 1999 alone. Services were provided by 36 staff in hospitals and clinics. The program has resulted in a large increase in health services provided to mothers and their children. Reported accomplishments include (1) an increase in MCH services to the target population; (2) a reduction in fertility rates; (3) no recent outbreaks of measles, mumps, or polio because of immunizations; and (4) greater social acceptance of children with special needs.	The RMI reported that health services were provided to 4,756 mothers and children in 1999 alone. Services were provided at 2 hospitals and 60 clinics. The program has resulted in a large increase in health services provided to mothers and their children. RMI/MCH officials listed the following as accomplishments of the MCH program: (1) the provision of preventive health services to the majority of the population and (2) reduced childhood diseases through immunizations.
Rural Housing (loans and grants): U.S. Department of Agriculture (USDA) Provides housing grants and low-interest housing loans to the economically disadvantaged FSM:[c] $30.0/ $1.9 RMI:[c] $3.5/ $0.590	USDA loans have built or renovated an estimated 37 percent of the FSM housing stock since the beginning of the Compact. In fact, the Rural Housing Service was the primary financier of home construction and renovation in the FSM. Each state of the FSM had a separately administered program. Between 1987 and 2000, more than 5,500 loans, valued at more than $27.6 million, and more than 1,200 grants, valued at more than $4.26 million, were provided to residents to build, renovate, or repair their housing structures. Although Chuuk State comprised 50 percent of the FSM population and some 46 percent of the housing units, it received only 14 percent of the housing loan dollars. Pohnpei, with 32 percent of the population, received 67 percent of housing dollars loaned in the FSM.	USDA loans have built 14 percent of the RMI housing stock, making RHS the primary housing financier. Between 1987 and 2000, about 937 housing loans, valued at almost $3.2 million, and 218 housing grants, valued at about $913,000, were provided to residents to build, renovate, or repair their housing structures. This assistance was all provided specifically for the Majuro Atoll, which comprised 47 percent of the RMI population. USDA planned to expand assistance to Ebeye Island (18 percent of RMI population) in the Kwajelein Atoll with more housing programs and other assistance.
Telecommunications: U.S. Department of Agriculture (USDA) Provides rural telephone loans and loan guarantees FSM: $40.0/$0 RMI: $22.8/$0	The USDA loans have resulted in an increase in telephones and communications available to homes and businesses. In 1987, when USDA approved a loan to the FSM Telecommunications Corporation (FSMTC), the company had 1,300 telephone subscribers. By 1993, the number of telephone subscribers in the FSM had increased to 6,000. In 2001, the FSMTC provided telephone service to more than 9,870 customers on four islands of the FSM, with a total population of some 69,000. FSMTC provided service to about 38 percent of FSM households.	The USDA loans have resulted in an increase in telephones and communications available to homes and businesses. In 1987, when USDA approved the loan application from the Marshall Islands National Telecommunications Authority (MINTA), the company had 653 subscribers. In June 2001, MINTA provided telephone service to 4,183 subscribers on major islands of the Majuro and Kwajalein Atolls, with a total population of 32,799. More than half of these customers purchased residential service. MINTA provided service to more than 32 percent of RMI households.

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Program, department, and purpose funding – FY 1987-1999/ FY 2000	Accomplishments	
	FSM	**RMI**
dollars in millions		
Electric Power: U.S. Department of Agriculture (USDA) Provides loans for electric power facilities FSM: $0/$0 RMI: $12.5/$0	The Pohnpei Utilities Company had a loan application with USDA's Rural Utilities Service (RUS). The proposed loan for $10.8 million had not yet been approved by RUS, as of October 2001. The difficulty of obtaining clear title to the land where the power plant would be built was preventing groundbreaking according to company officials.	The USDA loans have resulted in a large increase in electricity available to homes and businesses. The Marshalls Energy Company commissioned its new, 12.8 megawatt generating station on December 16, 1999. This plant, the island's second, was built with a $12.5 million loan from USDA to relieve the old power plant's five generators, all of which operated at peak hours with no backup. The number of private electricity consumers rose by 11 percent, and the number of new business users rose by 34 percent from 1997 through the end of 1999.
Disaster Assistance: Federal Emergency Management Agency (FEMA) Provides typhoon and severe drought disaster assistance including individual and family grants, temporary housing, infrastructure assistance, and hazard mitigation grants FSM: $35.9/$0.4 RMI: $17.4/$1.1	Since 1986, FEMA has provided $36.3 million in direct assistance and through other U.S. agencies provided an additional $6.3 million for seven typhoons and two droughts. Through FEMA's assistance programs (Disaster Preparedness Improvement Grants, Hazard Mitigation Grant Program, and disaster assistance), the FSM has been able to ensure that almost all the disaster assistance funds have been obligated over the past 15 years.	Since 1986, FEMA has provided $18.5 million in direct assistance and through other U.S. agencies provided an additional $7.5 million for seven disasters including typhoons, droughts, and high wave actions. Through FEMA's assistance programs, the RMI has been able to ensure that almost all funds for the disaster relief and hazard mitigation assistance and preparedness were obligated over the past 15 years.
Postal Services: U.S. Postal Service (USPS) Transports mail, provides money orders, and furnishes supplies FSM:[d] $ 4.9/$0.9 RMI:[d] $ 1.6/$0.3	USPS has provided for transportation of mail and parcels and has given equipment, materiel, supplies, technical advice, and assistance to the FSM. During 2000, the FSM received 1.2 million pounds of mail and sent out almost 220,000 pounds. Intrastate mail volume for the same period totaled about 67,000 pounds.	USPS has provided for transportation of mail and parcels and has given equipment, materiel, supplies, technical advice, and assistance to the RMI. During 2000, the RMI received 0.5 million pounds of mail and sent out almost 73,000 pounds. Records for intrastate mail volume and for other years were not maintained by the RMI.

(Continued From Previous Page)

Program, department, and purpose funding – FY 1987-1999/ FY 2000	Accomplishments	
	FSM	**RMI**
dollars in millions		
Aviation Services: Federal Aviation Administration (FAA) Provides for safe air transport and transit around and through FSM and RMI air space FSM:[e] $ 5.4/$ 3.3 RMI:[e] $ 0.9/$ 0.1	FAA's main task was to provide for safe air travel. The 15-year record of air traffic safety showed two aircraft accidents, both within the past 2 years, but no serious injuries and no fatalities. The two accidents were attributed to factors, events, and conditions unrelated to FAA assistance.	FAA's main task was to provide for safe air travel. The RMI's record showed no reported aircraft accidents, injuries, or fatalities over the past 15 years.
Weather Services: National Weather Service (NWS) Provides weather forecasting capacity FSM: $ 28.9/$ 2.0 RMI: $ 10.6/$ 0.9	The FSM weather service offices located at Pohnpei, Yap, and Chuuk provided weather forecasts and data to FSM citizens. These offices were fully staffed by FSM citizens. They received funding on a cost-reimbursable contract arrangement, technical assistance, advice, and training through the U.S. NWS. According to NWS evaluations, the three weather service offices are as capable and as well trained as comparable U.S.-based weather service offices.	The RMI weather service office provided weather forecasts and data to RMI citizens. The office was fully staffed by RMI citizens. It received funding on a cost-reimbursable contract arrangement, technical assistance, advice, and training through the U.S. NWS. According to NWS evaluations, the weather service office was as capable and as well trained as comparable U.S.-based weather service offices.

[a]The program has been changed to include U.S. insular territories under the reauthorization of the Elementary and Secondary Education Act in fiscal year 2002. As of publication, the Department is in process of determining the program name and implementation timetable for new competitions and awards.

[b]This figure is for the Workforce Investment Act, which supplanted JTPA beginning in fiscal year 2000.

[c]We used data provided by USDA.

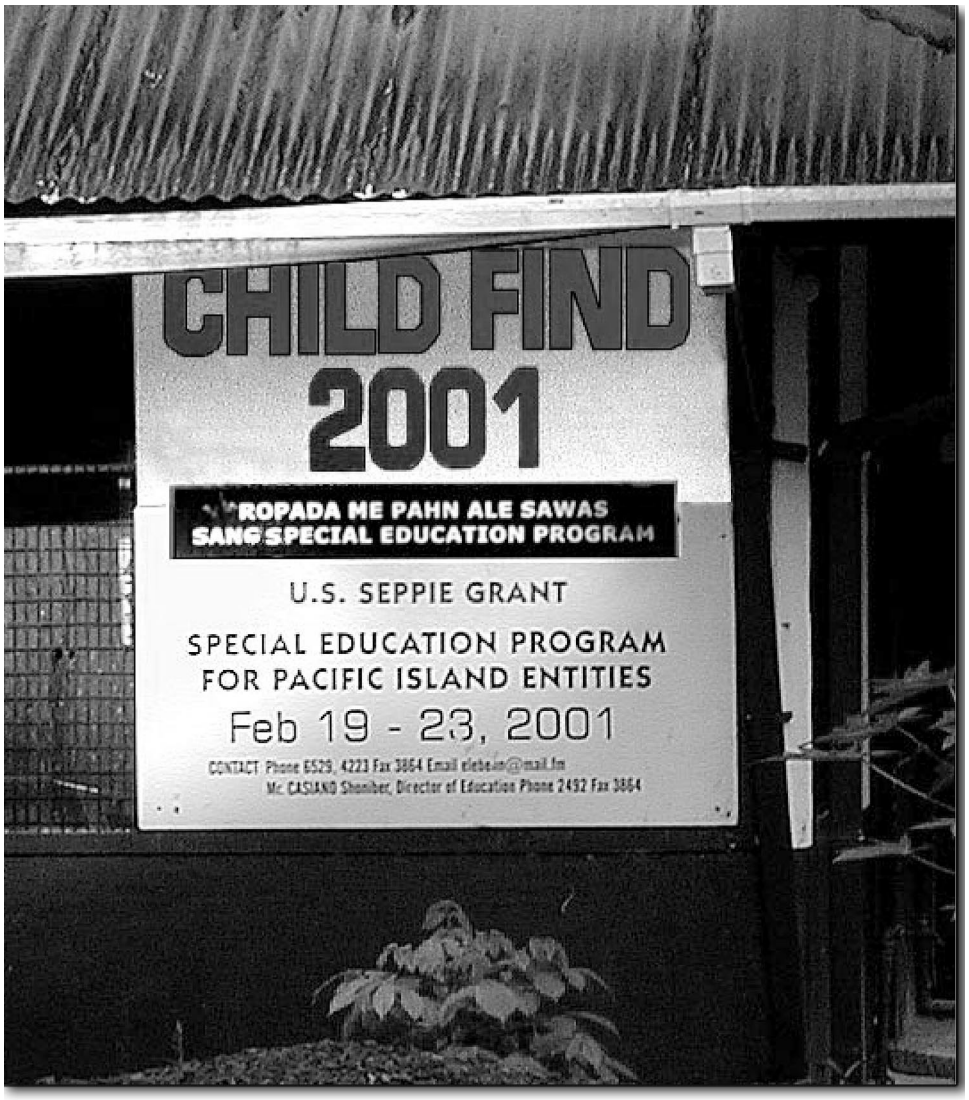
[d]This figure represents the Department of the Interior's payments to USPS for services under the Compact. According to USPS, the actual cost was much higher, and it has sought an additional $30 million in reimbursement from Interior.

[e]This figure represents the Department of the Interior's payments to the FAA for services under the Compact. This figure excludes the cost of air traffic control to the region, which is provided from Los Angeles, and FAA provided airport improvements funded from the Department of the Interior's capital improvement funds.

Sources: Program documentation and GAO analysis.

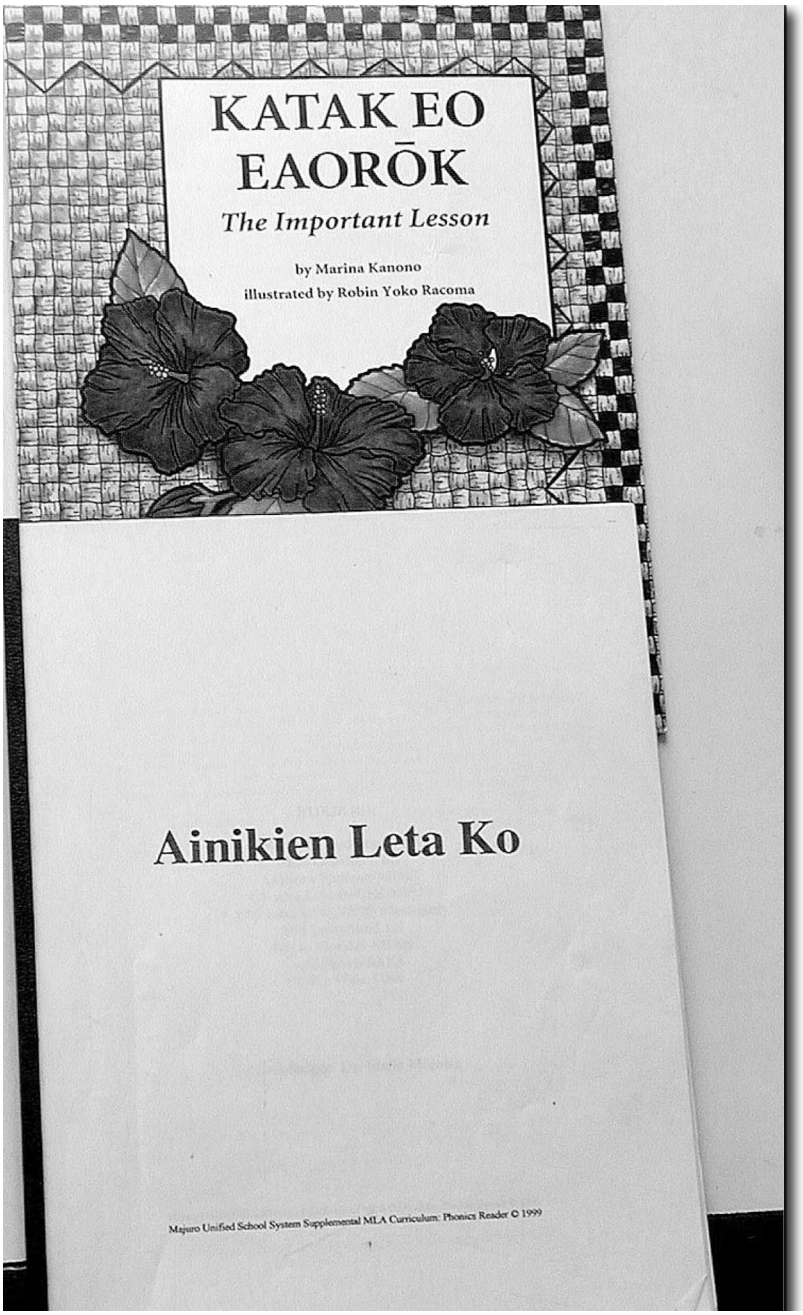
Photographs of U.S. Assistance at Work

Figure 2: SEPPIE, Child Find Poster for Special Education, Pohnpei, FSM



Source: GAO.

Figure 3: FASEG, Marshallese-English Story Book and Marshallese Phonics Book, Developed by and Published with FASEG Support, Majuro, RMI

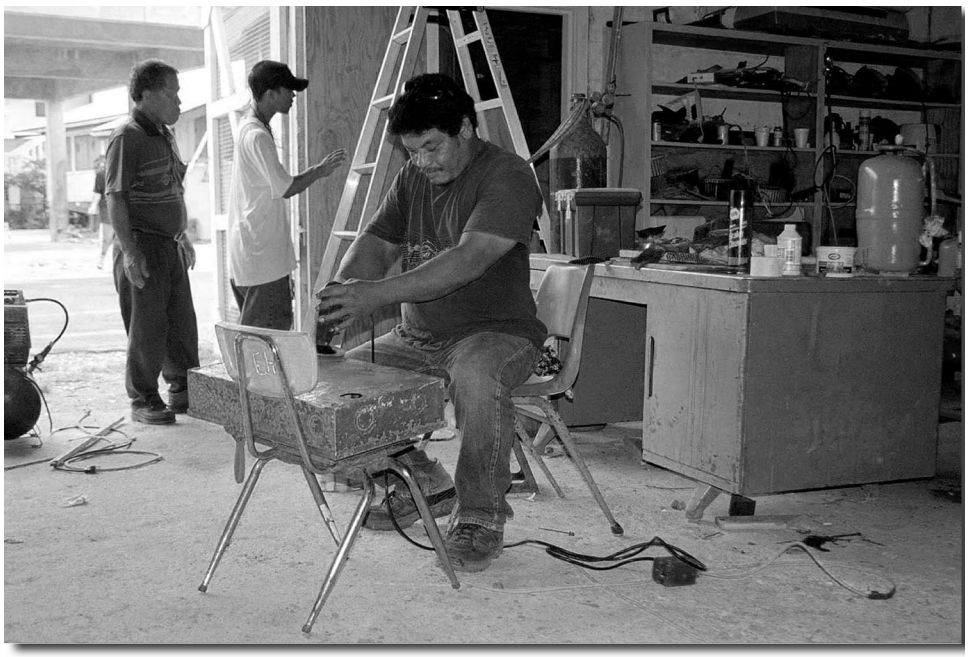


Source: GAO.

Figure 4: Pell Grant-Assisted Students in Class, College of the Marshall Islands, Majuro, RMI

Source: GAO.

Figure 5: JTPA Carpentry Class, Majuro, RMI



Source: GAO.

Figure 6: Maternal and Child Health Laboratory in Hospital, Majuro, RMI

Source: GAO.

Figure 7: FEMA Assistance (Bridge Replacement) in Pohnpei, FSM

Source: GAO.

Figure 8: FEMA Drought Assistance (Home Water Catchment Container), Kosrae, FSM

Source: GAO.

Foreign Environment and Other Factors Hindered Effectiveness of Nine Programs

Local conditions in the FSM and the RMI significantly reduced the effectiveness of 9 of the 13 programs, loans, and services. These programs were (1) Head Start, (2) special education, (3) elementary and secondary school improvement grants, (4) Pell Grants, (5) the Job Training Program for Adults, (6) Maternal and Child Health Block Grants, (7) housing loans, (8) disaster assistance, and (9) the USPS. We found that programs

designed for the United States faced a variety of problems because of geographic, economic, and social conditions in the FSM and the RMI. For example, the four states of the FSM are separated by as much as 2,000 miles, and the RMI is made up of 1,200 atolls and islands scattered over 750,000 square miles of ocean. In addition, the lack of local financial support, the poor performance of the education system, and the lack of medical capacity commonly found in the United States hindered the education and health programs.[20] Limited private sector opportunities and government downsizing reduced the value of the job training program. Geographic and social conditions reduced the effectiveness of disaster relief. Finally, the poor performance of FSM and RMI postal services delayed mail service. Most managers of the nine programs recognized that they lacked the resources, training, and technical capacity to meet all program requirements.

See appendix II for a more detailed discussion of each program, including the program performance requirements and standards, our assessment against those standards, and our assessment of whether the program encountered conditions in the countries that significantly reduced broader program accomplishments or increased program costs. Each table contains separate sections that provide specific examples of whether or not each program met requirements and standards and whether the program encountered conditions in each country that significantly reduced its potential accomplishments. To be effective, each program had to meet the performance requirements and standards and had to demonstrate that it did not encounter conditions that significantly reduced potential program accomplishments or increased costs.

Specifically, in terms of program effectiveness, we found the following:

- *Head Start*: Head Start was intended to promote school readiness by enhancing the social and cognitive development of preschool children. However, the FSM and the RMI programs could not meet a variety of program requirements because of a lack of equipment, medical capacity, and government support for the elementary and secondary education system. For example, the FSM and the RMI lacked the equipment and

[20] In commenting on this report, U.S. Department of Education officials said that neither the FSM nor the RMI could comply with all program procedures, noting that it was difficult to comply with the Federal Acquisition Act requirements for competitive bidding, since few providers wanted to do business there because of the cost of travel and transporting supplies.

medical expertise necessary to meet dental and health requirements. Additionally, the Head Start program could not meet playground and space standards of the program (see figures 9 and 10). The program also lacked data to show short- or long-term benefits to the children. In addition, both FSM and RMI Head Start managers and parents were concerned that any head start provided by the program was lost because of the poor performance of the school system.[21]

[21]For example, according to a 2001 RMI Ministry of Education study, students leave the 8th grade with "barely a 2nd- or 3rd-grade level in English reading ability, and many were unable to read even in their own language." An FSM National Division of Education study found that 10th-grade students barely achieved the expected 2nd-grade score of U.S. students in the English language.

Figure 9: Head Start Center, Science Area [shows lack of space], Majuro, RMI

Source: GAO.

Figure 10: Head Start Playground [shows inadequate playground], Majuro, RMI

Source: GAO.

- *SEPPIE*: This program was intended to provide special education and related services to children with disabilities. Although the program met its limited performance requirements and standards, it encountered conditions that significantly reduced potential program accomplishments. For example, for some children, the program's effectiveness was limited by the lack of on-island medical care available to those suffering severe disabilities. In addition, post-graduation employment opportunities for program graduates were rare. Lastly, since neither the FSM nor the RMI contributed funding for special education, as states and localities do in the United States, this program was the primary funding source for special education.
- *Freely Associated States Educational Grant*: The program was intended to provide elementary and secondary schools with funds for direct educational services such as school supplies, teacher training, and school improvement. Although it met its limited program goals to provide funding for school supplies and teacher training, because the FSM and the RMI did not provide much funding in these areas, many needs continued to go unmet. The program was never intended to be the sole source of funding for these activities. For example, in the United States, most school funding comes from state and local funds, and the federal government provides only 6.8 percent of the total elementary and secondary school budgets. In contrast, the FSM and the RMI provided almost no funding in this area, relying instead on FASEG and other U.S. grants. However, because the program was so small relative to needs, it could not meet all school requirements for school supplies and teacher training.
- *Pell Grants*: Pell Grants were intended to provide college students with financial assistance for educational expenses. In addition, the grants provided graduates with the potential to improve their employment opportunities and help meet the development and financial needs of the FSM and the RMI. The Pell Grants program met its limited program goal to provide financial assistance to FSM and RMI college students. However, the poor conditions of the elementary and secondary school system, the limitations of a 2-year college, and the lack of employment opportunities limited the potential accomplishments of the Pell Grant program. According to the FSM and the RMI college presidents, because of the inadequate school systems, many students exhausted their Pell Grants on remedial classes.[22] As a result, many students could not use Pell Grants for the credited classes they needed to graduate. In

[22]Pell Grants were limited to 1 year of remedial classes.

the RMI, for example, one-half of high school graduates entered the college with the equivalent of a 4th to 6th-grade U.S. education and required 1 to 2 years of remedial classes. This reduced the amount of Pell Grants available for graduation and contributed to the low, 9-percent graduation rate. In both countries, the low graduation rate and the limitations of a 2-year college have reduced the contribution of the Pell Grant program to the economy. As a result, skilled workers and managers were brought in from the United States, the Philippines, and other countries to meet the demand for technical and mid- and upper-level management positions.

