

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-128**

**FOR THE YEAR ENDED SEPTEMBER 30, 1990**

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

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**STATE OF CHUUK  
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FOR THE YEAR ENDED SEPTEMBER 30, 1990

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**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA  
GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**





## INDEPENDENT AUDITORS' REPORT

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the accompanying general purpose financial statements of the State of Chuuk, as set forth in Section II of the Table of Contents, as of September 30, 1990, and for the year then ended. These general purpose financial statements are the responsibility of the State of Chuuk's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standard, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- (1) Due to inadequacies in internal controls, we were unable to determine through the use of alternative auditing procedures whether Governmental Fund Type advances, accounts payable or expenditures were properly stated as of September 30, 1990.
- (2) Due to inadequacies in internal controls, we were unable to determine through the use of alternative auditing procedures that the Enterprise fund interest receivables, loan receivables, fixed assets, and interest revenue were properly stated at September 30, 1990.



- (3) Property comprising the State of Chuuk's General Fixed Asset Account Group has not been inventoried as of September 30, 1990, nor have existing records been adequately assembled to permit the application of auditing procedures and verification of the detail of account balances.

In our opinion, except for the effects of such adjustments which may be required as a result of the matters specified in paragraphs numbered one through three above, the accompanying general purpose financial statements as set forth in Section II of the Table of Contents, present fairly, in all material respects, the financial position of the State of Chuuk, as of September 30, 1990, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1J to the aforementioned general purpose financial statements, for its Enterprise funds, the State of Chuuk has presented a statement of cash flows for the year ended September 30, 1990, rather than a statement of changes in financial position.

As discussed in Note 13, to the aforementioned general purpose financial statements, the State of Chuuk has been named the defendant in various legal actions. The State of Chuuk is vigorously defending all claims, but the ultimate outcome is uncertain at this time. Accordingly, no provision for any liability that may result has been recorded in the accompanying general purpose financial statements.

Costs for operations of U.S. Federal grants to the State of Chuuk during the year ended September 30, 1990, have been questioned in the amount of \$1,337,063. Additionally, \$8,403,311 of costs have been previously questioned and their disposition is pending. If such questioned costs are ultimately disallowed, the General Fund will absorb the amount so disallowed. Additionally, because of major inadequacies in the State's accounting practices, additional questioned costs may occur in addition to the aforementioned amounts. No provision for any liability that may result upon ultimate resolution of these matters has been made in the accompanying general purpose financial statements.

January 4, 1991



Certified Public Accountants



**CHUUK STATE GOVERNMENT**

Combined Balance Sheet - All Fund Types and Account Groups  
September 30, 1990  
(With comparative totals as of September 30, 1989)

Assets	Governmental Fund Types			Proprietary	Account Groups		Totals	
	General	Special	Capital	Enterprise	General	General	(Memorandum Only)	
	Fund	Revenue	Projects	Funds	Fixed	Long-Term	1990	1989
		Funds	Funds	Funds	Assets	Debt		
Cash and equivalents (Note 2)	\$3,328,154	\$ 32,336	\$ 598,292	\$ 393,115	\$ -	\$ -	\$ 4,351,897	\$ 2,945,234
Cash on deposit with Trustee (Note 2)	30,219	169,743	-	-	-	-	199,962	4,054,682
Investments (Notes 2 and 7)	1,114,691	-	25,082,602	-	-	-	26,197,293	19,678,663
Investments - other (Note 10)	-	-	500,000	-	-	-	500,000	250,000
Receivables from other governments (Note 3)	43,379	1,547,166	177,905	-	-	-	1,768,450	1,721,147
Receivables, federal agencies (Note 3)	-	-	102,565	4,635	-	-	107,200	386,105
General receivables, net of allowance for uncollectible accounts of \$-0- in 1990 and 1989	232,318	35,750	-	14,599	-	-	282,667	126,979
Loans receivable, net of allowance for doubtful accounts of \$336,912 in 1990	-	-	-	716,361	-	-	716,361	534,313
Dividends and interest receivable	292,338	-	-	-	-	-	292,338	411,178
Advances	419,477	4,151	-	-	-	-	423,628	791,518
Due from other funds (Note 9)	-	2,016,753	-	-	-	-	2,016,753	1,392,384
Other	-	-	99,500	114,138	-	-	213,638	57,634
Fixed assets (Note 4)	-	-	-	493,364	67,581,844	-	68,075,208	68,037,267
Amount to be provided for long-term debt	-	-	-	-	-	1,607,783	1,607,783	1,207,182
<b>Total assets</b>	<b>\$5,460,576</b>	<b>\$3,805,899</b>	<b>\$26,560,864</b>	<b>\$ 1,736,212</b>	<b>\$67,581,844</b>	<b>\$1,607,783</b>	<b>\$106,753,178</b>	<b>\$101,594,286</b>
<b>Liabilities and Fund Equity (Deficit)</b>								
<b>Liabilities:</b>								
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,940,573
Payable to other governments	-	-	-	-	-	-	-	220,489
Accounts payable	5,243,111	1,521,333	359,609	32,868	-	-	7,156,921	6,702,717
Accrued payroll and annual leave	606,659	93,040	25,432	-	-	1,607,783	2,332,914	2,148,647
Due to other funds (Note 9)	1,301,918	284,656	430,179	-	-	-	2,016,753	1,412,664
Notes payable (Note 5)	-	-	329,179	114,703	-	-	443,882	450,980
Deferred revenue	-	543,552	-	-	-	-	543,552	288,870
<b>Total liabilities</b>	<b>7,151,688</b>	<b>2,442,581</b>	<b>1,144,399</b>	<b>147,571</b>	<b>-</b>	<b>1,607,783</b>	<b>12,494,022</b>	<b>13,164,940</b>
<b>Commitments and contingencies (Note 13)</b>								
<b>Fund equity (deficit):</b>								
Contributed capital	-	-	-	1,670,266	-	-	1,670,266	1,565,037
Investment in general fixed assets (Note 4)	-	-	-	-	67,581,844	-	67,581,844	67,581,844
Retained earnings (deficit), unreserved	-	-	-	(81,625)	-	-	(81,625)	(71,423)
<b>Fund balance:</b>								
Reserved for:								
Investments (Note 7)	-	-	541,660	-	-	-	541,660	-
Related assets (Note 10)	-	-	500,000	-	-	-	500,000	250,000
Encumbrances	1,176,725	986,905	638,360	-	-	-	2,801,990	4,099,415
Continuing appropriations (Note 6)	246,871	-	19,231,862	-	-	-	19,478,733	16,249,734
Unreserved	(3,114,708)	376,413	4,504,583	-	-	-	1,766,288	(1,245,261)
<b>Total fund equity (deficit)</b>	<b>(1,691,112)</b>	<b>1,363,318</b>	<b>25,416,465</b>	<b>1,588,641</b>	<b>67,581,844</b>	<b>-</b>	<b>94,259,156</b>	<b>88,429,346</b>
<b>Total liabilities and fund equity (deficit)</b>	<b>\$5,460,576</b>	<b>\$3,805,899</b>	<b>\$26,560,864</b>	<b>\$ 1,736,212</b>	<b>\$67,581,844</b>	<b>\$1,607,783</b>	<b>\$106,753,178</b>	<b>\$101,594,286</b>

See accompanying notes to combined financial statements.



**CHUUK STATE GOVERNMENT**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances (Deficit)  
 All Governmental Fund Types  
 For the Year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	<u>Governmental Fund Types</u>			<u>Totals</u> <u>(Memorandum Only)</u>	
	General	Special	Capital	1990	1989
	Fund	Revenue Funds	Projects Funds		
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211(a)(2) - base grant	\$13,224,000	\$ -	\$ 9,216,000	\$22,440,000	\$22,440,000
Section 217 - inflation adjustment	3,967,200	-	2,764,800	6,732,000	6,058,800
Section 221b - base grant	-	2,730,000	-	2,730,000	2,730,000
Section 216 (a)(2) - base grant	-	461,087	-	461,087	461,087
Section 214(c) - base grant	-	949,800	-	949,800	949,800
Section 212 - base grant	-	67,500	-	67,500	60,000
Section 217 - inflation adjustment	-	292,440	-	292,440	263,946
Section 216(a)(3) - FSM	-	198,758	-	198,758	191,336
Department of the Interior grants	-	-	81,056	81,056	676,000
FSM revenue sharing	1,629,513	-	-	1,629,513	1,820,687
Other federal contributions	-	4,373,142	707,738	5,080,880	6,009,449
State taxes and licenses	1,183,910	-	-	1,183,910	1,303,365
Investment income	1,934,952	-	-	1,934,952	4,064,672
Other	<u>589,466</u>	<u>245,888</u>	<u>-</u>	<u>835,354</u>	<u>997,024</u>
<b>Total revenues</b>	<u>22,529,041</u>	<u>9,318,615</u>	<u>12,769,594</u>	<u>44,617,250</u>	<u>48,026,166</u>
<b>Expenditures:</b>					
General government	4,625,672	6,225	-	4,631,897	3,438,748
Health services	3,474,060	1,101,504	-	4,575,564	4,739,908
Education	5,099,694	5,732,443	-	10,832,137	10,601,634
Economic development	835,869	945,705	-	1,781,574	1,168,536
Public safety	612,456	199,048	-	811,504	620,099
Transportation	1,409,480	-	-	1,409,480	1,348,106
Public works and utilities	1,492,641	1,627,841	-	3,120,482	3,433,698
Community affairs	296,342	16,347	-	312,689	324,408
Capital projects	-	-	7,225,249	7,225,249	9,743,982
Other	<u>4,722,902</u>	<u>25,903</u>	<u>-</u>	<u>4,748,805</u>	<u>4,448,864</u>
<b>Total expenditures</b>	<u>22,569,116</u>	<u>9,655,016</u>	<u>7,225,249</u>	<u>39,449,381</u>	<u>39,867,983</u>
Revenues in excess of (less than) expenditures	<u>(40,075)</u>	<u>(336,401)</u>	<u>5,544,345</u>	<u>5,167,869</u>	<u>8,158,183</u>
<b>Other sources (uses):</b>					
Operating transfers in (Note 8)	-	272,382	-	272,382	-
Operating transfers out (Note 8)	(213,229)	-	(327,871)	(541,100)	(375,222)
Recovery of prior year debts	-	-	-	-	3,097,704
Other income (Note 11)	<u>735,458</u>	<u>-</u>	<u>-</u>	<u>735,458</u>	<u>-</u>
<b>Total other sources (uses),     net</b>	<u>522,229</u>	<u>272,382</u>	<u>(327,871)</u>	<u>466,740</u>	<u>2,722,482</u>
<b>Excess (deficiency) of     revenues and other     sources over expenditures     and other uses</b>	482,154	(64,019)	5,216,474	5,634,609	10,880,665
<b>Fund balances (deficit), beginning of year (Note 12)</b>	<u>(2,173,266)</u>	<u>1,427,337</u>	<u>20,199,991</u>	<u>19,454,062</u>	<u>8,473,223</u>
<b>Fund balances (deficit), end of year</b>	<u><u>\$ (1,691,112)</u></u>	<u><u>\$ 1,363,318</u></u>	<u><u>\$25,416,465</u></u>	<u><u>\$25,088,671</u></u>	<u><u>\$19,353,888</u></u>

See accompanying notes to combined financial statements.



CHUUK STATE GOVERNMENT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
(Deficit) - Budget and Actual, Budgetary Basis - General Fund  
For the Year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	1990 General Fund			1989 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Compact of Free Association,						
Section 211 and 217	\$ 17,089,041	\$ 17,191,200	\$ 102,159	\$ 16,596,120	\$ 16,794,480	\$ 198,360
FSM revenue sharing	1,800,000	1,629,513	(170,487)	1,700,000	1,820,687	120,687
Local taxes and licenses	1,310,000	1,183,910	(126,090)	800,000	1,303,365	503,365
Public service charges	2,141,918	1,934,952	(206,966)	410,000	792,650	382,650
Investment income	245,000	589,466	344,466	-	4,064,672	4,064,672
Total revenues	<u>22,585,959</u>	<u>22,529,041</u>	<u>(56,918)</u>	<u>19,506,120</u>	<u>24,775,854</u>	<u>5,269,734</u>
<b>Expenditures - budgetary basis:</b>						
General government	4,530,840	4,451,144	79,696	3,575,570	3,442,410	133,160
Health services	2,874,500	2,933,686	(59,186)	2,029,746	2,130,812	(101,066)
Education	5,345,400	5,120,769	224,631	5,192,200	4,803,859	388,341
Economic development	888,800	851,091	37,709	909,250	756,021	153,229
Public safety	581,800	607,922	(26,122)	577,400	616,490	(39,090)
Transportation	1,632,000	1,733,569	(101,569)	1,362,100	1,308,630	53,470
Public works and utilities	1,804,852	1,720,493	84,359	1,802,700	1,616,975	185,725
Community affairs	296,600	299,877	(3,277)	313,700	286,691	27,009
Boards and commissions	917,889	852,624	65,265	857,764	813,949	43,815
Special programs	310,100	436,683	(126,583)	743,000	577,987	165,013
Legislative external appropriations	<u>2,907,727</u>	<u>4,340,223</u>	<u>(1,432,496)</u>	<u>3,876,251</u>	<u>2,925,578</u>	<u>950,673</u>
Total expenditures	<u>22,090,508</u>	<u>23,348,081</u>	<u>(1,257,573)</u>	<u>21,239,681</u>	<u>19,279,402</u>	<u>1,960,279</u>
Revenues in excess of (less than) expenditures	495,451	(819,040)	(1,314,491)	(1,733,561)	5,496,452	7,230,013
<b>Other sources (uses):</b>						
Recovery of prior year debts	-	-	-	-	2,937,704	2,937,704
Operating transfers out	(207,800)	(206,661)	1,139	(65,300)	(54,471)	10,829
Other income (Note 11)	-	735,458	735,458	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	287,651	(290,243)	(577,894)	(1,798,861)	8,379,685	10,178,546
Unreserved fund deficit, beginning of year	(3,648,020)	(3,648,020)	-	(11,776,365)	(11,776,365)	-
<b>Other changes in unreserved fund balance:</b>						
Increase (decrease) in reserve for continuing appropriations	-	(182,174)	(182,174)	-	67,228	67,228
Net encumbrance adjustments	-	1,005,729	1,005,729	-	(318,568)	(318,568)
Unreserved fund deficit, end of year	<u>\$ (3,360,369)</u>	<u>\$ (3,114,708)</u>	<u>\$ 245,661</u>	<u>\$ (13,575,226)</u>	<u>\$ (3,648,020)</u>	<u>\$ 9,927,206</u>

See accompanying notes to combined financial statements.



**CHUUK STATE GOVERNMENT**

Combined Statement of Revenues, Expenses and Changes  
in Retained Deficit/Contributed Capital -  
Proprietary Fund Type  
For the Year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	Proprietary Fund Type	
	Enterprise Funds	
	1990	1989
Operating revenues:		
Interest income	\$ 35,153	\$ 38,448
Federal contributions	41,510	32,998
Coconut product sales	41,960	-
Other	8,058	1,853
Total revenues	126,681	73,299
Operating expenses:		
Cost of sales	78,115	-
Payroll and personnel	71,714	41,438
Bad debts	36,385	71,077
Depreciation	22,988	9,980
Travel	32,087	7,480
Rent	10,150	1,200
Other	38,059	29,279
Total operating expenses	289,498	160,454
Operating loss	(162,817)	(87,155)
Non-operating revenue (expenses):		
Operating transfers in (Note 8)	163,489	47,724
Interest expense	(10,874)	(13,646)
Total non-operating revenues	152,615	34,078
Net loss	(10,202)	(53,077)
Retained deficit, beginning of year	(71,423)	(18,346)
Retained deficit, end of year	\$ (81,625)	\$ (71,423)
Contributed capital, beginning of year	\$1,565,037	\$ 889,933
Additions (Note 8)	105,229	675,104
Contributed capital, end of year	\$1,670,266	\$1,565,037

See accompanying notes to combined financial statements.



CHUUK STATE GOVERNMENT

Combined Statement of Cash Flows  
Proprietary Fund Type  
For the Year ended September 30, 1990

Increase (decrease) in cash and cash equivalents:

Cash flows from operating activities:

Cash received from customers	\$ 200,723
Cash payments to suppliers and employees	(405,040)
Interest expense	<u>(10,874)</u>

Net cash used by operating activities	<u>(215,191)</u>
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Cash flows from non-capital financing activities:

Contributions from the State of Chuuk	<u>268,718</u>
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Net cash provided from non-capital financing activities	<u>268,718</u>
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Cash flows from capital and related financing activities:

Acquisition of fixed assets	(60,930)
Issuance of loans	(182,048)
Repayment of debt	<u>(7,098)</u>

Net cash used for capital and related financing acquisitions	<u>(250,076)</u>
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Net (decrease) in cash and equivalents	(196,549)
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Cash and equivalents, beginning of year	<u>589,664</u>
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Cash and equivalents, end of year	<u>\$ 393,115</u>
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Reconciliation of loss from operations to net cash used by operating activities:

Loss from operations	\$ (162,817)
Adjustments to reconcile loss from operations to net cash used by operating activities:	
Depreciation	22,988
Interest expense	(10,874)
Decrease in receivables	12,944
Increase in inventory	(49,746)
Increase in prepaid expenses	(43,268)
Increase in accounts payable	<u>15,582</u>

Total adjustments	<u>(52,374)</u>
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Net cash used by operating activities	<u>\$ (215,191)</u>
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See accompanying notes to combined financial statements.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements  
September 30, 1990

(1) Summary of Significant Accounting Policies

The general purpose financial statements of the State of Chuuk (the State) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the State, for financial reporting purposes, management has considered all potential components units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the State and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the State is able to exercise oversight responsibilities.

Based on the application of these criteria, the following component units are included within the reporting entity:

Special Revenue Fund:  
Chuuk Visitor's Bureau

Enterprise Funds:  
Chuuk Coconut Processing Authority  
Chuuk Housing Authority

The accompanying statements do not include the State's eleven (11) development authority (special revenue funds) as the majority of the development authorities did not present financial information concerning their operations, thus precluding the presentation of financial statements for these funds.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Summary of Significant Accounting Policies, Continued

B. Fund Structure and Basis of Accounting

The accompanying general purpose financial statements are structured into two categories of funds and two account groups. The fund categories include governmental funds and proprietary funds.

The State's governmental funds include:

1. The General Fund - used to account for all financial transactions not accounted for in another fund;
2. The Special Revenue Funds - used to account for specific revenues earmarked to finance particular programs and activities;
3. The Capital Projects Funds - used to account for the acquisition or construction of all major governmental general fixed assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of the funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained deficit components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All of the governmental funds are presented on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Measurable means that the amount of the transaction can be determined and available means that it is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded at the time liabilities are incurred except:





**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Summary of Significant Accounting Policies, Continued

- a. Inventories generally are considered expenditures at acquisition.
- b. Prepayments usually are not recorded.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain reservations of fund balance until becoming expended or cancelled.

The proprietary fund is accounted for on the accrual basis of accounting and at September 30, 1990, included two Enterprise funds which account for the operations of the Chuuk Housing Authority and the Chuuk Coconut Processing Plant. Both are designed to be self-sufficient and render services to the general public on a user charge basis. Under the accrual method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The State reports deferred revenue on its combined balance sheet. These deferred revenues arise when resources are received by the State before incurrence of a qualifying expenditure. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue will be removed from the combined balance sheet and revenue will be recognized.

C. Fixed Assets and Long-Term Liabilities

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Costs for normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of fixed assets in the proprietary fund type is computed using the straight-line method. The estimated useful lives range from 25 - 50 years for housing units and 7 to 10 years for office equipment and automobiles.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Summary of Significant Accounting Policies, Continued

General Long-Term Debt is not accounted for in a fund, but rather in an Account Group. Accrued annual leave represents the sole component of the General Long-Term Debt Account Group as of September 30, 1990. Due to the immateriality of the current portion of accrued annual leave, the State is of the opinion that this liability, in its entirety, may be classified as long-term.

The two account groups are not "funds". They are concerned only with the measurement of financial position and are not involved with the measurement of results of operations.

D. Budgetary Process

Legislation requires the Governor to present a proposed budget to the Legislature at the beginning of each annual session. The Legislature enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the ensuing fiscal year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effected with certain Executive and Legislative branch approval.

Unencumbered appropriations normally lapse at the end of each fiscal year unless they are designated by the Legislature as representing continuing appropriations.

E. Receivables

Receivables in the State's governmental funds primarily consist of taxes and federal revenues. Since few governmental fund revenues are susceptible to accrual prior to receipt, most taxes, licenses, fees, permits and similar revenues are recognized primarily on a cash basis.

F. Interfund Transactions

The State has two types of interfund transactions:

1. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Summary of Significant Accounting Policies, Continued

2. Equity contributions are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).

G. Actual Expenditures Contrasted With Budgetary Expenditures

1. Actual expenditures are charges which represent the total of all current year liabilities incurred which were attributable to the operations of the respective functional areas; such liabilities may represent liquidations of either current or prior year encumbrances.
2. In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances and, when viewed in relation to respective budgets, provide the principal means of evaluating current year operating performance and management stewardship. For each functional reporting/service area, budgetary expenditures are determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year actual expenditures and all unliquidated encumbrances.

The effects of current year liquidations of prior year encumbrances by liabilities less than the respective encumbrances, and the effects of current year cancellations of prior year encumbrances are reported together as a separate line item entitled "net encumbrance adjustments". This item of the budgetary financial statements is found under "other changes in unreserved fund balance" as its underlying components have no effect on current operating performance, the measurement of which is the primary purpose of the budgetary financial statements.

H. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as an expenditure of the general fund. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(1) Summary of Significant Accounting Policies, Continued

I. Fund Balance Reserves and Designations

The State's fund balance reserves represent those portions of fund balance which are legally segregated for a specific future use. Reserves for encumbrances, contracts and continuing appropriations are examples of this legal segregation.

J. Statement of Cash Flows

The State has elected to present a Statement of Cash Flows for its Enterprise Funds, for the year ended September 30, 1990. The Statement of Changes in Financial Position is not presented for the year ended September 30, 1989. For purposes of the Statement of Cash Flows, cash and equivalents are defined as cash in banks and on hand.

K. Totals - Memorandum Only

The "Totals - Memorandum Only" columns represent an aggregate of the individual combined financial statements. The totals column is presented for overview informational purposes and does not represent consolidated financial information.

(2) Cash and Investments

Cash Deposits

All State bank accounts are within federally insured financial institutions. State statutes require all deposits be with banking institutions that have at least \$500 million dollars of assets and are insured by the Federal Deposit Insurance Corporation (FDIC).

Investments

The State has adopted the Federated Development Authority (the Authority) as the agency to implement the overall development goals, policies and strategies of funds received and invested pursuant to the Compact of Free Association. The Federated States of Micronesia (FSM), Secretary of Finance, maintains the accounting system and records necessary to account for investment funds placed with the Authority on behalf of the State.

The Authority has selected investment managers who are given authority to buy and sell securities as follows:

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

1. Stocks - A "B" rating by a national rating service. Non-rated stocks such as banks or insurance companies must be equal in quality or higher.
  2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not stated.
  3. Cash and equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, banker's acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
    - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poor Corporation and Moodys Investor Services.
    - b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the FSM Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval by the FSM Secretary of Finance.

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the State. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the State's name. All of the State's investments are classified as Category 2 as all investments are held in the name of the Federated Development Authority.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

Funds invested on behalf of the State as of September 30, 1990, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	\$ <u>2,659,590</u>	\$ <u>2,659,590</u>
<u>Cash on Deposit with Trustee</u>		
Certificates of deposit	\$ <u>199,962</u>	\$ <u>199,962</u>
<u>Investments</u>		
Common stock (See Note 7)	\$ <u>26,197,293</u>	\$ <u>25,800,293</u>

All of the State's certificates of deposit and cash-in-bank accounts are within FDIC insured banks (see D below). Investments in common stock are not insured.

D. At September 30, 1990, the State had deposits as follows; in each situation, cost approximated market value.

General Fund

Cash in checking accounts and time certificates of deposit with FDIC insured banks *	\$3,328,154
Cash on deposit with Hawaiian Trust Co. *	<u>30,219</u>
	<u>\$3,358,373</u>

Special Revenue Deposits

Cash in checking accounts with FDIC insured banks *	\$ 32,336
Cash on deposit with Hawaiian Trust Co. *	<u>169,743</u>
	<u>\$ 202,079</u>

Capital Projects Deposits

Cash in checking accounts and time certificates of deposits with FDIC insured banks *	\$ 598,292
Cash on deposit with Hawaiian Trust Co. *	<u>          -</u>
	<u>\$ 598,292</u> =====



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(2) Cash and Investments, Continued

Enterprise Fund Deposits

Cash in checking and savings accounts  
with FDIC insured banks \* \$ 393,115

\* Of the totals, \$1,397,215 is subject to coverage by FDIC with the remaining balance exceeding insurable limits.

(3) Receivables From Other Governments and Federal Agencies

Amounts due from other governments include those funds which are earned and have yet to be reimbursed by the FSM National Government (FSM) for U.S. grants, Department of the Interior (DOI) grants, and those earned reimbursements resulting from Congress of the Federated States of Micronesia appropriations. Additionally, amounts due from the Office of Transition, Trust Territory Government (TTG), are for DOI Capital Projects.

Amounts due from federal agencies are those funds earned which are reimbursed directly from United States federal agencies.

