

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

AUDITORS' REPORT ON
INTERNAL ACCOUNTING CONTROL

SEPTEMBER 30, 1987

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AUDITORS' REPORT ON INTERNAL
ACCOUNTING CONTROL

Honorable John Haglelgam
President
Federated States of Micronesia:

We have completed our examination of the general purpose financial statements of the Federated States of Micronesia National Government as of September 30, 1987, and for the year then ended, and have issued our report thereon dated May 31, 1988. As part of our examination, we made a study and evaluation of the National Government's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audits of Governmental Organizations, Programs, Activities and Functions and as in the provisions of OMB Circular A-128 issued pursuant to the Single Audit Act of 1984, P.L. 98-502. For the purpose of this report, we have classified the significant internal accounting controls in the categories of: budgetary and appropriation cycle, revenues and receipt cycles, purchases and disbursement cycles, payroll and personnel cycles, treasury cycles, and external financial reporting. Our study included all of the listed control categories. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements administered by the Federated States of Micronesia National Government. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the National Government is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system 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 statutory authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

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

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal

accounting control of the National Government taken as a whole or on any of the categories of controls identified in the first paragraph. Our study and evaluation disclosed no condition that we believe to be a material weakness, but did disclose the following conditions as to which we believe corrective action should be taken.

This report is intended solely for the use of the Federated States of Micronesia National Government, the cognizant audit and other federal agencies and should not be used for any other purpose.

May 31, 1988



Certified Public Accountants

General Comments

The National Government Finance Office continued to make substantial improvements during fiscal year 1987 in its ability to adequately account for the operations of the National Government. The preparation for the second year of the National Government's comprehensive internal year-end financial report and the more efficient and proper use of the automated accounting system are indications of this improvement. We believe that the Department of Finance should be commended for these improvements. However, there are still certain matters where improvements can be made. Of substantial concern is the National Government's increased role with respect to coordinating State financial matters. We believe that this role and the current problems experienced with the State coordination should be closely examined now in order to avoid many of the problems previously experienced by the Trust Territory when it fulfilled the same role. Secondly of concern are instances where Finance is ultimately responsible for the outcome, such as funds control or collection of advances, but its control over the process is circumvented or curtailed. We believe that laws and regulations set forth by the Congress of the FSM and the President concerning financial management should enjoy the full support of these lawmakers and executive branch personnel, or be re-examined and amended as needed.

Cash

Finding No. 1

Signature authority for the FSM general fund is given to an individual outside of the Treasury Office. This same individual also has signature authority (and password control) for drawdowns against grant letter of credits, along with the responsibility for reporting grant expenditures. This situation is a clear violation of good internal control procedures.

Recommendation

We recommend that signature authority for the FSM checking accounts be restricted to the FSM Treasurer and management outside of the accounting and reconciling departments.

FSM's Response

Beginning July 18, 1988, the signature authority for the FSM General Fund Checking Account is restricted to the Acting FSM Treasurer.

Finding No. 2

We were unable to verify that bank reconciliations were independently reviewed.

Recommendation

It is recommended that bank reconciliations be verified by an individual who is not involved with the treasury function or cash reconciliation function. That individual should ensure that reconciling items appear proper and are cleared in a timely and appropriate manner. Further, evidence of the review should be made by signing the original reconciliation as having been reviewed.

FSM's Response

Effective September 1, 1988, the Administrator for the Accounting Division will verify all bank reconciliations and ensure that all reconciling items are booked in a timely and appropriate manner.

Finding No. 3

Currently FSM general fund and payroll checks are prepared by the automated accounting system and signed using a facsimile signature plate. There are no requirements for double signatures, nor a restriction on the dollar limit of a check which can be signed using the facsimile signature plates.

Recommendation

A dollar limit should be placed on checks which can be signed using a facsimile machine, or alternatively, a procedure should be established to require double signatures on checks with a large dollar value.

FSM's Response

Effective immediately, all general fund checks having an amount of more than \$50,000 and payroll checks of more than \$3,000 will be signed manually by the authorized signatories.

Finding No. 4

We noted that direct wire transfer deposits were not recorded as revenue on the books until the supporting documents were obtained. This practice resulted in delays of recording revenue of as much as several months.

Recommendation

As a timely bank reconciliation to the books is an important control feature, we recommend that an unidentified revenue account be established to ensure all revenue is recorded on a monthly basis. Of course, the reconciliation section should follow-up on any items in the unidentified account to ensure all revenue is properly classified.

FSM's Response

An account 7920 has been established to account for the unidentified revenue monthly.

Finding No. 5

Bank reconciliations are performed on a regular basis for the FSM general fund account; however, reconciliations for the payroll account, tax refund account, and several imprest accounts were not performed until year end.

Recommendation

Although we recognize that the accounts listed above operate on an imprest basis, they are subject to the same sort of potential misuse, bank errors, and recording errors as the general fund account. For those reasons, we recommend that monthly bank reconciliations be performed for all bank accounts. Additionally, we recommend that the bank statements for the LNO imprest accounts be routed directly to FSM Finance for reconciliation.