- *Job Training for Adults*: The program was intended to foster increased employment and earnings. However, poor economic conditions in both the FSM and the RMI have limited the potential accomplishments of the program.[23] For example, because of the lack of jobs in the FSM, program success in job placement for graduates dropped from 65 percent in 1995 to 26 percent in 1999. FSM officials said that the program was training people for jobs that did not exist. In the RMI, poor data precluded determining JTPA's effectiveness, and poor economic conditions limited employment opportunities. For example, the RMI reported that the percentage of trained adults finding jobs rose from 44 percent in 1993 to 100 percent in 1999. However, another 1999 report from the RMI stated that only 14 percent found employment. Neither RMI nor Labor officials could explain the discrepancy, and Labor officials agreed that such problems precluded determining the program's effectiveness. In addition, because of poor economic conditions, the RMI boosted the number of adults it reported as being employed by counting numerous "self-employed" graduates as employed and simply estimating their potential income. According to U.S. Department of Labor officials, the subsistence economy in the RMI and the lack of employment opportunities pushed the program to categorize people as "self-employed" when they were actually undertaking subsistence work and not receiving market income. Because of the lack of jobs, as well as the lack of those basic academic and personal competencies necessary to benefit fully from job training, the RMI has begun providing training in "survival skills," which include subsistence fishing, agriculture, and handicraft production.

[23] The U.S. Department of Labor exempted the FSM and the RMI from meeting some performance requirements and standards, including a key standard for the number of trainees that found employment.

- *MCH Block Grants Program*: The program was intended to improve the health of mothers and children and to reduce mortality rates. However, the lack of equipment, medical specialists, data collection capabilities, and local government support for preventive health care limited the accomplishments of this program. Moreover, the FSM and the RMI programs were exempt from meeting 6 of the 18 performance measures for the program, and they had difficulty in meeting others, because of a lack of needed equipment, medical capacity, and support programs (such as Medicaid) that were available only in the United States. Additionally, the high mortality rate, a key measure of program success, could not be reduced because of health care limitations and the lack of basic sanitary conditions, like clean water and healthy food, necessary for public health.[24] Moreover, data collection limitations within the FSM and the RMI have hindered the ability of the HHS to determine program effectiveness.[25] Lastly, the U.S. MCH Program generally supplements state and local health care initiatives; both the FSM and the RMI governments lacked these state or local services. According to the FSM and the RMI MCH directors, because the FSM and the RMI relied on the program as their primary preventive health care system, the program was overwhelmed by the social and economic conditions that were causing declines in the general health of the populations, including maternal and child health.[26] The former U.S. MCH officer responsible for the FSM and the RMI programs was pessimistic about the ability of the MCH programs to succeed because of the social and economic problems in each nation.[27]

[24] Officials from HHS said that similar limitations seriously impeded the goal of reducing infant mortality in many parts of the United States, as they do in the FSM and the RMI.

[25] The U.S. MCH official in charge of the MCH program in the FSM said he had doubted the accuracy of the data the FSM states submitted to the FSM national government to send to the MCH program in Washington, D.C., but that verifying the accuracy of the data was not an option because of the travel costs involved.

[26] For example, the RMI reported that the health of the maternal and child population has declined as the rates of diabetes, hypertension, heart disease, tuberculosis, and malnutrition have risen, causing increases in infant and childhood illness. The RMI's MCH Director said that, despite the assistance provided by the Maternal and Child Health program, the positive effect of the program was being blunted by the social, economic, and educational problems in the RMI.

[27] In commenting on this report, HHS officials stated the current MCH program officer also acknowledges the overwhelming needs for technical assistance because of the social and economic problems in the FSM and the RMI.

- *Housing Loans*: This program was intended to provide housing loans to the most needy. However, legal requirements not designed for use in foreign countries precluded targeting loans to only the most needy. As a result, the program could not meet its performance requirement to target only the neediest in each country. To determine program eligibility, the Rural Housing Service (RHS) was required to use adjusted income limits set by the U.S. Department of Housing and Urban Development (HUD). HUD in turn used U.S. Census income data. Because the FSM and the RMI last participated in the U.S. Census in 1980, prior to their independence, there were no income data available from the U.S. Census Bureau. Instead, RHS used HUD's "Western Pacific Islands" adjusted income limits. These limits were relevant only to the population of Guam and were not an accurate measure for the much poorer populations of the FSM and the RMI. Consequently, most households in the FSM and the RMI qualified for the program. This violated the program eligibility regulations, which stated that it was to serve only those with less than 80 percent of the local median income, adjusted for household size. Both nations have conducted censuses since 1998 that contained information on household income, so such data was available.
- *Disaster Assistance*: This program was intended to help localities prepare for and respond to disasters. Although the program met its performance requirements and standards, it encountered conditions that significantly reduced potential program accomplishments and increased costs.[28] For example, because of the vast distances involved and the absence of capabilities comparable to those in the United States, the implementation of FEMA's disaster assistance programs has been costly, difficult, and labor intensive. In addition, according to FEMA documents, the cultural and social practices in the FSM and the RMI adversely affected the effectiveness of FEMA assistance. For example, contrary to FEMA's mission to foster self-reliance for disaster preparedness and response, FEMA found that providing disaster assistance to the FSM and the RMI fostered a dependency on FEMA assistance. FEMA found that people who would otherwise rebuild their

[28] FEMA maintains that it would be much more appropriate, cost-effective, and consistent with efforts toward self-sufficiency to assist the FSM and the RMI through other U.S. programs and agencies, such as the Office of U.S. Foreign Disaster Assistance in the U.S. Agency for International Development. The FSM and the RMI are independent countries and, according to FEMA officials, should be afforded the same assistance as other foreign nations. FEMA has formally notified the Department of State that it no longer finds it appropriate for FEMA to provide disaster assistance to the FSM and the RMI beyond 2003.

lives immediately after an event did nothing until FEMA money and resources arrived. Lastly, FEMA officials said that, as a domestic agency, it was not structured or intended to provide disaster assistance to foreign countries.

- *USPS*: Postal Services were intended to provide for mail and mail-related financial services between the United States and the FSM and the RMI. Although the program met its performance requirements and standards, it encountered conditions that significantly reduced potential program accomplishments and increased costs. For example, the postal service has had to contract for air transport of mail, at the cost of $2 million annually, because of limited space on the few commercial flights to the region. Because flights to the region were limited, USPS was not able to meet delivery guarantees on certain classes of mail. Moreover, despite USPS's investment in chartered flights, once the mail arrived, FSM and RMI postal services delayed delivering the mail to its citizens. Citizens from both nations said that mail was routinely 2 to 3 months late. (See figure 11.) In the RMI, mail often sat in the facilities, waiting for local postal officials to sort and place the mail in post office boxes. In the FSM, mail was delayed as it awaited clearance through customs. USPS operations in the FSM and the RMI have also proven costly. In addition to $5.9 million in costs reimbursed by Interior, USPS estimated that it has incurred an additional $30 million in extra mail transportation costs.

Figure 11: Mail Awaiting Sorting and Placement in Post Office Boxes at the Pohnpei Post Office, FSM

Source: GAO.

Four Programs Were Effective

Two of the loan programs and two of the services have been effective. These programs were (1) telecommunications loans, (2) electrical loans, (3) aviation services, and (4) weather services. These programs met their performance requirements and standards and did not encounter problems that reduced potential program benefits or substantially increased costs. These programs' success was partly attributed to their resource management approach. The two loan programs were effective in meeting

their narrow program requirements to provide loans to areas that meet the economic and social conditions that make them eligible for the loans. In addition, USDA, which managed the loan programs, provided guidance and strong oversight during the construction of the telecommunication and electrical systems, to ensure that they met U.S. building standards. For the aviation and weather services, U.S. employees or well-trained nationals managed and performed the work.

The following programs were effective:

- *Telecommunications Loans*: The Rural Utilities Service's telecommunications loans met its program goal to expand modern telecommunication facilities in remote areas by financing telephone system improvements in both nations. For example, in 1987, when USDA approved a loan to the FSM Telecommunications Corporation (FSMTC), the company had 1,300 telephone subscribers. By 1993, the telephone subscribers in the FSM had increased to 6,000. USDA ensured that both nations' telephone companies met the eligibility requirements of the program, conducted the feasibility studies necessary to determine their economic viability, had the telecommunications systems built to USDA specifications, and provided construction oversight to ensure that all specifications were met. (See figure 12.)

Figure 12: FSM Telecommunications Corporation Building Exterior, Pohnpei, FSM

Source: GAO.

- *Electrical Loans*: The Rural Utilities Service's electrical loans were intended to expand access to modern electrical systems by providing loans for electrical power facilities, and the USDA met this programmatic goal in the RMI.[29] The RMI used the loan to build new electric power facilities that have allowed large increases in electricity

[29] One FSM utility had a loan application pending with USDA as of October 2001.

available to both homes and businesses. The 1999 generating station almost doubled the RMI's electrical capacity and allowed the nation to meet its growing electricity needs. For example, the number of private electricity consumers rose by 11 percent and the number of new business users rose by 34 percent between 1997 and 1999. USDA ensured that RMI's power company met the eligibility requirements, conducted the feasibility studies necessary to determine their economic viability, had the power facilities built to U.S. specifications, and provided construction oversight to ensure that all U.S. specifications were met. (See figure 13.)

Figure 13: Rural Utilities Service Electric Loan: New Electric Power Facility, Marshalls Energy Corporation, Majuro, RMI

Source: GAO.

- *Aviation Services*: FAA effectively provided air safety services as required under the Compact. FAA provided (1) en route air traffic services, (2) flight inspections and equipment certifications, (3) assistance in developing and updating aviation procedures and standards, and (4) technical assistance to help the FSM and the RMI governments develop civil aviation safety authorities and aviation safety and certification programs. FAA was effective because of its direct management and implementation of program activities. Rather than provide funds directly to the FSM and the RMI governments for air safety, FAA provided the training, material, equipment, and facilities construction and maintenance necessary to meet FAA standards. For example, when FAA funded construction and maintenance, FAA selected the contractors to perform the work and provided oversight and contract management to ensure that the work met contract standards. (See figures 14 and 15.)

Figure 14: Aviation Services: FAA-Provided Electrical Power Generator in Honolulu, Hawaii, Headed for the FSM and the RMI

Source: GAO.

Figure 15: Aviation Services: FAA-Provided Equipment in Honolulu, Hawaii, Headed for the FSM and the RMI

Source: GAO.

- *Weather Service*: The NWS provided weather services as stipulated in the Compact. NWS provided the FSM and the RMI with the facilities, equipment, technical assistance, and resources needed to operate their weather services. To ensure that program goals were met, it maintained control of the funds provided to each government through cost reimbursement contracts. This allowed NWS to review and disallow inappropriate or unauthorized FSM or RMI expenditures. NWS officials also performed regular visits and monitored weather operations by

reviewing required reports and weather data. In addition, NWS required that local FSM and RMI officials working for the weather stations met the same educational and proficiency standards as NWS employees in the United States. For example, NWS provided assistance to local nationals for up to 5 years of training so that they could meet NWS standards for meteorologists. (See figure 16.)

Figure 16: Weather Service: Sign Showing Close Collaboration between NWS and Pohnpei Weather Service Office in Pohnpei, FSM

Source: GAO.

Three Loan Programs May Face Future Repayment Problems

The USDA operated the three loan programs for homeowners and utilities (telecommunications and electric power) discussed above. Because of FSM and RMI dependence on U.S. assistance, a reduction in this assistance could result in future repayment problems. During the first 15 years of the Compact, U.S. funding to the FSM and the RMI was decreased every 5

years, and the FSM government has estimated that the November 2000 U.S. proposal reduces real per capita income in 2017 by almost 40 percent from its 2001 levels.[30] Moreover, the United States has proposed an end to annual financial assistance to the FSM and the RMI in 2016, although the time for repaying these types of loans extends from 2017 to 2030. Administrators at all three programs were unaware that this extension could adversely impact their loan repayments. According to USDA officials, there were no requirements for the U.S. program officials to consider future reductions in U.S. economic assistance as a condition for extending authorized program assistance. Also, such considerations of future reductions in U.S. assistance would have significantly raised the price of loans to those needing assistance.

Specifically:

- *Housing Loans*: USDA did not, nor was it required to, consider the effect that a future reduction in U.S. economic assistance could have on the ability of its borrowers to repay their loans. USDA officials administered its housing loans and grants based on the applicants' eligibility for the program and their repayment ability at the time of loan closing, in accordance with the way in which the programs were administered in the United States. USDA officials said that they were not required to consider the effect that future reductions in U.S. economic assistance could have on the ability of its borrowers to repay their housing loans. Not considering the effect of such an economic downturn in nations whose entire economies could shrink dramatically put the U.S. government at risk of losing some $24.7 million in housing loans. In addition, many loans have a 33-year term, and some could have up to a 38-year term, far exceeding the time when U.S. economic assistance is scheduled to end. According to Rural Housing Service officials, if they had considered the effect of ending U.S. assistance payments, they would not have made the loans.

[30] The United States has not prepared a similar analysis regarding the effect of its funding proposal.

- *Telecommunications Loans*: Because USDA did not generally make such loans to foreign countries, it did not consider that U.S. assistance might be reduced in the future, jeopardizing loan repayments. Officials of both the FSM Telecommunications Company and the Marshall Islands National Telecommunications Authority stated that severe decreases in Compact funding could decrease their companies' revenues enough to jeopardize their ability to repay their USDA loans.[31]
- *Electrical Loans*: USDA's feasibility study did not include the possibility that Compact funds might be severely reduced over the life of the loan, resulting in a decreased demand for power as the economy contracts. Officials of the Pohnpei Utilities Company and Marshalls Energy Company stated that severe decreases in Compact funding to the island nations could decrease their companies' revenues enough to jeopardize their ability to repay their USDA loans.

Although in all three cases the FSM and the RMI governments have assumed responsibility for these secured loans if the borrowers were unable to pay, the dependence of the governments on U.S. funds may put such repayment at risk. According to an FSM analysis, under the November 2000 U.S. assistance proposal, which would decrease assistance levels, "The economy would be caught in a vicious circle of low growth, compounded by a series of shocks, requiring downward adjustment, loss of real incomes, unemployment, and outward migration."[32] In addition, USDA administrators had not adequately considered how their programs could be terminated if U.S. program assistance were to end in 2016.

[31] After USDA approval of the telecommunications loans, the Federal Communications Commission issued an order, effective January 1, 1998, to reduce the settlement rates paid by U.S. telecommunications companies to foreign companies for international calls originating in and terminating outside the United States. According to the order, these benchmark rates were necessary because, under the current system, the settlement rates U.S. carriers paid foreign carriers to terminate U.S.-originated traffic were in most cases substantially above the costs that foreign carriers incur to terminate that traffic. FSMTC and MINTA both protested that this action would seriously damage their revenues, cutting their income substantially and endangering the companies' ability to repay their loans to the U.S. government. Both companies relied on incoming long distance telephone calls for a significant portion of their revenue.

[32] "The U.S. Compact Counter Proposal," Economic Management Policy Advisory Team of the Federated States of Micronesia (Feb. 8, 2001).

Most Programs Have Accountability Problems

We found that the FSM and the RMI's administration of most of the 13 programs we reviewed did not ensure accountability. The accountability of these 13 programs varied, from being adequate to having a significant loss of financial control, based on our review of audit and financial reports; discussions with U.S., FSM, and RMI program managers; and our evaluation of whether each program's reporting requirements were met. Nine of the programs had poor accountability, and five of the nine had instances of theft, fraud, or misuse of federal funds. Four had adequate accountability, in large measure because program funds were controlled from the United States and little direct funding was provided to each nation.

FSM and RMI Officials Provided Inadequate Accountability for Nine Programs

We found that nine programs in the FSM or the RMI had not met program accountability standards. These problems were documented in annual audit reports required under the Single Audit Act of 1984 (P.L. 99-502) for federal programs, technical reviews conducted by U.S. executive branch departments, and discussions with program managers. Each program had different accountability requirements.

The following programs had instances of theft, fraud, mismanagement, inadequate accountability, or poor recordkeeping:

- The Pohnpei Head Start Program fired its entire accounting department in 1999 for stealing program funds. A 1999 audit report identified $341,000 that was unaccounted for and found significant mismanagement, fraud, and loss of control over finances.[33] In response to our questions about the report, Pohnpei program officials told us that the accounting department officials admitted to stealing about $11,500. They said that the head of the accounting department was forging checks and changing receipts in an attempt to cover up the theft, while her two assistants were stealing money donated by parents of children in the Head Start program. A 2000 review of the program in the RMI found that key management staff did not clearly understand the program's 1997 performance requirements or their responsibilities. The

[33] HHS, in commenting on this report, said that the Pohnpei program subsequently provided appropriate documentation for the $341,000 in questioned costs. However, neither HHS nor FSM officials indicated during the audit that the Pohnpei program subsequently provided appropriate documentation for the questioned costs. As a result, we were not able to independently verify HHS's statement or review the supporting documentation.

review also found that key management staff lacked training in basic financial requirements. Although U.S. program officials said that they provided training in response to these problems, RMI officials told us that this training was not sufficient for them to understand how to comply with the requirements.

- For the Special Education Programs for Pacific Island Entities, both the FSM and the RMI failed to comply, according to audit documents, with requirements for (1) awarding contracts competitively, (2) financial reporting, and (3) reporting on property purchased with federal money.
- Under the Freely Associated States Educational Grant program in the RMI, both the Minister of Education and a staff person used program funds intended for teacher training to travel to Paris for more than 3 weeks for a 1999 United Nations Educational, Scientific, and Cultural Organization meeting.
- Although the Pell Grants program in the FSM has had problems complying with the program's accountability requirements since the early 1980s, improvements have resulted in the college's meeting its accountability requirements for the past several years. For example, the 1997 audit questioned $359,000 in costs from audits performed in 1995, 1996, and 1997. Furthermore, in 1995 the college discovered a "double drawdown" of program funds of $1.2 million and alerted the U.S. Department of Education. An audit the following year reported that the College of Micronesia had an outstanding liability to the U.S. Department of Education for $1.2 million. In response, the Department of Education placed the college under a provisional certification and conducted a technical assistance review in 1999. The review concluded that the colleges in both the FSM and the RMI lacked sufficient knowledge to administer the federal program adequately, and the Department of Education subsequently provided the necessary training. According to the FSM college president and its chief financial officer, the school has since instituted the improvements necessary to meet program requirements. The school received its first unqualified opinion in its 1999 audit, 12 years after the Compact went into effect. According to FSM officials, the college also received an unqualified opinion from its auditors in 2000.
- The JTPA programs in the FSM and the RMI were exempt from having to meet the standardized reporting systems used by the U.S. Department of Labor to verify program performance. Department of Labor managers exempted the FSM and the RMI because they lacked the necessary data collection capabilities. Furthermore, U.S. program managers said that they generally ignored the performance data submitted by the two

nations because it was considered unreliable. As a result, the Department of Labor cannot verify program performance.

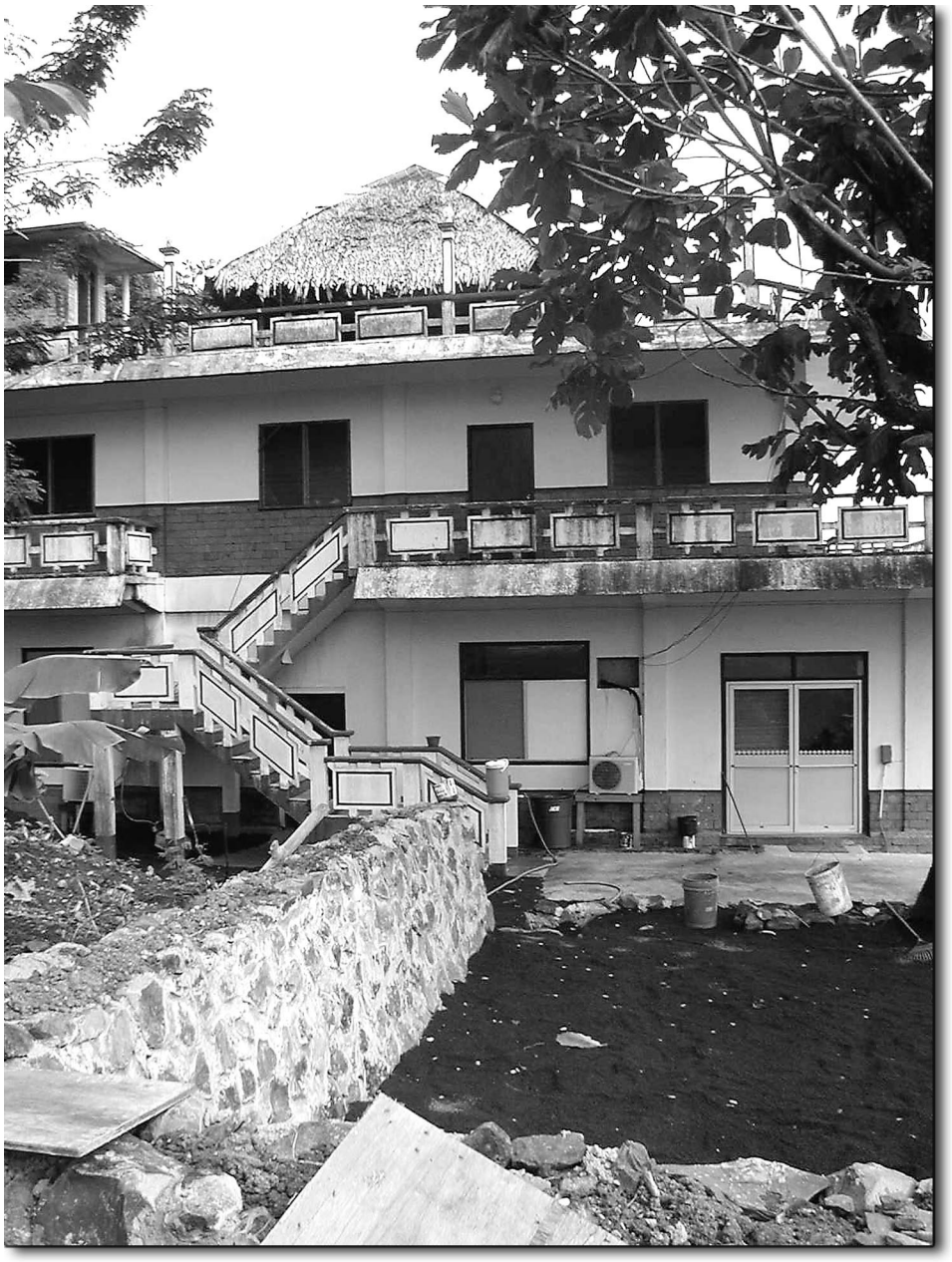
- Officials in the MCH program in the FSM state of Kosrae were not aware of any HHS reporting requirements and had not submitted any progress or financial reports to the FSM government for at least 2 years, according to the Kosrae MCH director. In addition, they lacked any supporting documentation on how program funds were spent. The FSM assistant director for public health confirmed this information and said that the government simply "guessed" at Kosrae's financial and performance data when submitting its annual report to HHS.[34]
- The Rural Housing Service in the FSM state of Pohnpei made housing loans to the FSM president and others that violated program regulations. The service also mismanaged more than $100,000 of local funds. The loan program was intended to provide loans to the economically disadvantaged. However, according to audit reports and rural housing officials, the local program manager provided 12 unauthorized loans that violated program regulations. These included loans to the FSM president, the head of the Rural Housing Services trustee agency, and others, which, among other problems, violated the program's requirement that homes built with program funds be considered modest for the area. The president's home exceeded this standard. In addition, the reports documented other violations of program regulations, including (1) a loan to the FSM president that exceeded USDA limits, (2) loans for income-generating buildings, (3) another loan for a "nonmodest" home, and (4) numerous other weaknesses in internal controls. (See figures 17 and 18.)