(4) Changes in General Fixed Assets

A summary of changes in general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1990, follows:

	Balance at September 30, 1989	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, 1990
Roads	\$10,257,016	\$ -	\$ -	\$10,257,016
Port facilities	6,537,700	-	-	6,537,700
Airport facilities	24,506,300	-	-	24,506,300
Public utilities	22,961,621	-	-	22,961,621
Other	3,319,207	-	-	3,319,207
	<u>\$67,581,844</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$67,581,844</u>

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1990, follows:

Housing units	\$ 208,503
Equipment	240,894
Building	98,271
Automobile	37,812
Office equipment	1,619
Other	<u>11,869</u>
	598,968
Less accumulated depreciation	<u>(105,604)</u>
	<u>\$ 493,364</u>



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(5) Notes Payable

The State entered into a separate agreement with a contractor for payment of prior services performed. The agreement was not executed by the Attorney General's office and some amounts due are being renegotiated. Until a mutual settlement occurs, payment will not be made. The note is to be repaid from the State's Compact 211 (a)(2) Capital Projects Fund. As of September 30, 1990, the note is as follows:

Principal due in six monthly installments  
commencing on July 1, 1988, with interest payments  
due in monthly installments at 12% per annum. \$ 329,179

The Chuuk Housing Authority, an Enterprise Fund, as of September 30, 1990, had the following note payable:

Payable to bank, principal and interest of  
\$1,634, due in 250 monthly installments  
maturing on November 28, 1998, at 10% per annum. \$ 114,703

(6) Continuing Appropriations

Continuing appropriations are summarized as follows:

General Fund

Truk State Law (TSL) 6-58 amended various sections of the 1989 General Appropriation Act (TSL 6-24) relating to the operating expenses of other programs, municipal projects and operations, which are available until fully expended or project completion. \$ 155,510

TSL 6-71 amended various sections of TSL 6-63, a supplemental Executive Branch appropriation relating to the constitutional referendum, census, and activities of the Executive Branch, which are available until fully expended. 91,361

\$ 246,871

Capital Projects

TSL 6-12 and TSL 6-58, which amended TSL 6-24, TSL 6-56 (Section 1c), TSL6-69, TSL6-81 and TSL6-89, relating to capital projects and economic development programs, which are available until fully expended or project completion. \$19,231,862





**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(7) Reserve for Investment

The State has recorded a reservation of appropriable fund balance for the decline in investment value due to the Chapter 11 filing of a company in which the State's money manager held investments in. The approximate decline in value to the State at September 30, 1990, is \$541,660. The State has recorded the decline against the Compact Capital Projects Fund investment account, where the initial investment was recorded.

(8) Operating Transfers In/Out

Material General Fund, Special Revenue Fund, and Capital Projects Fund transfers in/out for the year ended September 30, 1990, are discussed below:

A. General Fund Transfers to the Chuuk Housing Authority and the Chuuk Coconut Processing Authority (Enterprise Funds)

The Chuuk Legislature appropriated operational subsidies to the Chuuk Housing Authority and Chuuk Coconut Processing Authority. During fiscal year 1990, \$61,099 and \$79,748, respectively, was expended under this appropriation. The general fund has recorded this expenditure as an operating transfer out, and the enterprise funds have recorded the receipt of funds as a non-operating revenue within the accompanying financial statements.

B. General Fund Transfer to the Chuuk Visitor's Bureau (Special Revenue Fund)

The Chuuk Legislature appropriated an operational subsidy to the Chuuk Visitor's Bureau. During fiscal year 1990, \$72,382 was expended under this appropriation. The general fund has recorded this expenditure as an operating transfer out, and the Special Revenue Fund has recorded receipt as an operating transfer in.

C. Capital Projects Fund Transfers to the Chuuk Visitor's Bureau (Special Revenue Fund)

The Chuuk Legislature appropriated \$200,000 to the Chuuk Visitor's Bureau for tourism development and promotion. The Capital Projects Fund has recorded this expenditure as an operating transfer out and the Chuuk Visitor's Bureau has recorded receipt of these funds as an operating transfer in.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(8) Operating Transfers In/Out, Continued

D. Capital Projects Fund Transfers to the Chuuk Coconut Processing Authority (Enterprise Fund)

The Chuuk Legislature appropriated \$105,229 to the Chuuk Coconut Processing Authority for coconut processing. The Capital Projects fund has recorded this expenditure as an operating transfer out and the Chuuk Coconut Processing Authority has recorded the receipt of funds as an addition to contributed capital. Additionally, the Chuuk Legislature via the Capital Projects fund expended \$22,642 for operational subsidies, which the capital projects fund has recorded as an operating transfer-out and the Enterprise fund has recorded as non-operating revenues.

(9) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1990:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
Compact - Other Grants Fund (SR)		\$ 238,509	\$ -
Compact - Special Block Grant (SR)		1,660,562	-
Federal Grant Assistance Fund (SR)		117,682	-
	Other Grant Assistance Fund (SR)	-	13,713
	CFSM Grant Fund (SR)	-	270,943
	TTG Capital Projects Fund (CIP)	-	106,722
	CFSM State Projects Fund (CIP)	-	177,905
	Compact Capital Projects Fund (CIP)	-	145,552
	General Fund (GF)	-	1,301,918
		<u>\$ 2,016,753</u>	<u>\$2,016,753</u>

(10) Investments - Other

During fiscal year 1990, the State purchased \$250,000 of common stock in the Bank of the Federated States of Micronesia. The State purchased \$250,000 of common stock in FY 89, thus aggregating a cumulative investment of \$500,000 as of September 30, 1990. The investment is valued at cost since there is no method of ascertaining related market value. Since the investment is considered unavailable to finance expenditures of the ensuing fiscal year, it is a restricted component of fund balance, reserved for a related asset.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(11) Other Income

During fiscal year 1990, the State received reimbursements amounting to \$735,458 for prior year federal grant expenditures which it had previously deemed uncollectible and had written off as a bad debt expense of the General Fund. The subsequent reimbursement has accordingly been credited to the general fund as other income.

(12) Fund Balance, Beginning of Year

The Chuuk Visitor's Bureau, a special revenue fund, became a component unit of the general purpose financial statements as of September 30, 1990. The Governmental Fund Types fund balance, beginning of year has been adjusted to reflect the Chuuk Visitor's Bureau beginning fund balance. A summary follows:

	<u>All Governmental Fund Types</u>	<u>Total Special Revenue Funds</u>
Fund balance as previously reported, September 30, 1989	\$ 19,353,888	\$ 1,327,163
Addition of Chuuk Visitor's Bureau, fund balance at September 30, 1989	100,174	100,174
Fund balance, as adjusted, September 30, 1989	\$ 19,454,062	\$ 1,427,337

(13) Commitments and Contingencies

Federal Grants

The State receives various Department of the Interior and other grants which are available until fully expended. Revenue recognition for these grants does not occur until an expenditure is incurred. Grants available to fund future expenditures as of September 30, 1990, are summarized below:

TTPI Capital Projects	\$2,606,000
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The State participates in a number of U.S. federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$9,740,374 in cumulative questioned costs exist for the operation of fiscal years 1984-1990 grants. If the grantor agencies ultimately disallow these costs or a portion thereof, the General Fund will bear responsibility for reimbursing the affected agencies.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1990

(13) Commitments and Contingencies, Continued

Sick Leave

It is the policy of the State to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 1990, was not available.

Compact of Free Association - Medical Referrals

During fiscal year 1989, the State reversed a previously recorded liability for unpaid medical referral billings amounting to \$2,937,704. The Compact of Free Association contains an authorization to pay for this debt. An appropriation has not been enacted by the U.S. Congress. Management is of the opinion that the Compact of Free Association clearly states the United States Government is responsible for this debt.

Litigation

The State has been named the defendant in numerous lawsuits. The State is vigorously defending all claims. The approximate value of the outstanding claims exceeds \$7 million. The ultimate outcome of the claims is uncertain, and at this point it is difficult to estimate losses, if any. Accordingly, no provision for potential claims is recorded in the accompanying general purpose financial statements. Additionally, no appropriation exists to fund liabilities arising from any claims which may be determined valid.

(14) Material Fund Deficits

The following presents material fund deficits as of September 30, 1990. If operation of these funds cannot cover prior losses, the State's General Fund may have to absorb these amounts or a portion thereof:

Special Revenue Funds:

Compact Other Grants Fund	\$ 72,903
CFSM Grant Fund	<u>28,991</u>
	<u>\$ 101,894</u>

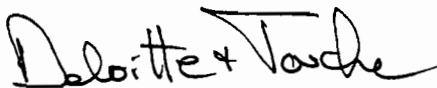


INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

Our audit was conducted for the purpose for forming an opinion on the general purpose financial statements taken as a whole. The additional information set forth in Section III of the Table of Contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. This additional information is the responsibility of the State of Chuuk's management. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except as described in that report, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

January 4, 1991



Certified Public Accountants

**CHUUK STATE GOVERNMENT**

Combining Schedule of Expenditures by Account -  
 All Governmental Fund Types  
 For the year ended September 30, 1990  
 (With comparative totals for the year ended September 30, 1989)

	Governmental Fund Types			Totals	
	General	Special	Capital	1990	1989
	Fund	Revenue Funds	Projects Funds		
Expenditures:					
Personnel	\$12,501,446	\$ 4,472,763	\$ 314,928	\$17,289,137	\$15,540,167
Travel	1,047,510	734,623	105,877	1,888,010	1,062,304
Contractual services	3,335,380	911,614	3,551,495	7,798,489	9,283,403
POL	447,329	1,446,030	45,424	1,938,783	2,556,153
Other:					
Equipment	447,717	401,127	1,409,148	2,257,992	1,641,453
Medical supplies	588,460	126,903	-	715,363	371,864
Medical referral	668,304	-	-	668,304	930,200
Supplies and materials	986,913	512,720	917,524	2,417,157	1,929,095
Scholarships	128,354	197,956	-	326,310	440,735
Official allowance	66,440	-	-	66,440	246,840
Food	150,104	205,156	-	355,260	1,595,175
Books	9,737	37,449	-	47,186	94,723
Authorization	1,766,807	520,102	654,294	2,941,203	3,457,936
Miscellaneous	424,615	88,573	226,559	739,747	717,935
	<u>\$22,569,116</u>	<u>\$ 9,655,016</u>	<u>\$ 7,225,249</u>	<u>\$39,449,381</u>	<u>\$39,867,983</u>



**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Fund Deficit  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	1990	1989
<b>Revenues:</b>		
U.S. Compact of Free Association:		
Section 211 (a)(2) - base grant	\$13,224,000	\$13,224,000
Section 217 - inflation adjustment	3,967,200	3,570,480
FSM revenue sharing	1,629,513	1,820,687
State taxes and licenses:		
Cigarette tax	\$ 79,184	\$ 81,084
General sales tax	576,209	584,147
Alcohol	301,129	360,567
Hotel	87,019	78,170
Delinquent tax collections	45,853	121,107
License and fees	12,081	3,018
Other	82,435	75,272
	1,183,910	1,303,365
Other revenues:		
Fishing violation	-	250,000
Utility collections	182,432	66,784
Transportation collections	137,869	141,365
Leases	33,192	56,678
Miscellaneous	235,973	277,823
Investment income	1,934,952	792,650
	4,064,672	4,064,672
Total revenues	22,529,041	24,775,854
 <b>Expenditures by department:</b>		
General government:		
Governor and staff	483,261	364,221
Attorney General	198,283	184,026
State Finance	310,955	387,998
ADP	35,860	35,713
Tax and revenue	51,677	45,464
Program and budget	111,096	108,565
Property and supply	131,364	133,206
Personnel	164,459	154,602
Planning	86,336	100,281
Indefinite land use	13,257	(10,015)
Legislative internal operations	2,373,272	1,423,636
Judicial operations	392,572	327,122
Court judgments	273,280	102,042
Total	4,625,672	3,356,861



**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Fund Deficit, Continued  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	1990	1989
Expenditures by department, continued:		
Health services:		
Hospital and dispensaries	\$ 1,776,486	\$ 1,685,855
Environmental health	78,384	68,753
Dental services	177,446	143,852
Medical supplies	575,883	125,626
Medical referrals	<u>865,861</u>	<u>145,428</u>
Total	<u>\$ 3,474,060</u>	<u>\$ 2,169,514</u>
Education:		
Administration	369,449	352,802
Elementary	3,262,246	3,161,518
Secondary	<u>1,467,999</u>	<u>1,269,033</u>
Total	<u>5,099,694</u>	<u>4,783,353</u>
Economic development:		
Administration	96,431	122,247
Economic development	3,047	-
Land management	64,666	53,258
Marine resources	243,324	200,100
Agriculture	292,800	275,060
Labor	37,949	24,982
Commerce and industry	<u>97,652</u>	<u>83,623</u>
Total	<u>835,869</u>	<u>759,270</u>
Public Safety	<u>612,456</u>	<u>620,099</u>
Transportation:		
Administration	1,049,632	888,234
Micro Vessels	245,015	363,162
Airport	<u>114,833</u>	<u>96,710</u>
Total	<u>1,409,480</u>	<u>1,348,106</u>





**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Fund Deficit, Continued  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	1990	1989
Expenditures by department, continued:		
Public works and utilities:		
Operations and maintenance	\$ 740,091	\$ 714,305
Power	<u>752,550</u>	<u>829,189</u>
Total	<u>\$ 1,492,641</u>	<u>\$ 1,543,494</u>
Community affairs:		
Division of Public Affairs	155,977	141,936
Division of Information and Broadcast	<u>140,365</u>	<u>159,703</u>
Total	<u>296,342</u>	<u>301,639</u>
Boards and commissions:		
Election commission	31,058	37,562
Scholarship board	128,554	207,336
Recreation board	222,196	73,042
Land commission	190,604	193,618
Development authorities	<u>256,715</u>	<u>301,782</u>
Total	<u>829,127</u>	<u>813,340</u>
Other	269,548	70,211
Special programs	691,698	717,278
Legislative external appropriations	<u>2,932,529</u>	<u>2,814,259</u>
Total	<u>3,893,775</u>	<u>3,601,748</u>
Total expenditures	<u>22,569,116</u>	<u>19,297,424</u>
Revenues over (under) expenditures	(40,075)	5,478,430
Other sources (uses):		
Operating transfer out	(213,229)	(47,724)
Recovery of prior year debts	-	2,937,704
Other income	<u>735,458</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	482,154	8,368,410
Fund deficit, beginning of year	<u>(2,173,266)</u>	<u>(10,541,676)</u>
Fund deficit, end of year	<u>\$(1,691,112)</u>	<u>\$(2,173,266)</u>



**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund  
Deficit - Budget and Actual, Budgetary Basis  
For the year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Compact of Free Association -			
Section 211 and 217	\$17,089,041	\$ 17,191,200	\$ 102,159
FSM revenue sharing	1,800,000	1,629,513	(170,487)
Local taxes and licenses	1,310,000	1,183,910	(126,090)
Investment income	2,141,918	1,934,952	(206,966)
Public service charges	<u>245,000</u>	<u>589,466</u>	<u>344,466</u>
Total revenues	<u>22,585,959</u>	<u>22,529,041</u>	<u>(56,918)</u>
<b>Expenditures - budgetary basis:</b>			
Office of the Governor	372,100	487,546	(115,446)
Office of the Attorney General	274,800	208,137	66,663
State finance	389,300	395,078	(5,778)
Budget	113,400	113,585	(185)
Supply	141,200	131,445	9,755
Personnel	183,670	186,836	(3,166)
Planning	<u>118,600</u>	<u>88,170</u>	<u>30,430</u>
Executive branch	<u>1,593,070</u>	<u>1,610,797</u>	<u>(17,727)</u>
President and members	199,500	183,758	15,742
Legislative committees	150,600	146,581	4,019
Speakers and members	1,245,000	1,264,454	(19,454)
Legislative legal office	269,300	216,245	53,055
Legislative administration	337,220	361,254	(24,034)
Budget	53,000	58,973	(5,973)
Research office	115,450	52,583	62,867
Chief clerk	<u>153,300</u>	<u>159,143</u>	<u>(5,843)</u>
Legislative branch	<u>2,523,370</u>	<u>2,442,991</u>	<u>80,379</u>
State court	<u>414,400</u>	<u>397,356</u>	<u>17,044</u>
Total general government	<u>4,530,840</u>	<u>4,451,144</u>	<u>79,696</u>
Hospitals and dispensaries	1,810,600	1,774,296	36,304
Environmental health	79,400	78,595	805
Dental services	184,500	175,577	8,923
Medical supplies	500,000	628,878	(128,878)
Medical referrals	<u>300,000</u>	<u>276,340</u>	<u>23,660</u>
Total health services	<u>2,874,500</u>	<u>2,933,686</u>	<u>(59,186)</u>
Administration - education	383,425	369,133	14,292
Elementary	3,437,500	3,298,144	139,356
Secondary	<u>1,524,475</u>	<u>1,453,492</u>	<u>70,983</u>
Total education	<u>5,345,400</u>	<u>5,120,769</u>	<u>224,631</u>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund  
Deficit - Budget and Actual, Budgetary Basis, Continued  
For the year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
R & D administration	\$ 139,900	\$ 105,708	\$ 34,192
Land management	66,700	63,733	2,967
Marine resources	235,300	244,078	(8,778)
Agriculture	285,000	299,819	(14,819)
Labor	54,100	38,719	15,381
Commerce and industry	<u>107,800</u>	<u>99,034</u>	<u>8,766</u>
Total economic development	<u>888,800</u>	<u>851,091</u>	<u>37,709</u>
Public safety	<u>581,800</u>	<u>607,922</u>	<u>(26,122)</u>
Transportation	<u>1,632,000</u>	<u>1,733,569</u>	<u>(101,569)</u>
Operation and maintenance	882,533	799,730	82,803
Electric utilities	<u>922,319</u>	<u>920,763</u>	<u>1,556</u>
Total public works and utilities	<u>1,804,852</u>	<u>1,720,493</u>	<u>84,359</u>
Public affairs	144,400	159,126	(14,726)
Broadcasting	<u>152,200</u>	<u>140,751</u>	<u>11,449</u>
Total community affairs	<u>296,600</u>	<u>299,877</u>	<u>(3,277)</u>
Investment board	15,000	14,793	207
Election commission	42,889	32,145	10,744
Scholarship board	150,000	128,554	21,446
Recreation board	226,600	229,237	(2,637)
Land commission	208,400	191,390	17,010
Development authorities	<u>275,000</u>	<u>256,505</u>	<u>18,495</u>
Total boards and commissions	<u>917,889</u>	<u>852,624</u>	<u>65,265</u>
Small industry	47,100	41,573	5,527
Chuuk maritime	89,400	87,322	2,078
VRS matching	-	(25,000)	25,000
Construction skill	12,000	9,811	2,189
Non-public subsidy	23,000	23,674	(674)
Micro Legal Services	30,000	30,000	-
4-H youth	10,000	10,000	-
Youth program	15,000	10,477	4,523
Home economic program	10,000	10,000	-
Fire disaster program	5,000	2,200	2,800
Farmer's home administration	13,000	13,876	(876)



**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund  
Deficit - Budget and Actual, Budgetary Basis, Continued  
For the year ended September 30, 1990

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
TOCA	\$ 55,600	\$ 55,600	\$ -
Population census	-	43,646	(43,646)
Law enforcement	-	123,504	(123,504)
Total special programs	<u>310,100</u>	<u>436,683</u>	<u>(126,583)</u>
Unfunded expenditures	-	1,064,869	(1,064,869)
Constitutional referendum	-	76,301	(76,301)
Government inauguration	50,000	49,084	916
Tree compensation	-	19,211	(19,211)
Constitutional education	-	10,106	(10,106)
Choi Nina disaster	-	(14,955)	14,955
Municipal government and projects	2,184,800	2,193,646	(8,846)
Choi Nina donation	-	8,190	(8,190)
Deficit reduction	389,550	612,612	(223,062)
Unpaid furlough	-	5,375	(5,375)
General election	233,377	262,977	(29,600)
Election petition	-	2,872	(2,872)
Mayors conference	<u>50,000</u>	<u>49,935</u>	<u>65</u>
Total Legislative external appropriations	<u>2,907,727</u>	<u>4,340,223</u>	<u>(1,432,496)</u>
Total expenditures	<u>22,090,508</u>	<u>23,348,081</u>	<u>(1,257,573)</u>
Revenues in excess of (less than) expenditures	495,451	(819,040)	(1,314,491)
Other sources (uses):			
Other income	-	735,458	735,458
Operating transfers out	<u>(207,800)</u>	<u>(206,661)</u>	<u>1,139</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	287,651	(290,243)	(577,894)
Unreserved fund deficit, beginning of year	(3,648,020)	(3,648,020)	-
Other changes in unreserved fund balance:			
Increase in reserve for continuing appropriations	-	(182,174)	(182,174)
Net encumbrance adjustments	<u>-</u>	<u>1,005,729</u>	<u>1,005,729</u>
Unreserved fund deficit, end of year	<u>\$ (3,360,369)</u>	<u>\$ (3,114,708)</u>	<u>\$ 245,661</u>



**CHUUK STATE GOVERNMENT**  
Special Revenue Funds  
September 30, 1990

Specific revenues earmarked to finance particular operational activities of the government are accounted for in the Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 1990, follows:

Chuuk Visitor's Bureau

This fund accounts for funds received by the Visitor's Bureau, to improve and develop Chuuk's tourism industry.

Federal Grant Assistance Fund

This fund accounts for all activities of United States special federal assistance grants utilized by the State to finance general governmental operations. Federal grants are administered by the Federated States of Micronesia National Government with the State as the subrecipient.

Other Grant Assistance Fund

This fund accounts for all grants received directly from non-U.S. sources.

CFSM Grant Fund

This fund accounts for activities received from FSM congressional appropriations utilized by the State to finance general governmental operations.

Compact Section 212

Special Development Assistance Fund - This grant is restricted for special development assistance and is granted under the Compact of Free Association with the United States.

Compact 214(c) - Energy Grant Fund

This fund accounts for funds, granted under the Compact of Free Association with the United States, specifically restricted for energy programs.

Compact 216 (a)(2) Health and Medical Fund

This fund accounts for funds granted under the Compact of Free Association with the United States, specifically restricted for health and medical programs including referrals to hospital and treatment centers.

Compact Section 216(a)(3)

This fund accounts for funds granted under the Compact of Free Association with the United States to the FSM National Government which are subgranted to the State and are specifically restricted for educational scholarships at U.S. and Micronesian higher education institutions.

Compact 221 (b) Special Block Grant Fund

This fund accounts for funds granted under the Compact of Free Association with the United States, specifically restricted for health and education.



CHUUK STATE GOVERNMENT  
SPECIAL REVENUE FUNDS

Combining Balance Sheet  
September 30, 1990

(With comparative totals as of September 30, 1989)

Assets	Chuuk	Federal	Other		Compact	Compact	Totals	
	Visitor's Bureau	Grant Assistance Fund	Grant Assistance Fund	CFSM Grant Fund	Other Grants Fund	Block Grant Section 221 (b)	1990	1989
Cash and equivalents	\$ 32,336	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,336	\$ -
Cash on deposit with Trustee	-	-	-	-	155,743	14,000	169,743	485,713
Receivables:								
General	35,750	-	-	-	-	-	35,750	-
Federal agencies, direct	-	-	-	-	-	-	-	349,597
FSM National Gov't. Due from other funds	-	1,084,298	13,713	293,266	27,497	128,392	1,547,166	1,390,292
Travel advances	-	117,682	-	-	238,509	1,660,562	2,016,753	1,392,384
	-	1,900	-	-	-	2,251	4,151	53,151
<b>Total assets</b>	<b>\$ 68,086</b>	<b>\$1,203,880</b>	<b>\$13,713</b>	<b>\$293,266</b>	<b>\$421,749</b>	<b>\$1,805,205</b>	<b>\$3,805,899</b>	<b>\$3,671,137</b>

Liabilities and Fund Balances (Deficit)

<b>Liabilities:</b>								
Accounts payable	\$ -	\$ 605,709	\$ -	\$ 47,937	\$492,677	\$ 375,010	\$1,521,333	\$1,113,879
Due to other funds	-	-	13,713	270,943	-	-	284,656	866,627
Accrued payroll	-	54,619	-	3,377	1,975	33,069	93,040	74,598
Deferred revenue	-	543,552	-	-	-	-	543,552	288,870
<b>Total liabilities</b>	<b>-</b>	<b>1,203,880</b>	<b>13,713</b>	<b>322,257</b>	<b>494,652</b>	<b>408,079</b>	<b>2,442,581</b>	<b>2,343,974</b>
<b>Fund balance (deficit):</b>								
Reserved for encumbrances	-	646,023	-	70,251	177,454	93,177	986,905	2,398,772
Unreserved	68,086	(646,023)	-	(99,242)	(250,357)	1,303,949	376,413	(1,071,609)
<b>Total fund balances (deficit)</b>	<b>68,086</b>	<b>-</b>	<b>-</b>	<b>(28,991)</b>	<b>(72,903)</b>	<b>1,397,126</b>	<b>1,363,318</b>	<b>1,327,163</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 68,086</b>	<b>\$1,203,880</b>	<b>\$13,713</b>	<b>\$293,266</b>	<b>\$421,749</b>	<b>\$1,805,205</b>	<b>\$3,805,899</b>	<b>\$3,671,137</b>



CHUUK STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)

For the year ended September 30, 1990

(With comparative totals for the year ended September 30, 1989)