FSM's Response

Currently, bank reconciliations for Payroll, Tax Refund and Imprest Accounts for HNL, Guam and Washington are performed monthly. Furthermore, even prior to this finding, bank statements for the LNO Honolulu and Washington Representative Office are sent directly to FSM Finance for monthly reconciliations.

Finding No. 6

Several petty cash accounts for the Supreme Court have been established which are not reflected in the books as they were immediately expensed. Further, our bank confirmations revealed that one of those petty cash accounts had a balance which was greater than the established fund amount. It appears that Court restitution payments are being held in the petty cash account.

Recommendation

Although the petty cash funds are relatively small dollar amounts, they should be established properly as an asset and reconciled and replenished on a periodic basis with appropriate supporting documents. Court payments held in escrow or restitution payments should be held in accounts other than the petty cash account.

FSM's Response

We acknowledge that when the petty cash funds were initially set up for each of the States, the entire amount was charged against our operating account for that fiscal year. Our account was again charged as they submit the receipts and other supporting documents for reimbursements.

Since the petty cash funds have never been closed out since the beginning, we plan to do just that for fiscal year 1988. This last trip we made to all the states involved reviewing and setting up controls and procedures so that this does not happen again. We will do a follow-up trip in early October to assure that they follow the instructions we have set-up for them.

We have established two accounts, one for restitution and the other for petty cash for Truk and Yap. Kosrae only has a petty cash account but will have a restitution account soon. We are aware that at one time, some restitution funds were mistakenly deposited in the petty cash fund for Truk, but the problems has since been taken care of.

We hope that by October 1, 1988, everything will be straightened out on the accounts.

Finding No. 7

The blank tax refund check stock was held by the revenue office to use for manual tax refunds. The checks are prepared by the revenue office staff and signed by the FSM Treasurer. This practice occasionally resulted in tax refund checks being issued without a corresponding bank deposit.

Recommendation

We recommend that all blank check stock be held in the treasury and a log book established so that when checks are needed by the revenue office, an appropriate number can be logged out and signed for. When the checks are ready for signature, they should be cross-referenced to and supported by a listing detailing the check number, date, payee, and amount. A deposit can then be made for the total of the checks.

FSM's Response

This recommendation is well taken care of as evidenced by the memorandum concerning the turn over of blank tax refund checks from the Revenue Office to the Accounting Office.

Finding No. 8

Large dollar amounts are included in the reconciliations for the liaison offices imprest accounts and the Truk State trust account which represent items that were not reimbursed due to lack of documentation or authorization for the expenditure. These amounts appear to be increasing from year to year, and result in either unrecorded expenditures or overstated cash accounts.

Recommendation

More clearly defined regulations should be promulgated to ensure that the liaison offices and the Truk State trust account disbursing office are fully aware of their limitations and authority for advances and expenditures using National Government Funds. Controls should be placed on the offices to ensure timely reporting for cash replenishment and quick follow-up of unauthorized or unsupported items. Specifically, we recommend that the Public Auditor or the National Government Finance Office investigate the current outstanding items and recommend how they should be resolved.

FSM's Response

FSM Finance Accounting Division has designed a "Statement of Withheld Replenishment Account" form that details the reason for the withheld items and enables the Liaison Office and other representative Offices to keep track of the accounts.

Receivables

Finding No. 9

Outstanding travel advances continue to increase. The schedule below details the balances of accounts receivable for outstanding travel advances at certain dates:

<u>9-30-85</u>	<u>9-30-86</u>	<u>9-30-87</u>	(Unaudited) <u>6-30-88</u>
\$14,896	\$245,187	\$347,950	\$636,921
=====	=====	=====	=====

While the National Government has a stated policy of requiring travel vouchers and trip reports to be filed within 7 days after the completion of the travel, the policy is obviously disregarded. As a result, expenditures are unrecorded and if the ultimate funding source is a reimbursable grant, the National Government will lose grant revenues.

Recommendation

Since travelers include officials from all branches of the FSM government and most departments within those branches, we recommend that a coordinated effort be made by those officials to examine and reaffirm the travel policy, to establish workable control procedures, and to support Finance personnels' efforts to enforce those procedures and policies.

FSM's Response

The section on Travel Advances of the new Financial Management Regulations will enforce this issue.

Finding No. 10

As noted in our prior year report, receivables from States appear to be continually increasing. These receivables are generated from National Government payments made on behalf of the States. This appears to represent a growing problem, as in many cases the States do not acknowledge their debt. Monthly reconciliations with the States do not appear to have been occurring.

Recommendation

The National Government should effect monthly reconciliations with the States for all receivables and payables. Management should review alternatives for ensuring that expenditures made on behalf of the States are ultimately reimbursed. Additionally, the same methodology should be extended to all other National Government/State receivables and payables (taxes, State projects and federal programs).