[34] HHS officials, who were not aware of this situation, said that such fabrication could be considered "criminal wrongdoing," if true. They noted that under MCH guidelines, estimates were acceptable, and that all such estimates should be explained in a footnote. However, based on a review of the FSM's 2000 Annual Report, none of the reported performance data from Kosrae were footnoted.

Figure 17: Rural Housing Loans: Home of the FSM President, Financed with Two RHS loans; Typical RHS Loan-Financed Homes, Pohnpei, FSM

Source: GAO.

Figure 18: Rural Housing Loan: Home of Former Pohnpei State Housing Authority Director, Financed with an RHS Loan, Pohnpei, FSM



Source: GAO.

- FEMA experienced fraud and mismanagement in the FSM and the RMI. In the FSM, for example, FEMA reported that some citizens bought new pickup trucks and other items not authorized by the home repair assistance. FSM officials said that they lacked the staff and expertise needed to audit and pursue most of these cases. In the RMI, FEMA provided the national government almost $70,000 to replace flood-damaged hospital facilities, supplies, and equipment on the island of Ebeye. However, the RMI government never released the money to the hospital. FEMA has spent 3 years attempting to rectify this problem. According to FEMA officials, the incidence of fraud and mismanagement were no more prevalent in the FSM and the RMI than in the United States. However, FEMA could not take routine legal action to recoup fraudulent or mismanaged funds, such as garnishment of wages, since the FSM and the RMI are sovereign nations.
- The USPS, which provided the FSM and the RMI with money orders and other financial services, reported theft and misuse of funds and had difficulty collecting owed funds from the FSM and the RMI postal systems. The FSM and the RMI have fired several staff for money order theft and misuse of funds, and both continue to experience theft and financial irregularities with money order and other cash transactions. In the largest known case, a postal worker stole $7,000 in funds. Although the USPS had difficulty collecting owed funds from the FSM and the RMI postal systems, both nations ultimately transferred appropriate funds to USPS. In one FSM case, a special legislative appropriation enabled stolen and misappropriated funds to be repaid to USPS, although the payment was late. (See figure 19.)

Figure 19: Postal Services: Open Safe Reflects Lax Security, Pohnpei, FSM

Source: GAO.

Program managers and staff often received little or no training in either accounting principles or program requirements, causing many of the accountability problems. For example, the Head Start program manager in Kosrae was not aware of Head Start performance or reporting requirements because he had never been trained. Also, the MCH program implementers in Kosrae had never received training on program performance goals and lacked the staff to meet reporting requirements.[35] In some cases, training was provided to the wrong officials. For example, in the RMI, a manager received training in how to meet MCH financial

[35] During our visit to Kosrae, the director of health services told us that the MCH/Kosrae office had been unable to obtain the nation's MCH goals. When we provided him with a copy of the MCH goals, the director told the FSM assistant secretary for health, "Now we have our goals!"

requirements, even though the Ministry of Finance, not the MCH office, controlled and reported on funding.

FSM and RMI program managers for the education, job training, and health programs reported that they had difficulty in meeting federal accountability requirements. They said that their program staff needed extensive on-island training in how to comply with federal reporting requirements. Off-island training was not effective, the managers said, because (1) only one or two members of their staff could attend training; (2) the training was often too fast-paced for them to understand, or it involved technology not available in the FSM or the RMI; and (3) they lacked the skills and proficiency to transfer the training to their staff upon return. Moreover, the program managers said that on-island training for the entire staff was necessary to reduce the number of accountability problems commonly found in the federal programs.

Adequate Accountability Existed for Four Programs

There was adequate accountability for the telecommunications and electric power loans and the aviation and weather services. U.S. personnel managed these programs, controlled program accounting from the United States, or simply required the FSM and the RMI to meet loan repayment schedules. The following examples illustrate how the four programs provided adequate accountability:

- *Telecommunications Loans*: When applying for loans to build new telecommunications facilities, USDA required both the FSM and the RMI telecommunications companies to meet a variety of USDA requirements. These requirements included conducting financial and engineering feasibility studies during the loan application process. These feasibility studies showed the projects to be viable. USDA ensured that the companies complied with their required safeguards, including regular inspection visits from Rural Utilities Service officials during construction. Once construction was completed, RUS officials continued to make periodic loan-servicing visits to review operations, maintenance practices, and procedures for problems that could impair the companies' ability to repay their federal loans. The RUS also required companies to submit annual financial and statistical reports, as well as financial statements to be reviewed in Washington, D.C., for indicators of financial downturns, improprieties, or management concerns.
- *Electrical loans*: Before loans were extended to build new power generation facilities, USDA required both local power companies to

meet engineering and financial feasibility study requirements. These feasibility studies showed the projects to be both necessary and financially viable. The Marshalls Energy Company complied with required safeguards, such as building to U.S. standards. The company withdrew only the loan money actually needed for its facility and sent annual audited financial statements to USDA in Washington, D.C. The FSM's Pohnpei Utilities Company has not yet received money for its proposed power generation facilities but has undertaken the same process.

- *Aviation Services*: The FAA assisted the FSM and the RMI with aviation services by providing materiel and equipment. FAA services included testing, inspection, and maintenance of equipment. In addition, facilities construction was performed either under direct FAA oversight or by contractors hired by FAA. Under this arrangement, FAA exercised significant control and accountability over the assistance and thereby the funding to the FSM and the RMI.
- *Weather Services*: The NWS provided assistance to the FSM and the RMI through cost-reimbursable contracts. Expenditures made by the FSM and the RMI were submitted to the NWS for approval. If the expenditures (for example, to pay for salaries, materiel, and equipment) were appropriate, then the weather service authorized reimbursement of expended funds. A review of FSM and RMI records showed cases in which the NWS requested additional justification for expenditures and disallowed inappropriate ones.

These programs share the common characteristics of having a narrow mission and being run directly by the U.S. agencies. The four programs achieved accountability largely because each agency controlled program funds from the United States, and little direct funding was provided to either nation.

Federal Administration Has Not Ensured Financial Accountability

We found that the level of U.S. federal oversight over programs in the FSM and the RMI varied from adequate to almost nonexistent. Sources such as audits, financial reports, monitoring reports, and U.S., FSM, and RMI program managers documented this lack of accountability. Neither the Department of the Interior, which was charged with monitoring and coordinating the individual federal programs, nor the State Department, whose ambassadors were responsible for the direction and coordination of U.S. agency officials in foreign countries, fulfilled these responsibilities, because federal program managers often bypassed both departments to work directly with FSM and RMI program managers. Each federal

department was responsible for ensuring program compliance and accountability. Most federal departments could not ensure accountability, and oversight was generally neglected because of the cost, distance, and time involved. In addition to communications difficulties and distance barriers, the small size of the programs in the nations, compared with the programs' size in large U.S. states, contributed to poor oversight.

Interior Did Not Provide Effective Monitoring or Coordination

The legislation and executive order implementing the Compact designated Interior to coordinate and monitor program assistance to the FSM and the RMI. However, the department has neither monitored nor coordinated the program assistance. In 1987, the Secretary of the Interior determined that the most effective method to provide programs to the FSM and the RMI was to allow the other agencies to create a direct grant relationship with the Pacific Island governments. In addition, Interior officials reported that they were not given sufficient authority or resources to coordinate and monitor the activities of the departments providing program assistance. Instead, Interior's principal role has been to provide supplemental technical assistance and respond to assistance issues identified by federal agencies or the FSM and the RMI. In a previous review, we found that the Department of the Interior had not maintained reliable data on the amount of assistance provided to each country, and that there were inconsistencies between Interior's data and that of other agencies.[36]

According to Interior officials, Interior did not meet its legislative requirement to place three monitors in the region for the federal programs because no funding was provided for the positions. The Palau Compact of Free Association Implementation Act, Public Law 101-219, states that the Secretary of the Interior shall station representatives in the FSM, the RMI, and Palau in order to provide federal program coordination and technical assistance to each government. However, Interior did not fill any of these positions until 1997, 11 years after the Compact went into effect and 8 years after the public law was enacted. As of 2001, Interior had never stationed representatives in all three nations but instead relied on one representative to cover the numerous programs funded by the 19 agencies with program locations thousands of miles apart. Interior officials said that no funding was provided for these positions and that it was able to finance the one position only when funding was supplied in 1997. Disputes between the

[36] See *Foreign Relations: Better Accountability Needed over U.S. Assistance to Micronesia and the Marshall Islands* (GAO/RCED-00-67, May 31, 2000).

Departments of the Interior and State concerning Interior staff selected to work in the RMI contributed to the lack of Interior staff for the RMI.

In addition, other limitations negated the Interior representative's ability to affect the management of federal programs. For example,

- the Interior representative had no authority to modify or suspend mismanaged programs operated by other executive departments;
- although the Interior official in the field sent weekly reports to Interior headquarters, the Interior representative made few if any recommendations to improve program coordination, and no program improvements were implemented for any program under review; and,
- U.S. departments often do not alert or coordinate with the Interior representative on proposed or continuing programs, thereby reducing the ability of the Interior to provide even informal coordination.

The number of programs and the vast distances between islands also precluded effective monitoring by a single U.S. official. Department of the Interior officials in Washington, D.C., as well as the Interior representative and the U.S. ambassador to the RMI, all agreed that one person was insufficient to monitor federal programs in the region. For example, the Interior representative was not aware of problems identified in our review, such as the firing of the Head Start/FSM accounting staff or the fraudulent activities of FSM postal employees. In his 1997 report to Interior, the Interior representative stated that grants should be strictly controlled and closely monitored, with full-time, on-site monitoring and administration by the U.S. government. This recommendation was never implemented.

Interior officials said that the United States used to actively coordinate and monitor federal grants. Prior to the Compact, before the FSM and the RMI gained political independence, a large U.S. staff located in the region managed federal programs. For example, in 1985, the year before the Compact was signed, 31 U.S. officials provided management, coordination, oversight, and reporting for U.S. programs to the region. In addition, these officials could modify or suspend programs for poor performance. Once the Compact was signed, the FSM and the RMI began direct grant relations with each federal department, and the regional U.S. staff disbanded. Now Interior has only one official in the region, trying to help coordinate and monitor programs formerly managed by 31 staff members.

State Could Not Fulfill Program Coordination Role

The State Department, whose chief of mission was responsible for direction and coordination of U.S. agency officials in foreign countries, could not meet its responsibility because the U.S. program managers often bypassed the State Department and U.S. embassies. The Foreign Service Act of 1980 (P.L. 96-465) states that the Department of State Chief of Mission was responsible for the direction and coordination of all U.S. government employees in the country.[37] Further, presidential instructions to U.S. Chiefs of Mission charge them with the direction, coordination, and supervision of all executive branch offices and personnel in their nation. However, both the former ambassador to the FSM and the current ambassador to the RMI said that most U.S. departments ignored this requirement and bypassed State because of their long-standing relationships with FSM and RMI ministries.[38] As a result, the Department of State, through its embassy, could not direct, coordinate, or supervise employees of other federal agencies in either the FSM or the RMI.

Federal Departments Generally Provide Inadequate Oversight

We found that most federal departments have not provided adequate oversight of their programs in the FSM and the RMI. While weather and federal aviation services' accountability requirements included independent verification of work performed by others, as well as tests, inspections, and frequent visits to the islands to ensure that services were meeting U.S. standards, most programs provided far less oversight. Of the educational, job training, and health programs, only Head Start and the special education program required on-island assessments. The job training and MCH programs simply reviewed information submitted by each nation, and U.S. program managers said that this information was too unreliable to determine program effectiveness. We found that many program managers knew little about the programs, as illustrated by the following examples:

- The SEPPIE program manager reported that she had never conducted a program assessment in the region, could not discuss the FSM or the RMI's program objectives or accomplishments, and had no idea whether

[37] This does not apply to employees under the command of a U.S. area military commander.

[38] In commenting on this draft, USDA officials said that they were not aware of this requirement and did not coordinate with State; in addition, the National Weather Service indicated that its policy is to coordinate with embassies, and their staff members always obtain country clearances prior to visits.

the programs were operating as intended. Moreover, the manager was not aware that any on-island assessments were conducted, even though this was the only program in our review that conducted on-island assessments annually. Instead, the program manager relied on information collected from annual meetings in Washington, D.C. with representatives from the FSM and the RMI, and on semiannual reports, to monitor this program.

- MCH program managers said that they had to rely on the FSM and the RMI's annual reports to determine program effectiveness because they were the only data available, even though the program managers recognized that the reports lacked the reliability necessary to determine program effectiveness.
- The JTPA programs in the FSM and the RMI were exempted from having to meet the program's national standardized reporting systems, which the U.S. Department of Labor used to verify program performance in the United States. Department of Labor managers exempted these nations because they lacked the necessary data collection capabilities and the accuracy of the FSM and the RMI data was suspect. Labor officials said that they lacked the travel funds necessary to verify FSM or RMI reporting. The FSM and the RMI provided their program information to a Department of Labor regional office, where the data could be reviewed but not verified by program managers. The program managers said that they generally ignored all performance data that the two nations submitted because the data were unreliable and because the FSM and the RMI programs were considered a low priority as compared with the larger programs in the United States.

Most program managers attributed the lack of oversight to the cost and time needed to visit the FSM and the RMI--the islands are about 5,000 miles from the United States-- as well as to the small size of the programs relative to programs located in states like California and New York. For example, according to representatives from the Departments of Labor and of Education, lack of travel funds severely limited trips needed to provide oversight and reduced their ability to ensure program effectiveness.

Federal Managers Concerned about Lack of Impact and Accountability of U.S. Programs in the Pacific

Federal program managers with programs in the FSM and the RMI were concerned about the lack of impact, accountability, and training provided to the region. On this subject, the Federal Regional Council, a consortium of 20 federal departments and agencies based in San Francisco, including program managers for Head Start, the Job Training Partnership Act, and Maternal and Child Health in the Pacific area, released a March 2000 report,

Grants to the Outer Pacific. The report stated that all council members were concerned about the quality of results achieved with federal funds, accountability levels, and problems related to training. They found that fragmented services, inadequate systems of data collection, and inconsistent attention and follow-up attributable to limited time and travel budgets had all contributed to the sense that the federal government was simply "throwing money at problems," with little effect.

The council reported that limited travel budgets, time, and technical assistance resources made it difficult for federal agencies to monitor programs and provide the consistent training necessary to improve program performance. It also noted that problems and solutions could not be identified from the United States. Council members reported that on-site reviews were necessary to disclose causes of program problems and provide the best solutions necessary for successful program performance. They also found that an on-site federal presence and follow-through were important to implement corrective action and coordinate federal programs for maximum effect. They concluded that it was essential that an on-site representative be appointed with a mandate to improve the effectiveness of federal programs. The report also recommended that a working relationship be established between the federal program managers and the Department of the Interior to better use federal programs to support monitoring, coordination, and training.

Conclusions

After 15 years of U.S. program assistance, this is an appropriate time to reassess the basis and conditions of the provision of U.S. domestic programs to the FSM and the RMI. Three considerations appear particularly important in this assessment.

First, we found that many of these programs suffered from weaknesses in effectiveness and accountability, many of which were attributable to the difficulties associated with delivering programs designed for the United States to small island nations. For example, we found local administrative capabilities that were not able to meet the complex requirements of many federal programs, and U.S. administrative capabilities that were not designed to implement U.S. programs in foreign countries. These are likely to be difficult problems to address. Some of the problems are a consequence of distance, which is immutable, and the state of the islands' economic development, which is unlikely to improve in the near future.

Second, the U.S. programs provided several fundamental government services in the FSM and the RMI. The provision of power, telecommunications, aviation, and postal services are critical for island economic development. Because of their importance, these services may well be government priorities if U.S. program support were to end. Other programs, such as Head Start, special education, and Pell Grants, primarily assisted individuals. Program administrators believed that these programs, while also important for economic development, would not be funded if the United States were to end its support.

Finally, although the U.S. negotiating strategy calls for annual assistance to end after another term of assistance, the United States has made no such determination for the program assistance. We believe that the United States should establish a policy regarding the duration of ongoing program assistance during the current negotiations. If the United States were to end the program assistance for U.S. domestic programs when annual assistance ends, this would involve transferring the responsibility for financing and providing these services to the FSM and the RMI. Transferring these responsibilities to the FSM and the RMI will require U.S. agencies to emphasize the development of local capabilities. Without advance planning for an "exit" for the program assistance, it is unlikely that a new round of U.S. assistance would advance the ability of either nation to provide these services at the end of the term of new economic assistance.

As a result, the decisions that must be made are how to improve the performance and accountability of the programs and whether, and for how long, these programs should be provided to the two nations. We believe that these decisions should also be made in a way that is consistent with the U.S. strategy to end annual assistance at a set time.

Recommendation for Executive Action

In order to assist congressional consideration of continued U.S. program operations in conjunction with its consideration of new economic assistance to the FSM and the RMI, we recommend that the Departments of the Interior and State, in consultation with the relevant government agencies and the Federal Regional Council, jointly report to the Congress on (1) whether individual programs should be continued and for how long, with an exit strategy developed for any concluding program; (2) how local capabilities can be enhanced in order that the FSM and the RMI can provide the services; (3) how programs can be redesigned to work more effectively and efficiently, including the use of alternative mechanisms (such as grant consolidation, trust funds, foundations, or nonprofit

organizations) to deliver the assistance; (4) how program coordination and accountability can be improved; (5) what government authority and resources are required to monitor and coordinate U.S. programs, grants, loans, and services; and (6) what the future roles and responsibilities of the Departments of the Interior and State should be in monitoring and coordinating U.S. programs, grants, loans, and services.

Agency Comments

We provided a draft of this report to the Departments of the Interior, State, Agriculture, Commerce, Education, Health and Human Services, Labor, and Transportation, as well as to the Federal Emergency Management Agency, the National Weather Service, the U.S. Postal Service, and the governments of the FSM and the RMI. The Departments of Agriculture, Commerce, Education, Labor, and Transportation, as well as the Federal Emergency Management Agency, and the U.S. Postal Service chose not to provide formal comments on the draft report. However, we incorporated their informal comments into the report as appropriate.

The Department of the Interior generally agreed with the draft's findings, conclusions, and recommendations. The Department of State generally agreed with our draft findings and recommendation but raised concerns about the department's lack of technical expertise and resources to conduct the comprehensive assessment we recommended. State also recommended that no new programs be authorized without assessments to determine whether the programs could be implemented effectively in the region. The department also requested changes to improve the balance and accuracy of the draft. In our response to State's comments, we agreed that State lacks the necessary resources and expertise and emphasized that State should use the resources and expertise of Interior and the other departments to implement our recommendation. The Department of Health and Human Services generally agreed with our draft report, stating that the Federal Regional Council's Outer Pacific Committee had expressed similar concerns about the lack of impact, accountability, and technical assistance to the two nations. In our response to HHS's comments, we incorporated their requested changes as appropriate.

The FSM government also generally agreed with our findings, noting that performance and accountability problems could be expected in adapting programs designed for the United States to culturally different, undeveloped regions in the middle of the Pacific Ocean. However, the FSM government provided a number of specific suggestions to improve the format, balance, and accuracy of the draft. While the RMI government

agreed that there were effectiveness and accountability problems in the programs, the RMI emphasized the need for these programs. The RMI's comments also stated that the Department of the Interior, not the State Department, should manage the federal programs. In response, we noted that neither the draft nor the final report recommended that State be given management responsibility for the federal programs. The government also requested that additional information be added to six of the programs under review. We made a number of clarifications and additions in response to FSM and RMI comments.

We are sending copies of this report to interested congressional committees and to the secretaries of the Departments of the Interior, State, Agriculture, Commerce, Education, Health and Human Services, and Labor, as well as to the administrator of the Federal Emergency Management Agency, the Postmaster General, and the presidents of the Federated States of Micronesia and the Republic of the Marshall Islands. We will also make copies available to other interested parties on request.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4128. Another GAO contact and staff acknowledgments are listed in appendix VIII.

Loren Yager
Director,
International Affairs and Trade

Objectives, Scope, and Methodology

At the request of the Chairman of the House Committee on Resources; the Ranking Minority Member of the House Committee on International Relations; the Chairman of the House Committee on International Relations, Subcommittee on East Asia and the Pacific; and Congressman Doug Bereuter, we (1) assessed the use and effectiveness of key U.S. programs, loans, and services provided to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI); (2) evaluated whether the administration of these programs by each nation ensures financial accountability; and (3) evaluated whether the oversight of these programs by the U.S. government ensures financial accountability. To gather information for our analysis, we interviewed more than 100 key officials in the Departments of the Interior, State, Education, Health and Human Services, Labor, and Agriculture; in the Federal Aviation Administration, the National Weather Service (NWS), the Federal Emergency Management Agency (FEMA), and the U.S. Postal Service (USPS); and in the governments of the FSM and the RMI that were involved with the provision of U.S. assistance to the two nations between 1987 and 2000.

To assess the use and effectiveness of key U.S. programs and services provided to both nations, we reviewed the Compact of Free Association, legislation, regulations, and procedures to determine what the programs were intended to accomplish and the performance requirements used to assess whether programs were being effectively implemented.[39] To determine whether the programs were effectively implemented and performance requirements were met, we reviewed monitoring reports, program assessments, site visit reports, and progress reports. To ensure that we had a full understanding of the programs' intent and to determine whether the programs were effective, we conducted detailed interviews with program managers in Washington, D.C., San Francisco, and Honolulu; in the two Federated States of Micronesia—Pohnpei and Kosrae; and in Majuro, in the Republic of the Marshall Islands. In addition, we visited clinics, schools, post offices, weather stations, and other facilities to determine the use of the assistance, and we spoke with the intended beneficiaries of the assistance to obtain an independent assessment of its uses. To ensure accuracy, we shared our program summaries with program managers in the United States, the FSM, and the RMI, and we incorporated their comments into the final draft.

[39] See appendix 2, Purpose and legislation section, for the specific program legislation we reviewed.

To assess whether the administration of these programs, by each nation as well as by the U.S. government, ensured financial accountability, we determined the accountability requirements for each by reviewing legislation, regulations, and procedures.[40] To determine whether the programs were meeting their accountability requirements, we reviewed audit reports, financial reports, monitoring reports, and site visit reports. To ensure that we had a full understanding of the programs' accountability requirements and whether they were met, we conducted detailed interviews with program managers in Washington, D.C., San Francisco, and Honolulu; in the two Federated States of Micronesia—Pohnpei and Kosrae; and in Majuro, in the Republic of the Marshall Islands. In both nations, we conducted detailed interviews with the accounting departments of each program, reviewed findings of audit reports with them to obtain their views, and reviewed financial and audit reports for the past 5 years. We also conducted a detailed review of the past 14 years of audit reports from the four Federated States of Micronesia and the Republic of the Marshall Islands to identify historical trends in accountability problems for the region. To ensure accuracy, we shared our program summaries with program managers in the United States, the FSM, and the RMI, and we incorporated their comments into the final draft.

We performed our work from August 2000 through December 2001, in accordance with generally accepted government auditing standards.

[40] See appendix 2, Purpose and legislation section, for the specific program legislation we reviewed.

GAO Assessment of 13 Programs in the Federated States of Micronesia and the Republic of the Marshall Islands

The following provides our evaluation of the13 grant, loan, and service programs to the Federated States of Micronesia and the Republic of the Marshall Islands that we reviewed. Each table covers one grant, loan, or service and includes information on its intent, its performance and accountability standards, our assessment of whether the programs met their performance and accountability standards, and our assessment of any problems related to implementing programs in the two foreign countries.

