



Highlights of [GAO-07-163](#), a report to congressional committees

Why GAO Did This Study

In 2003, the United States signed Compacts of Free Association with the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI), amending a 1986 compact with the countries. The amended compacts provide the countries with a combined total of \$3.6 billion from 2004 to 2023, with the annual grants declining gradually. The assistance, targeting six sectors, is aimed at assisting the countries' efforts to promote economic advancement and budgetary self-reliance. The Department of the Interior (Interior) administers and oversees the assistance. Complying with a legislative requirement, GAO examined, for fiscal years 2004 through 2006, (1) the FSM's and the RMI's use of compact funds, (2) their efforts to assess progress toward development goals, (3) their monitoring of sector grants and accountability for compact funds, and (4) Interior's administrative oversight of the assistance. GAO visited the FSM and the RMI; reviewed reports; and interviewed officials from the FSM, RMI, and U.S. governments.

What GAO Recommends

GAO recommends, among other things, that Interior work with the FSM and the RMI to establish plans to minimize the impact of declining assistance and to fully develop a reliable mechanism for measuring progress toward compact goals. Interior agreed with all of the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-163.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

COMPACTS OF FREE ASSOCIATION

Micronesia and the Marshall Islands Face Challenges in Planning for Sustainability, Measuring Progress, and Ensuring Accountability

What GAO Found

For 2004 through 2006, compact assistance to the FSM and the RMI was allocated largely to the education, infrastructure, and health sectors, but various factors limited the countries' use of compact funds. Deterrents to the FSM's use of infrastructure funds included constraints on land use and disagreement on project implementation processes. Land use issues also hindered the RMI's use of infrastructure funds. In addition, the FSM's distribution of the grants among its four states resulted in significant differences in per-student education and per-capita health funding. Neither country has planned for long-term sustainability of the grant programs, taking into account the annual decreases in grant funding.

To assess progress toward development goals, the FSM and the RMI established goals and objectives for each sector and are collecting performance data for education and health. However, a lack of complete and reliable baseline data prevents the countries from gauging progress in these sectors. Also, both countries' required quarterly performance reports contained incomplete and unreliable information, limiting the reports' utility for tracking progress. The countries' ability to measure progress is further challenged by a lack of technical capacity to collect, assemble, and analyze baseline and performance data.

Although the FSM and the RMI are required to monitor day-to-day sector grant operations, their ability to meet this requirement for 2004 through 2006 was limited. According to officials in the respective governments, the responsible offices have insufficient staff, budgets, and time to monitor grant operations. In addition, both countries' single audit reports for 2004 and 2005 indicated weaknesses in their ability to account for the use of compact funds. For instance, the FSM's audit report for 2005 contained 57 findings of material weaknesses and reportable conditions in the national and state governments' financial statements for sector grants, and the RMI's report contained 2 such findings. Furthermore, both countries' single audit reports indicated noncompliance with requirements of major federal programs. For example, the FSM's audit report for 2005 contained 45 findings of noncompliance, while the RMI's audit report contained 11 findings.

Interior's Office of Insular Affairs (OIA) has conducted administrative oversight of the sector grants by monitoring the countries' sector grant performance and spending, assessing their compliance with sector grant conditions, and monitoring the audit process. In response to shortcomings that it identified, OIA took several actions, such as withholding or suspending grant funding and ensuring the provision of technical assistance. However, OIA's oversight has been limited by the need to deal with challenges facing the FSM, such as its difficulty in preparing budgets, as well as by its own staffing challenges.