FSM's Response

FSM Finance have established representative Offices in the States of Truk, Yap and Kosrae to effect timely payment and reconciliation of payable to the States for all projects funded by the Congress of the Federated States of Micronesia. Accordingly, the Administrator for Accounting Division issued a memorandum to these offices to help Central Office intensify collection of accounts.

Revenues

Finding No. 11

As noted in our prior year report, monthly reconciliations of revenues received are not performed between the FSM Revenue and Tax Office and the FSM Treasurer.

Recommendation

A reconciliation of returns filed versus cash received and revenue classifications should be performed on a periodic basis.

FSM's Response

The Revenue Division's field offices (National Revenue Offices located in each state) provides both the Accounting Division and Revenue division's central office with copies of cash receipts, bank deposit slips and cash sheets. Any deficiencies are easily detected and reasons for them sought. However, we agree with the Touche Ross report; a more systematic reconciliation of revenue collections should be devised and implemented.

The Accounting Division and Revenue Division will work together to devise a procedure for submission of collection documents and reconciliation of the same. The Revenue Division can help in this exercise in two ways: (1) require its field offices to transmit cash receipts and tax returns together in one envelope so a faster check can be made, and (2) Revenue Central should record any deficiencies and also inform both Accounting and Assistant Commissioners. The Accounting and Revenue Divisions also should have the same closing dates for preparing collection summaries - say the 15th of each month.

Finding No. 12

We were unable to satisfy ourselves that the FSM revenue office had effective tracking and audit procedures to ensure that all tax revenues are being reported and paid as required by FSM law.

Recommendation

In the absence of a computer system which would track and cross reference tax revenues for the States and National Government, we recommend the consideration of some simple tests. The States have the Authority to issue business licenses, while the National Government collects business gross revenue taxes. A listing of current business licenses should be provided to the National Government which could be used to help ensure that all businesses are filing gross revenue tax returns. A further test could use the National Government vendor files which show current year payments to local vendors. A cross check could be made between those lists and the gross revenue tax files. Specifically, we found that the National Government pays for leased housing to several individuals, and we were not able to determine if all those individuals included the rental or lease revenue on their tax returns.

FSM's Response

While it is true that some very small businesses are not reporting, the Division has put an emphasis on the bigger businesses both in terms of canvassing and auditing.

The Revenue Division is purchasing a computer soon which will be able to resolve most of the tracking problems it now faces. The Division is also contemplating the establishment of its own identification numbering system, thus divorcing itself from the Social Security system. This process will help Revenue tremendously in that better control will result in the registration of more businesses. The Division will also send out letters to all the agencies which have the authority to issue business licenses for listings of businesses which are issued licenses.

Finding No. 13

There does not appear to be a system of reconciliation of fishing right fees between the Micronesian Maritime Authority (MMA) and the Department of Finance.

Recommendation

Monthly reconciliations should be made between MMA and Finance which include ensuring that all fishing federations and vessels which claim to make deposits have in fact made those deposits in the correct amount. Further, copies of the Tokyo account and statements should be sent directly from the bank to FSM Finance for reconciliation.

FSM's Response

It does appear that there is no coordination between MMA and finance on the fishing fees received from foreign vessels operating in the FSM Zone.

Perhaps we can do a monthly reconciliation of deposit receipts and advices to ensure that claimed deposits are indeed deposited. MMA will be assigning one staff member to work with one finance employee.

Investments

Finding No. 14

Per Article II, Paragraph 4.3, of the Agreement on Internal Budget and Finance Procedures, no Compact Section 221 (b) funds can be invested or held in interest bearing instruments by any FSM government.

Recommendation

We recommend that the Secretary of Finance comply with the provisions noted above.

FSM's Response

We are aware of the restriction of the Special Block Grant funds that it should not be invested or held in interest bearing instruments. However, at the time of receipt of these funds, the only account available where they could be deposited was the money market account with the Bank of Hawaii. The interest earned was left behind for the simple reason that no decision has been made by U.S. authorities as to its proper disposition.

So as not to deviate from whatever restrictions that the Compact have mandated, subsequent receipts of Special Block Grant funds are being directly deposited with Hawaiian Trust Company for investment in ACM Fund "A" whose earnings are in the form of dividends as stated in the prospectus furnished by Hawaiian Trust Company.

Budget Reconciliations

Finding No. 15

We found several instances of errors in recorded budget amounts for the operating funds and many errors in the grants funds. The budget office is currently responsible for the input of allotments, however, it appears that the budget office is not performing timely reconciliations of those allotments in the system. The lack of correct budget amounts could seriously impact the fund certification process performed by the Finance office.

The total lack of control for budgeted amounts in the grant funds resulted in the abandonment by finance of the automated system in favor of a manual system for fund certification and reporting purposes. However, the automated system used at FSM constitutes the official accounting records of the government and we found numerous unposted and incorrect grant budgets as late as nine months after year end.

