

DRAFT AMENDED FINANCIAL MANAGEMENT REGULATIONS

FOR GENERAL COMMENT

IMPORTANT NOTE: The threshold for procurement, asset capitalization and open bidding is currently before Congress and may be subject to change depending on the final decision taken. These Regulations include the original thresholds that may be subject to change (as highlighted in yellow).

This version of the Regulations also includes comments raised by the Department of Justice as received on 01/18/18. Where the Secretary has agreed with the comments the draft Regulations have been updated to reflect the recommendations.

All written submissions are to be received by the Secretary of Finance within 30 days of the posting of the official notice [issued subject to Title 17 of the FSM Code (Administrative Procedures Act)].

AMENDED FINANCIAL REGULATIONS

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| Revised FMR Detail |
| 1. GENERAL |
| <p>1.1. AUTHORITY</p> <p>These regulations are promulgated by the Secretary of Finance and Administration with the approval of the President of the Federated States of Micronesia (FSM), pursuant to the authority granted to the Secretary by Title 55 of the Code, 227 and 606, and by the President of the FSM pursuant to the authority granted him by Title 55 of the Code, Sections 418, 616, and 621. These regulations and any amendments hereto, shall have the force effect of law.</p> |
| <p>1.2. PURPOSE</p> <p>The purpose of these regulations is to implement the provisions, as amended, of the Financial Management Act of 1979, and other laws of the FSM relating to government financial management through the establishment of National government-wide standards and procedures necessary to provide an adequate degree of fiscal control and accountability over funds appropriated by the Congress of FSM, allotted to the FSM National Government or entrusted to the management of the FSM National Government.</p> |
| <p>1.3. APPLICABILITY</p> <p>1) Except as otherwise provided by law, these regulations shall apply to:</p> <ul style="list-style-type: none"> a) All allottees of FSM appropriation laws; b) The expenditure of any funds appropriated by the Congress of the FSM; and c) U.S Federal grants, or foreign aid channeled through the FSM Government with the President as the Allottee. <p>2) Reference made herein to the head of a department or an Allottee of the FSM National Government shall include his designee, if applicable.</p> <p>3) Reference made herein to a "subpart" shall mean part of these Financial Management Regulations.</p> |
| <p>1.4. DEFINITIONS</p> <p>For the purposes of these regulations, unless it is otherwise required or the context requires a different construction, application, or meaning:</p> |
| <p>1.4.1. Acquisition cost</p> <p>Means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories or auxiliary apparatus necessary to make it useable for the purpose for which it is acquired.</p> <p>Acquisition costs for software includes those development costs capitalized in accordance with generally accepted accounting practice (GAAP).</p> <p>Ancillary charges, such as taxes, duty, protective in transit insurance, freight and installation will be included as part of the acquisition cost of the asset.</p> |
| <p>1.4.2. Allotment</p> <p>Defined under Section 215 of the Financial Management Act 1979. "Allotment" means the delegation of authority to a person to create legally enforceable financial obligations in accordance with applicable law on behalf of FSM within specified limits set forth in an appropriation act of the Congress of the FSM or as may be required by the terms of funding available from other sources.</p> |
| <p>1.4.3. Allottee</p> <p>Shall mean the person designated as such by an appropriation law or the Financial Management Act of 1979, as amended, or the sub-allottee as designated in the Advice of Allotment form issued by the Office of Budget.</p> <ul style="list-style-type: none"> a) A <u>National Allottee</u> is an Allottee which is an FSM Government Agency, or an employee, or official of an FSM Government Agency; and b) A <u>non-national allottee</u> is any other allottee. |

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| 1.4.4. Approved Depository Account | Shall mean an account with a financial institution: |
| | <ul style="list-style-type: none"> a) which is approved by the Secretary; b) which reflects the address of record to be that of the Secretary; and c) from which the withdrawal of funds is authorized upon the signature of the Secretary or designee. |
| 1.4.5. Capitalization threshold | The capitalization threshold is the dollar amount that determines the proper financial reporting of the asset. Asset acquisition costs below the capitalization threshold will be expensed as incurred. The capitalization threshold is currently set at \$1,000 . |
| 1.4.6. Capital expenditures | Means expenditures to acquire fixed assets or capital assets. |
| 1.4.7. Cash & cash equivalents | Cash and short-term, highly liquid investments are included. Bank overdrafts are excluded. Restricted cash is not included in cash and cash equivalents. Instead, changes in restricted cash should generally be presented as investing activities. |
| 1.4.8. Citizen Bidder | Shall mean any business: <ul style="list-style-type: none"> a) in which at least fifty-one percent (51%) of interest therein is owned by an FSM citizen or citizens; b) Which has been a resident of the FSM for at least one year immediately prior to the submission of its bid; c) which has paid FSM Gross Revenue Tax for the one-year period immediately prior to the submission of its bid; and d) which, with respect to construction projects, shall commit its bid that at least: <ul style="list-style-type: none"> (i) twenty –five percent (25%) of all workers employed at all times at the job site shall be FSM citizen; and (ii) twenty-five percent (25%) of all materials and supplies to be used shall be purchased from within the FSM. |
| 1.4.9. Contract | Means a legal instrument by which the National Government purchases property or services needed to carry out public services under an appropriation. |
| 1.4.10. Contracting Officer or CO | Shall mean the official in charge of letting a contract for an FSM Government Agency. |
| 1.4.11. Contractor | Means an entity or individual that receives a ‘contract’ as defined above. |
| 1.4.12. Disbursement | Process or act of spending money. |
| 1.4.13. Equipment | Means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the capitalization level of \$1,000 . |
| 1.4.14. Expenditure | Government expenditure refers to the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer. |
| 1.4.15. Fiscal year | Refers to each one year period beginning October 1 and ending on the next following September 30. Each Fiscal Year shall be designated by the number of the calendar year in which such Fiscal Year ends. |
| 1.4.16. Fixed assets or Capital assets | Means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Fixed assets include: <ul style="list-style-type: none"> a) Land, buildings (facilities), equipment, and intellectual property (including software) whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases; and b) Additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or |

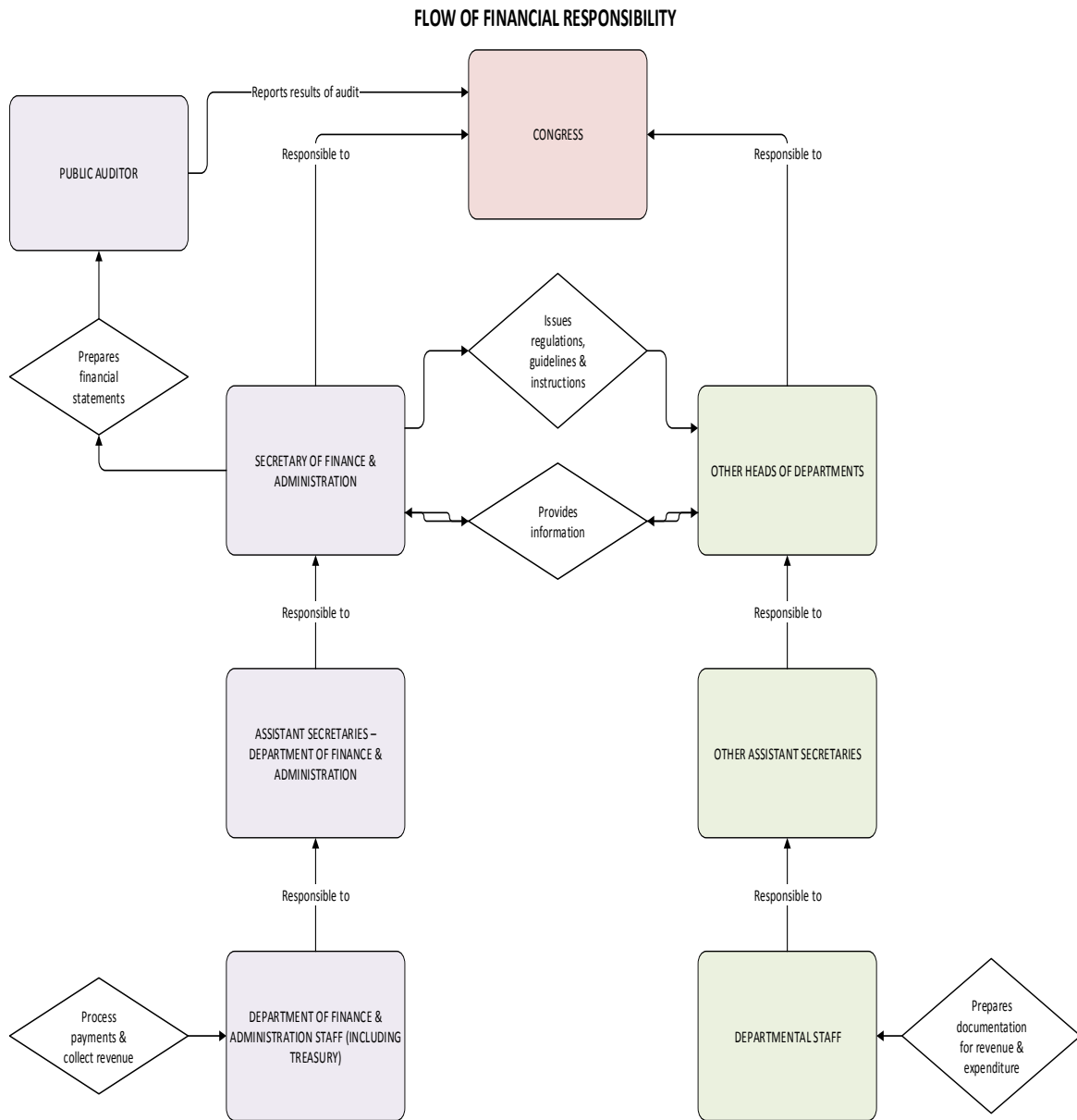
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| alterations to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance) |
| <p>1.4.17. Foreign Office Shall mean the official overseas offices of the FSM Government, including the Guam Consulate, the Honolulu Consulate, the U.S Embassy, the Japan Embassy, the Fiji Embassy, the U.N Mission, and any other official overseas offices which may be established, provided said offices are authorized by law or these regulations to maintain Imprest Revolving Funds or Operating Funds.</p> |
| <p>1.4.18. FSM Government Agency Shall mean any branch, department, office, division, board, bureau, commission, committee, institution, or authority of the FSM National Government.</p> |
| <p>1.4.19. FSM Law Shall mean laws of the FSM and United States laws applicable to FSM financial management operations.</p> |
| <p>1.4.20. Generally Accepted Accounting Principles (GAAP) Has the meaning specified in accounting standards issued by the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).</p> |
| <p>1.4.21. Generally Accepted Government Auditing Standards (GAGAS) Means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.</p> |
| <p>1.4.22. Intangible fixed assets Non-monetary assets without physical substance, such as trademarks, copyrights, patents and patent applications and property, such as loans, notes and other debt instruments of property ownership (whether the property is tangible or intangible).</p> |
| <p>1.4.23. Internal controls Means a process, implemented by the National Government, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:</p> <ol style="list-style-type: none"> a) Effectiveness and efficiency of operations; b) Reliability of reporting for internal and external use; and c) Compliance with applicable laws and regulations. |
| <p>1.4.24. Job Order Form Shall mean a form prescribed by Secretary that provides, at minimum, the following information or items:</p> <ol style="list-style-type: none"> a) The name of the FSM Government Agency making the requests for services; b) The date of the request; c) The description of the services needed; and d) The signature of the appropriate allottee. |
| <p>1.4.25. Lowest Responsible Bidder Shall mean the lowest bidder whose offer adequately responds in quality, fitness, and capacity to the particular requirements of the proposed work called for by the contract.</p> |
| <p>1.4.26. Obligations Shall mean the legal liability for salaries and wages, contractual services, contracts entered into for the purchase of supplies, equipment, construction, or land and loans or other commitments, including but not limited to leases, requiring the payment of public funds. Obligations or encumbrances are orders placed for property and services, contracts made, and similar transactions during a given period that require payment by the National Government during the same or a future period. A purchase order is a typical obligation or encumbrance.</p> |
| <p>1.4.27. Perquisites A benefit which one enjoys or is entitled to on account of one's job or position.</p> |
| <p>1.4.28. Program A budget program refers to a Division's budget within a Department or Office.</p> |

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| <p>1.4.29. Property Means real property or personal property</p> <ul style="list-style-type: none"> a) <u>Real property</u> means land, including land improvements, structures and appurtenances thereto, but excludes moveable machinery and equipment. b) <u>Personal property</u> means property other than real property. It may be tangible (having physical existence) or intangible. c) <u>Appurtenances</u> means property (as an outbuilding or fixture) or a property right (as a right-of-way) that is incidental to a principal property and that passes with the principal property upon sale or transfer. |
| <p>1.4.30. Purchase Order or PO Shall mean a form prescribed by the Secretary as described in detail in subpart 5.2.2. that is issued by the Department of Finance to purchase goods and services. A purchase order can also be preceded by a purchase requisition by the requesting department.</p> |
| <p>1.4.31. Questioned cost Means a cost that is questioned by the auditor because of an audit finding:</p> <ul style="list-style-type: none"> a) Which resulted from a violation or possible violation of a statute, regulation or the terms and conditions of a grant award; b) Where the costs, at the time of the audit, are not supported by adequate documentation; or c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. |
| <p>1.4.32. Re-programming Refers to the ability of Department Heads to request a shift appropriation budgets between Divisions.</p> |
| <p>1.4.33. Revenue Government revenue is money received by a government. It is an important tool of the fiscal policy of the government and is the opposite factor of government spending or expenditure.</p> |
| <p>1.4.34. Revenue Collector Is a person approved by the Secretary of Finance to receive and receipt money's on behalf of FSM National Government. Approved Revenue Collectors are currently situated in:</p> <ul style="list-style-type: none"> a) FSM National Treasury; b) FSM National Treasury Field Offices; and c) Customs & Tax Administration located at National and Field Offices d) Other locations as may be approved and directed by the Secretary of Finance. |
| <p>1.4.35. Secretary Shall mean the Secretary of Finance of the FSM Government.</p> |
| <p>1.4.36. Small purchases Means a purchase of supplies or services that falls below the small purchases threshold of \$3,000 and not requiring three quotations. Small purchases are designed to expedite the completion of lowest dollar purchase transactions and minimize the associated administrative burden and cost.</p> |
| <p>1.4.37. Supplies Means all tangible personal property other than those described in 'Equipment' above.</p> |
| <p>1.4.38. Tangible fixed assets or property, plant and equipment (PP&E) Is a term used in accounting for assets and property that cannot easily be converted into cash. Fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment , computers, fixtures and fittings, and plant and machinery.</p> |
| <p>1.4.39. Travel Authorization or TA Shall be in a form prescribed by the Secretary that provides, at a minimum, the following information of items:</p> <ul style="list-style-type: none"> a) The name(s) of the traveler(s); b) The title or official capacity of the traveler(s); c) The FSM or State Government Agency for which travel is performed; d) The traveler's itinerary; |

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| <ul style="list-style-type: none"> e) The dates upon which travel is to commence and be completed; f) The purpose of travel; g) The mode of transportation; and h) The estimated cost of travel |
| <p>1.4.40. Travel Voucher Shall mean a form prescribed by the Secretary that provides, at a minimum, the information necessary to calculate the amount of funds to be obligated as travel expenses.</p> |
| <p>1.4.41. Unliquidated obligations or unliquidated encumbrances Are obligations or encumbrances incurred by the National Government for which an expenditure has not been recorded. The 'unliquidated' balance is the difference between the 'encumbrance/obligation' and the amount already paid against the encumbrance.</p> |
| <p>1.4.42. Unobligated balance Means the amount of funds that the National Government has not obligated against an allotment.</p> |
| <p>1.5. GUIDELINES For the purpose of better explaining compliance with these regulations, the Secretary may, from time to time, publish guidelines or procedures.</p> |

Revised FMR Detail

**1.5.1. Financial duties and responsibilities
Overview of financial responsibility**



1.5.2. Financial responsibilities of Congress:

- a) Approve the revenue ceiling for each fiscal year;
- b) Approve the budget and pass legislation to approve the annual appropriation;
- c) Review and approve any supplementary budgets;
- d) Request any financial information as required;
- e) Receive the audited financial statements and scrutinize the audit report, performance reports and other relevant reports;
- f) Receive and comment on the semi-annual reports submitted to Congress: Fund Status Reports and the

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| | Appropriation vs Allotment report. |
| 1.5.3. Financial responsibilities of Secretary of Finance: | |
| a) | Accounting for all FSM National funds: <ul style="list-style-type: none"> i) Supervise the collection of all revenues; ii) Grant warrants for moneys to be issued by the National Treasury based on appropriations; iii) Shall keep a complete set of double entry books iv) Shall keep ledgers in a methodical and systematic manner v) Keep such books and all such other auxiliary books and documents necessary for the correct and proper administration of the office |
| b) | Management of all FSM National funds: <ul style="list-style-type: none"> i) Prepare and review plans for improvement and management of revenue and support of public credit; ii) May delegate the authority for such functions to such extent deemed practicable and permissible by law; iii) Will record and audit (or cause to be recorded and audited) financial transactions iv) Have full and complete supervision of all FSM funds v) Power to withhold approval to prevent misappropriation of public funds and disbursement of funds in excess of appropriation vi) Needs to know the status and condition of all funds and appropriations, assets and liabilities, revenue and expenditure vii) Generally perform all such services relative to finances; viii) Perform duties in accordance with Constitution & undertake duties that may be prescribed by law or through administrative directives issued by the President |
| c) | Reporting of all FSM National funds: <ul style="list-style-type: none"> i) Prescribe the forms of keeping and rendering all public accounts and returns; ii) Prepare and issue reports and fiscal information; iii) Shall ensure that all Allottees comply with reporting requirements of s226 of FMA. |
| 1.5.4. Financial responsibilities of Assistant Secretary of Treasury: | |
| a) | Carry out the accounting and treasury responsibilities that have been assigned to the Secretary of Finance under the Public Finance Act 1979; |
| b) | Ensure accurate and complete collection of all Government revenue; |
| c) | Ensure Allottees comply with the documentation requirements issued by the Secretary of Finance; |
| d) | Ensure ledgers and double entry books are kept for all financial transactions; |
| e) | Manage Government fixed assets; |
| f) | Ensure all documentation is retained to support all financial transactions; |
| g) | Provide information as required by the Secretary of Finance; |
| h) | Liaise with the auditors relating to Government transactions; |
| i) | Keep all staff trained and up to date with all accounting and FMR requirements; and |
| j) | Keep all staff trained and up to date with all the features of the approved FMIS used by FSM National. |
| 1.5.5. Financial responsibilities of Other Heads of Departments and staff (administration officers): | |
| a) | Prepare and collate information and supporting documentation to support all revenue and expenditure to comply with the requirements of these Regulations and other guidelines. |
| b) | Manage relevant allotments to ensure all spending is within appropriation and complete legislatively required reports on Appropriations vs actual spending and reasons for significant variances. |

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| <p>1.5.6. Financial responsibilities of all Finance Officers:</p> <ul style="list-style-type: none"> a) To complete all work assigned diligently and efficiently; b) To give priority to work that has been marked as 'urgent'; c) To treat all work as confidential so that no financial details are divulged carelessly; d) To advise senior staff when they become aware of any: <ul style="list-style-type: none"> - unusual transactions; - instances of fraud & misappropriation; - transactions non-compliant with these Regulations; - instances of bribery; - conflicts of interest. |
| <p>1.5.7. Financial Management Information Systems</p> <ul style="list-style-type: none"> 1) All receipts, payments and other accounting transactions must be entered and processed into a financial management information system (FMIS) approved by the Secretary of Finance. 2) Treasury must operate the centralized FMIS on behalf of all Government Departments, and coordinate the operation and processing of data for the FMIS. 3) The Assistant Secretary of Treasury must ensure sufficient internal controls are in place to avoid unauthorized access to the FMIS including restricting access via the use of unique user passwords. 4) Any person that is given access to the FMIS must keep their unique password confidential and must change this immediately if there is suspicion that another person becomes aware of this password. 5) The Assistant Secretary of Treasury may delegate the data entry function into the FMIS to authorized officers as long as the following requirements have been met: <ul style="list-style-type: none"> a) The officer has received adequate training on how to use the FMIS; and b) Sufficient internal controls exist to ensure that these Regulations and other instructions issued by DOFA will be followed. 6) The Assistant Secretary of Treasury is responsible for ensuring that adequate documentation exists for the centralized FMIS and all officers using the system has been provided with sufficient training. 7) Departments are required to submit the appropriate documentation to support transactions entered in the FMIS. 8) All other new or proposed FMIS (that is not the approved FMIS used by the FSM Government) must be approved by the Secretary of Finance. 9) The Assistant Secretary of Treasury must ensure that there are no incompatible systems being used on computers used to process FMIS transactions. This is to minimize any potential threats of viruses and hacking into the FMIS. |
| <p>1.5.8. Back-up procedures for FMIS</p> <ul style="list-style-type: none"> 1) Daily back-up procedures must be programmed into each working day to maintain and preserve all financial data recorded in the FMIS. 2) There must be at least 3 copies of the back-up retained and securely stored in separate locations. 3) In cases of power failure, all staff must have access to Uninterrupted Power Supply (UPS) to allow work to be saved and securely logged out of the system. |
| <p>1.5.9. Documentation of policies and procedures</p> <ul style="list-style-type: none"> 1) In addition to these Financial Management Regulations, further instructions in the form of Financial Management Policies & Procedures will be issued and periodically updated to provide more detail of key systems and workflows operating within Treasury. 2) All Allottees, Treasury staff, Administrative Officers and other relevant staff, are required to familiarize themselves with the Financial Management Act, Financial Management Regulations. 3) Treasury staff must also familiarize themselves with the relevant Financial Management Policies & Procedures relevant to the tasks and responsibilities related to their role. |
| <p>1.5.10. Archiving of financial information</p> <ul style="list-style-type: none"> 1) Financial information must be filed according to each fiscal year in a logical manner so as to allow for future reference. 2) Financial information must be retained for at least 6 fiscal years. |

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| <p>Revised FMR Detail</p> <p>3) All financial information must be kept in a secure location that is safe (as much as possible) from water and fire damage.</p> <p>4) Electronic copies of the FMIS going back for 6 years must also be retained and stored in a secure place.</p> <p>5) All financial records going back further than 6 years must be destroyed in a controlled manner.</p> |
| <p>2. FINANCIAL DELEGATIONS</p> |
| <p>2.1.1. Incurring expenditure</p> <p>1) The assigned Allottee has the financial authority to approve all expenditure approved for each assigned Department and Project within limits as follows:</p> <ul style="list-style-type: none"> a) At the levels passed in any Appropriation laws for the relevant financial year; and b) As may be required by the terms of funding available from other sources. <p>2) All expenditure approved for payment must be within:</p> <ul style="list-style-type: none"> a) The program or output budgets specified and passed in any Appropriation laws; or b) A Department’s program budgets after any transfers are made; c) And must be spent for the purposes intended in the budget to achieve the program, activity or output objectives. <p>3) The authority to make allotments shall be vested in the President of the Federated States of Micronesia or designee.</p> <p>4) The President or designee shall make an allotment not later than 10 days before the beginning of the fiscal year for which the appropriation is available or not more than 30 days after the act under which an appropriation is made available takes effect, whichever is later.</p> <p>5) An allottee shall be notified immediately after the making of an allotment</p> <p>6) Allotments may be apportioned monthly, quarterly or at other intervals, provided that the allottee of such funds is made aware of the periodic nature of the allotment.</p> |
| <p>2.1.2. Nature of Allottee</p> <p>1) An Allottee must be either an individual person or an entity.</p> <p>2) For purposes of this subpart 2.1.2 Part III, an "entity" is any legal entity duly formed and existing under and subject to the laws of the Federated States of Micronesia or one of its States.</p> <p>3) When an entity is the Allottee, an individual within that entity shall be identified as the person entitled to the rights and subject to the obligations of being Allottee.</p> <p>4) When no such individual is specified by applicable law or in the request for allotment of funds, the individual shall be deemed to be the:</p> <ul style="list-style-type: none"> a) President; b) CEO; c) managing partner; d) secretary; e) director; f) administrator; g) magistrate; h) mayor; or i) other head officer of that entity. |
| <p>2.1.3. Roster of Eligible Allottees</p> <p>1) No person or entity designated as an Allottee shall be eligible to serve as an Allottee unless and until that person or entity is included on a ‘Roster of eligible Allottees’ to be maintained by the Secretary.</p> <p>2) Initially, the Roster shall include:</p> <ul style="list-style-type: none"> a) all public officials and all offices, departments, agencies, commissions, authorities, boards, public corporations, or other instrumentalities of the National Government or any State Government in the Federated States of Micronesia; and b) any other person or entity to the extent specifically identified as Allottee in any act passed by Congress before June 15, 1994. |

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- 3) Other persons or entities shall be added to the roster if and when they have submitted evidence, in form and substance satisfactory to the Secretary:
 - a) that they are eligible under subpart 2.1.2;
 - b) understand the obligations of an Allottee; and
 - c) has the technical ability to perform those obligations.
- 4) Such evidence must include a signed certification that the individual person who will serve as Allottee has read and understood the Financial Management Act of 1979, as amended, and these regulations.
- 5) At a minimum, a prospective Allottee must demonstrate:
 - a) Sufficient technical ability and experience in the industry, trade or service for which government funds will be received;
 - c) That sufficient internal controls, policies, and procedures are in place to reasonably ensure that all transactions involving government funds will be properly authorized and recorded; and
 - d) That all assets procured with government funds or supplied by the government will be properly protected.

2.1.4. Suspension from Roster

- 1) If the Secretary determines that an organization fails to qualify as an entity for purposes of subpart 2.1.2, that organization shall be suspended from the roster of eligible Allottees.
- 2) A person or entity shall also be suspended from the roster if the Secretary determines that the person or entity has consistently or substantially failed, for whatever reason, to comply with the obligations of an Allottee.
- 3) If, as a result of a review, inspection, or audit by the Public Auditor, the Public Auditor determines that a person or entity has consistently or substantially failed, for whatever reason, to comply with the obligations of an Allottee, the Public Auditor may recommend to the Secretary that such person or entity be suspended from the roster of eligible Allottees.

The recommendation must be in a letter or memorandum addressed to the Secretary and shall be deemed accepted by the Secretary unless, within 15 days after receiving it, the Secretary issues a written public statement of ~~his~~ disagreement with the Public Auditor and the reasons therefore.
- 4) **A person or entity previously suspended from the roster for failure to comply with the obligations of an Allottee must also explain, to the satisfaction of the Secretary, why such failure will not be repeated. Once the Secretary is satisfied with the explanation, a person or entity can then be restored to the roster.**
- 5) From the time of suspension from the roster until such time, if any, as a person or entity is restored to the roster, that person or entity shall be ineligible to serve as an Allottee or an individual representative of an entity Allottee.
- 6) To the maximum extent permitted by law, the ineligibility shall apply during the pendency of any proceedings challenging the suspension from the roster or refusal to restore to the roster.
- 7) When a substitute eligible Allottee is required, the substitute shall be determined pursuant to 55 F.S.M.C. 216.

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2.1.5. Roster Inspection

- 1) The Secretary shall make the current roster of eligible Allottees available for inspection and copying by any interested person in the Department of Finance and Administration during normal business hours.
- 2) Upon adding, suspending, or restoring a person or entity to the roster, the Secretary shall also provide written notice thereof to the:
 - a) [relevant](#) person or entity;
 - b) President of the Federated States of Micronesia;
 - c) Speaker of the Congress of the Federated States of Micronesia;
 - d) Public Auditor; and
 - e) official (if [any applicable](#)) who designated that person or entity to be Allottee.
- 3) No failure or defect in the giving of such notice shall affect the validity of the addition, suspension, or restoration.