Assets	Chuuk Visitor's Bureau	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Development Assistance Section 212	Compact Other Health and Medical Section 216(a)(2)	Compact Other Energy Section 214(c)	Compact Special Compact Other Section 216(a)(3)	Compact Special Block Grant Section 221(b)	Totals	
										1990	1989
<b>Revenues:</b>											
<b>Compact of Free Association:</b>											
Section 221(b) - base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,730,000	\$2,730,000	\$2,730,000
Section 216(a)(2) - base grant	-	-	-	-	-	461,087	-	-	-	461,087	461,087
Section 214(c) -base grant	-	-	-	-	-	-	949,800	-	-	949,800	949,800
Section 217 - inflation adjustment	-	-	-	-	7,500	-	284,940	-	-	292,440	263,946
Section 212 - base grant	-	-	-	-	67,500	-	-	-	-	67,500	60,000
Compact 216(a)(3) - FSM	-	-	-	-	-	-	-	198,758	-	198,758	191,336
Federal contributions	-	4,373,142	-	-	-	-	-	-	-	4,373,142	6,009,449
Other	-	-	925	244,963	-	-	-	-	-	245,888	41,051
<b>Total revenues</b>	<b>-</b>	<b>4,373,142</b>	<b>925</b>	<b>244,963</b>	<b>75,000</b>	<b>461,087</b>	<b>1,234,740</b>	<b>198,758</b>	<b>2,730,000</b>	<b>9,318,615</b>	<b>10,706,669</b>
<b>Expenditures:</b>											
General government	-	-	-	6,225	-	-	-	-	-	6,225	81,887
Public works and utilities	-	18,124	-	14,690	60,600	-	1,534,427	-	-	1,627,841	1,890,204
Health services	-	287,773	-	-	-	395,262	-	-	418,469	1,101,504	2,570,394
Education	-	3,408,760	925	-	-	-	-	197,956	2,124,802	5,732,443	5,818,281
Economic development	304,470	616,235	-	25,000	-	-	-	-	-	945,705	409,266
Community affairs	-	16,347	-	-	-	-	-	-	-	16,347	22,769
Public safety	-	-	-	199,048	-	-	-	-	-	199,048	-
Other	-	25,903	-	-	-	-	-	-	-	25,903	33,776
<b>Total expenditures</b>	<b>304,470</b>	<b>4,373,142</b>	<b>925</b>	<b>244,963</b>	<b>60,600</b>	<b>395,262</b>	<b>1,534,427</b>	<b>197,956</b>	<b>2,543,271</b>	<b>9,655,016</b>	<b>10,826,577</b>
Revenues in excess of (less than) expenditures	(304,470)	-	-	-	14,400	65,825	(299,687)	802	186,729	(336,401)	(119,908)
<b>Other sources (uses):</b>											
Operating transfers in/(out)	272,382	-	-	-	-	-	-	-	-	272,382	(327,498)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(32,088)	-	-	-	14,400	65,825	(299,687)	802	186,729	(64,019)	(447,406)
Fund balances (deficit), beginning of year (Note 12)	100,174	-	-	(28,991)	87,705	(26,220)	105,767	(21,495)	1,210,397	1,427,337	1,774,569
Fund balances (deficit), end of year	\$68,086	\$ -	\$ -	\$(28,991)	\$ 102,105	\$39,605	\$(193,920)	\$(20,693)	\$1,397,126	\$1,363,318	\$1,327,163



CHUUK STATE GOVERNMENT

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)

For the year ended September 30, 1990

(With comparative totals for the year ended September 30, 1989)

Assets	Chuuk Visitor's Bureau	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Development Assistance Section 212	Compact Other Health and Medical Assistance Section 216(a)(2)	Compact Other Energy Section 214(c)	Compact Special Compact Other Section 216(a)(3)	Compact Special Block Grant Section 221(b)	Totals	
										1990	1989
<b>Revenues:</b>											
<b>Compact of Free Association:</b>											
Section 221(b) - base grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,000	\$ 2,730,000	\$ 2,730,000
Section 216(a)(2) - base grant	-	-	-	-	-	461,087	-	-	-	461,087	461,087
Section 214(c) - base grant	-	-	-	-	-	-	949,800	-	-	949,800	949,800
Section 217 - inflation adjustment	-	-	-	-	7,500	-	284,940	-	-	292,440	263,946
Section 212 - base grant	-	-	-	-	67,500	-	-	-	-	67,500	60,000
Compact 216(a)(3) - FSM	-	-	-	-	-	-	-	198,758	-	198,758	191,336
Federal contributions	-	4,373,142	-	-	-	-	-	-	-	4,373,142	6,009,449
Other	-	-	925	244,963	-	-	-	-	-	245,888	41,051
<b>Total revenues</b>	<b>-</b>	<b>4,373,142</b>	<b>925</b>	<b>244,963</b>	<b>75,000</b>	<b>461,087</b>	<b>1,234,740</b>	<b>198,758</b>	<b>2,730,000</b>	<b>9,318,615</b>	<b>10,706,669</b>
<b>Expenditures:</b>											
Personnel	46,054	2,591,825	-	51,537	-	64,092	-	-	1,719,255	4,472,763	4,109,750
Travel	106,336	404,271	225	28,899	-	98,548	-	-	96,344	734,623	530,798
Contractual services	53,578	719,936	-	12,108	-	73,633	-	-	52,359	911,614	644,350
POL	960	9,905	200	-	-	2,740	-	-	22,034	1,446,030	1,422,602
Other:											
Equipment	28,301	261,580	-	-	60,600	4,590	41,663	-	4,393	401,127	326,648
Medical supplies	-	10,872	-	-	-	5,116	-	-	110,915	126,903	356,716
Medical referral	-	-	-	-	-	-	-	-	-	-	961,565
Supplies and materials	61,316	217,007	500	14,690	-	115,255	62,106	-	41,846	512,720	626,567
Scholarships	-	-	-	-	-	-	-	197,956	-	197,956	191,336
Food	-	(204,304)	-	1,752	-	6,374	-	-	401,334	205,156	1,465,669
Books	-	37,449	-	-	-	-	-	-	-	37,449	92,495
Authorization	-	260,367	-	135,977	-	15,770	20,333	-	87,655	520,102	-
Miscellaneous	7,925	64,234	-	-	-	9,144	134	-	7,136	88,573	98,081
<b>Total expenditures</b>	<b>304,470</b>	<b>4,373,142</b>	<b>925</b>	<b>244,963</b>	<b>60,600</b>	<b>395,262</b>	<b>1,534,427</b>	<b>197,956</b>	<b>2,543,271</b>	<b>9,655,016</b>	<b>10,826,577</b>
Revenues in excess of (less than) expenditures	(304,470)	-	-	-	14,400	65,825	(299,687)	802	186,729	(336,401)	(119,908)
<b>Other sources (uses):</b>											
Operating transfers in/(out)	272,382	-	-	-	-	-	-	-	-	272,382	(327,498)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(32,088)	-	-	-	14,400	65,825	(299,687)	802	186,729	(64,019)	(447,406)
Fund balances (deficit), beginning of year (Note 12)	100,174	-	-	(28,991)	87,705	(26,220)	105,767	(21,495)	1,210,397	1,427,337	1,774,569
Fund balances (deficit), end of year	\$ 68,086	\$ -	\$ -	\$(28,991)	\$ 102,105	\$39,605	\$(193,920)	\$(20,693)	\$1,397,126	\$1,363,318	\$1,327,163



**CHUUK STATE GOVERNMENT**

Capital Projects Funds  
September 30, 1990

Appropriations or grants earmarked to finance capital projects of the State are accounted for in the Capital Projects Funds. A brief discussion of the State's Capital Projects Funds as of September 30, 1990, follows:

TTG Capital Projects Fund

This fund accounts for various capital projects received under grant awards from the Department of the Interior, Office of Transition (formerly the Trust Territory Government).

CFSM State Projects Fund

This fund accounts for the various capital projects funded by the Congress of the Federated States of Micronesia.

Compact 211 (a) (2) Capital Projects Fund

This fund accounts for various capital projects funded by the Compact of Free Association with the United States, Title Two, Article I, Section 211.



**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**

Combining Balance Sheet  
September 30, 1990  
(With comparative totals as of September 30, 1989)

<u>Assets</u>	TTG Capital	CFSM State	Compact 211(a)(2) Capital	<u>Totals</u>	
	<u>Projects Fund</u>	<u>Projects Fund</u>	<u>Projects Fund</u>	<u>1990</u>	<u>1989</u>
Cash and equivalents	\$ -	\$ -	\$ 598,292	\$ 598,292	\$ -
Cash on deposit with Trustee	-	-	-	-	2,994,914
Investments	-	-	25,082,602	25,082,602	18,502,361
Investments - others	-	-	500,000	500,000	250,000
Receivables from:					
Dept. of the Interior grants - TTG	102,565	-	-	102,565	21,509
FSM National Gov't.	-	177,905	-	177,905	177,905
Other	-	-	99,500	99,500	1,305
 Total assets	 <u>\$102,565</u>	 <u>\$177,905</u>	 <u>\$26,280,394</u>	 <u>\$26,560,864</u>	 <u>\$21,947,994</u>
 <u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Notes payable	\$ -	\$ -	\$ 329,179	\$ 329,179	\$ 329,179
Accounts payable	3,674	-	355,935	359,609	927,220
Due to other funds	106,722	177,905	145,552	430,179	489,697
Accrued payroll	727	-	24,705	25,432	1,907
 Total liabilities	 <u>111,123</u>	 <u>177,905</u>	 <u>855,371</u>	 <u>1,144,399</u>	 <u>1,748,003</u>
Fund balance (deficit):					
Reserved for:					
Investments	-	-	541,660	541,660	-
Related assets	-	-	500,000	500,000	250,000
Encumbrances	5,125	-	633,235	638,360	654,934
Continuing appropriations	-	-	19,231,862	19,231,862	15,820,689
Unreserved	(13,683)	-	4,518,266	4,504,583	3,474,368
 Total fund balances (deficit)	 <u>(8,558)</u>	 <u>-</u>	 <u>25,425,023</u>	 <u>25,416,465</u>	 <u>20,199,991</u>
 Total liabilities and fund balances (deficit)	 <u>\$102,565</u>	 <u>\$177,905</u>	 <u>\$26,280,394</u>	 <u>\$26,560,864</u>	 <u>\$21,947,994</u>



**CHUUK STATE GOVERNMENT  
CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Function  
and Changes in Fund Balances (Deficit)  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1990	1989
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211 (a)(2) - base grant	\$ -	\$ -	\$ 9,216,000	\$ 9,216,000	\$ 9,216,000
Section 217 - inflation adjustment	-	-	2,764,800	2,764,800	2,488,320
Department of the Interior grants	81,056	-	-	81,056	676,000
Other federal contribution (FAA)	-	-	707,738	707,738	163,323
<b>Total revenues</b>	<u>81,056</u>	<u>-</u>	<u>12,688,538</u>	<u>12,769,594</u>	<u>12,543,643</u>
<b>Expenditures:</b>					
Capital projects	<u>81,056</u>	<u>-</u>	<u>7,144,193</u>	<u>7,225,249</u>	<u>9,743,982</u>
<b>Total expenditures</b>	<u>81,056</u>	<u>-</u>	<u>7,144,193</u>	<u>7,225,249</u>	<u>9,743,982</u>
Revenues in excess of expenditures	-	-	5,544,345	5,544,345	2,799,661
<b>Other sources (uses):</b>					
Operating transfers out	-	-	(327,871)	(327,871)	-
Recovery of prior year debts	-	-	-	-	160,000
Excess of revenues and other sources over expenditures and other uses	-	-	5,216,474	5,216,474	2,959,661
Fund balances (deficit), beginning of year	<u>(8,558)</u>	<u>-</u>	<u>20,208,549</u>	<u>20,199,991</u>	<u>17,240,330</u>
Fund balances (deficit), end of year	<u>\$ (8,558)</u>	<u>\$ -</u>	<u>\$25,425,023</u>	<u>\$25,416,465</u>	<u>\$20,199,991</u>

**CHUUK STATE GOVERNMENT**  
**CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues, Expenditures by Account  
and Changes in Fund Balances (Deficit)  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	TTG Capital Projects Fund	CFMS State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1990	1989
<b>Revenues:</b>					
U.S. Compact of Free Association:					
Section 211 (a)(2) -					
base grant	\$ -	\$ -	\$ 9,216,000	\$ 9,216,000	\$ 9,216,000
Section 217 - inflation					
adjustment	-	-	2,764,800	2,764,800	2,488,320
Department of the					
Interior grants	81,056	-	-	81,056	676,000
Other federal					
contribution (FAA)	-	-	707,738	707,738	163,323
Total revenues	<u>81,056</u>	<u>-</u>	<u>12,688,538</u>	<u>12,769,594</u>	<u>12,543,643</u>
<b>Expenditures:</b>					
Personnel	35,104	-	279,824	314,928	313,181
Travel	8,422	-	97,455	105,877	32,128
Contractual services	-	-	3,551,495	3,551,495	5,981,403
POL	500	-	44,924	45,424	43,645
Other:					
Equipment	-	-	1,409,148	1,409,148	809,291
Medical supplies	-	-	-	-	-
Medical referral	-	-	-	-	-
Supplies and materials	7,500	-	910,024	917,524	516,138
Scholarships	-	-	-	-	-
Authorization	27,703	-	626,591	654,294	1,859,987
Food	-	-	-	-	-
Books	-	-	-	-	-
Miscellaneous	1,827	-	224,732	226,559	188,209
Total expenditures	<u>81,056</u>	<u>-</u>	<u>7,144,193</u>	<u>7,225,249</u>	<u>9,743,982</u>
Revenues in excess					
of expenditures	-	-	5,544,345	5,544,345	2,799,661
Other sources (uses):					
Operating transfers out	-	-	(327,871)	(327,871)	-
Recovery of prior year					
debts	-	-	-	-	160,000
Excess of revenues					
and other sources					
over expenditures					
and other uses	-	-	5,216,474	5,216,474	2,959,661
Fund balances (deficit),					
beginning of year	<u>(8,558)</u>	<u>-</u>	<u>20,208,549</u>	<u>20,199,991</u>	<u>17,240,330</u>
Fund balances (deficit),					
end of year	<u>\$ (8,558)</u>	<u>\$ -</u>	<u>\$25,425,023</u>	<u>\$25,416,465</u>	<u>\$20,199,991</u>



**CHUUK STATE GOVERNMENT**

**ENTERPRISE FUNDS  
September 30, 1990**

Government entities which provide goods or services on a user fee basis are accounted for in the State's Enterprise Funds. A brief discussion of the State's Enterprise Funds as of September 30, 1990, follows:

Chuuk Housing Authority

This fund accounts for the operations of the Chuuk Housing Authority. The Chuuk Housing Authority receives rental subsidies from the U.S. Department of Housing, Urban and Development to operate Section 8 housing renovation and income programs.

Chuuk Coconut Processing Authority

This fund accounts for the operations of the Chuuk Coconut Processing Authority. The Chuuk Coconut Processing Authority is manufacturing soap and soap by-products for resale. As of September 30, 1990, the Authority is still in the developmental stage as prime operations have not commenced.



**CHUUK STATE GOVERNMENT  
ENTERPRISE FUNDS**

Combining Balance Sheet  
September 30, 1990  
(With comparative totals as of September 30, 1989)

<u>Assets</u>	Chuuk Housing Authority	Chuuk Coconut Processing Authority	<u>Totals</u>	
			<u>1990</u>	<u>1989</u>
Cash and equivalents	\$ 368,272	\$ 24,843	\$ 393,115	\$ 589,664
Receivables from federal agencies	4,635	-	4,635	14,999
General receivables	-	14,599	14,599	8,405
Loans receivable, net of allowance for doubtful accounts of \$336,912 in 1990	716,361	-	716,361	534,313
Interest receivable, net of allowance for doubtful accounts of \$34,735 in 1990	-	-	-	8,773
Inventory	3,770	63,968	67,738	17,992
Prepaid expenses	40,747	5,653	46,400	3,132
Fixed assets, net	<u>145,585</u>	<u>347,779</u>	<u>493,364</u>	<u>455,423</u>
 Total assets	 <u>\$ 1,279,370</u>	 <u>\$ 456,842</u>	 <u>\$1,736,212</u>	 <u>\$1,632,701</u>
 <u>Liabilities and Fund Equity</u>				
Accounts payable	\$ 14,911	\$ 17,957	\$ 32,868	\$ 17,286
Notes payable	<u>114,703</u>	<u>-</u>	<u>114,703</u>	<u>121,801</u>
Total liabilities	<u>129,614</u>	<u>17,957</u>	<u>147,571</u>	<u>139,087</u>
Fund equity:				
Contributed capital	1,217,431	452,835	1,670,266	1,565,037
Retained deficit	<u>(67,675)</u>	<u>(13,950)</u>	<u>(81,625)</u>	<u>(71,423)</u>
Total fund equity	<u>1,149,756</u>	<u>438,885</u>	<u>1,588,641</u>	<u>1,493,614</u>
Total liabilities and fund equity	<u>\$ 1,279,370</u>	<u>\$ 456,842</u>	<u>\$1,736,212</u>	<u>\$1,632,701</u>

**CHUUK STATE GOVERNMENT  
ENTERPRISE FUNDS**

Combining Statement of Revenues, Expenses and  
Changes in Fund Equity  
For the year ended September 30, 1990  
(With comparative totals for the year ended September 30, 1989)

	Chuuk Housing Authority	Chuuk Coconut Processing Authority	Totals	
			1990	1989
Operating revenues:				
Interest income	\$ 35,153	\$ -	\$ 35,153	\$ 38,448
Federal contributions	41,510	-	41,510	32,998
Coconut product sales	-	41,960	41,960	-
Other	8,058	-	8,058	1,853
Total revenues	<u>84,721</u>	<u>41,960</u>	<u>126,681</u>	<u>73,299</u>
Operating expenses:				
Cost of sales	-	78,115	78,115	-
Payroll and personnel	43,832	27,882	71,714	41,438
Bad debts	30,885	5,500	36,385	71,077
Depreciation	12,337	10,651	22,988	9,980
Travel	11,014	21,073	32,087	7,480
Rent	1,200	8,950	10,150	1,200
Other	31,930	6,129	38,059	29,279
Total operating expenses	<u>131,198</u>	<u>158,300</u>	<u>289,498</u>	<u>160,454</u>
Operating loss	<u>(46,477)</u>	<u>(116,340)</u>	<u>(162,817)</u>	<u>(87,155)</u>
Non-operating revenue (expenses):				
Operating transfers in	61,099	102,390	163,489	47,724
Interest expense	<u>(10,874)</u>	<u>-</u>	<u>(10,874)</u>	<u>(13,646)</u>
Total non-operating revenues (net)	<u>50,225</u>	<u>102,390</u>	<u>152,615</u>	<u>34,078</u>
Net earnings (loss)	3,748	(13,950)	(10,202)	(53,077)
Retained deficit, beginning of year	<u>(71,423)</u>	<u>-</u>	<u>(71,423)</u>	<u>(18,346)</u>
Retained deficit, end of year	<u>\$ (67,675)</u>	<u>\$ (13,950)</u>	<u>\$ (81,625)</u>	<u>\$ (71,423)</u>
Contributed capital, beginning of year	\$ 1,217,431	\$ 347,606	\$1,565,037	\$ 889,933
Additions	<u>-</u>	<u>105,229</u>	<u>105,229</u>	<u>675,104</u>
Contributed capital, end of year	<u>\$ 1,217,431</u>	<u>\$ 452,835</u>	<u>\$1,670,266</u>	<u>\$1,565,037</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORTS ON  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND  
BUDGETARY POSITION BY GRANTOR AND  
COMPLIANCE WITH LAWS AND REGULATIONS  
AND  
INTERNAL (ACCOUNTING AND  
ADMINISTRATIVE) CONTROLS**

**FOR THE YEAR ENDED SEPTEMBER 30, 1990**







**INDEPENDENT AUDITORS' REPORT ON THE  
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Chuuk for the year ended September 30, 1990, and have issued our report thereon dated January 4, 1991. These general purpose financial statements are the responsibility of the management of the State of Chuuk. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the aforementioned report, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the State of Chuuk taken as a whole. The accompanying supplemental statement of expenditures and questioned costs and budgetary position by grantor for the year ended September 30, 1990, which is also the responsibility of the management of the State of Chuuk, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such supplemental statement has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, except for the matters described in the aforementioned report, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

January 4, 1991

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED  
ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Chuuk, as of September 30, 1990, and for the year then ended, and have issued our report thereon dated January 4, 1991.

Except as described in the aforementioned report, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Chuuk is the responsibility of the management of the State of Chuuk. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, as referenced in the following paragraph, the ultimate resolution of which cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made to the federal financial assistance programs to which they relate.

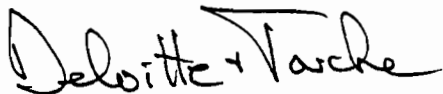
All instances of noncompliance the we found and the programs to which they relate are identified in the accompanying schedule of identified noncompliance and internal control weaknesses (pages 72 through 83).

We considered these material instances of noncompliance in forming our opinion on whether the 1990 general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated January 4, 1991 on those general purpose financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the State of Chuuk complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the State had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the State of Chuuk, the Federated States of Micronesia, National Government, the cognizant audit and other federal agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

January 4, 1991

A handwritten signature in cursive script that reads "Deloitte + Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON**  
**COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO**  
**MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the State of Chuuk's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions related to the Compact of Free Association; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying supplemental statement of expenditures and questioned costs and budgetary position by grantor, for the year ended September 30, 1990. The management of the State of Chuuk is responsible for the State of Chuuk's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

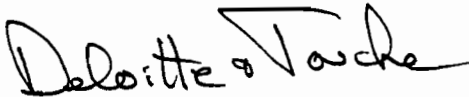
Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Chuuk's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient documentation supporting certain expenditures in relation to the State of Chuuk's compliance with the requirements of U.S. Department of Agriculture Food Services Program, U.S. Department of Education Chapter 1 and 2 Programs, U.S. Department of Labor, JTPA Program, and the U.S. Department of the Interior, Compact of Free Association governing types of services allowed or unallowed; nor were we able to satisfy ourselves as to the State of Chuuk's compliance with those requirements of U.S. Department of Agriculture Food Services Program, U.S. Department of Education Chapter 1 and 2 Programs, U.S. Department of Labor, JTPA Program, and the U.S. Department of the Interior, Compact of Free Association by other auditing procedures.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of identified noncompliance and internal control weaknesses (pages 72 through 83). We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the effect of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence to support certain expenditures regarding the State of Chuuk's compliance with the requirements of U.S. Department of Agriculture Food Services Program, U.S. Department of Education Chapter 1 and 2 Programs, U.S. Department of Labor, JTPA Program, and the U.S. Department of the Interior, Compact of Free Association governing types of services allowed or unallowed, the State of Chuuk complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions related to the Compact of Free Association; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1990.

January 4, 1991



Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**WITH THE GENERAL REQUIREMENTS**  
**APPLICABLE TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have applied procedures to test the State of Chuuk's compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the supplemental statement of expenditures and questioned costs and budgetary position by grantor, for the year ended September 30, 1990:

- Cash Management
- Federal Financial Reports

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Chuuk's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, except for the lack of documentation supporting expenditures and its attendant effect on federal financial reports, the results of those procedures disclosed no other material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of identified noncompliance and internal control weaknesses (pages 72 through 83).

This report is intended solely for the use of the State of Chuuk, the Federated States of Micronesia, National Government, the cognizant audit and other federal agencies and should not be used for any other purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

January 4, 1991

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL  
FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

In connection with our audit of the 1990 general purpose financial statements of the State of Chuuk, and with our study and evaluation of the State of Chuuk's internal control structures used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1990.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and special tests and provisions related to the Compact of Free Association that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Chuuk's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Chuuk had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of identified noncompliance and internal control weaknesses (pages 72 through 83).

This report is intended solely for the use of the State of Chuuk, the Federated States of Micronesia, National Government, the cognizant audit and other federal agencies and should not be used for any other purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

January 4, 1991

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS**  
**(ACCOUNTING AND ADMINISTRATIVE)**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Chuuk for the year ended September 30, 1990, and have issued our report thereon dated January 4, 1991. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

**Accounting Controls**

- . Treasury/Cash Management
- . Revenues/Receipts
- . Purchases/Disbursements
- . Payroll
- . Budgetary
- . External Financial Reporting

**Administrative Controls**

**General Requirements**

- . Cash Management
- . Federal Financial Reports

**Specific Requirements**

- . Types of Services
- . Reporting
- . Eligibility
- . Compact of Free Association



The management of the State of Chuuk is responsible for establishing and maintaining the internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended September 30, 1990, the State of Chuuk expended 97% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Chuuk, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Chuuk did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Chuuk. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Chuuk. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Chuuk.

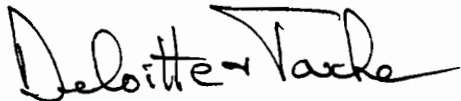
Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our audit disclosed conditions on pages 80 through 83 of this report that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 1990 general purpose financial statements and (2) our audit and review of the State of Chuuk's compliance with laws and regulations, noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the general purpose financial statements and on the State of Chuuk's compliance with laws and regulations dated January 4, 1991.

This report is intended solely for the use of the State of Chuuk, the Federated States of Micronesia, National Government, the cognizant audit and other federal agencies and should not be used for any other purpose. This restriction is not intended to limit distribution of this report, which is a matter of public record.

January 4, 1991

A handwritten signature in cursive script that reads "Deloitte & Touche".

Certified Public Accountants

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

Introduction to Compact of Free Association  
Funding, Federal and Other Assistance Funds  
For the year ended September 30, 1990

Compact of Free Association Funds

The FSM National Government and the Government of the United States implemented the Compact of Free Association (the Compact) during fiscal year 1987. The Compact funding replaced the Department of the Interior funding for general operations received through the TTPI Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government will receive funding in five year increments over a fifteen year period. The Compact funding is to be received in four different account classifications; current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the FSM National Governments' and its four State entities' drawdown requirements. During fiscal year 1990, the Chuuk State Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to Chuuk State's designated banking institution based on quarterly allocation requests. The capital project funds, which comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawdown when requested by Chuuk State. Capital account funds are transferred to the trustee in their annual base amounts on the first day of the fiscal year. Block grant funding was transferred with the initial quarterly current account allocation request and these funds were then appropriated by the Chuuk State Legislature in accordance with the guidelines of the Compact. The United States Government annually adjusts Compact account funding for inflation.

Pursuant to Section 233 of the Compact and paragraph 1(d), Article IV of the Agreement Concerning Procedures for the Implementation of U.S. Economic Assistance, Programs, and Services provided in the Compact of Free Association (the Agreement), audits of Compact funding shall be performed in compliance with Standards for Audits of Governmental Organizations, Programs, Activities and Functions, as superceded by the Generally Accepted Governmental Accounting Standards published by the Comptroller General of the U.S., and the Single Audit Act of 1984. The Agreement states that audits shall be performed in accordance with Circular A-128, however, compliance testing of Compact funding shall not include specific federal guidelines applicable to federal program assistance grants, but shall be in conformance with local laws and regulations and program intent as provided in the Compact of Free Association.

