

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 1991**

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 1991

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

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FOR THE YEAR ENDED SEPTEMBER 30, 1991

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## 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, 1991, 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 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Property comprising the State of Chuuk's General Fixed Assets Account Group has not been inventoried as of September 30, 1991, nor have existing records been adequately assembled to permit the application of auditing procedures and verification of the detail of account balances.

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of Chuuk State's Federal Emergency Management Agency grant. Those financial activities are included in the Federal Grant Assistance Fund and represent 53 percent of special revenue fund revenues.

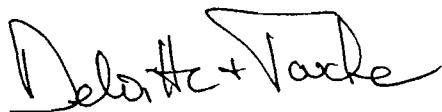
As discussed in Note 1A, the accompanying financial statements do not include the State's eleven development authorities.

In our opinion, except for the effects of such adjustments which may be required as a result of changes in the inventory of fixed assets or an audit of the Chuuk State Federal Emergency Management Agency grant, and the absence of the inclusion of the State's eleven development authorities, 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, 1991, 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 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, 1991, have been questioned in the amount of \$167,352. Additionally, \$8,437,349 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. No provision for any liability that may result upon the ultimate resolution of these matters has been made in the accompanying general purpose financial statements.

December 20, 1991



Certified Public Accountants

**Deloitte &  
Touche**





CHUUK STATE GOVERNMENT

Combined Balance Sheet - All Fund Types and Account Groups  
September 30, 1991  
(With comparative totals as of September 30, 1990)

Assets	Governmental Fund Types				Proprietary	Account Groups		Totals	
	General	Special	Capital	Debt	Fund Type	General	General	(Memorandum Only)	
	Fund	Revenue	Projects	Service	Enterprise	Fixed	Long-Term	1991	1990
Cash and equivalents (Note 2)	\$1,032,092	\$ 11,717	\$ 634,778	\$ -	\$ 426,549	\$ -	\$ -	\$ 2,105,136	\$ 4,351,897
Cash on deposit with Trustees (Note 2)	550,098	214,624	-	-	-	-	-	764,722	199,962
Investments (Notes 2 and 7)	1,106,176	-	25,114,682	-	-	-	-	26,220,858	26,197,293
Investments - other (Note 10)	-	-	1,120,000	-	-	-	-	1,120,000	500,000
Receivables from other governments (Note 3)	191,472	1,629,114	960,920	-	-	-	-	2,781,506	1,768,450
Receivables, federal agencies (Note 3)	-	75,951	204,618	-	57,193	-	-	337,762	107,200
General receivables, net of allowance for doubtful accounts of \$197,570 in 1991 (Note 1F)	125,943	1,374	-	-	18,354	-	-	145,671	282,667
Dividends and interest receivable	-	-	-	-	1,171,809	-	-	1,171,809	851,364
Advances	387,958	-	-	-	-	-	-	387,958	292,338
Due from other funds (Note 9)	335,427	55,200	26,528	-	-	-	-	417,155	423,628
Inventories (Note 1L)	-	1,920,244	581,311	-	-	-	-	2,501,555	2,016,753
Other assets	-	-	-	-	75,320	-	-	75,320	67,738
Fixed assets, net of accumulated depreciation (Notes 1C and 4)	-	-	-	-	16,518	-	-	16,518	145,900
Amount to be provided for retirement of long-term debt	-	-	-	-	937,832	67,581,844	-	68,519,676	68,075,208
	-	-	-	-	-	-	3,079,048	3,079,048	1,607,783
<b>Total assets</b>	<b>\$3,729,166</b>	<b>\$3,908,224</b>	<b>\$28,642,837</b>	<b>\$ -</b>	<b>\$ 2,703,575</b>	<b>\$67,581,844</b>	<b>\$3,079,048</b>	<b>\$109,644,694</b>	<b>\$106,888,181</b>
<b>Liabilities and Fund Equity (Deficit)</b>									
<b>Liabilities:</b>									
Accounts payable	\$3,402,286	\$ 951,065	\$ 519,436	\$ -	\$ 132,595	\$ -	\$ -	\$ 5,005,382	\$ 7,156,921
Accrued payroll and annual leave	485,813	37,360	1,748	-	-	-	1,607,783	2,132,704	2,332,914
Due to other funds (Note 9)	434,092	813,370	1,254,093	-	-	-	-	2,501,555	2,016,753
Payable to other governments	74,899	323,008	-	-	-	-	-	397,907	-
Notes payable (Note 5)	-	-	329,179	-	474,380	-	1,471,265	2,274,824	443,882
Deferred revenue	-	277,321	-	-	-	-	-	277,321	543,552
<b>Total liabilities</b>	<b>4,397,090</b>	<b>2,402,124</b>	<b>2,104,456</b>	<b>-</b>	<b>606,975</b>	<b>-</b>	<b>3,079,048</b>	<b>12,589,693</b>	<b>12,494,022</b>
<b>Commitments and contingencies (Note 13)</b>									
<b>Fund equity (deficit):</b>									
Contributed capital	-	-	-	-	1,670,266	-	-	1,670,266	1,670,266
Investment in general fixed assets (Notes 1C and 4)	-	-	-	-	-	67,581,844	-	67,581,844	67,581,844
Retained earnings (deficit), unreserved	-	-	-	-	426,334	-	-	426,334	53,378
<b>Fund balance:</b>									
Reserved for:									
Investments (Note 7)	-	-	541,660	-	-	-	-	541,660	541,660
Related assets (Note 10)	-	-	1,120,000	-	-	-	-	1,120,000	500,000
Encumbrances	641,246	565,428	2,137,692	-	-	-	-	3,344,366	2,801,990
Continuing appropriations (Note 6)	231,387	-	17,769,677	-	-	-	-	18,001,064	19,478,733
Unreserved	(1,540,557)	940,672	4,969,352	-	-	-	-	4,369,467	1,766,288
<b>Total fund equity (deficit)</b>	<b>(667,924)</b>	<b>1,506,100</b>	<b>26,538,381</b>	<b>-</b>	<b>2,096,600</b>	<b>67,581,844</b>	<b>-</b>	<b>97,055,001</b>	<b>94,394,159</b>
<b>Total liabilities and fund equity (deficit)</b>	<b>\$3,729,166</b>	<b>\$3,908,224</b>	<b>\$28,642,837</b>	<b>\$ -</b>	<b>\$ 2,703,575</b>	<b>\$67,581,844</b>	<b>\$3,079,048</b>	<b>\$109,644,694</b>	<b>\$106,888,181</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, 1991  
(With comparative totals for the year ended September 30, 1990)  
Governmental Fund Types

	Governmental Fund Types				Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	1991	1990
<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	4,496,160	-	3,133,440	-	7,629,600	6,732,000
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 217 - inflation adjustment	-	407,932	-	-	407,932	292,440
Section 212 - base grant	-	250,000	-	-	250,000	67,500
Section 216(a)(3) - FSM	-	1,242,188	-	-	1,242,188	198,758
U.S. Department of the Interior grants	-	-	680,450	-	680,450	81,056
FSM revenue sharing	2,230,745	-	-	-	2,230,745	1,629,513
Other federal contributions	-	7,954,071	204,618	-	8,158,689	5,080,880
State taxes and licenses	1,841,358	-	-	-	1,841,358	1,183,910
Investment income	2,954,304	-	-	-	2,954,304	1,934,952
Other	690,651	344,659	-	-	1,035,310	835,354
<b>Total revenues</b>	<b>25,437,218</b>	<b>14,339,737</b>	<b>13,234,508</b>	<b>-</b>	<b>53,011,463</b>	<b>44,617,250</b>
<b>Expenditures:</b>						
General government	5,122,308	30,586	-	-	5,152,894	4,631,897
Health services	3,134,501	931,814	-	-	4,066,315	4,575,564
Education	5,037,557	4,865,794	-	-	9,903,351	10,832,137
Economic development	1,067,231	47,662	-	-	1,114,893	1,781,574
Public safety	597,986	300,372	-	-	898,358	811,504
Transportation	1,635,016	-	-	-	1,635,016	1,409,480
Public works and utilities	1,734,362	1,554,654	-	-	3,289,016	3,120,482
Community affairs	259,981	874,329	-	-	1,134,310	312,689
Capital projects	-	-	11,230,653	-	11,230,653	7,225,249
Debt service - principal	-	-	-	416,666	416,666	-
Debt service - interest	-	-	-	49,803	49,803	-
Other	7,631,799	7,563,025	-	-	15,194,824	4,748,805
<b>Total expenditures</b>	<b>26,220,741</b>	<b>16,168,236</b>	<b>11,230,653</b>	<b>466,469</b>	<b>54,086,099</b>	<b>39,449,381</b>
Revenues in excess of (less than) expenditures	(783,523)	(1,828,499)	2,003,855	(466,469)	(1,074,636)	5,167,869
<b>Other sources (uses):</b>						
Operating transfers in (Note 8)	-	83,350	-	466,469	549,819	272,382
Operating transfers out (Note 8)	(220,094)	-	(881,939)	-	(1,102,033)	(541,100)
Proceeds from notes payable (Note 5)	-	1,887,931	-	-	1,887,931	-
Other income (Note 11)	2,026,805	-	-	-	2,026,805	735,458
<b>Total other sources (uses), net</b>	<b>1,806,711</b>	<b>1,971,281</b>	<b>(881,939)</b>	<b>466,469</b>	<b>3,362,522</b>	<b>466,740</b>
Excess of revenues and other sources over expenditures and other uses	1,023,188	142,782	1,121,916	-	2,287,886	5,634,609
Fund balances (deficit), beginning of year	(1,691,112)	1,363,318	25,416,465	-	25,088,671	19,454,062
Fund balances (deficit), end of year	\$ (667,924)	\$ 1,506,100	\$26,538,381	\$ -	\$27,376,557	\$25,088,671

See accompanying notes to combined financial statements.

**CHUUK STATE GOVERNMENT**

Statement of Revenues, Expenditures and Changes in Deficit  
 - Budget and Actual, Budgetary Basis - General Fund  
 For the year ended September 30, 1991  
 (With comparative totals for the year ended September 30, 1990)

	1991 General Fund			1990 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Compact of Free Association,						
Section 211 and 217	\$17,984,540	\$17,720,160	\$ (264,380)	\$ 17,089,041	\$ 17,191,200	\$ 102,159
FSM revenue sharing	2,000,000	2,230,745	230,745	1,800,000	1,629,513	(170,487)
State taxes and licenses	3,022,605	1,841,358	(1,181,247)	1,310,000	1,183,910	(126,090)
Public service charges	427,000	690,651	263,651	2,141,918	1,934,952	(206,966)
Investment income	1,733,496	2,954,304	1,220,808	245,000	589,466	344,466
<b>Total revenues</b>	<u>25,167,641</u>	<u>25,437,218</u>	<u>269,577</u>	<u>22,585,959</u>	<u>22,529,041</u>	<u>(56,918)</u>
<b>Expenditures - budgetary basis:</b>						
General government	4,953,751	4,776,582	177,169	4,530,840	4,451,144	79,696
Health services	3,217,586	3,112,489	105,097	2,874,500	2,933,686	(59,186)
Education	5,209,611	5,049,624	159,987	5,345,400	5,120,769	224,631
Economic development	1,122,604	1,050,836	71,768	888,800	851,091	37,709
Public safety	611,844	602,561	9,283	581,800	607,922	(26,122)
Transportation	1,442,400	1,359,028	83,372	1,632,000	1,733,569	(101,569)
Public works and utilities	1,785,700	1,770,289	15,411	1,804,852	1,720,493	84,359
Community affairs	263,600	251,539	12,061	296,600	299,877	(3,277)
Boards and commissions	773,417	760,893	12,524	917,889	852,624	65,265
Special programs	3,044,201	2,876,552	167,649	310,100	436,683	(126,583)
Legislative external appropriations	2,555,185	2,887,729	(332,544)	2,907,727	4,340,223	(1,432,496)
Other	-	1,481,899	(1,481,899)	-	-	-
<b>Total expenditures</b>	<u>24,979,899</u>	<u>25,980,021</u>	<u>(1,000,122)</u>	<u>22,090,508</u>	<u>23,348,081</u>	<u>(1,257,573)</u>
Revenues in excess of (less than) expenditures	187,742	(542,803)	(730,545)	495,451	(819,040)	(1,314,491)
<b>Other sources (uses):</b>						
Operating transfers out	(222,825)	(219,955)	2,870	(207,800)	(206,661)	1,139
Other income (Note 11)	-	2,026,804	2,026,804	-	735,458	735,458
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(35,083)	1,264,046	1,299,129	287,651	(290,243)	(577,894)
<b>Deficit - unreserved, beginning of year</b>	(3,114,708)	(3,114,708)	-	(3,648,020)	(3,648,020)	-
<b>Other changes in deficit - unreserved:</b>						
(Decrease) in reserve for continuing appropriations	-	(15,484)	(15,484)	-	(182,174)	(182,174)
Net encumbrance adjustments (Note 1H)	-	325,589	325,589	-	1,005,729	1,005,729
<b>Deficit - unreserved, end of year</b>	<u>\$(3,149,791)</u>	<u>\$(1,540,557)</u>	<u>\$ 1,609,234</u>	<u>\$(3,360,369)</u>	<u>\$(3,114,708)</u>	<u>\$ 245,661</u>

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT

Combined Statement of Revenues, Expenses and Changes  
in Retained Earnings/Contributed Capital -  
Proprietary Fund Type  
For the year ended September 30, 1991  
(With comparative totals for the year ended September 30, 1990)

	<u>Proprietary Fund Type</u>	
	<u>Enterprise Funds</u>	
	<u>1991</u>	<u>1990</u>
Operating revenues:		
Interest income	\$ 58,805	\$ 35,153
Federal contributions	36,125	41,510
Coconut product sales	62,320	41,960
Other	<u>3,511</u>	<u>8,058</u>
Total revenues	<u>160,761</u>	<u>126,681</u>
Operating expenses:		
Cost of sales	104,589	78,115
Payroll and personnel	81,030	71,714
Bad debts	24,915	36,385
Depreciation	28,493	22,988
Travel	19,058	32,087
Rent	8,620	10,150
Other	<u>62,351</u>	<u>38,059</u>
Total operating expenses	<u>329,056</u>	<u>289,498</u>
Operating loss	<u>(168,295)</u>	<u>(162,817)</u>
Non-operating revenue (expenses):		
Transfers in (Note 8)	552,214	163,489
Interest expense	<u>(10,963)</u>	<u>(10,874)</u>
Total non-operating revenues	<u>541,251</u>	<u>152,615</u>
Net earnings (loss)	372,956	(10,202)
Retained earnings as restated, beginning of year (Note 12)	<u>53,378</u>	<u>63,580</u>
Retained earnings, end of year	<u>\$ 426,334</u>	<u>\$ 53,378</u>
Contributed capital, beginning of year	\$1,670,266	\$1,565,037
Additions	<u>-</u>	<u>105,229</u>
Contributed capital, end of year	<u>\$1,670,266</u>	<u>\$1,670,266</u>

See accompanying notes to combined financial statements.

CHUUK STATE GOVERNMENT

Combined Statements of Cash Flows -  
 Proprietary Fund Type  
 For the year ended September 30, 1991  
 (With comparative totals for the year ended September 30, 1990)

Increase (decrease) in cash and equivalents:	<u>Proprietary Fund Type</u>	
	<u>Enterprise Funds</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Cash received from customers	\$ 126,748	\$ 200,723
Cash payments to suppliers and employees	(200,835)	(405,040)
Interest expense	(10,963)	(10,874)
Net cash used by operating activities	<u>(85,050)</u>	<u>(215,191)</u>
Cash flows from noncapital financing activities:		
Transfers-in from the State of Chuuk	<u>552,214</u>	<u>268,718</u>
Net cash provided by noncapital financing activities	<u>552,214</u>	<u>268,718</u>
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(472,961)	(60,930)
Issuance of loans	(320,445)	(182,048)
Proceeds from debt, net of repayments	<u>359,676</u>	<u>(7,098)</u>
Net cash used for capital and related financing acquisitions	<u>(433,730)</u>	<u>(250,076)</u>
Net increase (decrease) in cash and equivalents	33,434	(196,549)
Cash and equivalents, beginning of year	<u>393,115</u>	<u>589,664</u>
Cash and equivalents, end of year	<u>\$ 426,549</u>	<u>\$ 393,115</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (168,295)	\$ (162,817)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	28,493	22,988
Interest expense	(10,963)	(10,874)
Change in receivables	(56,313)	12,944
Increase in inventories	(7,582)	(49,746)
Change in other assets	29,882	(43,268)
Increase in accounts payable	<u>99,728</u>	<u>15,582</u>
Total adjustments	<u>83,245</u>	<u>(52,374)</u>
Net cash used by operating activities	<u>\$ (85,050)</u>	<u>\$ (215,191)</u>

See accompanying notes to combined financial statements.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements  
September 30, 1991

(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 Governmental 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 component 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 Funds:

Chuuk Visitor's Bureau  
Chuuk Airport Authority

Enterprise Funds:

Chuuk Coconut Processing Authority  
Chuuk Housing Authority

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

The accompanying statements do not include the State's eleven development authorities (special revenue funds) nor the State's 39 municipalities that received 8% of all Compact current account monies and 40% of all Compact CIP monies. The majority of these entities do not present financial information concerning their operations, thus precluding the presentation of financial statements for these funds.

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.
4. The Debt Service Fund - used to account for the current portion of debt owed by Chuuk State.

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 the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(1) Summary of Significant Accounting Policies, Continued

B. Fund Structure and Basis of Accounting, Continued

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:

- a. Inventories generally are considered expenditures at acquisition.
- b. Prepayments are usually considered expenditures at the time of payment.

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, 1991, included two Enterprise funds which account for the operations of the Chuuk Housing Authority and the Chuuk Coconut Processing Authority. 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.



**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(1) Summary of Significant Accounting Policies, Continued

C. Fixed Assets and Long-Term Liabilities, Continued

It is Chuuk State's policy to capitalize public domain or infrastructure assets such as roads, drainage systems, lighting systems, and similar assets that are immovable and of value only to the State.

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.

General Long-Term Debt is not accounted for in a fund, but rather in an Account Group. Accrued annual leave represents a portion of the General Long-Term Debt Account Group (GLTDAG) as of September 30, 1991. 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 long-term payable to the Federal Emergency Management Agency (FEMA) represents the remaining portion of the GLTDAG. A 25% matching share contribution was required by FEMA of Chuuk State upon granting of the disaster funds. As Chuuk State did not have sufficient available cash, FEMA advanced funds to Chuuk and allowed the State to sign a promissory note for the required matching share (note 5).

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.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(1) Summary of Significant Accounting Policies, Continued

D. Budgetary Process, Continued

During fiscal year 1992, the Chuuk State Legislature appropriated supplemental budgets for the purpose of funding additional operating costs of the Executive branch and special programs as well as travel costs for the Legislature's standing committees and the Governor's office.

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.

Chuuk State does not establish budgets for the operations of its Special Revenue Funds. Accordingly, a budget to actual presentation for Special Revenue Funds is not required or presented.

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. Loans Receivable

Loans receivable of the enterprise fund consist of Community Development Block Grant (CDBG) loans and general loans extended to qualifying FSM citizens. CDBG loans are for the purpose of acquiring new homes and general loans are for the purpose of financing renovation, rehabilitation or extension of existing homes. In order to qualify for both types of loans, the citizen must own or acquire the land where the home will be located, the home or additions must be approved with regard to compliance with building codes, the applicant must fall within low-income eligibility parameters as established by the U.S. Department of Housing and Urban Development (HUD), and the applicant must exhibit the ability to repay the loans. Interest on both types of loans is charged at 4%. The loans are collateralized by land and improvements. The principal amounts of loans range between \$2,000 and \$25,000. Loan maturities range from 1 to 7 years.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(1) Summary of Significant Accounting Policies, Continued

G. Interfund Transactions

The State has two types of interfund transactions:

1. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.
2. Equity contributions are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).

H. Actual Expenditures Contrasted With Budgetary Expenditures

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.

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.

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.

I. 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, 1991

(1) Summary of Significant Accounting Policies, Continued

J. 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.

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.

L. Inventories

Inventories of supplies and raw materials for enterprise funds are carried at the lower of cost (first-in-out method) or market.

M. Reclassifications

Certain items in the 1990 combined financial statements have been reclassified to conform with 1991 presentation.

(2) Cash and Investments

Cash and Equivalents

For the purposes of the combined balance sheet and the combined statements of cash flows of its proprietary fund type, the State considers cash and equivalents to be cash on hand, and cash in checking and savings accounts and unrestricted time certificates of deposit with initial maturities of less than 90 days.

Cash Deposits

The State of Chuuk does not require collateralization of its bank accounts.

At September 30, 1991, 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 *	\$ 943,962
Cash on deposit with trustee	<u>550,098</u>
	<u>\$1,494,060</u>

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(2) Cash and Investments, Continued

Cash Deposits, Continued

Special Revenue Deposits

Cash in checking accounts with FDIC insured banks *	\$ 11,717
Cash on deposit with trustee	<u>214,624</u>
	<u>\$ 226,341</u>

Capital Projects Deposits

Cash in checking accounts and time certificates of deposits with FDIC insured banks *	<u>\$ 634,778</u>
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Enterprise Fund Deposits

Cash in checking and savings accounts with FDIC insured banks *	<u>\$ 425,461</u>
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- \* Of the totals, \$1,020,938 is subject to coverage by FDIC with the remaining balance exceeding insurable limits. Differences between cash reported on the balance sheet and the amounts reported above reflect cash on hand or in uninsured banks.

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:
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.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(2) Cash and Investments, Continued

Investments, Continued

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 & Poors 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, 1991

(2) Cash and Investments, Continued

Investments, Continued

Funds invested on behalf of the State as of September 30, 1991, are summarized below:

<u>Cash and Equivalents</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of deposit	<u>\$ 1,013,994</u>	<u>\$ 1,013,994</u>
<u>Cash on Deposit with Trustee</u>		
Certificates of deposit	<u>\$ 764,722</u>	<u>\$ 764,722</u>
 <u>Investments</u>		
Equity funds (See Note 7)	<u>\$ 26,220,858</u>	<u>\$28,173,193</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.