Table 2: The Head Start Program

Purpose and legislation	The Head Start program of the Department of Health and Human Services (HHS) was intended to promote school readiness by enhancing the social and cognitive development of low-income children through the provision of health, educational, nutritional, and other services to children and their families. The Head Start Act (P.L. 97-35) authorized FSM and RMI participation.	
Requirements	**Performance:** Head Start had numerous results-based performance standards to measure the quality and effectiveness of programs operated by Head Start agencies and the effect of services provided through the programs to children and their families. HHS required full on-site reviews at least every 3 years to determine compliance with program, administrative, financial management, and other requirements.	
	Accountability: Quarterly financial reports and annual Program Information Reports were required. Audits were to be conducted annually to determine compliance with program standards and financial requirements.	
	U.S./FSM	U.S./RMI
Assessment of Performance	Head Start's overall effectiveness could not be determined because the program lacked impact data to evaluate its effect on school readiness and cognitive development. (GAO assessments of Head Start programs in the United States have concluded that, because of research limitations, program effectiveness could not be determined.) In addition, the program was not able to meet all its performance requirements and standards in the FSM and the RMI.	
	The program was not able to meet all its performance requirements and standards. HHS found the FSM to be in general compliance with most performance standards, despite identifying numerous problems. Problems included lack of on-island medical capabilities, inadequate space, and unsafe playgrounds. A 1999 review summarized the program's "paramount challenges of inadequate funds, limited or unavailable resources, and small windows of opportunity for economic growth."	The program was not able to meet all its performance requirements and standards. HHS assessments found the RMI to be in general compliance with most of its performance standards, but HHS reviews found numerous instances of standards not being met. The 1998 site visit found that no observations or assessments of children's progress were being done, and the Program Information Report was not accurate. A 2000 site visit found that management did not understand the 1997 performance standards or their responsibilities. HHS officials said they provided training later that year, although RMI officials said that the training received from HHS was helpful but not adequate to meet all program needs. RMI officials stated the program was effective, despite numerous constraints.
Assessment of accountability	Despite its efforts, HHS was unable to ensure adequate accountability over the FSM and the RMI programs. HHS used site visits and audit reports to identify problems and responded with training and technical assistance. However, the training did not result in full compliance with Head Start accountability requirements. After a 1999 audit identified theft and mismanagement in Pohnpei, HHS took corrective measures.	

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	The Pohnpei Head Start program had significant accountability problems. The entire accounting division was fired for theft in 1999. Nor was the FSM able to provide any financial or progress reports for the past 5 years. In 1999, HHS found the program substantially out of compliance in recordkeeping.	A 1998 HHS visit found financial management only marginally in compliance and identified a number of management weaknesses, including noncompliance with standards to maintain budgetary control, to provide cost data on a timely basis, and to conduct inventories of Head Start properties.
Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments. HHS reported that the FSM had difficulty meeting Head Start's performance standards because they were not designed for small island economies. Examples included unmet playground and space standards attributable to limited land, and unmet standards for mental, hearing, and dental health, because the FSM lacked the necessary medical facilities and expertise. In addition, FSM Head Start officials were concerned that Head Start accomplishments could be lost once children entered the resource-poor elementary school system. According to the FSM National Division of Education, 10th-grade students barely achieved the expected 2nd-grade score of U.S. students in the English language.	The program encountered conditions that significantly reduced potential program accomplishments. HHS reported that the RMI had difficulty meeting Head Start's performance standards because they were not designed for small island economies. Examples included unmet health and dental requirements attributable to limited medical staff; unmet partnerships requirements because few private sector companies existed for partnering; and unmet environmental requirements because of high air conditioning costs. In addition, officials were concerned that Head Start accomplishments could be lost once children entered the resource-poor school system. For example, according to a 2001 RMI Ministry of Education study, students leave the 8th grade with "barely a 2nd -or 3rd-grade level in English reading ability, and many were unable to read even in their own language."

[a]See Head Start: Research Insufficient to Assess Program Impact (GAO/T-HEHS-98-126, Mar. 26, 1998).

Source: GAO.

Table 3: The Special Education Program for Pacific Island Entities (SEPPIE)

Purpose and legislation	SEPPIE was a competitive, direct grant program provided by the U.S. Department of Education to supply special education and related services to children with disabilities as authorized under the Individuals with Disabilities Education Act, as amended (P.L. 91-230). The act made children with disabilities aged 3 through 21 eligible for special education.	
Requirements	**Performance:** The FSM and the RMI were required to provide information demonstrating that they will meet all conditions that apply to states under the Individuals with Disabilities Education Act. These special education grants were awarded on the basis of a competition among the eligible islands with the requirements that the funds be used to provide special education and related services to children with disabilities and to enhance the capacity of the FSM and the RMI to make available to these children free, appropriate public education. Performance goals of the grants that fulfill the performance requirements were explained in the grant applications by the special education departments of the FSM and the RMI. Each identified child with a disability was to receive specially designed instruction, at no cost to the parents, to meet the unique needs of that child. An annual report on grant performance was required for continued funding.	
	Accountability: SEPPIE recipients were required to meet all conditions that applied to U.S. states and to use funds only to provide special education and related services directly to children with disabilities and to enhance capacity to make a free, appropriate public education available to all children with disabilities. The program was subject to the 1984 Single Audit Act.	
	U.S./FSM	U.S./RMI
Assessment of performance	SEPPIE fulfilled its performance requirements. Each country's programs supported the Individuals with Disabilities Education Act's requirements. This included (1) providing direct special education and related services, such as physical and speech therapists, for eligible children with disabilities; and (2) building the capacity to provide improved special education in the future, for example by providing teacher training and training for the various therapists in these programs, and (3) improving facilities. The students, GAO saw, seemed to be receiving the level of education the law requires. Teachers received training. Related service assistants visited homes. Special education classrooms existed that were better equipped than regular classrooms. However, progress toward achieving those goals was slow, because both school systems were ineffective. Teachers and administrators seemed to want to improve the systems. Both special education programs had increasing parental involvement as a specific goal. Both countries had active organizations for parents of children with disabilities. This was a step toward increasing oversight of the programs.	
	About 6 percent of the total student body was identified for special education. The FSM Special Education (SpEd) Program performed its own annual internal evaluation of individual state programs. Teams made up of the FSM SpEd Director, another FSM state's SpEd Director, a consultant from San Diego State University, a professor from the College of Micronesia, and parents visited a state program, reviewed progress toward its performance goals, assessed problems, and listened to parents.	About 4 percent of the total student body was identified for special education. Of the 24 inhabited atolls, 23 were staffed to provide special education services. In 1999-2000, the RMI Ministry of Education monitored 37 schools on 10 atolls through personal visits. Between October 2000 and March 2001, 6 additional schools on 3 atolls were monitored.
Assessment of accountability	During the annual audits of U.S. programs in the islands, both countries' programs were found to have problems complying with federal regulations. These included problems (1) procuring materials and services competitively, (2) documenting the purposes and costs for expenditures, and (3) not fulfilling requirements for reporting the program's financial status or the status of property purchased with federal money.	

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Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments. The U.S. Department of Education provided no direct oversight. The Washington, D.C., program officer had never visited these nations and had limited knowledge of the program. No other Department of Education Special Education program officials had visited these island nations since 1992. Direct U.S. Department of Education oversight was a missing element in the FSM and the RMI special education programs, which were funded almost entirely by the United States, placing a greater responsibility on the department than it had in the United States.. This responsibility was greater because, although the Department of Education does not conduct any direct oversight of U.S. local special education programs, a variety of other organizations and government agencies provide oversight of the local school systems and their performance. No comparable system of oversight existed in the FSM and the RMI. That left the SEPPIE funds to be overseen by no one but the FSM and the RMI school systems. In the United States, federal funds supplement local and state funds. However, in the FSM and the RMI, U.S. funds accounted for the great majority of the school systems' budgets. SEPPIE dollars funded virtually the entire special education program. In the FSM, the states contributed some money for teachers from Compact funds. Both nations' school systems were staffed by underqualified teachers: for example, in the RMI, about 68 percent of special education teachers and aides had only a high school degree. Because of the inadequate medical infrastructure in both the FSM and the RMI, the special education programs had to deal with severe cases of disability, where children's problems were fundamentally medical rather than educational. Without the proper medical attention, the special education program could do little to solve the underlying medical conditions. Also, because of the poor economy and the high unemployment, there were few employment opportunities for children with disabilities once they had completed schooling.

Source: GAO.

Table 4: The Freely Associated States Educational Grant (FASEG) Program

Purpose and legislation	FASEG funds were provided by the U.S. Department of Education through competitive, direct grants for local programs to strengthen and improve elementary and secondary education. These included teacher training, curriculum development, instructional materials, and general school improvement. The program was authorized under the Elementary and Secondary Education Act of 1965, as amended (P.L. 89-10).	
Requirements	**Performance:** These grants were awarded on the basis of a competition among the eligible islands with the requirements that the funds be used only for programs described in the Improving America's Schools Act. Performance goals for the grants that fulfill their performance requirements were explained in the grant applications by the state education departments of the FSM and the education ministry of the RMI: instructional materials, curriculum development, teacher training, etc. Department of Education program officials said that an annual report on grant performance was required for continued funding.	
	Accountability: U.S. FASEG grantees were required to submit financial reports. The program was subject to the 1984 Single Audit Act.	
	U.S./FSM	U.S./RMI
Assessment of performance	FASEG has met its performance requirements and standards, according to its program documents. Each country's programs supported the Improving America's Schools Act's requirements: for example, each state's performance goals addressed (1) developing curriculum for improved achievement standards, (2) providing training for teachers, and (3) improving the involvement of parents and the community in the school system. The individual programs used the money to pursue the goals stated in their grant applications.	
	Pohnpei used its funds to improve the curriculum and train teachers while developing better ties with communities. Kosrae had similar goals. Almost 70 percent of Pohnpei's and nearly 40 percent of Kosrae's grant budget were spent on supplies, including instructional materials. These supplies supported the goals outlined in the grant application.	The RMI used its funds to develop curriculum, train staff and teachers, improve community involvement, and provide instructional materials. Almost 40 percent of the RMI grant budget was spent on supplies, including instructional materials. The other funds supported the goals outlined in the grant application.
Assessment of accountability	During the annual audits of U.S. programs in the islands, both countries' programs were found to have problems complying with federal regulations. Both countries had problems (1) procuring materials and services competitively, (2) documenting the purposes and costs for expenditures, and (3) fulfilling requirements for reporting the financial status of the program or the status of property purchased with federal money. Although financial reports were required, program officials in Washington, D.C., told us that only the annual performance report was required in order for the FSM and the RMI to receive funds.	
	In the FSM, the state education offices were responsible for maintaining supporting documentation for FASEG. Pohnpei and Kosrae, according to the annual audits, have had consistent problems adhering to U.S. federal property standards.	Audits and reviews identified questionable transactions. For example, when we were in the RMI, we found that about $13,000 in FASEG funds were spent in October 1999 to send the minister of education and the assistant secretary of education to a United Nations Educational, Social, and Cultural Organization meeting in Paris for more than 3 weeks. However, this information was not included in any audit reports submitted to the U.S. Department of Education. Further, in 2000 and 1999, auditors found $350,000 and $477,000, respectively, in contracts that did not appear to follow appropriate procurement guidelines.

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Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that reduced potential program accomplishments. Furthermore, progress toward achieving the performance goals was slow, because both school systems were ineffective. For example, RMI students left the 8th grade with barely a 2nd- or 3rd-grade level English reading ability, and many were unable to read in their own language. The FSM students were comparable. The dropout rate was also extremely high. Many eligible children did not go to school, and if they did, the school buildings in many cases were not conducive to learning, oftentimes lacking running water and necessary space, as well as teachers and supplies. Moreover, both nations' school systems were staffed by underqualified teachers. The FASEG program was hampered by the lack of FSM and RMI financial support for the school systems. By contrast, in the United States, federal funds supplement local and state funds and account for only about 6.8 percent of total elementary and secondary school spending. However, the FSM and the RMI relied on federal funds for most of their school systems' budgets. For example, FASEG funds, along with other U.S. grants, provided almost all education material, and Compact funds provided money for teachers' salaries, building construction, maintenance, and repairs. Because the FSM and the RMI did not adequately fund their educational systems with local revenues, FASEG and other U.S. grants were not adequate to make significant improvements in the school systems. There was little U.S. oversight of the program. Although the Washington, D.C., program officer knew about the program and its performance goals, she had never visited the nations before July 2001. According to Department of Education officials, the U.S. Department of Education did not perform direct monitoring of the use of the FASEG funds, and there were no periodic site visits or reports by the department. Great distances and expense prevented the program from performing a more regular cycle of onsite visits, annual or otherwise. Oversight of the FASEG program has generally included long-distance monitoring activities such as telephone, fax, and e-mail communications to address implementation issues, review performance reports, and conduct annual meetings of grantees for technical assistance workshops during the Department of Education's annual regional meetings for Improving America's Schools.

[a]The program has been changed to include U.S. insular territories under the reauthorization of the Elementary and Secondary Education Act in fiscal year 2002. As of publication, the department is in the process of determining the program name and implementation timetable for new competitions and awards.

Source: GAO.

Table 5: The Pell Grants Program

Purpose and legislation	Pell Grants, from the Department of Education, were intended to provide eligible undergraduate students with financial assistance for educational expenses. The Higher Education Act of 1965, as amended (P.L. 89-329), authorized FSM and RMI participation.	
Requirements	**Performance:** Pell Grants were to provide eligible undergraduate students who have demonstrated financial need with grant assistance to help meet educational expenses. The student was expected to make satisfactory academic progress. Pell Grants may only be used for 1 year of remedial education.	
	Accountability: Annual financial and audits reports were required.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program has met its performance requirements and standards. The Pell Grants program effectively provided grants to eligible FSM and RMI students. Because of low income levels, most students met the financial need requirement. Students from both nations used Pell Grants to attend U.S. colleges as well as their national college.	
	From 1988 to 2000, Pell Grants provided 13,704 eligible students with grant assistance to attend the College of Micronesia. About 85 percent of the students received Pell Grants; most others were disqualified for not meeting the academic achievement requirement.	From 1993 to 2001, Pell Grants helped 4,375 students attend the College of the Marshall Islands. More than 90 percent of the students received Pell Grants. U.S. and RMI Pell Grant managers said the program was highly effective.
Assessment of accountability	Financial accountability had improved. The Department of Education used financial and audit reports to identify administrative weaknesses and provide training. U.S. officials said that accountability problems in the region were related to inadequate training necessary to comply with complex program requirements. The Department provided the FSM and the RMI with training in 2000.	
	The FSM had accountability problems from the early 1980s, including a $1.2-million double drawdown in 1994; the FSM repaid this in 1997. Because of recent improvements, a 1999 audit found that all Pell financial requirements were met. All financial reports were provided.	A 1995 audit concluded that the College of the Marshall Islands complied with all major requirements of the Pell Grants program. RMI officials said that the 1999 audit found that all Pell financial requirements were met. The college had all required annual reports for the past 5 years, with the exception of 1997.
Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments. Social and economic conditions blunted the potential impact of Pell Grants to support the FSM's development goals. Many freshman needed 1 to 2 years of remedial classes before they could enter accredited courses, because the K-12 system did not prepare them for U.S. college-level courses. Because Pell Grants were limited to 1 year of remedial classes, many students could not qualify or afford the credited classes needed to graduate. Furthermore, the ability to meet national needs was hampered by the limitations of a 2-year college, lack of jobs, and low pay. Moreover, most college operating funds came from U.S. funds, including Pell Grant-supported tuition payments. Loss of these funds could bankrupt the FSM college.	The program encountered conditions that significantly reduced potential program accomplishments. Social and economic conditions blunted the potential of Pell Grants to support the RMI's development goals. One-half of K-12 graduates entered the college with the equivalent of a 4th- to 6th-grade U.S. education and required 1 to 2 years of remedial classes. Because Pell Grants were limited to 1 year of remedial classes, many students could not qualify or afford the credited classes needed to graduate, contributing to the low 9 percent graduation rate. A 2000 study found that the RMI's 1st-12th-grade school system had not improved since 1986 and may have declined, in part because of a lack of RMI financial support. In addition, U.S. funds, including Pell Grant-supported tuition payments, made up 90 percent of the college's annual budget, and any reduction could bankrupt the RMI college.

Source: GAO.

Table 6: The Job Training Partnership Act (JTPA) Program

Purpose and legislation	JTPA, of the Department of Labor, was intended to establish job training programs that would result in increased employment and earnings and enhance the nation's productivity. Compact implementing legislation authorized that this program be made available to the FSM and the RMI. Further, the Job Training Partnership Act, as amended (P.L. 97-300), authorized FSM and RMI participation. As of July 1, 2000, the JTPA program was replaced by the Workforce Investment Act.	
Requirements	**Performance:** Annual Job Training Plans were to include performance goals and past achievements for employment and retention. In addition, Labor was to determine whether performance measures were met and also to provide an annual report to the state governors on whether performance goals were met.	
	Accountability: JTPA fund recipients must submit quarterly financial reports and annual independent audits.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program was exempt from key performance requirements and standards because of inadequate data. In addition, the program was not effective. While the program trained 1,799 adults between 1995 and 1998, the percentage of adults who have entered employment fell from about 65 percent in 1990 to about 26 percent in 1999. (By comparison, the U.S. average was 66 percent.) Because of the worsening economy and lack of private sector jobs, FSM officials reported that they were training people for jobs that do not exist. Program graduates have found jobs in the United States.	Inconsistent data precluded determining JTPA's effectiveness. The RMI reported that the percentage of trained adults finding jobs rose from 44 percent in 1993 to 100 percent in 1999. The RMI credited its success to paying employers to hire JTPA trainees and counting the "self-employed" as employed, which was allowed under the program. However, another RMI 1999 report stated that only 14 percent found employment. Neither RMI nor Labor officials could explain the discrepancy.
Assessment of accountability	Financial accountability needed improvement. Labor officials were unable to conduct assessments of past performance because of unreliable data submitted by each nation and the lack of sufficient funds to provide on-site monitoring. The program manager said that none of JTPA's reporting systems could be used to assess program effectiveness, and FSM and RMI data were not included in Labor's annual report on whether performance goals were met. In addition, the JTPA programs in the FSM and the RMI were exempt from JTPA's national standardized reporting system, used by the Department of Labor to verify program performance. Both the FSM and the RMI lacked the necessary data on unemployment rates, poverty levels, and welfare statistics used by Labor's performance system to evaluate JTPA performance. Instead, Labor required each nation to establish goals and submit performance data. However, the Labor program manager was not able to verify the accuracy of the performance data submitted by the FSM or the RMI, and Labor program managers acknowledged the unreliability of the data. Labor did provide training and site visits from 1993 to 1997 in an attempt to resolve a variety of problems cited in their reports, such as inaccurate data and the inability of three of the four FSM states to meet their performance requirements. However, while the Labor program managers recognized the need for substantial training, lack of funds precluded providing this level of training. In fact, despite Labor's training and other technical assistance, we found many of the same problems in 2001 that Labor identified in 1995.	
	The FSM, with one exception, provided the required quarterly financial reports for 1995 through 1999. Annual audits were conducted, and they document performance and financial accountability problems. For example, the 1999 audit found no evidence that trainees attended or completed training programs.	The RMI provided quarterly reports late in 1997, and they were not provided at all in 1996, though they were submitted at a later date. A limited review of audit reports provided in the RMI found a variety of accounting problems and questioned costs. For example, in 1994, $8,500 was advanced to a vendor for supplies that were still not delivered as of 1997.

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Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments. JTPA and its successor, the Workforce Investment Act, were designed for the economically advanced U.S. states expected to have the staff and financial resources to conduct oversight and provide the necessary assistance to ensure that performance standards were met, according to Labor officials. The FSM and the RMI lacked these capabilities, and U.S. Labor lacked the resources necessary to assist the FSM and the RMI. In addition, both nations had high unemployment rates (the RMI's 1999 unemployment rate was 31 percent) and little private sector activity. The primary employer of JTPA graduates had been the government sector, but both nations have implemented government layoffs and reduced the hiring of JTPA graduates. JTPA graduates often migrated in search of better-paying jobs.

Source: GAO.

Table 7: The Maternal and Child Health (MCH) Block Grants Program

Purpose and legislation	MCH, of the Department of Health and Human Services (HHS), was authorized by Title V of the 1935 Social Security Act, as amended (49 Stat 620). MCH was intended to help states to provide mothers and children (in particular those with low incomes) access to quality health services and to reduce infant mortality and the incidence of preventable disease. The block grant allowed states to implement the program with maximum flexibility and minimum reporting requirements.	
Requirements	**Performance:** Annual applications must be submitted that include a plan for meeting and funding health care needs. The MCH program had 18 national performance measures and 6 national outcome measures, such as prenatal care, immunizations, and mortality rates; states develop 7 to10 additional measures. MCH officials stated that these measures were ambitious national health goals and that many states had not met all these goals. MCH officials said that it was not expected that all performance measures would be met in any given state and that they were targets only.	
	Accountability: An annual report must be submitted to evaluate the extent to which the state has met its goals and objectives and the extent to which funds were spent consistent with the state's application. Audits were required every 2 years.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program could not meet all its performance measures. In addition, the FSM and the RMI data limitations, combined with the small population, precluded an accurate assessment of MCH effectiveness. Because of unreliable data, for example, neither nation could document annual decreases in mortality rates, a key measure of program effectiveness in states with large populations and more advanced data collection systems.	
	The FSM reported that it was able to meet some national performance measures, such as those for immunizations and breast-feeding, but was not able to meet other measures, such as Pap smears or those for prenatal care (fewer than 10 percent of pregnant women received early prenatal care in 1999).	The RMI reported that it met some national performance measures for immunizations, breast-feeding, and prenatal care but was not able to meet other measures, such as screening newborns for a variety of illnesses. Morbidity (illness) rates were also increasing in areas targeted by MCH.
Assessment of accountability	In accordance with MCH guidelines, HHS officials said that they provided limited oversight and had not conducted any rigorous assessment in the FSM or the RMI. Instead, HHS relied on its annual assessments of the FSM and the RMI annual reports. HHS officials stated that they must rely on these reports, despite the limited accuracy of the data. These limitations make it difficult to determine FSM and RMI progress toward meeting MCH performance goals.	
	The FSM provided the annual reports as required. Audits were conducted as required, but neither FSM nor U.S. MCH program officials had read them. According to U.S. MCH officials, this responsibility rests with HHS financial staff.	The RMI provided the annual reports as required. Audits were conducted as required, but neither RMI nor U.S. MCH officials had read the reports. According to U.S. MCH officials, this responsibility rests with HHS financial staff.
Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments. The FSM and the RMI were exempt from 6 of the 18 national performance measures and had difficulty meeting others because MCH was designed for use in the United States. In addition, the FSM and the RMI had difficulty in accurately reporting on its performance measures because the MCH reporting system was designed for use in the United States, where the U.S. Vital Statistics System has been developed over the past 65 years. An MCH official estimated that the FSM and the RMI data collection capabilities were 20 to 30 years behind those of the United States. Moreover, U.S. per capita spending on health care was about $4,000, as compared with $250 in the FSM and the RMI, and both nations lacked the level of medical expertise, facilities, and support services used by MCH in the United States. For example, MCH generally supplements Medicaid, state health programs, and private health care systems in the United States, while the FSM and the RMI used MCH as their primary preventive health care system.	