Recommendation

We recommend that the Department of Finance and the Budget Office work out a system where all budgeted and allotted amounts for all funds be correctly recorded in the automated accounting system. We recognize that implementing the management accounting system will enable budgets for carryover grants to be accurately recorded, however, we would emphasize that incorrect and incomplete budget entries will affect that system as well as the financial accounting system.

FSM's Response

As we are not provided with the details of these findings, we will not be able to address them properly. We believe that this problem should be shared and addressed equally by both Budget and Finance. We therefore agree with the recommendation that Finance and Budget should work out a system to help clear up this problem.

Finding No. 16

We also noted that some budgets for the States were included in the FSM National Government records. Expenditures or cash transfers against those budgets (primarily Compact special revenue and capital project funds) are not made in any form by the National Government Finance office and distort the appropriation balances for the National Government.

Recommendation

If a tracking system for State's budgets is required, we recommend that it be kept separate from the accounting records for the FSM National Government.

FSM's Response

The chart of accounts as developed and issued by finance includes account number series clearly identified and designated for the States Special Compact Program funds. These accounts, we believe, are to be used when allotting the states appropriations of their special compact funds to them. Unless the audit is recommending that these accounts be deleted from the chart of accounts, we will continue to use them.

Health Insurance Fund

Finding No. 17

Public Law 3-82 requires that the Health Insurance Fund submit an annual report to Congress prior to its May session each year. The report was not submitted during fiscal year 1987.

Recommendation

We recommend that the Health Insurance Fund coordinators submit an annual report as required by PL 3-82.

FSM's Response

As an annual practice the Health Insurance Program received either an actuarial review or an audit by the Public Auditor's Office. The 1986 report was basically the Public Auditor's audit report. For 1987 the Health Insurance Program contracted a qualified pension program actuary whose work was completed in May 1988. In addition a subsequent audit was completed in mid-July 1988 by the Public Auditor's Office for the same financial period. This report is being finalized. Upon its completion we will submit both reports as our FY 1987 report as required by PL 3-82.

Health Insurance Fund - Basis of Accounting

Finding No. 18

The National Government does not utilize an IBNR (incurred but not recorded) methodology of estimating outstanding liabilities. Currently, claims are recorded only when the invoices are actually received by personnel. Therefore, the results of operations of the Fund could be misstated at any point of time. Failure to provide for outstanding claims also can impact the amount of funds available for administrative purposes (since only 10% of the prior year balance is eligible for this purpose).

Recommendation

The Fund administrators should commence utilizing an IBNR methodology to record outstanding claims.

FSM's Response

Prior to the Actuary's report on the Program the in-house practice of maintaining a reserve fund to offset potential large claims was overestimated at 80%. In May 1988, the following statement was made by the actuary Mr. Charles E. Hialt. M.A.A.A.,E.A: "At the present time, the plan does not have records sufficient to determine the amount of incurred but unreported claims. The typical reserve level for a plan such as this is 35% to 40% of incurred claims. If a reserve for incurred but unreported claims were established at, say, the 40% level for fiscal year 1987, it would be about \$118,000.

"On the same basis, the reserve for incurred but unreported claims at the end of fiscal year 1988 would have been about \$71,000. Consequently, to arrive at estimated incurred claims for fiscal year 1987, paid claims for fiscal year 1987 should be increased by the difference between the reserve for incurred but unreported claims at the beginning and the end of the plan year, or by about \$47,000.

This means that the incurred claims for fiscal year 1987 were about \$341,000, or about 69% of premium. This is a more realistic loss ratio for a plan of this size.

Again, assuming an incurred claim loss ratio of 69% for the first six months of fiscal year 1988, the incurred claims would have been approximately \$173,000. Consequently, the increase in reserve for incurred but unreported claims would be \$173,000 less the paid claims of about \$115,000, or about \$58,000. The total reserve for outstanding claims as of March 31, 1988 should be approximately \$176,000". The present fund reserved for claims is approximately \$118,800.

Fixed Assets

Finding No. 19

The FSM Supply Office was not able to completely update the automated fixed asset system during fiscal year 1987, nor were their manual records adequate enough to accurately record all acquisitions and deletions. We found items which were installed at FSM offices without property tags which were not included in the master listing, and we were not able to satisfy ourselves that all deletions were noted and properly surveyed.

Recommendation

It appears that additional procedures are required for the maintenance of National Government fixed assets to ensure their proper accounting.

1. All assets should be clearly identified as to funding source. If the source is federal, the actual program title which acquired the asset should be clearly annotated.
2. Supply should obtain from Finance a listing of all capitalizable items expended for the month. Supply should use the listing to cross check tags issued for the period and to ensure that recorded costs are proper.
3. On a periodic basis, Supply's reconciled records should be input into the official Dilog Fixed Assets Account Group.
4. Supply should prepare an inventory plan which provides for continuous inventories. Ideally, a group of different departments would be inventoried each month. The inventory process would then encompass the whole year and would provide for continuous reinforcement as to the need to properly account for fixed assets.