(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, U.S. 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

Chuuk State did not update the balances in the General Fixed Assets Account Group for fiscal year 1991.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(4) Changes in General Fixed Assets, Continued

A summary of the general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1991, follows:

	Estimated Useful Life	Balance at September 30, 1991
Roads	30-50 years	\$10,257,016
Port facilities	30-40 years	6,537,700
Airport facilities	30-40 years	24,506,300
Public utilities	30-50 years	22,961,621
Other	30-50 years	3,319,207
		<u>\$67,581,844</u>

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1991, follows:

Housing units	25-50 years	\$ 227,957
Equipment	7-10 years	704,742
Building	20-30 years	98,271
Automobile	3- 5 years	30,312
Office equipment	7-10 years	10,389
Other	5-10 years	13,555
		1,085,226
Less accumulated depreciation		(147,394)
		<u>\$ 937,832</u>

(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, 1991, 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.	<u>\$ 329,179</u>
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The Chuuk Housing Authority, an Enterprise Fund, as of September 30, 1991, 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, collateralized by L043-A02 in Nepung, Chuuk	<u>\$ 103,168</u>
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**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(5) Notes Payable, Continued

Chuuk Coconut Processing Authority, an Enterprise Fund as of September 30, 1991 had the following note payable:

Payable to FSM Development Bank, after a grace period of 18 months, principal and interest are due in annual installments of \$3,221 until December, 1995 then annual installments of \$6,442 maturing in 2006 at 5% per annum, collateralized by 15.442 hectares of land, buildings, and soap making equipment. The outstanding balance at September 30, 1991 represents drawdowns to date on a credit facility totalling \$737,131. \$ 371,212

The State signed a promissory note with the Federal Emergency Management Agency for the State's matching share of funds for the Typhoon Owen disaster as of September 30, 1991. The principal amount was originally estimated at \$2,500,000. The current principal amount is determined by calculating 25% of the FEMA grants less principal payments already made (proceeds of \$1,887,931 less \$416,666 in principal payment). The note is as follows:

Payable to FEMA, principal and interest due in 10 quarterly installments of \$233,234 maturing on April 1, 1994, at 7 1/8% per annum. \$1,471,265

Future minimum payments on all notes payable for years ending September 30, are as follows:

<u>Years ending September 30,</u>	<u>Amount</u>
1992	\$1,191,006
1993	632,649
1994	48,040
1995	53,181
1996	90,197
Thereafter	<u>259,751</u>
	<u>\$2,274,824</u>

(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

CHUUK STATE GOVERNMENT

Notes to Combined Financial Statements, Continued  
September 30, 1991

(6) Continuing Appropriations, Continued

General Fund, Continued

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.

75,877

\$ 231,387

Capital Projects

TSL 6-12 and TSL 6-58, which amended TSL 6-24, TSL 6-56 (Section 1c), TSL 6-69, TSL 6-81 and TSL 6-89, TSL 190-10, TSL 191-07, TSL 191-21, and TSL 199-22, relating to capital projects and economic development programs, which are available until fully expended or project completion.

\$17,769,677

(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, 1991, 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, 1991, 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 1991, \$58,719 and \$78,025, 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, transfer in, within the accompanying general purpose financial statements.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(8) Operating Transfers In/Out

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 1991, \$83,350 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 Housing Authority and the Chuuk Coconut Processing Authority (Enterprise Funds)

The Chuuk Legislature appropriated \$200,000 to the Chuuk Housing Authority. The Capital Projects Fund has recorded this expenditure as an operating transfer out and the Chuuk Housing Authority has recorded receipt of these funds as a transfer in.

The Chuuk Legislature appropriated \$215,470 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 a transfer in.

E. Capital Projects Fund Transfers to the Debt Service Fund

The Chuuk Legislature appropriated \$468,000 of funds for repayment of the note payable to FEMA (PL191-21). During fiscal year 1991, \$466,469 was transferred from Compact CIP Funds to the Debt Service Fund.

(9) Interfund Assets/Liabilities

The following summarizes due from/to other funds as of September 30, 1991:

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
Chuuk Airport Authority (SR)	\$ 140,366	
Compact - Special Block Grant (SR)	1,728,777	
Federal Grant Assistance Fund (SR)	51,101	
Compact Capital Projects Fund (CIP)	581,311	

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(9) Interfund Assets/Liabilities, Continued

Fund	Receivable Amount	Payable Amount
Compact - Other Grants Fund (SR)		\$ 231,345
Other Grant Assistance Fund (SR)		6,164
CFSM Grant Fund (SR)		575,861
TTG Capital Projects Fund (CIP)		1,078,496
CFSM State Projects Fund (CIP)		175,597
General Fund (GF)		434,092
	<u>\$2,501,555</u>	<u>\$2,501,555</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 fiscal year 1989, thus aggregating a cumulative investment in the Bank of the FSM of \$500,000 as of September 30, 1991. During the fiscal year 1991, the State also purchased \$250,000 of common stock in the Pacific Islands Regional Development Bank, (a 23% interest at September 30, 1991) and \$370,000 in a joint venture with the National Fisheries Corporation for a long line base (a 100% interest at September 30, 1991). The expected venture is to be 50% financed by the National Fisheries Corporation. Both companies are in the development stage. Investments are valued at cost since there is no method of ascertaining related market value. Since the investments are considered unavailable to finance expenditures of the ensuing fiscal year, the investments are restricted in the reserved for related assets component of fund balance.

(11) Other Income

During fiscal years 1990 and 1991, the State performed reconciliations of its accounts payable records. Based upon the reconciliations, accounts payable were found to be overstated by \$1,749,109. The amount of the overstatement is recorded in the current year as other income. Additionally, the State duplicated the recording of \$277,696 of prior year disbursements. Corrections were made in 1991 and recorded as other income.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(12) Prior Period Adjustment

The Chuuk Housing Authority, an enterprise fund, adjusted beginning retained earnings to reflect corrections made to an understatement of its loan portfolio. A summary follows:

Deficit, as previously reported, September 30, 1990	\$ (67,675)
Prior period adjustment, correction to loan portfolio	<u>135,003</u>
Retained Earnings, beginning of the year, as adjusted at September 30, 1990	<u>\$ 67,328</u>

As a result of the Chuuk Housing Authority's adjustment, the 1990 Proprietary Fund Type, Enterprise Funds, has been correspondingly restated.

(13) Commitments and Contingencies

Federal Grants

The State receives various U.S. 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, 1991, are summarized below:

TTPI Capital Projects	<u>\$2,612,608</u>
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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, \$8,604,701 in cumulative questioned costs exist for the operation of fiscal years 1984-1991 grants. If the grantor agencies ultimately disallow these costs or a portion thereof, the General Fund will bear responsibility for reimbursing the affected agencies.

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, 1991, 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.

**CHUUK STATE GOVERNMENT**  
Notes to Combined Financial Statements, Continued  
September 30, 1991

(13) Commitments and Contingencies, Continued

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 \$13 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, 1991. 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	\$ 15,909
CFSM Grant Fund	<u>137,144</u>
	153,053

Capital Projects Funds:

TTG Capital Projects	<u>95,061</u>
	<u>\$ 248,114</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 of 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.

December 20, 1991

Certified Public Accountants

**CHUUK STATE GOVERNMENT**

Combining Schedule of Expenditures by Account -  
 All Governmental Fund Types  
 For the year ended September 30, 1991  
 (With comparative totals for the year ended September 30, 1990)

	<u>Governmental Fund Types</u>				<u>Totals</u>	
	General	Special	Capital	Debt	1991	1990
	Fund	Revenue Funds	Projects Funds	Service Fund		
<b>Expenditures:</b>						
Personnel	\$15,791,120	\$ 2,458,843	\$ 414,321	\$ -	\$18,664,284	\$17,289,137
Travel	1,397,948	673,984	112,238	-	2,184,170	1,888,010
Contractual services	2,492,969	589,524	4,784,776	-	7,867,269	7,798,489
POL	966,259	1,279,708	379	-	2,246,346	1,938,783
<b>Other:</b>						
Equipment	600,917	225,026	2,574,311	-	3,400,254	2,257,992
Medical supplies	432,364	1,528	-	-	433,892	715,363
Medical referral	1,300,318	-	-	-	1,300,318	668,304
Supplies and materials	796,172	466,681	974,822	-	2,237,675	2,417,157
Scholarships	100,300	1,242,188	-	-	1,342,488	326,310
Official allowance	40,832	-	-	-	40,832	66,440
Food	88,752	514,500	80,059	-	683,311	355,260
Books	7,844	513,468	-	-	521,312	47,186
Authorization	1,883,786	7,967,612	2,225,573	-	12,076,971	2,941,203
Debt service-principal	-	-	-	416,666	416,666	-
Debt service-interest	-	-	-	49,803	49,803	-
Miscellaneous	321,160	235,174	64,174	-	620,508	739,747
	<u>\$26,220,741</u>	<u>\$16,168,236</u>	<u>\$11,230,653</u>	<u>\$ 466,469</u>	<u>\$54,086,099</u>	<u>\$39,449,381</u>



**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Deficit  
For the year ended September 30, 1991  
(With comparative totals for the year ended September 30, 1990)

	1991	1990
<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	4,496,160	3,967,200
FSM revenue sharing	2,230,745	1,629,513
<b>State taxes and licenses:</b>		
Cigarette tax	\$ 73,495	\$ 79,184
General sales tax	844,240	576,209
Alcohol	630,297	301,129
Hotel	131,318	87,019
Delinquent tax collections	86,842	45,853
License and fees	15,327	12,081
Other	59,839	82,435
	1,841,358	1,183,910
<b>Other revenues:</b>		
Hospital & Utility collections	169,467	182,432
Transportation collections	352,304	137,869
Leases	68,280	33,192
Miscellaneous	100,600	235,973
Investment income	2,954,304	589,466
	1,934,952	1,934,952
<b>Total revenues</b>	<b>25,437,218</b>	<b>22,529,041</b>
<b>Expenditures by department:</b>		
<b>General government:</b>		
Governor and staff	459,775	483,261
Attorney General	209,557	198,283
State Finance	334,791	310,955
ADP	30,603	35,860
Tax and revenue	80,853	51,677
Program and budget	119,124	111,096
Property and supply	122,840	131,364
Personnel	191,421	164,459
Planning	98,522	86,336
Indefinite land use	377	13,257
Legislative internal operations	2,587,339	2,373,272
Judicial operations	546,939	392,572
Court judgments	340,167	273,280
<b>Total</b>	<b>5,122,308</b>	<b>4,625,672</b>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Deficit, Continued  
For the year ended September 30, 1991  
(With comparative totals for the year ended September 30, 1990)

	1991	1990
Expenditures by department, continued:		
Health services:		
Hospital and dispensaries	1,882,108	1,776,486
Environmental health	81,524	78,384
Dental services	210,163	177,446
Medical supplies	403,619	575,883
Medical referrals	482,087	865,861
Chuuk Medical facility (Honolulu)	75,000	-
Total	3,134,501	3,474,060
Education:		
Administration	413,572	369,449
Elementary	3,345,549	3,262,246
Secondary	1,278,436	1,467,999
Total	5,037,557	5,099,694
Economic development:		
Administration	122,594	96,431
Economic development	-	3,047
Land management	78,433	64,666
Marine resources	437,452	243,324
Agriculture	280,730	292,800
Labor	44,754	37,949
Commerce and industry	103,268	97,652
Total	1,067,231	835,869
Public safety	597,986	612,456
Transportation:		
Administration	1,252,266	1,049,632
Micro Vessels	258,633	245,015
Airport	124,117	114,833
Total	1,635,016	1,409,480

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures by Function and Department  
and Changes in Deficit, Continued  
For the year ended September 30, 1991  
(With comparative totals for the year ended September 30, 1990)

	1991	1990
Expenditures by department, continued:		
Public works and utilities:		
Operations and maintenance	584,256	740,091
Power	1,147,375	752,550
Water & Sewer	2,731	-
Total	1,734,362	1,492,641
Community affairs:		
Division of Public Affairs	121,163	155,977
Division of Information and Broadcast	138,818	140,365
Total	259,981	296,342
Boards and commissions:		
Investment board	4,981	-
Election commission	47,694	31,058
Scholarship board	100,300	128,554
Recreation board	109,633	222,196
Land commission	220,283	190,604
Development authorities	276,454	256,715
Total	759,345	829,127
Other	1,470,070	269,548
Special programs	2,833,159	691,698
Legislative external appropriations	2,569,225	2,932,529
Total	6,872,454	3,893,775
Total expenditures	26,220,741	22,569,116
Revenues (under) expenditures	(783,523)	(40,075)
Other sources (uses):		
Operating transfer out	(220,094)	(213,229)
Other income	2,026,805	735,458
Excess of revenues and other sources over expenditures and other uses	1,023,188	482,154
Deficit, beginning of year	(1,691,112)	(2,173,266)
Deficit, end of year	\$ (667,924)	\$(1,691,112)

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in  
Deficit - Budget and Actual, Budgetary Basis  
For the year ended September 30, 1991

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>Revenues:</b>			
Compact of Free Association -			
Section 211 and 217	\$17,984,540	\$ 17,720,160	\$ (264,380)
FSM revenue sharing	2,000,000	2,230,745	230,745
State taxes and licenses	3,022,605	1,841,358	(1,181,247)
Investment income	1,733,496	2,954,304	1,220,808
Public service charges	<u>427,000</u>	<u>690,651</u>	<u>263,651</u>
Total revenues	<u>25,167,641</u>	<u>25,437,218</u>	<u>269,577</u>
<b>Expenditures - budgetary basis:</b>			
General government:			
Executive branch:			
Office of the Governor	450,600	472,791	(22,191)
Office of the Attorney General	203,269	209,147	(5,878)
Independent Prosecutor	39,850	-	39,850
State finance	379,100	365,070	14,030
Budget	116,100	114,885	1,215
Supply	133,700	124,726	8,974
Personnel	196,800	183,465	13,335
Planning	104,880	96,993	7,887
Tax and Revenue	<u>86,052</u>	<u>79,610</u>	<u>6,442</u>
Executive branch	<u>1,710,351</u>	<u>1,646,687</u>	<u>63,664</u>
Legislative branch:			
President and members	435,000	431,883	3,117
Legislative committees	187,800	168,020	19,780
Speakers and members	1,061,500	1,058,824	2,676
Legislative legal office	336,800	309,376	27,424
Legislative administration	246,700	230,113	16,587
Budget	169,700	115,066	54,634
Research office	-	4,129	(4,129)
Chief clerk	<u>240,800</u>	<u>256,952</u>	<u>(16,152)</u>
Legislative branch	<u>2,678,300</u>	<u>2,574,363</u>	<u>103,937</u>
State court	<u>565,100</u>	<u>555,532</u>	<u>9,568</u>
Total general government	<u>4,953,751</u>	<u>4,776,582</u>	<u>177,169</u>
<b>Health Services:</b>			
Hospitals and dispensaries	1,862,479	1,886,689	(24,210)
Environmental health	82,200	79,058	3,142
Dental services	217,828	212,252	5,576
Medical supplies	500,000	384,507	115,493
Medical referrals	479,754	474,983	4,771
Chuuk Medical Facility (Honolulu)	<u>75,325</u>	<u>75,000</u>	<u>325</u>
Total health services	<u>3,217,586</u>	<u>3,112,489</u>	<u>105,097</u>
<b>Education:</b>			
Administration - education	426,211	413,795	12,416
Elementary	3,481,500	3,360,625	120,875
Secondary	<u>1,301,900</u>	<u>1,275,204</u>	<u>26,696</u>
Total education	<u>5,209,611</u>	<u>5,049,624</u>	<u>159,987</u>

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in  
Deficit - Budget and Actual, Budgetary Basis, Continued  
For the year ended September 30, 1991

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Economic development:			
R & D administration	119,555	113,483	6,072
Land management	78,344	78,674	(330)
Marine resources	491,900	443,135	48,765
Agriculture	282,700	264,301	18,399
Labor	46,905	46,909	(4)
Commerce and industry	<u>103,200</u>	<u>104,334</u>	<u>(1,134)</u>
Total economic development	<u>1,122,604</u>	<u>1,050,836</u>	<u>71,768</u>
Public safety	<u>611,844</u>	<u>602,561</u>	<u>9,283</u>
Transportation	<u>1,442,400</u>	<u>1,359,028</u>	<u>83,372</u>
Public works and utilities:			
Operation and maintenance	630,400	560,939	69,461
Electric utilities	<u>1,155,300</u>	<u>1,209,350</u>	<u>(54,050)</u>
Total public works and utilities	<u>1,785,700</u>	<u>1,770,289</u>	<u>15,411</u>
Community affairs:			
Public affairs	132,000	116,590	15,410
Broadcasting	<u>131,600</u>	<u>134,949</u>	<u>(3,349)</u>
Total community affairs	<u>263,600</u>	<u>251,539</u>	<u>12,061</u>
Boards and commissions:			
Investment board	5,000	4,981	19
Election commission	42,889	46,140	(3,251)
Scholarship board	100,000	100,300	(300)
Recreation board	119,479	112,579	6,900
Land commission	231,700	220,439	11,261
Development authorities	<u>274,349</u>	<u>276,454</u>	<u>(2,105)</u>
Total boards and commissions	<u>773,417</u>	<u>760,893</u>	<u>12,524</u>
Special programs:			
Small industry	30,238	29,146	1,092
Chuuk maritime	105,000	94,251	10,749
Education - Secondary	351,599	327,794	23,805
Education - Chapter I & II	978,300	933,607	44,693
Education - Food Services	948,734	955,834	(7,100)
Non-Public School	123,000	93,559	29,441
Chuuk Peace Corps.	13,000	13,000	-
Micro Legal Services	30,000	30,000	-
4-H youth	20,000	20,000	-
Youth program	45,600	38,100	7,500
Home economic program	20,000	20,000	-
Red Cross	25,000	25,000	-
Farmer's home administration	18,000	15,563	2,437

**CHUUK STATE GOVERNMENT  
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in  
Deficit - Budget and Actual, Budgetary Basis, Continued  
For the year ended September 30, 1991

	Budget	Actual	Variance Favorable (Unfavorable)
Special programs, continued:			
TOCA	335,730	280,698	55,032
Total special programs	3,044,201	2,876,552	167,649
Legislative external appropriations:			
Court Judgements	-	395,767	(395,767)
Municipal Constitutional Convention	280,000	267,000	13,000
COLA	500,000	504,687	(4,687)
Municipalities & Election districts	1,765,185	1,710,972	54,213
Dedication Onum Airport	10,000	9,303	697
Total Legislative external appropriations	2,555,185	2,887,729	(332,544)
Unfunded expenditures:			
Deficit reduction	-	27,000	(27,000)
Unfunded contracts	-	67,224	(67,224)
Unfunded Medical Billings	-	1,265,537	(1,265,537)
Travel Advance Bad Debt	-	104,863	(104,863)
Other Unfunded Programs	-	17,275	(17,275)
Total unfunded expenditures	-	1,481,899	(1,481,899)
Total expenditures	24,979,899	25,980,021	(1,000,122)
Revenues in excess of (less than) expenditures	187,742	(542,803)	(730,545)
Other sources (uses):			
Other income	-	2,026,804	2,026,804
Operating transfers out	(222,825)	(219,955)	2,870
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(35,083)	1,264,046	1,299,129
Deficit - unreserved, beginning of year	(3,114,708)	(3,114,708)	-
Other changes in deficit - unreserved:			
(Decrease) in reserve for continuing appropriations	-	(15,484)	(15,484)
Net encumbrance adjustments	-	325,589	325,589
Deficit - unreserved, end of year	\$(3,149,791)	\$ (1,540,557)	\$ 1,609,234

**CHUUK STATE GOVERNMENT**  
Special Revenue Funds  
September 30, 1991

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, 1991, follows:

Chuuk Visitor's Bureau

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

Chuuk Airport Authority

This fund accounts for funds received by the Airport Authority for the maintenance of Chuuk Airport.

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, 1991  
(With comparative totals as of September 30, 1990)

Assets	Chuk	Chuk	Federal	Other	CFSM	Compact	Block	Totals	
	Visitor's Bureau	Airport Authority	Grant Assistance Fund	Grant Assistance Fund		Other Grants Fund	Grant Section 221 (b)	1991	1990
Cash and equivalents	\$ -	\$ -	\$ 11,717	\$ -	\$ -	\$ -	\$ -	\$ 11,717	\$ 32,336
Cash on deposit with Trustee	-	-	-	-	-	200,624	14,000	214,624	169,743
Receivables:									
General	-	-	1,900	-	-	-	(526)	1,374	35,750
Federal agencies, direct	-	-	75,951	-	-	-	-	75,951	-
FSM National Gov't.	-	-	979,151	6,257	446,108	38,050	159,548	1,629,114	1,547,166
Due from other funds	-	140,366	51,101	-	-	-	1,728,777	1,920,244	2,016,753
Advances	-	-	42,095	-	-	4,490	8,615	55,200	4,151
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 140,366</b>	<b>\$ 1,161,915</b>	<b>\$ 6,257</b>	<b>\$ 446,108</b>	<b>\$ 243,164</b>	<b>\$ 1,910,414</b>	<b>\$ 3,908,224</b>	<b>\$ 3,805,899</b>
<b>Liabilities and Fund Balances (Deficit)</b>									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ 557,748	\$ -	\$ 7,391	\$ 26,249	\$ 359,677	\$ 951,065	\$ 1,521,333
Payable to other governments	-	-	323,008	-	-	-	-	323,008	-
Due to other funds	-	-	-	6,164	575,861	231,345	-	813,370	284,656
Accrued payroll	-	-	3,838	93	-	1,479	31,950	37,360	93,040
Deferred revenue	-	-	277,321	-	-	-	-	277,321	543,552
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>1,161,915</b>	<b>6,257</b>	<b>583,252</b>	<b>259,073</b>	<b>391,627</b>	<b>2,402,124</b>	<b>2,442,581</b>
Fund balance (deficit):									
Reserved for encumbrances	-	-	483,158	4,934	2,368	19,076	55,892	565,428	986,905
Unreserved	-	140,366	(483,158)	(4,934)	(139,512)	(34,985)	1,462,895	940,672	376,413
<b>Total fund balances (deficit)</b>	<b>-</b>	<b>140,366</b>	<b>-</b>	<b>-</b>	<b>(137,144)</b>	<b>(15,909)</b>	<b>1,518,787</b>	<b>1,506,100</b>	<b>1,363,318</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ -</b>	<b>\$ 140,366</b>	<b>\$ 1,161,915</b>	<b>\$ 6,257</b>	<b>\$ 446,108</b>	<b>\$ 243,164</b>	<b>\$ 1,910,414</b>	<b>\$ 3,908,224</b>	<b>\$ 3,805,899</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, 1991

(With comparative totals for the year ended September 30, 1990)