Source: GAO.

Table 8: The U.S. Department of Agriculture's (USDA) Rural Housing Service (RHS) Housing Loan Program

Purpose and legislation	The USDA's RHS has provided direct housing loans and grants for single-family dwellings among other services. RHS was authorized under the Housing Act of 1949, as amended (P.L. 81-171).	
Requirements	**Performance**: Section 502 of the Housing Act of 1949, as amended, allowed loans to low-income borrowers to buy, build, rehabilitate, improve, or relocate eligible, modest dwellings for use by the borrower as a permanent residence. Section 504 allowed loans and grants to very low-income homeowners to make general improvements to their homes as long as the dwelling remained modest and was not used for commercial purposes. To be eligible, applicants were required to have low or very low incomes "Low income" was defined as an adjusted income that was greater than the Department of Housing and Urban Development's (HUD)-established very low-income limit, but that did not exceed the HUD established low-income limit (generally 80 percent of median income adjusted for household size for the area where the property was located. "Very low income" was defined as an adjusted income that did not exceed the HUD-established very low-income limit (generally 50 percent of median income adjusted for household size) for the area where the property was located. For Micronesian or Marshallese applicants, their income had to be "low" or "very low" as determined by the Department of Housing and Urban Development's Adjusted Income Limits for Western Pacific Islands. Section 502 loan terms extended for up to 33 years and in some cases 38 years but were not to exceed the expected useful life of the property as a dwelling, at a subsidized interest rate that varied with the borrower's income. Section 504 loan terms extended for no longer than 20 years, at 1 percent interest. Building sites could be inspected by RHS officials during construction. Loans and grants had to be deposited into a supervised account to ensure that funds were disbursed for work completed.	
	Accountability: Local Rural Housing Offices were to be subjected to a State Internal Review (SIR) at least once every 5 years. In instances where problems existed, reviews could be performed more often at the discretion of the state director. For each construction or rehabilitation loan, inspections should have occurred as contractors were paid for work completed. No post-construction reports were requested or required, although supervised bank accounts were to be reconciled. USDA delegated responsibility for this program to the local RHS representative, the community development manager.	
	U.S./FSM	U.S./RMI
Assessment of performance	Legal requirements not designed for use in foreign countries precluded targeting loans to the most needy. The Rural Housing Service's compliance with its legal and program requirements inadvertently resulted in its not targeting housing assistance to low- and very low-income households, thereby providing assistance to households whose incomes exceeded the local low- and very low-income levels. This was not attributable to a deficiency in the FSM or the RMI but to the legal requirement that RHS was required to use adjusted income limits set by the Department of Housing and Urban Development (HUD) to determine program eligibility. By the Housing Act of 1949 as amended, RHS was required to use income levels set by HUD. HUD in turn used U.S. Census income data. Because the FSM and the RMI last participated in the U.S. Census in 1980, prior to their independence, there were no current income data available from the U.S. Census Bureau for HUD to use in writing adjusted income limits on which program eligibility was based, according to U.S. officials. RHS had used adjusted income limits published as HUD's "Western Pacific Islands" adjusted income limits table. According to a HUD official, these data were relevant only to the population of Guam and were not comparable to the much poorer populations of the FSM and the RMI. As a result, most households in the FSM and the RMI qualified for the program, even though the regulations stated that it was to serve those with less than 80 percent of the local median income, adjusted for household size.	

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	Although many houses were built and repaired in accordance with the requirements, the Pohnpei RHS office clearly violated program requirements with some loans, including loans to the FSM president and the head of the local housing trustee agency that works with the RHS office.[a] Specifically, the Pohnpei office (1) made loans to 12 borrowers who constructed or repaired houses that were subsequently used for income-producing purposes; (2) made loans to 2 borrowers, including the president, who constructed houses that exceeded what would be considered a "modest design"; and (3) approved a loan to the FSM president that exceeded the authorized maximum loan limit by $15,000. According to the Department of the Interior audit report, these problems occurred because the Pohnpei office (1) was not aware that the regulations prohibited using loans for commercial purposes, (2) did not adequately review loan documents, (3) did not believe that one house was unacceptably elaborate, and (4) did not adequately monitor the construction of the elaborate house.	With the support of the RMI government, the RHS was increasing the programs provided in the RMI and extending them to Ebeye on the Kwajelein Atoll.
Assessment of accountability	Accountability was insufficient and ineffective. The Hawaii State Office failed to exercise adequate oversight in the FSM and the RMI. Because of the distance and cost, the RHS state office in Hawaii had not performed a state level evaluation of the FSM and the RMI offices since 1993. The SIR for the Pohnpei office in 1999 was the first since 1993.	

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	The Hawaii State Office suspended loan-making in Pohnpei and the rest of the Western Pacific because of high delinquency rates from June 1998 until June 1999. In December 1998, the Hawaii State Office identified irregularities in loans made to the president of the FSM. On January 8, 1999, the state office instructed the Rural Development manager in Guam, who had direct oversight of the Pohnpei local office, to review loans made by the Pohnpei office. This review found that the total outstanding loan amount of approximately $95,000 exceeded the maximum loan limit of $81,548. Upon these findings, the state office revoked the loan-making authority of the Community Development manager in Pohnpei on February 19, 1999. On January 12, 1999, the Department of the Interior Inspector General began an audit of the Pohnpei office at the request of the U.S. deputy chief of mission at the Pohnpei embassy. Only after these events was a State Internal Review undertaken in July 1999 by the Hawaii State Office. Other audits ensued. The Hawaii State Office demanded and collected the FSM president's loans in full on June 8, 2000. The next day, June 9, 2000, the Pohnpei office was closed and the Community Development manager removed at the insistence of the U.S. embassy. The office was quickly reopened under the management of U.S. citizen employees of USDA.Since uncovering the problems in Pohnpei, RHS has increased its oversight of the other FSM programs. In May 2001, the Hawaii State Office conducted a State Internal Review for the local office in Kosrae. The review team discovered weaknesses in the Section 502 and 504 programs and instructed that more attention be paid to the programs. Still, because of the relatively strong compliance, no further state internal reviews were scheduled until 2006.	Since uncovering the problems in Pohnpei, RHS has increased its oversight of the RMI program. In May 2001, the Hawaii State Office conducted a State Internal Review for the local office in Majuro. The review team discovered weaknesses in the Section 502 and 504 programs and instructed that more attention be paid to the programs. Still, because of the relatively strong compliance, no further state internal reviews were scheduled until 2006.
Problems in implementing U.S. programs in the FSM and the RMI	The timeline for repayment of many of these loans extends beyond the end of further Compact assistance. Because USDA began this program in the FSM and the RMI before independence and did not modify the program when the islands became foreign countries, USDA failed to consider that future reductions in U.S. economic assistance could affect the ability of its borrowers to repay their loans. In addition, some loans had up to a 33-year team, and some had a 38-year term, far beyond the time when U.S. economic assistance is scheduled to end. Time differences made it difficult for RHS borrowers to contact USDA's Centralized Servicing Center in St. Louis by telephone. In addition, it put the burden of repayment tracking and collection on the local RHS offices and officials in the islands. The Rural Housing Service's (RHS) compliance with its legal and program requirements inadvertently resulted in its not targeting housing assistance to low- and very low-income households.	

[a]These issues were extensively covered in these reports: U.S. Department of the Interior Office of the Inspector General, *Audit Report: Pohnpei Local Office, Rural Development Program, U.S. Department of Agriculture, Federated States of Micronesia*, Report No. 99-I-953 (Washington, D.C.: Department of the Interior, Sept. 1999); and U.S. Department of Agriculture, *State Internal Review (SIR) Report, Pohnpei Local Office* (Hawaii State Office: U.S. Department of Agriculture, July 12-22, 1999).

Source: GAO.

Table 9: U.S. Department of Agriculture's (USDA) Rural Utilities Service (RUS) Telecommunications Loans Program

Purpose and legislation	The Rural Electrification Act of 1936, as amended (49 Stat 1363), authorized USDA to make loans for furnishing and improving telephone service in rural areas. The loans were intended to be used to furnish, improve, expand, construct, and operate telephone facilities or systems in rural areas. Compact-implementing legislation authorized programs of the Rural Electrification Administration to be made available to the FSM and the RMI. The Rural Utilities Service was the successor to the Rural Electrification Administration.	
Requirements	**Performance:** Telecommunications facilities were required to be built and operated according to USDA specifications, and loans were required to be repaid in a timely manner. The length of the loans was not allowed to exceed the expected life of the equipment built, except as approved by the administrator of RUS. The interest rate varied by the type of loan: hardship loans were at 5 percent; cost of money loan rates varied but could not exceed 7 percent.	
	Accountability: Each loan application was subject to review and to engineering and financial feasibility studies. A variety of safeguards were in place to protect U.S. funds. The borrower received no loan funds until he showed that the work was either under contract or completed. As contractors completed phases of each project, the borrower's engineer and architect were required to provide extensive documentation to RUS. RUS inspected the site at the completion of major project phases. After construction, annual audits kept USDA aware of the companies' financial status.	
	U.S./FSM	U.S./RMI
Assessment of performance	This program met its performance requirements. Both companies, the FSM Telecommunications Corporation (FSMTC) and the Marshall Islands National Telecommunications Authority (MINTA), provided access to telephone service to a significant portion of the national populations. They were also repaying their loans. The loan to FSMTC totaled $39.9 million for 35 years, at 5 percent interest. The loans to MINTA totaled $22.80 million and were also for 35 years, at 5 percent interest.	
Assessment of accountability	Accountability was effective. Both countries' telecommunications companies were subject to the feasibility study requirement. Both feasibility studies showed the projects to be financially viable. USDA and the companies complied with required safeguards. Each company was subject to loan fund and accounting reviews during construction. Each audit had minor findings that were quickly resolved. The Rural Utilities Service-financed projects had strict oversight by USDA employees, who required the builders to meet USDA specifications.	

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Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that could significantly increase costs to USDA. For example, several developments could jeopardize loan repayment. Although the feasibility studies predicted the projects' viability, the studies did not assess the possibility that Compact funds might be severely reduced over the life of the loans. During the first 15 years of the Compact, U.S. funding to the island nations was decreased every 5 years. Officials of both companies stated that future severe decreases in Compact funding to the island nations could decrease their companies' revenues enough to jeopardize their ability to repay their USDA loans. In addition, USDA administrators had not adequately considered how their programs could be terminated if U.S. program assistance were to end in 2016. Also, in 1997 the Federal Communications Commission issued an order to establish benchmarks that would govern the international settlement rates that U.S. carriers were permitted to pay foreign carriers to terminate international traffic originating in the United States. According to the order, these benchmark rates were necessary because under the current system, the settlement rates that U.S. carriers paid foreign carriers to terminate international traffic originating in the United States were substantially above the cost that foreign carriers incurred to terminate that traffic. FSMTC and MINTA both protested that this would seriously damage their revenues, cutting their income substantially and endangering the companies' ability to repay their loans to the U.S. government. Both companies relied on incoming long distance telephone calls for a significant portion of their revenue. As of October 2001, settlement rates had not been adjusted, but negotiations were underway between U.S. carriers and FSMTC and MINTA to reach an agreement on this issue.The loan to MINTA was guaranteed by the government of the Marshall Islands. The loan to FSMTC was secured by the facilities of the company. Under the November 2000 U.S. proposal for future FSM assistance, U.S. funding would decrease, and as it decreased, real per capita gross domestic product (GDP) in the islands would also decrease. As GDP decreased, funds available to the governments would also decrease, calling into question the governments' ability to repay any guaranteed loans.

Source: GAO.

Table 10: The U.S. Department of Agriculture's (USDA) Rural Utilities Service (RUS) Electrical Loans Program

Purpose and legislation	RUS electrical loans, authorized under the Rural Electrification Act of 1936, as amended, were intended to furnish and improve electrical service in rural areas and to finance the construction of electric distribution, transmission, and generation facilities. Compact-implementing legislation authorized programs of the Rural Electrification Administration to be made available to the FSM and the RMI. The Rural Utilities Service was the successor to the Rural Electrification Administration.	
Requirements	**Performance:** Electrical facilities were to be built and operated according to USDA specifications, and the loan(s) were to be repaid in a timely manner. The terms of the loans varied up to 35 years but were not to exceed the useful life of the equipment built. The USDA regulations defined electrical engineering, architectural and design policies and procedures, electric system construction policies and procedures, and electric standards and specifications for materials and construction. Each loan application was required to be reviewed and assessed through detailed engineering and financial feasibility studies to determine the usefulness of the facilities and the borrower's ability to repay the loans.	
	Accountability: A variety of safeguards were in place to protect U.S. funds. The borrower was to receive no loan funds until it showed that the work was either under contract or completed. Once the borrower received funds, it was to submit detailed financial reports and annual audited financial statements. RUS field accountants perform a loan review to ensure that all funds have been expended for the purposes for which they were granted. On-site inspections of facilities were supposed to occur every 3 years to ensure that the facilities were being maintained in a satisfactory manner.	
	U.S./FSM	U.S./RMI
Assessment of performance	This program has met its performance requirements to date. Both local power companies were subject to engineering and financial feasibility study requirements. Feasibility studies showed the projects to be both necessary and financially viable.	
	No loans have yet been made to FSM electric utilities. The Pohnpei Utilities Company (PUC) currently has an application pending with RUS. No construction has occurred. Approval of the application was contingent on the PUC's obtaining clear title to a parcel of land as a site for the plant. This would provide additional power to the main island of Pohnpei State.	The Marshalls Energy Company's (MEC) RUS loan financed the construction of a new power plant in Majuro, consisting of two 6.4-megawatt diesel engines and related facilities. This was the first RUS electrical loan to the FSM, the RMI, or Palau.[a] The new facilities became functional in December 1999. MEC borrowed about $12 million. The terms were 6.9 percent for 20 years.
Assessment of accountability	Accountability was effective. The Rural Utilities Service-financed projects had oversight by USDA-approved consulting engineers, who required the builders to meet USDA specifications. USDA and the companies complied with required safeguards. PUC had not yet received loan approval as of October 2001. MEC borrowed only the money actually needed. MEC had sent 1 year's audited financial statements. MEC came through loan fund and accounting reviews during construction, with minor findings that were quickly resolved.	
Problems in implementing U.S. programs in the FSM and the RMI	Future developments may jeopardize loan repayment. Although the financial feasibility studies predicted the projects' viability, neither study assessed the possibility that Compact funds might be reduced over the life of the loans. Indeed, during the first 15 years of the Compact, U.S. funding to the island nations was decreased every 5 years. Officials of both companies stated that future severe decreases in Compact funding to the island nations could diminish their companies' revenues enough to jeopardize their ability to repay their USDA loans. RUS managers stated that they had discussed the possibility of severely reduced funding to the FSM and the RMI and had decided that such a funding decrease was unlikely. The MEC provided documentation showing that its leases for property on which the plant would be built were extended until 2017. MEC also provided documentation that the Republic of the Marshall Islands' legislative assembly, the Nitijela, authorized the Marshall Islands to guarantee the repayment of the loan. Under the November 2000 proposal for U.S. assistance to the FSM, U.S. funding would decrease and, as it decreased, real per capita gross domestic product (GDP) in the islands would also decrease. As GDP decreased, funds available to the governments would also decrease, calling into question the governments' ability to repay any guaranteed loans.	

[a]Palau was another nation that, along with the FSM and the RMI, is a Freely Associated State and likewise was formerly subject to U.S. administration under the Trust Territory of the Pacific Islands.

Source: GAO.

Table 11: The Federal Emergency Management Agency (FEMA) Program

Purpose and legislation	FEMA assistance was intended to help states and localities respond to, plan for, recover from, and mitigate against disasters. Disaster assistance services and programs were to be made available to the FSM and the RMI in the same manner as assistance was made available to a U.S. state. The assistance was to be provided in accordance with the Disaster Relief Act of 1974, as amended, and applicable executive orders and FEMA regulations. FEMA's authority for conducting disaster assistance in the FSM and the RMI was contained in the Compact of Free Association, sections 221 and 232, and in article X of the Federal Programs and Services Agreement concluded pursuant to the Compact of Free Association.	
Requirements	**Performance:** FEMA was to make disaster preparedness improvement grants on an annual basis and to provide hazard mitigation grants and disaster assistance as determined by the president. The actual amount of direct disaster assistance provided in a given year varied and was completely dependent on U.S. presidential disaster declarations.	
	Accountability: According to FEMA-provided documents, FEMA exercised accountability over a variety of programs to the FSM and the RMI, including disaster preparedness grants, for which it awarded up to $50,000 per year on a matching basis, and hazard mitigation grants, to reduce future losses from disasters. FEMA was required to provide assistance to the FSM and the RMI at levels equivalent to those available to the Trust Territory of the Pacific Islands in 1986. The FSM and the RMI were required to provide annual performance reports to FEMA.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program has met its performance requirements and standards. FEMA has provided the assistance required in the Compact; however, the FSM and the RMI have not fully used the available funds to improve their disaster preparedness as allowed under the grant agreements. Neither the FSM nor the RMI appeared to be developing the capability for their states and localities to respond to, plan for, recover from, and mitigate against disasters. The disaster preparedness grants were awarded to help develop the capability to respond to disasters. However, the FSM and the RMI have not taken full advantage of the available funds.	
	Since 1995, FEMA has responded to a 1997 typhoon and a 1998 drought in the FSM. The obligations totaled $2.7 million and $1.8 million, respectively. Regional financial records show that the FSM has expended only $12,525 of $138,000 awarded for disaster preparedness grants since fiscal year 1997. Since the start of the hazard mitigation grants in 1988, six disasters occurred in the FSM, and less than 100 percent of the available funds were committed.	Since 1995, FEMA has responded to a 1998 drought in the RMI. The obligations totaled $7.9 million. Regional financial records show that the RMI has expended $11,598 of $100,000 awarded for disaster preparedness grants since fiscal year 1998. Since the start of the hazard mitigation grants in 1988, the RMI has committed less than 100 percent of the available funds.
Assessment of accountability	Accountability needed improvements to be more effective.	
	The FSM last submitted a performance report in October 1999 and did not submit a report as required in 2000.	The RMI did not submit a performance report during 1996-2000, although it is required to do so annually.
Problems in implementing U.S. programs in the FSM and the RMI	The program encountered conditions that significantly reduced potential program accomplishments and increased program costs. FEMA's programs were designed to support and supplement viable state programs and efforts. They were not intended to go directly to local communities, supplanting marginal central government programs. Some of the biggest problems encountered related to implementing traditional programs, developed for the United States, in a distant island environment and culture. According to FEMA, providing money and assistance consistent with U.S-based regulations and laws disrupts social structures and changes relative priorities in communities, fosters a counter-productive dependency, and frequently results in adverse long-term effects. For example, temporary and sustained free food programs discourage traditional fishing and farming. Assistance as currently provided delayed rebuilding after a disaster until FEMA resources arrived, and it proved to be difficult to manage.	

Source: GAO.

Table 12: The U. S. Postal Service (USPS) Program

Purpose and legislation	USPS assistance under the Compact was intended to provide for (1) mail service between U.S. locations and exchange points in the FSM and the RMI, including special services; and (2) dispatch, documentation, statistical, accounting, and settlement operations in connection with the international exchange of mail. The assistance was to be provided to help the FSM and the RMI develop the infrastructure and capacity for independent postal operations.	
Requirements	**Performance:** USPS was required to provide mail transportation, technical assistance, postal financial services such as money orders, and postal transaction and reporting forms. USPS was authorized to establish cost-related postal rates for mail going from the United States to the FSM and the RMI. Additionally, USPS was required to transfer ownership of postal facilities and equipment in use as of 1986 to the FSM and the RMI. The FSM and the RMI were required to (1) protect the postal services provided by the United States from exploitation for monetary gain by individuals and organizations and (2) ensure that outgoing mail complies with international and U.S. postal requirements.	
	Accountability: USPS was required to provide services at levels equivalent to those available in 1986, such as dispatching and keeping records on international mail exchanges and reconciling activity on transactions with the FSM and the RMI. USPS was also required to pay and be reimbursed by Department of the Interior from appropriations for the cost of transporting mail to and from six designated FSM and RMI exchange points. The FSM and the RMI were required to (1) adequately fund internal postal services so the USPS may perform its responsibilities; (2) issue money orders in compliance with USPS regulations; and (3) remit money collected to the USPS; for example, from collect-on-delivery parcels and money orders.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program has met its performance requirements and standards. USPS has provided assistance and services in accordance with the Compact, including mail transportation, technical assistance, postal financial services such as money orders, and postal transaction and reporting forms. Additionally, USPS has transferred postal facilities and equipment to the FSM and the RMI.	
	The FSM has experienced internal problems with its operations; however, reasonable efforts have been made to avoid exploitation and to comply with international and U.S. postal requirements.	The RMI has experienced internal problems with its operations; however, reasonable efforts have been made to avoid exploitation and to comply with international and U.S. postal requirements.
Assessment of accountability	Accountability needed to be improved. USPS has had difficulties receiving remittances in a timely manner from the FSM and the RMI post offices for collect-on-delivery parcels and money order transactions; however, it has no enforcement or control authority over FSM and RMI postal operations.	
	The FSM has dismissed staff persons over the past 5 years for money order-related and other theft and misuse of funds. The most recent national public audit of FSM postal operations, for fiscal years 1997-1998, concluded that internal controls, especially involving revenue, were generally inadequate. An FSM legislative appropriation in fiscal year 2000 repaid outstanding obligations due to USPS. Shortages accumulating over a 10-year period resulted from bank deposit errors and money order shortages and errors. The FSM decided to clear all arrears at one time; thus, it required FSM congressional action for funding.	The RMI has dismissed staff persons over the past 5 years for theft of funds. The RMI continues to experience theft and financial irregularities with money order and other cash transactions. External audits of its postal operations were not conducted. Internal postal operations in the RMI were not adequately funded, because operating expenses were not paid. For example, monthly rental on the main post office building was more than 1 year in arrears. Additionally, post office telephone service has been terminated at least three times in the past year because of delinquency. Liquidating obligations was a Minister of Finance rather than a postal responsibility.

(Continued From Previous Page)

Problems in implementing U.S. programs in the FSM and the RMI	The program has encountered conditions that have significantly reduced potential program accomplishments and increased costs. For example, mail delivery has not met postal standards for prompt and efficient delivery. Despite USPS investment in special contracted mail flights to the islands, mail delivery was not prompt. Since in-transit mail was under USPS control, the USPS had a shared responsibility for delays when mail was offloaded from aircraft. The USPS incurred significant costs in providing mail to the FSM and the RMI. USPS was reimbursed almost $7.6 million from Interior in transportation, administration, and technical assistance costs during fiscal years 1987-2000. However, according to USPS officials, accumulated though not reimbursed costs for transporting mail totaled $30 million in extra mail transportation costs during those years. Interior was aware of the USPS's additional costs but said that USPS has only recently documented the additional incurred expenses. Interior did not believe a special appropriation was possible, because the USPS has taken almost 10 years to uncover its costs. Furthermore, though granted authority to establish cost-related rates for mail going from the United States to the FSM and the RMI and to apply international postal rates, the USPS has failed to exercise this authority, thereby contributing to its lack of sufficient revenue to cover its expenses, including the $30 million in accumulated but not reimbursed costs.