2.1.6. Allottee Reporting

- 1) The semi-annual reports required under 55 F.S.M.C. 225 to be sent by each Allottee to the FSM Congress shall also be sent by each Allottee to the Secretary.
- 2) Comparable reports shall be provided to the Secretary not later than each:
 - a) February 1 (as of the end of the first quarter of the fiscal year); and
 - b) August 1 (as of the end of the third quarter of the fiscal year)by any Allottee to whom custody or control of funds has been transferred (rather than being retained by the Secretary for direct payment of obligations pursuant to 55 F.S.M.C. 223).
- 3) Allottees shall provide such other reports, information, or documentation as the Secretary may request from time to time in reasonable furtherance of the declared policy of the Financial Management Act.

3. GENERAL PLANNING AND BUDGETING

3.1. GENERAL BUDGETING REQUIREMENTS

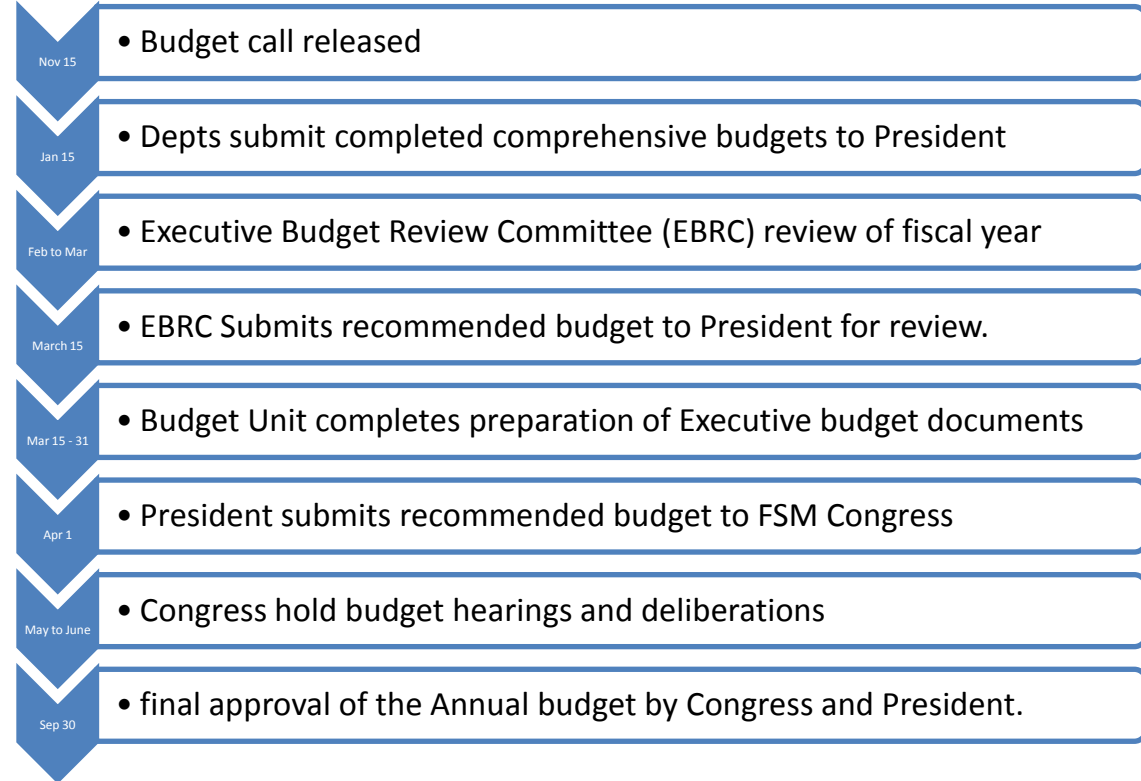
- 1) The FSM National budget spans a three year cycle i.e. the budget year and two subsequent fiscal years.
- 2) The annual budget cycle is structured in three distinct stages as follows:
 - a) Budget preparation (November to July)
 - b) Budget adoption (August to September)
 - c) Budget execution (October to September)
- 2) Budgets for the National Government will be prepared on a balanced budget basis i.e. a budget where revenues are equal to expenditures.
- 3) Prior to adopting the annual budget bill, Congress shall adopt a resolution setting forth the total funds estimated to be available for appropriation from the General Fund and any special funds of the National Treasury for the ensuing year.
- 4) Congress may during the course of a fiscal year adopt resolutions revising the amount estimated to be available for appropriation based on the most recent information.

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3.2. RESPONSIBILITIES FOR BUDGET FORECASTS

- 1) The Congress, the Judicial branch, each department, office and agencies of the Executive branch, and every proposed recipient of grants, subsidies or contributions from the National Government are responsible for preparing planned operational and development expenditures (for budget year and two subsequent fiscal years) and other information as required by law.
- 2) The Congress, the Judicial branch, each department, office and agencies of the Executive branch, shall transmit to the President, along with its proposed operational expenses for the ensuing fiscal year, a plan for the fiscal year, including an identification of its strategic goals, and a description of its planned accomplishments, for the fiscal year, related to each goal.
- 3) The Department of Finance & Administration (Budget Division) is responsible for preparing, presenting and administering the FSM National budget for the General Fund and all special revenue funds of the National Treasury.
- 4) The President is responsible for compiling (without revision) the planned expenditures and budget projections received from each public entity as described in subpart 3.2(1) and subpart 3.2(2).
- 5) The President is responsible for submitting to Congress the 'Proposed Budget' and the 'Recommended Budget' for the National Government together with other submissions as outlined in subpart 3.4.
- 6) The President shall transmit to Congress any proposed supplemental appropriations and/or recissions to cancel previous budgetary authority.
- 7) The Congress is responsible for adopting the annual budget for the ensuing year.

3.3. BUDGET TIMETABLE



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3.3.1. Budget call

- 1) By November 15 each year, the President shall issue a budget call to:
 - a) Congress;
 - b) the Judicial branch; and
 - c) each department, office and agencies of the Executive branch.
- 2) The Budget Unit shall prepare the 'Budget Call' transmittal letter for the President to be addressed to Department, Office and Agency heads and copied to:
 - a) Executive Budget Review Committee (EBRC);
 - b) Speaker of Congress; and
 - c) FSM Chief Justice.
- 3) The 'Budget call' transmittal letter shall contain the following information:
 - a) Legal reference to the Budget Procedures Act of the requirement to prepare and submit to President a comprehensive proposed budget for the ensuing year;
 - b) President's directions, policies, guidelines and instructions in the preparation of the annual budget;
 - c) Estimates of operational and developmental needs for budget year and the next two consecutive fiscal years;
 - d) Linkage of the annual budget to strategic goals outlined in the Strategic Development Plan (2004-2023) and updated sector plans:
 - i) As well as recent policies and strategy documents in each of the budget entities areas of responsibility
 - ii) Budget to contain achievable results and performance targets that will explain the budget request clearly and
 - iii) accurately reflect the nature of needs and costs that are linked to the national priority areas in the SDP;
 - e) a timeline required for the submission of the annual budget; and
 - f) additional information on the budget instructions, guidelines and required budget templates (forms)

3.3.2. Budget proposal format

- 1) Budget proposals are due by January 15 each year to the President's Office.
- 2) Each budget proposal must be reviewed and evaluated internally to ensure the following:
 - a) Consistency with mandates;
 - b) Consistency with policy priorities;
 - c) Mathematical accuracy;
 - d) Compliance with format and instructions; and
 - e) Completeness.
- 3) Unless otherwise indicated by the Budget Division, the same format used in the preparing the prior year budget shall be used for the ensuing year.
- 4) Budget proposals must adhere to the following format unless otherwise instructed by the Budget Division:
 - a) Letter of transmittal
 - b) Table of contents
 - c) Summary information/overview
 - d) Budget tracking sheet for current fiscal year;
 - e) Budget tracking sheet for current year and two subsequent fiscal years;
 - f) Revenue estimates;
 - g) Program information for current fiscal year
 - i) Program plans;
 - ii) Program summary financial data;
 - iii) Program personnel supplemental data.

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3.3.3. Budget forecasts

- 1) No later than April 1 of each year, the President shall submit to the Congress the Proposed Budget for the National Government for the ensuing fiscal year.
- 2) The Proposed Budget shall contain an operations budget and a development budget, and include planned expenditures for all sources of funds.
- 3) Planned operational expenses shall be presented on a line-item basis.
- 4) The President shall concurrently submit his recommendations regarding the Proposed Budget (the President's budget recommendations are herein referred to as the "Recommended Budget").
- 5) The total Recommended Budget for the year shall not exceed the total of funds estimated to be available for that year.
- 6) The Proposed Budget and Recommended Budget shall each set forth the following information in such form and detail as the President may determine or as the Congress may require by law:
 - a) planned operational expenditures, including planned sources of funds, for each department and office of the executive branch, Congress, the judicial branch, and agencies of the National Government other than agencies or entities which receive National Government appropriations on a subsidy, contribution, or grant basis, and operational budget projections for each of the two subsequent fiscal years;
 - b) planned development expenditures:
 - i) including planned sources of funds, for the ensuing fiscal year;
 - ii) development budget projections for each of the two subsequent fiscal years,
 - iii) with details of all development programs or projects to be funded or undertaken by the National Government in the ensuing fiscal year,
 - iv) relating such programs and projects to specific development goals and objectives set forth in the Development Plan of the Federated States of Micronesia,
 - v) as prepared in accordance with the Compact and approved by the Congress, and identifying any amendments to the program and project listings contained in such plan; and
 - c) planned subsidies, contributions, or grants for the ensuing fiscal year and projected subsidies, contributions, or grants for each of the two subsequent fiscal years, for the:
 - i) FSM Telecommunications Corporation,
 - ii) the College of Micronesia,
 - iii) international and regional organizations, and
 - iv) such other public and private entities as authorized by law.

Revised FMR Detail**3.3.4. President's submission**

- 1) In addition to the package to be submitted as described under subpart 3.3.5, the President must also submit the following to Congress by April 1:
 - a) a budget message;
 - b) proposed legislation to appropriate funds for the National Government during the ensuing fiscal year reflecting the:
 - i) amounts contained in the Recommended Budget and
 - ii) all activities and outputs to be funded by Compact Sector Grants;
 - c) anticipated revenues and other money to be made available to the National Government from all sources in the ensuing fiscal year and each of the two subsequent fiscal years including, but not limited to:
 - i) taxes;
 - ii) fees;
 - iii) fines;
 - iv) interest income;
 - v) revenue from fishing agreements;
 - vi) Compact financial assistance;
 - vii) United States Federal program assistance;
 - viii) foreign financial; and
 - ix) technical assistance, reimbursements, and loans;
 - d) the Recommended National Government Compact Budget Request for the ensuing fiscal year;
 - e) statements of the balance of the General Fund and any special funds of the National Treasury for the fiscal year last concluded, including the actual revenue by source, all appropriations, and the obligations and expenditures pursuant to each appropriation;
 - f) statements of the projected balance of the General Fund and any special funds of the National Treasury for the fiscal year in progress including all appropriations, estimated revenues by source, and anticipated obligations. If the projected balance for any fund indicates a deficit, recommendations as to how the deficiency is to be met;
 - g) actual revenues received to date,
 - i) by source,
 - ii) in the fiscal year in progress, and
 - iii) for the same period in the preceding year;
 - h) an analysis of major trends over the three years budgeted regarding funding sources, spending emphases, staffing levels, and program expansions and contractions; and
 - i) Details as set out in subpart 3.2.2. Such planned accomplishments to be expressed, if possible, in numerical form so that actual performance can be measured against the plan;
 - j) such other financial information and data as may be necessary or desirable in order to make known in reasonable and practicable detail the financial condition of the National Government.

3.3.5. President's budget message

- 1) The President's budget message to Congress shall be prepared by the Budget Division. The message should include the following:
 - a) whether the recommended annual budget is a balanced budget;
 - b) that the recommended budget represents the National Government's blueprint of expenditures and sources of financing for the upcoming fiscal year;
 - c) summary budget table by revenue and expenditure and a narrative explaining the summary table;
 - d) revenue projection by fund source table with its narrative;
 - e) proposed expenditure table by budget type and its narrative; and
 - f) summarized list of capital investments i.e. financial investments, capital improvement and project subsidies that the President plans to include in the budget.

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| <p>3.4. ESTIMATES & APPROPRIATION BILL</p> <p>3.4.1. Estimates of revenue, grants and expenditure</p> <ol style="list-style-type: none"> 1) The estimates of revenue, grants and expenditure must provide a detailed breakdown of all items included in the budget proposal. The breakdown will be in the format as set out in the Budget Call. 2) The estimates must include details for program, activity or output budgets, descriptions and performance measures to a level of detail as specified by the Secretary of Finance. 3) The estimates must be submitted to the President by the due date each fiscal year as described by subpart 3.3.3. |
| <p>3.4.2. First appropriation bill</p> <ol style="list-style-type: none"> 1) Program, activity or outputs in the Appropriation bill may be broken down into the following categories or in any other way instructed by the Department of Finance and Administration: <ol style="list-style-type: none"> a) Personnel; b) Travel; c) Contractual Services; d) Other Current Expenses (OCE); e) Fixed assets. 2) With respect to Grants, subsidies and contributions, the appropriation will be apportioned by each Department and the name of the project or activity 3) The appropriation bill will also indicate 'employment ceilings' to determine the maximum number of positions for each branch and agency of the National Government. 4) The appropriation bill will also specify the allottees in relation to each of the appropriations detailed therein. |
| <p>3.4.3. Budget Act</p> <ol style="list-style-type: none"> 1) The Congress, after receipt of the proposed budget from the President and no later than September 30 of each year, shall, by Act, adopt the annual budget of the National Government of the ensuing fiscal year. |
| <p>3.5. CHANGES TO APPROPRIATIONS</p> <p>3.5.1. Supplementary budgets</p> <ol style="list-style-type: none"> 1) The President shall transmit to Congress such proposed supplemental appropriations as may be necessary on account of laws enacted after the transmission of the annual budget or which are otherwise in the public interest. <ol style="list-style-type: none"> a) supplementary proposals must be accompanied with a statement of the reasons therefore, including the reasons for their omission from the annual budget. b) If the proposed supplemental appropriation would create a deficit for the General Fund or any specific fund of the National Treasury, the President shall so notify Congress and make recommendations as to how such deficit is to be met otherwise such a supplemental appropriation will not be passed. 2) Enactment of a supplemental budget after the adoption of an annual budget is subject to the same budget review process and balance budget requirement. |
| <p>3.5.2. Rescissions</p> <ol style="list-style-type: none"> 1) The President from time to time may transmit to Congress proposed rescissions to cancel budgetary authority previously provided by the Congress. These proposals may be accepted in whole or in part by passage of a rescission bill by the Congress. 2) If at any time the amount appropriated for a given fiscal year exceeds the amount of total funds estimated to be available for such year due to a downward adjustment in revenue projections, the President shall transmit to Congress either a proposed rescission bill or a proposal for covering the anticipated deficiency by the end of the following fiscal year. |

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3.5.3. Reprogramming

- 1) Reprogramming of funds occurs when funds are utilized for purposes other than those contemplated at the time of appropriation.
- 2) In such cases, a 'change in allotment' is used to 'reprogram' funds.
- 3) The President, Speaker, Chief Justice and Public Auditor may reprogram up to a set percentage 'in' or 'out' from the funds appropriated in *operating expenses* of the three branches i.e. Executive, Legislative, Judiciary along with the Public Auditor's Office. The reprogramming percentage limit is specified in each appropriation law and may be subject to change.
- 4) The reprogramming percentage is applied to the total appropriation for all departments/offices under the President, Speaker, Chief Justice and Public Auditor.
- 5) Ability to re-program is as follows:
 - a) Only the President can authorize re-programming 'in' or 'out' of the Departments under his/her authority;
 - b) Only the Speaker can authorize re-programming 'in' and 'out' of the States under his/her authority;
 - c) Only the Chief Justice can authorize re-programming 'in' or 'out' of the Divisions of the Judicial Branch of Government;
 - d) Only the Public Auditor can authorize re-programming 'in' and/or 'out' of the Divisions within the Office of the National Public Auditor.
- 6) Reprogramming in or out of any line item for Grants, Subsidies, Contributions, Investments Capital and Human Resources sections of the annual budget is not permitted.
- 7) In instances where it is determined that program funds are insufficient, then program managers may initiate a supplemental budget or request an increase in funds from the reprogramming percentage limit.
- 8) The current percentage in appropriation law is 10%. However, this percentage limit may change but the same principles are relevant when applying the applicable percentage. In applying the 10% limit, consideration must be given for re-programming between appropriations going in and out of programs:
 - a) Allowable: 10% out of department 1 and 10% into department 2
 - b) Allowable: 5% out of department 1, 5% out of department 2, 10% into department 3.
 - c) Not allowable: 10% out of department 1, 10% out of department 2, 20% into department 3.
 - d) Not allowable: 20% out of department 1, 10% into department 2, 5% into department 3, 5% into department 4.
- 9) Reprogramming requests for US Federal Programs and other program funds shall require approval of grant managers. Such programs are sanctioned by Congress resolution and as such the reprogramming percentage limit is not applicable in such instances.
- 10) Heads of Departments are able to 'transfer' up to the 'reprogramming percentage limit' operating budget between the Divisions under their Department. Subpart 3.5.3 remains applicable when making transfers.

3.6. ADMINISTRATION OF THE BUDGET

3.6.1. Allotment

- 1) Allotment means the delegation of authority to a person to create legally enforceable financial obligations in accordance with legislation.
- 2) Part 2 of these Regulations sets out the nature of the allottee, maintenance of the allottee roster and Allottee reporting.
- 3) There are three types of allotments:
 - a) Operational allotments: allotments are issued for all funds provided to the FSM National Government and for all Compact current funds provided to the FSM States in which an appropriation law has been adopted.
 - b) Capital allotments: allotments issued on an aggregate or project basis for all Capital account funds. Allotments are issued after receipt of a Project Control Document as described under subpart 10.2. Such allotments are normally issued for the term of the project and will be monitored by the project inspector until completion.
 - c) Lapsing allotment: upon expiration of an allotment for an operational account, all unobligated funds as certified by the Secretary of Finance will be returned to Treasury to be made available to other capital projects.

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| <p>3.6.2. Apportionment</p> <ol style="list-style-type: none"> 1) Apportionment serves as a tool to allocate a portion of funds in regular instalments during the year to manage cashflow and also to ensure that appropriations are sufficient for the full fiscal year. 2) Apportionments are issued on a quarterly basis with each quarterly share comprising of between 20-30% of the funds available for the upcoming fiscal year. 3) The Budget Unit must also ensure consistency with other cashflow requirements i.e. Infrastructure Development Plan and legislation relating to Compact Grant assistance when preparing the ‘allotment and apportionment’ document. 4) The apportionment schedule may be modified during the year provided that modifications do not cause the apportionment to exceed the 20-30% limit per quarter. 5) In cases where departments, state governments, foreign mission offices etc fail to submit an apportionment request by the end of August, the Budget Division will assume a 30/30/20/20 % apportionment schedule. 6) If the FSM National Government does not enact a National budget prior to the end of September, the current year fiscal year’s allocation schedule will be used. |
| <p>3.6.3. Certification</p> <ol style="list-style-type: none"> 1) In order to certify funds as described under subpart 5.3, the Certification officers will receive from the Budget Unit a completed and approved “Advice of Allotment”. 2) The “Advice of Allotment” will contain all the necessary information required for the Certification Officer to set up manual ledgers, which includes: <ol style="list-style-type: none"> e) Advice number f) Date g) Fiscal year h) Allottee name i) Department j) Activity k) Account number l) Budget period start date and expiry date m) Public law reference n) Details of the current action o) Signature of the both the preparer and reviewer. |
| <p>3.6.4. De-allotment</p> <ol style="list-style-type: none"> 1) At times a program or project may need to be de-allotted or cancelled due to: <ol style="list-style-type: none"> a) an amendment of the appropriating law; b) specific de-obligation instructions required by grant managers; or c) an error has occurred with a previously processed allotment. 2) In such cases, the same allotment of advice form for allotting funds is used to request for de-allotment of funds. 3) A subsequent allotment will be required to reflect the correct usage of the funds. 4) Only after a de-allotment has been fully implemented that new expenditures shall be allowed to be incurred under the subsequent allotment. |
| <p>4. REVENUE COLLECTION AND RECEIPT</p> |
| <p>4.1. REVENUE - GENERAL</p> <ol style="list-style-type: none"> 1) Unless otherwise specified by FSM law, all public monies raised or received by any FSM Government Agency shall: <ol style="list-style-type: none"> a) be tendered to the FSM Treasurer or only upon the prior approval of the Secretary, deposited in an Approved Depository Account: <ol style="list-style-type: none"> i) not later than the close of business on the day said moneys are received; ii) provided, however, that if said moneys are received by an FSM Government Agency after the close of business, or iii) on a non-business day, they shall be so tendered to the FSM Treasurer or so deposited in an Approved Depository Account not later than the close business on the next business day. 2) The FSM Treasurer shall promptly deposit money received into an Approved Depository Account. |

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| <p>3) Under no circumstances shall any person open an account in a financial institution for an official purpose in his own name, cash, checks intended for deposit in an Approved Depository Account, or deposit any public money in any account other than Approved Depository Account.</p> <p>4) <u>In cases where revenues are received on a 'replenishment' basis (i.e. the general fund is used for expenditure and requires replenishment at a later date), the responsible Officer preparing the replenishment must do so on a monthly basis and in a timely manner so as not to strain the financial cashflow of the General Fund.</u></p> |
| <p>4.2. RECEIPT OF REVENUE</p> <p>4.2.1. Legal tender</p> <p>1) The legal tender of the Federated States of Micronesia is the United States Dollar (USD)</p> <p>2) A revenue collector must not accept defaced or mutilated notes or coins.</p> <p>3) In addition to notes and coins, a revenue collector may accept business and personal checks (locally issued by banks), bank checks, money orders, money grams, bank to bank transfers, direct debits and other negotiable instruments, subject to conditions determined by the Secretary of Finance.</p> |
| <p>4.2.2. Issue of receipt for revenue received</p> <p>1) A revenue collector must immediately issue an official receipt for each sum of revenue paid for the account of Government.</p> <p>2) Each receipt must be dated the same date the money was received by the revenue collector.</p> <p>3) The Secretary of Finance must approve the form of all receipts to be issued (including manual receipt books and computer generated receipts)</p> |
| <p>4.2.3. Issue of receipt for checks received</p> <p>1) Checks received for the credit of the FSM Government account must be made payable to the following: "FSM National Government", "FSM Finance", or "FSM Treasury".</p> <p>2) Before issuing a receipt for any check, a revenue collector must examine the check and ensure that:</p> <ol style="list-style-type: none"> Check has been signed by the drawer; and Check is correctly dated; and If there is no date on the check, the revenue collector must insert the current date; and The amount written in words on the check agrees with the amount written in figures; and Any alteration to the check has been initialed by the drawer. <p>3) Any check received which contains an error or defect must be returned to the drawer to correct. A receipt must not be issued until the error or defect has been corrected.</p> <p>4) All checks must be written for the exact amount owing to Government. Under no circumstances will cash be given in part of whole for any check tendered by a third party.</p> <p>5) A post-dated check must not be accepted unless it is for specific reasons approved by the Secretary of Finance.</p> <p>6) Any revenue collector failing to undertake the checks outlined in subsection (2) may be held personally liable if the check is dishonored and cannot be recovered.</p> |

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| <p>4.2.4. Issue of receipt for overseas revenue</p> <ol style="list-style-type: none"> 1) All third party revenue paid via direct debit or international wire will be received into a nominated bank account approved by the Secretary. 2) Payment advice from the third party will be required to show the details of the transaction. 3) Once all information has been received, an official government receipt will be prepared and remitted back to the third party. 4) Upon receipt of all supporting documentation and notice from the bank, finance will book a Journal Voucher to record the transaction of the incoming wire to the general ledger. 5) It is the responsibility of the Administrative Officer or Fiscal Officer who is overseeing donor funds, to advise Treasury of any amounts that is expected to be received so the appropriate documentation is prepared, receipted and entered into the FMIS on a timely basis. |
| <p>4.2.5. Approved revenue collector</p> <ol style="list-style-type: none"> 1) The Secretary of Finance will approve finance employees as an approved revenue collector. 2) An officer who is not a designated revenue collector: <ol style="list-style-type: none"> a) Must not, under any circumstances, accept Government revenue from any person for any reason; and b) Must direct any person attempting to give them revenue to the Treasury or to the nearest appropriate revenue collector. |
| <p>4.2.6. Duplicate receipts</p> <ol style="list-style-type: none"> 1) If an official receipt has been lost by the payer, the payer may make application to the Department that issued the receipts for: <ol style="list-style-type: none"> a) A copy of the receipts; or b) A letter of acknowledgment of payment from the Department of Finance or from a revenue collector who has authorization to issue the acknowledgement. |
| <p>4.2.7. Manual receipts</p> <ol style="list-style-type: none"> 1) There may be times where there may be a power outage. In such cases, manual receipts must be issued on all revenue received during the power outage and entered into FMIS at a later date once the power supply has been restored. |
| <p>4.2.8. Improper use of collected revenue</p> <ol style="list-style-type: none"> 1) Collected revenue or public money must not be used for any private purpose whatsoever. 2) A revenue collector must not lend or advance, for any purpose, collected revenue or other public money for which that person is accountable to the FSM Government. 3) Revenue collected must not be used to pay directly for Government expenditure. All revenue collected must be banked complete and intact. |
| <p>4.3. ISSUE AND COLLECTION OF INVOICES</p> <p>4.3.1. Issue of Government invoices</p> <ol style="list-style-type: none"> 1) It is the responsibility of the Revenue Manager to ensure that revenue is collected when due and to take all necessary steps to avoid revenue falling into arrears. 2) Wherever possible, revenue must be collected at the time that the good or service is supplied and a receipt issued. 3) An invoice may be issued for purposes approved by the Secretary where payment is not to be made at the time that the good or service is supplied. 4) An invoice must contain full details as so to enable a recipient to easily identify the goods or services supplied and when the payment is due. 5) An invoice must be completed with full details of the 'recipient' to allow collection procedures to take place. The Secretary of Finance may issue instructions on the minimum recipient details to be included in an invoice. 6) A revenue collector may not issue a credit note for revenue that has been collected. |
| <p>4.3.2. Collection of outstanding invoices</p> <ol style="list-style-type: none"> 1) The Revenue Manager is responsible for ensuring that revenue is collected by the due date for invoices issued by the Department. 2) The Revenue Officer must check all outstanding invoices at least monthly in order to check those unpaid and to ensure that appropriate follow up action is being taken. |