Federal Funds

The Chuuk State Government remained the subrecipient of several federal grant programs from U.S. agencies, but the primary recipient transferred from the TTPI government to the FSM National Government. The Chuuk State Government now applies to the FSM National Government for grant funds, or



may receive an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets. With the implementation of the Compact, most grant awards are received through the FSM. The actual allotment advices are received by the FSM National Government Budget Office and then sub-allotted to the four component States.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the Chuuk State Government to the FSM National Government.

Although program guidelines may not be specifically referenced in the allotment advice, subgrantees of federal programs other than Compact funding must adhere to the same cost principles as the grantee, as stated under Office of Budget and Management Circular A-87. Additionally, beneficiaries and program objectives may not typically depart from the federal purpose, as may be determined by an Act of Congress, or program regulations, as may be promulgated in the Code of Federal Regulations.

Special Revenue and Capital Projects Funds

Receipt and use of monetary assistance from sources outside the general fund are accounted for in the following funds:

Special Revenue Funds:

FSM Federal Assistance Fund  
Other Federal and Direct Assistance Fund  
Compact of Free Association Block Grant Fund  
Compact of Free Association Other Grants Fund  
CFSM Special Revenue Fund

Capital Projects Funds:

TTPI Capital Projects Fund  
Compact of Free Association Capital Projects Fund  
CFSM Capital Projects Fund

As mentioned earlier, the Compact Block Grant Fund, Compact Other Grants Fund, and Compact Capital Projects Fund are administered under the guidelines of the Compact. With the exception of a few of the grants in the Other Federal and Direct Assistance Fund and the TTPI Capital Project Fund, the funding of the Special Revenue and Capital Projects Funds is derived through allotments from the FSM National Government for specific purposes. As the subrecipient, the State of Chuuk reports to the FSM National Government and does not report directly to any other agency. The TTPI Capital Projects Fund is funded by appropriation from the United States Congress to the Trust Territory of the Pacific Islands, and amounts are then sub-allotted to the FSM National Government and passed to the State. The State of Chuuk, through the Federated States of Micronesia, reports to the applicable grantor concerning other federal and direct assistance funds.

Framework of Compact of Free Association and Federal Grant Accountability

During the period of our audit, the State of Chuuk utilized an automated accounting system for the Special Revenue and Capital Projects Funds. Transactions were authorized by the administering agencies of the State and were reviewed and approved by the State's Department of Finance. Disbursements and receipts were made and accounting documentation was maintained by the Department of Finance.

As a subrecipient of federal grant funds, and as required under the Compact, Chuuk State is required to maintain an accurate accounting of expenditures recorded against these funds. The official accounting system utilized to account for the fiscal affairs of the State is the Distributed and Integrated Local Government (DILOG) accounting system which is operated under the authority of the State Department of Finance.

STATE OF CHUUK  
 FEDERATED STATES OF MICRONESIA  
 FSM FEDERAL ASSISTANCE FUND

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor Account Title	Chuuk Orgn. No.	CFDA I.D.No.	Total Authori- zations	Prior Year Expenditures	1990 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)		Questioned Costs Detailed Amount At Page
							Authorizations Over Program Expenditures	Authorizations Over Program Expenditures	
<u>FSM Federal Assistance</u>									
<u>Dept. of Agriculture:</u>									
Food Services Program	3310	10.560	\$ -	\$ -	\$ 4,025	\$ 4,025	\$ (4,025)	\$ -	
Food Services Program	3315	10.560	1,813,792	1,744,339	4,026	1,748,365	65,427	-	
Food Services Program	3331	10.560	2,464,420	2,141,539	315,723	2,457,262	7,158	-	
Food Services Program	3388	10.560	<u>905,068</u>	<u>-</u>	<u>1,012,288</u>	<u>1,012,288</u>	<u>(107,220)</u>	<u>17,998</u>	72
Subtotal 10.560			<u>5,183,280</u>	<u>3,885,878</u>	<u>1,336,062</u>	<u>5,221,940</u>	<u>(38,660)</u>	<u>17,998</u>	
Forestry Project	3343	10.664	<u>12,750</u>	<u>3,620</u>	<u>400</u>	<u>4,020</u>	<u>8,730</u>	<u>-</u>	
			<u>\$5,196,030</u>	<u>\$3,889,498</u>	<u>\$1,336,462</u>	<u>\$5,225,960</u>	<u>\$ (29,930)</u>	<u>\$ 17,998</u>	
<u>Dept. of Education:</u>									
<u>Vocational Rehab.</u>									
Case Services	3088	84.126	\$ <u>164,219</u>	\$ <u>158,046</u>	\$ <u>1,913</u>	\$ <u>159,959</u>	\$ <u>4,260</u>	\$ <u>34,735</u>	73
Subtotal 84.126			<u>164,219</u>	<u>158,046</u>	<u>1,913</u>	<u>159,959</u>	<u>4,260</u>	<u>34,735</u>	
FY88 Chapter 1	3118	84.151	1,674,565	217,158	1,331,289	1,548,447	126,118	-	
FY88 Chapter 2	3119	84.151	771,497	13,910	518,669	532,579	238,918	38,481	73
Chapter 1	3106	84.151	2,390,635	2,185,111	29,849	2,214,960	175,675	26,360	73
Chapter 1 and 2 GAP	3007	84.151	2,649,424	1,489,362	922	1,490,284	1,159,140	-	
Chapter 2	3107	84.151	1,278,255	1,174,396	59,644	1,234,040	44,215	47,778	74
Chapter 1	3147	84.151	1,176,415	-	-	-	1,176,415	-	
Chapter 2	3148	84.151	<u>332,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,935</u>	<u>-</u>	
Subtotal 84.151			<u>10,273,726</u>	<u>5,079,937</u>	<u>1,940,373</u>	<u>7,020,310</u>	<u>3,253,416</u>	<u>112,619</u>	
			<u>\$10,437,945</u>	<u>\$5,237,983</u>	<u>\$1,942,286</u>	<u>\$7,180,269</u>	<u>\$3,257,676</u>	<u>\$ 147,354</u>	
<u>Dept. of Health and</u>									
<u>Human Services:</u>									
SPRANS	7588	13.110	\$ 43,213	\$ -	\$ 28,208	\$ 28,208	\$ 15,005	\$ -	
FY89 SPRANS	3657	13.110	<u>49,850</u>	<u>23,852</u>	<u>16,841</u>	<u>40,693</u>	<u>9,157</u>	<u>-</u>	
Subtotal 13.110			<u>93,063</u>	<u>23,852</u>	<u>45,049</u>	<u>68,901</u>	<u>24,162</u>	<u>-</u>	
Family Planning	3671	13.217	-	-	621	621	(621)	-	
FY89 Family Planning	3789	13.217	20,000	15,174	177	15,351	4,649	-	
FY90 Family Planning	7574	13.217	20,931	897	17,341	18,238	2,693	-	
FY89 Aids	7551	13.217	9,499	781	2,883	3,664	5,835	-	
FY90 Aids	7621	13.217	7,728	-	2,077	2,077	5,651	-	
FY91 Family Planning	7629	13.317	<u>25,704</u>	<u>-</u>	<u>2,238</u>	<u>2,238</u>	<u>23,466</u>	<u>-</u>	
Subtotal 13.217			<u>83,862</u>	<u>16,852</u>	<u>25,337</u>	<u>42,189</u>	<u>41,673</u>	<u>-</u>	

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor



**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
**FSM FEDERAL ASSISTANCE FUND (Continued)**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
BUDGETARY POSITION BY GRANTOR  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor Account Title	Chuuk Orgn. No.	CFDA I.D.No.	Total Authori- zations	Prior Year Expenditures	1990 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)		Questioned Costs Detailed Amount At Page
							Authorizations Over Program Expenditures	Questioned Costs Amount At Page	
<b>Dept. of Health and</b>									
<b>Human Services:</b>									
FY88 Immunization Prog.	3795	13.268	28,075	11,778	3,817	15,595	12,480	-	
FY89 Immunization Prog.	7534	13.268	8,265	1,080	1,385	2,465	5,800	-	
FY90 Immunization Prog.	7617	13.268	<u>12,516</u>	<u>-</u>	<u>4,358</u>	<u>4,358</u>	<u>8,158</u>	<u>-</u>	
Subtotal 13.268			<u>48,856</u>	<u>12,858</u>	<u>9,560</u>	<u>22,418</u>	<u>26,438</u>	<u>-</u>	
Continuing Education									
for Nurses	7568	13.359	<u>8,690</u>	<u>-</u>	<u>4,574</u>	<u>4,574</u>	<u>4,116</u>	<u>-</u>	
Aging Support FY90	7559	13.633	93,924	-	40,229	40,229	53,695	-	
Aging Support FY88	3776	13.633	187,850	85,189	56,990	142,179	45,671	35,400	75
Aging Support FY87	3711	13.633	<u>281,775</u>	<u>269,174</u>	<u>97</u>	<u>269,271</u>	<u>12,504</u>	<u>-</u>	
Subtotal 13.633			<u>563,549</u>	<u>354,363</u>	<u>97,316</u>	<u>451,679</u>	<u>111,870</u>	<u>35,400</u>	
MCHS FY88	3747	13.994	94,449	67,582	250	67,832	26,617	-	
MCHS	3718	13.994	71,950	57,770	446	58,216	13,734	-	
MCHS FY89	7543	13.994	87,460	-	65,753	65,753	21,707	-	
MCHS FY90	7601	13.994	86,762	-	1,123	1,123	85,639	-	
MCHS FY89	7538	13.994	7,700	-	4,759	4,759	2,941	-	
MCHIP FY90	7622	12.994	<u>5,700</u>	<u>-</u>	<u>340</u>	<u>340</u>	<u>5,360</u>	<u>-</u>	
Subtotal 13.994			<u>354,021</u>	<u>125,352</u>	<u>72,671</u>	<u>198,023</u>	<u>155,998</u>	<u>-</u>	
Preventive Health	3725	13.991	-	-	360	360	(360)	-	
Substance Abuse	7608	13.991	45,800	-	2,817	2,817	42,983	-	
FY89 P. Basin	3680	13.991	20,000	-	20,000	20,000	-	-	
FY89 PH & PH	7585	13.991	11,570	-	9,899	9,899	1,671	-	
FY90 PH & PH	7605	13.991	<u>14,141</u>	<u>-</u>	<u>191</u>	<u>191</u>	<u>13,950</u>	<u>-</u>	
Subtotal 13.991			<u>91,511</u>	<u>-</u>	<u>33,267</u>	<u>33,267</u>	<u>58,244</u>	<u>-</u>	
			<u>\$1,243,552</u>	<u>\$ 533,277</u>	<u>\$ 287,774</u>	<u>\$ 821,051</u>	<u>\$ 422,501</u>	<u>\$ 35,400</u>	
<b>Dept. of Housing and</b>									
<b>Urban Development:</b>									
Housing Rehab.	3155	14.219	\$ -	\$ -	\$ (594)	\$ (594)	\$ 594	\$ -	
FY84 CDEG Admin.	3153	14.219	-	-	20	20	(20)	-	
FY84 Housing Rehab.	3156	14.219	-	-	455	455	(455)	-	
THA Rehab. Admin.	3158	14.219	23,000	-	8,846	8,846	14,154	-	
Public Market Impro.	3357	14.219	-	-	3,864	3,864	(3,864)	-	
FY87 CDEG Admin.	3356	14.219	<u>14,000</u>	<u>3,132</u>	<u>3,756</u>	<u>6,888</u>	<u>7,112</u>	<u>-</u>	
Subtotal 14.219			<u>\$ 37,000</u>	<u>\$ 3,132</u>	<u>\$ 16,347</u>	<u>\$ 19,479</u>	<u>\$ 17,521</u>	<u>\$ -</u>	

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
**FSM FEDERAL ASSISTANCE FUND (Continued)**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND**  
**BUDGETARY POSITION BY GRANTOR**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor Account Title	Chuuk		Total Authori- zations	Prior Year Expenditures	1990		Excess (Deficit)		Questioned Costs Detailed Amount At Page
	Orgn. No.	CFDA I.D.No.			Fiscal Year Expenditures	Total Program Expenditures	Authorizations Over Program Expenditures		
<b>Dept. of the Interior:</b>									
Transition - Computer									
Software	3476	15.875	\$ 8,000	\$ -	\$ 9,096	\$ 9,096	\$ (1,096)	\$ -	
Technical Assistance	3491	15.875	123,186	48,150	68,516	116,666	6,520	-	
Technical Assistance	3452	15.875	20,000	8,865	14,199	23,064	(3,064)	-	
Waste Water '85 O&M	3542	15.875	15,000	7,217	11,970	19,187	(4,187)	-	
Power Plant '85 O&M	3545	15.875	80,000	51,461	(143,550)	(92,089)	172,089	-	
Biomedical Equipment '85 O&M	3543	15.875	<u>70,000</u>	<u>130,311</u>	<u>27,212</u>	<u>157,523</u>	<u>(87,523)</u>	<u>-</u>	
Subtotal 15.875			<u>316,186</u>	<u>246,004</u>	<u>(12,557)</u>	<u>233,447</u>	<u>82,739</u>	<u>-</u>	
Historic Preservation	7526	15.904	7,218	-	21,091	21,091	(13,873)	-	
Historic Preservation	3461	15.904	18,545	24,788	992	25,780	(7,235)	-	
Historic Preservation FY88	7504	15.904	<u>23,000</u>	<u>20,721</u>	<u>2,301</u>	<u>23,022</u>	<u>(22)</u>	<u>-</u>	
Subtotal 15.904			<u>48,763</u>	<u>45,509</u>	<u>24,384</u>	<u>69,893</u>	<u>(21,130)</u>	<u>-</u>	
			<u>\$ 364,949</u>	<u>\$ 291,513</u>	<u>\$ 11,827</u>	<u>\$ 303,340</u>	<u>\$ 61,609</u>	<u>\$ -</u>	
<b>Dept. of Labor:</b>									
JTPA Administration	3204	17.250	\$ 682,235	\$ 180,632	\$ 42,541	\$ 223,173	\$ 459,062	\$ -	
FY88 JTPA Admin.	3248	17.250	67,190	66,358	12,907	79,265	(12,075)	-	
FY88 JTPA Trng	3249	17.250	449,823	256,683	165,866	422,549	27,274	17,130	74
FY89 JTPA Admin.	3275	17.250	79,872	-	87,324	87,324	(7,452)	15,202	74
JTPA Adult Program	3276	17.250	260,187	-	173,290	173,290	86,897	23,105	75
JTPA Youth Program	3277	17.250	<u>193,016</u>	<u>-</u>	<u>134,302</u>	<u>134,302</u>	<u>58,714</u>	<u>-</u>	
Subtotal 17.250			<u>1,732,323</u>	<u>503,673</u>	<u>616,230</u>	<u>1,119,903</u>	<u>612,420</u>	<u>55,437</u>	
			<u>\$ 1,732,323</u>	<u>\$ 503,673</u>	<u>\$ 616,230</u>	<u>\$ 1,119,903</u>	<u>\$ 612,420</u>	<u>\$ 55,437</u>	
<b>Environmental</b>									
<b>Protection Agency:</b>									
S. Field/West Sewer	3572	66.600	\$ -	\$ -	\$ 99	\$ 99	\$ (99)	\$ -	
EPA FY90	3598	66.600	<u>43,240</u>	<u>16,167</u>	<u>6,199</u>	<u>22,366</u>	<u>20,874</u>	<u>-</u>	
Subtotal 66.600			<u>\$ 43,240</u>	<u>\$ 16,167</u>	<u>\$ 6,298</u>	<u>\$ 22,465</u>	<u>\$ 20,775</u>	<u>\$ -</u>	
<b>Other</b>									
Prior year encumbrances	3850	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,911</u>	<u>\$ 25,911</u>	<u>\$ (25,911)</u>	<u>\$ 25,911</u>	75
Total FSM Federal Assistance Fund			<u>\$19,055,039</u>	<u>\$10,475,243</u>	<u>\$4,243,135</u>	<u>\$14,718,378</u>	<u>\$4,336,661</u>	<u>\$ 282,100</u>	

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.





STATE OF CHUUK  
 FEDERATED STATES OF MICRONESIA  
 OTHER FEDERAL AND DIRECT ASSISTANCE FUND

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor Account Title	Chuuk		Total	1990		Total	Excess (Deficit)	
	Orgn. No.	CFDA I.D.No.	Authori- zations	Prior Year Expenditures	Fiscal Year Expenditures	Program Expenditures	Authorizations Over Program Expenditures	Questioned Costs Detailed Amount At Page
<u>Dept. of Education:</u>								
Bilingual Instruction	3143	84.003	\$ 41,632	\$ -	\$ 43,453	\$ 43,453	\$ (1,821)	\$ -
Bilingual Training	3144	84.003	4,532	-	3,310	3,310	1,222	-
Bilingual Training	3092	84.003	178,740	117,671	31,303	148,974	29,766	-
Bilingual Instruction	3093	84.003	33,000	25,404	747	26,151	6,849	-
Bilingual Training	3095	84.003	57,000	36,347	11,161	47,508	9,492	-
Belts Instruction	3094	84.003	<u>420,337</u>	<u>398,037</u>	<u>40,033</u>	<u>438,070</u>	<u>(17,733)</u>	<u>-</u>
			<u>735,241</u>	<u>577,459</u>	<u>130,007</u>	<u>707,466</u>	<u>27,775</u>	<u>-</u>
Total other federal and direct assistance fund			<u>\$ 735,241</u>	<u>\$ 577,459</u>	<u>\$ 130,007</u>	<u>\$ 707,466</u>	<u>\$ 27,775</u>	<u>\$ -</u>

Note: The above grants are received in a grantee capacity directly from the grantors.

CHUUK HOUSING AUTHORITY  
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Chuuk Housing Authority

N/A Prior years Housing								
Renovation	N/A	14.219	\$ 263,426	\$ 263,426	\$ -	\$ 263,426	\$ -	\$ -
FY87 Housing Renovation	3358	14.219	180,000	180,000	-	180,000	-	-
FY88 Housing Renovation	3370	14.219	<u>147,498</u>	<u>147,498</u>	<u>-</u>	<u>147,498</u>	<u>-</u>	<u>-</u>
Total Chuuk Housing Authority			<u>\$ 590,924</u>	<u>\$ 590,924</u>	<u>\$ -</u>	<u>\$ 590,924</u>	<u>\$ -</u>	<u>\$ -</u>

The above grants are subgranted to the Chuuk Housing Authority by the State.  
 See footnote 4 of the notes to Statement of Expenditures and Questioned Costs and  
 Budgetary Position by Grantor.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.



STATE OF CHUUK  
 FEDERATED STATES OF MICRONESIA  
 TTPI CAPITAL PROJECTS FUND

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor Account Title	Chuuk		Total		1990		Total		Excess (Deficit)	
	Orgn. No.	CFDA I.D.No.	Authori- zations	Prior Year Expenditures	Fiscal Year Expenditures	Program Expenditures	Authorizations Over Program Expenditures	Questioned Costs Amount	Detailed At Page	
Dublon/Moen Water System Improvement	6362	15.875	\$3,177,000	\$2,961,959	\$ 20,441	\$2,982,400	\$ 194,600	\$ -		
Moen Road Improvement	6363	15.875	1,472,900	1,470,693	1,929	1,472,622	278	-		
Power Plant	6364	15.875	-	8,588	1,200	9,788	(9,788)	1,200	76	
Chuuk Sanitary Facility	6366	15.875	290,000	122,345	18,089	140,434	149,566	-		
Power Upgrade	6367	15.875	184,000	145,203	35,726	180,929	3,071	-		
Airport Runway Seal Coat	6360	15.875	46,429	17,507	714	18,221	28,208	-		
Airport Terminal TTPI	6369	15.875	<u>791,000</u>	<u>552,063</u>	<u>2,957</u>	<u>555,020</u>	<u>235,980</u>	<u>-</u>		
Total TTPI Capital Projects Fund			<u>\$5,961,329</u>	<u>\$5,278,358</u>	<u>\$ 81,056</u>	<u>\$5,539,414</u>	<u>\$ 601,915</u>	<u>\$ 1,200</u>		

Note: These grants are received in a sub-grantee capacity through the Trust Territory of the Pacific Islands (TTPI) Government.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA  
CFSM SPECIAL REVENUE FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
BUDGETARY POSITION BY GRANTOR  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor Account Title	Chuuk Orgn. No.	CFDA I.D.No.	Total Authori- zations	Prior Year Expenditures	1990 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)		Questioned Costs Amount	Detailed At Page
							Authorizations Over Program	Expenditures		
FSM Con-Con Travel	4410	N/A	\$102,000	\$ -	\$ 6,226	\$ 6,226	\$ 95,774	\$ -		
Chuuk Joint Law Enfor. FY88	4489	N/A	150,000	113,454	2,899	116,353	33,647	-		
Chuuk Joint Law Enforcement FY90	4490	N/A	107,000	-	107,000	107,000	-	-		
Chuuk Joint Law Enforcement FY89	4491	N/A	150,000	-	89,148	89,148	60,852	-		
Fisheries Dev. Project	6031	N/A	25,000	-	25,000	25,000	-	-		
Moen Plant Spare Parts	9237	N/A	15,000	-	14,690	14,690	310	-		
<b>Total CFSM Special Revenue Fund</b>			<u>\$549,000</u>	<u>\$113,454</u>	<u>\$ 244,963</u>	<u>\$ 358,417</u>	<u>\$ 190,583</u>	<u>\$ -</u>		

Note: The above grants are received based on appropriations made by the Congress of the Federated States of Micronesia.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

STATE OF CHUUK  
 FEDERATED STATES OF MICRONESIA  
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND  
 SECTION 211(a)(2)  
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor	Chauk	CFDA	Total	1990	Total	Excess (Deficit)		Questioned Costs	
						Authorizations	Authorizations		Over Program
Account Title	Orgn.	I.D.No.	zations	Prior Year	Fiscal Year	Program	Expenditures	Expenditures	Detailed
	No.			Expenditures	Expenditures	Expenditures	Expenditures	Amount	At Page
<u>Compact Section 211(a)(2)</u>									
<u>Capital Account - Capital</u>									
<u>Projects Fund</u>									
Coconut Prog. Refnry	6124	15.875	\$ 250,000	\$ 222,013	\$ 22,555	\$ 244,568	\$ 5,432	\$ -	
7004 Dublon Fish/Cold Storage	6122	15.875	1,000,000	861,760	134,349	996,109	3,891	-	
7006 Tourist Promo. & Dev.	6123	15.875	15,000	18,892	(297)	18,595	(3,595)	-	
Jr. High Chuuk High Repair	6129	15.875	100,000	69,224	22,304	91,528	8,472	-	
Carry over Air Terminal	6134	15.875	563,690	767,941	9,624	777,565	(213,875)	-	
Marine Security Center	6138	15.875	80,000	19,840	25,626	45,466	34,534	-	
Coconut Rehab.	6139	15.875	60,000	17,172	12,625	29,797	30,203	-	
Broiler/Hatchery	6140	15.875	100,000	96,545	2,963	99,508	492	-	
Power Plant	6147	15.875	250,000	252,646	34,970	287,616	(37,616)	-	
Project Admin.	6149	15.875	40,000	18,817	15,949	34,766	5,234	-	
Sewer System FY 88	6150	15.875	600,000	108,698	9,545	118,243	481,757	-	
Road Improvement FY88	6151	15.875	1,800,000	295,077	678,169	973,246	826,754	-	
Garment Industry	6152	15.875	120,000	28,421	28,895	57,316	62,684	-	
Public Assistance Program	6141	15.875	1,932,736	1,587,304	182,152	1,769,456	163,280	-	
FY87 Chuuk Cold Storage	6012	15.875	50,000	747	47,130	47,877	2,123	-	
Chuuk Road Improvement	6130	15.875	168,480	170,689	23,549	194,238	(25,758)	-	
Moen/Dublon H2O Improv.	6136	15.875	200,000	135,758	5,554	141,312	58,688	-	
Gov't. Fac. Cons. Ext. FY88	6143	15.875	135,000	74,581	62,012	136,593	(1,593)	-	
Electric Dist. Ext. FY88	6144	15.875	350,000	146,256	201,103	347,359	2,641	-	
Pattin Jr. High Sch. FY88	6145	15.875	150,000	57,600	52,600	110,200	39,800	-	
Overhead Elect. Dist. FY87	6146	15.875	200,000	103,634	95,321	198,955	1,045	-	
Ettal Classroom Cons. FY87	6156	15.875	69,993	46,940	6,629	53,569	16,424	-	
1987/Moch Cold Storage	6158	15.875	85,216	64,212	7,359	71,571	13,645	-	
Magur Coop Assoc.	6160	15.875	33,380	14,162	4,964	19,126	14,254	-	
Onary Coop Assoc.	6163	15.875	38,323	15,533	11,272	26,805	11,518	-	
Wone Marketing Coop.	6164	15.875	33,395	7,825	6,624	14,449	18,946	-	
Oneop Fishing Dev.	6168	15.875	73,034	26,893	4,490	31,383	41,651	-	
Ono Coop Assoc.	6170	15.875	38,323	19,555	11,978	31,533	6,790	-	
Power Plant Generator	6173	15.875	3,000,000	1,999,300	779,399	2,778,699	221,301	-	
Payment of Land Lease	6178	15.875	1,100,000	1,498,005	(22,502)	1,475,503	(375,503)	-	
Contingency CIP Airport	6180	15.875	102,916	52,916	37,590	90,506	12,410	-	
Dublon Capital Support	6501	15.875	317,000	49,432	430	49,862	267,138	-	
Fanapanges Solar Ice Plant	6502	15.875	95,283	4,000	2,728	6,728	88,555	-	
Pulap Economic Dev.	6504	15.875	196,703	187,700	8,099	195,799	904	-	
Polle Marketing Project	6505	15.875	73,038	15,000	700	15,700	57,338	-	
Tamatam Coop Assoc.	6507	15.875	9,932	-	5,174	5,174	4,758	-	
Murilo Municipal Classroom	6509	15.875	-	-	24,843	24,843	(24,843)	-	
Ulul Social Project	6511	15.875	-	-	752	752	(752)	-	
Nemwan Piggery Project	6514	15.875	-	-	1,440	1,440	(1,440)	-	
Moen Villi Fish Proj.	6517	15.875	115,000	80,457	36,209	116,666	(1,666)	-	
Moen Jr. High School FY87	6148	15.875	100,000	10,900	41	10,941	89,059	-	
FY87 Moen Farm Proj.	6155	15.875	155,376	200,448	2,076	202,524	(47,148)	-	
Tamatam Housing Proj.	6159	15.875	48,681	48,681	47,175	95,856	(47,175)	-	
Magur Cold Storage	6161	15.875	42,591	42,591	5,430	48,021	(5,430)	-	
Pulusuk Housing Proj.	6167	15.875	39,298	101,850	50,125	151,975	(112,677)	-	
Administrative Cost 1.5%	6518	15.875	25,447	12,053	4,176	16,229	9,218	-	
Pefan Road Cons. & Imprv.	6520	15.875	326,000	150,000	163,667	313,667	12,333	135,000	76
Moen Housing Revolving Fund	6524	15.875	376,601	13,939	352,039	365,978	10,623	320,380	77
Patta Soc. Dev. Proj.	6525	15.875	81,338	6,228	57,312	63,540	17,798	-	
Nomwin Admin. Building	6532	15.875	51,644	20,776	17,723	38,499	13,145	-	
Chuuk Airport Terminal Sap.	6536	15.875	440,000	71,916	414,020	485,936	(45,936)	-	
Chuuk Tourism Promotion	6512	15.875	200,000	190,000	10,785	200,785	(785)	-	
Ruo Fishing Proj.	6519	15.875	66,534	53,450	15,978	69,428	(2,894)	-	
Moen Physical Cap. Sup.	6522	15.875	305,000	57,925	190,000	247,925	57,075	-	
Polle Marketing Proj.	6506	15.875	-	-	890	890	(890)	-	
Fanapanges Market Proj.	6500	15.875	33,395	3,951	17,842	21,793	11,602	-	
Ramonum Ice Plant	6035	15.875	-	-	4,810	4,810	(4,810)	-	
100 Tin Cargo Ship	6121	15.875	-	-	68	68	(68)	-	
Moen Waste Disposal	6135	15.875	-	-	173,162	173,162	(173,162)	-	
Ag. Infrastructure	6153	15.875	-	-	50,000	50,000	(50,000)	-	
Elin & Sangku Farm	6166	15.875	4,000	-	2,789	2,789	1,211	-	
Mama Passenger Boat	6171	15.875	-	-	3,000	3,000	(3,000)	-	
Datta Fishing Proj.	6174	15.875	168,077	-	165,176	165,176	2,901	-	
Moen Fishing Boat	6177	15.875	318,000	-	306,264	306,264	11,736	483,558	76
Wend-Village Admin/Office	6515	15.875	60,000	-	10,456	10,456	49,544	-	
Moen Vill. Sewing Ass. Proj.	6516	15.875	-	-	28,510	28,510	(28,510)	-	
Ulul Sub-State Center	6521	15.875	-	-	18,322	18,322	(18,322)	-	
Fanapanges Fishing Proj.	6523	15.875	-	-	21,025	21,025	(21,025)	-	
Food Prod. Ag/Animal Husb	6528	15.875	30,000	-	25,891	25,891	4,109	-	
Tol Fishing Proj.	6529	15.875	50,000	-	50,000	50,000	-	-	
			<u>16,468,424</u>	<u>10,120,253</u>	<u>4,803,628</u>	<u>14,923,881</u>	<u>1,544,543</u>	<u>938,938</u>	