FSM's Response

The audit recommended four procedures. These procedures have been studied and certain steps have been taken to comply. We agree with the audit in most respects. However, certain recommendations needed to be jointly developed since they involve inter-office routing i.e. computerized listing of fixed assets, and reconciliation with the so called "Dilog Fixed Assets Account Group". In addition to the Audit recommendations, we will suggest ways which we feel can be adopted to minimize these problems.

This office plans to conduct periodic inventory inspections to ensure that all fixed assets are tagged and the automated fixed asset system can easily be updated as a result.

We feel your recommendations regarding the periodic inventories and strengthening of the Financial Management System Regulations would eliminate or minimize the problem of tagging.

Finding No. 20

We observed that a number of household appliances such as electric ranges, refrigerators and washers assigned to staff housing were surveyed earlier than would normally be anticipated. Since our review was very limited, we are unable to draw any conclusions as to the reasons for these problems.

Recommendation

We recommend that Supply attempt to control any misuse of FSM property assigned to individuals by observing and noting the condition of the assets prior to assignment to a National Government employee.

FSM's Response

As cited earlier in our comments, the survey or deletion process has yet to be well defined. In our experience there is an apparent lack of care by employees assigned household furniture and appliances. The resulting high depreciation rate leads to early surveys. We also noted that one factor contributing to the seemingly early survey problems is the late tagging resulting from purchases done outside of established procedures. There have been cases where departments/offices purchase appliances and furniture directly without Property and Supply knowledge. Upon inventory Property and Supply would identify and tag these items sometimes after one or two years of use. In these instances the records show an item surveyed only after one year or less of use.

Payroll

Finding No. 21

The Dilog system generates audit trails for all master file changes. It appears that these reports are not utilized by management.

Recommendation

We recommend that the payroll master file audit trail be run and printed every pay period. Copies of this report should be retained and reviewed by Finance management to ensure all changes to the payroll master file are correct and authorized.

FSM's Response

Per the ADP Advisor - Finance will begin printing and reviewing the Payroll Master File Audit Trail Report every pay period.

Finding No. 22

The FSM Congress includes employee ceilings in the annual appropriation law, stating a maximum number of permanent positions by department. As noted in Public Law 3-51, Section 7, paragraph (2), "This authorization of positions covers all permanent employees, all contract personnel whose employment extends for 1 year or more, and all positions funded from United States Federal Programs." Our testing revealed that most departments which received federal funding exceeded their authorized limit, if the federal employees were included. It is our understanding that the federal program limitation is generally ignored.

Recommendation

If it is the intent of Congress to limit the total number of government employees including those funded from federal grant funds, we recommend that the departments comply with the public law, and that appropriate departments be given responsibility to ensure compliance. If, however, Congress does not intend for federally funded employees to be included in the ceilings, wording in the appropriations law should be changed accordingly.

FSM's Response

The appropriation laws over the years have included federal grant employees in the staffing ceiling. As one can easily see, the staffing ceiling in the Appropriation Acts covers only the employees of the National Government who are funded from the General Fund. Employees authorized in the various federal grants are supposed to be over and above this ceiling. We have repeatedly requested Congress to correct this error in the law. However, to date no change has been made. This matter needs to be pointed out in the audit report so that the necessary corrective action can be made.

Batch Reports

Finding No. 23

It is not the practice of Finance to retain copies of Dialog batch edit reports. We noted several instances of duplicate batches posted and other errors which we were not able to trace due to the lack of these reports.

Recommendation

The final edit report prior to the daily update should be printed and filed along with the daily posting lists.

FSM's Response

Starting August 1988, the final edit report prior to the daily update will be printed by ADP and filed with the reconciliation.

Prior Year Unresolved Findings and Recommendations

The following findings and recommendations from prior year reports on internal controls have yet to be successfully resolved. These findings and recommendations are summarized below:

Report on Internal Controls, September 30, 1986, report dated February 27, 1987:

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Conclusion

We wish to thank the management and Finance Department officials of the FSM National Government for their cooperation during our examination, and for their prompt and thorough response to our comments.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

AUDITOR'S REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS

SEPTEMBER 30, 1987

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

Supplementary Information

On

Federal and Local Grant Programs

For the year ended September 30, 1987

In accordance with OMB Circular A-128

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Auditor's Report on Compliance and on
Supplementary Information of Federal
and Local Grant Programs

Honorable John Haglelgam
President
Federated States of Micronesia National Government

We have examined the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of September 30, 1987, and for the year then ended and have issued our report thereon dated May 31, 1988. Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The accompanying statements of expenditures of financial assistance are presented for purposes of additional analysis and are not a required part of the aforementioned financial statements. The information in those schedules has been subjected to tests and other auditing procedures applied in the examination of the aforementioned financial statements and in our opinion, subject to and except for those matters specified in our report on those financial statements dated May 31, 1988, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

The management of the FSM National Government is responsible for the Government's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records from each major federal financial assistance program. The purpose of our testing of transactions and records from those federal and local financial assistance programs was to obtain reasonable assurance that the FSM National Government, in all material respects, administered major programs, and executed the tested program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedules of identified noncompliance and internal control weaknesses.