	Chuk Visitor's Bureau	Chuk Airport Authority	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Grants Fund	Compact Special Block Grant Section 221(b)	Totals	
								1991	1990
<b>Revenues:</b>									
<b>U.S. 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	-	-	-	-	-	407,932	-	407,932	292,440
Section 212 - base grant	-	-	-	-	-	250,000	-	250,000	67,500
Compact 216(a)(3) - PSM	-	-	-	-	-	1,242,188	-	1,242,188	198,758
Federal contributions	-	-	7,954,071	-	-	-	-	7,954,071	4,373,142
Other	-	140,366	-	12,074	192,219	-	-	344,659	245,888
<b>Total revenues</b>	<b>-</b>	<b>140,366</b>	<b>7,954,071</b>	<b>12,074</b>	<b>192,219</b>	<b>3,311,007</b>	<b>2,730,000</b>	<b>14,339,737</b>	<b>9,318,615</b>
<b>Expenditures:</b>									
General government	-	-	28,581	2,005	-	-	-	30,586	6,225
Public works and utilities	-	-	12,555	-	-	1,542,099	-	1,554,654	1,627,841
Health services	-	-	272,701	2,178	-	469,726	187,209	931,814	1,101,504
Education	-	-	1,196,525	5,951	-	1,242,188	2,421,130	4,865,794	5,732,443
Economic development	-	-	47,662	-	-	-	-	47,662	945,705
Community affairs	151,436	-	720,953	1,940	-	-	-	874,329	16,347
Public safety	-	-	-	-	300,372	-	-	300,372	199,048
Other	-	-	7,563,025	-	-	-	-	7,563,025	25,903
<b>Total expenditures</b>	<b>151,436</b>	<b>-</b>	<b>9,842,002</b>	<b>12,074</b>	<b>300,372</b>	<b>3,254,013</b>	<b>2,608,339</b>	<b>16,168,236</b>	<b>9,655,016</b>
Revenues in excess of (less than) expenditures	(151,436)	140,366	(1,887,931)	-	(108,153)	56,994	121,661	(1,828,499)	(336,401)
<b>Other sources (uses):</b>									
Proceeds from notes payable:	-	-	1,887,931	-	-	-	-	1,887,931	-
Operating transfers in	83,350	-	-	-	-	-	-	83,350	272,382
Excess (deficiency) of revenues and other sources over expenditures and other uses	(68,086)	140,366	-	-	(108,153)	56,994	121,661	142,782	(64,019)
Fund balances (deficit), beginning of year	68,086	-	-	-	(28,991)	(72,903)	1,397,126	1,363,318	1,427,337
Fund balances (deficit), end of year	\$ -	\$140,366	\$ -	\$ -	\$ (137,144)	\$ (15,909)	\$1,518,787	\$1,506,100	\$1,363,318

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, 1991

(With comparative totals for the year ended September 30, 1990)

	Chuuk Visitor's Bureau	Chuuk Airport Authority	Federal Grant Assistance Fund	Other Grant Assistance Fund	CFSM Grant Fund	Compact Other Grants Fund	Compact Special Block Grant Section 221(b)	Totals	
								1991	1990
<b>Revenues:</b>									
<b>U.S. 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	-	-	-	-	-	407,932	-	407,932	292,440
Section 212 - base grant	-	-	-	-	-	250,000	-	250,000	67,500
Compact 216(a)(3) - FSM	-	-	-	-	-	1,242,188	-	1,242,188	198,758
Federal contributions	-	-	7,954,071	-	-	-	-	7,954,071	4,373,142
Other	-	140,366	-	12,074	192,219	-	-	344,659	245,888
<b>Total revenues</b>	<b>-</b>	<b>140,366</b>	<b>7,954,071</b>	<b>12,074</b>	<b>192,219</b>	<b>3,311,007</b>	<b>2,730,000</b>	<b>14,339,737</b>	<b>9,318,615</b>
<b>Expenditures:</b>									
Personnel	-	-	326,499	5,280	99,258	78,229	1,949,577	2,458,843	4,472,763
Travel	-	-	402,579	1,822	8,536	224,302	36,745	673,984	734,623
Contractual services	-	-	497,787	-	1,052	35,207	55,478	589,524	911,614
POL	-	-	20,164	-	4,312	1,246,907	8,325	1,279,708	1,446,030
Other:									
Equipment	-	-	109,075	2,655	30,520	78,592	4,184	225,026	401,127
Medical supplies	-	-	1,413	-	-	-	115	1,528	126,903
Supplies and materials	-	-	380,097	189	14,393	7,070	64,932	466,681	512,720
Scholarships	-	-	-	-	-	1,242,188	-	1,242,188	197,956
Food	-	-	637	-	1,888	75,289	436,686	514,500	205,156
Books	-	-	513,468	-	-	-	-	513,468	37,449
Authorization	-	-	7,542,009	-	126,684	250,000	48,919	7,967,612	520,102
Miscellaneous	151,436	-	48,274	2,128	13,729	16,229	3,378	235,174	88,573
<b>Total expenditures</b>	<b>151,436</b>	<b>-</b>	<b>9,842,002</b>	<b>12,074</b>	<b>300,372</b>	<b>3,254,013</b>	<b>2,608,339</b>	<b>16,168,236</b>	<b>9,655,016</b>
Revenues in excess of (less than) expenditures	(151,436)	140,366	(1,887,931)	-	(108,153)	56,994	121,661	(1,828,499)	(336,401)
<b>Other sources (uses):</b>									
Proceeds from notes payable:	-	-	1,887,931	-	-	-	-	1,887,931	-
Operating transfers in	83,350	-	-	-	-	-	-	83,350	272,382
Excess (deficiency) of revenues and other sources over expenditures and other uses	(68,086)	140,366	-	-	(108,153)	56,994	121,661	142,782	(64,019)
Fund balances (deficit), beginning of year	68,086	-	-	-	(28,991)	(72,903)	1,397,126	1,363,318	1,427,337
Fund balances (deficit), end of year	\$ -	\$140,366	\$ -	\$ -	\$(137,144)	\$(15,909)	\$1,518,787	\$1,506,100	\$1,363,318

**CHUUK STATE GOVERNMENT**

**Capital Projects Funds  
September 30, 1991**

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, 1991, follows:

TTG Capital Projects Fund

This fund accounts for various capital projects received under grant awards from the U.S. 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, 1991  
(With comparative totals as of September 30, 1990)

<u>Assets</u>	TTG Capital Projects Fund	CFMSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	<u>Totals</u>	
				1991	1990
Cash and equivalents	\$ -	\$ -	\$ 634,778	\$ 634,778	\$ 598,292
Investments	-	-	25,114,682	25,114,682	25,082,602
Investments - others	-	-	1,120,000	1,120,000	500,000
Receivables from:					
Dept. of the Interior					
grants - TTG	783,015	-	-	783,015	102,565
FSM National Gov't.	-	177,905	-	177,905	177,905
Federal agencies	204,618	-	-	204,618	-
Advances	-	3,906	22,622	26,528	-
Due from other funds	-	-	581,311	581,311	99,500
<b>Total assets</b>	<b><u>\$ 987,633</u></b>	<b><u>\$181,811</u></b>	<b><u>\$27,473,393</u></b>	<b><u>\$28,642,837</u></b>	<b><u>\$26,560,864</u></b>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Notes payable	\$ -	\$ -	\$ 329,179	\$ 329,179	\$ 329,179
Accounts payable	3,902	5,907	509,627	519,436	359,609
Due to other funds	1,078,496	175,597	-	1,254,093	430,179
Accrued payroll	296	307	1,145	1,748	25,432
<b>Total liabilities</b>	<b><u>1,082,694</u></b>	<b><u>181,811</u></b>	<b><u>839,951</u></b>	<b><u>2,104,456</u></b>	<b><u>1,144,399</u></b>
Fund balances (deficit):					
Reserved for:					
Investments	-	-	541,660	541,660	541,660
Related assets	-	-	1,120,000	1,120,000	500,000
Encumbrances	538,389	3,595	1,595,708	2,137,692	638,360
Continuing appropriations	-	-	17,769,677	17,769,677	19,231,862
Unreserved	(633,450)	(3,595)	5,606,397	4,969,352	4,504,583
<b>Total fund balances (deficit)</b>	<b><u>(95,061)</u></b>	<b><u>-</u></b>	<b><u>26,633,442</u></b>	<b><u>26,538,381</u></b>	<b><u>25,416,465</u></b>
<b>Total liabilities and fund balances (deficit)</b>	<b><u>\$ 987,633</u></b>	<b><u>\$181,811</u></b>	<b><u>\$27,473,393</u></b>	<b><u>\$28,642,837</u></b>	<b><u>\$26,560,864</u></b>

**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, 1991  
(With comparative totals for the year ended September 30, 1990)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1991	1990
<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	-	-	3,133,440	3,133,440	2,764,800
U.S. Department of the Interior grants	680,450	-	-	680,450	81,056
Other federal contribution	<u>204,618</u>	<u>-</u>	<u>-</u>	<u>204,618</u>	<u>707,738</u>
Total revenues	<u>885,068</u>	<u>-</u>	<u>12,349,440</u>	<u>13,234,508</u>	<u>12,769,594</u>
<b>Expenditures:</b>					
Capital projects	<u>971,571</u>	<u>-</u>	<u>10,259,082</u>	<u>11,230,653</u>	<u>7,225,249</u>
Total expenditures	<u>971,571</u>	<u>-</u>	<u>10,259,082</u>	<u>11,230,653</u>	<u>7,225,249</u>
Revenues in excess of (less than) expenditures	(86,503)	-	2,090,358	2,003,855	5,544,345
<b>Other sources (uses):</b>					
Operating transfers out	<u>-</u>	<u>-</u>	<u>(881,939)</u>	<u>(881,939)</u>	<u>(327,871)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(86,503)	-	1,208,419	1,121,916	5,216,474
Fund balances (deficit), beginning of year	<u>(8,558)</u>	<u>-</u>	<u>25,425,023</u>	<u>25,416,465</u>	<u>20,199,991</u>
Fund balances (deficit), end of year	<u>\$ (95,061)</u>	<u>\$ -</u>	<u>\$26,633,442</u>	<u>\$26,538,381</u>	<u>\$25,416,465</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, 1991  
(With comparative totals for the year ended September 30, 1990)

	TTG Capital Projects Fund	CFSM State Projects Fund	Compact 211(a)(2) Capital Projects Fund	Totals	
				1991	1990
<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	-	-	3,133,440	3,133,440	2,764,800
U.S. Department of the					
Interior grants	680,450	-	-	680,450	81,056
other federal					
contribution	204,618	-	-	204,618	707,738
Total revenues	<u>885,068</u>	<u>-</u>	<u>12,349,440</u>	<u>13,234,508</u>	<u>12,769,594</u>
<b>Expenditures:</b>					
Personnel	23,542	-	390,779	414,321	314,928
Travel	-	-	112,238	112,238	105,877
Contractual services	597,669	-	4,187,107	4,784,776	3,551,495
POL	379	-	-	379	45,424
<b>Other:</b>					
Equipment	149,508	-	2,424,803	2,574,311	1,409,148
Medical supplies	-	-	-	-	-
Medical referral	-	-	-	-	-
Supplies and materials	51,042	-	923,780	974,822	917,524
Scholarships	-	-	-	-	-
Authorization	148,735	-	2,076,838	2,225,573	654,294
Food	-	-	80,059	80,059	-
Books	-	-	-	-	-
Miscellaneous	696	-	63,478	64,174	226,559
Total expenditures	<u>971,571</u>	<u>-</u>	<u>10,259,082</u>	<u>11,230,653</u>	<u>7,225,249</u>
Revenues in excess					
of (less than)					
expenditures	(86,503)	-	2,090,358	2,003,855	5,544,345
Other sources (uses):					
Operating transfers					
out	<u>-</u>	<u>-</u>	<u>(881,939)</u>	<u>(881,939)</u>	<u>(327,871)</u>
Excess (deficiency)					
of revenues and					
other sources over					
expenditures and					
other uses	(86,503)	-	1,208,419	1,121,916	5,216,474
Fund balances (deficit),					
beginning of year	<u>(8,558)</u>	<u>-</u>	<u>25,425,023</u>	<u>25,416,465</u>	<u>20,199,991</u>
Fund balances (deficit),					
end of year	<u>\$ (95,061)</u>	<u>\$ -</u>	<u>\$26,633,442</u>	<u>\$26,538,381</u>	<u>\$25,416,465</u>

CHUUK STATE GOVERNMENT

ENTERPRISE FUNDS  
September 30, 1991

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, 1991, 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 and Urban 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 manufactures soap and soap by-products for resale. As of September 30, 1991, the Authority is still in the development stage as prime operations have not commenced.

**CHUUK STATE GOVERNMENT  
ENTERPRISE FUNDS**

Combining Balance Sheet  
September 30, 1991  
(With comparative totals as of September 30, 1990)

<u>Assets</u>	Chuuk Housing Authority	Chuuk Coconut Processing Authority	<u>Totals</u>	
			1991	1990
Cash and equivalents	\$ 398,633	\$ 27,916	\$ 426,549	\$ 393,115
Receivables from federal agencies	11,809	45,384	57,193	4,635
General receivables, net of allowance for doubtful accounts for \$15,856 in 1991	3,974	14,380	18,354	14,599
Loans receivable, net of allowance for doubtful accounts of \$197,570 in 1991	1,171,809	-	1,171,809	851,364
Other assets	-	14,048	14,048	-
Inventories	1,365	73,955	75,320	67,738
Prepaid expenses	2,000	470	2,470	46,400
Fixed assets, net	<u>159,370</u>	<u>778,462</u>	<u>937,832</u>	<u>493,364</u>
 Total assets	 <u>\$ 1,748,960</u>	 <u>\$ 954,615</u>	 <u>\$2,703,575</u>	 <u>\$1,871,215</u>
<u>Liabilities and Fund Equity</u>				
Accounts payable	\$ 118,455	\$ 14,140	\$ 132,595	\$ 32,868
Notes payable	<u>103,168</u>	<u>371,212</u>	<u>474,380</u>	<u>114,703</u>
Total liabilities	<u>221,623</u>	<u>385,352</u>	<u>606,975</u>	<u>147,571</u>
Fund equity:				
Contributed capital	1,217,431	452,835	1,670,266	1,670,266
Retained earnings (deficit)	<u>309,906</u>	<u>116,428</u>	<u>426,334</u>	<u>53,378</u>
Total fund equity	<u>1,527,337</u>	<u>569,263</u>	<u>2,096,600</u>	<u>1,723,644</u>
Total liabilities and fund equity	<u>\$ 1,748,960</u>	<u>\$ 954,615</u>	<u>\$2,703,575</u>	<u>\$1,871,215</u>



**CHUUK STATE GOVERNMENT  
ENTERPRISE FUNDS**

Combining Statement of Revenues, Expenses and  
Changes in Fund Equity  
For the year ended September 30, 1991

(With comparative totals for the year ended September 30, 1990)

	Chuuk Housing Authority	Chuuk Coconut Processing Authority	Totals	
			1991	1990
Operating revenues:				
Interest income	\$ 58,805	\$ -	\$ 58,805	\$ 35,153
Federal contributions	36,125	-	36,125	41,510
Coconut product sales	-	62,320	62,320	41,960
Other	<u>3,511</u>	<u>-</u>	<u>3,511</u>	<u>8,058</u>
Total revenues	<u>98,441</u>	<u>62,320</u>	<u>160,761</u>	<u>126,681</u>
Operating expenses:				
Cost of sales	-	104,589	104,589	78,115
Payroll and personnel	47,858	33,172	81,030	71,714
Bad debts	14,559	10,356	24,915	36,385
Depreciation	13,303	15,190	28,493	22,988
Travel	2,712	16,346	19,058	32,087
Rent	1,000	7,620	8,620	10,150
Other	<u>24,187</u>	<u>38,164</u>	<u>62,351</u>	<u>38,059</u>
Total operating expenses	<u>103,619</u>	<u>225,437</u>	<u>329,056</u>	<u>289,498</u>
Operating loss	<u>(5,178)</u>	<u>(163,117)</u>	<u>(168,295)</u>	<u>(162,817)</u>
Non-operating revenue (expenses):				
Transfers in	258,719	293,495	552,214	163,489
Interest expense	<u>(10,963)</u>	<u>-</u>	<u>(10,963)</u>	<u>(10,874)</u>
Total non-operating revenues (net)	<u>247,756</u>	<u>293,495</u>	<u>541,251</u>	<u>152,615</u>
Net earnings (loss)	242,578	130,378	372,956	(10,202)
Retained earnings (deficit), beginning of year, as restated	<u>67,328</u>	<u>(13,950)</u>	<u>53,378</u>	<u>63,580</u>
Retained earnings, end of year	<u>\$ 309,906</u>	<u>\$ 116,428</u>	<u>\$ 426,334</u>	<u>\$ 53,378</u>
Contributed capital, beginning of year	\$ 1,217,431	\$ 452,835	\$1,670,266	\$1,565,037
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,229</u>
Contributed capital, end of year	<u>\$ 1,217,431</u>	<u>\$ 452,835</u>	<u>\$1,670,266</u>	<u>\$1,670,266</u>

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE**

**WITH LAWS AND REGULATIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 1991**



**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, 1991, and have issued our report thereon dated December 20, 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 and the following paragraph, 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.

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of the U.S. Federal Emergency Management Agency programs administered by the State of Chuuk. Those financial activities are included in the FSM Federal Assistance Fund (pages 61-64) and represent 77 percent of the expenditures of that fund.

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 (pages 61-73) for the year ended September 30, 1991, 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 those matters set forth in our report and the preceding paragraph, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

December 20, 1991

*Deloitte + Touche*

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, 1991 and for the year then ended, and have issued our report thereon dated December 20, 1991.

Except as described in the aforementioned report and the fifth paragraph of this 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 of Chuuk'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 sixth paragraph of this report, 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.

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of the U.S. Federal Emergency Management Agency programs administered by the State of Chuuk. Those financial activities are included in the FSM Federal Assistance Fund (pages 61-64) and represent 77 percent of the expenditures of that fund.

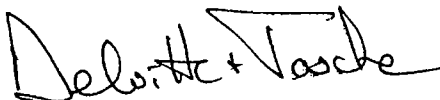
All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109).

We considered these material instances of noncompliance in forming our opinion on whether the 1991 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 December 20, 1991 on those general purpose financial statements.

Except for those matters set forth in the preceding paragraphs, 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 of Chuuk 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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

December 20, 1991



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, 1991. 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.

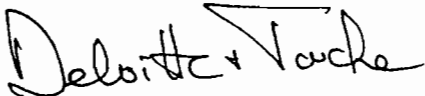
Except as described in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local 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.

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of the U.S. Federal Emergency Management Agency programs administered by the State of Chuuk. Those financial activities are included in the FSM Federal Assistance Fund (pages 61-64) and represent 77 percent of the expenditures of that fund.

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 questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109). 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 audited the U.S. Federal Emergency Management Agency programs, 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, 1991.

December 20, 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, 1991:

- Cash Management
- Federal Financial Reports
- Allowable Costs/Cost Principles
- Drug-Free Workplace
- Administrative Requirements

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.

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of the U.S. Federal Emergency Management Agency programs administered by the State of Chuuk. Those financial activities are included in the FSM Federal Assistance Fund (pages 61-64) and represent 77 percent of the expenditures of that fund.

With respect to the items tested, except as discussed in the preceding paragraph and in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109), the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, except as discussed in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses, 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.

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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

December 20, 1991

*Deloitte + Touche*

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

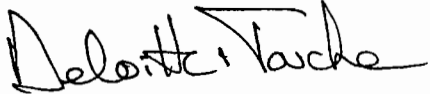
In connection with our audit of the 1991 general purpose financial statements of the State of Chuuk, and with our study and evaluation of the State of Chuuk's internal control structures used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular 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, 1991.

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, except as discussed in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109), 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, except as discussed in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109), 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 also disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses (pages 77 through 109).

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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

December 20, 1991



Certified Public Accountants





**INDEPENDENT AUDITORS' SINGLE AUDIT REPORT ON INTERNAL  
CONTROL (ACCOUNTING AND ADMINISTRATIVE)  
STRUCTURE USED IN ADMINISTERING  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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, 1991, and have issued our report thereon dated December 20, 1991. We have also audited the State of Chuuk's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 20, 1991.

Except as described in the aforementioned report and the seventh paragraph of this report, we conducted our audits 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 (OMB) 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 the general purpose financial statements are free of material misstatement and about whether the State of Chuuk complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended September 30, 1991, we considered the State of Chuuk's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Chuuk's general purpose financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated December 20, 1991.

The management of the State of Chuuk is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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, 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, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance 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 used in administering federal financial assistance programs in the following categories:

General Requirements

- Cash management
- Federal financial reports
- Allowable cost/cost principles
- Drug-free workplace
- Administrative requirements

Specific Requirements

- Types of services
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements

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

In accordance with the FSM Office of the Public Auditor's request, our audit of the general purpose financial statements did not include the financial activities of the U.S. Federal Emergency Management Agency programs administered by the State of Chuuk. Those financial activities are included in the FSM Federal Assistance Fund (pages 61-64) and represent 77 percent of the expenditures of that fund.



During the year ended September 30, 1991, the State of Chuuk expended 68 percent of its total federal financial assistance under major federal financial assistance programs (see page 76).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Chuuk's major federal financial assistance programs, which are identified in the accompanying statement of expenditures and questioned costs and budgetary position by grantor (page 61 through 73). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

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 judgement, could adversely affect the State of Chuuk's ability to administer federal financial assistance programs in accordance with applicable laws and regulations. A description of these matters is presented in the accompanying schedule of questioned costs, identified noncompliance and internal control weaknesses summary (pages 77 through 109).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program 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. However, we believe all of the reportable conditions described above are material weaknesses.



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. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the State of Chuuk, is a matter of public record.

December 20, 1991

*Deloitte + Touche*

Certified Public Accountants





**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Introduction to Compact of Free Association Funding,  
Federal and Other Assistance Funds  
For the year ended September 30, 1991

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 U.S. 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 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 Government's and its four State entities' drawdown requirements. During fiscal year 1991, 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 superseded 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 OMB 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.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Introduction to Compact of Free Association Funding,  
Federal and Other Assistance Funds, Continued  
For the year ended September 30, 1991

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Introduction to Compact of Free Association Funding,  
Federal and Other Assistance Funds, Continued  
For the year ended September 30, 1991

Special Revenue and Capital Projects Funds, Continued

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 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.