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| <p>3) Departments and the Revenue Officer must follow revenue collection procedures as issued by the Secretary.</p> <p>4) A register of all outstanding revenue invoices (aged debtors listing) must be maintained at all times and regularly followed up for continuous collection of outstanding revenue.</p> |
| <p>4.3.3. Outstanding invoices</p> <p>1) If an item of revenue is overdue for more than 6 months for any reason whatsoever, the relevant Head of Department must submit a detailed written report on the matter to the Secretary of Finance.</p> <p>2) The report must be in a format approved by the Secretary.</p> |
| <p>4.3.4. Write-offs</p> <p>1) All reasonable efforts must be taken to collect outstanding debts before they may be written off.</p> <p>2) Any write-offs of outstanding debts must be approved by the Secretary of Finance.</p> |
| <p>4.4. SAFE CUSTODY OF CASH & CASH EQUIVALENTS</p> <p>4.4.1. Misuse of cash</p> <p>1) An officer that has control over cash must not under any circumstances:</p> <ol style="list-style-type: none"> Use such cash for any personal purpose, no matter how temporary; or Loan or draw such cash against any IOU or other similar document; or Exchange such cash for a personal check, including his or her own check. |
| <p>4.4.2. Responsibility for cash holdings</p> <p>1) A revenue collector is responsible for safeguarding and balancing any revenue collected on behalf of the FSM Government.</p> <p>2) A revenue collector must have sole access to his or her revenue holding.</p> <p>3) If for any reason, any revenue stored overnight must be secured in a suitable safe storage facility otherwise this should be banked daily.</p> <p>4) When counting cash and handing over cash to superiors for checking, two people must be present to count and recount the cash.</p> |
| <p>4.4.3. Provision of safe custody facilities</p> <p>1) It is the responsibility of the Head of Department to ensure that adequate safe custody facilities are provided to officers working within the Department that is accountable for any cash.</p> <p>2) It is the responsibility of the Head of Department to ensure that all due precautions are taken to prevent loss or theft of all cash collected for the FSM Government.</p> |
| <p>4.4.4. Safe-guarding of keys and passwords</p> <p>1) A revenue collector in possession of a key, PIN number or password to a strong room, safe or cash box, online banking or online secure funding portal e.g. Compact must take all reasonable precautions against loss or theft of the key at all times.</p> <p>2) Under no circumstances, except officially handing over to a replacement officer or under the orders of the Secretary, may a revenue collector hand a key, PIN number or password to a strong room, safe or cash box, online banking or online secure funding portal e.g. Compact, to any other unauthorized person.</p> <p>3) A revenue collector is personally liable, and may be held financially responsible, for the loss of cash or other Government property occurring through the loss of key or sharing the PIN number or password to any safe custody facility.</p> |
| <p>4.4.5. Security of receipt books, invoices and blank checks</p> <p>1) The Assistant Secretary of Finance must ensure that all bulk stocks of receipts, invoices and pre-numbered blank checks are secure and kept in a strong room, safe or strong lockable box until required for use.</p> <p>2) The Assistant Secretary of Finance must keep a register of all stocks of receipt books, invoice, and pre-numbered blank checks and conduct regular inspections to ensure that no receipts, invoices, or pre-numbered blank checks have been stolen, lost or misused.</p> <p>3) Revenue collectors must ensure that all receipts, invoices and debit notes under their control are kept in a strong room, safe or strong lockable box when not in use.</p> <p>4) The loss of any receipts, invoices, debit notes and pre-numbered blank checks must be reported immediately to the Secretary by the officer responsible for their custody.</p> |
| <p>4.5. BANKING OF REVENUE</p> <p>4.5.1. Approved bank accounts</p> |

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| <ol style="list-style-type: none">1) All revenue collected must be deposited in a bank account approved for use by the Secretary.2) Under no circumstances can a Department open their own bank account without express written approval from the Secretary. |
| <p>4.5.2. Petty cash holdings</p> <ol style="list-style-type: none">1) All petty cash holdings, other than that held by Treasury, must be approved by the Secretary.2) The FSM Treasurer shall maintain a petty cash fund in an amount as periodically determined by the Secretary for incidental expenses. The petty cash fund may only be utilized or replenished for expenditures:<ol style="list-style-type: none">a) Of \$100 or lessb) Which are supported by documentary evidence sufficient to establish the purpose and the amount of the expenditure; andc) Which will have the approval of an appropriate Allottee. |

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| <p>4.5.3. Reconciliation of revenue collected</p> <ol style="list-style-type: none"> 1) Deposits to a bank for the credit of a Government banking account must be reconciled with the receipts for revenue to which the banking relates. 2) The reconciliation must exclude a float amount in the cash box and the float amount must remain in the cash box and not be included in the banking. |
| <p>4.5.4. Deposits to Government bank accounts</p> <ol style="list-style-type: none"> 1) Deposits to a bank for the credit of the FSM Government (except for bank to bank transfers and direct debits) must only be made by an officer approved by the Secretary. 2) Deposits to a bank for the credit of the FSM Government must: <ol style="list-style-type: none"> a) Be made on deposit slips approved by the Secretary of Finance or designee; and b) Show a detailed analysis of the amount paid in as to currency notes, coins, checks and other instruments. 3) The officer making the deposit at the bank must ensure that all duplicate bank deposit slips or stubs are correctly stamped and initialed by an official of the bank. 4) The revenue collector must ensure that all revenue received is paid into the bank on a daily basis. Holding cash overnight is not encouraged. 5) The Secretary may allow payers to deposit revenue to the Public Fund by a bank transfer or direct debit if: <ol style="list-style-type: none"> a) The payer has been advised of procedures to ensure that the deposit can be easily identified from the bank details; and b) Procedures to record the deposit against the appropriate account code and to credit the payers account are in place. |
| <p>4.5.5. Field Office deposits to Government bank account</p> <ol style="list-style-type: none"> 1) All revenue collected and receipted at the Customs & Tax Administration (CTA) and Finance Field Offices must be promptly deposited into the bank account as assigned by the Secretary. |
| <p>4.5.6. Foreign checks and drafts</p> <ol style="list-style-type: none"> 1) All foreign drafts must be forwarded to the Treasury cashier for receipting and deposit into an approved depository account. 2) Foreign checks are not accepted in the FSM. The revenue collector must advise the payer of the acceptable forms of payment. |
| <p>4.5.7. Encashment of personal checks</p> <ol style="list-style-type: none"> 1) A person must not under any circumstances cash any check using public money. |
| <p>4.5.8. Dishonored checks</p> <ol style="list-style-type: none"> 1) If a check or other negotiable instrument has been dishonored by a bank, the revenue collector must contact the drawer as soon as practically possible and must be requested to reimburse the Government for the amount of the dishonored check plus any other cost incurred including bank charges. 2) If the check or other negotiable instrument has been dishonored for a technical reason to do with check preparation, the drawer must be requested to correct and countersign the error or issue a correct replacement check (including bank charges). 3) If the check or other negotiable instrument has been dishonored with the words 'refer to drawer', 'insufficient funds' or 'no account' or anything similar, the drawer must be asked to make reimbursement in cash only (including bank charges). |
| <p>4.5.9. Balances may be invested</p> <ol style="list-style-type: none"> 1) The Secretary may invest any balances of the General Fund, or any part thereof, at call, or for such period and on such terms as thought fit, at any bank and in such other securities as the Secretary may declare to be securities consistent with the financial policies of the Government. 2) Any interest earned on investments shall be credited to the General Revenue Fund and may be used only in accordance with an Appropriation Act. 3) The Secretary may sell and convert into money any such securities, and that money shall be paid into the General Revenue Fund to the credit of the proper fund to which it belongs. |
| <p>4.6. REPORTING THE LOSS OF PUBLIC MONEY</p> <ol style="list-style-type: none"> 1) It is the duty of the revenue collection officer to report, without delay, to his or her senior officer, an incident of loss, shortage, theft or other irregularity in any cash holding under his or her control. |

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- 2) It is the duty of all finance officers (including those who are involved in the collection of cash i.e. CTA) to immediately bring to the attention of senior officers of any circumstances which cause them to believe that there is a suspected loss, shortage, irregularity, fraud or theft of any public money.
- 3) The Office Manager must prepare a detailed report to the Assistant Secretary of Treasury and send a copy of the report to the Secretary of Finance. The report must:
 - a) Contain a full description of the incident and the amount involved; and
 - b) Contain the office managers opinion as to whether the loss has arisen due to the negligence of the revenue collector; and
 - c) Be marked "Private and Confidential".
- 4) Upon receipt of the report from the Office Manager, the Assistant Secretary of Treasury may, after due consideration of the facts and consultation with the Secretary of Finance, take the following action:
 - a) Issue instructions for any necessary action;
 - b) Correct any weakness in the accounting procedures that have been revealed by the loss;
 - c) Make recommendations to the Secretary of Finance on how to recover the money;
 - d) Ensure that any recommendations for recovery or write-off follow any guidelines issued by the Secretary of Finance or if there is no change of recovery, explain why and make recommendations to write it off;
 - e) Make any recommendations for criminal charges to be laid; and
 - f) If the loss exceeds \$5,000 or the Secretary of Finance considers it necessary, report the incident to the President.

4.7. BANK RECONCILIATIONS

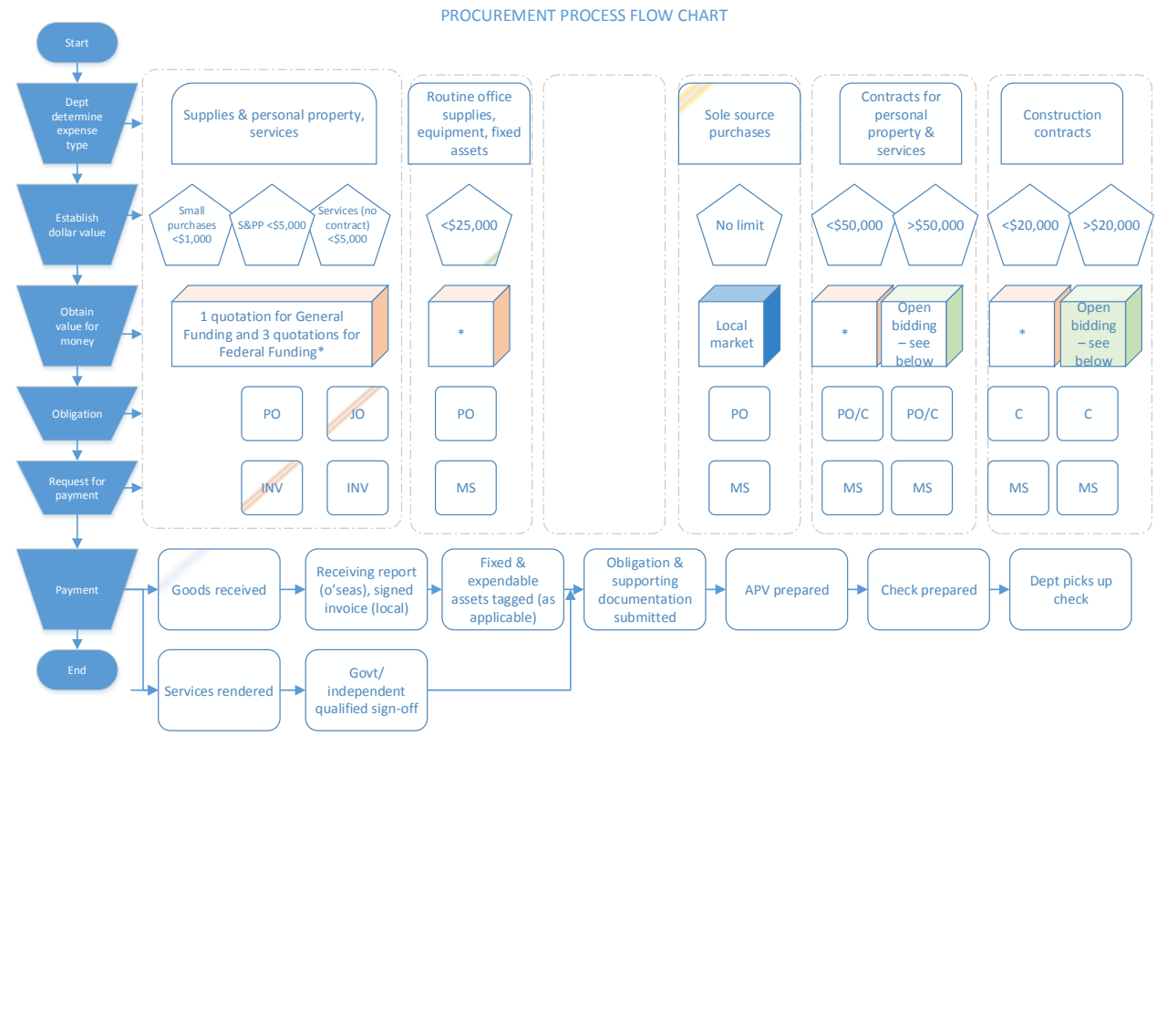
- 1) At the end of each month, a bank reconciliation must be prepared, reviewed and retained.
- 2) The bank reconciliation shall be prepared for each bank account held by the FSM Government.
- 3) The reconciliations should be completed no later than 10 working days of the next month.
- 4) All reconciling identified must be cleared in a timely basis, preferably before the next month's bank reconciliation.
- 5) Any unusual and/or non-compliant transactions must be reported immediately to the Assistant Secretary for Treasury for resolution.

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5. PROCUREMENT AND PAYMENTS

5.1. PROCUREMENT – GENERAL

5.1.1. Types of procurement and value



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5.1.2. Disbursements

- 1) In General. No Government funds shall be disbursed, directly or indirectly, to any individual, corporation, association, partnership or other legal entity who on the date of the intended disbursement is indebted to the FSM Government and has not made satisfactory arrangements with the Secretary for repayment, nor shall Government funds be otherwise disbursed except:
 - a) To liquidate valid obligations of the FSM Government provided that:
 - i. With respect to obligations for the acquisition of personal property, the appropriate Allottee, or the Secretary or designee, has certified that the property has been satisfactorily received and installed, if applicable; and
 - ii. With respect to obligations for services other than employment and construction services, the appropriate Allottee has certified that the services have been satisfactorily performed; and
 - iii. With respect to obligations for payroll, leave, travel, or representation expense, the requirements of Part 5 have been satisfactorily met.
 - b) To advance funds pursuant to the provisions of subpart 5.1.3;
 - c) To effect transfer or investments into or among Approved Depository Accounts
 - d) To reimburse amounts over collected through taxation or otherwise;
 - e) To disburse amounts collected on behalf of other entities or agencies; or
 - f) To effectuate a transaction not inconsistent with FSM law and approved by the Secretary.

5.1.3. Advances

No payment advances may be made from the Government funds except for the following:

- 1) Travel – as detailed under the travel section as described under subpart 5.6.6.
- 2) Payroll – To advance against individual salaries or wages, provided that the amount advanced to any given employee or official shall not exceed the amount of salary or wages earned by the requesting employee or official but not yet paid. Refer to subpart 5.7.5 of these Regulations;
- 3) Purchases – To advance funds against purchases of personal property, provided that a Purchase Order, Job Order or Request has been processed in accordance with Subpart 5.2 of these Regulations;
- 4) Foreign Office Imprest and Operating Funds – To advance funds in accordance with the provisions of Part 8 of these Regulations;
- 5) Contracts – To advance funds under a contract to which an FSM Government Agency or a non-national Allottee is a party, when required by the terms of the contract;
- 6) Other Advances – To make advances not inconsistent with FSM law and approved by the Secretary.

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5.1.4. Obligations

- 1) The Government is legally obliged to make payment for goods and services based on an event like:
 - a) Issuing a purchase order to a supplier (payment upon issuance of invoice);
 - b) Signing a contract (payment made upon satisfactory completion of services or successful delivery of goods purchased);
 - c) Issuing a job order (in cases of no contract for goods & services <\$5,000);
 - d) Consumption of goods and services provided by a 'sole supplier';
 - e) Signing a grant agreement or scholarship agreement;
 - f) Other similar events.
- 2) Unless otherwise specifically authorized by law, no officer or employee of the FSM, or allottee of funds shall make or authorize an expenditure from, or create or authorize an obligation pursuant to any appropriation, apportionment, reappropriation, or allotment of funds from the US Government for the FSM National Government:
 - a) In excess of the sum made available by law; or
 - b) In advance of the availability of funds; or
 - c) For the purposes other than those for which an allotment has been made.
- 3) In the case of a violation of subpart 5.1.4(2) above, the Secretary of Finance shall immediately report to the President and to the Congress of the FSM all pertinent facts together with a statement of the action taken or proposed to be taken with respect thereto.

5.1.5. Contractual Obligations

- 1) Government funds may be obligated pursuant to a contract only if the contract, including all modifications and amendments thereto:
 - a) Is in writing;
 - b) Each page of the contract is numbered;
 - c) All modifications and amendments are initialed by the relevant parties to the contract;
 - d) Each page is initialed by the Allottee and the contractor (third party) or all corrections are made to the contract prior to signing occurring; and
 - e) Executed by dated and timed signatures of the relevant parties as set out below.
- 2) All contracts are to be executed by original signatures of all FSM parties. An electronic signature is only accepted by an overseas supplier. Where the Allottee or other parties required to sign the contract as set out in subpart 5.1.6, then a designee must be assigned.

5.1.6. Executing the contract

- 1) The contract is executed (as indicated by signature) by the appropriate Allottee on behalf of the FSM Government or the contracting FSM Government Agency. The following will be the order of approvals required to execute a contract:
 - a) Compliance with relevant Regulations – The Allottee will sign (dated and timed) the draft contract as to his/her compliance with the relevant recruitment requirements and that the terms and conditions of the contract are consistent with FSM laws and regulations.
 - b) Availability of Funds and compliance with Financial Management Regulations – Availability of funds will be confirmed by initial by the designated Certification Officer. The contract will then be passed on to the Secretary of Finance by way of a dated and timed signature to confirm to his/her knowledge the contract is consistent with the Financial Management Regulations and that the correct taxation provision has been identified in the contract.
 - c) Legal Sufficiency – Is approved by dated and timed signature as to legal sufficiency with FSM laws and regulations:
 - i. *Executive Branch* – With respect to contracts entered into by the Executive Branch, by the Attorney General;
 - ii. *Legislative Branch* – With respect to contracts entered into by the Legislative Branch, by the Legislative Counsel;
 - iii. *Judicial Branch* – With respect to contracts entered into by the Judicial Branch, by the designee of the Chief Justice;

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- iv. *Other FSM Government Agencies* – With respect to contracts entered into by FSM Government Agencies other than the Executive, Legislative or Judicial Branches, by the designated legal counsel of the head of the Agency;
 - v. *Non-national Allottees* – With respect to contracts entered into by a non-national Allottee, by the designated legal counsel of that Allottee;¹
 - vi. *State contracts* – With respect to contracts entered into by the State Governments, by the State Attorney Generals; and
 - vii. *Municipal contracts* – With respect to contracts entered into by the Municipal Authorities, by the State Attorney Generals.
- d) Concurrence with the terms and conditions of the contract. Is confirmed by dated and time signature of the contractor (third party) providing the goods or services, agreeing to the terms and conditions of the contract. The contractor will also initial the bottom right of each page of the contract.
 - e) Execution of the contract. Once all signatures above have been obtained, the Allottee or contracting FSM Government Agency will proceed to initial the bottom right of each page.
- 2) Subparts 5.1.5 and 5.1.6 shall not apply to the purchase of goods or services that are available only from a single source, including utilities such as electricity and telephone services and including such as goods as postage stamps and subscriptions to periodicals.

5.1.7. Specific approvals and other requirements

- 1) In addition to the requirements set forth in subparts 5.1.5 and 5.1.6, the following contractual approvals must also be obtained and applicable requirements met in the instances specified below.
- a) Housing Contracts – With respect to housing contracts entered into by FSM Government Agencies, the Secretary or designee must also sign said contracts to indicate his concurrence with the contracts and that such contracts are necessary to provide housing to eligible employees.
 - b) Employment Service Contracts – With respect to employment service contracts entered into by FSM Government Agencies, the Secretary or designee must sign said contracts to indicate either concurrence with employment covered by the National Public Service System Act, or his certification that such employment is exempt from the National Public Service System Act.
 - c) Independent Contractor/Consultant Contracts – With respect to independent contractor/consultant contracts entered into by FSM Government Agencies, the Secretary or designee must sign said contracts to certify that the contractor/consultant is exempt from the National Public Service System Act.
 - d) Construction Contracts. With respect to contracts for construction projects involving the obligation of **\$20,000** or more, or such other amount as may be prescribed by subpart 6.2, said contracts, including all modifications or amendments thereto:
 - i. Must be signed by the Secretary of the Department of Transportation, Communications, and Infrastructure or designee verifying compliance with or exemption from the open bidding and Citizen Bidder preference requirements of the Public Contracts Act and Part 6;
 - ii. Must contain provisions limiting disbursements under the contract to ninety percent (90%) of the percentage of completion as certified by the Secretary of the Department of Transportation, Communications, and Infrastructure or his designee, multiplied by the total amount of the contract price; and
 - iii. Must contain provisions preventing the ten percent (10%) retainage from being disbursed until the Secretary of the Department of Transportation, Communications, or designee has certified that the contract has been satisfactorily completed.
 - e) Where the construction contract is being let by a non-national Allottee, the “Secretary of Transportation, Communications, and Infrastructure or designee” may be replaced by the Project Inspection Official or, if a Project Inspection Official is not required under Part 10 of these Regulations, by the Allottee ~~himself~~.

¹ Confirm with Secretary on her preference

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- f) Personal Property. With respect to contracts involving the purchase or lease of personal property, the cost of which including freight and handling is \$50,000 or more, or such other amount as may be prescribed by subpart 6.2, said contracts, including all modifications or amendments thereto, must be signed by the President or designee verifying compliance with or exemption from the open bidding and Citizen Bidder preference requirements of the Public Contracts Act and Part 6. Where the contract is being let by a non-national Allottee, the "President or his designee" may be replaced by the Project Inspection Official or, if a Project Inspection Official is not required under Part 10 of these Regulations, by the Allottee himself.
- g) Land acquisitions. With respect to contracts involving the purchase of land:
- i) outside of the Federated States of Micronesia, an appraisal will be required from a registered/licensed and suitably qualified valuer.
 - ii) within the FSM, a valuation or appraisal must be obtained (if possible) together with the rationale behind the valuation price.
 - iii) Other documentation required will be:
 - o the 'agreement for transfer of ownership' between the landowner and the Allottee;
 - o clause to indicate the name/s of the landowner/s;
 - o Certificate of Title to be obtained once payment is made; and
 - o Ensure that the Certificate of Title is under the name of the State Government (i.e. not the Allottee, authorities or departments).

5.2. PURCHASING OF GOODS & SERVICES

5.2.1. Placing an order for goods & services

- 1) A request for goods & services can be initiated by the following means:
- a) Purchase requisition/purchase order (subpart 5.2.2);
 - b) Invoice (subpart 5.2.3);
 - c) Job Order (subpart 5.2.4); and
 - d) Contract (covered by subpart 5.1.5 and 5.1.6).

5.2.2. Purchase requisition/purchase order

- 1) A Purchase Requisition prepared by the FSM Government Agency or non-national Allottee for the procurement on a form prescribed by the Secretary that provides, at a minimum, the following information:
- a) The name of the FSM Government Agency or non-national Allottee procuring the personal property or supplies;
 - b) The date the Purchase Requisition was completed;
 - c) The description (including detailed specifications of the product) and quantity of items needed; and
 - d) Copies of the required proforma or quotations needed i.e. 1 quotation for General Funding and 3 quotations for Federal Funding.
- 2) At this point the Agency will have determined which quotation they have selected i.e. for Federal Funds where 3 quotations are required. Where the Agency has not selected the lowest value quotation, the Allottee must justify the higher value quotation was selected.
- 3) The Purchase Requisition is then submitted to the Certification Unit of the National Treasury Division to certify there are sufficient funds available for the purchase.
- 4) The Purchase Requisition is then submitted to the Procurement Unit of the National Treasury Division, Department of Finance and Administration ("Procurement") who will sign the Purchase Requisition and prepare the Purchase Order.
- 5) The Purchase Order is prepared on standard stationery printed solely by the Procurement Unit.
- 6) The Secretary or designee will then approve the Purchase Order to be presented to the supplier to uplift the goods.
- 7) Once the department has uplifted or received the goods specified on the Purchase Order, the receiving officer will sign the invoice prepared by the vendor.
- 8) The original purchase order together with the signed invoice, is then delivered to the National Treasury directly by the Vendor for payment.

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9) ~~In cases where there is a purchase for personal property and services greater than \$50,000 open bidding procedures must be undertaken unless the Secretary or designee approves by signature that the procurement is in compliance with, or not subject to, the open bidding requirements and citizen bidder preferences of Public Contracts Act (PCA) (55 F.S.M.C. 401 to 418, as amended) and this part of these regulations, if applicable.~~

9) In determining the cost of the supplies or personal property to be procured and in determining the applicability of, and compliance with, the Public Contracts Act, the Secretary or designee may, in his/her sole discretion, do any of the following:

- a) Accept as the cost of the procurement a quotation or quotations obtained by the FSM Government Agency or by Procurement;
- b) Determine the cost as part of a consolidated purchase of supplies or personal property by Procurement;
- c) Supply the items requested in the Purchase Requisition from existing supplies of Procurement, charging the costs to the FSM Government Agency;
- d) conduct the public bidding process for purchases or supplies and personal property involving costs of \$50,000 or more in accordance with the Public Contracts Act or authorize the contracting officer of the FSM Government Agency to conduct the public bidding process and document compliance to the satisfaction of the Secretary or designee; and/or
- e) take any other action in determining cost and complying with the PCA and these regulations which is consistent with the procurement of supplies and personal property by FSM Government Agencies at a low cost and in a timely manner;

10) Where the procurement is by a non-national Allottee, the Purchase Requisition/Order need only be certified as to availability of funds by the Secretary or his designated certification officer and may then be returned to the non-national Allottee for submission to the vendor.

5.2.3. Invoice for sole source and small purchases

1) In cases of 'sole source purchases' and 'small purchases' <\$3,000, an invoice will be accepted as a form of initiating expenditure for payment.

2) The invoice must have the following details:

- a) Name of supplier (preferably on formal letterhead);
- b) Invoice reference number;
- c) Contact details of the supplier;
- d) Registered tax number of the supplier;
- e) Detail of the goods/services purchased (i.e. quantity, unit cost, relevant date);
- f) Total of the invoice;
- g) Name of the FSM Agency or Allottee the invoice is being charged to.

4) Even though the goods have been collected, i.e. obligation has already taken place, the invoice (together with the Miscellaneous Payment Request) will be submitted to the Certification Unit to ensure there are adequate funds available.

5) If there are insufficient funds available, the Allottee may have to bear the liability or find a suitable cost center that has sufficient funds to cover the expenditure.

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| <p>5.2.4. Job Order</p> <ol style="list-style-type: none"> 1) <u>A job order is used to record payments for services (i.e. Repairs & Maintenance work) that is less than \$5,000 in value but will require payments to be split as milestones are met.</u> 2) <u>The Job Order is prepared by the FSM Government Agency or non-national Allottee for the procurement on a form prescribed by the Secretary that provides, at a minimum, the following information:</u> <ol style="list-style-type: none"> a) <u>The name of the FSM Government Agency making the request for services;</u> b) <u>The date of the request;</u> c) <u>The description of the services needed; and</u> d) <u>Signature of the Allottee.</u> 3) <u>The Job Order form is prepared by the FSM Government Agency and submitted to Treasury who will assign a Job Order Number.</u> 4) <u>The Job Order form is then submitted for certification to ensure there are sufficient funds available to carry out the work. Certification will be made by the Secretary or designee.</u> 5) <u>Once certified the Secretary will approve the Job Order to be used instead of a contract for payment purposes.</u> 6) <u>It is the responsibility of the FSM Government Agency to provide documentary support to show that services have been completed to a satisfactory standard.</u> 7) <u>For payment, the FSM Government Agency will prepare a Miscellaneous Payment Request and attach the approved Job Order and other relevant documentation i.e. sign off by the Department that the service has been completed to a satisfactory level.</u> |
| <p>5.2.5. Purchase of different types of expenditure</p> <ol style="list-style-type: none"> 1) All obligations of Government funds for purchases of supplies, personal property, or services not supported by a contract in compliance with subparts 5.1.5 and 5.1.6 except in the following situations: |
| <p>a) <i>Small purchases (<\$3,000)</i></p> <ol style="list-style-type: none"> (i) <u>With respect to purchases involving less than \$3,000, an invoice issued by the Vendor and approved by signature of the appropriate Allottee making the purchase and transmitted to the Secretary under a Miscellaneous Payment Request Form may be used in place of a contract. The documentation required is outlined in subpart 5.2.3.</u> (ii) <u>In such cases, the government officer making the purchase must obtain approval by the Allottee prior to committing funds to the purchase.</u> |
| <p>b) <i>Supplies & Personal Property (\$3,000-\$49,999)</i></p> <p><u>With respect to purchases of supplies and personal property costing at least \$3,000 but less than \$50,000 the FSM Government Agency must prepare a purchase requisition in order for a Purchase Order to be issued as outlined in subpart 5.2.2 above. Such documentation can be used in place of a contract.</u></p> |
| <p>c) <i>Repairs & Maintenance and Construction Projects (<\$5,000)</i></p> <ol style="list-style-type: none"> (i) <u>With respect to repairs, maintenance, or construction projects involving amounts less than \$5,000 must prepare a Job Order Form in place of a contract and subject to subpart 5.2.4 above.</u> |
| <p>d) <i>Repairs & Maintenance and Construction Projects (\$5,000 to \$19,999)</i></p> <ol style="list-style-type: none"> i) <u>With respect to repairs, maintenance, or construction projects involving amounts greater than \$5,000 but less than \$20,000, a contract must be put in place and subject to the requirements of subpart 5.1.5, 5.1.6 and 5.1.7 of these regulations.</u> ii) <u>In such cases, 3 competitive quotations must be obtained</u> |
| <p>e) <i>Sole Source purchases (no limit)</i></p> <ol style="list-style-type: none"> (i) <u>Sole source purchases are goods or services that are available only from a single source, including utilities such as electricity and telephone services and including such goods as stamps and subscriptions to periodicals.</u> (ii) <u>With respect to purchases from sole source suppliers, an invoice approved by signature of the appropriate Allottee making the purchase and transmitted to the Secretary under a Miscellaneous</u> |

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Payment Request Form may be used in place of a contract.