In our opinion, subject to the effect of the ultimate resolution of the instances of noncompliance referred to in the preceding paragraph, for the year ended September 30, 1987, the FSM National Government administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that for the transactions and records tested, the FSM National Government complied with the laws and regulations referred to in the second paragraph of our report, except as noted in the accompanying schedule of findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the FSM National Government, administered those programs in compliance in all material respects with those laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures; however, with respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the FSM National Government had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

May 31, 1988



Certified Public Accountants

Auditor's Report on Internal
(Accounting and Administrative) Controls

Honorable John Haglelgam
President
Federated States of Micronesia National Government:

We have examined the general purpose financial statements of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 1987, and have issued our report thereon dated May 31, 1988. As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal and National financial assistance programs into the following categories: payroll, purchases/disbursements, treasury/cash management, revenues/receipts, external financial reporting, types of services, and administrative controls including matching level of effort and monitoring subrecipients.

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

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

Our study included all of the applicable control categories listed above. During the year ended September 30, 1987, the National Government expended 89% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

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

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

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

However, our study and evaluation and our examination disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of the Federated States of Micronesia National Government, but did disclose the conditions listed in the following pages to which we believe corrective action should be taken.

This report is intended solely for the use of the Federated States of Micronesia National Government and the cognizant audit and other federal agencies and should not be used for any other purpose.

May 31, 1988



Certified Public Accountants

Auditor's Report on Compliance Based on an
Examination of the General Purpose Financial Statements

Honorable John Haglelgam
President
Federated States of Micronesia National Government:

We have examined the general purpose financial statements of the Federated States of Micronesia National Government, for the year ended September 30, 1987, and have issued our report thereon dated May 31, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the Federated States of Micronesia National Government is responsible for the Government's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the Government's compliance with laws and regulations noncompliance with which could have a material effect on the general purpose financial statements of the National Government.

The results of our tests indicate that for the transactions tested the FSM National Government complied with those laws and regulations referred to above, except as described in the following pages. Those instances of noncompliance were considered by us in evaluating whether the general purpose financial statements are presented fairly in conformity with generally accepted accounting principles. With respect to the transactions not tested, nothing came to our attention to indicate the FSM National Government, had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

May 31, 1988



Certified Public Accountants

Introduction to Compact of Free Association
Funding, Federal and Other Assistance Funds

For the year ended September 30, 1987

Compact Funds

The Federated States of Micronesia National Government and the Government of the United States of America implemented the Compact of Free Association during fiscal year 1987. The Compact funding replaced the Department of the Interior funding for general operations received through the Trust Territory of the Pacific Islands (TTPI) Government in previous fiscal years. Based on the terms of the Compact agreement, the Federated States of Micronesia National Government will receive funding in five year increments over a fifteen year period. The Compact funding is to be received in four different account classifications; current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the Federated States of Micronesia National Government's and its four State entities' drawdown requirements. During fiscal year 1987, the current operation funds were transferred to the National Government's designated banking institution based on quarterly allocation requests. The capital project funds, which must comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawdown upon request. Capital account funds are transferred 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 Congress of the Federated States of Micronesia (CFSM) in accordance with the guidelines of the Compact. The United States Government will annually adjust Compact account funding for inflation.

Pursuant to section 233 of the Compact of Free Association 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 between the Government of the U.S. and the Government of the FSM, audits of Compact funding shall be performed in compliance with Standards for Audits of Governmental Organizations, Programs, Activities and Functions, published by the Comptroller General of the U.S., and the Single Audit Act of 1984. The above states that audits shall be performed in accordance with Circular A-128, but compliance testing of Compact funding shall not include specific Circular A-102 attributes and other federal guidelines applicable to federal program assistance grants, but rather shall be in conformance with local laws and regulations and the program intent as provided in the Compact of Free Association.

Funding Transition Period

With the implementation of the Compact funding during fiscal year 1987, and the discontinuation of the TTPI government as the primary federal grant recipient, a transition period occurred between January 1, 1987 and June 30, 1987. During this transition period, the role of primary grant recipient was transferred from the TTPI government to the FSM National Government. Subsequent to June 30, 1987, the federal grantor agencies made available the

balance of fiscal year 1987 federal grant funds. Portions of the balance of these funds were designated as 'GAP Funds' to be used to reimburse the FSM States for expenditures made against the appropriated Compact Block Grant funds used during the transition period. As the primary grant recipient, the National Government acts as a clearing house for recording budgets and State expenditures, suballotting grant funds to the States, reimbursing the States' expenditures, and reporting and billing the federal grantor agencies.

Federal Funds

The Government remained the subrecipient of several federal grant programs from U.S. agencies, but upon implementation of the successor in interest agreements, the role of the primary recipient transferred from the TTPI government to the FSM National Government. Following the Compact implementation, grant awards are received directly from the U.S. grantor agencies by the FSM National Government and sub-allotted to the FSM States.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request to the TTPI, or following the Compact implementation, directly to the federal grantor agencies.