**CHUUK STATE GOVERNMENT  
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, 1991**

Grantor <u>Account Title</u>	Chuuk <u>Org. #</u>	CFDA <u>I.D. #</u>	Total <u>Authorizations</u>	Prior Year <u>Expenditures</u>	1991	Total	Authorizations	Questioned Cost	
					<u>Fiscal Year</u>	<u>Program</u>	<u>Over Program</u>	<u>Detailed</u>	
					<u>Expenditures</u>	<u>Expenditures</u>	<u>Expenditures</u>	<u>Amount</u>	<u>at Page</u>
FSM Federal Assistance									
<u>U.S. Department of Agriculture</u>									
<u>CFDA #10.560</u>									
Food Service Program	3310	10.560	\$ -	\$ 4,025	\$ -	\$ 4,025	\$ (4,025)	\$ -	
Food Service Program	3315	10.560	1,813,792	1,748,365	-	1,748,365	65,427	-	
Food Service Program	3331	10.560	2,464,420	2,457,262	-	2,457,262	7,158	-	
Food Service Program	3388	10.560	<u>905,068</u>	<u>1,012,288</u>	<u>2</u>	<u>1,012,290</u>	<u>(107,222)</u>	<u>-</u>	
Subtotal CFDA #10.560			<u>5,183,280</u>	<u>5,221,940</u>	<u>2</u>	<u>5,221,942</u>	<u>(38,662)</u>	<u>-</u>	
<u>CFDA #10.664</u>									
Forestry Project	3343	10.664	12,750	4,020	-	4,020	8,730	-	
Forestry Program	7701	10.664	4,200	-	5,982	5,982	(1,782)	-	
Forestry Program	7703	10.664	<u>5,333</u>	<u>-</u>	<u>5,321</u>	<u>5,321</u>	<u>12</u>	<u>-</u>	
Subtotal CFDA #10.664			<u>22,283</u>	<u>4,020</u>	<u>11,303</u>	<u>15,323</u>	<u>6,960</u>	<u>-</u>	
Total Department of Agriculture			<u>\$ 5,205,563</u>	<u>\$ 5,225,960</u>	<u>\$ 11,305</u>	<u>\$ 5,237,265</u>	<u>\$ (31,702)</u>	<u>\$ -</u>	
<u>U.S. Department of Education</u>									
<u>CFDA #84.126</u>									
Vocational Rehab. Case Services	3088	84.126	\$ 164,219	\$ 159,959	\$ -	\$ 159,959	\$ 4,260	\$ -	
Subtotal CFDA #84.126			<u>164,219</u>	<u>159,959</u>	<u>-</u>	<u>159,959</u>	<u>4,260</u>	<u>-</u>	
<u>CFDA #84.010</u>									
Chapter 1	3118	84.010	1,674,565	1,548,447	45,769	1,594,216	80,349	1,232	79
Chapter 1	3106	84.010	2,390,635	2,214,960	-	2,214,960	175,675	-	
Chapter 1 GAP	3007	84.010	2,649,424	1,490,284	(454)	1,489,830	1,159,594	-	
Chapter 1	3147	84.010	<u>1,176,415</u>	<u>-</u>	<u>859,836</u>	<u>859,836</u>	<u>316,579</u>	<u>141,724</u>	79-82
Subtotal CFDA #84.010			<u>7,891,039</u>	<u>5,253,691</u>	<u>905,151</u>	<u>6,158,842</u>	<u>1,732,197</u>	<u>142,956</u>	
<u>CFDA #84.151</u>									
FY88 Chapter 2	3119	84.151	771,497	532,579	49,850	582,429	189,068	-	
Chapter 2	3107	84.151	1,278,255	1,234,040	(790)	1,233,250	45,005	-	
Chapter 2	3148	84.151	<u>332,935</u>	<u>-</u>	<u>230,088</u>	<u>230,088</u>	<u>102,847</u>	<u>-</u>	
Subtotal CFDA #84.151			<u>2,382,687</u>	<u>1,766,619</u>	<u>279,148</u>	<u>2,045,767</u>	<u>336,920</u>	<u>-</u>	
Total U.S. Department of Education			<u>\$10,437,945</u>	<u>\$ 7,180,269</u>	<u>\$1,184,299</u>	<u>\$ 8,364,568</u>	<u>\$ 2,073,377</u>	<u>\$ 142,956</u>	

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
FSM FEDERAL ASSISTANCE FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost
					Fiscal Year	Program	Over Program	Detailed
					Expenditures	Expenditures	Expenditures	Amount
								at Page
<u>U.S. Department of Health and Human Services</u>								
<u>CFDA #13.110</u>								
SPRANS	7588	13.110	63,213	28,208	28,093	56,301	6,912	-
FY89	3657	13.110	49,850	40,693	-	40,693	9,157	-
Subtotal CFDA 13.110			113,063	68,901	28,093	96,994	16,069	-
<u>CFDA #13.217</u>								
Family Planning	3671	13.217	-	621	-	621	(621)	-
FY89 Family Planning	3789	13.217	20,934	15,351	-	15,351	5,583	-
FY90 Family Planning	7574	13.217	20,931	18,238	-	18,238	2,693	-
FY89 Aids	7551	13.217	9,499	3,664	-	3,664	5,835	-
FY90 Aids	7621	13.217	7,728	2,077	3,578	5,655	2,073	-
Aids Prevent	7660	13.217	8,062	-	3,784	3,784	4,278	-
FY91 Family Planning	7629	13.217	25,704	2,238	14,552	16,790	8,914	-
Subtotal CFDA 13.217			92,858	42,189	21,914	64,103	28,755	-
<u>CFDA # 13.268</u>								
FY88 Immunization Program	3795	13.268	28,075	15,595	-	15,595	12,480	-
FY89 Immunization Program	7534	13.268	8,265	2,465	-	2,465	5,800	-
FY90 Immunization Program	7617	13.268	12,516	4,358	5,394	9,752	2,764	-
Subtotal CFDA 13.268			48,856	22,418	5,394	27,812	21,044	-
<u>CFDA #93.268</u>								
FY91 Immunization Program	7652	93.268	13,305	-	-	-	13,305	-
<u>CFDA #13.359</u>								
Continuing Education for Nurses	7568	13.359	8,690	4,574	(953)	3,621	5,069	-
<u>CFDA 13.633</u>								
Aging Support FY90	7559	13.633	93,924	40,229	14,715	54,944	38,980	-
Aging Support FY88	3776	13.633	187,850	142,179	-	142,179	45,671	-
Aging Support FY87	3711	13.633	281,775	269,271	-	269,271	12,504	-
Subtotal CFDA #13.633			563,549	451,679	14,715	466,394	97,155	-
<u>CFDA #13.994</u>								
MCHS FY88	3747	13.994	94,449	67,832	-	67,832	26,617	-
MCHS	3718	13.994	71,950	58,216	-	58,216	13,734	-
MCHS FY89	7543	13.994	87,460	65,753	5,027	70,780	16,680	-
MCHS FY90	7601	13.994	86,762	1,123	80,332	81,455	5,307	-
MCHS FY889	7538	13.994	7,700	4,759	-	4,759	2,941	-
MCHIP FY90	7622	13.994	5,700	340	300	640	5,060	-
MCHIP	7648	13.994	11,400	-	5,428	5,428	5,972	-
Subtotal CFDA #13.994			365,421	198,023	91,087	289,110	76,311	-
<u>CFDA #13.991</u>								
Preventive Health	3725	13.991	-	360	-	360	(360)	-
Substantive Abuse	7608	13.991	65,800	2,817	64,264	67,081	(1,281)	-
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	14,141	191	11,666	11,857	2,284	-
Subtotal CFDA #13.991			111,511	33,267	75,930	109,197	2,314	-
Total U.S. Department of Health and Human Services			\$ 1,317,253	\$ 821,051	\$ 236,180	\$ 1,057,231	\$ 260,022	\$ -

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
FSM FEDERAL ASSISTANCE FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Orq. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost		
					Fiscal Year Expenditures	Program Expenditures	Over Program Expenditures	Amount	Detailed at Page	
<b>U.S. Department of Housing and Urban Development</b>										
<b>CFDA #14.219</b>										
Housing Rehab.	3155	14.219	4,192	(594)	-	(594)	4,786	-	-	-
FY84 CDBG Admin.	3153	14.219	8,794	20	-	20	8,774	-	-	-
FY84 Housing Rehab.	3156	14.219	58,162	455	-	455	57,707	-	-	-
TRA Rehab. Admin.	3158	14.219	23,000	8,846	734	9,580	13,420	-	-	-
Public Market Improv.	3357	14.219	20,000	3,864	-	3,864	16,136	-	-	-
FY87 CDBG Admin.	3356	14.219	14,000	6,888	9,377	16,265	(2,265)	-	-	-
Fish Marketing Center	3359	14.219	50,653	-	37,550	37,550	13,103	-	-	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>\$ 178,801</b>	<b>\$ 19,479</b>	<b>\$ 47,661</b>	<b>\$ 67,140</b>	<b>\$ 111,661</b>	<b>\$ -</b>		
<b>U.S. Department of the Interior</b>										
<b>CFDA #15.875</b>										
Transition-Computer Software	3476	15.875	8,000	9,096	-	9,096	(1,096)	-	-	-
Technical Assistance	3491	15.875	123,186	116,666	4,312	120,978	2,208	-	-	-
Technical Assistance	3452	15.875	20,000	23,064	-	23,064	(3,064)	-	-	-
Waste Water '85 O&M	3542	15.875	15,000	19,187	-	19,187	(4,187)	-	-	-
Power Plant '85 O&M	3545	15.875	80,000	(92,089)	220	(91,869)	171,869	-	-	-
Biomedical Equipment '85 O&M	3543	15.875	70,000	157,523	2,736	160,259	(90,259)	-	-	-
<b>Subtotal CFDA #15.875</b>			<b>316,186</b>	<b>233,447</b>	<b>7,268</b>	<b>240,715</b>	<b>75,471</b>			
<b>CFDA #15.904</b>										
Historic Preservation	7526	15.904	27,429	21,091	5,968	27,059	370	-	-	-
Historic Preservation	3461	15.904	18,545	25,780	-	25,780	(7,235)	-	-	-
Historic Preservation	7667	15.904	33,357	-	16,298	16,298	17,059	-	-	-
Historic Preservation	7504	15.904	23,000	23,022	-	23,022	(22)	-	-	-
<b>Subtotal CFDA #15.904</b>			<b>102,331</b>	<b>69,893</b>	<b>22,266</b>	<b>92,159</b>	<b>10,172</b>			
<b>Total U.S. Department of the Interior</b>			<b>\$ 418,517</b>	<b>\$ 303,340</b>	<b>\$ 29,534</b>	<b>\$ 332,874</b>	<b>\$ 85,643</b>	<b>\$ -</b>		
<b>U.S. Department of Labor</b>										
<b>CFDA #17.250</b>										
JTEPA Administration	3204	17.250	688,016	223,173	4,025	227,198	460,818	-	-	-
FY88 JTEPA Administration	3248	17.250	79,380	79,265	-	79,265	115	-	-	-
FY88 JTEPA Training	3249	17.250	449,823	422,549	-	422,549	27,274	-	-	-
FY89 JTEPA Administration	3275	17.250	79,872	87,324	2,427	89,751	(9,879)	-	-	-
JTEPA Adult Program	3276	17.250	260,187	173,290	64,406	237,696	22,491	6,000	77	-
JTEPA Youth Program	3277	17.250	192,422	134,302	43,076	177,378	15,044	-	-	-
JTEPA Administration	3293	17.250	91,864	-	107,876	107,876	(16,012)	7,410	77-78	-
JTEPA Adult Program	3294	17.250	312,339	-	298,875	298,875	13,464	-	-	-
JTEPA Youth Program	3295	17.250	208,226	-	200,268	200,268	7,958	10,986	77	-
<b>Total U.S. Department of Labor</b>			<b>\$ 2,362,129</b>	<b>\$ 1,119,903</b>	<b>\$ 720,953</b>	<b>\$ 1,840,856</b>	<b>\$ 521,273</b>	<b>\$ 24,396</b>		
<b>U.S. Department of Justice</b>										
<b>CFDA #16.540</b>										
JJDP Program	3377	16.540	28,565	-	28,565	28,565	-	-	-	-
JJDP Program	7641	16.540	7,000	-	7,000	7,000	-	-	-	-
<b>Total U.S. Department of Justice</b>			<b>\$ 35,565</b>	<b>\$ -</b>	<b>\$ 35,565</b>	<b>\$ 35,565</b>	<b>\$ -</b>	<b>\$ -</b>		
<b>Federal Emergency Management Agency</b>										
<b>CFDA #83.516</b>										
IFGP	3822	83.516	-	-	6,188,383	6,188,383	(6,188,383)	-	-	-
Typhoon Owen/Public Assistance	3821	83.516	-	-	671,658	671,658	(671,658)	-	-	-
Assistance	3820	83.516	1,659,395	-	691,683	691,683	967,712	-	-	-
<b>Total Federal Emergency Management Agency</b>			<b>\$ 1,659,395</b>	<b>\$ -</b>	<b>\$ 7,551,724</b>	<b>\$ 7,551,724</b>	<b>\$ (5,892,322)</b>	<b>\$ -</b>		

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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
FSM FEDERAL ASSISTANCE FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total Program Expenditures	Authorizations Over Program Expenditures	Questioned Cost Amount	Detailed at Page
					Fiscal Year Expenditures				
<u>U.S. Environmental Protection Agency</u>									
<u>CFDA 66.600</u>									
S. Field/West Sewer	3572	66.600	726,130	99	-	99	726,031	-	
EPA	3570	66.600	-	-	(1)	(1)	1	-	
EPA FY90	3598	66.600	43,240	22,366	8,636	31,002	12,238	-	
Truk Rural Sanitation Program	7576	66.600	200,000	-	3,920	3,920	196,080	-	
<b>Total U.S. Environmental Protection Agency</b>			<u>\$ 969,370</u>	<u>\$ 22,465</u>	<u>\$ 12,555</u>	<u>\$ 35,020</u>	<u>\$ 934,350</u>	<u>\$ -</u>	
Prior Year Encumbrances	3850		-	25,911	-	25,911	(25,911)	-	
<b>Prior Year Encumbrances</b>			<u>\$ -</u>	<u>\$ 25,911</u>	<u>\$ -</u>	<u>\$ 25,911</u>	<u>\$ (25,911)</u>	<u>\$ -</u>	
<b>Total FSM Federal Assistance Fund</b>			<u>\$22,584,538</u>	<u>\$14,718,378</u>	<u>\$9,829,776*</u>	<u>\$24,548,154</u>	<u>\$(1,963,616)</u>	<u>\$ 167,352</u>	

\* For general purpose financial statement presentation, total expenditures are reconciled as follows:

Audited expenditures per the general purpose  
financial statements \$ 9,842,002

Less:

Other Federal and Direct Assistance (pg. 65) (12,226)

Expenditures per statement of expenditures and  
questioned costs and budgetary position by grantor \$ 9,829,776

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

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

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor <u>Account Title</u>	Chuuk <u>Org. #</u>	CFDA <u>I.D. #</u>	Total <u>Authorizations</u>	Prior Year <u>Expenditures</u>	1991	Total <u>Program Expenditures</u>	Authorizations <u>Over Program Expenditures</u>	Questioned Cost <u>Amount</u>	Detailed <u>at Page</u>
					Fiscal Year <u>Expenditures</u>				
<u>U.S. Department of Education</u>									
<u>CFDA #84.003</u>									
Bilingual Instruction	3143	84.003	\$ 41,632	\$ 43,453	\$ 12,226	\$ 55,679	\$ (14,047)	\$ -	
Bilingual Training	3144	84.003	4,532	3,310	-	3,310	1,222	-	
Bilingual Training	3092	84.003	178,740	148,974	-	148,974	29,766	-	
Bilingual Training	3093	84.003	33,000	26,151	-	26,151	6,849	-	
Bilingual Training	3095	84.003	57,000	47,508	-	47,508	9,492	-	
Bilingual Instruction	3094	84.003	<u>420,337</u>	<u>438,070</u>	<u>-</u>	<u>438,070</u>	<u>(17,733)</u>	<u>-</u>	
<b>Total Other Federal and Direct Assistance Fund</b>			<u>\$ 735,241</u>	<u>\$ 707,466</u>	<u>\$ 12,226*</u>	<u>\$ 719,692</u>	<u>\$ 15,549</u>	<u>\$ -</u>	

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

\* For general purpose financial statement purposes, the amount is included with expenditures of the Federal Grant Assistance Fund (see reconciliation at pg. 64).

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



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
TTPI CAPITAL PROJECTS FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost
					Fiscal Year Expenditures	Program Expenditures	Over Program Expenditures	Detailed Amount at Page
<u>CFDA #15.875</u>								
Dublon/Moen Water System								
Improvement	6362	15.875	\$ 3,177,000	\$ 2,982,400	\$ 206,683	\$ 3,189,083	\$ (12,083)	\$ -
Moen Road Improvement	6363	15.875	1,472,900	1,472,622	-	1,472,622	278	-
Power Plant	6364	15.875	-	9,788	-	9,788	(9,788)	-
Chuuk Sanitary Facility	6366	15.875	290,000	140,434	57,554	197,988	92,012	-
Power Upgrade	6367	15.875	184,000	180,929	79	181,008	2,992	-
Airport Runway Seal Coat	6360	15.875	46,429	18,221	-	18,221	28,208	-
Airport Terminal TTPI	6369	15.875	791,000	555,020	96,047	651,067	139,933	-
Chuuk Int'l Airport	6661	15.875	721,000	-	213,521	213,521	507,479	-
Weno Power Gen. Rehab.	6663	15.875	670,000	-	397,687	397,687	272,313	-
<b>Total CFDA #15.875</b>			<u>\$ 7,352,329</u>	<u>\$ 5,359,414</u>	<u>\$ 971,571</u>	<u>\$ 6,330,985</u>	<u>\$1,021,344</u>	<u>\$ -</u>

Note: These grants are received in a sub-grantee 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.

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

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor <u>Account Title</u>	Chuuk <u>Org. #</u>	CFDA <u>I.D. #</u>	Total <u>Authorizations</u>	Prior Year <u>Expenditures</u>	1991	Total	Authorizations	Questioned Cost
					Fiscal Year <u>Expenditures</u>	Program <u>Expenditures</u>	Over Program <u>Expenditures</u>	Detailed <u>Amount</u> <u>at Page</u>
FSM Con-Con Travel	4410	N/A	\$ 102,000	\$ 6,226	\$ 960	\$ 7,186	\$ 94,814	\$ -
Chuuk Joint Law Enforcement								
FY88	4489	N/A	150,000	116,353	806	117,159	32,841	-
Chuuk Joint Law Enforcement								
FY90	4490	N/A	107,000	107,000	21,556	128,556	(21,556)	-
Chuuk Joint Law Enforcement								
FY89	4491	N/A	150,000	89,148	144,427	233,575	(83,575)	-
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	-
Ch. St. Law Enforcement	9437	N/A	<u>130,000</u>	<u>-</u>	<u>132,623</u>	<u>132,623</u>	<u>(2,623)</u>	<u>-</u>
<b>Total</b>			<u>\$ 679,000</u>	<u>\$ 358,417</u>	<u>\$ 300,372</u>	<u>\$ 658,789</u>	<u>\$ 20,211</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.



**CHUUK STATE GOVERNMENT  
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, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost
					Fiscal Year	Program	Over Program	Detailed
					Expenditures	Expenditures	Expenditures	Amount
Ulul Sub-State Center	6521	15.875	25,000	18,322	815	19,137	5,863	-
Fanapangas Fishing Project	6523	15.875	21,115	21,025	-	21,025	90	-
Food Prod. Ag/Animal Hush.	6528	15.875	30,000	25,891	-	25,891	4,109	-
Tol Fishing Project	6529	15.875	50,000	50,000	-	50,000	-	-
Tol Small Industries	6530	15.875	15,000	15,000	-	15,000	-	-
Fananu Municipal Dock	6533	15.875	15,000	8,136	3,553	11,689	3,311	-
Fananu Fishing Project	6534	15.875	30,725	37,160	-	37,160	(6,435)	-
Lukunor Copra Coop. Assn.	6535	15.875	35,320	33,839	-	33,839	1,481	-
Losap Agriculture Project	6537	15.875	95,000	73,700	14,910	88,610	6,390	-
Losap Housing Loan Project	6538	15.875	55,813	52,075	-	52,075	3,738	-
Losap Garment Cottage Ind.	6539	15.875	50,000	15,103	11,664	26,767	23,233	-
Losap Handicraft Rev. Fund	6540	15.875	5,000	-	5,000	5,000	-	-
Dublon fisheries Const.	6546	15.875	250,000	-	248,286	248,286	1,714	-
Wonei Classroom Const. Project	6547	15.875	32,105	-	13,650	13,650	18,455	-
Food Crop Development	6548	15.875	100,000	76,215	22,322	98,537	1,463	-
Weno-Village Sewing Proj.	6549	15.875	84,843	62,790	11,355	74,145	10,698	-
Weno-Village Fishing Proj.	6550	15.875	104,516	110,418	5,561	115,979	(11,463)	-
Satawan Sub-Staff Center	6551	15.875	67,655	191	45,203	45,394	22,261	-
Unupuker Comm. Hall-Sapuk	6552	15.875	5,000	952	-	952	4,048	-
Weno-Penia Water Tank Project	6553	15.875	5,000	5,050	298	5,348	(348)	-
Tonowas-Memete Road/Dock	6554	15.875	14,000	200	4,200	4,400	9,600	-
Tonowas-Etten Dock Improv.	6555	15.875	10,000	3,659	5,498	9,157	843	-
Diberarh Fishing Boat	6558	15.875	171,346	171,346	-	171,346	-	-
Land Lease State Project	6559	15.875	20,000	20,000	-	20,000	-	-
Lukunor Copro Office	6560	15.875	11,480	7,189	1,965	9,154	2,326	-
Lukunor Class Room	6561	15.875	25,000	17,339	3,833	21,172	3,828	-
Polle-Nethon Dispensary	6562	15.875	22,000	4,043	4,478	8,521	13,479	-
Polle-Manalo Dispensary	6563	15.875	22,000	14,315	322	14,637	7,363	-
Polle-Municipal Office	6564	15.875	40,111	10,315	-	10,315	29,796	-
Five Year Dev. Plan Update	6565	15.875	140,000	-	340,207	340,207	(200,207)	-
Tonowas-Mangko Road/Dock	6566	15.875	14,000	8,090	1,791	9,881	4,119	-
Chukuram Dock Polle	6570	15.875	50,949	33,709	8,467	42,176	8,773	-
Eppin Annuk Dock, Polle	6571	15.875	62,519	5,000	1,584	6,584	55,935	-
Contingency Fund	6572	15.875	34,500	19,500	13,957	33,457	1,043	-
Project Admin-State CIP	6573	15.875	75,000	16,753	36,554	53,307	21,693	-
Oneop Taro Patch Project	6574	15.875	37,278	23,108	9,019	32,127	5,151	-
Melrenom Dock Polle	6575	15.875	17,649	5,032	-	5,032	12,617	-
Weno. Mun. Office Building	6576	15.875	340,000	28,400	120,764	149,164	190,836	-
Peniesene Ind. road Weno	6577	15.875	5,000	1,474	1,526	3,000	2,000	-
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	7,689	37,414	162,586	-
Fono Fishing Project	6582	15.875	101,811	101,030	41,836	142,866	(41,055)	-
Tonowas-Etten Fish Project	6583	15.875	5,000	4,995	-	4,995	5	-
Losap Supplmntl Oper.	6584	15.875	26,672	10,800	1,280	12,080	14,592	-
Tonowas Supplmntl Pass. Boat	6585	15.875	20,000	7,016	4,500	11,516	8,484	-
Broiler/Hatchery	6586	15.875	100,000	74,042	14,109	88,151	11,849	-
Ruo Housing Project	6587	15.875	47,307	47,307	-	47,307	-	-
Ruo Housing Project	6588	15.875	17,662	17,662	-	17,662	-	-
MS Fuun Metav Supp. & Rev.	6589	15.875	57,999	57,531	-	57,531	468	-
Pjanu Taro Patch (Fefan)	6590	15.875	4,000	1,490	345	1,835	2,165	-
Epiton Shore Line (Fefan)	6591	15.875	4,000	1,341	1,561	2,902	1,098	-
Nikai Seawall (Fefan)	6592	15.875	6,000	2,266	2,129	4,395	1,605	-
Hospital Air Conditioning	6594	15.875	31,168	31,000	-	31,000	168	-
State Facilities Rehab.	6595	15.875	250,000	174,589	67,229	241,818	8,182	-
Chuuk Tourism Promotion	6598	15.875	200,000	200,000	-	200,000	-	-
Southern Namoneis JHS	6599	15.875	50,000	31,993	16,526	48,519	1,481	-
Nefate Comm. Ctr. (Fefan)	6600	15.875	4,000	-	2,051	2,051	1,949	-
Chuuk State Legis. Complex	6601	15.875	750,000	-	754,853	754,853	(4,853)	-
Tol Fishing Project	6602	15.875	280,000	280,000	-	280,000	-	-
Copra Subsidy	6603	15.875	150,000	93,970	55,382	149,352	648	-
Romanum Seawall	6606	15.875	56,807	4,945	25,327	30,272	26,535	-
Satawan Fisheries Dev.	6607	15.875	94,350	49,761	2,657	52,418	41,932	-
Fono School Building	6608	15.875	45,000	-	45,000	45,000	-	-
Ununno Cultural Complex	6609	15.875	2,900	-	2,899	2,899	1	-
Sangkum Artisanal Fish	6611	15.875	92,923	55,840	23,723	79,563	13,360	-
Etal Mun. Dispensary	6613	15.875	15,000	-	300	300	14,700	-
Coconut Rehab. Project	6615	15.875	100,000	4,645	80,758	85,403	14,597	-
Pac. Is. Regional Dev. Bk	6616	15.875	250,000	100,000	150,000	250,000	-	-
Fisheries Development	6617	15.875	200,000	54,796	137,872	192,668	7,332	-
Nama Housing Renov. Proj.	6618	15.875	45,000	-	45,000	45,000	-	-
Airport Terminal Parking	6619	15.875	150,000	-	73,597	73,597	76,403	-
Fanapangas Housing Proj.	6620	15.875	3,148	910	-	910	2,238	-
Nowln Fishing Project	6621	15.875	104,191	103,146	1,142	104,288	(97)	-
Water System Improve. Div.	6622	15.875	460,000	-	72,210	72,210	387,790	-
Weno Road Improv. Project	6626	15.875	600,000	5,180	8,054	13,234	586,766	-
Dublon Taro Patch Dev.	6627	15.875	35,000	-	16,080	16,080	18,920	-
Subtotal CFDA #15.875			7,049,862	2,841,319	2,590,891	5,432,210	1,617,652	-