- (iii) Sole source purchases as defined under subpart 5.2.5(e) are not subject to the requirements of subpart 5.1.5 (contractual requirements)
- (iv) Sole source purchases as defined under subpart 5.2.5(e) are not subject to the requirements of subpart 6.2 (open bidding requirements)

5.2.6. Authorization of expenditure

- 1) All prepared purchase requisition forms must be approved by the Allottee, certified by the Certification Unit and verified by the Procurement Unit (evidenced by signature);
- 2) All completed purchase order forms must be signed by the Secretary of Finance or designee;
- 3) All contracts must be signed as outlined in subpart 5.1.5, 5.1.6 and 5.1.7;
- 4) All prepared Job Orders must be approved the Allottee, estimate signed off by the vendor/contractor undertaking the work, estimate accepted by the Allottee, and certified by the Certification Unit (evidenced by signature);
- 5) All invoices/receipts for purchases < \$3,000 must be approved by the Allottee and certified by the Certification Unit.
- 6) All progress payments against job orders and contracts must be signed off by the Allottee, confirming that milestones have been met to a satisfactory standard expected.
- 7) At payment stage, the Allottee must sign the Miscellaneous Payment Request form approving payment and also submitting adequate documentation to support the amount to be paid and that the goods and services have been received.

5.2.7. Value for money purchasing

- 1) The FSM Government must demonstrate that 'value for money' has been considered for all expenditure.
- 2) 'Value for money' is when the best possible price is obtained to match the product/service specifications required by Government.
- 3) 'Value for money' is obtained for all expenditure by obtaining three competitive quotations for the specifications of the product/service that needs procuring.
 - a) If for any reason, three competitive quotations cannot be obtained due to a limited market available 'on-island', then this must be explained and approved by the Allottee.
- 4) Quotations are not required for 'small purchases' (subpart 5.2.5(a)), sole source purchases (subpart 5.2.5(e)), and contracts that are required to go to open bidding (Part 6)
- 5) For sole source purchases (as defined by subpart 5.2.5 (e)), the government will rely on the local market rates, however, the Secretary of Finance may be able to negotiate a discounted rate if the vendor is a government owned entity.
- 6) For other purchases that fall outside the definition of 'sole source purchases', but it becomes evident that there is only one supplier who can provide the goods/services locally, the FSM Government Agency must:
 - a) First look offshore, for two additional vendor quotations who can provide the goods/services. In such cases, consideration must be given to:
 - (i) Transaction history with the supplier i.e. supplier may not be reliable;
 - (ii) the cost of freight, handling and customs clearance must be factored into the overall cost; and
 - (iii) the risk of non-delivery and/or quality of product if the vendor.
 - b) If two additional vendor quotations cannot be obtained, then the department must justify why three quotations have not been obtained;
 - c) If the transaction is greater than \$50,000 (personal property and services) or greater than \$20,000 (construction contracts), and there is only one supplier on island providing the required goods/services, the Allottee may consider the following:
 - (i) that such purchases requires open bidding; and
 - (ii) extend the open bidding for overseas vendors to submit a tender but include all additional costs of freight, handling and customs; or
 - (iii) justify why an exemption be granted from the bidding process due to only one vendor locally that can provide a cost effective service.
- 7) For all contracts for personal property and services > \$50,000 and construction contracts > \$20,000, value for

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| <p>money is obtained through the open bidding process as outlined by the Public Contracts Act and Part 6 of these Regulations.</p> |
| <p>5.3. PROCESSING OF PAYMENTS</p> <p>5.3.1. Processing of payments by data entry staff</p> <ol style="list-style-type: none"> 1) All requests for payment must be checked by the Treasury department (senior officers) prior to the payment being processed in the centralized financial management information system. The check will be to ensure the following: <ol style="list-style-type: none"> a) The correct form has been prepared; b) All required information has been completed on the form i.e. department name, date, Allottee approval, adequate itemized detail of the purchase; c) All required documentation has been attached to the payment request i.e. purchase order, invoice, receipt, contract, job order, bill of lading, etc; d) Certification has approved the purchase and signed; e) Name of the person preparing the request is stated. 2) If any errors or inadequate documentation is identified, Treasury will return the Payment Request back to the relevant Department for correction or to provide additional information. 3) Only an approved data entry officer approved by the Secretary of Finance may enter payment vouchers into the centralized financial management information system. 4) The data entry officer will enter the payment request into the system as an "Accounts Payable Voucher". The officer will then sign the Voucher and forward to senior Treasury staff for checking and approval to proceed with preparing a check. |
| <p>5.3.2. Certification</p> <ol style="list-style-type: none"> 1) At the beginning of each fiscal year, after the Appropriation Act has been passed, the Budget Office will prepare quarterly Allotments. 2) Once allotments have been finalized, a copy of the Allotment notice will be transmitted from the Budget Division to the Certification Division to set up the manual ledgers for each allotment. 3) All requests for ordering goods and services and for payment must go through the Certification process to ensure there is adequate funding available for the purchase. 4) All approved certification checks must be evidenced by a date and time stamp and signed by the Certifying Officer. 5) Only an approved certification officer approved by the Secretary of Finance may certify payment requests, purchase requisitions and contracts. |
| <p>5.3.3. Encumbrances and date of charging expenditure</p> <ol style="list-style-type: none"> 1) Expenditure must be charged to Government accounts according to generally accepted accounting principles. 2) An encumbrance is recorded in the system when the obligating event occurs, as defined under subpart 5.1.4. 3) An encumbrance records the full amount payable by the FSM Government based on the obligating event. 4) The date for recording a payment against the Government account occurs: <ol style="list-style-type: none"> a) After goods and services have been received (unless advanced as described in subpart 5.1.3); b) Once a supplier invoice has been received together with verification that the goods have been received or the service has been completed to a satisfactory level. 5) All payment requests must indicate the 'encumbrance' that was created so that it can be applied against the encumbrance. 6) At the end of the fiscal year, the Secretary of Finance will issue instructions for accrual entries to be made to adjust for: <ol style="list-style-type: none"> a) unliquidated encumbrances held at Field Offices; and b) goods and services received but not yet paid. |

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| <p>5.3.4. Credit entries on expenditure accounts</p> <p>1) Credit entries may only be made against expense items if such entries are in respect of:</p> <ol style="list-style-type: none"> a) A previous overpayment; b) A payment that has been charged to the wrong code in the current financial year; c) Reversal of an accrual of expenditure; or d) In any other circumstance specifically authorized in writing by the Secretary of Finance. |
| <p>5.3.5. Unexpended appropriation</p> <p>1) Under no circumstances may a budget surplus be transferred to a suspense account or any other manner adjusted in order to use such surplus for the payment of future anticipated expenditure.</p> <p>2) Current year appropriations cannot be utilized to clear invoices that relate to the prior financial year. In such cases, the Allottee must:</p> <ol style="list-style-type: none"> a) Request a special appropriation to cover such costs; and b) Be more vigilant to capture all year-end invoices to be captured in the correct fiscal year. <p>3) All unexpended appropriations must be returned to Treasury and be made available for next year's appropriation.</p> |
| <p>5.3.6. Cancellation of issued checks</p> <p>1) A check that is completed incorrectly i.e. wrong vendor name or amount incorrect must be cancelled/voided and be clearly marked as so in INK.</p> <p>2) If the check has already been collected by the vendor or the FSM Government Agency, the check must be promptly returned to Treasury to be cancelled and a new check issued with the corrections.</p> <p>3) If the check has already been collected by the vendor and an overpayment error has been discovered, the Treasury Officer must do the following:</p> <ol style="list-style-type: none"> a) Contact the vendor immediately advising of the error; b) Make arrangements for the check to be returned; c) If the check has already been presented at the bank, proceed to make a STOP check so it cannot be cashed; d) Wait for confirmation from the bank that the check STOP has been successful and the check is in their custody; e) Only then can the Treasury Officer issue a new check. <p>4) If the cancellation occurred in a Field Office (located in Yap, Kosrae and Chuuk) then:</p> <ol style="list-style-type: none"> a) follow the steps outlined in subpart 5.3.6(2) and 5.3.6(3); b) this must be recorded in the Daily Transmittal Form; c) copy of the voided check sent to National Treasury; d) detail of the new check number that was issued; and e) in cases where the check was voided prior to the daily export file being sent to Head Office then the export file will exclude the check number that was cancelled; or f) in cases where the check was voided after the daily export file is sent to National Treasury, then a JV will be raised at Head Office to update the cancelled check. <p>5) The Treasury officer will ensure the following will occur when a check is cancelled:</p> <ol style="list-style-type: none"> a) A reversal entry is generated and approved and entered in the financial management system; b) Ensure the cancelled check is in custody; and c) Issue a new check with the correct details. |
| <p>5.3.7. Loss of issued checks</p> <p>1) In cases where a check has been lost by the payee or any other person:</p> <ol style="list-style-type: none"> a) It is the responsibility of the payee or government representative to advise Treasury as soon as practically possible; b) The bank must be advised immediately of the loss and a STOP payment be issued on the check to avoid it being cashed; c) Wait for confirmation from the bank that the check STOP has been successful; d) Only then can the Treasury Officer issue a new check. |
| <p>5.4. MAKING PAYMENTS TO SUPPLIERS</p> |

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| <p>5.4.1. Date payment made to suppliers</p> <ol style="list-style-type: none"> 1) Payment for goods and services must not be paid before the supplier's due date unless: <ol style="list-style-type: none"> a) a discount is offered for early payment; and b) the discount exceeds any interest that may have been earned by paying on the due date or that is payable because of the early payment. 2) Payments for goods and services will be paid according to the timetable set out by Treasury to minimize the number of check runs made in a week. 3) It is the responsibility of the relevant Departmental Administrative Officer to advise the vendor as to when the payment might be expected to avoid wasted journeys. |
| <p>5.4.2. Urgent payments</p> <ol style="list-style-type: none"> 1) For urgent payments, the requesting Department must clearly mark URGENT on the Payment Request. All urgent payments must be signed by the Allottee after considering the following: <ol style="list-style-type: none"> a) If the payment is overdue and will incur penalties if not paid immediately; b) If non-payment may result in milestones on a contract not being met; c) If a government employee is travelling within 24 hours; d) The item purchased is a matter of life and death; e) The item purchased needs to meet a transportation deadline for distribution; or f) Other such urgent matters. 2) The Secretary or designee has the discretion to override a payment that has been marked as URGENT that is not justifiably so. 3) FSM Government Agencies must consider the cost associated with marking payments as URGENT as this may result in: <ol style="list-style-type: none"> a) Overtime being paid to staff to process the payment; b) Errors being made when a significant number of payments are rushed through; c) Delays of normal payments being processed. |
| <p>5.4.3. Deductions from and withholding payments</p> <ol style="list-style-type: none"> 1) The Secretary of Finance may withhold payment of any payment request if the Secretary considers it in the public interest to do so. 2) The Secretary of Finance may deduct amounts from a payment to recover outstanding debts from a payee if agreed with the Revenue Officer (Treasury or CTA) that this action is appropriate. <ol style="list-style-type: none"> a) If the contractor has left the country and there is no other avenue of recovering, then payments to the payee can be withheld until costs have been determined, and may be deducted against any amounts owed to the payee. b) If the outstanding debt to be recovered is greater than the payment to be made, the Secretary of Finance may withhold successive payment requests until the recovery has been fully offset. c) Details of any deduction made from an original gross amount due must be clearly shown on the Accounts Payable Voucher. |
| <p>5.4.4. Payments made by check or direct credit</p> <ol style="list-style-type: none"> 1) Wherever possible payments for all Payment Requests must be made by check or direct credit to a bank account. 2) However, payments under \$100 may be made in cash from the petty cash (subpart 4.5.2). Although replenishment of the petty cash must be made via check. 3) Payment by direct credit to a bank is becoming more acceptable as bank technology allows such transactions. However, additional security measures must be put in place to ensure payments are sent to the correct bank account to settle any liabilities between the FSM Government and the supplier. 4) In order to make a payment by direct credit to a supplier or individuals bank account a verification process must occur. Verification of the bank account for direct credit will occur by: <ol style="list-style-type: none"> a) Completing a 'bank verification' form (format decided by the Secretary of Finance) signed by the individual or business owner; b) Accompanied by a bank statement with the matching name/business name, address and bank account number. |

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| <ul style="list-style-type: none"> 5) All bank accounts for direct credits will be entered into the Financial Management Information System (and supported by the documentation as described in subpart 5.4.5(2)). 6) Any changes to bank account numbers must be accompanied by updated documentation as required in subpart 5.4.5(2). 7) The Treasurer will provide a verification number to be stated on all future invoices. 8) All invoices raised to the FSM Government that requires payment via direct credit must state the 'latest' (if change was made) issued verification number, and the same bank account number as stated in the FSM Financial Management Information System. 9) Any discrepancies in the verification number and bank account details will result in a delay in payment until details are matched. | |
| 5.4.5. Foreign currency and overseas payments | |
| <ul style="list-style-type: none"> 1) Overseas Payments can be made in both USD and in foreign currency. The process is the same for both except for conversion process for foreign currency transactions. <ul style="list-style-type: none"> a) Enter the foreign currency amount on the Payment Request (along with all other details required under these Regulations) and send it to Treasury for processing; b) Note on the Payment Request whether the payment is to be made by bank draft or international wire; c) Include the full bank details for the payee when payment is to be by telegraphic transfer. 2) The payee's bank details must be confirmed by an 'official bank deposit slip' or 'bank printout' documenting the payee bank account name and number and a signed & dated bank stamp and also signed by the payee; <ul style="list-style-type: none"> a) Once the bank details have been received, the Investment/Treasury Division will follow up via phonecall to the payee to confirm the bank account details. b) Once confirmed there will be no change in bank account details for future payments unless a replacement signed and dated (bank and payee) 'official bank deposit slip' or 'bank printout' documenting the payee bank account name and updated number. c) A follow up phonecall from the Investment Division will be made to confirm the change in bank account details. 3) Treasury must arrange for the bank draft or telegraphic transfer, unless otherwise agreed by the Secretary of Finance. 4) The payment must be processed into the accounting system at the USD rate as converted by the bank. 5) Treasury must then advise the paying FSM Government Agency and the Investment Division as to the USD equivalent amount of the transaction or that the outgoing wire has been sent to the supplied bank account. 6) The Investment Division must contact the payee that the payment has been received. 7) Many overseas payments are funded by donors. All such payments/projects must be managed by a representative from the Investment section. <ul style="list-style-type: none"> a) Where possible, in order to minimize processing and to increase security, the Investment section should encourage direct payments from the donor to overseas suppliers. b) It is strongly encouraged when drawing up contracts for overseas suppliers/contractors, that overseas bank account information is included in the contract to provide/perform goods & services. Any changes to bank accounts will then require an amendment to the contract. Such a practice will minimize changes and also increase the level of scrutiny and security over the supplier bank account details because any amendments to bank account details will require sign off by both the contractor and the Government Allottee. | |
| 5.4.6. Payment against invoice copy | |
| <ul style="list-style-type: none"> 1) Subject to subpart 5.4.6(2), payments must be made against original invoices and documents. 2) If the original invoice or document is lost, the following procedures must be followed for payment to be made on an invoice copy: <ul style="list-style-type: none"> a) A copy of the invoice must be obtained from the vendor (if possible) by the FSM Government Agency; b) Treasury must conduct a search through accounting records to ensure that previous payment has not been made; c) For General Fund payments, if a copy of the invoice cannot be obtained, then an affidavit must be obtained together with confirmation from the vendor that the payment is outstanding; | |

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| d) For Federal Fund payments, no payment will be accepted on invoice copies. |
| <p>5.4.7. Over obligation of funds prohibited</p> <p>1) Unless otherwise specifically authorized by law, no officer or employee of the Federated States of Micronesia, or Allottee of funds shall make or authorize an expenditure from, or create or authorize an obligation pursuant to any appropriation, apportionment, reappropriation, or allotment of funds:</p> <ul style="list-style-type: none"> a) in excess of the sum made available by law; or b) in advance of the availability of funds; or c) for purposes other than those for which an allotment has been made. |
| <p>5.4.8. Over obligations to be reported</p> <p>In the case of a violation of subpart 5.4.7 above (i.e. over obligation of funds), the Secretary of Finance shall immediately report to the President and to the Congress of the Federated States of Micronesia all pertinent facts together with a statement of the action taken or proposed to be taken with respect thereto.</p> |
| <p>5.4.9. Discretion to refuse payment</p> <p>1) The Secretary of Finance shall have full and complete supervision of all funds of the Federated States of Micronesia, including the power to withhold approval when necessary to prevent:</p> <ul style="list-style-type: none"> a) misappropriation of public funds; and/or b) the disbursement of public moneys in excess of specific appropriations. |
| <p>5.5. NON-COMPLIANCE WITH PROCUREMENT REQUIREMENTS</p> <p>1) Except as provided in this subpart 5.5, no work shall be performed or goods obtained or purchases made prior to obtaining all signatures required by these regulations, and anyone providing goods or services in advance of the receipt of properly signed documentation does so at his own peril and will have no claim thereof against any FSM Government Agency and/or any officer, employee, agent or contractor of any FSM Government Agency, and the Secretary shall not be obligated to disburse funds for such goods or services.</p> <p>2) Subpart 5.5 hereof shall not apply to the purchase of goods or services that are available only from a single source, including utilities such as electricity and telephone services and including such goods as postage stamps and subscriptions to periodicals.</p> <p>3) Subpart 5.5(1) shall not apply to agreements that are properly ratified in accordance with this subpart 5.5(3). An Allottee may ratify (give subsequent approval having full legal effect to) an agreement pursuant to which a vendor has satisfactorily completed delivery of goods or performance of services but for which one or more signatures were not obtained as required by these regulations.</p> <p>4) For ratification to have full legal effect and for the Secretary to disburse funds, the Allottee must submit to the Secretary a document that:</p> <ul style="list-style-type: none"> a) Expressly states that ratification is intended and explains why the signatures were not obtained in a timely manner; b) Attaches the agreement (including a reduction to writing signed by the parties in the case of an oral or implied agreement); c) Contains a certification that funds were available on the date of the agreement and are available from current year appropriations; d) Contains a determination, that except for such signature[s], the agreement was legally sufficient when made and is still legally sufficient; e) Contains all other determinations and signatures that were required and that are still required; f) States that such an agreement was not subject to the Public Contacts Act; and g) Is signed by the Allottee. <p>4) Subpart 5.5(1) shall not apply to the purchase of goods or services costing less than \$1,000 if all signatures except the provider's have been obtained and the Secretary finds that, because of the nature of the goods or services or location of the provider's it would be impractical to obtain the provider's signature before the delivery of goods or performance of services.</p> <p>5) Subpart 5.5(1) shall not apply to any agreement for which the Secretary or designee determines that the Allottee has satisfactorily documented that there was an emergency preventing the obtaining of the necessary signatures in a timely manner.</p> |

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5.6. TRAVEL EXPENSES

5.6.1. General

- 1) No Government funds shall be obligated for travel except to defray Authorized Travel Expenses, as defined by subpart 5.6.5, which are evidenced by:
 - a) A Valid TA, as defined by subpart 5.6.2; and
 - b) A Travel Voucher, supported by the documentation required under subpart 5.6.8.

5.6.2. Valid Travel Authorization

- 1) For the purposes hereof, a Valid Travel Authorization is a Travel Authorization (TA) that meets all the following requirements:
 - a) Approval. The TA shall be approved as follows:
 - i) When the traveler is the President, Speaker, Chief Justice or Public Auditor, the traveler may approve his own TA.
 - ii) When the traveler is a department or office head in the Executive Branch, the President or designee must approve the TA.
 - iii) For all other FSM Government travelers, the highest management official in the FSM Government Agency requesting the travel must approve the TA.
 - iv) For all other travelers who are not officials or employees of the FSM Government, the appropriate Allottee.
 - b) Administrative Officers must ensure the validity of the TA by ensuring that the travel is:
 - i) allowable under any grant agreement, funding agreement or contract; and
 - ii) not already covered by a management contract i.e. separately invoiced.
 - c) Availability of Funds. The TA shall be certified as to the availability of funds by the Certification Officer, or the appropriate State Finance Officer or his designee.
 - d) Adequate supporting documentation. The TA must be accompanied by the following documentation:
 - i) preliminary itinerary issued by the authorized government travel agent or where it is both practical and less expensive for a traveler to purchase air ticket via online services than by employing local travel agent, such direct online purchase may be allowed provided that it is approved by the head of relevant department²;
 - ii) where appropriate, letter of invitation by the host organization specifying the purpose, dates, name of the traveler; and
 - iii) documentation showing details of accommodation, meal and per diem arrangements i.e. whether or not these are to be at the cost of the traveler or taken care of by the host organization.
 - e) Once a TA number has been assigned and certified in Treasury, the Administrative Officer will transmit the TA number to the travel agent so as to finalize and 'confirm' the flight arrangements.
 - f) In cases where the traveler has paid for airfare using a personal credit card, this is allowable if a TA is in place and the TA advises that the airfare will be via reimbursement to the traveler and NOT via payment to the travel agent.
 - g) In cases where all costs are covered by the host organization, the traveler can prepare a 'Zero TA'. A Zero TA will record the travel as 'official' travel and also cover off any unforeseen emergency travel costs that may occur. All claims against a 'Zero TA' will require approval from the Allottee. A 'zero TA' will go through the normal approval process and entry into Fundware as a normal TA.
 - h) Notwithstanding subpart 5.6.2(g) above, in cases where the traveler is traveling outside the Micronesian region, an Optional Fixed Allowance (subpart 5.6.5(g)) is still claimable by the traveler in cases where the host organization covers all other costs.

5.6.3. Amended Travel Authorizations

- 1) A TA may be amended in whole or part, but each amendment must be approved and certified in accordance with subpart 5.6.2.
- 2) Any amendment that is not approved will result in the traveler bearing the cost of the amendment.

² As suggested by DOJ

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- 3) Pre-approval must be obtained for travel amendments during travel that results in an increase of costs of **\$500³ or more**. All other travel amendments resulting in an overall increase of costs less than \$500 can be approved upon return to FSM.
- 4) The Allottee has the discretion to withhold approval if the amendment is:
 - a) Not considered necessary;
 - b) Motivated by personal circumstances;
 - c) Excessive after considering the situation;
 - d) Not related to Government business;
 - e) An entitlement that is not allowed under the travelers employment terms and conditions.
- 5) If the amendment results in an increase in the overall travel expense:
 - a) the traveler must obtain approval and certification from the appropriate Allottee as defined under subpart 5.6.2 prior to committing Government funds to additional costs; and
 - b) submit the relevant Travel Authorization documentation to the Travel Officer as soon as practically possible for processing (preferably prior to travel commencing).
- 6) The responsibility is with the traveler to provide documented evidence as to why their travel was amended from the original TA that was submitted i.e. cancelled flights will require notification from the airline of the cancellation.
- 7) If the amendment occurs when the travel event has already commenced, and the amendment results in an increase in the overall travel expense > \$500, and there is sufficient time (i.e. at least 3 working days) the traveler must:
 - a) Communicate changes to the travel costs and the reasons to the relevant Government Officer based in FSM to prepare an amendment to the TA;
 - b) Send via email the relevant copies of booking quotations or other documentation to support the amendment;
 - c) Submit the original copies of the documentation upon return to the FSM;
 - d) Obtain a copy of the signed amendment to the TA that has been stamped and signed by the Certification Unit; and
 - e) Make the appropriate travel change arrangements after approval and certification has been received.
- 8) If the amendment occurs when the travel event has already commenced, the amendment results in an increase in the overall travel expense >\$500, and there is insufficient time (i.e. due to medical emergency or missed flight) the traveler must:
 - a) Contact the person required to approve the amendment explaining the situation and the estimated increase in cost (preferably via email or messenger that can be printed at a later date);
 - b) Obtain a written approval (via email or scanned letter) in response to communication described in subpart 5.6.3(5);
 - c) Submit the amended TA together with original documentation (i.e. pre-approval as described in subpart 5.6.3(3), boarding passes, payment receipt, invoices etc) immediately upon return to the FSM;
 - d) Note that the pre-approval is made without the Certification Unit certifying there are sufficient funds available for the travel amendment. In such cases where there is insufficient funds, the traveler may have to bear the cost or suitable arrangements are made with the Allottee as to how this can be remedied.
- 9) Approval of a Travel Voucher does not constitute an approved amendment of the TA.