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
**COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND**  
**SECTION 211(a)(2)**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND**  
**BUDGETARY POSITION BY GRANTOR**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor Account Title	Chuuk		Total Authori- zations	Prior Year Expenditures	1990 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)		Questioned Costs Amount	Detailed At Page
	Orgn.	CFDA					Authorizations Over Program	Authorizations Over Program		
	No.	I.D.No.								
Tol Small Industries	6530	15.875	15,000	-	15,000	15,000	-	-	-	-
Fananu Municipal Dock	6533	15.875	15,000	-	8,136	8,136	6,864	-	-	-
Fananu Fishing Proj.	6534	15.875	-	-	37,160	37,160	(37,160)	-	-	-
Lukunor Copra Coop Assoc.	6535	15.875	-	-	33,839	33,839	(33,839)	-	-	-
Losap Agriculture Proj.	6537	15.875	-	-	73,700	73,700	(73,700)	-	-	-
Losap Housing Loan Proj.	6538	15.875	-	-	52,075	52,075	(52,075)	-	-	-
Losap Garment Cottage Ind.	6539	15.875	50,000	-	15,103	15,103	34,897	-	-	-
Food Crop Development	6548	15.875	100,000	-	76,215	76,215	23,785	-	-	-
Weno-Village Sewing Proj.	6549	15.875	84,843	-	62,790	62,790	22,053	-	-	-
Weno-Village Fishing Proj.	6550	15.875	104,516	-	110,418	110,418	(5,902)	-	-	-
Satawan Sub-Staff Center	6551	15.875	67,655	-	191	191	67,464	-	-	-
Unupuker Comm. Hall-Sapuk	6552	15.875	5,000	-	952	952	4,048	-	-	-
Weno-Penia Water Tank Proj.	6553	15.875	5,000	-	5,050	5,050	(50)	-	-	-
Tonowas-Memete Road/Dock	6554	15.875	14,000	-	200	200	13,800	-	-	-
Tonowas-Etten Dock Improv.	6555	15.875	10,000	-	3,659	3,659	6,341	-	-	-
Diherrah Fishing Boat	6558	15.875	171,346	-	171,346	171,346	-	-	-	-
Land Lease State Proj.	6559	15.875	20,000	-	20,000	20,000	-	-	-	-
Lukunor Copra Office	6560	15.875	11,480	-	7,189	7,189	4,291	-	-	-
Lukunor Class Room	6561	15.875	25,000	-	17,339	17,339	7,661	-	-	-
Polle-Nethon Dispensary	6562	15.875	22,000	-	4,043	4,043	17,957	-	-	-
Polle-Manaio Dispensary	6563	15.875	22,000	-	14,315	14,315	7,685	-	-	-
Polle Municipal Office	6564	15.875	40,111	-	10,315	10,315	29,796	-	-	-
Tonowas-Nangko Road/Dock	6566	15.875	14,000	-	8,090	8,090	5,910	-	-	-
Chukuram Dock Polle	6570	15.875	50,949	-	33,709	33,709	17,240	-	-	-
Eppin Annuk Dock, Polle	6571	15.875	62,519	-	5,000	5,000	57,519	-	-	-
Contingency Fund	6572	15.875	34,500	-	19,500	19,500	15,000	-	-	-
Project Admin-State CIP	6573	15.875	75,000	-	16,753	16,753	58,247	-	-	-
Oneop Taro Patch Proj.	6574	15.875	37,278	-	23,108	23,108	14,170	-	-	-
Neirenom Dock Polle	6575	15.875	17,649	-	5,032	5,032	12,617	-	-	-
Weno Mun. Office Bldg.	6576	15.875	340,000	-	28,400	28,400	311,600	-	-	-
Peniesene Ind. Road Weno	6577	15.875	5,000	-	1,474	1,474	3,526	-	-	-
Bank of FSM	6578	15.875	250,000	-	250,000	250,000	-	-	-	-
Truk Coconut Process. Plant	6580	15.875	50,000	-	50,000	50,000	-	-	-	-
Uman Fisheries Development	6581	15.875	200,000	-	29,725	29,725	170,275	-	-	-
Fono Fishing Proj.	6582	15.875	101,811	-	101,030	101,030	781	-	-	-
Tonowas-Etten Fish. Proj.	6583	15.875	5,000	-	4,995	4,995	5	-	-	-
Losap Supplmntl. Oper.	6584	15.875	26,672	-	10,800	10,800	15,872	-	-	-
Tonowas Supplmnt. Pass. Boat	6585	15.875	20,000	-	7,016	7,016	12,984	-	-	-
Broiler/Hatchery	6586	15.875	100,000	-	74,042	74,042	25,958	-	-	-
Ruo Housing Proj.	6587	15.875	47,307	-	47,307	47,307	-	-	-	-
Ruo Housing Proj.	6588	15.875	17,662	-	17,662	17,662	-	-	-	-
MS Fuun Metaw Supp. & Rev.	6589	15.875	57,999	-	57,531	57,531	468	-	-	-
Pjanu Taro Patch (Fefan)	6590	15.875	4,000	-	1,490	1,490	2,510	-	-	-
Epiton Shore Line (Fefan)	6591	15.875	4,000	-	1,341	1,341	2,659	-	-	-
Nikai Seawal (Fefan)	6592	15.875	6,000	-	2,266	2,266	3,734	-	-	-
Hospital Air Conditioning	6594	15.875	31,168	-	31,000	31,000	168	31,000	77	-
State Facilities Rehab.	6595	15.875	250,000	-	174,589	174,589	75,411	-	-	-
Chuuk Tourism Promotion	6598	15.875	200,000	-	200,000	200,000	-	-	-	-
Southern Namoneis JHS	6599	15.875	50,000	-	31,993	31,993	18,007	-	-	-
Tol Fishing Project	6602	15.875	280,000	-	280,000	280,000	-	25,150	76	-
Copra Subsidy	6603	15.875	150,000	-	93,970	93,970	56,030	-	-	-
Romanum Seawall	6606	15.875	56,807	-	4,945	4,945	51,862	-	-	-
Satawan Fisheries Dev.	6607	15.875	94,350	-	49,761	49,761	44,589	-	-	-
Sangkumi Artisanal Fish	6611	15.875	92,923	-	55,840	55,840	37,083	38,890	77	-
Coconut Rehab. Proj.	6615	15.875	100,000	-	4,645	4,645	95,355	-	-	-
Pac. Is. Regional Dev. Bk.	6616	15.875	250,000	-	100,000	100,000	150,000	-	-	-
Fisheries Development	6617	15.875	200,000	-	54,796	54,796	145,204	-	-	-
Fanapanges Housing Proj.	6620	15.875	3,148	-	910	910	2,238	-	-	-
Nowwin Fishing Proj.	6621	15.875	104,191	-	103,146	103,146	1,045	-	-	-
Weno Road Improve. Proj.	6626	15.875	600,000	-	5,180	5,180	594,820	-	-	-
Purchase of Vehicle - Fono	6629	15.875	12,000	-	12,000	12,000	-	-	-	-
Magur Housing Proj.	6630	15.875	75,034	-	75,034	75,034	-	-	-	-
Ono Housing Proj.	6631	15.875	65,356	-	65,356	65,356	-	-	-	-
Truk Coconut Authority	6641	15.875	250,000	-	39,965	39,965	210,035	-	-	-
<b>Total Compact of Free Association Capital Projects Fund - Section 211(a)(2)</b>			<b>\$21,643,698</b>	<b>\$10,120,253</b>	<b>\$7,722,064*</b>	<b>\$17,842,317</b>	<b>\$3,801,381</b>	<b>\$1,033,978</b>		

See accompanying note to statement of expenditures and questioned costs and budgetary position by grantor.



STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA  
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND SECTION 211(a)(2) AND  
COMPACT OF FREE ASSOCIATION CURRENT ACCOUNT- SECTION 211

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
BUDGETARY POSITION BY GRANTOR  
FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor <u>Account Title</u>	Chuuk Orgn.	CFDA <u>I.D.No.</u>	Total Authori- zations	Prior Year <u>Expenditures</u>	1990 Fiscal Year <u>Expenditures</u>	Total Program <u>Expenditures</u>	Excess (Deficit)		<u>Questioned Costs</u>	
							Authorizations Over Program <u>Expenditures</u>		<u>Amount</u>	<u>At Page</u>
<u>Compact 211 Capital Account</u>										
<u>- Capital Projects Fund</u>										
* For general purpose financial statement presentation, total expenditures above are reconciled by the following:										
								Audited expenditures per the general purpose financial statements		\$7,144,193
								Add:		
								Investment in common stock of the Bank of the FSM		250,000
								Operating transfers out to Chuuk Visitor's Bureau		200,000
								Operating transfer out to Chuuk Coconut Processing		<u>127,871</u>
								Expenditures per statement of expenditures and questioned costs and budgetary position by grantor		<u>\$7,722,064</u>
<u>Compact 211 Current Account</u>										
<u>- General Fund</u>										
Compact of Free Association										
Current Account and Inflation										
Adjustment	15.875		<u>\$17,191,200</u>	<u>\$ -</u>	<u>\$17,191,200</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

Note: These funds are made available by Title Two, Article I, Section 211 of the Compact of Free Association.

The funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

STATE OF CHUUK  
 FEDERATED STATES OF MICROWESIA  
 COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS AND  
 BUDGETARY POSITION BY GRANTOR  
 FOR THE YEAR ENDED SEPTEMBER 30, 1990

Grantor Account Title	Chuuk Orgn. No.	CFDA I.D.No.	Total Authori- zations	Prior Year Expenditures	1990 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)		Questioned Costs Detailed Amount At Page
							Authorizations Over Program	Expenditures	
Section 212 Civic Action Team	2182	15.875	\$ 70,000	\$ -	\$ 60,600	\$ 60,600	\$ 9,400	\$ -	
Section 214(b) Energy	2780	15.875	1,247,087	-	1,410,267	1,410,267	(163,180)	19,009	77
Section 214(a) Chuuk Elec.	2782	15.875	150,000	31,437	124,160	155,597	(5,597)	-	
			<u>1,397,087</u>	<u>31,437</u>	<u>1,534,427</u>	<u>1,565,864</u>	<u>(168,777)</u>	<u>19,009</u>	
Section 216(a)(2) Health & Medical	2901	15.875	461,087	-	395,262	395,262	65,825	-	
Section 216(a)(3) Scholarship	2902	15.875	-	-	197,956	197,956	(197,956)	-	
			<u>\$1,928,174</u>	<u>\$ 31,437</u>	<u>\$2,188,245</u>	<u>\$2,219,682</u>	<u>\$ (291,508)</u>	<u>\$ 19,009</u>	

The funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.

**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
**COMPACT OF FREE ASSOCIATION SPECIAL BLOCK GRANT FUND - SECTION 221 (b)**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS**  
**AND BUDGETARY POSITION BY GRANTOR**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor Account Title	Chuuk		Total	Prior Year	1990	Total	Excess (Deficit)		Questioned Costs	
	Orgn. No.	CFDA I.D.No.	Authori- zations	Expenditures	Fiscal Year Expenditures	Program Expenditures	Authorizations Over Program	Expenditures	Amount	Detailed At Page
Chapter I and II	2113	15.875	\$1,033,660	\$ -	\$ 641,412	\$ 641,412	\$ 392,248	\$ -		
Health Center	2114	15.875	450,000	206,514	1,188	207,702	242,298	-		
Delivery Health Services	2115	15.875	177,000	175,324	1,727	177,051	(51)	-		
Rural Sanitation Prog.	2116	15.875	94,300	-	97,969	97,969	(3,669)	-		
Health Education	2117	15.875	73,100	-	62,044	62,044	11,056	-		
Physiotherapy	2118	15.875	17,000	-	15,916	15,916	1,084	-		
Special Block Grant Office	2119	15.875	57,300	-	47,406	47,406	9,894	-		
Health Planning	2001	15.875	13,800	10,157	15,373	25,530	(11,730)	-		
Dental Services	2002	15.875	60,000	5,644	45	5,689	54,311	-		
EPA	2003	15.875	52,400	-	46,855	46,855	5,545	-		
Communicable Diseases	2004	15.875	10,700	-	4,560	4,560	6,140	-		
Mental Health	2005	15.875	39,400	-	34,152	34,152	5,248	-		
Geriatric Health	2006	15.875	90,200	-	72,708	72,708	17,492	-		
Secondary Ed.	2142	15.875	1,440,000	1,371,926	1,319	1,373,245	66,755	-		
Medical Referral	2120	15.875	510,000	967,805	32,982	1,000,787	(490,787)	-		
Medical Supp. and Material	2121	15.875	-	(255)	11,762	11,507	(11,507)	-		
Medical Supplies	2123	15.875	500,000	358,315	93,620	451,935	48,065	-		
Immunization	2125	15.875	6,200	-	5,528	5,528	672	-		
Education Program	2145	15.875	901,200	956,698	260,223	1,216,921	(315,721)	-		
TOCA	2146	15.875	54,337	-	134,234	134,234	(79,897)	-		
TOCA Headstart	2147	15.875	140,340	-	67,925	67,925	72,415	-		
Bilingual Ed.	2126	15.875	237,248	-	168,912	168,912	68,336	776	78	
Teacher Training	2127	15.875	49,893	-	36,356	36,356	13,537	-		
Food Services	2128	15.875	678,182	-	615,510	615,510	62,672	-		
VRS	2135	15.875	90,250	-	73,545	73,545	16,705	-		
<b>Total Compact of Free Association Block Grant Fund - Section 221 (b)</b>			<u>\$6,776,510</u>	<u>\$4,052,128</u>	<u>\$2,543,271</u>	<u>\$6,595,399</u>	<u>\$ 181,111</u>	<u>\$ 776</u>		

Note: These funds are made available by Title Two, Article I, Section 221 (b) of the Compact of Free Association.

The funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to statement of expenditures and questioned costs and budgetary position by grantor.





**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Statement of Expenditures and Questioned Costs  
and Budgetary Position by Grantor  
For the year ended September 30, 1990

(1) Scope of Review

The State of Chuuk (the State) is one of the four States of the Federated States of Micronesia. All significant operations of the State are included in the scope of the OMB Circular A-128 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

Statement of expenditures and questioned costs and budgetary position by grantor are presented for each Federal program related to the following agencies:.

- . Department of Agriculture
- . Department of Education
- . Department of Health and Human Services
- . Department of Housing and Urban Development
- . Department of the Interior
- . Department of Labor
- . Environmental Protection Agency

b. Fiscal Period Audited

Single Audit testing procedures were performed for program transactions during the fiscal year ended September 30, 1990.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the total authorizations and the current year and total expenditures of the individual programs. All authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

b. Subgrantees

Certain program funds are passed through the State to subgrantee organizations. The statement of expenditures and questioned costs and budgetary position by grantor do not contain separate schedules disclosing how the subgrantee outside of the State's control utilize these funds.



**STATE OF CHUUK**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Statement of Expenditures and Questioned Costs  
and Budgetary Position by Grantor, Continued  
For the year ended September 30, 1990

(2) Summary of Significant Accounting Policies, Continued

c. Indirect Cost Allocation

The State does not receive any indirect cost allocation and does not charge indirect costs against federal programs.

(3) Findings of Noncompliance

The findings of noncompliance identified in connection with the 1990 Single Audit are discussed in the Schedule of Identified Noncompliance and Internal Control Weaknesses. In determining compliance with requirements of awards received by the State, a representative sample was selected from 1990 expenditures for testing each major program as shown on the Schedule of Grants Selected for Audit in Accordance with OMB Circular A-128.

(4) Loan Funds

Chuuk Housing Authority

As of September 30, 1990, \$590,924 of loans made out of U.S. federal assistance were outstanding. The assistance was made to the Chuuk Housing Authority (the Authority) by the Department of Housing and Urban Development. For the year ended September 30, 1990, \$37,577 in doubtful accounts have been recorded. In accordance with OMB Circular A-87, these bad debts have been questioned; however, such costs are not included in the accompanying schedules. Additionally, the Authority received \$41,510 of HUD Section 8 low income federal contributions for the year ended September 30, 1990.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF GRANTS SELECTED FOR AUDIT  
IN ACCORDANCE WITH OMB CIRCULAR A-128  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following lists specific grants selected for detailed compliance testing in accordance with applicable OMB Circular A-128 requirements.

<u>Grantor</u>	<u>CFDA No.</u>	<u>Chuuk Org. No.</u>	<u>Description</u>	<u>Fiscal Year 1990 Expenditures</u>
<b><u>FSM Federal Assistance Fund</u></b>				
Dept. of Agriculture	10.560	3310	Food Services	\$ 4,025
	10.560	3331	Food Services	315,723
	10.560	3315	Food Services	4,026
	10.560	3388	Food Services	<u>1,012,288</u>
Dept. of Education	84.151	3107	Chapter 2	59,644
	84.151	3106	Chapter 1 - Transition	29,849
	84.151	3118	Chapter 1 - FY1988	1,331,289
	84.151	3119	Chapter 2 - FY1988	518,669
	84.151	3007	Chapter 1&2 GAP	<u>922</u>
Dept. of Labor	17.250	3204	JTPA Admin	42,541
	17.250	3248	FY1988 Admin	12,907
	17.250	3249	FY1990 Training	165,866
	17.250	3275	FY1989 Admin	87,324
	17.250	3276	Adult Program	173,290
	17.250	3277	Youth Program	<u>134,302</u>
Total FSM federal assistance fund				<u>3,892,665</u>
<b><u>Department of the Interior, CFDA # 15.875:</u></b>				
Compact of Free Association, Section 214 Energy Grant				1,534,427
Compact of Free Association, Section 216 Health and Medical Referral				395,262
Compact of Free Association Block Grant, Title Two, Article I, Section 221 (b)				2,543,271
Compact of Free Association Capital Projects Fund, Title Two, Article I, Section 211(a)(2)				7,722,064
Compact of Free Association Section 212 Civil Action				60,600
Compact of Free Association Section 216(a)(3) Scholarship				<u>197,956</u>
Total CFDA # 15.875				<u>12,453,580</u>
Total programs selected for audit				<u>\$16,346,245</u>
Total federal grant assistance expenditures				<u>\$16,907,778</u>
Percentage of program assistance expenditures tested				<u>97%</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SUMMARY OF QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	Chuuk Org. <u>No.</u>	CFDA <u>No.</u>	<u>Description</u>	Fiscal Year 1990 <u>Expenditures</u>	<u>Detailed at Page</u>
<u>FSM Federal Assistance Fund</u>					
Dept. of Agriculture	3338	10.560	Food Services Program	\$ 17,998	72
Dept. of Education	3119	84.151	FY88 Chapter 2	38,481	73
	3106	84.151	Chapter 1 Transition	26,360	73
	3107	84.151	Chapter 2 Transition	47,778	74
	3088	84.126	VRS	34,735	73
Dept. of Labor	3249	17.250	FY88 JTPA Trng.	17,130	74
	3275	17.250	FY89 JTPA Trng.	15,202	74
	3276	17.250	FY89 JTPA Adult	23,105	75
Dept. of Health and Human Services	3776	13.633	FY88 Aging Support	35,400	75
Other	3850	N/A	Prior year encumbrances	<u>25,911</u>	75
Total FSM federal assistance grants questioned costs				<u>\$ 282,100</u>	



STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA

SUMMARY OF QUESTIONED COSTS, Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 1990

<u>Grantor</u>	Chuuk Org. <u>No.</u>	CFDA <u>No.</u>	<u>Description</u>	Fiscal Year 1990 <u>Expenditures</u>	<u>Detailed at Page</u>
<u>TTPI Capital Projects Fund</u>					
Power Plant	6364	15.875	Power Plant	<u>\$ 1,200</u>	76
<u>Compact of Free Association Capital Project Fund Section 211(a)(2)</u>					
<u>Compact of Free Association</u>					
	6177	15.875	Moen Fishing Boat	483,558	76
	6602	15.875	TOL Fishing Project	25,150	76
	6520	15.875	Fefan Road	135,000	76
	6524	15.875	Moen Housing Auth.	320,380	77
	6611	15.875	Sangkumi Artisgnal	38,890	77
	6594	15.875	Hospital Air Cond.	<u>31,000</u>	77
Total Compact of Free Association Capital Project Fund Section 211(a)(2) questioned costs				<u>\$1,033,978</u>	
<u>Compact of Free Association Section Other Grants Fund</u>					
Energy Section 214B	2780	15.875	Energy	<u>19,009</u>	77
				<u>\$ 19,009</u>	



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SUMMARY OF QUESTIONED COSTS, Continued  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	Chuuk Org.	CFDA	<u>Description</u>	Fiscal Year 1990 <u>Expenditures</u>	<u>Detailed at Page</u>
	<u>No.</u>	<u>No.</u>			
Compact of Free Association Block Grant Fund <u>Section 221(b)</u>					
Compact of Free Association Section 221(b)	2126	15.875	Bilingual Ed.	<u>776</u>	78
Total Compact of Free Association Block Grant Fund Section 221(b)				<u>\$ 776</u>	
Total questioned costs of all federal programs				<u>\$1,337,063</u>	



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
U.S. Dept. of Agriculture CFDA 10.560	Food Services Org. 3338	1. Travel expenditure is improperly charged to Food Services:	
		<u>Payee</u> <u>Doc. #</u> <u>Check#</u>	
		Sophie Eash                      A060371                      70169	\$ 1,598
		2. Payment appears to be for court settlement charges with respect to prior claims of Food Services cooks. We could find no evidence of funds certification or supporting documentation:	
		<u>Payee</u> <u>Doc. #</u> <u>Check #</u>	
		Attorney Fritz                      L3252011                      69526	16,181
		3. Based on a sample of 25 employees, we could find no supporting documentation for an adjustment to the employee's regular pay:	
		<u>Payee</u> <u>Employee #</u> <u>Check #</u>	
		K. Petewan                      060833                      489925	<u>219</u>
		Total U.S. Department of Agriculture Questioned Cost	

U.S. Dept. of Education CFDA 84.151	FY88 Chapter II Org. 3119	1. Based on a sample of 12 disbursements, 3 did not have documentation supporting the expenditure:	
		<u>Payee</u> <u>Doc. #</u> <u>Amount</u>	
		Akima Ruben                      Ck - 70524                      \$ 129	
		Hoover Brothers, Inc.                      APV-908480 <u>2,976</u>	\$ 3,105