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

**CHUUK STATE GOVERNMENT  
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, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost
					Fiscal Year Expenditures	Program Expenditures	Over Program Expenditures	Detailed Amount at Page
Weno Admin. Cost	6628	15.875	12,524	-	1,557	1,557	10,967	-
Purchase of Vehicle-Fono	6629	15.875	12,000	12,000	-	12,000	-	-
Hagur Housing Project	6630	15.875	75,034	75,034	-	75,034	-	-
Omo Housing Project	6631	15.875	65,356	65,356	-	65,356	-	-
Agri. (Swine Dev. Proj.)	6632	15.875	80,000	-	54,389	54,389	25,611	-
Agri. (Food Crop Dev. Proj.)	6633	15.875	75,000	-	57,463	57,463	17,537	-
Long Line Base	6636	15.875	500,000	-	370,000	370,000	130,000	-
Fanip Farming Pro. (Fefan)	6637	15.875	12,000	-	11,593	11,593	407	-
Power Generation	6638	15.875	800,000	-	786,818	786,818	13,182	-
Power Distribution Upgrade	6639	15.875	300,000	-	288,543	288,543	11,457	-
Ffin Basketball Court	6640	15.875	5,000	-	1,836	1,836	3,164	-
Truk Coconut Authority	6641	15.875	250,000	39,965	210,038	250,000	(3)	-
TA Airport	6642	15.875	200,000	-	171,085	171,085	28,915	-
Road Construction	6643	15.875	400,000	-	135,181	135,181	264,819	-
CIP Contingency	6644	15.875	100,000	-	11,091	11,091	88,909	-
PIFIS Shoreline T. Patch	6646	15.875	10,000	-	6,818	6,818	3,182	-
Ununo Fishing Project	6647	15.875	12,931	-	12,039	12,039	892	-
Sapore Fishing Project	6648	15.875	38,500	-	33,446	33,446	5,054	-
Fanip Fishing Project	6649	15.875	42,000	-	37,979	37,979	4,021	-
Udot Fishing Project	6650	15.875	118,707	-	120,770	120,770	(2,063)	-
Udot Fishing Project	6651	15.875	115,035	-	112,352	112,352	2,683	-
Udot Fishing Project	6652	15.875	59,569	-	58,481	58,481	1,088	-
Ulurilo Fishing Project	6653	15.875	22,319	-	18,580	18,580	3,739	-
Fefan Municipal Office	6654	15.875	36,890	-	17,800	17,800	19,090	-
Purchase of Computer	6655	15.875	65,000	-	64,445	64,445	555	-
Updot/Bldg. Renovation	6657	15.875	43,466	-	27,294	27,294	16,172	-
Refer Facilities Hawaii	6659	15.875	993,000	-	990,117	990,117	2,883	-
Uman Fishing Project	6660	15.875	132,463	-	77,413	77,413	55,050	-
Project Admin.	6604	15.875	51,150	-	37,780	37,780	13,370	-
Paata Housing Project	6664	15.875	115,569	-	108,703	108,703	6,866	-
Namoluk Fishing Project.	6665	15.875	58,976	-	58,965	58,965	11	-
Land Lease-Fono Municipal	6667	15.875	23,000	-	23,000	23,000	-	-
Tol Mun. Road Improvement	6668	15.875	600,000	-	195,650	195,650	404,350	-
Moch School Building	6670	15.875	165,159	-	10,920	10,920	154,239	-
C.S Deed Trust B. Dev. Project	6672	15.875	200,000	-	200,000	200,000	-	-
Project Administration	6675	15.875	16,730	-	15,798	15,798	932	-
Tolokas Fishing Project	6676	15.875	10,000	-	10,000	10,000	-	-
Wonei Fishing Project	6677	15.875	105,000	-	105,000	105,000	-	-
Tuna Longline Fishing	6678	15.875	1,000,000	-	418,035	418,035	581,965	-
Weno Housing Project	6680	15.875	150,000	-	150,000	150,000	-	-
Wonei Nenon Fishing Proj.	6681	15.875	10,000	-	10,000	10,000	-	-
Wonei Sapetin Fishing	6682	15.875	9,000	-	9,000	9,000	-	-
Weno Housing Authority	6683	15.875	280,000	-	280,000	280,000	-	-
Micro Vessels Dry-Docking	6684	15.875	375,000	-	365,248	365,248	9,752	-
Sewer System	6685	15.875	500,000	-	67,351	67,351	432,649	-
Tol Fishing Market	6686	15.875	354,950	-	354,950	354,950	-	-
Onongoch Fishing Market	6687	15.875	37,000	-	29,400	29,400	7,600	-
Paata Housing Project	6689	15.875	72,831	-	47,831	47,831	25,000	-
Tamatam Land Acquisition	6694	15.875	52,000	-	51,220	51,220	780	-
Iras Fishing Dev. Project	6695	15.875	20,000	-	20,000	20,000	-	-
Fongon Agricultural Pro.	6696	15.875	8,000	-	2,000	2,000	6,000	-
Longline Fishing Dev. Pro.	6699	15.875	160,000	-	5,149	5,149	154,851	-
Mechitiw Fishing Dev. Pro.	6700	15.875	55,000	-	44,950	44,950	10,050	-
Tanapanges School & Disp.	6701	15.875	70,000	-	70,000	70,000	-	-
Muxiro Dry-Docking	6703	15.875	56,700	-	1,597	1,597	55,103	-
Chuuk Match Credit with FEMA	6704	15.875	468,000	-	466,469	466,469	1,531	-
N. Nam Pub. School. Renov. -Weno	6705	15.875	60,000	-	32,478	32,478	27,522	-
Darlem Sewing Project	6709	15.875	3,814	-	2,314	2,314	1,500	-
Neauo Fishing Project	6711	15.875	10,000	-	8,890	8,890	1,110	-
Subtotal CFDA #15.875			9,674,673	192,355	6,879,826	7,072,181	2,602,492	-
Total Compact of Free Association Capital Projects Fund -Section 211 (A)(2)			\$34,711,232	\$17,842,317	\$11,761,021*	\$29,603,338	\$ 5,107,894	\$ -

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

**CHUUK STATE GOVERNMENT  
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, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

- \* For general purpose financial statement presentation, total expenditures are reconciled as follows:

Audited expenditures per the general purpose financial statements	\$ 10,259,082
Repayment of FEMA Loan	466,469
Investment in Chuuk Fresh Tuna	370,000
Investment in Pacific Island Development	250,000
Operating transfer out to Chuuk Coconut Authority	200,000
Operating transfer out to Chuuk Housing Authority	<u>215,470</u>
Expenditures per statement of expenditures and questioned costs and budgetary position by grantor	<u>\$ 11,761,021</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA #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

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA  
COMPACT OF FREE ASSOCIATION OTHER GRANTS FUND**

**STATEMENT OF EXPENDITURES AND QUESTIONED COSTS  
AND BUDGETARY POSITION BY GRANTOR, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor Account Title	Chuuk Org. #	CFDA I.D. #	Total Authorizations	Prior Year Expenditures	1991	Total	Authorizations	Questioned Cost
					Fiscal Year Expenditures	Program Expenditures	Over Program Expenditures	Detailed Amount at Page
<b>CFDA #15.875</b>								
<b>Section 212 Civic Action</b>								
Team	2182	15.875	\$ 147,500	\$ 60,600	\$ 305,592	\$ 366,192	\$ (218,692)	\$ -
Section 214(b) Energy	2780	15.875	2,459,983	1,410,267	1,280,612	2,690,879	(230,896)	-
Section 214(a) Chuuk Elec.	2782	15.875	150,000	155,597	(44,105)	111,492	38,508	-
Subtotal Section 214			2,609,983	1,565,864	1,236,507	2,802,371	(192,388)	-
<b>Section 216(a)(2) Health &amp; Medical</b>								
	2901	15.875	911,513	395,262	469,726	864,988	46,525	-
Section 216(a)(3)	2902	15.875	411,716	197,956	24,680	222,636	189,080	-
Section 216(a)(3) Post-Secondary Education	2613	15.875	411,716	-	406,401	406,401	5,315	-
Section 216(a)(3) Post-Secondary Education	2614	15.875	411,716	-	390,398	390,398	21,318	-
Section 216(a)(3) Post-Secondary Education-87	2609	15.875	-	-	420,709	420,709	(420,709)	-
Subtotal Section 216(a)(3)			1,235,148	197,956	1,242,188	1,440,144	(204,996)	-
<b>Total Compact of Free Association-Other Grants Fund</b>								
			\$ 4,904,144	\$ 2,219,682	\$3,254,013	\$ 5,473,695	\$ (569,551)	\$ -

Note: The funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA #15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and the reallocates such to the component States.

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

**CHUUK STATE GOVERNMENT  
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, CONTINUED  
FOR THE YEAR ENDED SEPTEMBER 30, 1991**

Grantor <u>Account Title</u>	Chuuk <u>Org. #</u>	CFDA <u>I.D. #</u>	Total <u>Authorizations</u>	Prior Year <u>Expenditures</u>	1991	Total	Authorizations	Questioned Cost	
					Fiscal Year <u>Expenditures</u>	Program <u>Expenditures</u>	Over Program <u>Expenditures</u>	Amount	Detailed <u>at Page</u>
Chapter I and II	2113	15.875	\$ 2,406,618	\$ 641,412	\$ 983,278	\$ 1,624,690	\$ 781,928	\$ -	
Health Center	2114	15.875	450,000	207,702	-	207,702	242,298	-	
Delivery Health Services	2115	15.875	177,000	177,051	-	177,051	(51)	-	
Rural Sanitation Program	2116	15.875	177,700	97,969	82,499	180,468	(2,768)	-	
Health Education	2117	15.875	127,600	62,044	59,900	121,944	5,656	-	
Physiotherapy	2118	15.875	17,000	15,916	1,352	17,268	(268)	-	
Special Block Grant Office	2119	15.875	57,300	47,406	3,969	51,375	5,925	-	
Health Planning	2001	15.875	24,900	25,530	9,895	35,425	(10,525)	-	
Dental Services	2002	15.875	60,000	5,689	-	5,689	54,311	-	
EPA	2003	15.875	107,100	46,855	56,438	103,293	3,807	-	
Communicable Diseases	2004	15.875	21,400	4,560	9,202	13,762	7,638	-	
Mental Health	2005	15.875	72,700	34,152	33,671	67,823	4,877	-	
Geriatric Health	2006	15.875	172,500	72,708	78,003	150,711	21,789	-	
Secondary Ed.	2142	15.875	1,440,000	1,373,245	-	1,373,245	66,755	-	
Medical Referral	2120	15.875	510,000	1,000,787	432	1,001,219	(491,219)	-	
Medical Supp. and Material	2121	15.875	461,087	11,507	-	11,507	449,580	-	
Medical Supplies	2123	15.875	500,000	451,935	115	452,050	47,950	-	
Immunization	2125	15.875	13,600	5,528	4,612	10,140	3,460	-	
Education Program	2145	15.875	901,200	1,216,921	-	1,216,921	(315,721)	-	
TOCA	2146	15.875	100,037	134,234	45,700	179,934	(79,897)	-	
TOCA Headstart	2147	15.875	281,509	67,925	141,079	209,004	72,505	-	
Bilingual Ed.	2126	15.875	458,148	168,912	162,290	331,202	126,946	-	
Teacher Training	2127	15.875	98,786	36,356	38,727	75,083	23,703	-	
Food Services	2128	15.875	1,505,220	615,510	812,270	1,427,780	77,440	-	
VRS	2135	15.875	90,250	73,545	84,908	158,453	(68,203)	-	
Vocational Education	2143	15.875	-	-	(1)	(1)	1	-	
<b>Total Compact of Free Association</b>									
Block Grant Fund-Section 221(b)			<u>\$10,231,655</u>	<u>\$ 6,595,399</u>	<u>\$2,608,339</u>	<u>\$ 9,203,738</u>	<u>\$ 1,027,917</u>	<u>\$ -</u>	

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA# 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.



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Statement of Expenditures and Questioned Costs  
and Budgetary Position by Grantor  
Year ended September 30, 1991

(1) Scope of Review

The State of Chuuk 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:

- . U.S. Department of Agriculture
- . U.S. Department of Education
- . U.S. Department of Health and Human Services
- . U.S. Department of Housing and Urban Development
- . U.S. Department of the Interior
- . U.S. Department of Labor
- . U.S. Department of Justice
- . U.S. Environmental Protection Agency
- . U.S. Federal Emergency Management Agency

At the request of the FSM Office of the Public Auditor, funds received from the U.S. Federal Emergency Management Agency were not subject to the Single Audit and as such, were not included in the calculation of a major program.

B. Fiscal Period Audited

Single audit testing procedures were performed for program transactions during the fiscal year ended September 30, 1991.

(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 authorization of the current year and total expenditures of the individual program. All authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Notes to Statement of Expenditures and Questioned Costs  
and Budgetary Position by Grantor, Continued  
For the year ended September 30, 1991

(2) Summary of Significant Accounting Policies, Continued

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.

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 1991 Single Audit are discussed in the Schedule of Questioned Costs, Identified Noncompliance and Internal Control Weaknesses. In determining compliance with requirements of awards received by the State, a representative sample was selected from 1991 expenditures for testing each major program as shown on the Schedule of Programs Selected for Audit in Accordance with OMB Circular A-128.

(4) Loan Funds

Chuuk Housing Authority

As of September 30, 1991 \$763,691 of loans made out of U.S. federal assistance were outstanding. The assistance was made to the Chuuk Housing Authority (the Authority) by the U.S. Department of Housing and Urban Development (CFDA #14.219). For the year ended September 30, 1991, \$14,559 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 \$36,125 of HUD Section 8 low income federal contributions for the year ended September 30, 1991.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-128  
For the year ended September 30, 1991

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Chuuk Org. #</u>	<u>Description</u>	<u>Fiscal Year 1991 Expenditures</u>
U.S. Department of Education	84.010	3007	Chapter 1 GAP	\$ (454)
	84.010	3118	Chapter 1	45,769
	84.010	3147	Chapter 1	859,836
U.S. Department of Labor	17.250	3204	JTPA Administration	4,025
	17.250	3275	JTPA Administration	2,427
	17.250	3276	JTPA Adult Program	64,406
	17.250	3277	JTPA Youth Program	43,076
	17.250	3293	JTPA Administration	107,876
	17.250	3294	JTPA Adult Program	298,875
	17.250	3295	JTPA Youth Program	<u>200,268</u>
Total FSM Federal Assistance Fund				<u>1,626,104</u>

U.S. Department of the Interior, CFDA #15.875:

TTPI Capital Projects Fund	971,571
Compact of Free Association Capital Projects Fund, Title Two, Article I, Section 211 (a) (2)	11,761,021
Compact of Free Association, Section 214 Energy Grant	1,236,507
Compact of Free Association, Section 216 (a) (3) Education	1,242,188
Compact of Free Association Block Grant, Title Two, Article I, Section 221 (b)	<u>2,608,339</u>
Total CFDA #15.875	<u>17,819,626</u>
Total Programs Selected for Audit	<u>\$19,445,730</u>
Total Federal Grant Assistance Expenditures	<u>\$28,737,318</u>
Percentage of Program Assistance Expenditures Tested	<u>68%</u>

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>															
U.S. Department of Labor/Job Training Partnership Act/CFDA #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted no supporting documentation for the following transactions.</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>ORG. NO.</u></th> <th style="text-align: left;"><u>DOC ID NO.</u></th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3293</td> <td style="text-align: center;">A10095</td> <td style="text-align: right;">\$ 1,476</td> </tr> <tr> <td style="text-align: center;">3295</td> <td style="text-align: center;">110390</td> <td style="text-align: right;">10,986</td> </tr> <tr> <td style="text-align: center;">3276</td> <td style="text-align: center;">111827</td> <td style="text-align: right;"><u>6,000</u></td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;"><u>\$ 18,462</u></td> </tr> </tbody> </table>	<u>ORG. NO.</u>	<u>DOC ID NO.</u>		3293	A10095	\$ 1,476	3295	110390	10,986	3276	111827	<u>6,000</u>			<u>\$ 18,462</u>	
<u>ORG. NO.</u>	<u>DOC ID NO.</u>																
3293	A10095	\$ 1,476															
3295	110390	10,986															
3276	111827	<u>6,000</u>															
		<u>\$ 18,462</u>															

Cause: The cause of the above condition is a lack of control over source documentation.

Effect: The effect of the above condition is a possible liability to the grantor agency.

Recommendation: We recommend that documentation for expenditures be properly filed.

Auditee Response: We concur with the above finding.

Corrective Action Plan: Attempts will be made to locate the source documentation.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>				
<p>U.S. Department of Labor/Job Training Partnership Act/CFDA # 17.250</p>	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment B, Section C, paragraph 3, the cost of facilities, equipment, other capital assets and repairs, which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the federal grantor agency.</p> <p><u>Condition:</u> No documentation exists to evidence the specific approval by the U.S. Department of Labor for the following expenditures:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>ORG. NO.</u></td> <td style="text-align: center;"><u>DOC ID NO.</u></td> </tr> <tr> <td style="text-align: center;">3293</td> <td style="text-align: center;">L 3492201</td> </tr> </table> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is a possible liability to the grantor agency.</p> <p><u>Recommendation:</u> We recommend that all capital expenditures receive prior approval from the grantor agency.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> Approval of grantor agencies will be obtained in the future.</p>	<u>ORG. NO.</u>	<u>DOC ID NO.</u>	3293	L 3492201	<p>\$ <u>5,934</u></p>
<u>ORG. NO.</u>	<u>DOC ID NO.</u>					
3293	L 3492201					
<p>Total U.S. Department of Labor Questioned Costs</p>		<p>\$ <u>24,396</u></p>				

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Cost</u>																																				
U.S. Department of Education/ Chapter I/CFDA # 84.010	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> We noted no supporting source documents for the following transactions:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>ORG. NO.</u></th> <th style="text-align: left;"><u>DOC ID NO.</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">112220</td> <td style="text-align: right;">\$ 10,832</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">116726</td> <td style="text-align: right;">7,030</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">116726</td> <td style="text-align: right;">7,260</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">010469</td> <td style="text-align: right;"><u>1,967</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>27,089</u></td> </tr> </tbody> </table> <p>We noted one travel expenditure where the travel occurred in March 1990. The source documents indicated the cost was \$902, however, \$2,134 was recorded in the financial management system.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td style="text-align: center;">3118</td> <td style="text-align: center;">610140</td> <td style="text-align: right;"><u>1,232</u></td> </tr> </tbody> </table> <p>We noted four travel expenditures which did not appear to be in accordance with the Chapter I program objectives. The travel expenditures appeared to relate to students receiving scholarships under section 221b(a)(3) of the Compact of Free Association.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">010429</td> <td style="text-align: right;">3,030</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">010480</td> <td style="text-align: right;">2,856</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">610207</td> <td style="text-align: right;">458</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">610207</td> <td style="text-align: right;"><u>458</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>6,802</u></td> </tr> </tbody> </table>	<u>ORG. NO.</u>	<u>DOC ID NO.</u>		3147	112220	\$ 10,832	3147	116726	7,030	3147	116726	7,260	3147	010469	<u>1,967</u>			<u>27,089</u>	3118	610140	<u>1,232</u>	3147	010429	3,030	3147	010480	2,856	3147	610207	458	3147	610207	<u>458</u>			<u>6,802</u>	
<u>ORG. NO.</u>	<u>DOC ID NO.</u>																																					
3147	112220	\$ 10,832																																				
3147	116726	7,030																																				
3147	116726	7,260																																				
3147	010469	<u>1,967</u>																																				
		<u>27,089</u>																																				
3118	610140	<u>1,232</u>																																				
3147	010429	3,030																																				
3147	010480	2,856																																				
3147	610207	458																																				
3147	610207	<u>458</u>																																				
		<u>6,802</u>																																				
Total		<u>\$ 35,123</u>																																				

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>
U.S. Department of Education/ Chapter I/ CFDA # 8 4 . 0 1 0 / Continued	<p><u>Cause:</u> The cause of the above condition is a lack of control over source documentation and a lack of administrative control over expenditures charged to federal grants.</p> <p><u>Effect:</u> The effect of the above condition is a possible liability to the grantor agency.</p> <p><u>Recommendation:</u> We recommend policies and procedures surrounding source documentation be upgraded to ensure documentation for expenditures is retained and properly filed.</p> <p>In addition, we recommend that federal grant administrators be required to approve accounts payable vouchers for expenditures to be charged to their grant program. This will ensure that amounts charged to the grant program are in accordance with the underlying agreements and the program objectives.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> We will adopt the above recommendation.</p>	

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>				
U.S. Department of Education/Chapter I/ CFDA #84.010	<p><u>Criteria:</u> Per the Common Rule, paragraph 36 Section D, procurement under grants shall be made by one of the following methods: 1) small purchase procedures; 2) sealed bids; 3) competitive negotiation; or 4) noncompetitive negotiation.</p> <p>Noncompetitive negotiation is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate. Noncompetitive negotiation may be used when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals. Circumstances under which a contract may be awarded by noncompetitive negotiation are limited to the following:</p> <ol style="list-style-type: none"> <li>1. The item is available only from a single source;</li> <li>2. Public exigency or emergency when the urgency for the requirement will not permit a delay incident to competitive solicitations;</li> <li>3. The Federal grantor agency authorizes noncompetitive negotiation; or</li> <li>4. After solicitation of a number of sources, competition is determined inadequate.</li> </ol> <p><u>Condition:</u> We noted the following procurement actions were made through noncompetitive negotiation. No evidence was available to ensure they met the necessary requirements listed above.</p>	<p>\$ 40,006</p> <p>\$ 40,006</p>				
	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>ORG. NO.</u></td> <td style="text-align: center;"><u>DOC ID NO.</u></td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">114918</td> </tr> </table>	<u>ORG. NO.</u>	<u>DOC ID NO.</u>	3147	114918	
<u>ORG. NO.</u>	<u>DOC ID NO.</u>					
3147	114918					



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Cost</u>																																	
U.S. Department of Education/ Chapter I/ CFDA # 8 4 . 0 1 0 / Continued	The following procurement actions were divided when recorded in the financial management system. We noted one instance where separate document ID numbers were used to record one purchase order. Noncompetitive negotiation was used for these procurements and no evidence was available to ensure they met the necessary requirements:																																		
	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>ORG. NO.</u></th> <th style="text-align: center;"><u>DOC ID NO.</u></th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">112219</td> <td style="text-align: right;">\$ 12,108</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">112219</td> <td style="text-align: right;">6,742</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">112219</td> <td style="text-align: right;">10,800</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">111700</td> <td style="text-align: right;">10,670</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">111701</td> <td style="text-align: right;">7,920</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">111702</td> <td style="text-align: right;">6,056</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">111702</td> <td style="text-align: right;">7,002</td> </tr> <tr> <td style="text-align: center;">3147</td> <td style="text-align: center;">111702</td> <td style="text-align: right;"><u>6,529</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>67,827</u></td> </tr> <tr> <td style="text-align: center;">Total</td> <td></td> <td style="text-align: right;"><u>\$107,833</u></td> </tr> </tbody> </table>	<u>ORG. NO.</u>	<u>DOC ID NO.</u>		3147	112219	\$ 12,108	3147	112219	6,742	3147	112219	10,800	3147	111700	10,670	3147	111701	7,920	3147	111702	6,056	3147	111702	7,002	3147	111702	<u>6,529</u>			<u>67,827</u>	Total		<u>\$107,833</u>	
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		<u>67,827</u>																																	
Total		<u>\$107,833</u>																																	

Cause: The cause of the above condition is the repealing of P.L. 5-83 (May 19, 1990), governing procurement actions in Chuuk State.