³ Confirm change limit

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| 5.6.4. Travel dates and routes | <ol style="list-style-type: none"> 1) A TA shall be valid for a period beginning one week prior to the travel commencement date and one week after the travel completion date, as reflected in the TA. 2) If there is a change in travel dates that is beyond the dates described in subpart 5.6.4(1) or the trip is cancelled then: <ol style="list-style-type: none"> a) The current TA must be cancelled and any advance issued must be returned or reimbursed in full to Treasury immediately; and b) A new TA must be prepared for the new trip. 3) The travel itinerary must be booked to coincide with the dates specified in the invitation letter or program document. Extra days on either side of the travel event must be considered reasonable i.e. booked closest to the event dates as possible. 4) The booking must be made to ensure that it is for the most direct route, closest to the 'event' dates, and the most cost effective. |
| 5.6.5. Authorized travel expenses | <ol style="list-style-type: none"> 1) For the purposes, "Authorized Travel Expenses" means only such expenses as are incurred by the traveler named in the Valid TA while the traveler is away from his official duty station or State of assigned duty or principal place of residence. 2) Travel expenses are the expenses for transportation, lodging, subsistence, and related items incurred by employees/officials who are in travel status on official government business. 3) The National Government does not provide for the costs of caring for dependents of the traveler while on official travel duties. 4) For each travel event, all of the following requirements must be met: <ol style="list-style-type: none"> a) Official Government Business <ol style="list-style-type: none"> i) The travel must be performed to conduct official government business by an official or employee of the FSM Government, by a non-national Allottee, or by an official or employee thereof. ii) For the purposes of this subpart "official or employee" shall mean a regular salaried employee, contract or otherwise. iii) Travel by anyone else, may be authorized by the official approving the TA if the said traveler is traveling on a written invitation naming the said traveler. |
| b) Mode of Air Transportation | <p>With respect to air travel, the mode of transportation as reflected on the TA shall be as follows:</p> <ol style="list-style-type: none"> i) If the traveler is the President, Vice President, Speaker, Vice Speaker or Chief Justice of the Supreme Court, by first class; ii) If the traveler is a Cabinet member or assistant, Senator or Associate Justice and the duration of any one leg is more than three (3) hours as reflected on the ticket, by business class; and iii) All other travelers by coach/economy class unless the duration of any one leg is more than six (6) hours (as reflected on the ticket) by business class or specifically authorized otherwise by the person approving the TA under subpart 5.6.2(1)(a) because coach/economy class transportation is not reasonably available. <p>As used in this subpart 5.6.5(b), a "leg" means a segment of travel on the same airplane where any transit stops between the beginning and end of the segment are scheduled to last no more than 45 minutes. The duration of a leg includes all the scheduled time from the beginning to the end of the leg.</p> |
| c) Travel expenses are limited | <ol style="list-style-type: none"> i) Expenses of travel shall be limited to the amounts reflected in the TA, including amendments thereto, as estimated travel costs. ii) Any unauthorized travel expenses shall be at a personal cost of the traveler unless an amendment is prepared in line with subpart 5.6.3. |
| d) Per Diem Allowance | <p>With respect to meals, lodging and other personal expenses of the traveler, a per diem allowance established by the Secretary shall be allowed regardless of the amount actually expended by the traveler, provided that the following limitations shall apply:</p> |

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- i) The per diem allowance shall be claimable by the traveler beginning on the day of departure through to the day of return regardless of whether the departure or return day were partial days. Per diems are to cover each day away from normal place of residence;
- ii) The person approving the TA pursuant to subpart 5.6.2 (1)(a) may authorize an amount less than the full per diem allowance to travelers otherwise entitled to the full allowance when, in the judgment of the approving official, such lesser amount is justified;
- iii) The per diem allowance shall not be allowed for layovers not reflected in the TA, including amendments thereto, unless the traveler can satisfactorily substantiate to the official approving the Travel Voucher pursuant to subpart 5.6.8 that the layover was due to circumstances beyond his control;
- iv) The per diem allowance shall be limited to 40 percent of the full per diem allowance for days when the traveler is in a place where lodging is provided by the host organization without substantial charge to him;
- v) In cases where the traveller chooses to stay at other accommodation not organized by the host organization, a full per diem allowance will be paid; and
- vi) With respect to days for which a per diem is paid to the traveler by anyone other than the FSM Government, the traveler shall not be entitled to per diem from the FSM Government. Regardless if the rate paid by the third party is less than the rate paid by the FSM Government no payment differential will be paid by the FSM Government. Under no circumstances must a travel receive a per diem from a third party as well as claim per diem from the FSM Government.⁴
- vii) In cases where the traveler crosses the international dateline (i.e. loses or gains a day) the traveler will count the calendar days from the day they left and the day they return to the FSM. No extra days will be given for the day gained as that day will be lost once the traveler crosses the international dateline a second time.
- viii) In cases where the traveler has limited options to find more reasonably priced lodging (i.e. 3 star rating or less) close to the meeting/workshop location and that the cost of lodging is greater than 60% of the per diem rate given by the FSM Government, then the traveler:
 - can pay for lodging on an actual basis;
 - retain the invoice and receipt for reimbursement to be lodged with TV;
 - justify why they had to stay at the more expensive hotel;
 - demonstrate through providing a 'google' map of other lodging in the area, email correspondence that the cheaper lodging options were fully booked and/or distance too far from training or meeting venue.
 - Claim for 40% of per diem provided that the host was not funding per diem for the travel event.

e) **Vehicle Rentals**

With respect to vehicle rentals, no amount shall be allowed:

- i) Unless authorized by a Valid TA;
- ii) In excess of actual expenses incurred or the maximum daily rental rate established by the Secretary, whichever is less, plus such other reasonable expenses actually incurred, including gasoline and insurance;
- iii) Any amounts in excess of the maximum daily rental rate established by the Secretary, will be at the personal cost of the traveler;
- iv) With respect to rentals within the FSM, unless the lessor is licensed to do business within the FSM; and
- v) Unless, if insurance is available as an option of the rental agreement:
 - o insurance has been selected by the driver of the vehicle (the cost of which shall not be credited

⁴ Noted DOJ suggestion that a differential be paid if donor per diem is less than that of the FSM. However, Secretary does not agree as the per diem is normally less than FSM rate because in most cases the donor has also covered the cost of accommodation (inclusive of breakfast) and made deductions for meals provided during the workshop/meeting. The FSM per diem is inclusive of accommodation which needs to be considered. If travelers still believe they are out of pocket, then the Secretary will consider on a case by case basis.

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- against the limitation on total costs set forth in subpart 5.6.5(e)(ii)); or
- the traveler otherwise provides insurance and submits along with other vouchers a brief written explanation of the source and nature of such insurance.

f) Other Claimable Expenses

- i) The traveler shall be entitled to reimbursement for other reasonable expenses actually incurred in the course of official travel and directly related to the conduct of official business, including, but not limited to:
 - official overseas or local phone calls;
 - taxis and other local transportation;
 - airport departure fees;
 - photocopying fees;
 - visa fees;
 - currency exchange;
 - laundry fees; and/or
 - additional accommodation costs for early check-in or late check-out (i.e. accommodation is paid in two different locations for the same night due travel overnight).
- ii) For purposes of calculating the travel advance, these expenses shall be estimated as \$10 in FSM and \$30 abroad for each other day or fraction thereof during the trip.
- iii) All claims for reimbursement must be supported by appropriate receipts and other documentation and approved by the traveler's Department Head.

g) Optional Fixed Allowance for Distant Travel

- i) Upon request, and upon approval by the Secretary of Finance and Administration or designee, an 'Optional Fixed Allowance' for Distant Travel may be advanced to authorized travelers traveling beyond the FSM, Guam, Commonwealth of the Northern Mariana Islands, Republic of Palau, and Republic of the Marshall Islands in lieu of the procedures established for reimbursements for Other Claimable Expenses undersubpart 5.6.5(f).
- ii) The Optional Fixed Allowance is intended to offset expenses incurred in the course of official travel that are directly related to the conduct of official business, including, but not limited to, the following:
 - official overseas or local phonecalls;
 - taxis and other local transportation;
 - cables;
 - telex;
 - airport departure fees;
 - photocopying fees;
 - visa fees;
 - currency exchange fees; and/or
 - laundry fees.
- iii) The Optional Fixed Allowance shall be \$30 per day, to be paid in addition to the per diem allowance, and payable for each day absent from the traveler's normal place of residence. There shall be no pro-rata calculation for any part-day away from the traveler's normal place of residence.

h) Exceptions

- i) Notwithstanding the requirements in subpart 5.6.5 (that authorized travel expenses be incurred only by a traveler away from his official duty station or State of assigned duty or principal place of residence), an Allottee may obligate and expend funds for the use of a vehicle rental for:
 - any Member of Congress to attend sessions of Congress; or
 - any Delegate or member of staff of the Constitutional Convention to attend the Constitutional Convention.

5.6.6. Advances on Travel Authorizations

- 1) No payment advances may be made from the Government funds except for the following:

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- a) Advance of up to 80% of Travel Costs Permitted. To advance funds to travelers who have been issued a Valid TA as described in subpart 5.6.2, the Secretary, or an Imprest Fund Custodian as described in subpart 8.2.2, may advance up to eighty percent (80%) of the estimated, travel costs reflected in the TA;
 - b) Advance of up to 100% of Travel Costs Permitted. One hundred percent (100%) of the estimated travel costs reflected in the TA for an official or employee of the FSM Government may be advanced upon the request of the traveler and the approval of the Secretary;
 - c) Advance of up to 100% of Travel Costs Not Permitted. Notwithstanding the provisions of subpart 5.6.6(1)(b), if the traveler:
 - i) Has failed to comply with the requirements of subpart 5.6.11 requiring the repayment of amounts overdrawn through advances for prior travel;
 - ii) has failed to file a travel voucher and supporting documents as required by these regulations; or
 - iii) is a non-FSM National employee or officialIn such cases the Secretary shall not approve a request for an advance of one hundred percent (100%) of the estimated travel costs.
 - d) Members of Congress and Constitutional Convention Delegates and Staff. Notwithstanding the provisions of subpart 5.6.6(c), the Secretary shall approve a request for an advance of one hundred percent (100%) of the estimated travel costs for a Member of Congress to attend a session of Congress or for a Delegate or member of the staff of the Constitutional Convention to attend the Constitutional Convention.
- 2) Upon collection of the travel advance, the traveler must sign an Allotment Form prepared by Finance to authorize Treasury to make payroll deductions from the travelers salary in such cases where:
- a) Traveler fails to submit a completed Travel Voucher as required by these Regulations; or
 - b) Traveler fails to repay the advance due to the travel being cancelled.

5.6.7. Travel Voucher Processing

- 1) Any person traveling pursuant to a Valid TA shall, no later than twenty (20) working days after the completion or cancellation of the trip for which the TA was issued, submit to the Secretary a completed Travel Voucher, approved by the official who approved the TA, along with the documentation required by subpart 5.6.8.
- 2) The Secretary or designee, shall compute the actual costs of the trip based upon the Travel Voucher and accompanying documentation, and within twenty (20) working days from the day the Travel Voucher is submitted, notify the traveler of the amount overdrawn through an advance, if any, or due and owing the traveler, if any.
- 3) In the event that there is an amount due and owing to the traveler, said amount shall be paid to the traveler within twenty (20) working days from the day of notification in 2) above (subject to the requirements of subpart 5.6.11).
- 4) In the event that the traveler is notified that his travel advance exceeds the amount to which he is entitled, the traveler shall repay the overdrawn amount within twenty (20) working days from the day s/he is so notified.
- 5) If the traveler fails to repay the amount overdrawn within the twenty day period, or has not made an allotment as provided in 5.6.11(9), the Government shall collect the amount in question through any available legal means.
- 6) In the event that the traveler fails to submit a completed Travel Voucher within twenty (20) working days after completion of the trip for which the TA was issued, the Government shall use any available legal means to compel the traveler to submit a completed Travel Voucher or refund all amounts for which the traveler has not accounted.
- 7) Travelers who fail to submit a completed Travel Voucher as provided herein shall be ineligible for future travel advances until said completed Travel Voucher is filed.

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5.6.8. Travel Voucher Documentation

- 1) In all instances, a Travel Voucher shall be supported by copies of the original TA, and any amendments thereto, as approved, and by the original boarding passes and airline, ship or train ticket stub, as applicable.
- 2) No other documentation shall be required for per diem allowance or stipend claims.
- 3) If the ticket stub or boarding pass required by this subpart has been lost or stolen, the traveler may submit an affidavit attesting to the facts relating thereto in lieu of producing the ticket stub or boarding pass. The traveler is also required to submit a copy of their passport biopage, and the passport pages that show the traveller's departure and arrival stamps at each port of arrival or if the traveler has a valid One Pass account can provide a statement showing the travel taken.
- 4) All other items must be documented by original or duplicate receipts/invoices. For all other claimable expenses, Travel Vouchers shall be supported by the following documentation:
 - a) The customer's copy of the vehicle rental agreement, if any, showing:
 - i) The name and address of the lessor;
 - ii) The dates of vehicle use;
 - iii) The total amount charged;
 - iv) The signature of the lessor or representative; and
 - v) The receipt of payment from the lessee.
 - b) Receipts or other documentary proof sufficient to establish that any other claimable expense was incurred and paid. Any invoices and receipts must contain the information as defined in subpart 5.2.3.

5.6.9. Trip Report

- 1) Any traveler who is an official or employee of the FSM Government and travels pursuant to a Valid TA shall, within thirty (30) days after completion of a trip, submit a Trip Report to the person who approved the TA.
- 2) The Trip Report shall consist of a concisely written summary of the travel that explains the objectives and accomplishments of the trip, the dates and duration of travel, the places visited, the persons interviewed and results of discussions, the traveler's findings and recommendations, if any, and an overall evaluation of the trip.
- 3) In those instances where two or more persons have traveled together for the same purpose, one Trip Report may be submitted on behalf of the group.
- 4) A Trip Report is not required if the only expense claimed is for car rental.
- 5) It is the responsibility of the person who approved the TA, not the Secretary, to enforce or waive this section.

5.6.10. Travel by Heads of Branches of Government

- 1) Notwithstanding any contrary provisions of these regulations, with respect to official travel outside of Pohnpei State by the President, Speaker or Chief Justice:
 - a) The costs of travel shall be reimbursed according to subparts 5.6.1 and 5.6.5 unless the traveling official certifies that additional official travel or representation expenses, including, but not limited to, first class air transportation, were necessarily incurred due to the circumstances of travel. If such certified additional expenses are incurred, he shall be reimbursed for them upon submission of documentary evidence satisfactory to the Secretary.
 - b) In addition to ordinary expenses of travel, a Special Daily Allowance shall be allowed by the Secretary to defray miscellaneous expenses regardless of the amount of actual expenditures.⁵
 - c) The travel expenses of the traveler's spouse shall be paid by the FSM Government when the traveling official certifies that the spouse's travel is in the best interests of the Government and necessary for the carrying out of the purpose of the trip, and such spouse shall be entitled to receive an advance of one hundred percent (100%) of the estimated travel costs reflected in the TA, notwithstanding the provisions of subpart 5.6.5(a).

⁵ Confirm with Secretary how much is the Special Daily Allowance

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5.6.11. Offsetting Overdue Travel Refunds

- 1) The FSM Government may offset money which the Government owes to a traveler against money which the traveler owes to the Government.
- 2) Money owed to a traveler may be for payroll, services rendered, goods provided, or any other purpose, whether evidenced by written or oral agreement, court judgment, or otherwise.
- 3) Money owed to the Government is either money determined to be due under a Travel Voucher submitted under subpart 5.6.7 & 5.6.8 or, unless and until such a Travel Voucher is submitted, the entire amount advanced to or for the traveler pursuant to subpart 5.6.6.
- 4) Before exercising this right of offset, the Government shall send the traveler a written notice containing the following:
 - a) the amount claimed to be due from the traveler, and why;
 - b) the nature of the Government's obligation to be used in the offset;
 - c) a statement that the Government proposes to effect an offset under this subpart 5.6.11 of the Financial Management Regulations; and
 - d) a statement that within 15 days after receiving the notice, the traveler may file a written request for an informal hearing with the Secretary or designee as more specifically provided for in subpart 5.6.11(5) below.
 - e) Such notice may be sent any time after the subpart 5.6.7 deadline for submitting a Travel Voucher if the Travel Voucher has not been submitted.
 - f) After submission of a Travel Voucher, such a notice may be sent any time after the traveler has been notified that he owes money to the Government and has failed to pay it all within the time permitted by subpart 5.6.7.
- 5) If the traveler has made timely request for a hearing, the Secretary or his designee shall arrange an informal hearing with the traveler for the sole purpose of determining whether, based on documents therefore submitted, there has been any error in determining the amount due.
 - a) If there has been an error, the amount claimed shall be adjusted accordingly.
 - b) "Error" includes a reduction in the amount claimed by virtue of a late-filed Travel Voucher.
 - c) The hearing called for herein must be held within 15 days after receipt of the traveler's request therefore, unless extended at the request or with consent of the Secretary or his designee.
 - d) After the hearing, the secretary or his designee shall give written notice to the traveler of the amount still claimed to be due.
- 6) The Secretary may begin withholding money due to the traveler and apply it to the amount due from the traveler on:
 - a) the 16th day after the date on which the traveler received or refused to accept receipt of the notice called for in subpart 5.6.11(4) above if no timely request for a hearing was received;
 - b) the day after the deadline for holding a hearing if a hearing was timely requested but not timely held; or
 - c) the day on which the traveler received or refused to accept receipt of the post-hearing notice called for in subpart 5.6.11(4) above if a hearing was timely requested and held.
- 7) If it subsequently appears, through the submission of further paperwork, judicial determination, or otherwise, that the Government withheld more money than was due to the Government, the excess shall be promptly refunded to the traveler, together with interest at the rate, if any, applicable to overdue travel refunds owed to the Government.
- 8) Deduction of Overdrawn Amounts from Next Travel Advance
The Secretary shall to the maximum extent possible deduct any overdrawn and unpaid amounts from the traveler's next travel advance, credit the amount so deducted against the overdrawn and unpaid account owed by the traveler, and then indicate the amount of funds so deducted on the TA against which the deduction has been made.
- 9) Payroll Deduction and Allotment of Overdrawn Amounts
 - a) The Secretary, at his/her discretion, may accept, in lieu of deduction of overdrawn and unpaid amounts from the traveler's next TA, a payroll deduction and allotment pursuant to subpart 5.6.11(9)(b) covering the overdrawn amount.

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- b) The amount of the payroll deduction and allotment shall be sufficient to repay said overdrawn amount within (90 days) of the date of the allotment.
- c) Notwithstanding the provisions of subpart 5.6.11(9)(b), if the amount of the payroll deduction and allotment necessary to repay the overdrawn amount would exceed twenty-five percent (25%) of the traveler's salary, the traveler may be granted the necessary number of additional days to repay the overdrawn amount such that the amounts of the payroll deduction and allotment do not exceed twenty-five percent (25%) of the traveler's salary.
- d) The payroll deduction and allotment shall commence on the first pay period immediately following the date of the said allotment.
- e) The traveler shall be personally liable for any funds advanced to him under this subpart, and shall reimburse the FSM Government, pursuant to subpart 5.6.6, for all amounts advanced in excess of amounts reflected in the processed Travel Voucher for the trip in question.

5.6.12. Fiscal Year Transition

Travel started on or before October 15 may be considered part of the operations of the previous fiscal year if a Valid TA for the travel was completed during that previous fiscal year.

5.7. PAYROLL**5.7.1. Payroll**

- 1) No Government funds shall be disbursed to liquidate an obligation for the service of any employee unless the following documentary evidence has been filed with the Secretary:
 - a) Time and Attendance Documentation A time and attendance report or other documents satisfactory to the Secretary, signed by the appropriate Allottee or his designee, verifying the days and hours worked by the employee during the applicable pay period.
 - b) Personnel Action Except as provided in (d) below, An approved personnel action form, as prescribed by the Secretary, for the employee; and
 - c) Clearance Certification In the event of employment termination, a clearance certification form as prescribed by the Secretary, consisting of certification by various State and FSM Government agencies, as specified in guidelines issued by the Secretary, that the employee has no unpaid obligations with the certifying agencies.
 - d) Where the employee is not employed by an FSM Government Agency, the required personnel action form may be as provided for under another legally established public service system in the FSM which is recognized by the Secretary. Where the employment is not one for which a personnel action form is required or permitted, there must be an employment contract under subpart 5.1.5 of these regulations.

5.7.2. Payroll Deductions and Allotments

- 1) An obligation for employment by an FSM Government Agency may be reduced only for the following:
 - a) Tax withholdings;
 - b) Premiums for Government-required insurance programs;
 - c) Amounts required under a court order;
 - d) Amounts requested by the employee to be remitted to the FSM Government or to any of the four States thereof and approved by the Secretary;
 - e) Amounts requested by the employee to be remitted to a third party, for health or life insurance premiums; and
 - f) Other amounts requested by the employee to be remitted to a third party, provided that no more than ten (10) such allotments shall be permitted for each employee at any one time and that each such allotment must be in effect for at least six months, unless otherwise provided by law.
- 2) A payroll allotment under (d), (e) or (f) of this subpart shall be binding upon the employee in accordance with the terms of the request therefore, including but not limited to any prohibition on canceling the allotment without the consent of the third-party payee.

5.7.3. Leave

- 1) Except as provided by subpart 5.7.4, no obligation shall be recorded for leave unless it is:
 - a) Claimed in substitution for actual services rendered;

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|---|
| <ul style="list-style-type: none"> b) Claimed on a time and attendance report, or other documents satisfactory to the Secretary or designee, signed by the appropriate Allottee or designee; and c) Supported by a separate application for such leave which is approved by the appropriate Allottee or designee. |
| <p>5.7.4. Annual Leave</p> <ul style="list-style-type: none"> 1) The obligation to an employee of the National Government for accrued annual leave shall be recorded at the end of each pay period, provided that the accrual does not exceed the maximum amount established by FSM Public Service System Regulations. The current accrual for leave is set in the FMIS as follows: <ul style="list-style-type: none"> a) Contracts 1-4 years accrue 4 hours each pay b) Contracts 5-6 years accrue 6 hours each pay c) Contracts > 6 years accrue 8 hours each pay 2) The obligation shall not be liquidated unless: <ul style="list-style-type: none"> a) The requirements of paragraphs 5.7.3(1)(b) and (c) have been met; and b) It is claimed in substitution for actual services rendered, or the employee is: <ul style="list-style-type: none"> i) Permanently terminated from Government service; ii) Transferred from the public service system to an exempt position as defined in 52 F.S.M.C. 117; iii) Employed under a contract which provides for such payment; or iv) Transferred from one FSM Government Agency to another, in which case the employee may choose to receive a lump sum cash payment in lieu of accrued annual leave, provided that such payment shall be made only on accumulated hours not exceeding 140 hours. 3) Except as otherwise provided by law, national funds may not be used to pay for accrued but unused leave of an employee not employed by the National Government. |
| <p>5.7.5. Payroll advances</p> <ul style="list-style-type: none"> 1) Subject to subpart 5.1.3(2) of these Regulations, an advance can be made to GSM Government Employees. 2) Advances shall not exceed 100% of an employee normal pay owing to the employee. 3) The amount advanced must be requested on a form prescribed by the Secretary and approved by the Allottee under which the employee works. 4) All deductions and allotments attached to the employees pay will be deducted from the employee's gross pay and paid to third parties in the usual procedure. 5) Any amount advanced will be repaid in the next fortnightly pay-run resulting in a zero amount owing against the advance and normal payments will resume the following pay day. |
| <p>5.7.6. Payroll allowances and entitlements</p> <ul style="list-style-type: none"> 1) Job related travel expense <ul style="list-style-type: none"> a) Applicants for FSM positions are prohibited from receiving any travel expenses for the purpose of engaging in job interviews. b) However, applicant job interview travel expenses may be paid, if the interview is for a job or appointment to extend indefinitely or for four or more years. c) Travel and other expenses may be incurred by FSM offices/departments for job interviews only upon prior approval by the Allottee. d) Request for Travel Authorization must be supported by documentation of local hiring efforts and other relevant documentation. Where possible such interviews should be conducted on other mission travel to minimize travel costs. 2) Housing allowance <ul style="list-style-type: none"> a) The Public Service System Regulations sets out the eligibility criteria for employee housing allowances. b) Once eligibility has been established the employee must complete all the necessary documentation required by personnel and submit the following documentation to the Payroll Manager (Treasury) to support payment: <ul style="list-style-type: none"> i) Current lease agreement; and ii) Annual declaration from the employee that there has been no change in personal marital status and residential status that could impact on the level of housing allowance payable; and iii) Updated Personnel Action Form to make changes to housing allowance level. |

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- 3) Overtime payments
 - a) All work performed in excess of the regular 40 hour work week must be:
 - i) Scheduled and approved in advance, except in unanticipated emergencies;
 - ii) Requested by the immediate supervisor and approved by Allottee on an approved form.
 - b) The approved form must be presented together with the employee's timesheet in order for overtime to be paid.
- 4) Transfer allowance
 - a) When employees are recruited or transferred beyond normal commuting distance from their place of permanent residence, shall be entitled to:
 - i) Per diem at established rates at the new location for a period not exceed 15 calendar days from the date of entrance to new position;
 - ii) Per diem calendar days is based on the number of dependents travelling with the employee. For example the PSSR currently (which can change) sets this as:
 - Category 1: Employee with no or one dependent (3 days per diem);
 - Category 2: Employee with 2 to 4 dependents (6 days per diem);
 - Category 3: Employee with more than 4 dependents (9 days per diem).
 - iii) Approved expenses connected with travel of themselves and immediate families; and
 - iv) Transportation of household effects to new work location.
 - b) Payments for this allowance requires the following documentation:
 - i) Confirmation from the Personnel Division that the employee is entitled to the Transfer Allowance and Costs;
 - ii) Birth certificates, adoption papers, marriage certificate of all employees dependents (spouse plus unmarried children under the age of 18 years);
 - iii) If some of the dependents are unable to travel with the employee at the time of transfer, only those dependents travelling with the employee will be counted to determine which category the per diem will be paid at.
 - iv) To qualify for a differential payment for dependents travelling at a later date and qualifies the employee to a higher category i.e. either category 2 or 3 as set out in paragraph 4(a)(ii), the following criteria must be met:
 - Dependents must be dependents at the time of recruitment or transfer
 - Deferred transfer of additional dependents must occur within one year of employee's transfer
 - Employee must provide clear evidence and reasons as to why the dependent(s) had to travel at a later date. This could be due to reasons of extreme hardship, health, completion of school term or similar reasons.

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- 5) Shipment and storage
 - a) Arrangement for the shipment and temporary storage of household effects for new employees from point of recruitment is the responsibility of the employee.
 - b) For terminating employees, the Government is responsible to arrange for household effects packing, temporary storage, and delivery.
 - c) Public Service System Regulations (PSSR) sets out the maximum weight allowances for household effects shipped at Government expense for all new and transferred employees. The current weight allowances (which are subject to change) are as follows:
 - i) A single employee is authorized to ship to and from the duty post up to 100 pounds air parcel and 2,500 pounds surface shipment; and
 - ii) An employee with a family may ship up to 200 pounds air parcel and 5,000 pounds surface shipment.
 - d) Any shipment in excess of the weight allowances established in the PSSR shall be solely at the expense of the employee.
 - e) Variations from the established weight allowances may be authorized by the Secretary of Finance if the result is a total charge to the Government less or equal than the total charge would be if the maximum shipping storage allowance enumerated above were utilized.
 - f) Only one shipment is authorized at the time of recruitment. No subsequent household effects shipment at the expense of Government shall be authorized regardless of the weight utilized in the initial shipment.
 - g) Shipment of a personal vehicle at the expense of Government may be authorized for new and transferred employees, provided that the shipment originates and terminates within the FSM.
 - h) Upon completion of employment period, the Government will pay for shipment of household effects back to point of recruitment.
 - i) In all cases, the request for payment must be accompanied with a confirmation from Personnel Division that the employee is entitled to 'shipment and storage' and invoices together with the Miscellaneous Payment Request form.

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5.8. SENSITIVE EXPENDITURE

5.8.1. General

- 1) 'Sensitive expenditure' is expenditure by a FSM Government Agency that has a potential to provide, or the 'perceived' potential to provide a private benefit to an individual staff member in addition to the business benefit to the FSM Government.
- 2) Examples where problems may arise relate to:
 - a) Travel and accommodation;
 - b) Entertainment expenses;
 - c) Representation expenses;
 - d) motor vehicles;
 - e) gifts;
 - f) tipping; and
 - g) other unusual expenses
- 3) There is heightened public sensitivity when it is perceived that employees and leaders in the public sector are deemed to receive a personal benefit from sensitive expenditure that is incurred during normal Government business.
- 4) The most frequent problems that arise from such expenditure are as follows:
 - a) Of a nature that is, or could be regarded as, extravagant for the public sector;
 - b) Incurred without there being a justifiable and adequately documented Government business purpose;
 - c) Not adequately supported by sufficient invoices, receipts or other documentation to support the reimbursement claim or payments;
 - d) Made without proper scrutiny to ensure compliance with FSM Government Financial Regulations and Financial policies and procedures.

5.8.2. Travel and accommodation

- 1) Travel & accommodation expenditure should be economical and efficient, having regard to purpose, distance, time, urgency, personal health, security and safety considerations.
- 2) Mode of air travel has been covered by subpart 5.6.5(b).
- 3) The standard of accommodation is expected to be at a level that is cost-effective after considering the daily rate of the per diem (which may include accommodation as well as per diem for incidental expenses for food, beverages and other travel costs. Other considerations will be:
 - a) Geographic location relative to where employee is working or attending an event;
 - b) Accommodation is safe and clean; and
 - c) Safety and security issues.
- 4) The FSM Government will not meet the costs of any laundry, room service charges, telephone calls, and other incidental costs as these should be covered by the traveler's per diem (subpart 5.6.5(d)) and 'optional fixed allowance'. Any other expenses incurred over and beyond the set limits will be at the personal cost of the traveler.
- 5) At times staff may stay with a friend or relative rather than in commercial accommodation. In such cases, any costs associated to travelling to the accommodation from the event venue and donation to the household owner must be done so within the per diem limits. Any additional costs will be at the personal cost of the traveler.
- 6) At times the traveler may decide to take annual leave or stay away over weekends for personal reasons while on duty travel. In such cases, annual leave must be applied for as per the normal process as outlined in subpart 5.7.3.
 - a) Requesting extra days personal leave while on duty travel is permitted but any additional costs incurred i.e. additional accommodation costs and flight costs will be at a personal cost to the traveler. There will be no per diem paid during days where personal leave is taken.
 - b) If the booked travel is coincidental with a weekend, and the next available flight lands on the weekend or after the weekend then the cost (flights, accommodation and per diem) is bore by the Government or the donor (depending on who is covering the cost).
 - c) To determine the additional cost for staying on longer at an overseas location, the traveler must obtain

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two itinerary traveler quotations:

- i) based on closest days to the travel event
 - ii) based on dates that include the personal leave in addition to the travel event dates.⁶
- d) The difference of cost between the two itineraries is the amount that will be at the personal cost of the traveler.

