

Highlights of **GAO-05-633**, a report to congressional requesters

COMPACTS OF FREE ASSOCIATION

Implementation of New Funding and Accountability Requirements Is Well Under Way, but Planning Challenges Remain

Why GAO Did This Study

From 1987 to 2003, the United States provided economic aid to the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) through a Compact of Free Association. A previous GAO report found little accountability for the assistance provided by the U.S. Department of the Interior under this compact. In 2004, amended compacts with the FSM and RMI went into effect and will provide \$3.5 billion in assistance over 20 years, consisting of grants and contributions to trust funds that are to replace the grants after 2023. The amended compacts include funding and accountability requirements that were not present in the original compact. To better understand the status of the compacts' implementation, GAO evaluated actions taken by the U.S., FSM, and RMI governments since fiscal year 2004 to (1) meet funding requirements and plan for the use of this funding, (2) meet accountability requirements, and (3) establish operations to implement the new agreements.

What GAO Recommends

GAO recommends that the Secretary of the Interior direct the Deputy Assistant Secretary for Insular Affairs to assess on-site review and, along with officials from the Departments of State and Health and Human Services, work with the FSM and RMI governments to improve oversight and planning.

www.gao.gov/cgi-bin/getrpt?GAO-05-633.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-4128, gootnickd@gao.gov.

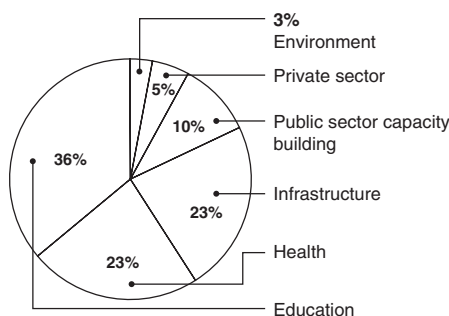
What GAO Found

In fiscal years 2004 and 2005, the U.S. government signed grant agreements with the FSM and the RMI focused on six sectors, such as health and education, as provided for in the amended compacts. Authorized grant amounts for each year were about \$76 million for the FSM and about \$35 million for the RMI (see figure below for fiscal year 2005 grant allocations). Required trust funds were also established. Strategic planning issues impacting the long-term, effective use of funds have not been addressed. The allocations of the grants to the sectors have not been linked to the countries' development goals; the FSM and RMI have not planned for annual required decreases in grant funding; and trust funds have not been invested to maximize interest earnings (though efforts are currently under way to resolve this final issue).

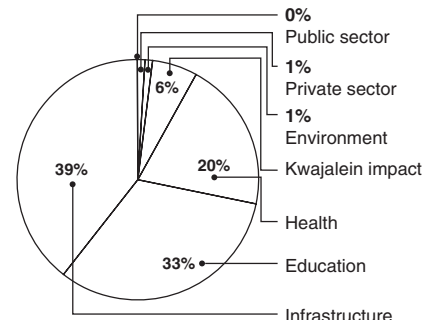
The U.S., FSM, and RMI governments have taken actions to meet compact accountability requirements. For example, the FSM and the RMI have provided financial and performance reports, and the U.S. government has withheld funding to ensure compliance with grant requirements. However, a few important accountability requirements have not been met. For instance, the FSM's development plan has not been approved by the U.S. government, and it is unclear whether the U.S. government has assessed the RMI's planning documents. Finally, the FSM has not completed single audits for fiscal years 2003 or 2004, and none of the three governments has submitted its required annual compact spending and development report for fiscal year 2004.

The Department of the Interior took a significant step in October 2003 to facilitate implementation and oversight of the amended compacts by opening a new office in Honolulu, Hawaii. However, Interior has not determined how much oversight of compact activities in the FSM and the RMI is necessary, though the current level of on-site review is viewed as insufficient. The FSM and RMI governments have each taken actions to establish centralized compact management offices; the RMI government is progressing more rapidly in these efforts than the FSM government.

FSM Sector Grant Allocation of \$76 Million



RMI Sector Grant Allocation of \$34.9 Million



Source: FSM and RMI fiscal year 2005 sector grant agreements and discussions with an OIA official.