Source: GAO.

Table 13: The Federal Aviation Administration (FAA) Program

Purpose and legislation	The Compact has required the U.S. government to provide aviation safety services in the FSM and the RMI in order to: (1) foster safe and efficient air travel and (2) facilitate the establishment of aviation safety authorities and aviation safety statutory and regulatory regimes in the FSM and the RMI.	
Requirements	**Performance:** FAA was the federal entity that provided aviation services to the FSM and the RMI. The Compact required FAA to provide (1) en route air traffic services, (2) flight inspection and equipment evaluation and certification, (3) assistance in developing and updating procedures and standards, and (4) technical assistance to help the FSM and the RMI governments develop civil aviation safety authorities and aviation safety and certification programs.	
	Accountability: FAA was required to provide services at levels equivalent to those provided to the FSM and the RMI in 1986. FAA did not provide any direct grants or other funds directly to the FSM and the RMI. Therefore, the accountability for funds was indirect, meaning that FAA was required to account only for materiel, equipment, facilities, and training.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program has met its performance requirements and standards. FAA has carried out its responsibilities as stipulated in the Compact, according to U.S., RMI, and FSM officials and the FAA's overall safety record. FAA has provided training to develop infrastructure (including rescue and firefighter training), assisted in aviation security, and funded travel and lodging expenses for local nationals to attend the FAA Training Academy in Oklahoma City, Oklahoma, and other FAA training facilities.	
	The FSM's 14-year record of air traffic safety showed two aircraft accidents within the past 2 years, but no serious injuries and no fatalities.	The RMI has reported no aircraft accidents, injuries, or fatalities over the past 14 years.
Assessment of accountability	Accountability appeared to be effective, according to U.S., RMI, and FSM officials. FAA did not provide any grants or other funds directly to the FSM and the RMI. As a result, FAA directly accounted for all materiel, equipment, facilities, and training. There have been no FAA findings of theft or misuse of materiel or equipment provided by the United States. FAA was helping local nationals to take over airport operations and had drafted a plan for the FSM and the RMI to assume a large share of responsibility for airport operations over the next 10 years.	
Problems in implementing U.S. programs in the FSM and the RMI	Retention of trained staff necessary to operate airports was an issue for the FSM and the RMI, though some workforce stability has been achieved in the past 4 to 5 years. FAA provided training to local nationals in airworthiness safety, certification, and inspection; in airport operations; and in operating, inspecting, testing, and maintaining existing and newly installed equipment. Once trained, however, local nationals have commanded better pay elsewhere and have often left. Training was also a challenge because of the differences in educational background, culture, and experience of FSM and RMI trainees in comparison with U.S.-educated trainees. In addition, construction costs were usually two to four times higher than in the United States, because most items had to be imported, including the contractors. When local contractors or others with the appropriate expertise were available, FAA hired them and gained savings by employing local contractors.	

Source: GAO.

Table 14: The National Weather Service (NWS) Program

Purpose and legislation	NWS has generally provided weather forecasts and warnings for the United States and its territories, adjacent waters, and ocean areas for the protection of life and property and the enhancement of the national economy. The NWS services and programs were provided in the FSM and the RMI as required in the Compact and pursuant to legal provisions cited in article VII of the Federal Programs and Services Agreement authorized under section 232 of the Compact of Free Association. The NWS assistance program under the Compact allowed for the FSM and the RMI to establish and maintain their own weather services.	
Requirements	**Performance:** Under the Compact, NWS was to provide public and aviation weather forecasts and severe weather warnings in the FSM and the RMI. The FSM and the RMI weather offices were required to provide warnings, observations, and forecasts, and also to give inputs to Guam's weather service for its daily Western Pacific area forecasts.	
	Accountability: NWS was required to provide or reimburse the FSM and the RMI for materials, equipment, facilities, salaries, maintenance, and other expenses of its weather service operations. Appropriated funds to support the FSM and the RMI weather offices went to the Department of the Interior, and Interior was to reimburse NWS. The reimbursements included costs incurred by the FSM, the RMI, and the NWS/Pacific Region to manage, supervise, operate, and maintain the facilities and offices. NWS was required to provide assistance to the FSM and the RMI at levels equivalent to those available to the Trust Territory of the Pacific Islands in 1986.	
	U.S./FSM	U.S./RMI
Assessment of performance	The program has met its performance requirements and standards. The program was effective in that NWS provided the FSM and the RMI with facilities, equipment, technical assistance, and resources for operating their weather services. NWS has also trained the FSM and the RMI weather staffs.	
	The FSM weather offices provided warnings, observations, and forecasts and gave inputs to Guam's weather service for its daily Western Pacific area forecasts.	The RMI weather offices provided warnings, observations, and forecasts and gave inputs to Guam's weather service for its daily Western Pacific area forecasts.
Assessment of accountability	The accountability actions appeared responsive to the NWS requirements. NWS had direct oversight of the FSM and the RMI weather service offices and exercised quality control over their operations and products. NWS had undertaken regular inspections of weather stations and required that the stations operate at U.S. standards. NWS performed comprehensive audits and regularly received monthly reports on activities to facilitate exercising quality control over FSM and RMI weather observations. According to U.S., FSM, and RMI officials, NWS provided services in accordance with the Compact. NWS reviewed and approved all reimbursements for FSM and RMI payrolls and their equipment, facilities, and materials costs. NWS, using Interior-provided funding, paid the operating costs. NWS had trained the FSM and the RMI weather staffs and reimbursed these countries for costs incurred for all NWS-approved training and partly funded the meteorologist training program. The reimbursements included costs incurred by the FSM, RMI, and NWS/Pacific Region to manage, supervise, operate, and maintain the facilities and offices.	
	The FSM provided reports to NWS and had not been cited for significant deficiencies in observations, reports, and inspections. Since NWS has the option to refuse any reimbursements or to request justification for any reimbursements, problems with reimbursements to FSM have been minimal.	The RMI provided reports to NWS and has not been cited for significant deficiencies in observations, reports, and inspections. Since NWS has the option to refuse any reimbursements or to request justification for any reimbursements, problems with reimbursements to RMI have been minimal.
Problems in implementing U.S. programs in the FSM and the RMI	NWS officials have reported no significant implementation problems.	

Source: GAO.

Comments from the Department of the Interior

Note: GAO's comments supplementing those in the report text appear at the end of the appendix.

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

DEC 1 1 2001

Loren Yager
Director, International Affairs and Trade
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548-0001

Dear Mr. Yager:

The Department of the Interior (Interior) appreciates the opportunity to review and comment on the GAO Draft Report entitled "Foreign Assistance: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations," (GAO-02-70).

Interior understands the special legal and historical relationship between the United States and the Freely Associated States (FAS), and supports the continued extension of U.S. programs, as included in the Compact and subsidiary agreements, to the FAS. This special relationship will continue under the next period of Compact economic assistance. As the agency through which much of the Compact direct aid passes to the FAS, including Capital Improvement Projects, Operation & Maintenance Improvement Projects, and Technical Assistance grants, Interior is familiar with the accountability problems in the FAS.

Interior generally agrees with the findings, conclusions, and recommendations made in the Draft Report, however, the Department would like to correct certain points:

See comment 1.
Now on p. 55.

1) On page thirty-nine (39), the Draft Report states that "Interior did not place its single representative in the region until 1997, 11 years after the Compact went into effect." In fact, Interior had placed a field representative in the region, Palau, in 1990. The field representative covered the Federated States of Micronesia (FSM), and the Republic of the Marshall Islands (RMI), as well as Palau. In 1997, that field representative was moved to Pohnpei, FSM and given the title of "federal programs coordinator."

See comment 2
Now on p. 56.

2) On page forty (40), the Draft Report states that "although the Interior official in the field sent weekly reports to Interior headquarters with program recommendations, none of his recommendations have been implemented . . . ."

This is an inaccurate statement. The weekly reports generally gave accounts of the various program accomplishments, funding and budgets. They did not include recommendations. It is true, however, that a 1997 report did include a general recommendation that grants should be strictly controlled and monitored.

Now on p. 56.

3) As stated on page forty-one (41) of the Draft Report, before the Compact was implemented, 31 U.S. officials managed, coordinated, and provided oversight and reporting for U.S. programs in the region. Interior has not received funding to replace any of the 31 staff. If funding is provided, the Department of the Interior will be able to coordinate and monitor U.S. federal programs in the FAS with a more modest cadre of professionals experienced in the area.

Now on p. 51.

Interior notes Federal Emergency Management Agency's (FEMA) observation, on page thirty-five (35) of the Draft Report, that fraud and mismanagement were no more prevalent in the FSM and the RMI than in the United States. However, FEMA was constrained from taking legal action to recoup funds from the FSM and RMI because they are sovereign nations. Interior supports all efforts, including more effective requirements in the next period of Compact economic assistance, to improve accountability and management of federal funds and programs in the FAS.

If there are any questions concerning this response, please contact Mr. Nikolao Pula, Acting Director, Office of Insular Affairs, at (202) 208-6816.

Sincerely,

P. Lynn Scarlett
Assistant Secretary
Policy, Management and Budget

GAO Comments

The following are GAO's comments on the Department of the Interior's letter dated December 11, 2001.

1. We amended the draft on page 55 to clarify that the Department of the Interior did not fill the position of federal programs coordinator until 1997. The Department of the Interior, in commenting on this draft, stated that a field representative covered the FSM, the RMI, and Palau in 1990, implying that it met its requirement to provide federal program coordination. However, discussions with the field representative revealed that he was neither given the authority, nor had the means, to coordinate the federal programs in the FSM and the RMI until 1997.

2. We amended the draft on page 56 to clarify that the Department of the Interior's federal program coordinator's report did not usually include recommendations.

Comments from the Department of State

Note: GAO's comments supplementing those in the report text appear at the end of the appendix.

United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

NOV 16 2001

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "FOREIGN ASSISTANCE: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations," GAO-02-70, GAO Job Code 711558.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact John R. Fairlamb, Bureau of East Asian and Pacific Affairs, at (202) 736-4418.

Sincerely,

Larry J. Eisenhart
Acting

Enclosure:

As stated.

cc: GAO/IRT - Mr. Benjamin Nelson
State/OIG - Mr. Atkins
State/EAP - Mr. Short

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

Department of State Comments on GAO Draft Report
FOREIGN ASSISTANCE: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations
(GAO-02-70, GAO Code 711558)

The Department of State appreciates the opportunity to review the GAO draft report "FOREIGN ASSISTANCE: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations," GAO-02-70, GAO Job Code 711558. In addition to the comments in this letter, the Department forwarded three specific recommended additions to the GAO Report text provided by our Embassy in Majuro.

This report provides a useful review of some of the Program and Services Assistance provided to the Freely Associated States (FAS) pursuant to the Compact of Free Association, and some of the problems experienced by Federal agencies in providing and accounting for this assistance. The Department concurs with the GAO view, expressed in this report, that despite these problems, many of these programs have made an important contribution to improving the health, education and welfare of the people of the FAS. At the same time, we point out that Congress added eligibility for Federal programs to the FAS after the Compact was ratified. It is unclear whether in doing so, Congress requested an assessment of the appropriateness or problems Federal agencies might encounter providing these programs. The Department recommends that no new eligibility for Federal programs, beyond that already authorized, be granted without such an assessment.

See comment 1.

We agree with GAO's recommendation that an overall assessment of the effectiveness and appropriateness of continuing program and services assistance to the FAS would be valuable. Responsibility for such an assessment is continuous and rests with the parent organizations (and Region IX offices). The Department could contribute to a joint assessment of programs, but would need the resources in many cases to contract out the work recommended by the GAO. State does not have the technical expertise to conduct such a comprehensive assessment.

Past history demonstrates the difficulty in assigning such oversight to a single department or agency. In

approving the Compact, Congress assigned to the Department of the Interior the task of monitoring and overseeing several dozen categorical grant programs, but did not provide Interior the resources to accomplish the task. As the GAO has indicated, that task, which involves assessing the effectiveness of a panoply of program and services assistance, reporting findings to Congress, and recommending the continuation or termination of several dozen Federal programs lying outside the purview of either department, is largely outside the existing expertise or personnel staffing levels of any single agency or pair of agencies.

For these reasons, we suggest that GAO consider these resource issues carefully before recommending that Interior and/or State be assigned to such an oversight role. In particular, GAO should explain how the U.S. Government entity charged with program oversight can ensure a satisfactory division of labor between the grant-making departments and agencies, and identify the resources needed to support the task.

As a final comment, the Department feels it important to correct the impression on page 45 of the report that our negotiating strategy envisions ending program assistance at the end of the next period of Compact economic assistance. In our negotiations to date, we have said only that the USG will agree to extend program assistance to the extent that such assistance, services and programs were available to the FSM on October 1, 1999 for the next period of Compact economic assistance. Thus far, we have left open the decision on whether or when program assistance might end, but we have signaled our intention to establish a process designed to provide periodic review of the continued utility of each program currently offered to the FAS.

See comment 2.
Now on p. 60.

If there are any questions concerning this response, please contact John Fairlamb, Office of Compact Negotiations, Bureau of East Asian and Pacific Affairs, at (202) 736-4418.

GAO Comments

The following are GAO's comments on the Department of State's letter dated November 16, 2001.

1. In commenting on our draft report, the Department of State reported that it supported GAO's recommendation but lacked the resources and technical expertise to conduct a comprehensive assessment of program assistance to the FSM and the RMI. We recognize that State lacks the resources and technical expertise. For that reason, our recommendation calls for State to work in consultation with the Department of the Interior and those federal departments with programs in the region, as well as with the Federal Regional Council, to take advantage of their resources and technical expertise to develop the joint report to the Congress. Given the unique opportunity presented by the Compact renegotiations, we believe this is an appropriate time to reassess the basis and conditions for providing U.S. program assistance to the FSM and the RMI.

2. We have added language to page 60 to clarify State's current position.

Comments from the Department of Health and Human Services

GAO's comments supplementing those in the report text appear at the end of the appendix.

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Washington, D.C. 20201

DEC 3 2001

Mr. Loren Yager
Director, International Affairs and Trade
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Yager:

Enclosed are the Department's comments on your draft report, "Foreign Assistance: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Nations." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department also provided extensive technical comments directly to your staff.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

Janet Rehnquist
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT " FOREIGN ASSISTANCE: EFFECTIVENESS AND ACCOUNTABILITY PROBLEMS COMMON IN U.S. PROGRAMS TO ASSIST TWO MICRONESIAN NATIONS"

The Department of Health and Human Services appreciates the opportunity to comment on the General Accounting Office's (GAO) draft report, which included reviews of the Head Start and Maternal and Child Health Block Grants programs, two of 13 programs GAO selected for review.

General Comments

See comment 1.

Head Start has had a significant presence in Micronesia through grantees in Chuuk, Pohnpei, Yap, and the Republic of the Marshall Islands (RMI), which annually serve over 3,000 low-income children and their families. While GAO's report acknowledges a lack of resources, which impede on the overall success of the Head Start program, we do not believe the report provides a balanced look at the program's achievements. Children receive medical and dental screening and follow-up treatment; children receive up-to-date immunizations; an increasing number of teachers have their degrees in Early Childhood Education or their Child Development Associate credential; children are learning to read and write in English; and literacy has been a priority in educating the whole family.

In addition, the Federal Regional Council's (FRC) Outer Pacific Committee in their initial report dated March 2000 expressed concerns about the quality of results being achieved in the Pacific jurisdictions with Federal funds, the level of accountability, and the inability to provide technical assistance in a sustainable way. These concerns resulted from fragmented services, inadequate systems of data collection, and lack of consistent attention and follow-up due to limited time and travel budgets. The GAO report not only substantiates the concerns of the FRC, but acknowledges that the FRC must be an involved partner if program effectiveness and accountability are to improve in the Pacific.

The continuation of many programs are closely tied to the Compact of Free Association (Compact) renegotiations that started in the last year between the Department of State (State) and the Federated States of Micronesia (FSM) and RMI. With the recent departure of the chief negotiator from State, the status of the economic provisions that expire in Fiscal Year 2002 are uncertain at this time. However, both the Department's Administration for Children and Families and Health Resources and Services Administration (HRSA) have indicated that program outcomes have greatly benefited these jurisdictions.

Uniform reporting, data collection, and accountability requirements must be the principal goal of any program redesign. The GAO report vividly points out that nine Federal programs in FSM and RMI all "had different accountability requirements." The FRC had participated in a national conference held from October 17 through October 20, 2000 in San Francisco entitled, "Strengthening Federal-Insular Grant Alliance" and sponsored by

the U.S. Department of Interior (DOI) and the Interagency Group on Insular Areas. What emerged from the conference was the need for the Federal Government to develop best practice models to facilitate improved grant management and to advocate for more flexible grant programs and streamlined application, data collection, compliance and reporting requirements. These recommendations remain especially true in light of the draft GAO report.

See comment 2.

The draft report is not correct when it attributes to FRC a recommendation that it was "essential that an on-site representative be appointed (unaware that an Interior representative has provided an on-site presence for the past 4 years)...." The FRC was aware of DOI's lone Federal coordinator, which was the reason for a recommendation that a Federal coordinator be appointed for each of the flag territories and the freely associated States. These coordinators must also see themselves as being responsible for coordinating all Federal issues and not merely for DOI or State issues.

The GAO report recommends that DOI and State consult with the relevant government agencies and FRC in addressing the issues raised within the report. The Department's Region IX is a principal partner in serving constituencies in the Outer Pacific. The FRC should be consulted by both DOI and State as each carries out its respective roles and responsibilities in the pacific jurisdictions.

GAO Finding

The Pohnpei Head Start Program fired its entire accounting department in 1999 for stealing program funds. A 1999 audit report identified more than $300,000 that was unaccounted for and found significant mismanagement, fraud, and loss of control over finances.

Department Comment

See comment 3.

The Pohnpei Head Start Program notified the Department in 1999 of the misappropriation of approximately $10,000 found during the annual audit. The 1999 audit identified $341,378 in questioned costs, which the grantee subsequently responded to with appropriate documentation. The Pohnpei Head Start Program received about $1.1 million in Head Start funding for 1999. The Department's Office of Inspector General was notified and the grantee was advised to take appropriate legal and financial actions to prevent other potential problems.

GAO Finding

Head Start's overall effectiveness could not be determined because the program lacked impact data to evaluate the program's impact on school readiness and cognitive development. GAO assessments of Head Start programs in the United States have concluded that, because of research limitations, program effectiveness could not be determined.

Department Comment

See comment 4.

The GAO is referencing a 1997 GAO report in this current evaluation of Micronesia. The Department requested that GAO delete this reference in our initial draft comments because it is set in a different context, and subsequent GAO and research findings have concluded the effectiveness of the Head Start program.

GAO Finding

MCH Block Grant Program. The program was intended to improve the health of mothers and children and reduce mortality rates. However, the lack of equipment, medical specialists, data collection capabilities, and local government support for preventive health care limited the accomplishments of this program. For example, the FSM and RMI programs were exempt from meeting six of the 18 performance measures for the program, and had difficulty meeting others, due to lack of needed equipment, medical capacity, and support programs that were available only in the United States (such as Medicaid). Additionally, the high mortality rate, a key measure of program success, could not be reduced because of health care limitations and the lack of basic sanitary conditions, like clean water and healthy food, necessary for public health. Moreover, data collection limitations within the FSM and the RMI have hindered the ability of the HHS to determine program effectiveness. Lastly, the U.S. MCH Program generally supplements state and local health care initiatives; both the FSM and the RMI governments lacked these state or local services. Because the FSM and the RMI relied on the program as their primary preventive health care system, the program was overwhelmed by the social and economic conditions that were causing declines in the general health of the populations, including maternal and child health. The U.S. MCH officer responsible for the FSM and RMI programs was pessimistic about the ability of the MCH programs to succeed because of the social and economic problems in each nation.

Department Comment

See comment 5.

The third sentence implies that FSM and RMI have been exempted from six of the 18 MCH performance measures because of the problem identified in the previous sentence. A more accurate rationale for why these nations are exempt from some performance measures is that some measures are predicated on participation in particular Federal programs, such as Medicaid and Supplemental Security Income which are unavailable to the FSM and RMI under existing law.

Under this same finding a statement reads as follows: "Because the FSM and the RMI relied on the program as their primary preventive health care system,...."

See comment 6.

The above might be an overstatement. The HRSA's Bureau of Health Professions, through the Division of Medicine and Dentistry, continues to fund a Continuing Medical Education (CME) program for providers in the Pacific Basin, including FSM and RMI. In the first year (1999) of that program, the investigators reported a count of providers

(physicians, nurses, dentists, and allied health personnel) in nine jurisdictions along with their CME needs. The majority of providers counted in each jurisdiction practice primary care, which would include preventive medicine, and were residents of FSM and RMI. Many of the providers are graduates of the Pacific Basin Medical Officer Training Program (PBMOTP) that was sponsored by HRSA's Bureau of Primary Health Care, and has now sunset. Many of the PBMOTP graduates function as physicians in these jurisdictions.

See comment 7.

The last sentence stated, "The U.S. MCH officer responsible for the FSM and RMI programs was pessimistic about the ability of the MCH programs to succeed because of the social and economic problems in each nation."

We do not believe this statement this is an accurate characterization of the program by the MCH Officer from Region IX. The statement should read, "The U.S. MCH Officer responsible for the FSM and RMI programs acknowledges the overwhelming need in these island nations and the technical assistance required by the MCH programs to succeed because of the social and economic problems in each nation."

GAO Comments

The following are GAO's comments on the Department of Health and Human Service's letter dated December 3, 2001.

1. We believe our report provides a balanced review of the program's achievements. We state in the lead sentence of our Results in Brief that many federal programs provided numerous, and in many cases critical, services to the FSM and the RMI. Head Start was included in this assessment. In addition, we stated on page 13 that the Head Start program provided comprehensive health, education, and nutrition services to 1,800 preschool children each year in the FSM and 1,200 each year in the RMI. For both countries, we noted specific accomplishments of the Head Start program.

2. Our report did not state that Federal Regional Council made a recommendation; rather, it simply quoted the council report, in which the council "concluded that it was essential that an on-site federal grants coordinator be appointed..." to each nation. We removed the statement that council members were not aware that an Interior representative already provided an on-site presence.

3. We added a footnote to page 44 to incorporate HHS's statement that the grantee provided documentation for the $341,378 in questioned costs. However, neither HHS nor FSM officials indicated during the audit that the Pohnpei program subsequently provided appropriate documentation for the questioned costs. As a result, we were not able to independently verify HHS's statement or to review the supporting documentation.

4. HHS is not correct in stating that GAO and research findings have concluded that the Head Start program is effective. GAO, in its 2001 report on Head Start, stated that there is still insufficient research to draw conclusions about the effectiveness of the program.[41] The report also stated that, based on GAO's recommendation, Congress mandated that HHS fund and conduct an evaluation of the impact of the Head Start program. The final report is not due until 2006.

5. We added language to page 31 to clarify this point.

[41] *Early Childhood Programs: The Use of Impact Evaluations to Assess Program Effects* (GAO-01-542, Apr. 16, 2001).

6. We added language to page 31 attributing these statements.

7. We have clarified on page 31 that it was the former Maternal and Child Health program manager who provided us with this information just prior to his retirement. We also added a footnote that the current U.S. MCH officer responsible for the FSM and the RMI programs also acknowledges the overwhelming need for technical assistance because of the social and economic problems in the FSM and the RMI.