5.8.3. Entertainment & hospitality expenses

- 1) Entertainment and hospitality can cover a range of items from:
 - a) tea, coffee and biscuits;
 - b) catering meals and beverages for events;
 - c) restaurant spending on meals and beverages; or
 - d) entry fees to a sporting event, tourist attraction or cultural event.
- 2) Such expenses are sensitive because of the range of purposes it can serve, the opportunities for private benefit and wide ranging opinions on what is appropriate.
- 3) Expenditure for entertainment and hospitality can relate to the following FSM Government purposes:
 - a) Building relationships;
 - b) Representing the Government;
 - c) Reciprocating hospitality where there is a clear government purpose;
 - d) Governmental capacity development (recognizing government priorities with moderation); and
 - e) Recognizing significant business achievement.
- 4) The principles of justified business purpose, moderate and conservative expenditure are particularly relevant.
- 5) For each catering event, the organizer must:
 - a) prepare a budget detailing the number of attendees and how much the cost will be per head for food and beverages to be pre-approved and used as the cost limit for the event;
 - b) state what the training event or other Government purposed event the catering is required for;
 - c) consider the reasonableness of the cost per head per person.
 - d) General guidelines for catering event with food and beverages per person will be:
 - i) Food & beverage for morning tea and/or afternoon tea up to \$ rate per head
 - ii) Food & beverage for lunch up to \$ rate per head
 - iii) Food & beverage for dinner up to \$ rate per head⁷The rate per head will be determined by the Secretary of Finance.
 - c) For daytime functions it is not acceptable for alcohol to be served;
 - d) For evening functions the Allottee will have the discretion as to how much alcoholic beverage will be purchased while considering the following:
 - i) the formality of the occasion;
 - ii) the number of people in attendance; and
 - iii) preserving the integrity of the public service.Note that for all programs using Federal Funds, alcohol purchases are strictly prohibited.
 - e) Where appropriate arrangements must be made to allow attendees to purchase any additional alcohol and non-alcoholic drinks once the pre-purchased drinks have been exhausted;
 - f) Any expenses over and beyond these guidelines must be justified and pre-approved.
- 6) General guidelines for restaurant spending:
 - a) The Allottee must complete an 'Entertainment Expenses' form in a format approved by the Secretary of Finance detailing the following:
 - i) Government purpose;
 - ii) Number of people attending;
 - iii) Invitees work for which organization;
 - iv) Meal event type – breakfast, morning/afternoon tea, lunch, or dinner;
 - v) Copy of menu (if possible);

⁶ Check with Secretary if this is acceptable

⁷ Secretary to set the rate per head for catering

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- vi) Attached tax invoice receipt from the establishment detailing:
 - o Name & contact details of the restaurant;
 - o Itemized invoice of quantities of meals and beverages ordered;
 - o Total invoice including tips if paid
 - b) The cost of the meal will be based on the menu offering (reasonable cost of one main meal per person).
 - c) For daytime meals at a restaurant, it is not acceptable for alcohol to be ordered.
 - d) For an evening meal at a restaurant, the Allottee will have the discretion as to how much alcoholic beverage will be purchased while considering the following:
 - iv) the formality of the occasion;
 - v) the number of people in attendance; and
 - vi) preserving the integrity of the public service.
- Note that for all programs using Federal Funds, alcohol purchases are strictly prohibited.
- e) Exceptions to subpart 5.8.3(6)(d), may be waived in cases of where diplomatic or high official delegations are being entertained. Such an exception will be approved by the Secretary of Foreign Affairs.
- 7) Entry fees to a sporting event, tourist attraction or cultural event must be:
 - a) clearly linked to a Government purpose as outlined in subpart 5.8.4(3);
 - b) because the Allottee is the host of the delegation being hosted;
 - c) state the number of participants and where they work;
 - d) cost per head for the entry fee;
 - e) state the event or attraction the party are attending.
 - f) In cases where the Allottee is not the host but has been invited by another party and to cover their own cost, then the Allottee must decline the invitation or pay for the event personally.

5.8.4. Representation Expenses

- 1) Representation Expense means expenses incurred in the course of official public relations, entertainment activities or constituent services necessary to advance the purposes and goals of the National Government.
- 2) Such expenses are considered sensitive due to the nature of the spending being incurred by elected Senators and the high public profile this spending has.
- 3) Given the high public profile of the persons undertaking such spending, equal high importance must be given to the documentation submitted, the link the spending has to FSM Government goals and purposes, and the name and number of constituents benefiting from the spending.
- 4) No obligation shall be recorded for representation expenses unless:
 - a) approved in advance by the appropriate Allottee;
 - b) supported by documentary evidence sufficient to establish the purpose;
 - c) amount of the expenditure; and
 - d) not otherwise prohibited by law.
- 5) The Secretary, the Public Auditor, or the designee of either may audit the use of representation funds. During any such audit may:
 - a) require the Allottee to provide sufficient and reasonable justification for the expenses incurred.
 - b) If such justification is not supplied or is insufficient to establish that the funds were used properly, the Secretary may require restitution by the Allottee of all or any part of such expenses.
- 6) In the case of representation expenses, an affidavit of the Allottee or Sub-allottee describing the amount and nature of the expenditure, or a written contract or official receipt/invoice, submitted in a timely manner in accordance with section 224A of the Financial Management Act, shall be deemed to be sufficient documentary evidence to support a legal obligation.

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| <p>7) When describing the 'nature of the expenditure' to be documented, the Allottee or Sub-allottee must consider the following:</p> <ul style="list-style-type: none"> a) Stating the main recipient of the expenditure (name of individual and community group they belong to); b) Number of constituents affected by the expenditure; c) Justification of spending i.e. how spending is linked with National Government goals and purposes; d) The guidelines given in subpart 5.8.3 relating to entertainment & hospitality expenses; e) The documentation guidelines described in subpart 5.2. <p>8) Such documentation described in subpart 5.8.4 (6 & 7) shall be deemed to be sufficient documentary evidence to support a legal obligation.</p> |
| <p>9) The Secretary of Finance, may grant an advance of representation expenses if the recipient agrees to submit:</p> <ul style="list-style-type: none"> a) A written request containing specific justification for the advance; b) Affidavits, contracts or invoice/receipts for actual expenditures c) All amounts advanced but not accounted for by affidavit, contract, invoice/receipt no later than one month after the end of the fiscal year or upon leaving office (whichever comes sooner). |
| <p>Charge cards usage</p> <p>1) The Secretary or the Assistant Secretary for the Division of Treasury may use a non-credit charge card issued to the FSM Government to make disbursements for travel and purchases of supplies and personal property costing less than \$50,000, provided that the requirements of Parts IV and V of these regulations, as applicable, are met.</p> <p>2) Any rewards, perquisites or benefit that becomes available to the holder of such card, such as:</p> <ul style="list-style-type: none"> a) frequent flyer miles shall be subject to the requirements of subpart 4.51. b) rebates shall be subject to subpart 4.55(3) |
| <p>Charge card benefits</p> <p>3) This subpart shall apply to any rewards, perquisites or benefits ("benefits"), such as rebates that become available to the holder of a charge card issued to the FSM National Government.</p> <p>4) This subpart does not apply to warranties or insurance protection programs that automatically attach to goods or services purchased with such card.</p> <p>5) Any benefits that become available to the holder of such card shall be the property of the FSM National Government as a whole.</p> <p>6) The Secretary or his designee shall account for these benefits to the extent possible in the same manner as governmental monies, shall establish a separate fund to administer them, and shall maintain strict control over their use.</p> <p>7) These benefits shall not be converted for personal use or for government use by any other Department or any other Department employee.</p> <p>8) These benefits shall be used for the following purposes:</p> <ul style="list-style-type: none"> a) providing airfare for medical referral of patients covered by the FSM National Government Employees Health Insurance Plan; and b) Providing incentive awards to FSM National Government employees who have merited such awards as determined through an employee reward program administered under the Public Service System Regulations. <p>9) The Secretary or designee shall report at least annually on the status and use of these benefits.</p> |
| <p>5.8.5. Government motor vehicles</p> <p>1) Government motor vehicles are considered 'sensitive expenditure' due to their value, high public visibility and perceived private benefit derived from using the government vehicle.</p> <p>2) All Government motor vehicles are to be tagged by the Supply Unit.</p> <p>3) The Supply Unit will maintain a central register of motor vehicles showing the following details:</p> <ul style="list-style-type: none"> a) Vehicle number plate; b) Vehicle Identification Number (VIN) or serial number; c) Department name; d) Assigned driver's name; e) Vehicle tag number; and |

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- f) Date of purchase.
- 4) With respect to FSM Government vehicles placed in service within the FSM, by affixing an FSM decal and FSM license plate[s], unless otherwise approved by the Secretary, or designee.
- 5) With respect to FSM Congress vehicles a special license plate is affixed to the motor vehicle. Congress must advise the Supply Unit of the Congress number plate assigned to the vehicle and the person who has been assigned to that vehicle.
- 6) CFMSM vehicles are assigned to Congressman and can be driven at any time. All other Congress vehicles with a FSM number plate must have a FSM decal affixed, and can only be used during normal working hours.
- 7) All FSM Government vehicles affixed with a FSM decal (Government logo), can only be used during normal working hours. For any vehicle usage required outside normal working hours, the assigned driver must complete an application form (as prescribed by the Secretary of Finance) to be signed by the Head of the Department or designee and submitted to National Police headquarters to be kept should that vehicle be stopped outside normal working hours.
- 8) Any FSM Government motor vehicles affixed with a FSM decal driven outside normal business hours and without specific dispensation from their Head of Department will be seized by the National Police Force and returned to Palikir for parking.
- 9) All FSM Government vehicles must be parked at the Palikir National carpark in a secure location to be monitored by the National Police.
- 10) All FSM Government vehicles can only be used for its lawfully intended purpose i.e. for FSM Government business or vehicles purchased for specific projects etc.
- 11) Any FSM Government vehicle found to be utilized in a personal capacity will need to be justified to the Secretary and a warning letter will be issued to the employee for contravention of these Regulations.
- 12) Under no circumstances, can an individual tamper with or remove the FSM decal that has been affixed to the motor vehicle.
- 13) The Department assigned responsibility for each Government motor vehicle must:
 - a) sign a form (as prescribed by the Secretary) to acknowledge responsibility for any motor vehicle under an individual's control;
 - b) Ensure adequate insurance is carried out;
 - c) Maintain and service the vehicle;
 - d) Report any damaged, broken or stolen property assigned;
 - e) Return any vehicle assigned to an individual, that is no longer in use, to the control of the National Police⁸ Secretary or designee;
 - f) Notify the Secretary if there is a change in location of any motor vehicle under the Department's control i.e. may be shipped to the FSM States;
 - g) Advise the Secretary of Finance of any motor vehicles that have been gifted to the FSM Government so:
 - i) a journal voucher can be actioned for the donated asset for the correct accounting treatment;
 - ii) a fair market value can be assigned for the motor vehicle in the financial management system; and
 - iii) all necessary requirements of subpart 5.8.5 above can be followed.

5.8.6. Gifts

- 1) A gift is usually given as a token of recognition for something provided by the recipient or through official representation for the FSM National Government.
- 2) A gift can be received by a representative for the FSM National Government or given to a third party by the FSM National Government for service (employees) or official functions (visiting dignitaries).
- 3) The main considerations for the giving and receiving gifts are:
 - a) The value or nature of a gift is not inappropriate nor excessive to the occasion or reason for it being given;
 - b) The gift is given in explicit or implicit expectation of favor in return; and
 - c) The gift is given in substitution for legitimate payment or remuneration.
- 4) When giving gifts, the value and nature of the gift must be appropriate and not excessive to the occasion or reason for it being given. All gifts must be approved by the Allottee or Sub-Allottee.

⁸ Check this is correct

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| <p>5) When receiving gifts that are infrequent and of low value i.e. calendars, pens, flash drives, and badges etc staff are allowed to personally acquire.</p> <p>6) When gifts have a value of \$50⁹ or more, the gift must be disclosed and recorded in a gifts register for each Department and will remain the property of the FSM Government.</p> <p>a) In cases where the gift is a decorative item, this can be used to decorate the office of the recipient or corresponding department;</p> <p>b) In cases where the gift is a consumable item, i.e. alcohol and food items, the Allottee will decide a function for such items to be consumed by certain or all staff members;</p> <p>c) In cases where the gift is a personal device i.e. electronics, the Allottee will decide if such items can be used as:</p> <p>i) An auction item to fundraise for a cause to donate;</p> <p>ii) A prize item for staff performance;</p> <p>iii) Other such usage that the Allottee can justify is consistent with the principles of openness and fairness.</p> <p>d) In cases where the government official or employee is unsure whether to declare a gift or not, they must disclose.</p> <p>7) In cases, where the receiving of a gift from a supplier is under the expectation that a decision is made in their favor (especially in the open bidding process), such gifts must be refused at all times.</p> |
| <p>5.8.7. Tipping</p> <p>1) The sensitivity of tipping and donations is that the amount is discretionary and usually difficult to obtain formal documentation for this expenditure.</p> <p>2) Tipping should not be extravagant and consistent with the local expectations/practice of that particular country e.g. USA 10% of total bill, Guam 10% of total bill¹⁰, FSM \$1-\$3 per person being served.</p> <p>3) In countries where tipping is not expected, then tipping is not acceptable.</p> <p>4) In all cases, the official seeking reimbursement for such expenses must have adequate supporting documentation as outlined by these Regulations.</p> |
| <p>5.8.8. Donations</p> <p>1) In cases where donations are given (particularly by Senior Officials) consideration must be given to:</p> <p>a) the value of the donation is appropriate and not excessive for the occasion;</p> <p>b) the number of people that will benefit from the donation;</p> <p>c) the cause or reason of the event for which the donation is to be given is consistent with the goals and priorities of the FSM Government.</p> <p>2) The following details must be documented when giving a donation:</p> <p>a) Amount of the donation;</p> <p>b) Person the donation given to, position and contact details;</p> <p>c) The number of people that will benefit from the donation;</p> <p>d) The cause or reason for the for which the donation is given and how this is consistent with the goals and priorities of the FSM Government; and</p> <p>e) An official receipt from the recipient of the donation that was received and if possible a letter of thanks re: the donated amount and the purpose it will be used for.</p> <p>3) All efforts must be taken to prepare a check for the donation instead of giving cash.</p> |
| <p>5.9. DECLARED STATE OF EMERGENCY</p> <p>1) A National or Local State of Emergency declaration will be covered separately by Title 11 Chapter 8 of the Codes under the Crimes Act. Under that legislation the President can pass certain decrees commensurate with the severity of the Emergency.</p> |
| <p>6. PROCUREMENT AND OPEN BIDDING</p> |
| <p>6.1. PROCUREMENT & OPEN BIDDING - GENERAL</p> <p>1) High value procurement requires special attention in the public sector to ensure public funds are put to best</p> |

⁹ Check threshold value for gifts

¹⁰ Check tipping rates in Guam and US

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- use and not wasted due to poor planning and/or awarding contracts to irresponsible suppliers.
- 2) Competitive bidding is one mechanism that allows for the private sector to participate in public sector activities, however, it is important that regulations are put in place to protect both parties.
 - 3) Higher value purchases carry with it a higher level of risk and as such must be managed more carefully to minimize unnecessary costs being added, resources being wasted or the project failing.
 - 4) Public sector officials must aim to ensure that all FSM Government purchases meet the basic procurement principles of:
 - a) accountability - public entities should be accountable for their performance and be able to give complete and accurate accounts of how they have used public funds.
 - b) openness - public entities should be transparent in the administration funds. This will support accountability, promote clarity, and shared understanding of respective roles and obligations between entities and external parties entering into funding arrangements.
 - c) value for money - public entities should use resources effectively, economically and without waste, with due regard for the total costs and benefits of an arrangement, and its contribution to the outcomes the entity is trying to achieve.
 - d) lawfulness - public entities must act within the law and meet legal obligations.
 - e) fairness - public entities have a general public law obligation to act fairly and reasonably. Public entities must be, and must be seen to be, impartial in their decision making.
 - f) Integrity - anyone who is managing public resources must do so with the utmost integrity. The standards applying to public servants and other public employees are clear, and public entities need to make clear when funding other organizations that they expect similar level of conduct from them.
 - 5) Definition of terms used in this subpart is consistent with those used in the Public Contracts Act, Title 55 FSMC s402.
 - 6) Contracting Officer – shall be the Secretary of the Department
 - 7) Bidding panel – shall be at least three persons consisting of the Contracting Officer and two other representatives as determined by the Contracting Officer. In certain circumstances where specialist knowledge is required the panel may recruit further assistance to advise the panel or form part of the panel i.e. engineer skills.
 - 8) For tenders that are greater than \$100,000 in value, one representative from the Department of Finance & Administration and one representative from the Department of Justice must be present to participate as part of the panel. These two representatives can either supplement the base three panelists or supplement only the Contracting Officer.
 - 9) Competition
 - a) All procurement transactions greater than \$50,000 must be conducted in a manner providing full and open competition consistent with these Financial Management Regulations. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statement of work, and invitations for bids or requests for proposals must be excluded from competing for such procurements. Some situations considered to be restrictive of competition include but not limited to are:
 - i) Placing unreasonable requirements on firms in order for them to qualify to do business;
 - ii) Requiring unnecessary experience and excessive bonding;
 - iii) Noncompetitive pricing practices between firms or between affiliated companies;
 - iv) Noncompetitive contracts to consultants that are on retainer contracts;
 - v) Organizational conflicts of interest;
 - vi) Specifying only a 'brand name' product instead of allowing 'an equal' product to be offered and describing the performance or other relevant requirements of the procurements; and
 - vii) Any arbitrary action in the procurement process.
 - 11) Procurement for construction and the purchase of personal property greater than \$50,000 must follow one of the following methods of procurement:
 - a) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material

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terms and conditions of the invitation for bids, is the lowest in price.

The sealed bid method is the preferred method for procuring construction (greater than \$20,000) and personal property (greater than \$50,000) if the following conditions are met:

- i) a complete, adequate, and realistic specification or purchase description is available;
- ii) two or more responsible bidders are willing and able to compete effectively for the business; and
- iii) the procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.

For all procurement using this method, a cost or price analysis including contract modifications must be prepared. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the Department must make independent estimates prior to receiving bids or proposals.

- b) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed priced or cost-reimbursement type contract is awarded. This method is used when the conditions are not appropriate for the use of sealed bids.
- c) Procurement by non-competitive proposals. Procurement by this method is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:
 - i) the item is available only from a single source;
 - ii) the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation e.g. health crisis arising from an outbreak;
 - iii) there is a specific request from an external donor authorizing non-competitive proposals in response to a written request by the National Government;
 - iv) after solicitation of a number of sources, competition is determined inadequate.

- 12) In each case, the Contracting Officer must document the decision to use a particular procurement method as noted above.

6.2. PROCUREMENT BY SEALED BIDS (OPEN BIDDING)

- 1) Free and open competitive bidding by sealed bids, as described in this subpart of these regulations, shall be required before the letting by any FSM Government Agency of any and all:
 - a) Contracts for construction projects involving the obligation of \$20,000 or more of Government funds, or such other amount as may be prescribed by law; or
 - b) Contracts for the purchase of personal property involving the obligation, including the cost of freight and handling, of \$50,000 or more of Government funds, or such other amount as may be prescribed by law.

6.2.1. Aggregation and splitting

- 1) For the purposes of subpart 6.2, the total amount of the aggregate construction contracts for a single project from a single contractor, or purchases of similar property from a single supplier during a fiscal year, shall be used in determining if open bidding is required.
- 2) Under no circumstances must construction projects or purchases be split to avoid the dollar threshold required for open bidding as described in subpart 6.2.

6.2.2. Call for Sealed Bids

- 1) The open bidding process shall be initiated by a Contracting Officer (CO), who shall publish a call for sealed bids containing, at a minimum, the following information:
 - a) Name and location of the project;
 - b) Name and address of the CO;
 - c) Where bidding documents can be obtained from;
 - d) Pre-bid conference and site inspection date, time and location;
 - e) Date, time and location the bids are due;
 - f) Instructions for the sealed envelope markings; and
 - g) Instructions for receiving bids via email.
- 2) Bidding documents will include 'bidding instructions', 'bidding form' and a 'contractor's qualification

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statement'. Usually contractor's will be requested to provide additional information that will include, but not limited to:

- a) Copy of Company Business License;
 - b) Company's financial statements (more than one year may be requested);
 - c) List of past completed projects;
 - d) List of current on-going projects;
 - e) List of employees;
 - f) List of equipment;
 - g) Intention to bid as a citizen bidder (including additional information);
 - h) Certification from CTA and FSM Social Security that the Company is up to date with furnishing returns and payment of social security and tax liabilities; and
 - i) Cost summary and detailed breakdown of the bid amount.
- 3) All sealed bids will be time and date stamped when it is received.
 - 4) Bids received via email must also be noted as to the date and time it was received. The cover email will be printed and placed in a sealed envelope by the Secretary of the relevant Department and marked as an email bid. The attachment that goes with the cover email must not be opened until the assigned opening date. It is the responsibility of the bidder to ensure that all electronic documents are not editable i.e. must be in a pdf format.
 - 5) All bids are to be received and treated with the utmost discretion and confidentiality and must be appropriately stored in a secure place until the bid opening date.

6.2.3. Public Notice

- 1) The call for sealed bids described in subpart 6.2.2 shall be advertised for at least ten (10) working days:
 - a) By posting such call for sealed bids in the Immigration Office and one other prominent public place in each State in the FSM;
 - b) By posting on the internet via approved recruitment sites or approved Government websites; and
 - c) If the CO considers appropriate, by use of radio and newspaper media and any other means he may consider feasible.
- 2) The CO must collect copies of the advertisement that was placed in the public place (via photograph) or the newspaper clipping confirming the public notice was complied with.
- 3) In cases where the scope of the construction or the specification for the property changes at any time between the public notice and awarding the contract, the CO must send out notification of the change and that any bids that have been submitted must be amended to reflect the change.

6.2.4. Qualification of bidders

- 1) Before any prospective bidder may be entitled to submit a bid for the performance of a contract covered by Part V of these Regulations, within ten calendar days prior to the date designated for opening bids:
 - a) give written notice to the CO of the intention to bid;
 - b) the CO must be satisfied of the prospective bidder's financial ability to perform the work intended, has relevant experience and competence in performing similar work; and
 - c) include in the written notice a statement that the bid will be a 'citizen bid' and will provide sufficient documentation of eligibility to receive citizen bidder preference.
- 2) Whenever it appears to the CO that the prospective bidder is not fully qualified and able to perform the intended work, the CO shall refuse to receive or consider any bid offered by the prospective bidder.
- 3) Upon being determined not to be fully qualified, a prospective bidder may appeal this determination within ten days after notice of disqualification in accordance with the Administrative Procedures Act, chapter 1 of title 17 of this code.

6.2.5. Bonding and insurance

- 1) Except for contracts for construction projects involving \$150,000 or less, or for the purchase of personal property involving \$10,000,000 or less, the CO is hereby authorized to impose such bonding and insurance requirements that, in his best judgment, are necessary and appropriate to ensure proper performance of the

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| <p>contract by the contractor.</p> <ol style="list-style-type: none"> 2) Such bonding and insurance requirements may include, but need not be limited to, bid guarantee, performance bond, or payment bond. 3) At times the CO may impose a 'refundable bid bond' to be paid at the time a tender is submitted. The bond will be set at an amount between \$100 to \$1,000¹¹ to be repaid within 7 working days after the contract has been awarded. 4) If bonding is imposed on any tender, such amounts will be deposited in a designated bank account as a refundable bond to be repaid at a time the conditions for the bond have been met. |
| <p>6.2.6. Retainers</p> <ol style="list-style-type: none"> 1) In the case of other construction contracts greater than \$500,000 in value, a retainer between 10 to 20% must be withheld until 30 days after the full completion of the project. At the end of 30 days, there is no defect or failure that requires to be corrected by the contractor, the retainer will be released. 2) In the case of personal property that requires installation and commissioning prior to bringing the property to satisfactory working condition, a value of between 10 to 20% of the property price must be retained until such time final sign-off has been received that the property is fully functional, which will be no less than 30 calendar days after installation and commissioning. |
| <p>6.2.7. Sealed bids</p> <ol style="list-style-type: none"> 1) When submitting bids the prospective contractor must submit the following information: <ol style="list-style-type: none"> a) Completed bid form that includes the following information: <ol style="list-style-type: none"> i) Project name; ii) Contract name, address and contact details; iii) Declaration that the bid is genuine and can be carried out and has not taken part in any act of collusion to limit free and open competition; iv) Lump sum price. b) In addition to the completed bid form, the contractor must also provide all additional information as detailed in subpart 6.2.2(2) and any other information requested by the CO. 2) All bids submitted to the CO in response to his call for sealed bids described under subparts 6.2.2 and 6.2.3 must be sealed and, in addition to the bid itself, contain: <ol style="list-style-type: none"> a) With respect to bids for construction projects, the name of and the nature and scope of the work to be performed by each joint contractor or subcontractor to be engaged by the bidder; b) With respect to bids for property, in clear terms, the quantity and description of item[s] or project[s] being bid upon (inclusive of all freight and clearance costs for overseas bidders); c) If applicable, discounts, transport costs, or life cycles; and d) A sworn statement that the bidder has not been a party to any agreement or collusion described by subpart 6.2.15(1)(a) hereof. |
| <p>6.2.8. Receipt of bids and proposals</p> <ol style="list-style-type: none"> 1) All bids and proposals shall be submitted to the CO at the address provided in the public notice described in subpart 6.2.3 hereof. 2) Bids must be received prior to the time set for opening, shall be maintained in a locked receptacle at the office of the CO, and shall not be opened prior to the public opening described in subpart 6.2.9 hereof. 3) Proposals must be received prior to the time set for opening, shall be maintained in a locked receptacle at the office of the CO, and shall not be opened prior convening a meeting with the bidding panel. 4) In cases where only one bid/proposal or no bid/proposal is received, the CO <u>bidding panel</u> must consider the following: <ol style="list-style-type: none"> a) extending the public notice end date to attract more tenders; b) widening the advertising channels for the public notice in addition to the closing date extension; c) choose to accept the one tender that was received subject to meeting the scope and specifications of the |

¹¹ Check whether this is reasonable

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- required construction contract or personal property.
- d) Abandon the tender and decide to use a 'time and material' type contract.
- i) 'time and material' type contract means a contract whose cost to the National Government is the sum of:
- Actual cost of materials; and
 - Direct labor hours charged at fixed hourly rates that reflect wages, general and administrative expenses, and profit.
- ii) All 'time and material' type contracts must specify a ceiling price that the contractor exceeds at their own risk.
- iii) All 'time and material' type contracts must appoint a Government Officer to oversee the project to obtain reasonable assurance that the contractor is using efficient methods and cost effective cost controls.
- 5) In cases where tenders received do not meet the scope or specifications, the bidding panel can reject all bids/proposals and re-advertise.