Introduction To 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:

- Transition Fund
- TTPI Federal Assistance Fund
- Other Federal and Direct Assistance Fund
- Compact of Free Association, Special Revenue Grant Funds:
 - . Communications Annual
 - . Communications One-Time
 - . Marine Surveillance Annual
 - . Marine Surveillance One-Time
 - . Post Secondary Education
 - . Health and Medical
 - . Special Block Grant
- OTIA Technical Assistance and Operations and Maintenance (O & M) Grants Fund
- TTPI Capital Projects Fund
- Compact of Free Association Capital Projects Fund
- CFSM Capital Projects Fund

As mentioned earlier, the Compact Funds are administered under the guidelines of the Compact of Free Association. With the exception of a few foreign source grants in the Other Federal and Direct Assistance Fund, the revenue of the remaining Special Revenue and Capital Projects Funds is derived through allotments from the TTPI or U.S. grantor agencies for specific purposes. All

TTPI allotments are originally derived from U.S. Congressional appropriations. The CFSM Capital Projects Fund is funded by appropriations from the Congress of the Federated States of Micronesia. The Federated States of Micronesia reports directly to the applicable grantor concerning special assistance grants.

Framework of Compact of Free Association and Federal Grant Accountability

During fiscal year 1987, the FSM National Government utilized an automated accounting system for the special revenue and capital projects funds. Direct expenditure transactions were authorized by the administering agencies of the National Government and were reviewed and approved by the National Government's Department of Finance. Disbursements and receipts were made and accounting documentation was maintained by the Department of Finance.

Other expenditures consist of transfers made to State governments for sub-allotted grants. Transaction balances are supported by allotment (fund status) reports provided by the States to the National Government.

With respect to grant drawdowns of federally assisted programs, the FSM initially funds its expenditures, and on a periodic basis draws down funds directly from TTPI, Office of Territorial and International Affairs, or other grantor agencies, based on program expenditures. The FSM as the grantee for federally assisted grant programs has the ultimate authority and responsibility to ensure that drawdowns from grantor agencies and federal financial reports are made in an accurate and timely manner.

FEDERATED STATES OF MICRONESIA
 NATIONAL GOVERNMENT
 TTPI FEDERAL AND OTHER ASSISTANCE FUND

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 BY GRANTOR
 YEAR ENDED SEPTEMBER 30, 1987

Grantor	Org. No.	TTPI Subgrant No.	Grant Title	1987	Questioned Costs
				Fiscal Year Expenditures Per Audit	Amount Detailed At Page
Dept. of Health & Human Services	4033	FV6081	Gerontological Data	\$ 5,670	\$ -
	4006	FV5081	Gerontological Data	(905)	-
	4009	FV6220	SPRANS	4,399	-
	4010	FV5091	AAA Admin	1,306	-
	4014	FV6140	Crippled Children Services	17,774	-
	4019	FV4260	Community Health Center	492	-
	4021	FV6081	Office of Aging	36,879	-
	4023	FV6080	FSM Legal Services	9,403	-
	4024	FV6180	Prevention of Disease	1,130	-
	4026	FV6140	FY86 MCH	18,140	-
	4028	FV6190	Venereal Disease	9,157	-
	4030	FV6130	Health Planning	45	-
	4031	FV5091	Preventive Health	53,688	-
	4038	FV5081	Aging Supportive Services	22,753	-
	4207	Unknown	Preventive Health	50	-
			<u>179,981</u>	-	
Dept. of Justice	4141	FF4021	Juvenile Justice	7,493	-
	4143	FF6020	JJDP	11,645	-
			<u>19,138</u>	-	
Dept. of Housing & Urban Development	4122	FB5010	CDBG Program #2	27,240	-
	4123	FB5020	CDBG Admin.	1,807	-
	4525	Unknown	Awak Water System	265	-
			<u>29,312</u>	-	
Environmental Protection Agency	4004	FK6010	EPA	1,214	-
	4037	FK7010	FY84 EPA	18,530	-
			<u>19,744</u>	-	
U.S. Department of Agriculture	4020	FE5082	Food Services Admin.	133,736	-
	4025	FE6010	Food Services Reimbursement	274,069	-
	4034	FE7010	Food Services Reimbursement	424,364	-
			<u>832,169</u>	-	
Dept. of Education	4051	FA6200	Chapter II	501	-
	4052	FA6300	Teacher Training	2,176	-
	4053	FA6100	Chapter I	1,550	-
	4054	FA6400	Vocational Rehab.	16,216	-
	4056	FA6201	Social Studies	15,358	-
	4058	FA7200	FY87 Chapter II	2,769	-
	4059	FA7400	Vocational Rehab.	826	-
	4060	FA7300	FY87 Teacher Training	6,770	-
			<u>46,166</u>	-	
Dept. of Energy	4101	FR6010	Energy Conservation	2,070	-
	4104	FR7010	State Energy Conservation	21,718	-
	4501	Unknown	Appropriate Technology	(106)	-
	4503	Unknown	State Energy Conservation #2	312	-
			<u>23,994</u>	-	
Dept. of Commerce	4102	FG5040	Regional Catch Data	8,131	-
Various	4027	FW6050	Family Health	6,630	-
	4012	FW6040	Management Workshop	(1,688)	-
			<u>4,942</u>	-	
Total			\$1,163,577	\$ -	
			=====	=====	