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>									
		2. Based on a sample of 12 disbursements, this amount appears to be charged to the wrong organization:										
		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">PMO</td> <td style="text-align: center;">109587</td> <td style="text-align: right;">\$ 4,400</td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		PMO	109587	\$ 4,400				
<u>Payee</u>	<u>Doc. #</u>											
PMO	109587	\$ 4,400										
		3. Based on a sample of 12 disbursements, 1 had no evidence of funds certification or supporting documentation:										
		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">FSM Lno</td> <td style="text-align: center;">Ck - 73218</td> <td style="text-align: right;">28,000</td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		FSM Lno	Ck - 73218	28,000				
<u>Payee</u>	<u>Doc. #</u>											
FSM Lno	Ck - 73218	28,000										
		4. Based on a sample of 12 disbursements, we could not locate supporting documentation for the following:										
		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Bernie's Rent- A-Car</td> <td style="text-align: center;">APV 907174</td> <td style="text-align: right;"><u>2,976</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>38,481</u></td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		Bernie's Rent- A-Car	APV 907174	<u>2,976</u>			<u>38,481</u>	
<u>Payee</u>	<u>Doc. #</u>											
Bernie's Rent- A-Car	APV 907174	<u>2,976</u>										
		<u>38,481</u>										
CFDA 84.126	Chuuk VRS Case Services Org. 3088	1. The following disbursement was questioned because there was insufficient documentation supporting the expenditures:										
		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Rehabilitation Hospital</td> <td style="text-align: center;">Ck-56331</td> <td style="text-align: right;"><u>34,735</u></td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		Rehabilitation Hospital	Ck-56331	<u>34,735</u>				
<u>Payee</u>	<u>Doc. #</u>											
Rehabilitation Hospital	Ck-56331	<u>34,735</u>										
CFDA 84.151	Ed. Transition Chapter I Org. 3106	1. The following disbursement was questioned because there was no evidence of competitive bid:										
		<table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Shigeto's Store</td> <td style="text-align: center;">APV-901025</td> <td style="text-align: right;"><u>26,360</u></td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		Shigeto's Store	APV-901025	<u>26,360</u>				
<u>Payee</u>	<u>Doc. #</u>											
Shigeto's Store	APV-901025	<u>26,360</u>										





**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

Grantor	Program	Identified Noncompliance and Internal Control Weaknesses	Questioned Costs									
CFDA 84.151	Ed. Transition Chapter II Org. 3107	1. The following disbursements were questioned because there was no evidence of competitive bid:										
		<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payee</th> <th style="text-align: center; border-bottom: 1px solid black;">Doc. #</th> <th style="text-align: center; border-bottom: 1px solid black;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Shigeto's Store</td> <td style="text-align: left;">APV-900118</td> <td style="text-align: right;">\$23,889</td> </tr> <tr> <td style="text-align: left;">Shigeto's Store</td> <td style="text-align: left;">APV-901836</td> <td style="text-align: right;"><u>23,889</u></td> </tr> </tbody> </table>	Payee	Doc. #	Amount	Shigeto's Store	APV-900118	\$23,889	Shigeto's Store	APV-901836	<u>23,889</u>	<u>47,778</u>
Payee	Doc. #	Amount										
Shigeto's Store	APV-900118	\$23,889										
Shigeto's Store	APV-901836	<u>23,889</u>										
Total U.S. Department of Education Questioned Costs			<u>\$ 147,354</u>									
Dept. of Labor CFDA 17.250	FY88 JTPA Training Org. 3249	The State wrote-off prior year unresolved travel advances. Since claims were not filed, these various advances are questioned.	<u>\$ 17,130</u>									
	FY89 JTPA Administration Org. 3275	1. Based on a sample of 3 disbursements tested in the organization, these lacked supporting documentation:										
		<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payee</th> <th style="text-align: center; border-bottom: 1px solid black;">Doc. #</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Bank of Guam</td> <td style="text-align: left;">APV-900828 &amp; 904370</td> </tr> </tbody> </table>	Payee	Doc. #	Bank of Guam	APV-900828 & 904370	8,000					
Payee	Doc. #											
Bank of Guam	APV-900828 & 904370											
		2. Expenditures exceeded authorization for travel.	<u>7,202</u>									
			<u>15,202</u>									
	FY89 JTPA Adult Prog. Org. 3276	1. Based on a sample of 5 disbursements tested in this organization, 3 did not have adequate documentation supporting the expenditure:										
		<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Payee</th> <th style="text-align: center; border-bottom: 1px solid black;">Doc. #</th> <th style="text-align: center; border-bottom: 1px solid black;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Eradio William</td> <td style="text-align: left;">APV-109594</td> <td style="text-align: right;">\$15,994</td> </tr> <tr> <td style="text-align: left;">Cresencia John</td> <td style="text-align: left;">Ck-6602197</td> <td style="text-align: right;"><u>5,250</u></td> </tr> </tbody> </table>	Payee	Doc. #	Amount	Eradio William	APV-109594	\$15,994	Cresencia John	Ck-6602197	<u>5,250</u>	21,244
Payee	Doc. #	Amount										
Eradio William	APV-109594	\$15,994										
Cresencia John	Ck-6602197	<u>5,250</u>										



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>						
		2. Based on a sample of 5 disbursements, tested in this organization, the amount paid for this disbursement was greater than the amount due:							
		<table border="0"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">G. Hansen</td> <td style="text-align: center;">APV-904907</td> <td style="text-align: right;">1,500</td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		G. Hansen	APV-904907	1,500	1,500
<u>Payee</u>	<u>Doc. #</u>								
G. Hansen	APV-904907	1,500							
		3. Expenditures exceeded the budgetary allotment for contracts.	<u>361</u>						
			<u>23,105</u>						
		<b>Total U.S. Department of Labor Questioned Costs</b>	<u><u>\$ 55,437</u></u>						
U.S. Dept. of Health and Human Services CFDA 13.633	FY88 Aging Support Org. 3776	1. The following expenditures was questioned because there is no evidence of goods on the Purchase Order ever being received or evidence of competitive bid:							
		<table border="0"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Triple J Enterprises</td> <td style="text-align: center;">Ck-71760</td> <td style="text-align: right;">\$ 35,400</td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		Triple J Enterprises	Ck-71760	\$ 35,400	\$ 35,400
<u>Payee</u>	<u>Doc. #</u>								
Triple J Enterprises	Ck-71760	\$ 35,400							
		<b>Total Department of Health &amp; Human Services Questioned Costs</b>	<u><u>\$ 35,400</u></u>						
Unidentified Federal Grant	Prior Year Encumbrances Org. 3850	1. The following disbursement was questioned because it is an unallowable cost under OMB A-87, attachment 8, Section D(5). These charges were incurred against an unidentified federal grant:							
		<table border="0"> <tr> <td style="text-align: center;"><u>Payee</u></td> <td style="text-align: center;"><u>Doc. #</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Joseph Muritak</td> <td style="text-align: center;">Ck-70981</td> <td style="text-align: right;">\$ 25,911</td> </tr> </table>	<u>Payee</u>	<u>Doc. #</u>		Joseph Muritak	Ck-70981	\$ 25,911	\$ 25,911
<u>Payee</u>	<u>Doc. #</u>								
Joseph Muritak	Ck-70981	\$ 25,911							
		<b>Total Unidentified Federal Grant Questioned Costs</b>	<u><u>\$ 25,911</u></u>						
		<b>Total FSM Federal Grants Questioned Costs</b>	<u><u>\$ 282,100</u></u>						



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>TTPI Capital Projects Fund</u>			
CFDA 15.875	Power Plant Org. 6364	1. Expenditures exceed authorization.	<u>\$ 1,200</u>
Total TTPI Capital Projects Questioned Costs			<u><u>\$ 1,200</u></u>
<u>U.S. Dept. of the Interior</u>	Moen Fishing Boat Org. 6177	1. The following expenditure was questioned because the amount does not appear reasonable and necessary for the program:	
CFDA 15.875		<u>Payee</u> <u>Doc. #</u> <u>Amount</u>	
Compact of Free Association, Section 211(a)(2)		Mission Bay Yacht                      Ck-3346                      \$ 88,000	
		Truk Travel Unlimited                                      Ck-68392                      15,558	\$ 103,558
		2. The following expenditure was questioned because there was insufficient documentation supporting the expenditure and there was no evidence of competitive bid:	
		<u>Payee</u> <u>Doc. #</u>	
		Mission Bay Yacht                      Ck-2775	<u>380,000</u>
			<u>483,558</u>
	Tol Fishing Project Org. 6602	1. The following disbursement was questioned because there was no documentation supporting the expenditure:	
		<u>Payee</u> <u>Doc. #</u>	
		Susumus Store                                      APV-906812	<u>25,150</u>
	Fefan Road Construction & Improvement Org. 6520	1. The following disbursement was questioned because there was no documentation to establish the cost of goods or services acquired:	
		<u>Payee</u> <u>Doc. #</u>	
		Nanyo Boeki Kasha, Ltd.                                      Ck-2638	<u>135,000</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
Moen Housing Revolving Fund Org. 6524		1. This disbursement is questioned because there was no documentation to support the expenditure:  <div style="text-align: center;"> <u>Payee</u>                  <u>Doc. #</u> </div> Moen Housing Auth.      Ck-2609	<u>320,380</u>
S a n g k u m i Artisanal Org. 6611		1. This disbursement is questioned because there was no documentation to support the expenditure:  <div style="text-align: center;"> <u>Payee</u>                  <u>Doc. #</u> </div> Susumu's Store              Ck-3414	<u>38,890</u>
Hospital Air Condition Org. 6594		1. This disbursement was questioned because there was no documentation to support the expenditure:  <div style="text-align: center;"> <u>Payee</u>                  <u>Doc. #</u> </div> Advance Marketing Corp.                              Ck-3420	<u>31,000</u>
Total Compact of Free Association, Section 211(a)(2) Questioned Costs			<u>\$1,033,978</u>
<u>U.S. Dept. of the Interior</u>			
CFDA 15.875 Compact of Free Association, Section 214(b)	Energy Org. 2780	1. The following disbursement was questioned because there was no documentation supporting the expenditure:  <div style="text-align: center;"> <u>Payee</u>                  <u>Doc. #</u> </div> GE Locomotives, Canada                              APV-906004	<u>\$ 19,009</u>
Total Compact of Free Association, Section 214(b) Questioned Costs			<u>\$ 19,009</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>								
<u>U.S. Dept. of the Interior</u>											
CFDA 15.875 Compact of Free Association, Section 221(b)	Bilingual Ed. Org. 2126	1. The following disbursement was questioned because the employee's pay rate exceeded the salary approved in the budget:									
		<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><u>Employee</u></td> <td style="text-align: center; border-bottom: 1px solid black;"><u>Actual Salary</u></td> <td style="text-align: center; border-bottom: 1px solid black;"><u>Approved Salary</u></td> <td></td> </tr> <tr> <td style="text-align: center;">Ioldan Oeithar</td> <td style="text-align: center;">\$ 3,274</td> <td style="text-align: center;">\$ 2,498</td> <td style="text-align: right; vertical-align: bottom;">\$ <u>776</u></td> </tr> </table>	<u>Employee</u>	<u>Actual Salary</u>	<u>Approved Salary</u>		Ioldan Oeithar	\$ 3,274	\$ 2,498	\$ <u>776</u>	
<u>Employee</u>	<u>Actual Salary</u>	<u>Approved Salary</u>									
Ioldan Oeithar	\$ 3,274	\$ 2,498	\$ <u>776</u>								
<b>Total Compact of Free Association, Section 221(b) Questioned Costs</b>			<b>\$ <u><u>766</u></u></b>								



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

<u>Grantor</u>	<u>Program</u>	<u>Identified Noncompliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
Local Compliance - The following matters of identified noncompliance are not questioned in the accompanying report, but are considered to be potential violations of local laws and regulations.			
<u>U.S. Dept. of the Interior Compact of Free Association Section 211(a)(2)</u>	Org. 6173 Power Plant Generator	No evidence that bid procedures were followed:	
		<u>Check No.</u>	
		2459	\$ 177,500
		3166	110,580
		2615	38,825
		2993	132,958
		3167	92,244
	Org. 6173 Power Plant Generator	Requisition was signed one day prior to the closing date for invitations to bid.	
		<u>Check No.</u>	
		2642	35,450
Org. 6558 Diherarh Fishing Boat	No evidence that bid procedures were followed.		
	<u>Check No.</u>		
	3420	171,346	
Org. 6582 Fouo Fishing	No evidence that bid procedures were followed.		
	<u>Check No.</u>		
	2753	40,600	
<u>U.S. Department of the Interior Compact of Free Association</u>			
Section 212	Org. 2182	No evidence that bid procedures were followed.	
		APV-907441	50,850
Section 216(a)(2)	Org. 2901	No contract could be found to support the expenditure.	

9,711  
\$ 860,064



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

GENERAL NONCOMPLIANCES AND INTERNAL CONTROL WEAKNESSES - ACCOUNTING CONTROLS

Fixed Assets

1. Criteria - A subledger listing of fixed assets is required to maintain control over fixed assets.

Condition - The State of Chuuk does not account for its fixed assets.

Cause - The State has not established any policies or procedures to account for and control fixed assets.

Effect - The State cannot accurately state fixed assets.

Recommendation - The State should develop a list of fixed assets that is updated with current additions and deletions.

Compliance

2. Criteria - To effectively manage federal programs, federal program managers must have training in federal compliance requirements.

Condition - The federal grants coordinating office has had no training in how to perform their jobs.

Cause - A lack of knowledge about available training.

Effect - The financial statements have substantial questioned costs due to noncompliance problems.

Recommendation - The personnel of the federal grants coordinating office should be provided training in the area of federal compliance requirements.

Purchases/Disbursements

3. Criteria - Purchase requisition and related purchase orders provide authorization to expend federal funds for particular items.

Condition - For locally purchased food items under the food service program, purchase requisitions and purchase orders are generally not made until invoices are received from local vendors.

Cause - The cause for the above condition is unknown.

Effect - There is no budgetary control over spending by local agents.

Recommendation - The purchase requisitions and purchase orders should be made first thereby limiting the spending authority of the local agent.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

**GENERAL NONCOMPLIANCES AND INTERNAL CONTROL WEAKNESSES - ADMINISTRATIVE CONTROLS**

**Expenditures/Disbursements**

1. **Condition** - OMB Circular A-87 specifies certain costs which are not reimburseable under federal grant programs.

**Criteria** - The State of Chuuk makes no review of purchase requisitions for compliance with federal allowable costs independent of the requesting department.

**Cause** - The policy for doing this has been established but it has not been implemented.

**Effect** - The State of Chuuk has had numerous material questioned costs due to noncompliance with federal regulations.

**Recommendation** - The policies and procedures established to have the federal grants coordinating officer review purchase requisitions for compliance should be implemented.

2. **Condition** - For proper internal accounting control over disbursements and fund certifications, the EDP accounting system should be reviewed and updated daily and used to its full potential.

**Criteria** - Funds are certified on a manual basis. This is a secondary and unnecessary system. Many of the organizations in the 132-p report do not have entries into their budget field thus providing no funds control.

**Cause** - The funds certification person does not have access to a computer terminal.

**Effect** - Expenditures are authorized in excess of program authorizations.

**Recommendation** - The employees should be trained in the use of the computer accounting system.

3. **Condition** - For proper internal control over disbursements, each department should review the 132-P report on a monthly basis and reconcile differences with its internal records.

**Criteria** - The 132-P reports are not reviewed on a monthly basis by many program managers and thus problems with the reports go undetected.





**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

**GENERAL NONCOMPLIANCES AND INTERNAL CONTROL WEAKNESSES - ADMINISTRATIVE CONTROLS**

Cause - The finance department is often slow in providing the reports for review and the program managers do not follow up on the reports.

Effect - Expenditures may be improperly posted or the expenditure authorization may be exceeded.

Recommendation - Program managers should review the 132-P reports on a monthly basis to determine the reliability of those reports.

**Budget**

4. Condition - For proper control over expenditures, a detailed budget indicating plans and items to be purchased is required.

Criteria - Currently, the State uses an advice of allotment for budgetary control. The advice of allotment summarizes expenditure control by expense category.

Cause - A detailed plan is not made for most federal grant programs.

Effect - Funds can be spent on items which are inconsistent with program needs but are allowable under large expense categories.

Recommendation - A detailed plan should be developed for each federal grant program, delineating objectives, plans for reaching the objective, and a review of the outcome.

5. Condition - An effective planning procedure is a year-end program review.

Criteria - There is no year-end review of federal programs in Chuuk State.

Cause - This procedure has not been adopted by Chuuk State.

Effect - The budgetary figures used by the State of Chuuk may not be realistic since a review of prior performance has not been evaluated.

Recommendation - A year-end review and evaluation of each program should be performed.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF IDENTIFIED NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

**GENERAL NONCOMPLIANCES AND INTERNAL CONTROL WEAKNESSES - ADMINISTRATIVE CONTROLS**

**Payroll**

6. **Condition** - Overtime requires a supervisor's approval before payment is made. Time sheets are required documenting hours worked.

**Criteria** - The time sheets recording and authorizing overtime are not properly filed.

**Cause** - The secretary in charge of the overtime sheets has piled all of the sheets for the past few years in a box.

**Effect** - The hours worked and approval for overtime payments cannot be verified.

**Recommendation** - The overtime hours sheets should be filed by pay period for easy reference.

7. **Condition** - The food service office is required to report monthly meal counts and expenditures to the FSM National Government.

**Criteria** - There appears to be a lack of control over supporting documentation for these reports, because that which is reported is less than actual activity.

**Cause** - The reports which come from the outer island schools are on a periodic basis and often appear to be lost along the way.

**Effect** - The expenditures reported by the food service office do not match the financial reports.

**Recommendation** - The food service office should reconcile differences between its reports and the finance office. They should attempt to place better controls over the meals count reports.



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following questioned costs, per the September 30, 1984 audit report, have been resolved as follows:

	<u>Chuuk Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
1.	Questioned costs resulting from improperly documented expenditures have been resolved as the TTPI did not reimburse the State of Chuuk for those DOI O & M fund expenditures.		
	3730	Repair of LCU	\$ <u>114,674</u>
2.	Questioned costs resulting from inadequate monitoring have been cleared by the grantor.		
	F3V14A600	Geriatric Health	8,898
	F4V15A601	Congregate Meals	<u>600</u>
			<u>9,498</u>
	Total questioned costs resolved per the above		124,172
	Total unresolved 1984 questioned costs at September 30, 1989		<u>346,008</u>
	Unresolved 1984 questioned costs at September 30, 1990		<u>\$ 221,836</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following questioned costs, per the September 30, 1985 audit report, have been resolved as follows:

	<u>Chuuk Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
1.	Questioned costs arising from insufficient documentation were cleared by the grantor agency.		
	7601	Truk Cholera (Department of the Interior)	\$ 91,217
	HB5010	CDBG Program (HUD)	<u>85,000</u>
			<u>176,217</u>
2.	Questioned costs arising from lack of documentation or authorization were cleared by TTPI Headquarters as subsequently the necessary documentation was produced.		
	6711	Food Services	21,706
	6711	Food Services	23,585
	6711	Food Services	2,461
	6711	Food Services	<u>7,144</u>
			<u>54,896</u>
	A360.860M	Truk Sewer Treatment	111,879
	A360.860M	Truk Sewer Treatment	<u>83,957</u>
			<u>195,836</u>
	Total questioned costs resolved per the above		426,949
	Total unresolved 1985 questioned costs at September 30, 1989		<u>620,113</u>
	Unresolved 1985 questioned costs at September 30, 1990		<u>\$ 193,164</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following questioned costs, per the September 30, 1986 audit report, have been resolved as follows:

Subsequent to issuance of our audit report, supporting documentation was made available for review and appears proper for the following questioned costs.

Questioned costs resolved:

<u>Chuuk Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
6135	Chapter I	\$ 20,331
6135	Chapter I	<u>2,140</u>
		<u>22,471</u>

Questioned costs resulting from improper bidding procedures were cleared by the Department of the Interior as the grantor agency.

3742	Sewer Treatment Plant	<u>214,071</u>
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Total questioned costs resolved per the above	236,542
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Total unresolved 1986 questioned costs at September 30, 1989	<u>922,255</u>
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Unresolved 1986 questioned costs at September 30, 1990	<u>\$ 685,713</u>
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**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following questioned costs, per the September 30, 1987, audit report, have been resolved as follows:

Questioned costs resulting from expenditures in excess of authorizations have been resolved as the TTPI did not reimburse the State of Truk for these TTPI federal grants fund expenditures.

Questioned costs resolved:

<u>Truk</u> <u>Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
6126	FY85 Chapter 2	\$ 764
6128	Vocational Rehab Service	3,162
6132	Inst. Leadership & Classroom Mgmt.	826
6136	FY86 Chapter 2	157,973
6138	Vocational Rehab Service	7,557
6236	Preventive Health	1,030
6315	Aging Coordinator	813
6317	Congregate Meals	600
6522	Garment Factory	2,731
6515	Housing Loans	86
6811	Historic Preservation	952
6339	SCSEP Aging Employment	266
6251	EPA Board	696
6533	Fishing Boat Payaos	<u>1,308</u>
		<u>178,764</u>

The following questioned costs have been resolved as necessary supporting documentation or explanation has been provided and found to be adequate:

6721	Food Services	2,579
6721	Food Services	1,500
6721	Food Services	1,020
6721	Food Services	7,195
6721	Food Services	2,286
6721	Food Services	77,088
6731	Food Services	165
6145	FY87 Chapter I	104,118
6146	FY87 Chapter II	43,260
6155	Chapter I & II, GAP	177
6403	Public Market	54,291
6538	Faichuk PV	<u>42,750</u>
		<u>336,429</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA**

**RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**

The following questioned costs have been resolved as the contract amounts were found to be sufficient to cover the expenditures.

6731	Food Services	\$ 2,675
6731	Food Services	<u>19,625</u>
		<u>22,300</u>

The following questioned costs has been resolved as the budget amount was found to be sufficient to cover the expenditures.

6337	Congregate Meals	<u>70,748</u>
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Total Federal grant FY87 questioned costs resolved	608,241
Total questioned costs at September 30, 1989	<u>2,745,162</u>
Unresolved 1987 questioned costs at September 30, 1990	<u>\$2,136,921</u>

The questioned costs, per the September 30, 1989 and 1988 audit report have not been resolved. We are unaware of any resolved questioned costs for fiscal year 1989 and 1988. Total unresolved questioned costs for prior year is as follows:

Unresolved 1984 questioned costs	\$ 221,836
Unresolved 1985 questioned costs	193,164
Unresolved 1986 questioned costs	685,713
Unresolved 1987 questioned costs	2,136,921
Unresolved 1988 questioned costs	4,385,827
Unresolved 1989 questioned cost	<u>779,850</u>
Total unresolved questioned costs for prior years	<u>\$8,403,311</u>



**STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON  
THE INTERNAL CONTROL STRUCTURE  
FOR THE YEAR ENDED SEPTEMBER 30, 1990**





**INDEPENDENT AUDITORS' REPORT ON**  
**THE INTERNAL CONTROL STRUCTURE**

Honorable Sasao Gouland  
Governor, State of Chuuk  
Federated States of Micronesia

We have audited the general purpose financial statements of the State of Chuuk, as of and for the year ended September 30, 1990, and have issued our report thereon dated January 4, 1991.

Except as described in the aforementioned report, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of the State of Chuuk for the year ended September 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the State of Chuuk is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose

financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- . Cash and Investments
- . Receivables
- . Advances
- . Purchases, Payables, Disbursements
- . Payroll
- . Revenue and Taxation
- . Budgetary
- . Fixed Assets

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State of Chuuk's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. A description of these matters is presented in the following pages 93 through 132.

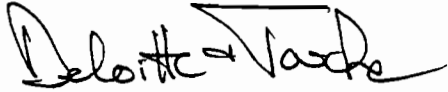
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. Of the reportable conditions referred to above, we believe findings 1, 4, 5, 6, 7, 9, 12, 14, 16, 17, 18, 21, 23, 27, 29, 30, 40, 41, 42, 43, 44, 49, 51, 58, 60, 61, 62, and 65 are material weaknesses.



This report is intended for the information of management of the State of Chuuk and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

January 4, 1991

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in black ink and is positioned above the printed name of the firm.

Certified Public Accountants

## General Comments

The State recently confirmed a new Director of Finance. At his request we have prepared a comprehensive report on the internal control structure of the State of Chuuk. Therefore, this report will not include any unresolved prior year findings section. All deficiencies requiring management's attention will be included in the following pages.

We have organized our findings and recommendations under various financial captions to assist the State in implementing corrective action. These captions are listed hereunder, followed by the summary of our findings and recommendations.

- A. Cash and Investments
- B. Receivables
- C. Travel Advances
- D. Purchases, Payables and Disbursements
- E. Payroll
- F. Revenue and Taxation
- G. Budgetary
- H. Electronic Data Processing
- I. Fixed Assets
- J. Utility Accounting
- K. Chuuk Visitor's Bureau
- L. Chuuk Coconut Processing Authority
- M. Chuuk Housing Authority
- N. Development Authorities
- O. Other



## Cash and Investments

### Finding No. 1

Criteria: Reconciliation of bank accounts is a key detective control in any accounting system.

Condition: The payroll checking account is not reconciled.

Cause: The cause appears to be due to the client not following the prescribed control procedures.

Effect: There was no financial statement effect noted during our testing. A possibility of misappropriation of funds could be undetected.

Recommendation: We recommend that the payroll checking account be reconciled on a monthly basis.

Auditee Response: We agree with this finding. Efforts are now being made to reconcile the payroll checking account.

### Finding No. 2

Criteria: A properly operating internal control structure calls for cash received to be deposited in the bank on a daily basis.

Condition: Deposits were not banked daily, delays of seven days from the date of receipt to the date of deposit were noted.

Cause: This problem appears to be due to a lack of understanding by the personnel of the importance of such procedures.

Effect: There is no direct effect on the financial statements. The government lost the opportunity to earn interest on local revenue collections, and keeping the money at the office increases the chance of theft or funds.