6.2.9. Bid and proposal opening

- 1) Bids and proposals shall be opened publicly, in the presence of all bidders who attend and the bidding panel, not less than thirty (30) days after the final day of public notice described in subpart 6.2.3 hereof, and at the time and place for the opening of bids as stated in the call for sealed bids described in subpart 6.2.4 hereof.
- 2) In cases where any of the prospective contractors are unable to attend for any reason, the bid opening shall continue without prejudice to any party.
- 3) All bids received may be inspected by any prospective contractor who submitted a bid or proposal.
- 4) For selection purposes only, the bids or proposals of qualified Citizen Bidders shall be reduced in accordance with the Citizen Bidder preference of the PCA as described under subpart 6.2.10 and 6.2.11.
- 5) All bids and proposals must be opened in the presence of the full bidding panel. In cases, where representatives from the Department of Finance and Department of Justice are unable to attend, another representative from each respective Department must be selected to attend the bid opening.
- 6) Sufficient notice must be given to the bidding panel on the scheduled date for the bid opening. The CO must seek to avoid delays due to the bidding panel being unable to attend.
- 7) The bidding panel will convene to consider the matters as described in subpart 6.2.13 plus any other relevant considerations.

6.2.10. Citizen bidder eligibility

- 1) In order for a bidder (prospective contractor) to be eligible to receive the citizen bidder preference provided for in subpart 6.2.9(4), such bidder shall meet the following criteria:
 - a) The bidder shall be a citizen as defined under subpart 1.4(7) of these Regulations;
 - b) The bidder shall be bidding for a construction project or for the sale of personal property in response to an advertisement for bids made pursuant to this chapter;
 - c) The bidder shall include in his written notice of intention to bid a statement that he is submitting his bid as a citizen bidder and provide sufficient documentation of his eligibility to receive the citizen bidder preference; and
 - d) For construction projects, the bidder shall commit that:
 - i) ~~until the termination of the Trusteeship, at least 25 percent of all workers employed at all times at the job site shall be citizens of the Trust Territory of the Pacific Islands;~~
 - i) ~~upon termination of the Trusteeship,~~ at least 25 percent of all workers employed at the job site at all times shall be citizens of the Federated States of Micronesia; and
 - ii) at least 25 percent of all materials and supplies utilized in the construction project shall be purchased from within the Federated States of Micronesia.

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6.2.11. Citizen bidder preference

- 1) Citizen bidders who qualify to bid under the provisions of this chapter shall receive preference over noncitizen bidders in determining the award of the contract.
- 2) For the purpose of determining the preference to be given to citizen bidders, the amount of the bid of each citizen bidder shall be reduced according to the following formula, and such reduction shall be used solely for the purpose of determining the lowest responsible bidder (i.e. will not be used as the final contract price):

| # | Contract Type | \$ range | % reduction |
|---|---------------|------------------------------------|-------------|
| 1 | Construction | Between \$20,000 to \$499,999 | 15% |
| 3 | Construction | Between \$500,000 to \$1,499,999 | 10% |
| 4 | Construction | Between \$1,500,000 to \$9,999,999 | 5% |
| 5 | Construction | Greater than \$10,000,000 | 0% |

| # | Contract Type | \$ range | % reduction |
|---|---------------|------------------------------------|-------------|
| 1 | Property | Between \$50,000 to \$499,999 | 15% |
| 3 | Property | Between \$500,000 to \$1,499,999 | 10% |
| 4 | Property | Between \$1,500,000 to \$9,999,999 | 5% |
| 5 | Property | Greater than \$10,000,000 | 0% |

6.2.12. Rejection of bids

- 1) The bidding panel shall reject any bid or proposal which does not comply with the requirements of the call for sealed bids described in subpart 6.2.2 hereof or request for proposal.
- 2) Any bids or proposals rejected must be fully documented as to why they do not comply with the requirements of the sealed bid.

6.2.13. Award of contract

- 2) The CO in consultation with the bidding panel shall award the contract for the item[s] or project[s] being tendered to the lowest responsible bidder, pursuant to his limited discretionary powers defined in subpart 6.2.14 hereof.
- 3) In deciding the 'lowest responsible bidder' for construction contracts, the ~~CO~~ bidding panel must consider and document the following in awarding the contract:
 - a) Ensure there is a declaration of 'no conflicts of interest' by participating panel members and if there is any doubt a replacement representative must be made;
 - b) Ensure the full scope of works have been met to avoid future change orders;
 - c) As a starting point identify all 'responsible bidders' i.e. meet all the requirements of the bid conditions. All bidders rejected due to not meeting the bid conditions, the bidding panel will follow subpart 6.2.12 of these Regulations.
 - d) The next step will be to determine the lowest tendered price. All justifications must be supportable;
 - e) Quality of materials being used in construction;
 - f) Ensure all additional costs for freight and clearance costs have been factored into the price from overseas bidders who have submitted a tender;
 - g) Details of all sub-contractors, including a full list of laborers, working under the main contractor;
 - h) Past relationship history with the contractor i.e. ability to deliver on time, good quality work/products, sufficient workforce to complete the work, business is financially fit;
 - i) Whether any retainer or bonding is required as described under subpart 6.2.5;
 - j) Whether there are any 'citizen bidder requirements and reductions' as described under subpart 6.2.10 and 6.2.11; and
 - k) Any other factors that influence a decision.
- 4) In deciding the 'lowest responsible bidder' for personal property, the ~~CO~~ bidding panel must consider and document the following in awarding the contract:
 - a) Ensure there is a declaration of 'no conflicts of interest' by participating panel members and if there is any

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- doubt a replacement representative must be made;
- b) Ensure the full specifications of property have been met;
- c) As a starting point identify all 'responsible bidders' i.e. meet all the requirements of the bid conditions. All bidders rejected due to not meeting the bid conditions, the bidding panel will follow subpart 6.2.12 of these Regulations.
- d) The next step will be to determine the lowest tendered price. All justifications must be supportable;
- e) Quality of products being supplied;
- f) Availability of the product in the quantity required;
- g) Ensure all additional costs for freight and clearance costs have been factored into the price from overseas bidders who have submitted a tender;
- h) review and consider the requirements of subpart 7.1.10;
- i) Past relationship history with the supplier i.e. ability to deliver on time, warranty on any defects;
- j) Whether any retainer is required for installation and commissioning (as described under subpart 6.2.5); and
- k) Any other factors that influence a decision.

6.2.14. Bidding panel's discretionary powers

- 1) In the selection of the 'lowest responsible' bidder, the ~~CO~~ bidding panel must:
 - a) If the lowest bid is rejected, accept the next lowest remaining responsible bidder or advertise anew for bids pursuant to these regulations;
 - b) If two or more bids are the same and lowest, accept the one chosen; and
 - c) Negotiate with the chosen responsible bidder, and only with that bidder, to reduce the PRICE of work and to award the contract at a price which reflects the negotiated reduction.
- 2) When negotiating the price (for Federal projects)¹², the CO must negotiate profit as a separate element of price for each contract in which there is no price competition and in all cases where a cost analysis is performed. To establish a fair and reasonable profit, consideration must be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of sub-contracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.
- 3) Any or all bids may be rejected if there is a sound documented reason.

6.2.15. Collusion or Advance Disclosure

- 1) The ~~CO~~ bidding panel shall:
 - a) Collusion. In the event of any agreement or collusion among bidders or prospective bidders in the restraint of freedom of competition by agreement to bid at a fixed price or to refrain from bidding, void the bids of such bidders; and
 - b) Advance Disclosure. In the event of any disclosure of the terms of a bid before the time of opening bids as set forth in the call for sealed bids described by subpart 6.2.2 hereof, declare the proceedings void and require the procedures of this part of these regulations to begin anew.
- 2) Under no circumstances must a bidder collude with others to pitch the original tender low with a view to submit a change order after a contract has been executed. If such a situation is found, this may render the contract null and void.

6.2.16. Contesting procedures

Any FSM citizen taxpayer or any bona fide unsuccessful bidder may bring a civil action in the FSM Supreme Court to enjoin execution of any contract entered into in violation of the PCA, as amended, and subparts 6.2 through 6.2.17 hereof.

6.2.17. Exemption from open bidding

- 1) Notwithstanding any other provisions of these regulations, open bidding as described herein shall not be required:
 - a) In case of emergency affecting public health, safety, or convenience so declared in writing by the President

¹² Check with Secretary if this will be the same for all tenders (not just federal)

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upon application by the head of any FSM Government Agency, setting forth the nature of the emergency and the danger to the public health, safety or convenience caused by the delay, to the extent necessary to meet the emergency without open bidding. Such action and the reasons therefore shall immediately be made public by the awarding authority; or

- b) In the event there are no bids received by the CO in response to his call for sealed bids as described in subpart 6.2.2 hereof;
- c) When the terms of an agreement for a foreign aid project require that contracts necessary for the completion of the project shall be let to nationals of the donor country; or
- d) In cases where it can be demonstrated that there is only one supplier able to provide the goods or services that is most cost efficient for the FSM Government.

6.3. PROCUREMENT BY COMPETITIVE PROPOSALS

- 1) Should 'Procurement by Competitive Proposals' or 'request for proposal' method is selected, the following requirements apply:
 - a) Proposals must be solicited from at least two qualified sources.
 - b) Request for proposal must be publicized in the same manner as the 'procurement for sealed bids' as detailed in subpart 6.2.3 – 'Public Notice'.
 - c) The Request for proposal must identify all evaluation factors and their relative importance.
 - d) Any response to the 'public notice' will be considered by the bidding panel who will meet at an assigned date and time.
 - e) The date of the proposal evaluation will be set a date no less than 30 days after the end of the public notice date.
 - f) All proposals will be opened in line with subpart 6.2.9 – 'Bid and proposal opening'.
- 2) It is the responsibility of the contracting officer (or designee) to document the proposals received, conducting the technical evaluations of the proposals received and selection of recipients.
- 3) When submitting proposals the prospective contractor must submit the following information:
 - a) Project name;
 - b) Contract name, address and contact details;
 - c) Declaration that the proposal is genuine and can be carried out;
 - d) Declaration that the prospective contractor has no conflicts of interest or declare their conflict of interest and how they propose to manage;
 - e) Declaration that the prospective contractor has not engaged in any act of collusion to limit competition
 - f) Information as set out in subpart 6.2.2(2); and
 - g) Any other information as requested by the CO.
- 4) Citizen bidder eligibility rules may also apply when a prospective contractor notifies the CO that they intend to submit a proposal in line with subpart 6.2.10 and 6.2.11.
- 5) Should any proposals be rejected refer to subpart 6.2.12
- 6) Bonding and insurance requirements will be the same as those imposed for open bidding under subpart 6.2.5.
- 7) Contracts will be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered (as determined by the CO). The CO must consider and document the following:
 - a) Ensure that there is no 'conflict of interest' by participating panel members and if there is any doubt a replacement representative must be found;
 - b) Any issues arising from the proposal received and whether this impacts on whether the proposal is eligible for 'award';
 - c) Ensure the proposal covers the full scope of the Governments requirements; and
 - d) Any other matters as determined by the bidding panel.
- 8) The bidding panel's decision is final while considering the discretionary powers as set out in subpart 6.2.14.
- 9) Prospective bidders must also comply with the requirements of subparagraphs:
 - a) 6.2.10 Citizen bidder eligibility (if applicable)
 - b) 6.2.11 Citizen bidder preference (if applicable)
 - c) 6.2.15 Collusion or advance disclosure

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d) 6.2.16 Contesting procedures

6.4. CHANGE ORDERS FROM INITIAL CONTRACT

- 1) At times there may be a change in the initial scope of works or specifications of the goods that was initially tendered and awarded as required by the Government Contracts Act.
- 2) All change orders are subject to fund availability and must be certified as required to ensure there are sufficient funds to cover the cost.
- 3) In such cases, a decision must be made whether the:
 - a) Initial award be revoked (if no contract has been signed as described in subparts 5.1.5 to 5.1.7) and repeat the bidding process with the wider scope or additional specifications; or
 - b) Continue with the initial award (due to contract already being executed under subpart 5.1.6) and decide whether a tender is required for the additional scope or specifications.
- 4) The course of action must be discussed with the bidding panel and the following must be fully documented:
 - a) Reason giving rise for the change order;
 - b) The dollar value impact of the change order; and
 - c) Decision as to what course of action will be taken for the change order as outlined in subpart 6.4(3) above.
- 5) All change orders may result in either a new contract being drawn up or an amendment to the initial signed contract. In such cases, the contract must meet the requirements as described under subpart 5.1.5 and follow the same routing and approval requirements as described under subpart 5.1.6.
- 6) In order to action any payments under an amended contract, finance will require the following:
 - a) an updated executed contract;
 - b) invoice from the contractor;
 - c) progress payment sign-off by the Allottee or designated contract officer;
 - d) sign-off by the Allottee or designee verifying compliance with or exemption from the open bidding and Citizen Bidder preference requirements of the Public Contracts Act and Part 6 of these Regulations;
 - e) any other documentation as requested by the Secretary of Finance or designee.

6.5. CONFLICTS OF INTEREST

- 1) In the public sector, a conflict of interest is where “an official or leader’s duties and responsibilities to the FSM National Government could be affected by some other interest or duty that individual may have.”
- 2) Members and officials need to take great care to avoid situations where they could be accused of using their position to further their personal interests.
- 3) There are two types of ‘conflicts of interest’ to be aware of:
 - a) Personal conflict of interest
 - i) No employee, officer, or agent must participate in the selection, award or administration of a contract supported by the National Government if that person has a ‘real’ or ‘apparent’ conflict of interest.
 - ii) Such a conflict of interest will arise when the employee, office, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.
 - iii) The officers, employees, and agents of the National Government must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts. Consideration must be given for inconsequential gifts as described under Subpart 5.8.6 Sensitive expenditure – Gifts.
 - b) Organizational conflicts of interest.
 - i) Organizational conflicts of interest arise due to the National Government’s relationship or controlling financial interest in State-owned enterprises. When conducting tenders, the CO must:
 - consider the impact of such organizational relationships;
 - ensure any risks are documented and actively managed;
 - consider elevating such matters to senior officials so an appropriate course of remedial action is taken.
- 4) Every leader or official of the FSM Government has a number of professional and personal interests and roles.

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Occasionally, some of those interests or roles overlap. Conflicts of interest in a small country like the FSM, where communities and organizations are often close-knit and people have many different connections, are inevitable.

- 5) The existence of a conflict of interest does not necessarily mean that the leader or official concerned has done anything wrong, or that the interests of the public entity have suffered. It just means that the FSM Government needs to manage these conflicts because if left unmanaged may result in:
 - a) Creating risk of allegations or perceptions of misconduct;
 - b) Fostering an environment for misconduct to occur;
 - c) Undermining public trust and confidence in the good work of the leader or official and ultimately of the Government.
- 5) In cases where a conflict of interest may occur, it is the collective responsibility of the officer, their senior reporting officer, heads of Departments and leadership to:
 - a) be aware of all real and potential conflicts of interest,
 - b) report to the relevant authority (i.e. most senior officer/leader); and
 - c) take action on how the conflict can be managed and avoided in the future.
- 6) In taking action on the conflict of interest, it is most appropriate for the person who has a conflict of interest and is in a decision making position, they should remove themselves from the decision making process.
- 7) Specific reference to the Code of the FSM relating to 'conflicts of interest' is Title 11 of the FSM Code (section 512) which includes a maximum term of five years imprisonment should a person be convicted under this section.

6.6. CONFIDENTIALITY AND COMMERCIAL SENSITIVITY

- 1) Due to the commercial sensitivity of information provided by those tendering for contracts, under no circumstances must a FSM National Government employee, official or leader disclose the detail of any information, except as required by subpart 6.2.9 to outside parties.

7. PROPERTY, PLANT & EQUIPMENT

7.1.1. PROPERTY, PLANT & EQUIPMENT - GENERAL

- 1) Property, plant & equipment are also known as fixed assets, capital assets, tangible assets and intangible assets.
- 2) This Part shall apply to:
 - a) expendable assets with a fair market value of less than **\$1,000**;
 - b) tangible assets of the FSM National Government with a fair market value of **\$1,000** or more and a useful life of more than one year ("property"); and
 - c) intangible assets of the FSM National Government with a fair market value of **\$1,000** or more.
- 3) Such property shall be under the overall control and accountability of the Secretary or designee.

7.1.2. Identification

- 1) The Secretary, or designee, shall identify all property as follows:
 - a) With respect to FSM Government vehicles placed in service within the FSM, by affixing an FSM decal and FSM license plate[s], unless otherwise approved by the Secretary, or designee;
 - b) With respect to all other tangible property, by assigning and affixing a property tag number to each item at the time of receipt;
 - c) With respect to intangible property, by maintaining proper records and documentation; and
 - d) With respect to 'expendable assets' as defined in subpart 7.1.7, shall be affixed with an 'expendable asset tag' at the time of receipt.
- 2) For all assets that is used and in the responsibility exclusively by one person, a custodian form must be completed for tracking purposes.
- 3) Under no circumstances must any tag or label affixed by the Supply Unit be tampered with or removed.
- 4) In instances where an asset's custodian has changed, the responsible department must notify the Supply Unit to update their records. Failure to do so may result in assets being misplaced and a custodian being financial responsible for assets no longer in their care.

7.1.3. Control and maintenance

Maintenance of fixed assets

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| <ol style="list-style-type: none"> 1) The Head of each FSM Government Agency must ensure: <ol style="list-style-type: none"> a) that all assets under his/her management are adequately maintained and cared for; b) that assets of the Department are used properly, for the purposes intended and are not misused or intentionally damaged; c) that any budget submission includes a sufficient amount to maintain all fixed assets. 2) Ensure that the Secretary, or designee, issues receipts for any property acquired through gift, contribution, or otherwise; and <ol style="list-style-type: none"> a) Ensure that reasonable insurance is carried on all property that is determined by the Secretary, or designee, to require insurance coverage. <p>Maintenance of Government housing</p> <ol style="list-style-type: none"> 3) The head of each FSM Government Agency or, with respect to Government provided housing, the designated occupant of such housing to which property is assigned, shall be responsible for the care and maintenance of all property assigned to his control and shall: 4) Maintain and keep up such property; 5) Sign such form as may be prescribed by the Secretary, or designee, to acknowledge his responsibility for all property under his/her control; 6) Report any damage, broken, or stolen property assigned to his control to the Secretary or designee; and 7) Ensure that the property is used only for its lawfully intended purpose. |
| <p>7.1.4. Custodian responsibilities</p> <ol style="list-style-type: none"> 1) When assets are purchased, a custodian form must be completed and submitted to the Supply Unit at Treasury, to document who has custody of that asset. When that person leaves the employment of the National Government, the asset must be returned to the National Government. 2) That the Supply Unit are advised when the custody of assets (fixed and expendable) shift from one person's responsibility to another; 3) Notify the Secretary, or his designee, of any change in location of the property under his control; 4) Return any property assigned to his control, and no longer in use, to the control of the Secretary or designee; 5) Any individual caught intentionally damaging Government assets may be charged with any repair or replacement costs. |
| <p>7.1.5. Capitalization limit</p> <ol style="list-style-type: none"> 1) Notwithstanding the foregoing, with respect to the general purpose financial statement used to satisfy financial reporting requirements, the following capitalization limits apply: <ol style="list-style-type: none"> a) Singular pieces of equipment, vehicles, computer equipment and software with a fair market value that equals or exceeds \$1,000; and b) Buildings and infrastructure projects with a cost that equals or exceeds \$20,000. 2) The capitalization dollar value shall be subject to review and may change each year by the Secretary. |
| <p>7.1.6. Asset classes</p> <ol style="list-style-type: none"> 1) All tangible assets are to be classified into one of the following asset classes: <ol style="list-style-type: none"> a) Buildings and improvements b) Infrastructure c) Computer equipment d) Furniture, equipment and machinery e) Boats f) Aircraft g) Motor vehicles h) Land i) Construction in progress 2) Intangible assets are to be classified as required into one of the following asset classes: <ol style="list-style-type: none"> a) Computer software b) Other |
| <p>7.1.7. Expendable assets</p> <ol style="list-style-type: none"> 1) Expendable assets have a useful life greater than one year but a dollar value less than \$1,000. |

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- 2) These assets are expensed for accounting purposes and not depreciated.
- 3) Expendable assets tend to be attractive items that need to be tracked. Examples of such items are:
 - a) Mobile phones
 - b) Printers
 - c) Cabinets
 - d) Tables & chairs
 - e) Fax machines
 - f) Computers & laptops
 - g) Cameras
 - h) etc

7.1.8. Depreciation

- 1) Depreciation on fixed assets is an accounting method of allocating the cost of an asset over its useful life.
- 2) The FSM National Government accounting policy is to depreciate government assets using the straight line method over the estimated useful life, with a full year's depreciation charged in the year of acquisition and disposal, regardless of the date.
- 3) The estimated useful lives of the current asset classes are as follows:
 - a) Buildings and improvements – 20 to 50 years
 - b) Infrastructure - 20 years
 - c) Computer equipment - 5 years
 - d) Furniture, equipment and machinery – 3 to 20 years
 - e) Boats – 25 years
 - f) Aircraft – 20 years
 - g) Motor vehicles – 3 to 10 years
 - h) Land – not depreciated
 - i) Construction in progress – only depreciated once construction is completedSuch estimates of useful lives may be changed from time to time as approved by the Secretary of Finance.¹³

7.1.9. Disposal of fixed assets

- 1) At least once a year (or as the need arises), the relevant Departmental officer, will advise the Supply Unit of any assets that are no longer working or surplus to requirements that need to be surveyed for disposal. Once approved, the assets are transferred from the Department to the warehouse.
- 2) At least once a year (or more if required), the Supply Unit will prepare a list of all assets that are no longer working or surplus to requirements, that have been transferred from the custody of the Department to the warehouse.
- 3) Upon the discretion of the Secretary, a date will be set for a public sale to occur. A public notice must be prepared and displayed in prominent public spaces (including internet space) to advertise the sale.
- 4) The public are invited to submit closed bids by the due date.
- 5) The Secretary or designee will review all bids for each asset item and decide on the highest bid.
- 6) There will be no private sale to staff or individuals without going through the public sale.
- 7) Once the item has been paid and receipted, the asset will then be transferred to the purchaser and removed from the asset register.

¹³ Confirm whether include or take out

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| <p>7.1.10. Obtaining quotations for fixed assets</p> <ol style="list-style-type: none"> 1) Subject to the requirements of subpart 5.2.7, special consideration must be given when obtaining quotations for fixed assets. 2) Considerations must be given to the following: <ol style="list-style-type: none"> a) cost price of the asset; b) quality of the asset from reputable manufacturers; c) unit costs of consumables multiplied by the estimated usage; d) estimated useful life of the asset; e) ready availability of consumables; f) costs of freight and customs clearance if relevant; and g) costs of ongoing servicing and maintenance. 3) A comparison of all of these factors will assist the Allottee to select the most cost-effective fixed asset. |
| <p>7.1.11. Fixed assets purchased under different mechanisms</p> <ol style="list-style-type: none"> 1) Fixed assets can be purchased through different mechanisms: <ol style="list-style-type: none"> a) routine Governmental activities; b) CFSM projects; c) Federal programs; d) Third party administered projects. 2) Depending on the mechanism, the purchase of fixed assets are treated as follows: <ol style="list-style-type: none"> a) routine Governmental activities – assets tagged and entered directly into the fixed asset register; b) CFSM projects – assets are purchased under the project and remain with the host organization at the completion of the project. Hence, such assets are not recorded in the books of the FSM Government. c) Federal programs – assets are tagged and entered directly into the fixed asset register. After a period of time, such assets may be transferred to the State Government or other such recipient as specified by the Grant Award; d) Third party administered projects – assets are purchased under the project and ownership is transferred to the FSM Government at the end of the project (if allowable in the project agreement). 3) All assets purchased under Non-FSM allottees must be separately identified until such time the project or program is completed. Upon completion of the project or program, all such assets must be transferred to the States or other group and will not form part of the fixed assets of the National Government. |
| <p>7.1.12. Donated assets</p> <ol style="list-style-type: none"> 1) Donated assets are assets that have been gifted to the FSM Government without the exchange of money. <ol style="list-style-type: none"> a) Assets can be donated through bilateral/multilateral aid and/or projects. b) Upon completion of the project or aided event, assets purchased during that period is then transferred to the FSM Government. 2) Donated assets are to be treated as a ‘revenue’ of the FSM Government i.e. assets (DR) revenue (CR). 3) Once donated assets are received, the relevant Department must advise the Secretary or designee must be advised so the correct accounting treatment is made and the identification requirements described under subpart 7.1.2 can be followed. 4) At times it may be difficult to determine a value of the assets that have been donated (particularly if procured overseas by a party other than the FSM Government). It is the responsibility of the Secretary or designee to diligently obtain source documentation or decide to apply a fair value of an asset of similar specifications. |
| <p>7.1.13. Stocktake of fixed assets</p> <ol style="list-style-type: none"> 1) Stocktakes are required to confirm that the records held by Treasury are consistent with the actual asset’s existence. 2) At least once every three months, the Allottee or designee must undertake a stocktake of all fixed and expendable assets held by the Department. Such a task may be split for each division to check their own assets. Any significant variances must be communicated to the Secretary or designee as soon as practically possible. 3) At least once every six months the Secretary or designee must undertake a stocktake of all fixed assets. 4) All discrepancies must be followed up i.e. missing assets, damaged assets, assets not recorded etc and a plan of action be determined on what should be done. |

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| 8. IMPREST FUNDS |
| 8.1. IMPREST FUNDS - GENERAL |
| 8.1.1. Nature of Imprest Funds |
| <ol style="list-style-type: none"> 1) Imprest Funds are funds that have been approved by the Secretary to be set up for discrete Government operations. Examples of such funds are: <ol style="list-style-type: none"> a) Foreign Mission Offices (Subpart 8.2); b) Finance Field Offices (Subpart 8.3); c) Maritime Operations Revolving Fund (Subpart 8.4); and d) Other Revolving Funds as set up under Title 55 of the FSM Code under Chapter 6: Funds. 2) At the discretion of the Secretary, an Imprest Fund can operate in one of two ways: <ol style="list-style-type: none"> a) A threshold amount is deposited into the Imprest fund. As funds are expended the Imprest must be replenished back up to the threshold amount when the spending gets to a certain level so as to avoid going into overdraft at the bank; or b) An quarterly amount is calculated based on the annual appropriate and deposited into the Imprest Fund. Funds are expended in line with the budget and it is the responsibility of the Fund Custodian to ensure funds to do not go into overdraft at the bank. |
| 8.2. FOREIGN MISSIONS |
| 8.2.1. Operating Funds |
| <ol style="list-style-type: none"> 1) The Secretary may authorize the establishment of, in accordance with the provisions of this Part, Operating Fund Accounts for such Foreign Offices as he deems appropriate and may transfer to such accounts either in full or installments, amounts allotted for the operations of such offices. 2) The Imprest Revolving Funds established by the Imprest Revolving Funds Act 1982, as amended, in certain Foreign Offices shall be entrusted to the care and maintenance of the Operating Fund Custodians described in subpart 8.2.2 hereof. |
| 8.2.2. Operating Fund Custodian |
| <ol style="list-style-type: none"> 1) The Secretary or designee[s] shall be the Operating Fund Custodian[s] for the Operating Fund Account[s] established for the Foreign Offices. Only Operating Fund Custodian[s] may receive the funds described in subpart 8.2.1 hereof and they shall be responsible for insuring that: <ol style="list-style-type: none"> a) All expenditures of funds entrusted to their care are made in accordance with the provisions of these regulations and applicable law; b) The recordkeeping requirements of subpart 8.2.4 hereof are maintained; c) The reporting requirements of subpart 8.2.5 hereof are promptly and fully complied with; and d) Notwithstanding the provisions of Part 4 hereof, all funds or revenues received by the relevant Foreign Office are deposited promptly into an approved Operating Fund Account, as described in subpart 8.2.3 hereof, and the Secretary is immediately notified as to the nature and amount of the deposit. |
| 8.2.3. Operating Fund Account |
| <ol style="list-style-type: none"> 1) The Operating Fund Custodian shall open and maintain an Operating Fund Account that shall: <ol style="list-style-type: none"> a) <u>Approved Depository Account</u>. Meet all requirements of an Approved Depository Account, as defined in subpart 1.4.4 hereof; b) <u>Interest Bearing</u>. Bear interest at a rate commensurate with comparable financial institutions in the same area; and c) <u>Signatures</u>. In addition to the signatures described by subpart 1.4.4(c) hereof, allow withdrawal of funds upon the signature of the Operating Fund Custodian. |
| 8.2.4. Recordkeeping requirements |
| <ol style="list-style-type: none"> 1) The Operating Fund Custodian shall maintain, by prompt posting after each transaction: <ol style="list-style-type: none"> a) <u>Check Register</u>. A check register which shall reflect deposits, disbursements, and adjustments to the Operating Fund Account and an updated balance of the account after each transaction; and b) <u>Cash Disbursements Journal</u>. A cash disbursements journal that: <ol style="list-style-type: none"> i) Reflects all checks issued or voided in numerical order, and reflecting in columnar format the: |

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- o Date of the check;
 - o Payee of the check;
 - o Number of the check;
 - o Amount of the check;
 - o Purpose of each transaction; and
 - o Amount[s] charged to the various accounts to which the expenditure is to be recorded.
- ii) Is totaled by column and cross-balanced at the end of each monthly reporting period.