Comments from the Government of the Federated States of Micronesia

GAO's comments supplementing those in the report text appear at the end of the appendix.

EMBASSY OF THE
FEDERATED STATES OF MICRONESIA
1725 N. STREET, N.W.
WASHINGTON, D.C. 20036

Office of the Ambassador

TELEPHONE (202) 223-4383
TELEFAX: (202) 223-4391
EMAIL: FSMAMB@aol.com

December 10, 2001

Mr. Loren Yager
Director, International Affairs and Trade
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Yager:

Subject: Foreign Assistance: Effectiveness & Accountability Problems Common in U.S. Programs to Assist Two Micronesian Countries (GAO-02-70)

It is with pleasure that I forward the attached response on behalf of the Government of the Federated States of Micronesia to the proposed draft GAO Report: Effectiveness & Accountability Problems Common in U.S. Programs to Assist Two Micronesian Countries (GAO-02-70).

We very much appreciate the opportunities extended to us to comment on the GAO draft reports. We value our relationship with the people and the government of the United States under the Compact of Free Association and believe that continued and open dialogue between our two countries only support and strengthen that relationship.

If there are any questions concerning our response to the proposed draft, please do not hesitate to contact my office. Thank you.

Sincerely,

Jesse B. Marehalau
Ambassador

Enclosure (6 pages)

**COMMENTS 0F THE GOVERNMENT OF
THE FEDERATED STATES OF MICRONESIA (FSM)
ON THE GAO DRAFT REPORT:**

"FOREIGN ASSISTANCE

**Effectiveness and Accountability Problems Common
In U.S. Programs to Assist Two Micronesian Nations"**

December 10, 2001

Overall, it can be said that the FSM Government finds more in this Draft Report with which it can agree than was the case with most other recent GAO reports concerning U.S. assistance to the Freely Associated States. The GAO premise, clearly stated as the Report's title, is, of course, unchallengeable. This should come as no surprise to anyone. It was virtually inevitable from the beginning that there would be implementation, performance and accountability problems in adapting programs and activities designed for U.S. states to a culturally different, undeveloped region in the middle of the Pacific Ocean. We would suggest a different title for the Report, namely, "U.S. Programs to Assist Two Micronesian Nations Have Been Surprisingly Successful Against Almost Insurmountable Odds."

While the FSM National and State governments must take our share of the blame for the problems that have been experienced with U.S. federal programs, we are gratified that the Draft Report fairly cites the difficult conditions in the FSM and the low level of mentoring and monitoring by the U.S. Government as having played large roles in holding back program performance.

We have no quarrel with the selections made by the GAO as to which, among many programs to examine. The list they chose seems reasonably representative, given the time and resources they had. It is disappointing, however, that they chose to confine their report to program activities in only two of the four FSM States that account for less than half of the total FSM population. Had they gone to Yap, for example, they would have discovered a far more positive situation in elementary and secondary education than they portray in the Draft Report as a nationwide condition.

See comment 1.

It is also to be regretted that this Draft Report continues the format of previous reports by intermingling references to the FSM and the RMI in such a way that the reader is left to assume that what exists in the RMI also applies to the FSM. Example: The Draft Report, on page 22, cites a "low, 9 percent" graduation rate at the College of the RMI, and immediately thereafter seeks to make a point asserting the "low graduation rate" "in both countries." In fact, the graduation rate at the College of Micronesia-FSM is almost 30 percent, (and rising), a rate that compares favorably with many colleges in the U.S. This is only one of many instances throughout all the GAO Reports where the GAO has used selective information to reduce both Micronesian countries to a lowest common

See comment 2.

1

See comment 3.

denominator. We continue to feel that it is misleading to the U.S. Congress and unfair to both countries.

We understand the specialized meaning of the term, "effective," as defined by the methodology of the Draft Report. We would hope, however, that a reader would not be led to conclude that the nine programs which failed the GAO's "effectiveness" test have been failures by normal perceptions. Even the GAO seems to conclude, and we agree, that these programs, despite obstacles, have succeeded in delivering crucial services to the people of the FSM, without which in future a serious diminution in essential social services would occur. Surely, it is only fair to point out that, due to the inherent and inescapable disabilities of the FSM that are recognized and listed by the GAO, virtually any FSM-administered program would fall somewhere short of the standard established by the GAO – that it must "overcome conditions that could significantly reduce broader program accomplishments or increase costs." How many programs within the U.S. itself could meet this literal requirement? One is led to question the useful relevance of the judgmental aspect of this Draft Report.

We do not, however, question the broad usefulness of the Draft Report. The FSM Government strongly endorses the need to address on a priority basis each of the six areas identified in the Recommendation section of the Draft Report. We would only suggest that the list of those with whom consultation is to take place should include the FAS Governments. We also observe, without disputing the need for a comprehensive report to the U.S. Congress, that such a report, at best, could only make initial recommendations. The six areas to be covered must remain under constant review throughout the term of future Compact assistance.

This seems a good place to point out that, at the opening round of US/FSM Compact renegotiations the FSM Government, on November 5, 1999 took the initiative to propose four basic principles that a future Compact revision should incorporate. One of these was that, "The parties are jointly committed to more effective accountability under the Compact." The United States Negotiator agreed to the four principles, which continue to guide the negotiations today.

Addressing the principle quoted above, on April 19, 2001, the FSM Government formally proposed to the U.S. Compact Negotiator the inclusion in the future Compact arrangement of a permanent monitoring and management body that would be jointly manned by representatives from the U.S. and FSM governments. This body, which we have called the "Joint Economic Management Mechanism" (JEMM), would have a broad range of responsibilities to provide constant oversight of the expenditure of Compact grant funds, as well as of the operation of U.S. federal programs, in light of the agreed goals and objectives of the parties.

The full panel of the JEMM would meet at least once a year, but it would have been kept informed of developments via internet and other means, and provided recommendations, by a full-time Joint Secretariat, based in Pohnpei, of a size determined by need. We strongly believe that such a mechanism, appropriately empowered and sufficiently

funded, could overcome many of the obstacles that have hindered progress up to now, and substantially ensure future effectiveness and accountability for both Compact funds and U.S. federal program activities. We also believe it would build increased confidence on the part of both Governments, and further strengthen the existing bond between us.

Another important point on which the FSM Government agrees with GAO is the need to make effective preparations for the termination of direct U.S. assistance to the FSM, both budgetary and programmatic, "by a date certain." Some have called this the "exit strategy." To that end, the FSM proposed at the first round of renewed Compact negotiations the establishment of a Trust Fund, funded by U.S., FSM and other contributions over the next period of U.S. Compact assistance. The goal would be to accumulate a Trust corpus sufficient to yield annual earnings that would replace the need for annual U.S. direct assistance to the FSM as of the scheduled expiration date of that assistance. To be successful, this strategy would require an adequate level of U.S. financial assistance during the buildup of the Trust Fund to facilitate sustained economic growth, especially growth of the private sector.

The GAO observes at several points in the Draft Report how economic downturns in the FSM triggered, particularly, by the last five-year stepdown in Compact grant funding, have hampered the success of some U.S. federal programs by decreasing locally-generated revenues and depressing private sector activity. GAO stated that this has negatively impacted FSM governments' ability to contribute to some sectors in which U.S. programs are active, and has also retarded the private sector job market. We find this to be an accurate observation, and suggest that the way to avoid this in future is to secure an adequate level of U.S. Compact assistance at a constant level, as per the FSM's proposal currently on the table in the Compact negotiations.

In addition to these general comments, and notwithstanding that the FSM Government has no dispute with most of the Draft Report's findings and recommendations, we nevertheless offer the following, page-specific comments:

See comment 4.
Now on p. 4.

Page 4: Instead of saying that, "Theft, fraud, or abuse of program funds were evident in" five listed programs, we feel that, on the basis of evidence cited by GAO, it would be fairer to say that, "Isolated instances of theft, fraud, or abuse of program funds were found in" the five. Otherwise, the impression is given that these programs were rife with such instances, and that is not supported by, nor fairly inferred from, GAO factfinding.

See comment 5.
Now on p. 12.

Page 12: The section headed, "Programs Provided Diverse and Important Services" should be given close attention. Where it is stated that, "Program managers doubted that their own governments would finance these activities in the absence of U.S. federal programs," the point is not that their governments don't care about these activities. The point is that all available funds are committed, so, FSM Government funding to replace a terminated U.S. federal program activity could only come at the expense of some other ongoing Government-funded activity. Even in Micronesia, a dollar can only be spent once.

See comment 6.
Now on p. 13.

Page 14: The statement is made that, "SEPPIE funded almost all special education expenses. The remaining expenses were covered by U.S. Compact funds passed through the FSM governments." This erroneously assumes no component of FSM revenues, because all "U.S. Compact funds" are commingled with local revenues. We cite this here as an example of commentary throughout the Draft Report, which leads one to believe that whatever was not funded in these areas directly by the programs themselves was funded by "U.S. Compact funds," with no Micronesian input. FSM's locally generated revenues up to now have been increasing against the proportion of total revenues accounted for by U.S. assistance, as recognized by the GAO in its first of these many Reports. Hopefully, this trend will continue, but it is simply inaccurate and misleading to make statements assuming that any support for sectoral activity not met by Program funding is supplied only by "U.S. Compact funds."

See comment 7.
Now on p. 25.

Page 20: At the end of an otherwise very insightful paragraph, it is truly unfair for GAO to say, "Finally, the poor performance of FSM and RMI postal services prevented successful mail service." Never mind that this sweeping indictment is thoroughly qualified elsewhere in the Draft Report, for the few who may read on for the details. Mail service is an important issue, and it has been treated as such both by the USPS and the FSM Postal Service from the very beginning. There have been horrendous difficulties in the region with mail service that go far back into the Trust Territory days. The main problem is, and always has been, sporadic delivery of the mail via limited and unpredictable air service. This is not an attempt to sweep under the rug our own lingering inadequacies within the FSM postal system, but we would venture to say that the relationship between the USPS and the FSM Postal Service is as close as exists between any counterpart agencies of our governments. The instance here of the GAO, sitting back and saying from the perspective of a recent flying visit by well-meaning investigators that our "poor performance" resulted in a failure of "successful mail service" must be comparable to what King George's agents would have reported regarding the American colonies when His Majesty's unreliable shipping was the root of the problem.

See comment 8.
Now on pp. 29, 14, and 72.

Page 22: Pell Grants: This comment also pertains to pages 15 and 57 of the Draft Report. While it is recognized that this report focuses on program activities in Micronesia, the subject of Pell Grants cannot be addressed without taking into account the graduates of the nation's high schools and those graduates of the College of Micronesia-FSM who utilize Pell Grants to pursue college studies in the United States. This missing aspect of the Draft Report leaves us in an incomplete universe when addressing the subject of the Pell Grant program in Micronesia. It ignores the role of the College of Micronesia-FSM in sending its graduates on for further study in the United States.

See comment 9.

It cannot be denied that the Pell Grant recipients play an important role in funding for the College of Micronesia – FSM, but the GAO paints too extreme a picture when it seeks to suggest that, without the inputs of Pell Grant students, the Institution would collapse. Somewhere around 60% of the College's operating revenue is derived from tuition, fees, and room and board payments by students. [Approximately 80% of our students receive

Pell Grants, which provide significant, but not total assistance to them in meeting their financial obligations to attend the College. These, along with other students, work in a variety of ways to meet their full obligations.] The remaining 40% of the College operating revenues comes from annual National Government appropriations representing Compact funds in part, and local revenues.

It is simply incorrect to say that, because of a "low" graduation rate from the COM/FSM the nation is experiencing an influx of skilled foreign workers and managers. First of all, as pointed out earlier, the graduation rate is not "low." Second, the premise that young Micronesians are not coming along to fill key skilled positions is false. The pace is indeed quickening, as witness for example, the presentation by two budding Micronesian economists of a PowerPoint briefing to Compact negotiators on the outlook for the FSM economy given various levels of U.S. assistance.

See comment 10.
Now on p. 44.

Page 32: Regarding the Pohnpei Head Start program, the Draft Report, in essence, asserted that $300,000 was stolen. A closer look reveals that, yes, there was some misappropriation briefly by people who were fired, but the bulk of the $300,000 had to do with unaccounted travel costs that were subsequently confirmed. Relatively minor problems? Yes. Significant scandal? No.

See comment 11.
Now on p. 45.

Page 33: It is unworthy of the GAO to target the College of Micronesia-FSM as they have on this page, especially following GAO's interview with the College President during which it was pointed out that the College itself first discovered the overpayment by the US Department of Education of $1.2 million and brought it to the Department's attention. By the way, following the 1999 unqualified audit opinion, the College has received another unqualified opinion for 2000. The GAO should be giving credit where credit is due, rather than stretching to present negative implications.

See comment 12.
Now on p. 46.

Page 34: The Draft Report erroneously states that the U.S. Embassy suspended the FSM's Rural Housing Service program in 2000 "for making inappropriate loans to the FSM President and others." This is incorrect. A cable dated June 9, 2000 from the U.S. Embassy in Pohnpei to the U.S. State Department states: "OPERATIONS OF POHNPEI STATE OFFICE OF USDA-RURAL DEVELOPMENT WERE SUSPENDED ON JUNE 9 DUE TO SERIOUS ALLEGATIONS IN DRAFT AUDIT ON USE OF $479,000 PROVIDED TO USDA BY FSM CONGRESS." Nothing in that draft audit had anything to do with allegedly inappropriate loans.

Not to trivialize that situation, and not to deny that improprieties with this program did take place, we submit the following in light of the GAO's curious enthusiasm to highlight loans advanced to "the FSM President." GAO infers, contrary to fact, that the President received two loans, each in excess of maximum allowable amounts. First of all, the "President" was then a Member of the FSM Congress. The first loan for which he fully qualified ($75,000) according to RHS program regulations then applicable was explicitly and solely for the first story alone (within "modest" standards) of an eventual two-story dwelling. The second loan ($20,000) was for site improvements including a driveway when it was discovered that construction equipment could not reach the steeply uphill

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building site. This loan was specifically approved by the Hilo, Hawaii Director of the Program. The second story of the (since) President's house was added with funds provided by the FSM having nothing to do with the RHS. Well prior to the assignment of GAO to produce this Draft Report, both of these loans were fully repaid.

Bottom line here is that the juxtaposition of the photograph in the Draft Report of the President's house, on the one hand, with a far more modest dwelling, on the other, is too clever by half, but certainly calculated to produce a natural response from the casual reader. Is it fair? Of course not.

Now on p. 69.

Page 56: One of the FSM's education officials reacted to this discussion of the FASEG program by asking, "How can we be held to a standard of making "significant improvements" when we're just struggling to make ends meet?" This brings a human element to the overall message of the Draft Report. The need for significant improvement at all levels of the FSM educational system cannot be denied. However, it is far too easy just to say that more local revenues should be dedicated to these uses. It is also too easy to suggest a reordering of priorities. If anyone thinks that there is "double dipping" going on with regard to U.S. support for education in Micronesia, let that person step back and understand that the "single dip" has everyone severely stretched.

* * *

The FSM Government appreciates this opportunity to comment on the Draft Report, and looks forward to a continuing dialog with all who have roles to play in developing policies and opinions within the Legislative Branch on the future of the Compact of Free Association.

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GAO Comments

The following are GAO's comments on the Government of the Federated States of Micronesia's letter dated December 10, 2001.

1. Because of past FSM and RMI concerns about formatting issues, the draft that GAO provided had separate evaluations of each nation's performance in appendix II of the report, to ensure that the two nations were separately listed.

2. According to the Asian Development Bank and others, although the college does not track student attrition rates, and consequently lacks hard data on student graduation rates, it has a low graduation rate. According to the Asian Development Bank's study (*Federated States of Micronesia: Human Resources Study: Health and Education*, Dec. 1999), the "actual graduate output of the COM system is quite small, with only 139 graduates from the national campus in 1998." During this period, there were 775 full-time enrollments. In addition, the report noted that the college lacked an accurate student tracking system necessary to develop correct statistics. For example, no data were kept on student attrition rates. In addition, the college's 1998 accreditation report found that the college lacked information on student retention rates, completion rates, and graduation rates, and that with 80 percent of the incoming freshmen academically unprepared for college, the college could not effectively help students who experienced academic difficulty. According to the college president, only 50 percent of the applicants to the college met the college requirements for entrance; of those, 80 percent were placed in remedial math and English classes. According to the president, those students often exhausted their Pell Grants before they were ready for credit courses and thus lost the financial resources necessary to continue their schooling, contributing to the low graduation rate from the college.

3. GAO did not state in the report that any of the nine programs were "failures." We stated, in the opening sentence of our Results in Brief, that the programs we reviewed provided numerous, and in many cases important, services to the citizens of the FSM and the RMI and that U.S. embassy, FSM, and RMI officials reported that these were critical programs in each country. We also documented those accomplishments, by program and by country, in table I of this report. To the question that the FSM posed concerning how many programs within the United States itself could meet the assessment standard, we

point out that four of the programs in the FSM and the RMI successfully met program standards and goals without significantly increased costs.

4. We are not in a position to know whether or not these programs are rife with theft, fraud, and abuse. Because of time and resource constraints while in-country, we were able to conduct only limited evaluations of the accountability of each program, and we are unable to say what was undetected. However, the auditors were surprised to find accountability problems in two-thirds of the programs they selected and instances of theft, fraud, and abuse in 5 of the 12 programs.

5. We incorporated this clarification on page 12 of the report.

6. Program managers from SEPPIE, FASEG, Head Start, and other programs consistently told us that almost all program funds came either from U.S. program or U.S. Compact funds. In addition, the Asian Development Bank found in 1998 that only $560,000, or 2 percent of the FSM national and state budget allocations for education, came from locally generated revenues. The remaining 98 percent came from U.S. grants or Compact funds. Although these locally generated revenues may be increasing, FSM special education officials told us that it is unlikely that greater levels of local funding for special education would become available unless new funding sources were identified. We repeatedly asked FSM program managers, as well as our liaison officer from the FSM finance department, for data specifying by program the amount of locally generated revenue, but these data were never provided.

7. We changed the text on page 25 to state that mail delivery was delayed.

8. This information was included in the draft report and can be found on pages 14 and 72. We agree that Pell Grants offer an important opportunity for FSM students to pursue college studies in the United States. Although we tried to examine this aspect of the program, for example, by quantifying the number of FSM students who graduated from U.S. institutions, neither the FSM government nor the U.S. Department of Education was able to provide this information.

9. There is overwhelming evidence that, without Pell Grants, the FSM college would collapse. For example, in documentation prepared for our visit, the college provided an analysis of the loss of U.S. student financial aid, of which Pell Grants are the largest source. The analysis

found that the loss of these funds would have a "devastating effect," as 50 percent of the college revenues is derived from this assistance. It also stated that the FSM government funds are "non-existent" to make up for the loss of U.S. student assistance funds and that, therefore, if the college "were to lose access to U.S. student financial assistance programs, most, if not all, of the programs would close down." In addition, in its December 1999 report, the Asian Development Bank found that financing for education was "almost totally reliant on U.S. funding either through Compact funds or access to U.S. grant programs. The FSM is largely dependent on external sources of funding for its education system—without these funds the system in its current form would collapse."

10. We added clarifying language to page 44 of the report. The three accounting department officials admitted to stealing about $11,500.

11. We added language to page 45 clarifying this point and to emphasize the efforts made by the FSM college to improve accountability.

12. When people at or near the top of any nation's government receive assistance that was designed for the neediest, they should not be surprised that such assistance receives extra scrutiny. Our findings draw on our own review, as well as on reports by the Inspector General. The Department of the Interior Inspector General detailed this particular case in a September 1999 report:

The Pohnpei Local Office made Rural Development Direct Single Family Housing Program loans to borrowers who constructed houses that exceeded what would be considered a modest house design on the island of Pohnpei and made a loan to one borrower that exceeded the maximum authorized loan amount by $15,000….

The Code of Federal Regulations (7 CFR 3550.57(a)), in defining a "modest dwelling," states, "The property must be one that is considered modest for the area, must not be designed for income providing purposes…."

Our [the Inspector General's] review of the floor plans in the loan file disclosed that the design of the house appeared to exceed what would be considered a modest house on the island of Pohnpei. In addition, we noted a May 23, 1998, entry in the running case record stating that the Pohnpei local office's engineer visited the construction site and found that the design of the house had been changed to include the construction of a second floor. However, no action was taken by the Pohnpei local office to stop the construction of the second floor. We also noted, based on documents in the loan file, that the borrower had required an additional loan of $38,000 to complete the construction of the house. However, in an October 29, 1998, letter to the borrower, the Pohnpei local office stated that "we are unable to approve your application on the basis that your total indebtedness with the agency

will exceed the present authorized loan limit." As a result of our review of the loan file, on March 16, 1999, we visited the construction site and found that a two-story house, which appeared to be more than modest, was under construction.

We were told in April 2001 that the local trustee agency for the Rural Housing Service, the Pohnpei State Housing Authority, had paid off the USDA loans from the escrow account set up to pay off any defaulted loans. This depleted the escrow account, and the Pohnpei State Legislature had to appropriate funds to replenish the account.

We have also added another photograph in figure 17 of a modest house to contrast with the photographs of the nonmodest houses.

Comments from the Government of the Republic of the Marshall Islands

GAO's comments supplementing those in the report text appear at the end of the appendix.

EMBASSY OF THE REPUBLIC OF THE MARSHALL ISLANDS
2433 Massachusetts Avenue, N.W.,
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December 10, 2001

Mr. Loren Yager
Director, International Affairs and Trade
U.S. General Accounting Office, Room 4T55a
441 G Street, NW
Washington, D.C. 20548-0001

Dear Mr. Yager:

I appreciate your willingness to provide the Government of the Republic of the Marshall Islands (RMI) opportunity to comment on the drafts of your reports. I am pleased to provide you with comments on your most recent draft report entitled *Foreign Assistance: Effectiveness and Accountability Problems Common in U.S. Programs to Assist Two Micronesian Countries.*

As you will see from the attached response from the RMI Government, implementing programs designed to serve communities in the United States has proved to be challenging. By the same token, U.S. Federal programs are of critical assistance to the RMI, particularly in the education and health sectors. The RMI Government relies on U.S. Federal programs to provide the most basic health and education services to our population.

I hope you will take time to consider the reactions of the RMI Government in the final version of your report. If you have any questions about the content of the RMI Government's response, please feel free to contact me at anytime.

With Best Regards,

Banny deBrum
Ambassador to the United States

RMI RESPONSE TO DRAFT GAO REPORT ENTITLED "FOREIGN ASSISTANCE: EFFECTIVENESS AND ACCOUNTABILITY PROBLEMS COMMON IN U.S. PROGRAMS TO ASSIST TWO MICRONESIAN COUNTRIES"

The RMI national government has reviewed the draft GAO report on U.S. federal programs with RMI officials having responsibilities directly related to operation of such programs and services in the RMI. These programs are authorized and implemented under Sections 221-226 of the Compact of Free Association as approved under U.S. Public Law 99-239, and the Federal Programs and Services Agreement concluded pursuant Section 232 of the Compact.

In general, there is recognition and agreement that federal programs conceived for implementation in the mainland United States have had to be adapted to realities of life in the RMI. While there are effectiveness and accountability problems as noted by the GAO, it is the view of the RMI that both U.S. and RMI officials responsible for program operations have been resourceful and dedicated in delivering services in a manner that contributed to the well-being and development of the RMI. These programs have been important to the success of free association during the first 15 years.