Recommendation: We recommend that cash received be deposited in the bank on a daily basis.

Auditee Response: We agree with this finding. We are going to implement the recommendation in FY 1991.

### Finding No. 3

Criteria: An adequate system of internal control would require two signatures be evidenced on checks over a stated amount.

Finding No. 3, Continued

Condition: Instances were found in the CIP checking account where checks over \$50,000 had only one signature.

Cause: The lack of adhering to prescribed policies and procedures.

Effect: This deficiency could result in errors or irregularities that may be material to the financial statements. We did not however, detect any material error resulting from this control weakness.

Recommendation: All checks in excess of \$50,000 should require two signatures before these checks are disbursed.

Auditee Response: The recommendation is now being implemented.

Finding No. 4

Criteria: In order for State officials to make accurate and informed decisions about the financial position of the State, all investment activity should be recorded monthly.

Condition: The State did not record any of its investment activity for fiscal year 1990 until the end of the fiscal year.

Cause: The Department of Finance officials do not have a defined policy for recording investments monthly.

Effect: Cash on deposit with trustee, dividend and interest receivables, marketable securities and revenues were all substantially understated during interim periods.

Recommendation: On a monthly basis the State should record all of its investment activity. Outside technical assistance should be sought on how to read and record activity from the trust statements.

Auditee Response: Monthly recording of investment transactions will be difficult as of this time. However, we can commit to recording investment transactions on a quarterly basis.

Receivables

Finding No. 5

Criteria: General ledger control balances should be supported by a detailed subsidiary ledger, and periodic review of the collections received against these balances should be made.

Finding No. 5, Continued

Condition: There was no subsidiary ledger which reported the cumulative receivable account activity. The receivables fund shows current year activity but does not include prior year receivable balances.

Cause: The current software being used by Chuuk Finance does not contain a receivable sub-ledger package. Additionally finance personnel are not aware of this deficiency.

Effect: While this deficiency could result in errors or irregularities that may be material to the financial statements, we did not detect any material errors resulting from this control weakness during our examination.

Recommendation: The State should procure an adequate upgrade to its present software that contains a receivable subsidiary ledger package or a manual subsidiary ledger should be maintained.

Auditee Response: In the absence of software that will integrate receivables into our system, efforts are now taken to support our General Ledger balances with a manual subsidiary ledger.

Finding No. 6

Criteria: Amounts due from other governments should be billed timely and any differences in amounts remitted immediately investigated.

Condition: We noted that certain Congress of the Federated States of Micronesia appropriations from FY 87 and other amounts due from the FSM that the State administered were never collected.

Cause: No one person is delegated with the responsibility of following up on amounts due.

Effect: The general fund cash resources are not replenished in a timely manner.

Recommendation: Monthly review should be performed of all account balances by someone at a supervisory position. For those accounts which the State expends funds to be reimbursed later, monthly billings should be sent and adequate, prompt follow up be made of delinquent amounts due.

Auditee Response: Review is now being done on a quarterly basis.

Finding No. 7

Criteria: Public Works requires utility users to pay certain amounts based upon the class type of the customers. The amounts paid are to be used to defray the cost of power distribution. An adequate system of internal control would dictate recording the billing and collection of these amounts.

Condition: The majority of amounts billed are uncollected. Additionally, utility receivable amounts due are not integrated in the official accounting system so amounts billed but not collected go unnoticed.

Cause: There is no system of internal control over billing and collection of utility amounts.

Effect: Receivables and revenues are understated. Substantial amounts due to the State have gone uncollected.

Recommendation: The State should make a policy decision concerning utility billings and collections. If the State wishes to subsidize residential and commercial users at the present level, the law should be changed. If the present rate structures are acceptable, an entire utility billing and collection process should be implemented and integrated into the official accounting records.

Auditee Response: A section has been formed in the Public Works Department to handle billings and collections. If it appears that we subsidize residential and commercial users because of poor collection policy, it is not our intention. We definitely needed the collections to operate. We have the intention to follow the suggestion of the Department of the Interior to raise the rates to 0.20 kwh for residential and 0.30 kwh for businesses.

Travel Advances

Finding No. 8

Criteria: An adequate system of internal control requires that employees adequately understand and adhere to accounting procedures and controls.

Condition: Employees appear to conscientiously follow the procedures and accounting processes, as understood. However, they may not fully understand how and why a procedure is to be performed.

Cause: Lack of instruction on accounting procedures exist and there is no written procedures manual available.



Finding No. 8, Continued

Effect: Transactions are performed without regard to controls because the employee does not fully understand the implications of the accounting entry or control procedures.

Recommendation: The State should develop procedures for all transactions. Written instructions should explain the significance of the procedures. Also, on-the-job training, continuing education and subsequent supervision and review should be implemented to ensure procedures are understood and followed.

Auditee Response:

We agree to the finding and we are working toward the full implementation of the recommendation stated.

Finding No. 9

Criteria: An adequate system of internal control requires timely reconciliation and investigation of travel advances outstanding for more than thirty days.

Condition: Travel advances continue to be advanced and not liquidated.

Cause: There is a lack of formal internal controls over travel advances. While policies and procedures exist, they are not enforced.

Effect: Travel advances are overstated and expenditures are understated. Since travel advances are also recorded as an encumbrance, encumbrances are overstated.

Recommendation: The formal procedure of timely follow-up and reconciliation of travel advances must be performed.

Auditee Response: Formal procedures in the follow up of travel advances are now established and implemented. The reconciliation of travel advances (CAPPS & DILOG) will most likely be implemented late in FY91 or in FY92 when we receive a reply from our software vendor regarding accounting of travel advances by vendor number.

Finding No. 10

Criteria: An adequate system of internal control would dictate an audit trail exist to account for each travel advance separately.

Finding No. 10, Continued

Condition: Currently, the EDP software processes travel advances by vendor (traveller) so when a claim is processed, it is calculated against the vendor travel advance total. Consequently, if the traveller has other advances outstanding greater than the claim processed, the system prints a negative check.

Cause: The software does not allow accounting by travel advance number.

Effect: It is very difficult to match advances and claims individually, thus reconciling outstanding advances becomes a manual exercise instead of an automated function.

Recommendation: The software vendor should be contacted to see if alternatives are available.

Auditee Response: We have already communicated with our software vendor regarding this recommendation.

Purchases, Payables and Disbursements

Finding No. 11

Criteria: Generally accepted accounting principles require the proper matching of expenditures with the delivery of goods or services.

Condition: Amounts which represented prepayments were recorded by the client as liabilities.

Cause: The cause of this condition was the client inputting accounts payable vouchers into the system when no liability had arisen, since no goods had been received by the client.

Effect: Prepayments are understated and liabilities are overstated.

Recommendation: Where payment is requested by vendor in advance, it is recommended that no input of data should be made until checks are issued. At this point the data should be input as follows:

<u>APV</u>	DR	Prepaid expense
CR	Accounts payable	
<u>Check</u>	DR	Accounts payable
CR	Cash	

Finding No. 11, Continued

Upon receipt of the goods, the following entry should be input.

DR	Expense
CR	Prepaid expense

Auditee Response: We agree with this finding. We will implement the recommendation starting in FY 1991.

Finding No. 12

Criteria: An adequate system of internal controls provides preventive and detective controls over errors and irregularities.

Condition: During the course of our audit, the following problems were noted:

1. Some invoices found were never input into the system.
2. Some invoices found were input twice.

Cause: The cause of this deficiency was the lack of an organized system of processing invoices.

Effect: As a result of these problems, the possibility of the client producing accurate, timely and reliable data is minimized.

Recommendation: It is recommended that the client establish an adequate filing system, particularly for invoices not matched to APV's, and that all invoices are restrictively stamped "processed" and "input" once they have been entered into the system.

Auditee Response: Part of the recommendation has already been implemented, i.e., stamping "INPUT" once entered in the system. The stamping "PROCESSED" and the establishment of a file for invoices not matched to APVs will be implemented this FY 1991.

Finding No. 13

Criteria: An adequate system of internal controls provides preventive and detective controls over errors and irregularities.

Condition: Instances of checks being posted to the wrong vendor in the subsidiary ledger were noted.

Finding No. 13, Continued

Cause: The cause of this condition is presently one of data input error; i.e.- the wrong vendor number is keyed in.

Effect: The accounts as a whole will not be misstated, however, individual subsidiary ledger accounts will be incorrect. This will cause problems in reconciling book balances with suppliers' balances and may result in incorrect payments.

Recommendation: To ensure that proper control over payables is achieved, it is recommended that all input data be edited to ensure accuracy is attained.

Auditee Response: The Accounts Payable Supervisor now reviews all input data before any updating is done.

Finding No. 14

Criteria: An adequate system of internal control would dictate that general ledger control balances are supported by a detailed subsidiary ledger.

Condition: Balances per the State's subsidiary ledger records do not agree with those per suppliers' statements and/or confirmation.

Cause: No reconciliation procedures exist to effectuate a proper reconciliation between the general ledger and the subsidiary ledger.

Effect: There are two effects. One is that individual vendor balances are not accurately stated and thus payments made may be incorrect. The other is that the total payable balance may be materially misstated.

Recommendation: In order to prevent such discrepancies, we recommend that monthly reconciliations between the subsidiary ledger, general ledger and suppliers' invoices be performed.

Auditee Response: Due to lack of personnel to handle accounts payable general and subsidiary ledger reconciliations, we cannot effect the recommendation right away. However, we agree to the finding and will implement it by FY 1992.

Finding No. 15

Criteria: An adequate system of internal control would require an adequate review of the purchase requisitions and accounts payable vouchers to the supporting invoice to ensure the account classification is correct.



Finding No. 15, Continued

Condition: Numerous instances of the wrong sub-account and organization being charged was noted.

Cause: The cause of the above condition is a lack of review of internal control documentation by a person at a higher level other than the person preparing the accounts payable voucher.

Effect: Numerous expenditures sorted and summarized by account (such as fuel, equipment) and organization (education, health service) are recorded incorrectly.

Recommendation: An individual in a supervisory position should review accounts payable vouchers to ensure the correctness of accounts and organizations charged.

Auditee Response: The Accounts Payable Section just follows what the Funds Control Section put as the organization and account numbers. However, we agree with the finding and will coordinate with Funds Control Section to assure the correctness of the accounts and organizations used.

Finding No. 16

Criteria: An adequate system of internal control would require all requisite supporting documentation to be complete before expenditure and disbursement processing are completed.

Condition: Numerous instances of accounts payable vouchers lacking purchase requisitions, purchase orders and supporting vendor invoices were noted.

Cause: A lack of review of internal control documentation by a person at a higher level.

Effect: The deficiency could result in material errors or irregularities in the financial statements. Numerous questioned costs were incurred due to a lack of supporting documentation.

Recommendation: A person at a supervisory level should not allow processing of an accounts payable voucher until all required documentation is attached.

Auditee Response: We certainly complete the supporting documentation before final disbursement is made. However, there are instances when after processing/disbursement, the APV is borrowed or reassessed. This is the time when the supporting documentation is either misplaced or lost. Hence, we will respond to this finding that we will be stricter in letting the APVs be borrowed or just providing xerox copies of APVs in scrutiny.

Finding No. 17

Criteria: An adequate system of internal control would require that funds be properly authorized by the department and certified as to the availability of funds before goods or services are procured.

Condition: We noted numerous instances where no encumbrance of funds ever existed or where the requisition and purchase order were dated after the supporting vendor invoice.

Cause: An adequate system of internal control does not exist over the procurement of goods and services at Chuuk State.

Effect: Unauthorized procurement of goods can occur in violation of the budgetary constraints enacted under the Financial Management Act.

Recommendation: No vendor invoices should be accepted as valid and paid unless a properly executed requisition and purchase order exist prior to the procurement of goods.

Auditee Response: The Director of Treasury has issued a memorandum now in effect to correct this finding.

Finding No. 18

Criteria: The Public Contract Act, PL5-58, requires competitive bids and Public Contract Review Committee approval for material purchases greater than \$50,000 and construction contracts greater than \$20,000.

Condition: We noted numerous purchases lacking evidence of competitive bids and review and award by the Public Contract Review Committee.

Cause: There is no system of internal control over purchases.

Effect: Goods could be procured at substantially higher prices than if competitively bid. Additionally, numerous questioned costs were incurred.

Recommendation: The State should follow the procedures outlined in Public Law 5-58 and no disbursement of funds should be made by finance unless adequate evidence of compliance with the Public Contract Act exists.

Auditee Response: The bidding procedures are no longer being followed since they were repealed by an administrative directive.



Finding No. 19

Criteria: An effective system of internal control requires that disbursements be adequately supported and that the accounting staff understand internal control procedures.

Condition: The accounts payable department does not maintain a log or a file for contracts. The contract is attached to the first payment and is filed with the accounts payable voucher.

Cause: The accounts payable department appears to lack an understanding of the importance of internal controls in connection with contract procedures and payments.

Effect: There is no effective control to ensure that duplicate payments are not made, invoices submitted conform to the contract requirements and other general provision are adhered to.

Recommendation: The State Department of Finance should create a file for each contract. Upon submission of an invoice, the accounts payable department should verify that the invoice conforms to the contract and that the accounting code and contract number are correct.

Auditee Response: We agree to this finding and will implement the recommendation by FY 1992.

Finding No. 20

Criteria: For internal control procedures to operate efficiently, prescribed procedures must be consistently followed.

Condition: Invoices are to be stamped as cancelled when paid and purchase requisitions are to be attached to vouchers to verify that funds have been encumbered. Exceptions to both controls were noted during our testing.

Cause: Finance personnel were not adhering to prescribed policies and procedures.

Effect: No direct effect on the financial statements was noted. However the chance of duplicate payment of invoices or unauthorized expenditures is significantly increased.

Recommendation: Management should stress the importance of these controls and ensure that these policies are consistently followed.

Auditee Response: We agree to the finding. We might not be able to implement totally the recommendation in FY 1991 as it requires a system. However, we expect better adherence to prescribed procedures in FY 1992. Our response to finding No. 18 should also be considered for this finding.



## Payroll

### Finding No. 21

Criteria: Segregation of duties is a key internal control in any accounting system.

Condition: There is no segregation of duties in the payroll department. The same person inputs the information for payroll and authorizes and distributes the checks.

Cause: There are a limited number of employees in the payroll department and there are no written job descriptions.

Effect: While we found only minor discrepancies in the sample tested, the lack of internal control creates an environment where errors and misappropriation may occur and not be detected.

Recommendation: Check signing and distribution of checks should be segregated from payroll preparation.

Auditee Response: While we conform to the recommendation, we cannot avoid the non-segregation of duties in the payroll because of the limited number of payroll employees. If one employee will just do one specific job, we doubt whether we will be able to process payroll at the speed we do now. We will find out ways to segregate check signing and distribution from payroll preparation. We cannot promise something tangible in FY 1991 but we might produce results in FY 1992.

### Finding No. 22

Criteria: An audit trail should exist for all personnel who have access to data base files. The audit trail should allow specific identification as to whom (name of individual) has access to the files. Additionally, access to data base files should be limited to only those personnel responsible for the accounting maintenance of that particular data base.

Condition: In reviewing the security indices over the payroll master file, we noted eight different "log ons" had access to the payroll master file, 3 personnel from payroll, 2 EDP administrators, the deputy director of finance and 2 log-ons were noted with no name.

Cause: Control over the access to data files is not current. This deficiency and the lack of sufficient entry data clerks has resulted in other individuals having to input payroll data to the payroll data base files.





Finding No. 22, Continued

Effect: Unauthorized changes to the payroll master file could occur allowing employees to be paid in excess of approved personnel rates or hours worked. Additionally, for those log-ons not specifically identified to a name, no trail exists to identify who made changes.

Recommendation: Only specific payroll personnel should have access to the payroll master file. Personnel who assist in the input of hours should do so with specific log-ons which identifies the log-on to the individuals' name. Other non-specific log-ons should be deleted.

Auditee Response: We have already implemented the recommendation. Only two specific payroll personnel have access to the payroll master file. Two EDP personnel have access to the payroll file to the extent they have to process payroll procedures. Other non-specific log-ons were already deleted.

Finding No. 23

Criteria: Sufficient documentation should exist to support employee deductions and the current rate of pay an employee is being paid.

Condition: Employee personnel files were not being updated with personnel action forms or authorized deduction forms. In addition, the personnel files had no systematic filing arrangement.

Cause: The payroll department has no formal policy with respect to required documentation or systematic procedures for filing payroll documents.

Effect: Sufficient, competent evidential matter does not exist to support employee deductions and instances were noted where employee increases in pay were not implemented until weeks after the official date.

Recommendation: A complete analysis of the payroll processing and filing cycle should be initiated, reviewed and documented to ensure the timely recording and proper documentation of changes.

Auditee Response: We do admit that our filing system is not very good. But the documentation supporting the deduction and current pay rate exists. If there were instances where the deductions were not supported, it was a case of misfiling. Regarding the instance of pay increases that were not implemented until weeks after the official date, the reasons are two-fold. One, if it is a retroactive pay, we have to refer to our past records, which takes time because of poor filing. Two, we receive the personnel action forms a couple of weeks past the effective date of the action. We will try our best to improve our filing system.



Finding No. 24

Criteria: The mathematical accuracy of the total hours per the time and attendance sheets should be compared with the hours entry control report to ensure hours input agree with approved department hours.

Condition: Out of a sample of fifty-five employees selected for payroll testing, one employee was paid 36 hours in excess of what was evidenced on the payroll time and attendance sheet.

Cause: No report total matching is performed between the time and attendance sheet and the hours entry control report.

Effect: While immaterial to the financial statements as a whole, payroll expenditures are overstated, and employees could be compensated for incorrect hours.

Recommendation: The total hours per the time and attendance reports should be agreed to the hours entry control report for each payroll.

Auditee Response: Even without this recommendation, we always do compare the total hours and time and attendance sheets with the hours entry control report. The instance in the testing or one out of fifty-five employees can be explained as follows:

There are instances where one employee could receive 36 hours without pay this pay period. After the employee receives his check and finds out the 36 hours without pay, he notifies with the time keeper that the leave without pay should be changed to annual leave. This information is not found in the time and attendance sheets but when the next pay period comes, he is paid the 36 hours adjustment plus the regular 80 hours. This is the only instance we may think that there will be deviation in the hours entry report against the time and attendance sheets.

Finding 25

Criteria: Time and attendance sheets should be approved by the Department Director or his designate.

Condition: We noted department time and attendance sheets that had no signature evidencing review and approval by a departmental official.

Cause: The payroll department has no formal policy with respect to required documentation and the completeness of such documents.

### Finding 25, Continued

Effect: While this deficiency could result in errors or irregularities that may be material, we did not detect any material errors resulting from this control weakness during our audit.

Recommendation: Before the payroll department accepts time and attendance sheets as complete, they should verify that the department director or his designate has adequately reviewed and evidenced such review by signing.

Auditee Response: We certainly require the signature of the department director or his designate before accepting the time and attendance sheets submitted by the department. If it had happened in the prior fiscal year, it was a case of oversight. We are more strict this FY 1991.

### Finding No. 26

Criteria: Employee files should be stored in an area that allows limited access.

Condition: During payroll observation procedures, a non-payroll section employee was observed opening and closing employee filing cabinets without presence of payroll personnel.

Cause: Storage location for payroll files is not locked or otherwise restrictive to prevent tampering.

Effect: There is no financial statement effect. It is a control problem as unauthorized persons could add information to or remove information from personnel action files.

Recommendation: We recommend locking payroll cabinets when the payroll section is not occupied, i.e., payroll should lock the cabinets in the evenings or at lunch breaks.

Auditee Response: We agree with this finding. However, as much as we would like to implement the recommendation, we cannot do so unless there is a revision in the structure of the present finance office building. As to the locking of the cabinets, numerous of the keys have been lost since the cabinets are 10 years old or older.

### Finding No. 27

Criteria: Documents should flow through an accounting system in a timely manner.

Finding No. 27, Continued

Condition: Salary adjustment and termination action forms are not forwarded to, processed or filed by the payroll department in a timely manner.

Cause: This problem appears to be due to a lack of understanding of prescribed control procedures and the potential financial ramifications caused by undue processing delays.

Effect: A possible understatement or overstatement of payroll expense could occur. Employees could be paid after they have been terminated because the accounting system assigns 80 hours of regular pay unless changed. Retroactive pay may not be paid to employees, however, one case of this occurring was noted in our testing.

Recommendation: We recommend that Departments forward these documents to payroll in a timely fashion and the payroll department process these documents in a timely manner.

Auditee Response: We concur with the above finding and are working with personnel to expedite the process.

Finding No. 28

Criteria: Positive confirmation of balances should be used over negative confirmation when possible.

Condition: Computer generated time sheets automatically assign 80 hours of regular pay to each employee. If changes are not made by department managers, the employee is automatically paid 80 hours of regular pay.

Cause: The cause is due to an apparent oversight of not resetting regular pay to zero hours on computer generated time sheets.

Effect: The effect is a possible overstatement of payroll, although no cases were noted during our testing. This overstatement could be caused by department managers not crossing off terminated employees, or not changing time allocation from regular pay to vacation pay or leave without pay.

Recommendation: Our recommendation is the computer generated time sheets be generated with no computer assigned hours. Department managers would then have to write in hours worked, thus positively confirming these balances.

Auditee Response: This finding calls for an explanation. The condition that 80 hours are automatically assigned is correct. But the conclusion that the employee is automatically paid 80 hours is incorrect.



Finding No. 28, Continued

We construe the 80 hours as the standard number of hours allowed. Please note that not all employees have 80 hours as standard. Others have 112 as their standard hours (org # 1351). The number of hours input by payroll is based on the handwritten figures submitted by the departments. These handwritten figures normally furnish payroll how many hours are charged to vacation leave, sick leave, etc. If there is no handwritten figure corresponding to an employees name, said employee does not have any hours credited for the pay period.

Revenue and Taxation

Finding No. 29

Criteria: An effective system of internal control requires segregation of duties for any accounting system.

Condition: The tax department assesses the tax liability, collects the cash, follows up on delinquent accounts and assigns the accounting distribution.

Cause: There is a lack of prescribed accounting procedures and a documented system of internal control

Effect: Since the State of Chuuk recognizes its tax revenues on the cash basis, there is no direct effect on the financial statements. However, under the existing system, errors or irregularities may not be detected.

Recommendation: We recommend that tax assessments, cash collection and the recording of receipts be properly segregated.

Auditee Response: Revenue and Tax Division is now reorganized such that one supervisor (with two subordinates) is assigned tax assessments and another supervisor (with two subordinates also) is assigned cash collection. Inputting receipts into the automated system is being done by the Reconciliations Section.

Finding No. 30

Criteria: An adequate system of internal control would require all financial activity of the State to be integrated with the State's accounting records.

Finding No. 30, Continued

Condition: Revenue and Taxation is responsible for tax compliance and assessment. We noted substantial improvement in this function, however, we also noted that the assessments made are not formally integrated into the official accounting records as receivables.

Cause: An adequate system of internal control does not exist. There is no formal integration of Revenue and Taxation procedures and transaction processing with the official accounting records.

Effect: Receivables and revenues are understated.

Recommendation: The State should consider obtaining adequate software which includes tax receivable subsidiary ledger or Revenue and Taxation should forward to accounting, monthly, all assessments made to ensure proper recording in the books of accounts.

Auditee Response: Starting April, 1991, Revenue and Tax Division will be submitting its tax assessments to Accounting on a monthly basis.

Finding No. 31

Criteria: An adequate system of internal control would allow the cross referencing of tax returns against a data base of previous tax payer information and would allow the integration of records in such a manner that probable taxpayers, resulting from reports of other government activities, such as licensing, would be noted.

Condition: Business that operate within the State are not required to register with Revenue and Taxation and consequently Revenue and Taxation cannot assign a tax payer identification number to all operating entities. Additionally, Revenue and Taxation has no EDP system with which to develop a data base.

Cause: Inadequate tax information systems exist.

Effect: Numerous businesses may be able to operate and not report taxes due.

Recommendation: All businesses should be required to register with Revenue and Taxation and be assigned a taxpayer identification number which can be used in the development of a data base. Additionally, we recommend Revenue and Taxation procure sufficient software to be able to integrate all information for revenue purposes.

Finding No. 31, Continued

Auditee Response: Upon our recommendation, the administration has submitted a proposed bill with the Chuuk Legislature requiring all businesses in Chuuk State to register with our State Revenue Office.

Finding No. 32

Criteria: Balances of amounts due from delinquent taxpayers should ultimately reflect the net realizable value of those receivables. If receivable balances continue to accrue due to interest and penalty charges, prompt action should be taken.

Condition: Per the delinquent taxpayer listing provided to us by Revenue and Taxation, balances due from certain taxpayers were unrealistically high due to the compounding of interest and penalties.

Cause: The State law appears to allow a 5% monthly penalty charge which compounds indefinitely on the unpaid balance.

Effect: Since Revenue and Taxation records are not formally integrated into the official accounting records, the above condition does not impact the financial statements. Ultimate collection efforts could, however, be hampered due to the unreasonable balances noted.

Recommendation: The State law should be reviewed for clarification as to the ceiling which penalties and interest can aggregate.

Auditee Response: Our Chuuk State Law 5-119 does not clearly state when penalties and interest should accrue. We decided to assess the penalty and interest up to the date the assessment is made.

Budgetary

Finding No. 33

Criteria: To monitor estimated revenues and actual revenues, estimated revenues should be reflected in the official accounting system.

Condition: Estimated revenues are not recorded in any of the budgetary columns of pertinent reports; thus all comparisons of budget to actual for revenues are performed manually.

Finding No. 33, Continued

Cause: The Budget office has not input the estimated revenues to the official accounting system.

Effect: The time consuming function of tracking actual revenues versus budgeted revenues results in untimely and infrequent review of budget to actual revenues.

Recommendation: The budget office should input estimated revenues in accordance with its allotment and spending plan automating the function in order to provide review information.

Auditee Response: Budget Office agrees to this finding. We will implement the recommendation in FY 1992.

Finding No. 34

Criteria: The Financial Management Act requires sufficient budgetary authority to exist before an expenditure can occur.