Effect: The effect of the above condition is a possible liability to the grantor agency.

Recommendation: We recommend that a procurement law be enacted which is in compliance with the Common Rule.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

FEDERAL GRANTS - QUESTIONED COSTS, CONTINUED

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Cost</u>
U.S. Department of Education/ Chapter I/ CFDA # 8 4 . 0 1 0 / Continued	<u>Auditee Response:</u> We agree with the above finding.  <u>Corrective Action Plan:</u> We will research the feasibility of the above recommendation.	
	Total U.S. Department of Education Questioned Costs	<u>\$142,956</u>
	Total Federal - Questioned Costs	<u>\$167,352</u>

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

COMPACT FUNDS - IDENTIFIED NONCOMPLIANCE

**Local Compliance** - The following matters of identified noncompliance are not questioned in the accompanying report, but are considered to be violations of local laws and regulations.

<u>Program</u>	<u>Reason for Identified Noncompliance</u>
U.S. Department of Interior/ Section 221(b)/ Org. 2128/ CFDA #15.875	<p><u>Criteria:</u> Local laws and regulations require competitive scaled bids for construction contracts greater than \$20,000 and purchases greater than \$50,000.</p> <p><u>Condition:</u> We noted a contract to purchase food in the amount of \$56,856 for which no formal bid documents were available.</p> <p><u>Cause:</u> The cause of the above condition appears to be that the contract was not subjected to competitive bidding procedures.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with local laws and regulations.</p> <p><u>Recommendation:</u> We recommend local laws and regulation be strictly adhered to.</p> <p><u>Auditee Response:</u> We agree with the above finding.</p> <p><u>Corrective Action Plan:</u> Procurement procedures will be adhered to in the future.</p>

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

COMPACT FUNDS - IDENTIFIED NONCOMPLIANCE, CONTINUED

<u>Program</u>	<u>Reason for Identified Noncompliance</u>
U.S. Department of Interior/ Compact Funds Section 211(a) ( 2 ) / C F D A #15.875	<u>Criteria:</u> Per Chuuk State laws and regulations, contracts greater than \$20,000 or purchases greater than \$50,000 are required to be issued through competitive bidding procedures.

Condition: We noted the following  
contracts for amounts greater than \$20,000  
and purchases greater than \$50,000 were not  
issued through competitive bidding  
procedures:

<u>Org. #</u>	<u>Document ID #</u>	
6638	111923	\$ 300,000
6638	115399	486,783
6641	114746	49,982
6642	117663	60,000
6686	115278	40,600
6686	115276	40,600
6686	115280	40,600
6686	115277	40,600
6686	115279	40,600

\$1,099,765

Cause: The cause of the above condition is  
unknown.

Effect: The effect of the above condition  
is a lack of compliance with local laws and  
regulations.

Recommendation: We recommend that local  
laws and regulations relating to bidding  
procedures be strictly adhered to.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

COMPACT FUNDS - IDENTIFIED NONCOMPLIANCE, CONTINUED

<u>Program</u>	<u>Reason for Identified Noncompliance</u>
U.S. Department of Internal / Compact Funds S e c t i o n 211(a)(2)/CFDA # 1 5 . 8 7 5 / Continued	<u>Auditee Response:</u> We agree with the above finding.  <u>Corrective Action Plan:</u> Procurement procedures will be adhered to in the future.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

All Major Programs

Finding No. 1

Criteria: The Common Rule, paragraph 33, states that if there is a residual inventory of unused supplies exceeding \$5,000 in total aggregate fair market value upon termination or completion of the federal program, and if the supplies are not needed for any other federally sponsored programs or projections, the grantor should be compensated for its share.

Condition: We were unable to determine if residual inventories of supplies exceeding \$5,000 existed as of September 30, 1991.

Cause: The cause of the above condition is that an inventory control system for supplies inventories does not exist.

Effect: The effect of the above condition is that a possible liability to the grantor agencies may exist.

Recommendation: We recommend that the State of Chuuk develop and implement a supply inventory control system for all federal programs.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will adopt the above recommendation.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

JTPA (CFDA #17.250)

Finding No. 2

Criteria: Grant administrators should attempt to provide benefits to the greatest possible number of participants with the grant award.

Condition: Thirty percent of total program expenditures were expended on participants cost of traveling to and from JTPA sponsored training courses.

Cause: The cause of the above condition is that the courses are not offered in Chuuk.

Effect: The effect of the above condition is that a fewer number of participants can benefit from the JTPA program.

Recommendation: We recommend that JTPA research the possibility of contracting training institutions to conduct temporary courses in Chuuk, thereby benefiting a greater number of participants.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will contact JTPA to discuss the above recommendation.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

JTPA (CFDA #17.250)

Finding No. 3

Criteria: The Chuuk State policies and procedures manual states that the accounts payable department must certify the availability of funds prior to the disbursements of funds.

Condition: Three of fifty-three expenditures tested were not certified as to funds available prior to disbursement.

Cause: The cause of the above condition appears to be an oversight by the accounts payable department.

Effect: The effect of the above condition is a lack of budgetary control.

Recommendation: We recommend that all expenditures be certified as to the availability of funds prior to being disbursed.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Certification of funds will be evidenced in the future.



CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

Chapter I (CFDA #84.010)

Finding No. 4

Criteria: The Common Rule, paragraph B(4), states that proposed procurement actions shall be reviewed by grantee officials to avoid purchasing unnecessary or duplicative items.

Condition: For twenty-one of forty-three expenditures tested, there was no evidence of review or authorization by the Chapter I administrator.

Cause: The cause of the above condition is that the Department of Education Business office is responsible for reviewing and authorizing procurement for Chapter I transactions.

Effect: The effect of the above condition is that unallowable and unrelated expenditures may be charged to the Chapter I grant.

Recommendation: We recommend that all procurement actions relating to federal grants be approved by the grant administrators, as these are the individuals most knowledgeable about the rules and regulations surrounding the grant.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Grant administrators will evidence their review of procurement actions in the future.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

Chapter I (CFDA #84.010)

Finding No. 5

Criteria: The Chuuk State policies and procedures manual states that the accounts payable department must certify the availability of funds prior to the disbursement of funds.

Condition: Twenty of forty-three expenditures tested were not certified as to funds available prior to disbursement.

Cause: The cause of the above conditions appears to be an oversight by the accounts payable department.

Effect: The effect of the above condition is a lack of budgetary control.

Recommendation: We recommend that all expenditures be certified as to the availability of funds prior to being disbursed.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Certification of funds will be evidenced in the future.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

All Major Programs

Finding No. 6

Criteria: The Common Rule, Paragraph D, states that for equipment purchases with federal funds, grantees are required to:

1. Maintain property records that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
2. Take a physical inventory of the property and reconcile that with the property records at least once every two years.
3. Develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, and investigate any loss, damage, or theft.
4. Develop adequate maintenance procedures to keep the property in good condition.

Condition: We noted that none of the major programs were in compliance with the above requirements.

Cause: The cause of the above condition is that records relating to fixed assets are not maintained.

Effect: The effect of the above condition is that the State of Chuuk is not in compliance with OMB Circular A-102.

Recommendation: We recommend policies and procedures be established surrounding fixed assets.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Policies and procedures surrounding fixed assets will be established.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Administrative Requirements

Section 211 (a)(2) - Capital Projects (CFDA #15.875)

Finding No. 7

Criteria: A proper system of administrative control over subrecipients (Chuuk Municipalities) requires that the primary recipient of Compact funding (Chuuk State) be responsible for:

- a. Establishing a system to assure that audits of subrecipients of Compact funding are performed to ensure expenditures are in compliance with Compact intent and local laws and regulations.
- b. Establishing a system for follow-up on identified noncompliance, weaknesses in internal control system and other audit exceptions and ensure that appropriate corrective action is taken within six months.
- c. Considering whether subrecipients' records necessitate adjustments of the recipient's own records.
- d. Requiring access to subrecipients' records and financial statements.

Condition: Chuuk State, Office of the Governor has not established a system such as the one described above. Additionally, Chuuk State has not taken action relating to unrepresented subrecipient audit reports.

Cause: The cause of the above condition is that subrecipients may be unaware of the terms and conditions that exist in relation to the funds they receive.

Effect: The effect of the above condition is that subrecipients may use funds in a manner not intended.

Recommendation: We recommend that Chuuk State implement a system that would ensure that the above mentioned criteria are adhered to. Additionally, the Chuuk State should begin inquiry of subrecipients as to the status of audit reports.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will implement the above recommendation.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Allowable Cost/Cost Principles

Section 211 (a)(2) - Capital Projects (CFDA #15.875)

Finding No. 8

Criteria: A proper system of administrative controls over disbursements requires that a valid vendor invoice and receiving report support the amount of the disbursement.

Condition: Nine of fifty-six disbursements tested were (1) without valid receiving reports, (2) used proforma invoices as support and (3) allowed instances where the vendor invoice did not agree to the amount of the disbursement by an immaterial amount.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that disbursements may be made for goods not received and for improper amounts.

Recommendation: We recommend that all disbursements be supported by valid vendor invoices and receiving reports.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will ensure that disbursements are properly supported in the future.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Types of Services

JTPA (CFDA #17.250)

Finding No. 9

Criteria: A proper system of administrative controls over training programs requires that each training program be reviewed against an established listing of eligibility criteria before being approved by the Private Industry Counsel (PIC) Board.

Condition: Per our review of the project files and the PIC Board minutes, we were unable to verify that such a comparison had been made.

Cause: The cause of the above condition is unknown.

Effect: The effect of that above condition is a lack of administrative controls over the process of approving training programs.

Recommendation: We recommend that all training programs be reviewed against an established listing of criteria and that the review be evidenced by a form included in the contract file indicating all criteria have been met.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The above recommendation will be implemented.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Types of Services

JTPA (CFDA #17.250)

Finding No. 10

Criteria: Not less than 70% of JTPA Title II-A funds may be expended for training costs (20 CFR 629.39(b)(d-g)).

Condition: We noted training costs were being recorded in the contractual services sub-account.

Cause: The cause of the above condition appears to be a result of contracts with institutions to conduct training courses.

Effect: The effect of the above condition is that budgetary comparisons made during the year are not accurate.

Recommendation: We recommend that all costs associated with JTPA training be recorded in the JTPA training sub-account.

Auditee Response: We agree with the above finding.

Corrective Action Plan: All training costs will be correctly recorded in the future.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Types of Services

Chapter I (CFDA #84.010)

Finding No. 11

Criteria: A proper system of administrative internal controls over federal grants requires that funds be expended in accordance with a master plan or budget.

Condition: No master plan or budget existed for fiscal year 1991 Chapter I expenditures.

Cause: The cause of the above condition is that prior year funds were not completely expended and the Chuuk State Department of Education decided the remaining funds were to be spent in fiscal year 1991 on various unbudgeted items.

Effect: The effect of the above condition is that no plan existed to ensure that benefits were distributed to educationally deprived children based on need.

Recommendation: We recommend that a master plan be developed for each fiscal year which will specifically identify areas of need and the level of assistance they will receive.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop master plans in the future.



CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Types of Services

Chapter I (CFDA #84.010)

Finding No. 12

Criteria: The Common Rule, paragraph 30, C(ii) states that grantees must request prior approval from the grantor agency for transfers of funds among direct cost categories in which the federal share exceeds \$100,000 or when the cumulative amount of such transfers exceeds or is expected to exceed five percent of the total budget.

Condition: We noted no evidence of prior approval from the U.S. Department of Education for the transfer of funds (\$503,000) from Chapter I personnel to Chapter I Books and Library materials.

Cause: The cause of the above condition is a lack of administrative control over the federal grant budgeting function.

Effect: The effect of the above condition is that funds were not spent in accordance with the federally approved budget for the FSM Chapter I program.

Recommendation: We recommend that federal grant programs incur expenditures in accordance with their federally approved budget, however, if changes appear necessary, we recommend prior approval be obtained when necessary.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Prior approval will be obtained for the transfer of funds in the future.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Types of Services

All Major Programs

Finding No. 13

Criteria: A proper system of administrative internal controls requires grant administrators to be familiar with the rules and regulations governing the grant program with which they are involved.

Condition: We were unable to obtain copies of the Code of Federal Regulations (CFRs) from either the Department of Finance (DOF) or the grant administrators.

Cause: The cause of the above condition appears to be that current copies of the text have not been purchased.

Effect: The effect of the above condition is that practices may be ongoing which are prohibited by the CFRs.

Recommendation: We recommend a complete copy of the CFRs be purchased for DOF and that applicable sections be purchased for federal grant administrators. In addition, the administrators should become familiar with the portions applicable to their grants.

Auditee Response: We agree with the above finding.

Corrective Action Plan: CFRs will be purchased in the future.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Compact Funds

Section 216-(a)(3)-Scholarship (CFDA #15.875)

Finding No. 14

Criteria: A proper system of administrative internal controls requires that scholarship applications meet application and eligibility requirements, established by the Chuuk State Scholarship program.

Condition: Per review of students files, we noted no evidence that students' applications had been reviewed against the requirements.

Cause: The cause of the above condition is that review of applicants' applications and eligibility requirements is not formally documented.

Effect: The effect of the above condition is that ineligible students may receive scholarships.

Recommendation: We recommend that the Scholarship Board establish a form, whereby the student coordinator can document his review of the application against the requirements, the Board can then review the students needs and record the award amount on a single document.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The above recommended form will be developed.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Compact Funds

Section 216-(a)(3)-Scholarship (CFDA #15.875)

Finding No. 15

Criteria: A proper system of administrative control over student scholarships requires that student files be easily accessible, and that data bases be maintained on each student to ensure students do not default on grant terms and conditions.

Condition: Student files are maintained on a single year basis. No information is carried from one year to the next and no follow-up is done to ensure that students complete their studies and return to Chuuk.

Cause: The cause of the above condition is an inadequate filing system.

Effect: The effect of the above condition is that students do not have the incentive to complete studies and return to Chuuk with their new skills.

Recommendation: We recommend the scholarship filing system ensure each student has one file and an ongoing log be maintained to show their level of education, GPA and that they returned to Chuuk upon the completion of their schooling.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop the above recommended filing system.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Compact Funds

Section 211-(a)(2)-Municipal Capital Projects (CFDA #15.875)

Finding No. 16

Criteria: A proper system of administrative controls requires that a documentation trail exists to evidence approval of municipal projects prior to the project being implemented.

Condition: We reviewed one municipal project approval during fiscal year 1991 and noted no evidence of approval from the State Budget Officer, the Governor or the FSM Budget Officer.

Cause: The cause of the above condition appears to be that these individuals only need to review the file. This review however may not be evidenced in writing.

Effect: The effect of the above condition is that no evidence of approval exists by the above mentioned individuals.

Recommendation: We recommend that the Office of Planning and Statistics prepare a form which coincides with the flow of documents, whereby the individuals approving the project can sign-off as evidence of their approval.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop the above recommended form.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Special Requirements

JTPA (CFDA #17.250)

Finding No. 17

Criteria: The JTPA program is required to monitor its programs in order to determine if the program meets job placement requirements at the completion of the training course.

Condition: We noted that no formal records were maintained for training programs' job placement rates during fiscal year 1991.

Cause: The cause of the above condition is that only informal evaluations were performed (undocumented).

Effect: The effect of the above condition is that the overall job placement rate, documented in the JTPA grant proposal, cannot be supported by individual program evaluations.

Recommendation: We recommend that the JTPA program conduct formal (documented) evaluations of each program and review those evaluations on a quarterly basis to determine which types of training courses offer the best placement rates.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Formal evaluations will be performed.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Special Requirements

JTPA (CFDA #17.250)

Finding No. 18

Criteria: A proper system of administrative controls requires that training courses be evaluated on their content and instructors be evaluated on their ability to convey the course material to the students.

Condition: No formal policies or procedures exist requiring courses or course instructors to be evaluated based on the above criteria.

Cause: The cause of the above condition is that forms have not been prepared for the above noted evaluations.

Effect: The effect of the above condition is that JTPA may be sponsoring inadequate training courses or the courses may be using instructors that do not have an adequate level of knowledge of the subject material to be conducting the course.

Recommendation: We recommend JTPA develop course and instructor evaluation forms for both the course participants and the course evaluator to complete. The participant forms should remain anonymous so that the participants will respond without fear of reprisal.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop the above recommended forms.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Drug-Free Workplace

All Major Programs

Finding No. 19

Criteria: Per the OMB General Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:

- a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
- b) Establishing an ongoing drug-free awareness program to inform employees about:
  - . The dangers of drug abuse in the workplace;
  - . The grantee's policy of maintaining a drug-free workplace;
  - . Any available drug counseling, rehabilitation, and employee assistance programs; and,
  - . The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
- c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);
- d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:
  - . Abide by the terms of the statement; and
  - . Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;
- e) Notifying the agency in writing within ten calendars days after receiving notice under subparagraph (d)(2) from an employee or otherwise receiving actual notice of such conviction;



CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Drug-Free Workplace, Continued

All Major Programs

Finding No. 19

- f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d)(2), with respect to any employee who is so convicted:
- . Taking appropriate personnel action against such an employee, up to and including termination; or
  - . Requiring such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.

Condition: Per our inquiries, we noted the State of Chuuk is not in compliance with the Drug-Free Workplace Act.

Cause: The cause of the above condition is that a policy statement on a Drug-Free Workplace has not been issued.

Effect: The effect of the above condition is that the State of Chuuk may not be eligible to receive federal grant-in-aid monies.

Recommendation: We recommend a policy statement on a Drug-Free Workplace be issue by the Office of the Governor.

Auditee Response: We agree with the above finding.

Corrective Action Plan: A policy statement on a Drug-Free Workplace is being developed.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Special Tests and Provisions

Chapter I (CFDA #84.010)

Finding No. 20

Criteria: Per the OMB specific compliance supplement for Chapter I; if all school attendance areas are designated as Chapter I project areas, a local educational agency (LEA) may receive funds only if local funds used to provide services which, taken as a whole, are substantially comparable in each project area.

Condition: We were unable to determine if local funds used to provide services were comparable in each project area.

Cause: The cause of the above condition is that no policies exist to ensure equivalence among schools in teachers, administrators and auxiliary personnel or policies to ensure equivalence among schools in curriculum, materials and instructional supplies.

Effect: The effect of the above condition is that services provided in each project area may not be comparable.

Recommendation: We recommend policies be established and implemented to ensure equivalence among schools in teachers, administrators and auxiliary personnel and in curriculum, materials and instructional supplies.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will establish and implement the above recommended policies.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Special Tests and Provisions

Chapter I (CFDA #84.010)

Finding No. 21

Criteria: Per OMB's specific compliance supplement for Chapter I, the LEA Chapter I project must be based on an annual assessment of educational needs that identifies educationally deprived children in all eligible attendance areas, permits selection of those children who have the greatest need for special assistance, and determines the needs of participating children with sufficient specificity to ensure concentration on those needs (34 CFR 100.50).

Condition: We noted that annual assessment of educational need consists of a review of the levels of enrollment. While this assessment does identify the number of educationally deprived children in all eligible attendance areas, it does not permit selection of those children who have the greatest need for special assistance or determine the needs of participating children with sufficient specificity to ensure concentration on those needs.

Cause: The cause of the above condition appears to be that standardized tests are not administered to the students to determine the students' levels of education in comparison with other students.

Effect: The effect of the above condition is that programs cannot be established to assist the students as the levels of need have not been determined.

Recommendation: We recommend the Chuuk State DOE inquire into participating in an annual standardized testing of students skills (reading, writing and math). These types of tests provide information on student education levels and allow for comparisons on an island, local or national basis.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will adopt the above recommendation.

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Schedule of Questioned Costs, Identified Noncompliance  
and Internal Control Weaknesses, Continued  
For the year ended September 30, 1991

Internal Control Weaknesses - Special Tests and Provisions

Chapter I (CFDA #84.010)

Finding No. 22

Criteria: Per OMB's specific compliance supplement, LEAs shall provide educationally deprived children residing in a project area of the LEA, who are enrolled in private elementary and secondary schools, with educational services and arrangements and will assure participation on an equitable basis for these children. If LEAs decide to serve educationally deprived, low-income children under Section 556(b)(1)(C) of Chapter I, the LEA must also provide Chapter I services to educationally deprived, low-income children in private schools as will assure participation on an equitable basis of those children (P.L. 97-35, Section 557(a) and (b), 34 CFR 200.70-200.35).

