Why GAO Did This Study
In 2003, the U.S. government approved amended Compacts of Free Association with the FSM and the RMI, providing for a total of $3.6 billion in assistance over 20 years. Given the countries’ dependence on compact funding, GAO was asked to conduct a review of the use and accountability of these funds. This report addresses (1) the FSM’s and RMI’s use of compact funds in the education and health sectors; (2) the extent to which the FSM and RMI have made progress toward stated goals in education and health; and (3) the extent to which oversight activities by the FSM, RMI, and U.S. governments ensure accountability for compact funding. GAO also provided information on infrastructure spending and projects in the education and health sectors. GAO reviewed relevant documents and data, including single audit reports; interviewed officials from Interior, other U.S. agencies, and the FSM and RMI; assessed data reliability for subsets of both countries’ education and health indicators; and visited compact-funded education and health facilities in both countries.

What GAO Recommends
Among other actions, Interior should (1) take all necessary steps to ensure the reliability of FSM and RMI indicators in education and health, (2) assess whether to designate each country as high risk, and (3) take actions to correct its disproportionate staffing shortage related to compact grant implementation and oversight. Interior generally agreed with GAO’s recommendations and identified actions taken, ongoing, and planned.

What GAO Found
In fiscal years 2007 through 2011, the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI) spent at least half their compact sector funds in the education and health sectors. Because both countries spent significant amounts of compact funds on personnel in the education and health sectors, the U.S.–FSM and U.S.–RMI joint management and accountability committees capped budgets for personnel in these sectors at fiscal year 2011 levels due to concerns about the sustainability of sector budgets as compact funding continues to decline through fiscal year 2023. The FSM states completed plans to address annual decreases in compact funding; however, the FSM National Government and the RMI have not submitted plans to address these annual decreases as required. Without plans, the countries may not be able to sustain essential services in the education and health sectors in the future.

Data reliability issues hindered GAO’s assessment of progress by the FSM and RMI in the education and health sectors for fiscal years 2007 through 2011 for the compacts as a whole. Between 2004 and 2006, both countries began tracking education and health indicators, establishing data collection systems, and collecting data for the majority of the indicators and have continued to track data on their indicators since that time. In education, GAO found 3 of 14 indicators in the subsets of indicators it reviewed for both countries to be sufficiently reliable and 1 also to be capable of demonstrating progress: the education level of teachers in the RMI. GAO found a variety of data reliability problems, such as some FSM states reporting data for both public and private schools while other states included only public schools in their data. In the health sector, GAO determined that data for all 5 of the subset of indicators it reviewed in the FSM were not sufficiently reliable to assess progress for the compacts as a whole, and in the RMI, 1 health indicator was sufficiently reliable and 2 were not sufficiently reliable; for 2 other RMI health indicators, GAO had no basis to judge. In much of their reporting on their education and health indicators, the FSM and RMI have noted data reliability problems and some actions they have taken to address the problems. The U.S.–FSM and U.S.–RMI joint management and accountability committees have also raised concerns about the reliability of FSM’s education and health data and RMI’s health data and required that each country obtain an independent assessment and verification of these data; both countries have yet to meet that requirement, and, as a result, neither country can determine its progress in these sectors.

The single audit reports GAO reviewed indicated challenges to ensuring accountability of compact and noncompact U.S. funds in the FSM and RMI. For example, the governments’ single audits showed repeat findings and persistent problems in noncompliance with U.S. program requirements, such as accounting for equipment. The Department of the Interior (Interior) has taken steps regarding accountability of compact funds such as establishing the Chuuk Financial Control Commission, but Interior has not coordinated with other U.S. agencies about the risk status of the FSM and RMI. Furthermore, the FSM, RMI, and U.S. offices responsible for compact administration faced limitations hindering their ability to conduct compact oversight. For example, Interior’s Office of Insular Affairs (OIA) experienced a staffing shortage that disproportionately affected compact grant oversight compared to other OIA activities, with 5 of 11 planned positions filled.

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