Most of the federal programs now being provided under the Compact were being provided in the RMI under the trusteeship, and those that were not have been extended during the first 15 years of free association by Congress in order to ensure that free association under the Compact would not terminate U.S. commitments and responsibilities to promote the political, social and economic development of the RMI. As such, these programs were extended by Congress to support U.S. national interests in the strategic partnership under the Compact, and to ensue that free association would not in an unintended way become a halfway house to simple non-associated independence.

For the free association political status model to operate as a framework for evolution of close relations, rather than abandonment of the RMI by the U.S. as former administering power of a trusteeship, Congress sought to ensure that U.S. federal programs that were operating in the RMI under the trusteeship, however imperfectly, were not simply terminated along with the trusteeship itself. The programs added under 48 U.S.C. 1905 (h) and other provisions of law and agreements were deemed necessary by Congress in order to ensure that free association sustained rather than ended the economic assistance role of the federal government that had developed during four decades of trusteeship.

The GAO argues that the State Department should play a management and direct supervision role in implementation of any federal programs in the RMI, again incorrectly characterizing Compact economic assistance as a form of "foreign assistance". However, the applicable provisions and legislative history of the Compact leave no room for doubt that Congress intended U.S. domestic programs to operate in the RMI as much as possible as they had during the trusteeship, adapted, again, to the conditions of life in the islands. For that reason, Congress specifically and expressly provided that the State Department would not play the role now urged by the GAO.

Thus, under 48 U.S.C. 1905(3) Congress assigns federal program supervisory responsibilities to the Secretary of the Interior. While the U.S. Ambassador in the RMI has authority with respect to U.S. personnel in the RMI, the division of responsibility between the Secretary of State and the Secretary of the Interior set forth in Section 1905 was implemented by President Reagan under Executive Order 12596. This arrangement is consistent with the fact that the Department of the Interior was responsible for trusteeship administration on behalf of the U.S. under the Trusteeship Agreement between the U.S. and the United Nations.

The RMI believes the reasons Congress extended domestic programs to the RMI and gave the Department of the Interior authority and responsibility for supervising these programs continue to exist. Although the RMI is not a domestic jurisdiction of the U.S., and never has been, the package of federal programs and services provided under the Compact has become a feature of the government-to-government and the people-to-people relationships that exist between our two nations.

These programs sustain the economic, social and cultural elements of the close relationship between the RMI and the U.S. that was encouraged and promoted by the U.S. under the trusteeship, and does so at a cost far below territorial status and political integration under the "commonwealth" model adopted by the Northern Mariana Islands (which was also part of the trusteeship territory). Without the inclusion of these federal programs in free association, the RMI would have had to give closer consideration to continuation of the trusteeship or territorial status.

These broad points having been made, the RMI can report that its program managers responsible for coordination of federal and RMI programs and services agree with the GAO that program management training should be improved in the future and that there be more regular contact between the program managers and their U.S. counter parts. Further, the RMI concurs that there is a need for a joint review and tailoring of these programs to address the relevancy, accountability and effectiveness of some programs.

In this regard, it has to be recognized that the RMI national and local governments do not have the financial resources of state and local government in the United States. Thus, the RMI cannot be a partner with the federal government in funding and administering some programs in the same way as the state, county and city governments in the U.S. mainland. The tax base in the RMI does not allow the RMI to implement the capacity building strategies of local governments in the U.S. in order to implement social services and programs.

For example, on the outer islands over half of the households earn less than $1,000 per year, less than $200 per capita. Structural differences in the economy and the demographics of the population contribute significantly to an unemployment rate of over 30%. It is because of these differences and challenges facing the RMI that all the program managers stressed that the need for closer cooperation on coordination, training and reporting is among the legitimate points made by the GAO report. There are methods that can be found to improve these areas, such as the delivery of training in a cost effective and program effective manner.

The RMI believes that U.S. program managers have done a good job dealing with the unconventional tasks implementing programs in the RMI. The Department of Interior has done a good job supporting program managers from other agencies to understand and work under the Compact. The State Department and U.S. embassy have played an appropriate role, but should not be expected to manage the activities of federal agencies program directly.

The State Department does not and should not have the same role in administering Compact assistance as it does in other nations with regard to foreign assistance. Compact assistance is not provided under the Foreign Assistance Act of 1961, as amended, and the Compact is a distinct and different framework for assistance than the Sate Department works under in other countries.

Thus, in the view of the RMI the GAO and the State Department need to move beyond the notion of "normalizing" assistance to the RMI based on what the Agency for International development, other federal agencies, or the State Department do in other nations around the world. That is not what Congress provided for under he Compact, and it is not what the RMI agreed to in entering into free association.

USDA – RURAL DEVELOPMENT

See comment 1.

The report also refers to the income limits used by the Rural Housing Service in its programs. The assertion that the neediest residents were not served because of the higher income limits used from the "Western Pacific Islands" is not supportable. Granted the income limits used were probably much higher in Micronesia and the RMI, the audit report did not include the income of residents actually served by the housing program to reach this conclusion in the report. Therefore, the report needs to be corrected to state that the income limits used were not reflective of the incomes on the islands because income data was not available until 1998.

See comment 2.

The report also states "USDA officials asserted that they are not required to consider repayment ability in providing housing loans." The RMI USDA office is required to determine the individuals' repayment ability at the same time the loan is being considered. However, the program manager is not required to consider possible economic downturns when underwriting individual loans. It is not correct to say the USDA failed to consider the impact of future reductions in U.S. economic assistance will have on a borrower's ability to repay since this has not been a loan underwriting condition.

HEALTH and HUMAN SERVICES

Comments on the programs and services provided under the MCH Block Grants are adequately stated. The MCH Block Grant is the only source of funding that can be utilized to send children with special health care needs (CSHCN) to Honolulu to access services that are lacking in the Marshall Islands. It is the only funding source that also enables the Maternal and Child Health Program to bring in children with disabilities (CSGCN) from outer islands to Majuro to access services from specialists who visit the

RMI. The specialties include orthopedics, ENT (ears, nose, throat) specialists and other specialized areas that are lacking in the RMI.

Compliance with the Maternal and Child Health Block Grant (MCHBG) requirements is cumbersome because the block grant requirements are designed for the United States where all services required from the grant are available. Some of the services that are required for the Ministry of Health and Environment to provide under the MCHBG selected national performance objectives are not available in the RMI. There are no services provided for neonatal intensive care. There is a lack of equipment and qualified staff to screen for PKU, hypothyroidism and galactosemia in newborns to be able to reduce the risk for other preventable illnesses such as mental retardation or growth stunting.

Furthermore, because preventative services and other health care services necessary for maternal and child health are not accessible in the outer islands, the mothers who live in the urban centers are the only ones who can access adequate health services. Screening for sexually transmitted diseases during prenatal care is not provided in the outer islands. Therefore, it is possible that pregnant mothers may be infected but have no way of knowing if screening for STD is not provided in the outer island health centers.

Other funding sources that support maternal and child health such as Immunization Grant is the only source of funds that can be used to purchase vaccines, medical supplies and materials, and enable the nurses to travel to the outer islands to provide immunization. Nurses are required to make these trips to the outer islands because (1) lack of electricity to store vaccines in the health centers and (2) most health assistants do not have immunization training. Immunization coverage has improved tremendously, and the Ministry of Health and Environment believes it is higher than the current coverage rate of 64%. However, weakness in data collection and reporting systems is another barrier due to lack of skills and capabilities in managing health information systems. The RMI has not experienced any outbreak of preventable childhood diseases since 1998.

JOB TRAINING PARTNERSHIP ACT

See comment 3.

There are three major items of concern to the RMI in this area. First, the GAO report states that in one local JTPA report there was 100% job placement, then in other local report this figure is 14%. The local program manager has no files or reports that support this seeming contradiction in reporting. The GAO report does not cite or describe the source of the conflicting information and as a result the local program manager cannot verify this important point for accuracy. The second point concerns definitions and programs. The Department of Labor – Employment Training Administration has recognized that there are differences and important economic structural differences between the Pacific region and the U.S. mainland. The result is that the Regional DOL office in San Francisco is looking into some waivers that would allow Pacific jurisdictions some program flexibility that will allow programs to more effectively address local work force needs.

See comment 4.

The GAO report also indicates that "in the RMI, poor data precluded determining JTPA's effectiveness, and poor economic conditions limited employment opportunities.) Elsewhere, however, the same report states, "the JTPA programs in the FSM and the RMI were exempt from having to meet the program's standardized reporting systems used by the Department of Labor to verify program performance. Department of Labor managers exempted the FSM and the RMI because they lacked the necessary data collection capabilities. Furthermore, U.S. program managers said they generally ignored the performance data submitted by the two nations because it was considered unreliable.

See comment 5.

It is not constructive to criticize a program for failing to meet data reporting standards from which the local program was specifically exempted, or to criticize data reports that were apparently dismissed as "unreliable" sight unseen. If the reported data is unreliable, then upon what does the GAO report base its conclusion that "poor economic conditions limited employment opportunities" for JTPA graduates? Perhaps it is better to say simply that we do not know for certain how effective the JTPA program really was.

See comment 6.

See comment 7.

The crucial anecdotal evidence that is available about the JTPA program is that its effectiveness was not limited so much by the poor economic environment, as by the limited English and mathematics skills of the students enrolled in the program. The instructors have reported that many students lacked the basic academic and personal competencies necessary to benefit fully from job training. This experience has directly contributed to the revised job training program currently being funded jointly by the Ministry of Education and the Asian Development Bank, which is designed to build on the lessons of the JTPA program. But to dismiss this entire program as a failure seems to miss the point.

See comment 8.

FREELY ASSOCIATED STATES EDUCATION GRANTS

These funds are awarded to the Ministry of Education, which in turn releases some of the available funds to support in – service teacher training, especially during the summer for Teacher Education courses in A.A. and B.A. programs. The grant provides support for teachers' tuition, fees, and textbooks for teachers attending classes at the College of the Marshall Islands as well as for University of Guam (UOG) extension courses offered through the CMI Adult and Continuing Education Office, for those students who are candidates for the B.S.Ed. degree from UOG.

The GAO report indicates that although this program "met its…limited goals to provide funding for school supplies and teacher training, because the…RMI did not provide much funding in these areas, many needs continued to go unmet…Because the program was so small relative to the needs, it could not meet all school requirements for school supplies and teacher training."

See comment 9.

While it can be acknowledged that the educational needs of the RMI are substantial, we believe that the GAO's conclusion underestimates the usefulness of this program to RMI teachers. The following table shows total registration numbers of RMI – in – service teachers in recent summer semesters. As the table shows, each summer over 200 RMI – in – service teachers continue their education and make progress on degrees

with the financial support made possible by the Freely Associated States Educational Grants. This represents a substantial percentage of the entire force of public school teachers in the RMI, and represents a very important contribution toward upgrading the level of teaching in the RMI public schools.

Registration of In – Service Teachers in Summer Semesters, 1998 - 2001

	1998	1999	2000	2001
CMI Courses	145	110	127	162
UOG Courses	74	63	67	93
Total Registration	**219**	**173**	**194**	**255**

It should also be noted that the Ministry of Education is in the process of reorganization, following the directives of the recently adopted Education Strategic Plan. Under this reorganization, the Ministry of Education has proposed that a separate office be established specifically to oversee the implementation of U.S. Federal Grants. This office will be responsible for implementation oversight and maintaining financial records for all Federal Programs.

The Ministry of Education also agreed with the report that there was inadequate program monitoring of the programs in the RMI and the Ministry feels that this was a major cause of the problems in local administration. Program managers felt that they were running things on their own and coupled with the scarce availability of local resources, this contributed to many of the problems pointed out in the GAO report.

PELL GRANTS

As the GAO report points out this is the largest single source of funds for the College of the Marshall Islands. The GAO report commented "the poor conditions of the elementary and secondary school system, the limitations of a two year college, and the lack of employment opportunities limited the potential accomplishments of the Pell Grant Program." The GAO report also indicates "in the RMI…one-half of high school graduates entered the college with the equivalent of a 4^{th} – 6^{th} grade U.S. education and required 1 – 2 years of remedial classes. This reduced the amount of Pell Grants available for graduation and contributed to the low, 9-percent graduation rate".

See comment 10.

It is true that the average high school graduate comes to the College of the Marshall Islands with 4^{th} – 6^{th} grade level of English. It is also true that many students will require 1 –2 years of remedial classes. But the GAO report neglects to indicate that the Pell Grants program specifically provides funding for ***only*** 30 credit hours of remedial work in English and mathematics. Once students have completed their remedial English and mathematics courses, they are then eligible for additional Pell funding sufficient to complete their A.A. or A.S. degrees. The remedial training students receive

at CMI, prior to student's credit level work, in no way reduces the Pell Grants available for degree program course work.

It is also true, however, that some students do not complete their remedial work within the 30 credit limitation set by the Pell Grant Program. These students then lose their Pell eligibility. Some of these students continue their education with alternate sources of funding; other students lack sufficient resources and drop out of college all together. And it is likewise true that these dropouts lower CMI's overall graduation rate. We question the 9% graduation rate, however. The following table shows CMI academic year registration since the Fall Semester 1998. Figures are provided for both Developmental (pre – credit level) and Credit Level registration, and, for each year, the total number of graduates in degree programs.

College of the Marshall Islands Academic Year Registration and Graduation, 1998 - 2001

Description	Fall 98	Spring 99	Fall 99	Spring 00	Fall 00	Spring 01
Developmental	162	201	290	275	322	195
Credit Level	265	241	225	184	235	316
Total	427	442	515	459	557	511
Graduates		59		57		42
Graduation Rate (All Students)		**13%**		**12%**		**8%**
Graduation Rate (Credit Level Students)		**31%**		**24%**		**13%**

Graduation rates can be figured in a variety of ways, but by a calculation, CMI graduated well over 9% of its students in academic years 1998 – 1999 and 1999 – 2000. A comparison of the number of graduates and the number of credit level students suggests that CMI students are making relatively good progress toward their degrees once students reach credit level courses.

The GAO report also states "the limitations of a 2 – Year College" as a restriction on the "potential accomplishments of the Pell Program." The Pell Grant program routinely offers financial assistance to students at 2 – year colleges in the United States. Community Colleges in the U.S. and elsewhere have proven to be a very effective means of preparing students for the rigors of academic life at baccalaureate – level colleges and universities. There is no question that CMI graduates with A.A. or A.S. degrees are holding down highly responsible jobs in both the private and public sectors in the Marshall Islands, and that CMI graduates have benefited from the educational opportunities made available to them there is no reason to denigrate the accomplishments

See comment 12.

that have already been made or the effectiveness of the U.S. Federal programs that assist them.

FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION (FEMA) DISASTER RELIEF PROGRAM

See comment 13.

The GAO clearly states that disaster relief programs in the RMI have met their "performance requirements and standards," a point with which the RMI also agrees. Despite this praise, the conclusion reached by the GAO is that these programs be discontinued. This recommendation reflects only the challenges that the US Federal Emergency Management Administration's (FEMA) claims to face in the RMI and not the successes of these programs. The RMI does not dispute the fact that emergency management in the nation is costly, difficult, and labor intensive due, in part, to geography, social differences, and the absence of capabilities comparable to those in the United States. However, there can be no question that FEMA programs have succeeded in providing crucial assistance to victims of natural disasters throughout the first 15-years of the Compact. The need for this assistance was recognized during the RMI's Trusteeship period, and was included in the ensuing Compact agreement as part and parcel of the RMI's acceptance of it current free-association status.

See comment 14.

The report also is concerned that FEMA disaster assistance fosters dependency to the degree that victims delay rebuilding efforts until assistance arrives. However, the report fails to mention operational changes within FEMA itself that focus efforts on effective planning and preparedness that address and encourage self-reliance. The report is misleading in that it states that the RMI expended only $11,598 of $100,000 of the Disaster Preparedness Improvement Grant (DPIG). For the record, the total amount awarded by FEMA was $50,000. Local program managers in the RMI report that of the DPIG $46,228.42 was actually expended. Reorganization and capacity issues hindered the timely reporting of these expenditures, but the current administration has instituted improvements enabling the local office to better comply with FEMA's reporting requirements.

See comment 15.

The GAO also makes vague claims about the allocation of Hazard Mitigation Grant Program (HMPG) funds by the RMI, stating simply that since 1988 less than 100% of funds were spent. What the GAO fails to mention is that the RMI was unaware of this program until FEMA made efforts to educate program managers, and once instituted these programs were extremely successful. The RMI eventually accessed funds totaling approximately $1.75 million, that was invested in projects greatly benefiting citizens, such as the identification of fresh water sources, building sea walls, and updating communication systems.

TRAINING and PROGRAM COORDINATION

There is unanimous agreement that one area for improvement is in training and program coordination. As the GAO report points out, programs are designed for the United States, not for a foreign country, much less a country with a widely dispersed population on small islands. All the federal program managers and agency heads

expressed concern that many standard program procedures need some adjustment to fit the economic and social challenges of the RMI.

During an October 2001 semi annual Department of Labor (Employment Training Administration) meeting in Honolulu, some important ideas for the future of the Workforce Investment Act (WIA) were discussed. The first being that the DOL Regional Office in San Francisco will be contracting PREL (Pacific Resources for Education and Learning) to provide technical assistance to DOL. DOL is concerned that because of the differences between the Pacific entities and the mainland there is an effect on program development and reporting. DOL is seeking this technical assistance so that requests for program waivers and funding allocation can be made. DOL is also concerned about improving program and fiscal reporting from the region and to make the reporting more relevant to labor environments.

Under the current WIA legislation funds cannot be shifted from one program to another, as was the case with JTPA. Under WIA the bulk of the funding is for programs under the category Dislocated Workers. But throughout the Pacific region Dislocated Workers is just not as significant a program need as say on the mainland with an industrialized economy. The regional DOL office wants to develop a proposal for a waiver so funds from Dislocated Worker Programs can be shifted to support Adult and Youth programs. This shift would be much more practical for the Pacific jurisdictions because of the challenges surrounding education and training opportunities for adults. Another aspect of the PREL technical assistance is the provision of training concerning financial reporting. PREL will be conducting some training in the winter or the spring. The site will be determined at a later date. People from all the Pacific jurisdictions felt this approach using PREL was very worthwhile and beneficial to the region and individual entities. All the programs under U.S. federal jurisdiction could benefit from the approach being undertaken by the Department of Labor.

Because all the programs examined in the GAO report are beneficial and critical to the RMI, a redesign of the programs is in order, not discontinuance. Levels of acceptable accountability and associated monitoring need to be designed for programs in the RMI, that takes into account many of the differences between the RMI and the mainland United States. This will require more involvement by U.S. program officials in areas of training, coordination, and monitoring. Having program staff and staff from the Ministry of Finance attend the same training would be beneficial.

Several program managers felt that off island training is not very effective if only one staff person attends such training. Staff from relevant agencies will benefit more if the training takes place on islands or as close to the RMI as possible. In this way more people can take advantage of the training, and more relevant staff from the Ministry of Finance can attend as well. It would be more beneficial if the program training could be designed to meet the challenges of the RMI or at least the Pacific Region.

The GAO report also mentions a meeting concerning insular areas and federal program coordination that took place in the Fall of 2000. This meeting was for the territories and commonwealths of the United States. The RMI did not participate in this meeting and has received little information regarding the results of this meeting.

GAO Comments

The following are GAO's comments on the Government of the Republic of the Marshall Islands letter dated December 10, 2001.

1. We do not assert that the neediest residents were not served. The report stated that, because of the lack of accurate income data, loans could not be targeted only to the most needy, which is the purpose of the program. We assert that, if income data specifically for the FSM and the RMI were used to calculate the low- and very low-income levels for each country, fewer people would likely be eligible for the program than are now eligible with the current Western Pacific income levels.

2. Additional language was inserted to clarify this issue on page 42.

3. The JTPA Title II Quarterly Status Report, July 1, 1999, to June 2000 (Final Report), signed by the local program manager on September 11, 2000, reported that only 14 percent of the job training graduates entered employment. In contrast, RMI reported in its Program Year 1999 Annual Report that 100 percent entered employment. Both documents stated that 35 trainees finished their job training; however, the first document reported that only 5 entered employment, while the second document states that all 35 entered employment.

4. Although the RMI was exempted from having to meet the program's national reporting requirements, the RMI was required to provide accurate performance reports to the Department of Labor's regional office in San Francisco. The Department of Labor's program manager, as well Department of Labor documentation stretching back to 1993, documents Labor's concerns about the unreliability of the data submitted to the regional office. For example, a 1994 Department of Labor memorandum on a Pacific Basin JTPA liaison meeting stated that "the enrollment and termination rates, as reported by the RMI, cannot be trusted." In 2001, the Department of Labor's program manager expressed these same concerns.

5. As noted above, the program was not exempt from providing performance reports to the regional office.

6. GAO based its conclusion that "poor economic conditions limited employment opportunities" on the fact that the program is now focused on teaching "survival skills," or subsistence living, because of a lack of jobs.

7. We agree with the RMI that having unreliable data precludes knowing with certainty whether the JTPA program was effective. However, the program was designed so that the burden of proof was on those implementing the program, and program effectiveness was determined by having reliable data on the numbers of trainees that found employment.

8. We have added this to the report on page 30.

9. Table I describes the "usefulness" of this program to the RMI. To further clarify this point, we have added information on the number of teachers trained using FASEG funds.

10. Additional language has been added to page 29 to clarify this point.

11. The 9-percent graduation rate was stated by the president of the college, who also provided documentation to support the graduation rate.

12. The report notes on page14 that the program has made college education available for thousands of students and funded the creation of the only U.S.-accredited college in the RMI.

13. FEMA, not GAO, concluded that these programs should be terminated.

14. FEMA, not GAO, concluded that these programs foster dependency.

15. Disaster Preparedness Improvement Grants over two years totaled $100,000 and are matching grants. According to FEMA records, the funds had not been expended at the time of our review. The RMI confirmed that the information had not been timely and properly reported, and added that reorganization and capacity issues hindered the timely reporting of these expenditures. GAO agrees that the RMI needs to institute improvements to better comply with FEMA's reporting requirements.

GAO Contact and Staff Acknowledgments

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Related GAO Products

Foreign Relations: Kwajalein Atoll Is the Key U.S. Defense Interest in Two Micronesian Nations (GAO-02-119, Jan. 22, 2002).

Compact of Free Association: Negotiations Should Address Aid Effectiveness and Accountability and Migrants' Impact on U.S. Areas (GAO-02-270T, Dec. 6, 2001).

Foreign Relations: Migration From Micronesian Nations Has Had Significant Impact on Guam, Hawaii, and the Commonwealth of the Northern Mariana Islands (GAO-02-40, Oct. 5, 2001).

Foreign Assistance: Lessons Learned From Donors' Experiences in the Pacific Region (GAO-01-808, Aug. 17, 2001).

Foreign Assistance: U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development (GAO/NSIAD-00-216, Sept. 21, 2000).

Foreign Assistance: U.S. Funds to Two Micronesian Nations Had Little Impact on Economic Development and Accountability Over Funds Was Limited (GAO/T-NSIAD/RCED-00-227, June 28, 2000).

Foreign Relations: Better Accountability Needed over U.S. Assistance to Micronesia and the Marshall Islands (GAO/RCED-00-67, May 31, 2000).

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