Condition: We noted that private schools did not appear to be receiving Chapter I services on an equitable basis of the children participating. The private schools appeared to receive one lump sum payment during the year rather than receiving Chapter I services throughout the year as public schools were receiving.

Cause: The cause of the above condition appears to be due to Department of Education policy.

Effect: The effect of the above condition is that educationally deprived, low-income children enrolled in private elementary and secondary schools are not receiving Chapter I benefits on an equitable basis.

Recommendation: We recommend that policies and procedures be established and implemented for determining numbers and needs of educationally deprived children in private schools and ensuring Chapter I services are provide to such children on a equitable basis.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop the above recommended policies and procedures.

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Prior Year Unresolved Accounting and Administrative  
Control Findings and Recommendations  
For the year ended September 30, 1991

The following findings and recommendations from the report on internal controls, September 30, 1990, report dated January 4, 1991, have yet to be successfully resolved.

<u>Finding No.</u>	<u>Heading</u>	<u>Page No.</u>
<u>Accounting</u>		
1	Fixed assets	80
2	Compliance	80
<u>Administrative</u>		
1	Expenditures/Disbursements	81
3	Expenditures/Disbursements	81
5	Budget	82
6	Payroll	83

**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

**Resolutions to Prior Years' Questioned Costs  
For the year ended September 30, 1991**

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	\$114,674
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, 1990	<u>346,008</u>
	Unresolved 1984 questioned costs at September 30, 1991	<u>\$221,836</u>

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Resolutions to Prior Years' Questioned Costs, Continued  
For the year ended September 30, 1991

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

<u>Chuuk</u> <u>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, 1990	<u>620,113</u>
	Unresolved 1985 questioned costs at September 30, 1991	<u>\$193,164</u>

CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Resolutions to Prior Years' Questioned Costs, Continued  
For the year ended September 30, 1991

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 appropriate 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 U.S. Department of the Interior as the grantor agency.		
3742	Sewer Treatment Plant	<u>214,071</u>
Total questioned costs resolved per the above		236,542
Total unresolved 1986 questioned costs at September 30, 1990		<u>922,255</u>
Unresolved 1986 questioned costs at September 30, 1991		<u><u>\$685,713</u></u>



**CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA**

Resolutions to Prior Years' Questioned Costs, Continued  
For the year ended September 30, 1991

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

Questioned costs resolved:

<u>Chuuk 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 Management	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 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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CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Resolutions to Prior Years' Questioned Costs, Continued  
For the year ended September 30, 1991

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

<u>Chuuk Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
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The following questioned costs have been resolved as necessary supporting documentation or explanation has been provided and found to be adequate:

6721	Food Services	431
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	42,750
6526	FY84 CDBG Admin.	5,346
7303	FY87 Water System	148,683
7001	FY87 Equipment purchase	479,000
7005	FY87 Coconut Process	74,000
6001	Chapter I & II Block Grant	16,000
6001	Chapter I & II Block Grant	2,885
6002	Health Centers	128,809
6002	Health Centers	175,502
6003	Health Services	74,459
2020	Current Account	65,192
4160	Current Account	132,718

1,639,454

Total federal grant FY87 questioned costs resolved	1,911,266
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Total questioned costs at September 30, 1990	<u>2,745,162</u>
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Unresolved 1987 questioned costs at September 30, 1991	<u>\$ 833,896</u>
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CHUUK STATE GOVERNMENT  
FEDERATED STATES OF MICRONESIA

Resolutions to Prior Years' Questioned Costs, Continued  
For the year ended September 30, 1991

The questioned costs, per the September 30, 1990, 1989 and 1988 audit reports have not been resolved. We are unaware of any resolved questioned cost for fiscal years 1990, 1989 and 1988. Total unresolved questioned costs for prior years are as follows:

Unresolved 1984 questioned costs	\$ 221,836
Unresolved 1985 questioned costs	193,164
Unresolved 1986 questioned costs	685,713
Unresolved 1987 questioned costs	833,896
Unresolved 1988 questioned costs	4,385,827
Unresolved 1989 questioned costs	779,850
Unresolved 1990 questioned costs	<u>1,337,063</u>
 Total unresolved questioned costs for prior years	 <u>\$8,437,349</u>

STATE OF CHUUK  
FEDERATED STATES OF MICRONESIA

INDEPENDENT AUDITORS' REPORT  
ON THE INTERNAL CONTROL STRUCTURE

FOR THE YEAR ENDED SEPTEMBER 30, 1991



**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, 1991 and have issued our report thereon dated December 20, 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, 1991, 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 judgements 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 System

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.

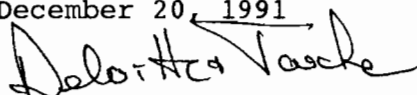
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant 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 120 through 167.

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 3, 4, 5, 6, 7, 9, 10, 18, 20 and 48 are material weaknesses.

This report is intended for the information of management of the State of Chuuk. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

December 20, 1991



Certified Public Accountants



## General Comments

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. Travel Advances
- C. Purchases, Payables and Disbursements
- D. Payroll
- E. Revenue and Taxation
- F. Budgetary
- G. Electronic Data Processing
- H. Chuuk Visitor's Bureau
- I. Chuuk Coconut Processing Authority
- J. Chuuk Housing Authority
- K. Municipalities
- L. Prior Year Unresolved Findings and Recommendations

Cash and Investments

Finding No. 1

Criteria: Restrictive endorsements should be immediately placed on checks received to ensure safeguarding of assets.

Condition: Revenue and Taxation collects all local revenues. These collections are then remitted to the treasury, where the checks are restrictively endorsed. Therefore, a delay occurs between receipt of the check and the restrictive endorsement being placed on the check.

Cause: The cause of the above condition is Revenue and Taxation employees not being assigned the responsibility of restrictively endorsing checks when received. In prior years, the treasury function received cash collections directly and endorsements were placed on checks when received.

Effect: This internal control weakness does not directly effect the financial statements. However, this delay could allow checks to be endorsed by other parties and cashed.

Recommendation: We recommend that Revenue and Taxation restrictively endorse checks immediately upon receipt.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The recommendation will be implemented in fiscal year 1993.



Cash and Investments

Finding No. 2

Criteria: Funds should be established when necessary to achieve sound and expeditious financial administration and reporting.

Condition: Equity investments in the Bank of the FSM, Pacific Islands Regional Development Bank and Chuuk Fresh Tuna, Inc., are recorded in the Capital Project fund.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is sound and expeditious financial administration and reporting with regard to these investments has not occurred.

Recommendation: We recommend a separate enterprise fund be established to account for the investment activities discussed above.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will research the establishment of a separate enterprise fund.

Travel Advances

Finding No. 3

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

Condition: Actual expenditures exceeded travel authorizations.

Cause: Travel authorizations are based on estimates. Actual costs may vary from these estimates.

Effect: Travel authorizations are understated. Since travel authorizations are also recorded as encumbrances, encumbrances are understated.

Recommendation: We recommend any variances between travel authorizations and actual cost be justified by the traveler and then approved by the Director of Finance.

Auditee Response: Actual travel costs varies from the estimated cost of travel generally because of the obsolete per diem and car rental rates being used. Otherwise, costs claimed but not approved in the original travel authorization (TA) are included in an amendment TA processed in like manner as the original TA but including the justification.

Corrective Action Plan: Effective May, 1992, revised per diem and car rental rates have been promulgated by the FSM Secretary of Finance and this is what we are now using. We still require justifications for add-on travel costs via an amended TA.

Purchases, Payables and Disbursements

Finding No. 4

Criteria: An adequate system of internal control provides that procedures exist to ensure that purchasing procedures are followed.

Condition: We found no formal documentation exists to ensure purchase orders are not divided for singular purchases in order to circumvent purchasing procedures.

Cause: Policies and procedure have not been established to document this procedure.

Effect: The effect is that purchases that normally would meet the requirement for competitive bidding could be bypassed. The resulting effect could be inefficient use of funds.

Recommendation: We recommend that procedures to ensure that dividing of purchase orders does not occur be formally documented and implemented.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop the recommended procedures.

Purchases, Payables and Disbursements

Finding No. 5

Criteria: An adequate system of internal control provides that receiving reports be completed for all purchases.

Condition: Receiving reports are not used for local purchases.

Cause: Invoices are used to match goods received for all local purchases, rather than formal receiving reports.

Effect: The effect is that goods received may be initialed as received and never actually counted.

Recommendation: We recommend a receiving report be prepared for all purchases. The quantities received should be left blank on these receiving reports. The receiving department personnel then would be forced to independently count all goods to complete the receiving report. Such procedures would ensure goods are correctly counted and may prevent payment for goods not received.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will develop and implement receiving reports.

Purchases, Payables and Disbursements

Finding No. 6

Criteria: Expenditures of federal grant monies must be made in accordance with restrictions imposed by grantor agencies.

Condition: Instances of non-compliance with federal grant terms and conditions have been noted in prior years and in the current year.

Cause: Program administrators may not be familiar with the restrictions imposed by the grant awards.

Effect: The effect of expenditures made that do not comply with grantor requirements is that a potential liability to the grantor agency is created.

Recommendation: We recommend that a person in each department receiving federal funds be assigned the responsibility of ensuring that the basic terms and conditions imposed by federal requirements are met. Possible questioned costs could then be prevented.

Auditee Response: We agree with the above finding.

Corrective Action Plan: Personnel will be assigned to ensure federal terms and conditions are adhered to in applicable departments.

Purchases, Payables and Disbursements

Finding No. 7

Criteria: A sufficient number of price quotations should be obtained for goods costing less than \$25,000.

Condition: Price quotations are not obtained for goods costing less than \$50,000.

Cause: Administrative directive 90-03 repealed Chuuk State's bidding procedures with respect to small purchases.

Effect: Since federal grant expenditures flow through the same system as purchases made with local funds, purchases of less than \$25,000 made with federal funds do not meet federal requirements.

Recommendation: We recommend that the Procurement and Supply Office ensure that federal purchase regulations are followed for purchases made with federal funds. Formal bid procedures should still be followed for purchases costing more than \$50,000 and contracts costing more than \$20,000 for purchases made with local funds.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will research the implementation of the above recommendation.

Purchases, Payables and Disbursements

Finding No. 8

Criteria: Documentation should be available for all outstanding encumbrances.

Condition: Documentation could not be located for 7 of 40 encumbrances selected for testing.

Cause: The cause is due to inadequate filing procedures by funds control personnel or encumbering documents not being forwarded to funds control for filing.

Effect: The effect of the above condition is invalid encumbrances may overstate fund balance reserved for encumbrances.

Recommendation: We recommend that documentation for all outstanding encumbrances be maintained with current year encumbrance files until properly liquidated.

Auditee Response: We agree to this finding.

Corrective Action Plan: We will implement your recommendation as it will also make our reconciliation of encumbrance accounts easier.

Purchases, Payables and Disbursements

Finding No. 9

Criteria: Effective internal control over encumbrances would require periodic review of balances to determine validity of aged balances.

Condition: Approximately \$265,000 in fiscal year 1990 and prior encumbrances were listed as outstanding at September 30, 1991. It does not appear that these encumbrances were adjusted when paid or determined to be invalid.

Cause: Although we noted that certain aged balances were adjusted, it does not appear that there are established procedures to ensure that a periodic review of aged encumbrances is performed on a regular basis.

Effect: The reserve for encumbrances is potentially overstated by invalid encumbrances.

Recommendation: We recommend that periodic reviews of encumbrances be performed to determine the validity of encumbrances outstanding for long time periods. If this review determines invalid encumbrances, we recommend that they be adjusted, so the balance of the reserve for encumbrances reflects only valid encumbrances.

Auditee Response: We agree with this finding.

Corrective Action Plan: In fiscal year 1992, periodic reconciliation of encumbrance accounts is being undertaken. Thus the occurrence of invalid encumbrances is minimized, if not totally avoided.



Purchases, Payables and Disbursements

Finding No. 10

Criteria: An adequate system of internal control requires that all disbursements are properly authorized and properly documented before payment is made.

Condition: We found instances where the Governor's approval was not indicated on purchase requisitions. We also found instances where the purchase requisition or vendor's invoice did not agree to the accounts payable voucher.

Cause: The cause of the above condition is a lack of review by supervisors.

Effect: The effect of the above condition is unauthorized or incorrect disbursements could occur and not be detected.

Recommendation: An accounts payable supervisor should review the purchase requisitions, invoices and accounts payable vouchers to ensure documents are properly authorized and reconciled before disbursement is made.

Auditee Response: We agree with this finding.

Corrective Action Plan: We plan to use a "checklist of requirements stamp" for every APV before they are input into the system.

Payroll

Finding No. 11

Criteria: An adequate system of internal control provides that access to personnel files is to be limited to avoid misplacement or misuse of files.

Condition: Personnel files could not be located.

Cause: Access to personnel files is not controlled.

Effect: The effect of the above condition is the lack of control over personnel files.

Recommendation: Access to files should be limited to authorized individuals. Files should be monitored by the person in charge of the payroll department.

Auditee Response: This finding is related to Finding No. 25 of last year's report. This is primarily caused by the open facility at our office. We can control the access to files during office hours but we cannot do so when we are not at the payroll section (i.e. lunchtime) since the location of the cabinets and working tables remain in an open area. Furthermore, locking the cabinets is not feasible because the keys are already lost since the cabinets are 10 years old or older.

Corrective Action Plan: We will request for funding for the purchase of new cabinets so that we can lock our files. In that way no one can have access to the files if not assisted by a payroll section employee. A logbook of borrowed files will be established.

## Payroll

### Finding No. 12

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

Condition: Two employees, one who had retired and another who had not worked since 1990, received pay checks for 80 hours worked.

Cause: It appears supervisors are not closely examining the time sheets.

Effect: Although the effect is immaterial to the general purpose financial statements, payroll is overstated by paying employees for time that was not worked.

Recommendation: Supervisors need to scrutinize timesheets more closely when reporting employees' hours.

Auditee Response: There are two reasons why a person who no longer works receives hours credit. First is when the employee is paid his unused vacation leave after his termination. This is done when the termination action is received by the payroll department. The termination action most often is delayed in the process. The second reason is a case of oversight either on the part of the payroll section or on the emanating department.

Corrective Action Plan: A memorandum from the Director of Treasury has been circulated to all departments requesting all supervisors to scrutinize timesheets before submitting to the payroll section.

Payroll

Finding No. 13

Criteria: In order for employees to efficiently perform their duties, job descriptions, policy manuals and procedural guides should be provided.

Condition: Job descriptions for employees are generally not furnished, and there does not appear to be formalized policy manuals or procedural guides to aid employees.

Cause: The cause of the above condition is the lack of policies and procedures that would require the preparation and use of job description, policy manuals and procedural guides.

Effect: There is no direct effect on the financial statements, however, employees may not perform efficiently and job functions may be duplicated by more than one employee. If job descriptions were current, a meaningful data base could be established to determine tasks not performed. Key staff could then be targeted to receive professional training and development.

Recommendation: We recommend that job descriptions be updated and furnished to employees. In addition, we recommend policy manuals be formally documented and procedural guides be created and issued to the appropriate employees.

Auditee Response: We agree with the above condition.

Corrective Action Plan: We will adopt and implement the above recommendation.

Revenue and Taxation

Finding No. 14

Criteria: A proper system of internal control ensures completeness of revenue collections.

Condition: The required supporting schedules for sales which are not subject to the sales tax are not submitted with tax returns.

Cause: Taxpayers are allowed to file their returns without the required supporting schedules.

Effect: The supporting schedules provide support for sales taxes not paid. If the supporting schedules are not submitted with the tax form, it is not possible to determine if taxes are completely paid. The net effect is the taxpayer may not be fully paying the tax liability and tax revenues would therefore be understated.

Recommendation: We recommend that all returns filed without the required supporting schedules not be accepted. Penalties should be assessed for failure to file a proper return.

Auditee Response: We agree that during fiscal year 1991, this condition existed. We have a policy that all tax returns should be accompanied by supporting schedules. For some reason, this policy was not strictly enforced.

Corrective Action Plan: We will reinforce the policy of requiring supporting documents for tax returns.

Revenue and Taxation

Finding No. 15

Criteria: A proper system of internal control requires receipts be issued when cash is received.

Condition: We observed a taxpayer who came in, filed tax returns, and paid cash to a Revenue and Tax employee. The individual was allowed to leave before a receipt was completed. Only after the individual departed was a receipt prepared.

Cause: Revenue and Taxation personal may not be aware of the need to prepare receipts for all cash received.

Effect: There is a possibility that cash could be received and not be recorded or deposited. As tax revenue is recognized on a cash basis, the effect on the financial statements is that revenues could be understated.

Recommendation: We recommend that a sign be posted next to the payment window instructing payors to request a receipt when payment is made. This would help ensure that receipts are prepared for all cash received.

Auditee Response: We disagree with this finding.

Corrective Action Plan: We have a standard operating procedure that all payments should be receipted and so far it is enforced. If it was observed that the taxpayer left without a receipt, it meant that the transaction was not completed for two probable reasons:

1. Supporting papers for the tax return may not have been submitted and the taxpayer was instructed to bring them back before the receipt is given out.
2. The amount of payment might not be enough after the cash count and checking of the return in which case the taxpayer was required to come back with the deficit amount before the receipt is issued.

There is no harm however to implement your recommendation of posting a sign next to the payment window instructing payors to request a receipt whenever payment is made.

Revenue and Taxation

Finding No. 16

Criteria: Adequate internal controls in a cash receipts system would ensure the duties of collecting the actual cash are segregated from the recording and processing functions. In addition, the audit function should be independent of all collection and processing activities.

Condition: Duties within the Revenue and Taxation department are not segregated. All employees, including tax auditors, are able to collect cash and issue receipts, and prepare the daily collection reports.

Cause: The cause of the above condition is the lack of policies and procedures that would require the segregation of duties.

Effect: There is no financial statement effect caused by the above condition. However, the above condition gives an employee the ability to manipulate cash collections.

Recommendation: We recommend that duties be segregated within the Revenue and Taxation department so only certain employees handle cash.

Auditee Response: We agree with this weakness, however, we cannot avoid it as we have limited personnel.

Corrective Action Plan: We cannot offer any corrective action plan on this finding at this time. This situation is unavoidable due to our limited number of staff.

Revenue and Taxation

Finding No. 17

Criteria: A copy of the cash receipt should be attached to the source document to evidence payment and establish an audit trail.

Condition: Tax returns are filed in taxpayers' files without cash receipts evidencing payment.

Cause: The cause appears due to recording daily collections by date in both the Treasury department and the Revenue and Taxation department. This means two copies of the cash receipt accomplish the same function of recording collections by date, and no copies of the receipts are filed with returns (by payee).

Effect: There is no direct effect on the financial statements. The indirect effect is that time is used tracing payment to the date the payment was made to ensure completeness of collections. This time could be utilized productively completing other duties.

Recommendation: We recommend that an audit trail be established from the tax return to the cash payment of the taxes. This could be accomplished by attaching one copy of the cash receipt to the tax return filed in the taxpayer's file, or noting the data and cash receipt number on the tax return filed in the taxpayer's file.

Auditee Response: We agree to this duplication of purpose.

Corrective Action Plan: Effective May, 1992, the yellow copy of the cash receipt is submitted to Treasury to record collections by date and the pink copy goes to the taxpayer's file. The original copy of course goes to the taxpayer.



Budgetary

Finding No. 18

Criteria: In order for expenditures to be properly authorized, allotment advices must be clerically accurate, accurately entered into the computer system, and must correctly reflect the funds available for expenditure.

Condition: \$603,000 was incorrectly allotted to fund 600000 org. 6663. A subsequent allotment of \$67,000 was processed for fund 630000 org. 6663. The allotment was processed for \$670,000 (the \$603,000 original advice, plus the \$67,000 current advice). The original \$603,000 allotment was not subsequently de-allotted. In addition, typographical errors were noted on several other allotment advices, and allotment advices authorizing the reprogramming of funds were not entered into the computer system.

Cause: The cause appears due to insufficient reconciliation of allotments between advices and the accounting system (DILOG reports 131-P and 132-P).

Effect: The effect is the CIP budget established for fund 600000 has overstated funds available for expenditure by \$603,000. Although it did not occur, funds control could have certified funds as available for expenditure that actually were not available. Typographical errors could have further led to improper use of allotments.

Recommendation: We recommend that reconciliations be performed on a monthly basis to ensure that funds appropriated are properly classified, allotted and de-allotted as necessary.

Auditee Response: The cause of this finding is the ambiguity of the allotment advice. The allotment advice stated that org. 6663 was under CIP Deficiency Grant Fund. Originally, Org. 6663 was established under Compact CIP Fund (Fund 600000). Neither the Budget Office nor the EDP Section of Finance correctly interpreted that CIP Deficiency Grants Fund meant the TTPI CIP Projects (Fund 630000) Fund. It was only when a review of TTPI allotments was initiated that the error was discovered and thus corrected. However, the first budget input of \$603,000 was not deallotted and we agree that this is our weakness.

Corrective Action Plan: The reconciliations section of the Department of Treasury now reviews new allotment advices before they are established in the system. Budget Office agrees to implement the recommendation on a bi-annual basis.

Budgetary

Finding No. 19

Criteria: National Council on Governmental Accounting Statement 1, paragraph 90, states that budgets should be prepared and integrated for Special Revenue and other governmental funds which have numerous types of revenues, expenditures and transfers.

Condition: Budgets are not prepared for Special Revenue and other funds.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is budget and actual statements cannot be prepared for Special Revenue and other funds.

Recommendation: We recommend budgets be prepared and approved for Special Revenue and other funds which have numerous types of revenues, expenditures and transfers.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will determine whether budgets for Special Revenue and other funds should be prepared in the future.

Electronic Data Processing

Finding No. 20

Criteria: An adequate system of internal control requires that all records be safeguarded from loss or theft.

Condition: All computerized file backups are stored on site.

Cause: The cause of the above condition appears due to offsite storage options not being explored by personnel.

Effect: In the event of a disaster, such as a fire, all backups may be destroyed. This would cause extreme difficulties in recreating important financial records.

Recommendation: Offsite storage of EDP data should be explored. Possible offsite storage sites are banks, the post office, secured storage areas, and other government buildings or agencies.

Auditee Response: This finding was included in the fiscal year 1990 audit findings. We did try to find offsite storage options. We tried the post office, but we were turned down. We tried the banks but their vaults are not air-conditioned. The tapes need to be stored in a cool place to avoid moisture.

Corrective Action Plan: We might opt for a fire resistant vault so that we can store the file backups on site. We shall also continue to locate an offsite storage area which is air-conditioned and secured.