8.2.5. Reporting Requirements

- 1) The Operating Fund Custodian shall transmit to the Secretary on or before the tenth day of each month a report on the preceding month as follows:
- a) Monthly Operating Fund Report. A report on the Operating Fund Account reflecting in columnar format by allotment categories (e.g., Personnel, Travel, Fixed Assets, Consumable Goods, Contractual Services) the following:
 - i) Quarterly allotments as reflected in the Advice of Allotment issued by the Division of Budget;
 - ii) Total expenditures made during the month against each allotment category;
 - iii) Total expenditures made during the quarter to date of the report against each allotment category;
 - iv) Total amounts remaining as unexpended by each allotment category; and
 - v) Total amount so obligated against each allotment category but not yet expended.
 - b) Attachments. As attachments to the Monthly Operating Fund Report:
 - i) Receipted duplicate deposit slips for all deposits to the Operating Fund Account made during the month;
 - ii) Duplicate checks with supporting documents for all checks issued against the Operating Fund Account during the month;
 - iii) Original voided checks for the Operating Fund Account voided during the month;
 - iv) A copy of the Operating Fund Account check register for the month;
 - v) A copy of the cash disbursements journal for the Operating Fund Account for the month;
 - vi) A copy of all Purchase Orders, Job Orders, or contracts issued or executed against the Operating Fund Account during the month; and
 - vii) Any other information or comments deemed necessary or helpful by the Operating Fund Custodian to explain the activity reported or information submitted.

8.2.6. Authorized expenditures

- 1) The Imprest Fund Custodian shall make disbursements from the Imprest Fund Account and the Secretary shall replenish the Imprest Fund Account as follows:
- a) In line with the objectives and limits set out in the Appropriation Act for the Foreign Mission;
 - b) Travel Advances. To holders of Valid Travel Authorizations, as defined by subpart 5.6.2 hereof, and only up to 100 percent of the estimated travel costs less previous advances and deductions of advances pursuant to subpart 5.6.6 hereof as reflected in the TA, including amendments thereto, provided that:
 - i) The traveler is an employee or official of the ~~College of Micronesia-FSM or any individual who has been issued a valid FSM or State Government TA, or a medical referral patient or attendant;~~
 - ii) ~~With respect to medical referral patients and their attendants, advances are made no more frequently than weekly;~~
 - iii) The Imprest Fund Custodian shall not disburse any funds to a traveler unless the traveler requests an advance of funds in writing;
 - iv) The Imprest Fund Custodian shall not disburse any funds to a traveler unless the traveler produces the original copy of his TA, upon which the Imprest Fund Custodian shall indicate the amount to advance and the traveler shall affix his signature to acknowledge receipt of the funds so advanced; and
 - v) All disbursements from the Imprest Fund Account shall be in the form of check, made payable to the traveler requesting an advance of funds.
 - b) Medical Expenses. To advance funds for medical expenses of personnel in the Foreign Office for which the Imprest Fund Account was established if and to the extent that health insurance provided for such

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| <p>personnel by or through the FSM Government may reasonably be expected to cover such expenses.</p> <p>2) Advanced funds which are subsequently determined not to be covered by such insurance shall be promptly reimbursed by the personnel to or for whom paid. If such reimbursement is not promptly made, the employee shall be deemed to have requested a non-cancellable payroll remittance under subpart 5.7.2(d) whereby reimbursement will be achieved through payroll deduction and allotment over a period of no more than 90 days, or such longer time as may be necessary to keep the deduction from exceeding 25% of gross pay.</p> <p>3) All expenditure must be within the limits and in line with the Appropriation Act for which the funds were Allotted.</p> |
| <p>8.3. FINANCE FIELD OFFICES</p> <p>8.3.1. Imprest funds</p> <p>1) The Secretary may authorize the establishment of, in accordance with the provisions of this Part, Imprest Fund Accounts for each State Finance Field Offices as deemed appropriate and may transfer to such accounts either in full or installments, amounts allotted for the operations of such offices.</p> |
| <p>8.3.2. Imprest Fund Custodian</p> <p>1) The Imprest Fund Custodian will be the person responsible for managing the Fund.</p> <p>2) The role of Imprest Fund Custodian will be assigned to the Finance Field Office Manager.</p> <p>3) The core function of the Imprest Fund Custodian is to manage the Imprest Fund in accordance with Regulations and policies & procedures.</p> |
| <p>8.3.3. Imprest Fund Account</p> <p>1) The Secretary of Finance is the main signatory for each Imprest Fund.</p> <p>2) The Secretary of Finance will deposit an initial amount into the Imprest Fund, to be replenished at least once a month based on actual expenditure disbursed from the Imprest Fund.</p> |
| <p>8.3.4. Recordkeeping requirements</p> <p>1) The Imprest Fund Custodian shall maintain, by prompt posting after each transaction:</p> <p>a) <u>Check Register</u>. A check register which shall reflect disbursements, written from the Imprest Fund Account to be 'exported' to National Treasury at the end of each day together with copies of supporting documentation.</p> <p>b) <u>Daily Transmittal Form</u>. A daily transmittal that:</p> <p>i) Reflects all checks issued or voided in numerical order, and reflecting in columnar format the:</p> <ul style="list-style-type: none"> o Date of the check; o Payee of the check; o Number of the check; o Amount of the check; o Purpose of each transaction; and o Amount[s] charged to the various accounts to which the expenditure is to be recorded. <p>ii) An updated balance of the account after each transaction (running balance);</p> <p>iii) Is totaled by column and cross-balanced at the end of each day.</p> <p>2) At least once a month, or more if required, the Imprest fund must be replenished using the Summary Replenishment Form. The Summary Replenishment must match the details as reported in the Daily Transmittal form each day.</p> |

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| <p>8.3.5. Reporting requirements</p> <ol style="list-style-type: none"> 1) At the end of each month, the Trust Fund Custodian must prepare: <ol style="list-style-type: none"> a) a reconciliation between the Daily Transmittal Form balance and the General Ledger, and follow up all variances. b) a reconciliation between the General Ledger and the bank statement, and follow up all variances 2) Reports are due by the 10th working day of the following month for the previous month's reconciliations. 3) Every two months, each finance officer that is managing manual ledgers will request a Funds Status report from the Certification team at FSM National from 1 October (beginning of the fiscal year) to the end of the reporting period (i.e. 30 Nov, 31 Jan, 31 March, 31 May, 31 July and 30 September). All variances must be explained and where required followed up. 4) Every 6 months, Field Officers maintaining manual ledgers for allotments must prepare an Encumbrance Report showing all 'unexpended' balances for encumbrances by allotment. The encumbrances should be maintained daily in order but for Head Office to enter unexpended encumbrances at 31 March and 30 September. |
| <p>8.3.6. Authorized expenses</p> <ol style="list-style-type: none"> 1) All disbursements/expenditure must be in line with the requirements of the Financial Management Regulations and Policies & Procedures as issued by the Secretary of Finance. 2) If there is any doubt over the adequacy of documentation or legality of expenditure, then the Fund Custodian must elevate the query to the Assistant Secretary. If the query is not solved, then the query can be elevated to the Secretary for Finance. Such queries must be elevated in a timely basis so a solution can be reached. 3) Payroll (net salary) will be paid through the General Fund. 4) Travel Advances and Travel Vouchers will be posted as per the separate Policies and Procedures issued for Travel Expenses and Part 4E of these Regulations. 5) All other expenditure can only be encumbered and paid as instructed under the allotments issued to the Field Office or from direct instruction from the Secretary of Finance. |
| <p>8.4. MARITIME OPERATIONS REVOLVING FUND</p> <p>8.4.1. Maritime Fund Custodian</p> <ol style="list-style-type: none"> 1) The Maritime Operations Revolving Fund established pursuant to Public Law No. 3-8 (herein "Maritime Fund") shall be administered by the Secretary of Finance and Administration, or such other person as the President may designate, such person being referred to herein as the Maritime Fund custodian, who shall be subject to the reporting and administration requirements of this Part. |
| <p>8.4.2. Administration</p> <ol style="list-style-type: none"> 1) The Maritime Fund Custodian shall be responsible for ensuring that: <ol style="list-style-type: none"> a) All funds entrusted to his care and all funds received by booking agents or other persons for transport of cargo or passengers on the M.V. Caroline Islands or other vessels to which the provisions of Public Law 3-8 apply ("Vessels") are promptly deposited into an approved Maritime Fund Account as described in subpart 8.4.3 hereof; b) All disbursements from the Maritime Fund Account are in compliance with the requirements of subpart 8.4.4 hereof; c) The reporting requirements of subpart 8.4.5 hereof are promptly and fully complied with; and d) That a check register, which shall reflect deposits, disbursements and adjustments of the Maritime Fund Account and an updated balance of the account after each transaction, is maintained by prompt posting after each transaction. |
| <p>8.4.3. Maritime Fund Account</p> <ol style="list-style-type: none"> 1) The Maritime Fund Custodian shall open and maintain a Maritime Fund Account that shall: <ol style="list-style-type: none"> a) <u>Approved Depository Account</u>. Meet all the requirements of an Approved Depository Account, as defined in subpart 1.4.4 hereof b) <u>Interest Bearing</u>. Bear interest at a rate commensurate with comparable financial institutions in the same area; and c) <u>Signatures</u>. In addition to the signatures described by subpart 1.4.4(c) hereof, allow withdrawal of funds upon the signature of the Maritime Fund Custodian. |

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| <p>8.4.4. Authorized expenses</p> <p>1) The Maritime Fund Custodian shall make disbursements from the Maritime Fund Account and the Secretary shall replenish the Maritime Fund Account only for the ongoing expenses for the operation and maintenance of all National Government Vessels.</p> |
| <p>8.4.5. Reporting Requirements</p> <p>1) The Maritime Fund Custodian shall transmit to the Secretary:</p> <p>a) <u>Replenishment Request</u>. At least monthly, or more often if needed:</p> <p>i) A report that no activity has taken place within the Maritime Fund Account; or</p> <p>ii) A replenishment request reporting all deposits into and disbursements from the Maritime Fund Account during the reporting period, and the reasons for and the amounts of such disbursements.</p> <p>b) <u>Attachments</u>. As attachments to the replenishment request, a copy of all checks, and supporting documents therefore, written during the reporting period and:</p> <p>i) With respect to each voyage of the Vessels during the reporting period, a copy of the ship's manifest for such voyage, and a written report showing voyage dates, names of all passengers and crew members, fare paid by each passenger, name of agent to whom each passenger's fare was paid, itemization of all cargo transported and payments made for cargo transported, and evidence of transfer to the Maritime Fund Custodian of all fares and other payments collected by agents; and</p> <p>ii) With respect to disbursements for operating and maintenance expenses and deposits, the documents described in subparts 8.2.5(1)(b) – (i), (iii), (iv) and (vii) hereof.</p> |
| <p>8.5. SUPPLY STOCK REVOLVING FUND</p> <p>1) The Secretary, or designee, shall maintain a supply stock of commonly used supplies and shall issue supplies from such inventory to national Allottees who have submitted a Purchase Order, provided that the Purchase Order is signed by the Secretary or his designated certification officer certifying as to the availability of funds.</p> <p>2) The Supply Unit shall promptly, as required, effect a transfer of that cost from the account containing the available funds to the Supply Stock Revolving Fund.</p> <p>3) At times the public may wish to purchase State or National flags. In which case, an 'over the counter' purchase form will be completed, payment made to the Treasury cashier, before presenting the receipt for collection.</p> <p>4) All other purchases by departments for flags, license plates or other revolving stock will be purchased via purchase order.</p> <p>5) At the end of each fiscal year, a stocktake of stock held will be completed and reported to the Secretary.</p> |
| <p>9. JOURNAL VOUCHERS</p> |
| <p>9.1.1. Nature of journal vouchers</p> <p>1) Adjustments to Government accounts not involving the actual transfer of cash must be made using a journal voucher approved by the Secretary of Finance or designee.</p> <p>2) All journal vouchers must be entered into the financial management information system.</p> <p>3) A journal must not be used if the only purpose is to make transfers between programs, activities or outputs to allow actual expenditure to fit within budget limits.</p> <p>4) Examples of transactions requiring the use of General Ledger Journal (GLJ) vouchers include the following:</p> <p>a) Correction of previous posting errors;</p> <p>b) End of year accruals;</p> <p>c) Allocation of administration costs to the programs, activities or outputs they relate to;</p> <p>d) Adjustments or amendments to the accounts;</p> <p>e) Intra-agency expenses i.e. box rental, stamps;</p> <p>f) Clearing off-island purchase orders;</p> <p>g) Overtime for immigration, Customs & Tax Administration and Quarantine;</p> <p>h) Foreign Mission replenishments; or</p> <p>i) Import Tax.</p> <p>4) All transfers relating to Compact and Federal funding requires the use of the 'Federal Grant Pass Through' type of Journal Voucher.</p> |

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9.1.2. Types of journal vouchers

- 1) There are two types of JVs:
 - a) GLJ – General ledger journal
 - b) FGJ – Federal grants journal
- 2) Examples of transactions requiring the use of General Ledger Journal (GLJ) vouchers include the following:
 - a) Correction of previous posting errors;
 - b) End of year accruals;
 - c) Allocation of administration costs to the programs, activities or outputs they relate to;
 - d) Adjustments or amendments to the accounts;
 - e) Intra-agency expenses i.e. box rental, stamps;
 - f) Clearing off-island purchase orders;
 - g) Overtime for immigration, Customs & Tax Administration and Quarantine;
 - h) Foreign Mission replenishments; or
 - i) Import Tax.
- 2) All transfers relating to Compact and Federal funding requires the use of the 'Federal Grant Pass Through' type of Journal Voucher.

9.1.3. Completion of journal vouchers

- 1) A journal voucher must be signed and approved by an officer with the appropriate financial delegation for the account codes being adjusted.
- 2) If a journal voucher affects account codes that belong to different Departments, Allottees from each relevant Department must prepare the 'journal voucher entry form' and attach the relevant documentation to support the JV.
- 3) The completed 'journal voucher entry form' and affixed supporting documentation is remitted to Treasury for approval by the Secretary or designee.
- 4) A copy of the JV must be retained by the initiating Department.
- 5) A JV entry form prepared by the Department of Finance must be signed and approved by the Secretary or designee.
- 6) All JV entry forms must be clearly typed and include a full description of the reasons for the adjustment being made, including any cross reference to other related accounting documents (especially if the JV is a correction of a previous transaction entry).
- 7) Journal adjustments must not be made to prior accounting periods unless approved by the Secretary of Finance.
- 8) Journal Vouchers may only be entered by an officer approved by the Secretary of Finance.

10. ADMINISTRATION OF PUBLIC PROJECT APPROPRIATIONS

10.1. APPLICABILITY

- 1) This Part 10 shall apply to all funds appropriated under national law by the Congress of the Federated States of Micronesia for public projects, whether such funds are the sole source of funding for a project or a partial source of funding, and regardless of who is the Allottee.
- 2) The term "public projects" includes but is not limited to subsidies, grants, contributions, and appropriations for specified or unspecified public purposes, public uses, economic development, social development, or the like, except that the term shall not include any of the following:
 - a) Operating expenses of any FSM Government Agency;
 - b) Specific subsidies and contributions contained in the annual national government budget act or amendments thereto;
 - c) Programs or projects contained in the annual national government budget act or amendments thereto under the heading "Special Compact Programs";
 - d) Contributions to an international organization of which the FSM is a member; and
 - e) Such other appropriations of national government funds as the Secretary and the Budget Division of the Department of Finance & Administration ("Budget") together may determine in writing are by their very nature not appropriately subject to this Part 10.
- 3) This Part 10 shall also apply to all Compact capital funds, whether such funds are the sole sources of funding for

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| <p>10.2. PROJECT CONTROL DOCUMENT</p> <p>1) Prior to an allotment of national government funds for any public project (as defined under subpart 9.1 above), the Allottee of those funds shall complete a Project Control Document (“PCD”) in a form specified by the Budget Officer. Among other things, the PCD shall:</p> <ol style="list-style-type: none"> a) describe the project and its public purposes in sufficient detail to permit determination of the legality of the proposed expenditures, including their relationship to the purpose of the line item of the applicable national appropriation law. b) specify the total project budget and the source of any portion thereof not to be funded from the applicable national government appropriation; c) designate the Project Inspection Official; and d) certify that the Allottee has read, understands, and will abide by these regulations and other applicable laws. |
| <p>10.2.1. PCD Processing</p> <ol style="list-style-type: none"> 1) A PCD, completed and signed by the Allottee, shall be submitted to the Budget Officer for review. 2) In conducting that review, the Budget Officer may request such additional information from the Allottee or from other government officials as it may deem appropriate. 3) Otherwise he shall disapprove the PCD and return it to the Allottee with a statement of his reasons therefore. The Allottee may then submit a revised PCD for review. 4) If the Budget officer is satisfied that the PCD is complete and that the project and expenditures described in the PCD are consistent with the line-item of the national appropriating law and any other applicable law, he shall approve the PCD. |
| <p>10.2.2. Allotment</p> <ol style="list-style-type: none"> 1) Upon compliance with subparts 10.2 and 10.2.1 of the regulations, the Budget Officer shall issue an allotment for the project described in the approved PCD. 2) An Advice of Allotment form shall be completed for each separate project and forwarded to the Allottee and PCD. 3) Each allotment shall specify an expiration date, after which no obligation may be legally incurred. |
| <p>10.2.3. Obligation</p> <ol style="list-style-type: none"> 1) Upon issuance of the allotment, funds may be obligated by the Allottee only in accordance with these regulations and other laws applicable to the obligation of national government funds generally. 2) Obligation must be consistent with the allotment and underlying PCD. No more than 10% of the total amount payable under any obligating document shall ever be payable in advance of the time when it has been earned by the provision of goods or services or other performance under the obligating document, except that the foregoing percentage may be increased to 15% in the case of mobilization under a construction contract and 100% in the case of procurement of goods or services from outside the FSM. 3) Copies of an obligating document must be filed with the Secretary of Finance and the Budget Officer before any payment may be made pursuant to that obligating document. |
| <p>10.2.4. Disbursement</p> <ol style="list-style-type: none"> 1) Funds subject to this Part 10 shall be disbursed only to satisfy obligations legally incurred and due under these regulations. Any request for payment under a design, construction, procurement, or independent consulting contract must be certified by the Project Inspection Official before payment is made. 2) Such certification shall signify that it is the Project Official’s best judgment, after due investigation, that the amount so requested is properly due and owing under the obligating contract and these regulations. 3) The Budget Officer may develop and require use of a more detailed certification form in appropriate circumstances. |

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10.2.5. Project Inspection Official

- 1) The Project Inspection Official must be an employee or independent contractor of the national government. In the event no such national official is available for a particular project, the Budget officer may accept a non-national official of suitable skill and experience who is independent of the Allottee. Identifying and obtaining acceptance of a Project Inspection Official is the responsibility of the Allottee.
- 2) The Project Inspection Official designated in the PCD shall provide project management and oversight so as to ensure the adequate accountability of funds expended and completion of the project.
- 3) No project funds shall be received, controlled, or handled in any manner by the Project Inspection Official unless otherwise provided by law.
- 4) Administrative expenses of the Project Inspection Official shall not be paid out of project funds unless otherwise provided by law.

10.2.6. PCD Amendment

- 1) An approved PCD may be amended at any time through submission of the same form and completion of the same approval procedures as apply in initial processing of a PCD.
- 2) The submission shall indicate that it is intended as an amendment to a prior PCD and shall highlight what is being amended.
- 3) If obligations were already incurred or expenditures were already made at the time of the amendment, the amendment shall reflect those obligations or expenditures.
- 4) An outstanding allotment which would be rendered inconsistent with its underlying PCD upon amendment of that PCD must be withdrawn to the extent of such inconsistency before the amendment may be approved.

10.2.7. Project close-out

- 1) Upon notice to the Allottee and the Secretary of Finance, the Budget Officer may terminate any PCD and withdraw any allotment based thereon (except with respect to funds already obligated but not disbursed) if there has been no new obligation of funds filed under that allotment for a period of at least one year.
 - a) Such action shall be without prejudice to the right of the Allottee to recommence the PCD and allotment process if the project has not in fact been completed.
- 2) Upon completion of a project the Allottee shall promptly submit to the Secretary of Finance a final accounting of all expenditures made and reconcile those expenditures with the appropriation, PCD, allotment, and obligating documents to the satisfaction of the Secretary.
 - a) The Project Inspection Official shall provide such reasonable assistance as the Allottee or Secretary may request.
 - b) For purposes of this paragraph, a project is deemed to be completed if and when the Allottee or Project Inspection Official so states, all the money allotted for the project is spent, the appropriation lapses, or the Allottee fails to submit a new PCD within six months after termination of the prior one pursuant to subpart 10.27(1).

11. REPORTING

11.1. REQUIRED REPORTS FROM ALLOTTEES

- 1) Not later than May 1 of each year, each allottee shall submit a report to the Congress of the Federated States of Micronesia which shall provide:
 - a) for the full accounting of each line item, or subsection apportioning funds, as of the end of the second quarter of the fiscal year,
 - b) detailing obligations incurred against all sums appropriated by the Congress of the Federated States of Micronesia or made available to an allottee from other sources, to include a detailed explanation and full justification for each major deviation from a line item, or subsection apportioning funds.
- 2) Not later than October 31 of each year, each allottee shall submit a report to the Congress of the Federated States of Micronesia which shall provide:
 - a) for the full accounting of each line item, or subsection apportioning funds as of the end of the fiscal year,
 - b) detailing obligations and expenditures incurred against all sums appropriated by the Congress of the Federated States of Micronesia or made available to an allottee from other sources, to include a detailed explanation and full justification for each major deviation from a line item, or subsection apportioning funds.

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| <p>3) The reports required by subparagraphs (1) and (2) above shall include a statement by the Allottee:</p> <ol style="list-style-type: none"> a) of the status of the project, program, b) or list the achievements of the department or agency for which the funds were allotted. c) For all allottees, except those receiving allotments for governmental operations, the statement shall detail the percentage of completion of the project or program and shall include an estimation of the completion date for the project or program, where appropriate. |
| <p>11.2. REQUIRED REPORTS FROM SECRETARY OF FINANCE</p> <ol style="list-style-type: none"> 1) Not later than January 31 of each year, the Secretary of the Department of Finance and Administration shall submit unaudited financial statements of the National Government to the Congress of the Federated States of Micronesia, or, he shall provide in writing, an explanation of why he is unable to provide such reports. The explanation shall include a date by which he will provide the required reports. 2) Ten days prior to each session of Congress, whether a regular or special session, the Secretary of the Department of Finance and Administration shall submit, to the Speaker of the Congress and to the Chairman of the Committee on Ways and Means, an accurate report of current projected revenues for the fiscal year. This report shall detail projected revenues by source and shall reflect appropriations made during the fiscal year. The report should show the balance of funds available for appropriation by the Congress. |
| <p>11.3. REQUIRED REPORTS FROM DEPARTMENTS AND AGENCIES OF NATIONAL GOVERNMENT</p> <ol style="list-style-type: none"> 1) Within 30 days of the completion of each quarter of each fiscal year, each department of the Executive Branch and each agency of the National Government shall transmit to Congress and to the President a report on its activities during the quarter just completed, including: <ol style="list-style-type: none"> a) a comparison of its actual accomplishments for the quarter, and the year to date, with the planned accomplishments set forth in the plan described in subpart 10.9 of these Regulations; and b) a description of any factors that may have caused actual performance to vary from the plan. 2) Within 20 days of completion of each quarter of each fiscal year, the Budget Unit and Treasury Unit shall collate and provide the necessary information required for the departments to prepare their reports as required under subpart 11.3(1). |
| <p>11.4. ECONOMIC & FISCAL UPDATE REPORTING</p> <ol style="list-style-type: none"> 1) At least once a year, an Economic and Fiscal update report must be prepared by the Budget and Economic Management Division of the Department of Finance and Administration. 2) The Economic & Fiscal update report must provide: <ol style="list-style-type: none"> a) updated information on the economy and fiscal situation of the Federated States of Micronesia; b) an overview of the fiscal strategy represented in the budget package; and c) a comparison of the budget package with the most recently published budget policy statement. 3) The Secretary of Finance may require more regular fiscal updates to be prepared. |
| <p>12. NON-COMPLIANCE WITH REGULATIONS</p> |
| <p>12.1. COMPLIANCE UNIT</p> <ol style="list-style-type: none"> 1) The Secretary of Finance may establish a Compliance Unit to: <ol style="list-style-type: none"> a) Ensure compliance with these Regulations; b) Investigate matters of non-compliance to determine facts; c) Identify risk areas that require ongoing internal compliance reviews; d) Report all findings to the Secretary and/or such other established Committee to determine an action plan; e) prepare an annual workplan for the Compliance Unit to follow; and f) undertake other such reviews as instructed by the Secretary of Finance. |
| <p>12.2. STATE OF EMERGENCY</p> <ol style="list-style-type: none"> 1) In the event of a major natural disaster or other emergency threatening the lives or safety of citizens of the Federated States of Micronesia requiring immediate Governmental action, an emergency account shall be established in the Department of Finance. 2) All Governmental expenses related to such emergency shall be charged to such account. 3) The President is hereby authorized to reprogram up to \$200,000 of the funds appropriated from local revenues or other funds not dedicated to specific purposes under the Compact or other agreements with foreign governments to such account. |

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- 4) The President shall present funding requests to the Congress to cover emergency expenditures.
- 5) The requirements as described under subpart 6.2.17(1)(a) provides for exemptions from the open bidding requirements when a 'state of emergency' has been declared by the President.

12.3. OFFENCES AND PENALTIES

- 1) Any person who, without a reasonable excuse, fails to carry out any duty or obligation imposed on that person under these Regulations commits an offence against these Regulations.
- 2) Any person who commits an offence under subpart 12.3(1), may be subject to disciplinary action by the Secretary of Finance, Head of Department or Public Service System Regulations
- 3) Any person who commits an offence under subpart 12.3(1), may also be subject to a criminal offence if the non-compliance with these Regulations is also tantamount to a more serious offence under Title 11 FSMC Crimes Act.
- 4) Any officer or employee of the FSM National Government, or an allottee, who knowingly and willfully violates subparts 5.1.4(2) and 5.1.4(3) of these Regulations shall, upon conviction, be fined not more than \$20,000 or imprisoned for not more than 20 years, or both.

12.4. REPEALER

To the extent inconsistent with these regulations, all administrative policies or procedures of FSM Government Agencies are hereby superseded and repealed.