Condition: We noted two organizations which had incorrect budgetary amounts.

Cause: Budget had not input the allotment advice and the finance office certified funds based upon a manual system and not based on the official accounting records.

Effect: Expenditures can be made which violate the Financial Management Act if the budget authority is not correct.

Recommendation: The budget office should reconcile all allotment advices with the official accounting records on a monthly basis.

Auditee Response: The Budget Office agrees to this finding. We started implementing the recommendation this FY 1991.

Electronic Data Processing (EDP)

Finding No. 35

Criteria: The EDP facility should be protected from fire and water damage and be adequately insured against possible loss.

Condition: The State of Chuuk does not carry any insurance against possible EDP loss. Although a smoke detection system and fire extinguishers were installed, they were either not functioning or were not tested.



Finding No. 35, Continued

Cause: The EDP staff, although aware of the need to maintain the equipment, have not been instructed by management to resolve this matter.

Effect: Fire damage to the computer facility would paralyze the accounting function. In addition, the State of Chuuk is not financially able to replace its hardware.

Recommendation: The EDP staff should test and repair fire extinguishers and smoke alarms. The State of Chuuk should also obtain insurance for the replacement cost of hardware.

Auditee Response: We agree with this finding although the recommendation has not yet been effected. We will find means and ways to implement the recommendation.

Finding No. 36

Criteria: User lists should be routinely reviewed and updated as necessary.

Condition: Users who were no longer on island were still included on the computer user list.

Cause: Infrequent review of security listings occurs.

Effect: A possible violation of internal control and EDP security has occurred.

Recommendation: We recommend that all personnel no longer using the system be deleted from the user list. On a periodic basis, existing users should change their passwords.

Auditee Response: Non-users have already been deleted from the users list. We intend to change passwords every six months.

Finding No. 37

Criteria: The sub-system posting reports should be traced to the Dilog daily edit to ensure the transfer of all transactions to the financial system. Such a review should be evidenced in writing.

Condition: The posting reports form CAPPs for accounts payable, check disbursements and purchase orders were not consistently filed or referenced to Dilog edit reports.

Cause: Inadequate review and controls existed.

Finding No. 37, Continued

Effect: A possible loss of accounting data occurred and incorrect balances in the subsidiary and general ledgers resulted.

Recommendation: CAPPs posting reports should be filed and initialed as having been posted into Dilog. Dilog edit reports and posting reports should also be filed and referenced to CAPPs as appropriate.

Auditee Response: The recommendation is now in effect.

Finding No. 38

Criteria: An adequate system of internal controls would dictate the utilization of batch controls over the preparation and input of data.

Condition: Batch controls are only used for the input of cash receipts. All other batch entry totals are forced at the end of the batch input by agreeing the computer generated total and then writing the total as the operator total.

Cause: No adequate system of internal control exists over data input.

Effect: We noted instances of transactions not being input or being input incorrectly. The financial statements ultimately contained these errors.

Recommendation: Before any data processing input can occur, a properly executed batch input control form should be prepared and approved by someone other than the preparer.

Auditee Response: Although a batch input form is not yet utilized, inputs are now being checked by a supervisor before posting. Data encoders are already instructed to input the batch total before input and then check them with the computer generated batch total.

Finding No. 39

Criteria: An adequate system of internal control would provide protection against the loss of financial data, programs and equipment.

Condition: Currently the State has no back-up disk packs and all financial data is stored in the computer room. Additionally, the State has no insurance on these assets nor a catastrophe plan.



Finding No. 39, Continued

Cause: The State's disk packs were damaged and replacements have yet to arrive. Additionally, the State EDP center has not received funding to adequately insure the EDP assets.

Effect: If a catastrophe should occur, the State would lose all of its financial data and would bear the cost of all replacement.

Recommendation: The State should purchase additional disk packs and an offsite storage facility should be sought. Monthly backups should be performed and stored at this offsite facility. We also recommend insurance costs be analyzed to weigh the cost versus benefit of obtaining adequate coverage in the event of a catastrophe. If such a catastrophe did occur, the State should have catastrophe recovering plan so the State's financial operations would not be severely disrupted.

Auditee Response: We agree to this finding. The recommendation has not yet been implemented but we are definitely looking for means to implement it if not this FY 1991, in FY 1992.

Finding No. 40

Criteria: An adequate system of internal control would dictate the culmination of accounting information to allow financial reporting to be performed on a cumulative basis for multi-year grants.

Condition: The State is not utilizing its management accounting system for fund certification or external reporting purposes.

Cause: No effective reconciliation of life-to-date numbers was performed in the previous years and cumulative numbers are suspect as to their accuracy.

Effect: A manual ledger is kept on all multi-year grants which records all activity so funds certification can be achieved. Thus a significant duplication of duties exist.

Recommendation: The State should use the audited September 30, 1990 balances to load into management accounting. As part of its monthly closing process, Dilog expenditure totals should be reconciled to year to date totals in management accounting. Once the accuracy over management accounting is established, it should be used for funds certification and external financial reporting.

Auditee Response: We are at present looking for technical assistance funds such that we can use management accounting in our system.

## Fixed Assets

### Finding No. 41

Criteria: An adequate system of internal control would dictate the State record capital assets. Capital assets would be recorded in the official accounting records under the General Fixed Asset Account Group. To ensure amounts recorded are proper, an annual physical inventory should be taken.

Condition: Fixed assets are recorded in the Division of Supply and Property's master property log via property cards but these cards are not formally input into the fixed assets accounting software at finance.

Cause: No established system of internal control exists over capital assets. Additionally, the property division has not continued input of fixed asset additions/deletions to the fixed asset account group software.

Effect: Without a detailed capital asset record to analyze multiperiod capital assets, tracking ongoing operating assets which may require replacement sooner than their standard useful lives will be difficult to perform.

Recommendation: In order to be in a position to evaluate the performance of its assets and take necessary corrective action, management has certain requisite information needs. It is therefore imperative that the State maintain detailed accountability over capital assets. With respect to the process of maintaining accountability over capital assets, we offer the following suggestions:

- . Establish detailed property records and assign accountability for each asset.
- . Assign responsibility for periodic asset inventories.
- . Reconcile detailed project cost records.
- . Maintain detailed property records with actual assets.
- . Establish formal reporting procedures for ongoing projects.
- . Establish periodic review procedures to ensure that property is adequately insured.
- . Establish procedures to effectively monitor the disposition of property acquired with grant funds.

Auditee Response: A specific committee has been created by the new governor to perform the above mentioned tasks.



## Utility Accounting

### Finding No. 42

Criteria: Effective utilization of the State's resources require a financial plan and written policies and procedures with respect to utility operations.

Condition:

- A. The State accounts for its utility operations as a division of the Department of Public Works. This department is accounted for within the State's General Fund. By accounting for a user oriented service within the general fund, the State loses the ability to obtain important statistical data that ultimately would be beneficial in determining future replacement cost, future rate structures and current operating performance. Such information will be necessary if the State decides users of the utilities should bear a greater percentage of the operating costs.
  
- B. Closely aligned with the current accounting of the State's utility operations is its system of billings and collections. Our review of these procedures noted that a billing and collections system is being utilized, but lacks necessary controls to be effective. For example, utility billings are not prenumbered, cash receipts utilized for collections are procured locally and are not issued by State Finance, and copies of the receivable subsidiary ledger maintained by Public Works is not forwarded to State Finance for review. This decentralization and lack of attendant control allows for errors to go undetected and provides for misstatement of possible revenue sources.
  
- C. Additionally, we found no evidence of a formal collection policy since it appears the current system is operated on an honor basis.

Cause: The State has not determined the manner in which the utility operations shall be accounted for and the burden of cost that shall be borne by the consumer.

Effect: The effect of the above condition is the possibility of a large understatement of local revenues from utility collections.

Finding No. 42, Continued

Recommendation:

- A. The State should consider creating an Enterprise Fund to account for its utility operations as a private enterprise, if the State is considering transferring more of the cost of utility operations to its users. Such an accounting structure will provide the necessary data to make pertinent decisions concerning utility operations.
- B. If the current system is to be maintained, we recommend all billing invoices be prenumbered and utilized in sequential order. We recommend State Finance issue a special cash receipt to be used to more effectively monitor the collection of receipts. State Finance should review postings of billings and collections to ensure proper balances are stated in the receivable subsidiary ledger.
- C. We recommend that the State adopt a formal policy of collections for delinquent receivables and that this policy be enforced.

Auditee Response:

- A. The idea of creating an Enterprise Fund will be studied by both the State Finance Office and Public Works. We are at present setting up a new record keeping system to be able to determine the replacement cost, rate structures and current operating performance.
- B. We are not sure whether the current systems is to be maintained, or whether a separate entity will take over the utility operations. If the present system will be maintained, we will coordinate with the State Finance for the special cash receipt and the subsidiary ledger. Moreover, a billings and collection section has been formed in the Department of Public Works to effectively monitor utilities revenue. We cannot promise anything tangible for FY 1991 but results might be obtained in FY 1992.
- C. With the billings and collection section in the Public Work Department established, a formal billings and collection policy will definitely be implemented.



Chuuk Visitor's Bureau (finding 43 through 49)

Finding No. 43

Criteria: A formalized accounting system is an integral part of the operation of any business or government enterprise.

Condition: The Visitors Bureau does not have a formalized accounting system. As a result, it was necessary to compile the year-end financial data.

Cause: The cause for the above condition is a lack of recognition of the importance of proper financial control.

Effect: Financial statements could not be prepared internally.

Recommendation: We recommend that a formal double entry accounting system be installed. This will facilitate accurate and timely presentation of year-end financial statements and allow for more accurate recording and review of revenues and expenses during the fiscal year.

Auditee Response: No response can be provided as of this time.

Finding No. 44

Criteria: Bank reconciliations are a key detective control in the cash disbursement and receipt systems.

Condition: No bank reconciliations have been performed.

Cause: The cause of this condition appears due to a lack of management focus on internal financial control.

Effect: There is no impact on the financial statements as we prepared a year-end reconciliation to verify cash balances.

Recommendation: We recommend that bank reconciliations be prepared monthly and be reviewed by management.

Auditee Response: We dispute this finding. The bank reconciliation is done on a computer spreadsheet. We have established a file on the computer call "BALANCE", where we do the reconciliation upon receiving the bank statement.

Auditor's Response: While we agree the Visitor's Bureau keeps a running balance of the cash account, formal bank reconciliations were not presented to us. This is further evidenced by the fact that bank reconciliations were performed by us for both operations and CIP bank accounts.

Finding No. 45

Criteria: To adequately record revenue from operations, revenues must be documented.

Condition: There are no receipts issued for local revenues earned from garbage collection or museum fees.

Cause: The cause is unknown.

Effect: There is no way to adequately verify that the revenues recorded from these sources is not overstated or understated.

Recommendation: We recommend that receipts be issued for all local revenue collections.

Auditee Response: A receipt book is now kept and receipts are issued.

Finding No. 46

Criteria: Agreements for rental of buildings should be kept current.

Condition: During 1990 the lease agreements on the office and museum space expired.

Cause: The cause of the above condition is unknown.

Recommendation: We recommend that new leases be negotiated for the museum and office space.

Auditee Response: The lease agreements have already been renewed.

Finding No. 47

Criteria: Cash advanced to employees should be recorded as a receivable until spent for designated purposes.

Condition: A \$1,500 cash advance was given to an employee for the purchase of supplies. The cash was subsequently used by the employee for personal goods. Only \$500 of this balance has been repaid.

Cause: This misappropriation of funds appears due to a lack of internal control over expenditures.

Effect: There is no effect on the financial statements.

Recommendation: We recommend that a formal repayment schedule for the remaining \$1,000 be established.



Finding No. 47, Continued

Auditee Response: Of the total amount of \$1,500, \$500 has been repaid and invoices for supplies of \$395 have been submitted. The balance of \$605 is now on payroll deduction.

Finding No. 48

Criteria: Adequate control over disbursements required that checks issued be supported with invoices or receipts from suppliers.

Condition: Although items were filed in an orderly fashion, four disbursements reviewed did not have supporting invoices or receipts.

Cause: This situation appears to be caused by suppliers not providing invoices or invoices being lost.

Effect: There is the potential for unauthorized expenditures to be made.

Recommendation: We recommend that invoices or receipts be attached to a copy of the check issued. If invoices or receipts are not provided by the vendor, we recommend a receipt be requested.

Auditee Response: We agree to the finding and this might be the case of a lost invoice. It is a standing policy that any purchase should be supported by an invoice. We just have to be more strict in the implementation of the policy.

Finding No. 49

Criteria: A significant control over payroll disbursements is the preparation of timesheets by employees.

Condition: Timesheets are not regularly prepared by employees, and/or are not retained by the Visitors Bureau.

Cause: The cause for the above condition is unknown.

Effect: There is a possibility that employees were paid when services were not performed.

Recommendation: We recommend that timesheets be prepared by employees for each pay period. These timesheets should be reviewed and approved by the director and retained for reference purposes.

Finding No. 49, Continued

Auditee Response: TIME IN/TIME OUT sheets are prepared daily by each employee. After two weeks, a payroll sheet based on these timesheets is prepared by the Administrative Assistant and approved by the Executive Director. The time sheets are attached to the payroll sheets. We shall make efforts to retain the time sheets in a file for reference purposes.

Chuuk Coconut Processing Authority (finding 50 through 57)

Finding No. 50

Criteria: Assets should be protected against loss due to unforeseen events.

Condition: Fire and typhoon insurance coverage on buildings, materials, and equipment is not adequate. In addition, there is no general liability coverage or auto insurance.

Cause: It appears that this situation was caused by management oversight on new asset purchases and an overall lack of consideration of the potential liability caused by not having adequate coverage.

Effect: There is no financial statement impact, but in the case of a serious accident, the Coconut Processing Authority will be self-insured to a material extent.

Recommendation: We recommend that adequate coverage be purchased for vehicles, general liability insurance be obtained, and fire and typhoon coverage be expanded to cover at least 75% of asset value.

Auditee Response: Chuuk Coconut Authority is covered by fire and typhoon insurance on building, machineries and raw materials for \$244,900. The policy number is 0562-0110-000023 expiring on May 1, 1991. We intend to raise the insured value to \$476,900 when we renew the policy. The vehicles will be insured on a separate policy.

Finding No. 51

Criteria: A proper system of internal control requires that documentation be kept for expenditures.

Condition: The accountant was not able to produce documents supporting the cost of the buildings. The buildings are carried at the insured value.

Finding No. 51, Continued

Cause: It appears this condition is caused by inadequate recording of fixed asset expenditures.

Effect: The effect is a potential overstatement or understatement of the fixed asset accounts.

Recommendation: We recommend that the documentation of expenditures made for the buildings be located and the buildings account be adjusted to reflect actual cost.

Auditee Response: The documents have already been found and the appropriate adjustments will be made in the books of accounts to reflect the actual cost.

Finding No. 52

Criteria: Proper internal control in the payroll cycle should include signed allotment advices for withholdings from employees' pay.

Condition: Employees verbally authorize payroll allotments.

Cause: The above condition appears caused by a lack of consideration for proper internal control in the payroll cycle.

Effect: There is no effect on the financial statements.

Recommendation: We recommend that employees sign allotment forms to have allotments withheld from their pay. This will prevent potential misunderstandings between management and the employees.

Auditee Response: There are written documents supporting the deduction in the employees' pay. They are not filed with the bi-weekly payments of the employees and are not in a separate file maintained for employees' authorization for deductions/allotments. Rather, they are included in the general files. We intend to make a separate file for the employees' authorization for deduction/allotments for easy reference and for audit purposes.

Finding No. 53

Criteria: A requisite of strong cash management is timely collection of accounts receivable.

Condition: Payments from other government agencies are not being collected in a timely manner.



Finding No. 53, Continued

Cause: The cause appears to be due to a weak receivables system that does not include the aging of accounts receivable.

Effect: There is no actual financial statement effect. However, interest could be earned if the cash was collected and not tied up in receivables.

Recommendation: We recommend that receivable aging schedules be prepared and outstanding receivables be pursued for collection, including collections from other government agencies.

Auditee Response: We agree to this finding and will implement the recommendation by FY 1991.

Finding No. 54

Criteria: Daily deposits of cash received is a key control in the cash receipts cycle.

Condition: Cash is not being deposited in the bank on a daily basis.

Cause: The cause appears to be due to a lack of management awareness of sound internal control policies.

Effect: There is no direct financial statement impact. However, money in the bank has the potential of earning interest. Money kept on hand is subject to abuse.

Recommendation: We recommend that cash received be deposited in the bank on a daily basis.

Auditee Response: We are already implementing the recommendation in FY 1991.

Finding No. 55

Criteria: Proper safeguarding of financial records and data is necessary for any accounting system to function properly.

Condition: Cash receipts from October 1989 to July 1990 could not be located.

Cause: The cause appears to be an inadequate storage location for financial information.

Effect: No direct financial statement impact was noted. However, the lack of documentation makes it impossible to find potential errors in the financial statements.

Finding No. 55, Continued

Recommendation: We recommend that adequate filing and storage facilities be established.

Auditee Response: It is true that cash receipts representing the period covered as stated in the findings cannot be located. It is clear negligence on our part. In this matter, we will do our best to correct the deficiency by safeguarding our financial records for future use.

Finding No. 56

Criteria: Sales invoices should state method of payment to provide assurance as to the completeness and validity of receivables and cash sales.

Condition: Sales invoices do not state method of payment. It is almost impossible to trace cash sales to bank deposits.

Cause: It appears that sales invoices are not completely filled out by employees.

Effect: There is no direct financial statement impact.

Recommendation: We recommend that the method of payment be noted on sales invoices, or separate invoices be issued for cash and credit sales.

Auditee Response: We dispute this finding. Our invoices show the method of payment. If cash, it is stated that the term is cash. If charge, the number of days of payment is indicated. Moreover, for charge customers, we maintain a file and each delivery and payment is updated.

Auditor's Response: We tested sales invoices for three months, March, June and August 1990, and we noted numerous instance in which the invoice did not note the method of payment.

Finding No. 57

Criteria: Advances should be recorded as receivables until collection is made or money is used for designated purposes.

Condition: It appears that travel is expensed when authorized. This treatment does not allow for control over travel expenses.

Cause: Directly expensing these items is a simpler approach that has been adopted by the accounting staff. Unfortunately, such an approach sacrifices control over the actual spending of money.

Finding No. 57, Continued

Effect: The effect is an overstatement of travel expenses and an understatement of travel advances receivable for the amount of outstanding travel advances at year-end.

Recommendation: We recommend that a receivable be established when cash is advanced. When travel actually occurs, we recommend that the entry then be made to record the expense and reduce the receivable.

Auditee Response: There is now a control mechanism existing between the Authority and the Department of Treasury. The Authority now follows the travel procedures employed by the Chuuk State Government.

Chuuk Housing Authority (findings 58 through 61)

Finding No. 58

Criteria: Payables should be recorded at the time goods or services have been received or rendered.

Condition: The Chuuk Housing Authority does not record accounts payable until the year end closing. During the interim, an expense is not recorded until paid.

Cause: The accountant maintains a file of unpaid invoices but has not integrated a subsidiary system for payables within the general ledger.

Effect: The Chuuk Housing Authority's interim financial statements reflect an understatement of expenses and liabilities.

Recommendation: The Chuuk Housing Authority should establish a subsidiary system to record the appropriate payable upon presentation of an invoices with monthly postings to the general ledger.

Auditee Response: We dispute this finding. We have an accounts payable subsidiary ledger that has been employed. Appropriate payables are recorded in the subsidiary ledger and are then posted to the general ledger.

Auditor's Response: The amount recorded in the general ledger at September 30, 1990, was the exact balance as recorded at September 30, 1989. No adjustment had been made during fiscal year 1990 to agree the subsidiary ledger with the general ledger.

Finding No. 59

Criteria: To safeguard assets, deposits should be made daily or whenever funds are received.

Condition: Funds received are often not deposited until the following week.

Cause: No systematic procedure exists to require timely deposits.

Effect: Not depositing funds when received increases the likelihood that funds could be subject to misuse.

Recommendation: Funds should be deposited on a daily basis.

Auditee Response: We dispute this finding. We always deposit each receipt every day. The only time that cash is kept overnight is when payments are received after banking hours, especially on Fridays. In that case, cash is deposited on Monday. There is already a control mechanism on the accountability of cash receipts. Attached is a memorandum dated October 20, 1988.

Auditor's Response: We traced the date the cash receipt was issued to the date of the duplicate deposit which was attached to the cash receipt. We found the sequential order between the cash receipt date and deposit date was not always achieved.

Finding No. 60

Criteria: Generally accepted accounting principles require that loan repayments made by the Chuuk Housing Authority be distributed properly between principal and interest.

Condition: All payments made by the Chuuk Housing Authority against note payable were not properly allocated against principal interest.

Cause: An amortization table has not been provided or calculated by the Housing Authority to facilitate this allocation.

Effect: Interest expense and notes payable are understated. This also reduces the amount available for future loan distributions.

Recommendation: Each payment that is made by the Chuuk Housing Authority should be properly allocated to both principal and interest in accordance with the repayment provisions of the loan.

Finding No. 60, Continued

Auditee Response: Chuuk Housing Authority has only one loan - with First Federal Savings and Loan Association of America (formerly American Savings and Loan Association). Although there is no amortization table provided, we follow the repayment terms provided in the Loan Agreement and Promissory Note (copy attached). Furthermore, we use the allocation formula provided by FFSLAA. The Executive Director has verified by phone with the lending agency. We follow this procedure for the allocation of principal and interest.

Auditor's Response: The note payable balance recorded in the general ledger did not agree to the September 30, 1990 balance due per the First Federal Savings and Loan Association loan statement and confirmation. Thus the allocation between principal and interest was incorrect. The general ledger balance per Chuuk Housing Authority was \$110,593.18 and FFSLAA confirmed \$114,702.94.

Finding No. 61

Criteria: An effective internal control system would require general ledger control balances to be agreed with subsidiary ledger balances.

Condition: The general ledger control account for loans receivable and interest receivable did not agree.

Cause: The accountant in charge of the Housing Authority records was absent most of the year, causing less experienced personnel to record accounting transactions.

Effect: A qualification of opinion was rendered on the financial statements since neither the general ledger or subsidiary ledger could be relied upon.

Recommendation: Each month, the general ledger control account and subsidiary balances should be reconciled. The Authority may have to hire outside expertise to assist until their accountant returns.

Auditee Response: During the absence of the Accountant, we had contracted someone to do the accounting work for FY 1990. Apparently, the Accountant we hired on a temporary basis, did not allocate properly the interest and principal for some entries causing the balance of the subsidiary ledgers to have substantial difference with the general ledger. This has been corrected by our permanent Accountant as she reconciled the subsidiary ledgers with the general ledger. The contracted work was done within a two-week period which may have caused some oversight.



## Development Authorities

### Finding No. 62

Criteria: Each entity that receives State or National funding is required to account for these funds in accordance with general governmental accounting principles.

Condition: Of the eleven Development Authorities that exist, we found only three that accounted for these funds in accordance with governmental accounting principles. The remaining Authorities were found to be lacking any set of formal books or internal control systems which may prevent or detect waste of abuse of funds.

Cause: Generally most accountants employed by the Authorities lacked a basic understanding of double entry accounting, and thus no formal accounting system exists. This, coupled with the high turnover of administration personnel, has resulted in the lack of cohesive organizations.

Effect: Funds received and applied are not being recorded and thus the financial position and detail as to how funds were spent are not known.

Recommendation: The State should seek outside technical assistance, possibly from the FSM Office of the Public Auditor, to develop and implement an accounting system. We additionally recommend follow up training and documentation of the accounting system be in manual form.

Auditee Response: We agree to this finding and will implement the recommendations by FY 1991 or establish measures to get the same results.

### Other (finding 63 through 65)

### Finding No. 63

Criteria: Employees should only be compensated for services performed (hours worked).

Condition: We found that several employees of the Department of Finance were compensated for 40 hours a week when in fact same employees were not present the entire 40 hours.

Cause: No control exists over employee time and attendance.

Effect: Employees are paid for hours when employees are either absent or tardy.

Finding No. 63, Continued

Recommendation: A battery time clock should be maintained in a supervisor's room and each employee be responsible for punching in and out. That employee should be compensated only for hours evidenced on the time card.

Auditee Response: We agree with the finding and will devise ways to control employee time and attendance.

Finding No. 64

Criteria: Public Law 1-17, Act No. 1-33 in 1979 required that Revenue and Taxation allocate 80% of the \$.05 aluminum can tax received to the Truk Environmental Action Agency (TEAA).

Condition: Since 1986, no monies have been transferred to the TEAA nor has a liability been recorded in the general fund for the 80% due on the collection of the aluminum tax, an action which appears to violate Public Law.

Cause: Department of Finance, Revenue and Taxation officials do not appear to be cognizant of the Public Law.

Effect: The misstatement on the financial statements is immaterial but operating transfers and liabilities are understated.

Recommendation: Until such time as the funds are transferred to the TEAA or the Public Law is repealed, the State should record the liability for the 80% of the aluminum can tax revenues received.

Auditee Response: In FY 1986, there were transfers made to TEAA per the following PVs:

PV # 862248	\$ 7,912.63
863759	4,530.72
866480	<u>4,610.45</u>
	<u>\$17,053.80</u>

We have taken up the transfer of FYs 1987, 1988, 1989 and 1990 amounts by a payable account to TEAA. For FY 1991, we are transferring amount owed to TEAA on a quarterly basis.

Finding No. 65

Criteria: The Financial Management Act (FMA) does not allow funds to be obligated or expended in amounts that exceed amount appropriated.

Condition: Instances were noted whereby the funds obligated exceeded the amount authorized.

Finding No. 65, Continued

Cause: Funds certification is done by a manual record keeping system this is not reconciled to the official accounting records.

Effect: Violations of the FMA occur.

Recommendation: All fund certification should occur through the automated system and, multi-year grant accounting needs to be implemented.

Auditee Response: We are at present looking for technical assistance funds such that we can use management accounting in our system.