Electronic Data Processing

Finding No. 21

Criteria: An adequate system of internal control requires adequate insurance coverage for equipment and data.

Condition: There is no insurance coverage on the EDP equipment or data.

Cause: The State of Chuuk self-insures most assets. Therefore, insurance coverage on the EDP equipment has not been explored.

Effect: Should the EDP equipment and data be destroyed, the government would be subjected to a significant loss of equipment and data. The loss of data would require significant time and expense to recreate.

Recommendation: We recommend that adequate insurance coverage be maintained on the EDP equipment and financial data.

Auditee Response: The problem here is funding though we agree that this is an internal control weakness.

Corrective Action Plan: We shall incorporate insurance coverage in our 1993 budget. We also need to find an insurance underwriter who will accept the risks being insured.

Chuuk Visitor's Bureau

Expenses

Finding No. 22

Criteria: Proper internal control procedures over travel advances and expenditures require that payments are made only if amounts are properly supported and approved.

Condition: We noted instances where amounts were claimed in excess of amounts supported by receipts, expense reports were not approved by the Director of Finance, and expense reports were not submitted on a timely basis.

Cause: The cause of the above condition is the lack of adherence to Chuuk State Government policies.

Effect: Where payments are not properly supported, there is a risk that payments made are in excess of expenses necessary for the intended purpose.

Recommendation: We recommend that payments are only made when expense reports are properly supported and approved. Such reports should be submitted within a reasonable period of time after the completion of travel. Further, where monies have already been advanced, any amounts not properly supported upon completion of the expense report should be withheld from future payments to the traveler.

Auditee Response: It may be true that the Director of Treasury did not sign the expense report himself. These documents were signed by authorized staff members of the Department of Treasury, as well as the checks for payments on such claims, which means the claims are legitimate.

Corrective Action Plan: The Executive Director of the Bureau is now reviewing all prior claims to see if in fact, claims were paid without supporting documents and if so, the Bureau has to claim those monies from the travellers. All future claims must be reviewed and approved only by the Executive Director before payment checks are approved by the Director of Treasury. (The Director of Treasury is a co-signer of all Chuuk Visitors Bureau checks).

Chuuk Visitor's Bureau

Expenses

Finding No. 23

Criteria: Proper internal control procedures over travel advances require that all cash advanced is recorded in a properly maintained advances receivable subsidiary ledger.

Condition: No subsidiary ledger of cash advanced is maintained.

Cause: The cause of the above condition appears due to employees not recognizing the importance of maintaining a subsidiary ledger.

Effect: There is no direct effect of the above condition on the financial statements. However this weakness results in poor control over receivables for monies advanced. Poor control may lead to a misstatement of receivables.

Recommendation: We recommend that a detailed travel advances receivable subsidiary ledger be established and properly maintained.

Auditee Response: It is true that the Bureau did not maintain a travel advance subsidiary ledger in previous years.

Corrective Action Plan: At the start of fiscal year 1992, we have established a travel advance subsidiary ledger.

Chuuk Visitor's Bureau

General

Finding No. 24

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

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

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

Effect: Financial statements could not be internally prepared.

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 expenditures during the fiscal year.

Auditee Response: All the Bureau's financial transactions are computerized and are maintained on a system. However, this might not fall under the definition of "formal accounting system".

Corrective Action Plan: At the start of fiscal year 1992, the Bureau has established a double entry accounting system manually and will be on the computer system as soon as a technician can establish it for the Bureau.

Chuuk Visitor's Bureau

Electronic Data Processing

Finding No. 25

Criteria: Proper internal control over electronic data processing require backup of data and that hard copies of data be generated on a periodic basis.

Condition: The Chuuk Visitor's Bureau computer system failed. There were no backup copies of financial information in either hard copy form or on other media.

Cause: The cause appears due to staff not being aware of the need to backup files on a periodic basis.

Effect: There is a possibility that all financial information could be destroyed. Recreating this information may require significant time.

Recommendation: We recommend that periodic backups be performed on a weekly basis for financial information. Hard copies of financial information should be generated monthly.

Auditee Response: We agree with the above finding.

Corrective Action Plan: The above recommendation will be implemented.



Chuuk Coconut Processing Authority

Expenses

Finding No. 26

Criteria: Proper internal control procedures over travel advances and expenditures require that such payments are made only if amounts are properly supported and approved.

Condition: We noted several nonallowable expenses being claimed, amounts in excess of amounts supported by receipts being claimed and expenses being paid despite the expense report not having been approved by the Director of Finance.

Cause: The cause of the above condition is the lack of adherence to Chuuk State Government policies.

Effect: The effect of the above condition is a possible overstatement of travel expenses and an understatement of receivables. For audit purposes, the possible misstatement was not considered sufficiently material to warrant audit adjustment.

Recommendation: We recommend that payments be made only when expense reports are properly approved and supported. Further, where cash has already been advanced, any amounts not properly approved or supported should be withheld from future payments to the relevant person.

Auditee Response: We will implement the recommendation.

Corrective Action Plan: Effective fiscal year 1992, we are now implementing the following procedures:

- Upon return from travel, the traveler prepares the travel claim supported by the receipts and the previously approved travel authorization. The claim then goes to the Travel Section of the Department of Treasury for computation and then to the Director of Treasury for approval. After this process, an entry is made in the books to record the actual travel expense and the travel advance is adjusted to either a receivable or a payable to the traveller.

Chuuk Coconut Processing Authority

General

Finding No. 27

Criteria: Expenditures of public monies should be in accordance with approved budgets.

Condition: During the year, funds were reprogrammed from approved categories and expended for other purposes (e.g. travel).

Cause: The cause of the above condition is the lack of adherence by management to Chuuk State Government policies.

Effect: Funds are not being expended in the manner originally approved.

Recommendation: We recommend that all funds be expended in accordance with the approved budget. Where reprogramming is necessary, the reprogramming should be adequately documented and approved.

Auditee Response: We expended the funds accordingly. In fact, reprogramming is required within the categories. However, documentation will be provided.

Corrective Action Plan: Effective fiscal year 1992, the documentation for reprogramming will be attached whenever there is a change of expense category from the original categories in the original allotment advise.

Chuuk Coconut Processing Authority

Receipts

Finding No. 28

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 of the above condition is a lack of management adherence to internal control policies.

Effect: The above condition has no direct financial statement effect. 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 can assure you that this matter will be implemented.

Corrective Action Plan: All daily collections aggregating to \$50 and which are collected up to 2:00 p.m. are banked on the same day. Receipts after 2:00 p.m. are deposited the following day.

Chuuk Coconut Processing Authority

Receipts

Finding No. 29

Criteria: Proper internal control over cash receipts should involve segregation of cash handling and recording responsibilities.

Condition: One employee is responsible for the receiving, recording and banking of cash.

Cause: The cause of the above condition is the lack of prescribed policies.

Effect: There is no direct effect on the financial statements as a result of the above condition, but there is an increased risk of a misstatement of cash balances.

Recommendation: We recommend that the cash receipts system be reviewed and the assignment of duties be such that different people are responsible for handling and recording cash.

Auditee Response: We agree with your recommendation and it will be implemented.

Corrective Action Plan: We have only two office employees, one is responsible for handling cash receipts and deposits and the other is responsible for recording. However, when one to them is absent, the other will be obliged to handle both tasks.

Chuuk Coconut Processing Authority

Fixed Assets

Finding No. 30

Criteria: Fixed assets should be recorded at cost and depreciated using a correctly applied amortization technique.

Condition: Assets were depreciated using the sum of the years digits method. This method was not correctly applied. It was treated as an increasing rate when it is actually a declining rate.

Cause: The cause of the above condition is application of incorrect accounting policies.

Effect: The effect of the above condition is an overstatement of fixed asset balances and an understatement of depreciation expense.

Recommendation: We appreciate that this error has now been corrected, however it should be noted for future asset purchases that all assets should be amortized using a correctly applied, recognized amortization policy. We recommend the use of a straight-line method recognizing an equal amount of depreciation for each year of the useful life of the asset.

Auditee Response: The Coconut Authority has already implemented the straight-line method for fiscal year 1991. The method will also be applied for future asset purchases.

Corrective Action Plan: Implementation of recommendation.

Chuuk Coconut Processing Authority

Loans

Finding No. 31

Criteria: All loans payable should be recorded as a liability as soon as funds have been disbursed by the lender agency.

Condition: An FSM Development Bank loan had not been recorded even though funds had been disbursed by the bank prior to the end of the fiscal year.

Cause: The cause of the above condition is the application of incorrect accounting policies.

Effect: The effect of the above condition is that liabilities and assets are understated at year end.

Recommendation: We appreciate that this error has now been corrected, however it is recommended that in the future all loans be recorded as soon as the funds are released by the lender.

Auditee Response: This has already been disclosed in the 1991 financial statements.

Corrective Action Plan: In the future, all loans incurred will be recorded as soon as cash has been received from the lending agency.

Chuuk Coconut Processing Authority

Sales

Finding No. 32

Criteria: Proper internal control over sales should ensure that sales invoices be prenumbered.

Condition: Sales invoices are not prenumbered, hence any invoice may be lost or destroyed without being recorded.

Cause: The cause of the above condition is that sales invoices are not prenumbered.

Effect: The effect of the above condition is a potential understatement of sales and receivables.

Recommendation: We recommend that all sales invoices are printed with invoice numbers.

Auditee Response: The Chuuk Coconut Authority has already ordered a numbering machine for this purpose. As soon as the machine arrives, we will implement this.

Corrective Action Plan: As of March 1992, we started using a numbering machine to prenumber our sales invoices. When our supply of sales invoices runs out, our next order will already have pre-printed numbers.

Chuuk Coconut Processing Authority

Sales

Finding No. 33

Criteria: Sales records should include some documentary evidence of goods being received by the customer. Generally, a sales receiving report, or sales invoice is signed by the customer as evidence of receipt of goods.

Condition: Instances of customers not signing sales invoices as evidence of receipt of goods were noted.

Cause: The cause of the above condition is the lack of adherence to management policies by staff.

Effect: It may become difficult to enforce the collection of recorded receivables if there is no documentary evidence of the customer receiving the goods.

Recommendation: We recommend that all sales invoices be signed by the customer before goods are released.

Auditee Response: This has been implemented since October, 1991.

Corrective Action Plan: Local customers are now signing invoices upon receipt of the goods. For off-island customers, goods are shipped upon receipt of a purchase order and the insurance/post office receipt is attached to the customer's file copy of the invoice. In the meantime, we are providing two invoices for the customer, requesting them to sign one copy and return to us the signed copy.



Chuuk Coconut Processing Authority

Sales

Finding No. 34

Criteria: Proper sales recording procedures should ensure that no procedures are duplicated unless they provide further information or act as independent checks on accuracy.

Condition: Sales invoices and official receipts are posted to both the accounts receivable subledger (by customer) and the customer file. Both reports produce identical information based on identical input.

Cause: The cause of the above condition is the lack of prescribed policies.

Effect: There is no effect of the above condition on financial statements, merely a duplication of work being performed.

Recommendation: We recommend that one of the tasks be eliminated so work is no longer duplicated.

Auditee Response: We feel that there is nothing wrong with this situation as long as the tasks are updated by different staff members. It can act as a double check on our records.

Corrective Action Plan: None considered necessary.

Chuuk Coconut Processing Authority

Cash

Finding No. 35

Criteria: Proper cutoff procedures require that all checks prepared but not actually sent out at the end of the year are not recorded until the subsequent accounting period.

Condition: The year-end bank reconciliation included checks in the outstanding check list which had been prepared but not sent out at September 30, 1991.

Cause: The cause of the above condition is the application of inaccurate accounting policies.

Effect: The effect of this condition is an understatement of cash in bank and accounts payable.

Recommendation: Although this misstatement was not material to warrant audit adjustment, it is recommended that checks not be recorded as disbursements until they have been mailed.

Auditee Response: This process will be stopped in the future.

Corrective Action Plan: Recommendation will be implemented this fiscal year, 1992.

Chuuk Coconut Processing Authority

Inventory

Finding No. 36

Criteria: Inventories should be valued using the lower of cost or net realizable value.

Condition: Inventories were valued at an amount lower than net realizable value despite a gross loss being shown in the financial statements. The gross loss indicates that cost exceeded realizable value, therefore the costing method used was inaccurate.

Cause: The cause of the above condition is a weakness in the procedures followed to value year-end inventory.

Effect: The effect of the above condition is an understatement of assets and an overstatement of cost of goods sold. This variance was not considered sufficiently material to warrant audit adjustment.

Recommendation: We recommend a review of the costing procedures, so that they more accurately reflect actual production costs. Once these costs are determined, inventories should be valued at the lower of cost or net realizable value.

Auditee Response: We will implement this immediately.

Corrective Action Plan: Implementation of recommendation.

Chuuk Coconut Processing Authority

Inventory

Finding No. 37

Criteria: Inventories should be arranged in a manner which facilitates easy and accurate counting during performance of the year-end stock count.

Condition: During our attendance at the year end inventory count, it was noted that spare parts were not stored in an orderly manner.

Cause: The cause of the above condition is the lack of adequate preparation for the inventory count at the end of the fiscal year.

Effect: The effect of the above condition is a possible misstatement of inventory balances. For audit purposes, the possible misstatement was not considered significant enough to warrant audit adjustment.

Recommendation: We recommend that inventory counts be properly planned and all inventory is properly arranged to facilitate easy and accurate counting.

Auditee Response: It is true that spare parts were not stored in an orderly manner because of insufficient space.

Corrective Action Plan: Proper arrangement will be implemented.

Chuuk Coconut Processing Authority

Fixed Assets

Finding No. 38

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 vehicle insurance.

Cause: The cause of the above condition is an overall lack of consideration of the potential liability caused by not having adequate insurance coverage.

Effect: There is no direct financial statement impact from the above condition. In the case of a serious accident, the 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: We have a problem with this point. There is no insurance coverage in our budget which is approved each year. The Legislature did not approve any insurance funds, however the budget officer allotted the budget based on our breakdown. In this case some assets can be insured. The question is, where can we get the funds to cover the other assets? Potentially, we could use monies from sales revenues or CIP funds. Funding is the problem here.

Corrective Action Plan: We will reiterate our request for funding for insurance in our annual budget so that we can afford sufficient coverage for our insurable assets.

Chuuk Coconut Processing Authority

Fund Balances

Finding No. 39

Criteria: Proper accounting for fund balances requires that the only changes made to the contributed capital account are to account for actual contributed capital.

Condition: Upon our review of the entries made to the general ledger contributed capital account during the year, it was found that amounts had been written back to cost of goods sold, amounts had been reclassified as nonoperating income and one item was unrecorded.

Cause: The cause of the above condition is the application of incorrect accounting policies.

Effect: The effect of the above condition is a misstatement of fund balances as well an understatement of cost of goods sold and an overstatement of nonoperating income - government allotments.

Recommendation: Although this error has since been corrected by an audit adjustment, we recommend that in future the only changes made to the contributed capital account are additions as a result of actual contributed capital.

Auditee Response: We will follow this suggestion immediately.

Corrective Action Plan: Implementation of recommendation.

Chuuk Coconut Processing Authority

Payroll

Finding No. 40

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

Condition: No written authorization is maintained for health insurance deductions withheld from employees' pay.

Cause: The cause of the above condition appears to be the lack of consideration given to proper internal control covering the payroll cycle.

Effect: There is no direct effect of the above condition on the financial statements. There is a possibility that employees may have a claim against the Authority for unauthorized payroll deductions.

Recommendation: We recommend that employees sign allotment forms for all deductions withheld from their pay. This will prevent potential misunderstanding between management and employees.

Auditee Response: This will be implemented from December, 1991.

Corrective Action Plan: Since December, 1991, we use signed allotment forms for all deductions withheld from employees' salaries.

Chuuk Housing Authority

Expenses

Finding No. 41

Criteria: Chuuk State Law 3-30, the enacting legislation of the Authority, stipulates that the Board of Directors shall receive no compensation for their services other than reimbursement for travel expenses incurred when engaged on business for the Authority.

Condition: The Board of Directors approved and authorized payment of an allowance to be paid to each member for attendance at meetings.

Cause: The cause of the above condition is non-adherence with Chuuk State Law 3-30.

Effect: The effect of the above condition was to expend funds in a manner inconsistent with state law and the enacting legislation of the Authority.

Recommendation: We recommend that the practice of paying allowances to board members be discontinued.

Auditee Response: We do agree with the finding. In the near future, we will work on amending the law. However, the Board feels that they should be treated the same as other Boards.

Corrective Action Plan: We have requested the provision of the law (PL 3-30) to be amended so it may qualify the Board of Directors to be entitled for compensation.



Chuuk Housing Authority

Loans

Finding No. 42

Criteria: When insurance payments made by the Authority are billed to the customer, they should not be recorded as expenses of the Authority.

Condition: Insurance payments were recorded as prepayments, and amortized over the life of the loans, in addition to being included in the loans receivable balance.

Cause: The cause of the above condition is the lack of a prescribed accounting policy for treatment of these payments.

Effect: The effect of the above condition was to double count these expenditures and overstate both prepaid insurance and insurance expense.

Recommendation: Although this error has now been corrected, we recommend that in the future, these payments only be recorded as loans receivable.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We have made the adjustment for all premiums and our records show that we have treated the payment of insurance as just an addition to existing loan to borrowers concerned.

Chuuk Housing Authority

Loans

Finding No. 43

Criteria: Proper internal control procedures over loans receivable requires an independent subsidiary ledger which reconciles to the general ledger account.

Condition: The loans receivable subsidiary ledger was not reconciled to the general ledger account at year end. Instead, the general ledger account was adjusted to make it agree with the subsidiary ledger.

Cause: The cause of the above condition is the application of incorrect accounting policies.

Effect: The effect of the above condition was to misstate the loans receivable balance.

Recommendation: We recommend that the loans receivable subsidiary ledger be reconciled to the general ledger account on a regular basis.

Auditee Response: We do make reconciliation of the general ledger and subsidiary ledger on a monthly basis. There were some unidentified adjustments made in the subsidiary ledger that made both ledgers not reconcile. This is a problem inherited from fiscal year 1990 when our accountant was sick and we had to contract an accountant who was unfamiliar with our records.

Corrective Action Plan: We now reconcile the general ledger with the subsidiary ledgers on a monthly basis.

Chuuk Housing Authority

Cash

Finding No. 44

Criteria: Proper internal control over cash requires that accounts be reconciled to bank statements on a regular basis.

Condition: Savings accounts did not reconcile to bank statements at the end of the year.

Cause: The cause of the above condition is the lack of reconciliation procedures performed at year end.

Effect: The effect of this condition is that cash balances were misstated at the end of the year.

Recommendation: Although this misstatement was not sufficiently material to warrant audit adjustment, it is recommended that all cash accounts be reconciled on a regular basis and that the accountant immediately follow up all variances.

Auditee Response: Reconciliation of accounts have been done on a monthly basis. This is the general practice we have instituted. However, there may have been some instances where reconciliation may not have been timely due to untimely receipt of bank statements.

Corrective Action Plan: Reconciliation of bank accounts to include savings accounts are now done on a monthly basis.

Chuuk Housing Authority

Revenues

Finding No. 45

Criteria: Proper accounting for loans receivable should ensure that interest is charged on any payments not made by the due date.

Condition: Where loan payments were not received by the due date, interest was charged on the principal portion of the payment only. No interest was charged on the overdue interest portion.

Cause: The cause of the above condition is the mortgage agreements do not provide for compound interest to be charged when payments are not made by the due date.

Effect: The effect of the above condition is to understate both interest revenue and loans receivable.

Recommendation: We recommend that future mortgage agreements be changed to provide for compound interest to be charged where timely repayments are not made.

Auditee Response: We are aware of the situation but the mortgage agreement does not include the provision of compounded interest. We do agree with the findings. We will ensure that future loan agreements accommodate such provisions.

Corrective Action Plan: We have requested the Board of Directors to change our lending policy in view of the compounded interest. Furthermore, we have redesigned our loan documents to incorporate the recommended changes.

Chuuk Housing Authority

Purchases

Finding No. 46

Criteria: Proper control over accounts payable requires an independent subsidiary ledger which reconciles to the accounts payable general ledger account.

Condition: The accounts payable subsidiary ledger is a posting source to the general ledger and is not an independent record.

Cause: The cause of the above condition is the absence of a purchases journal, thus resulting in the subsidiary ledger being posted directly to the general ledger.

Effect: There is no direct effect of the above condition on the financial statements. However control over payables is significantly reduced.

Recommendation: We recommend that a purchases journal be established and used to record all purchases made. The monthly totals from this journal should be used to post to the general ledger leaving the subsidiary ledger as an independent check on the general ledger.

Auditee Response: We do agree with the finding. We will institute a purchase journal.

Corrective Action Plan: We are now using a Purchase Journal.

Chuuk Housing Authority

Loans Receivable

Finding No. 47

Criteria: A requirement of Community Development Block Grant Loans is that they are granted to persons with "low income", i.e. persons whose income is below certain levels set by the U.S. Department of Housing and Urban Development (HUD).

Condition: During the year, a loan was approved to a person whose salary (per the loan application) was \$34,000. This does not constitute "low income" as defined by HUD.

Cause: The cause of the above condition is unknown.

Effect: There is no direct effect of the above condition on the financial statements. However, by approving this loan, the Authority reduces the level of funds available for other more eligible applicants.

Recommendation: We recommend that the Authority strictly adhere to requirements of Community Development Block Grant Loans.

Auditee Response: According to the income bracket, the individual borrower falls into the income limit of \$33,800 with 6 dependents set by HUD standard. His income is \$34,000; only \$200 above the limit. We felt that this is still acceptable in view of the housing condition in Chuuk.

Corrective Action Plan: Since then, we scrutinize each application carefully to abide with all lending policies.

Municipalities

Finding No. 48

Criteria: Entities receiving funds should adequately account for those funds.

Condition: The municipalities do not appear to have formal accounting systems. We selected three municipalities for audit and none were able to provide adequate evidence to support expenditures, prove they were in compliance with their budgeted spending authority, prove the cash balance on hand at year end, determine classification of expenditures, or provide periodic reports to the Finance department on a quarterly basis.

Cause: No program has been established to train the treasurers of the municipal governments and development authorities.

Effect: It is possible that unauthorized or unrecorded cash disbursements could occur without being detected, budgeted spending authority could be exceeded, and there is presently no control at the state level to ensure that funds are expended in accordance with state laws and regulations at the municipal level.

Recommendation: We recommend that a formal program be implemented to train the treasurers of the municipal governments and development authorities how to operate a simple accounting system. This training should cover establishing a disbursement journal, a cash receipts journal, retention of invoices and other evidential matter to support expenditures, preparation of monthly bank reconciliations, Chuuk State procurement standards and policies, and how to create quarterly financial reports for submission to the Finance department.

Auditee Response: We agree with the above finding.

Corrective Action Plan: We will research the viability of this recommendation.

Prior Year Unresolved Findings and Recommendations

The following findings and recommendations from the report on internal controls, September 30, 1990, report dated January 4, 1991, have yet to be successfully resolved.

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