FEDERATED STATES OF MICRONESIA
 NATIONAL GOVERNMENT
 OFSM AND OTIA/TIPI CAPITAL PROJECTS FUNDS

STATEMENT OF EXPENDITURES, QUESTIONED COSTS
 AND BUDGETARY POSITION BY FUND
 YEAR ENDED SEPTEMBER 30, 1987

FSM Orgn. No.	Grant Title	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
							Amount	Detailed at Page
7104	Pohnpei Airport Terminal Design & Construction	\$ -	\$ -	\$ 2,006	\$ 2,006	\$ (2,006)	\$ -	
7105	Kolonia Water System Improvement Project	-	-	207,849	207,849	(207,849)	71,430	23
7107	Supply Warehouse	38,087	-	8,129	8,129	29,958	-	
7151	FSM Capitol Construction	11,748,370	223,530	4,728,091	4,951,621	6,796,749	-	
7110	President House Renova- tion	250,000	-	11,151	11,151	238,849	-	
7108	Pohnpei Rural Sanitation	178,258	-	126,480	126,480	51,778	-	
7503	Kolonia House Sewer Connection	114,000	-	17,000	17,000	97,000	-	
7505	Kolonia Sanitary Facilities	189,000	-	12,905	12,905	176,095	-	
7101	Capital Wells	<u>39,213</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,213</u>	<u>-</u>	
Total OFSM & OTIA/TIPI Capital Projects Funds		<u>\$12,556,928</u>	<u>\$223,530</u>	<u>\$5,113,611</u>	<u>\$5,337,141</u>	<u>\$7,219,787</u>	<u>\$71,430</u>	

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
OTHER DIRECT ASSISTANCE FUNDS

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
AND BUDGETARY POSITION BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgh. No.	Grant I.D.No.	C.F.D.A. No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit)	Questioned Costs	
								Authorizations Over Program Expenditures	Amount	Detailled at Page
OTHER DIRECT GRANTS										
FSM National Government:										
United Nations Educational, Scientific & Cultural Organization (UNESCO):										
Population Education Program	3051	TTP/84/P07	N/A	\$ 16,577	\$ 8,940	\$ 7,330	\$ 16,270	\$ 307	\$ -	
Population Census	3164	Unknown		23,000	-	5,555	5,555	17,445	-	
United Nations Children's Fund (UNICEF):										
Education Materials										
Workshop	3005	Unknown	N/A	9,539	8,021	2,021	10,042	(503)	503	24
FSM Nutrition Survey	3007	Unknown	N/A	27,272	4,425	18,088	22,513	4,759	-	
Family Food Production and Nutrition	3101	Unknown	N/A	10,440	4,145	2,973	7,118	3,322	-	
Sub-total United Nations				86,828	25,531	35,967	61,498	25,330	503	
World Health Organization (WHO):										
UNFPA Family Health										
Project	3001	TTP/82/P01	N/A	58,704	20,530	18,358	38,888	19,816	-	
Primary Health Care	3002	WP/PTT/FHC/ 001/RG/84	N/A	18,101	12,838	1,633	14,471	3,630	-	
Middle Management										
Workshop	3015	Unknown	N/A	4,394	-	2,644	2,644	1,750	-	
Leprosy Control										
Program	3006	Unknown	N/A	33,900	22,971	10,816	33,787	113	-	
Hansen's Disease	3017	Unknown	N/A	4,000	-	4,000	4,000	-	-	
Immunization	3024	Unknown	N/A	2,795	-	22	22	2,773	-	
Sub-total WHO				121,894	56,339	37,473	93,812	28,082	-	
Total FSM National Government				208,722	81,870	73,440	155,310	53,412	503	
States:										
United Nations:										
Population Education										
Kosrae	3253	Unknown	N/A	333	-	3,663	3,663	(3,330)	-	
Truk	3654	Unknown	N/A	1,774	-	232	232	1,542	-	
Yap	3853	Unknown	N/A	1,772	-	-	-	1,772	-	
Agriculture Regeneration										
Pohnpei	3562	Unknown	N/A	25,353	-	-	-	25,353	-	
Repair of Mkdll and Pingslap										
	3563	Unknown	N/A	24,647	-	-	-	24,647	-	
Family Planning - Yap	3801	Unknown	N/A	2,050	-	-	-	2,050	-	
Regional Livestock - Yap	3904	Unknown	N/A	3,141	-	-	-	3,141	-	
Sub-total United Nations				59,070	-	3,895	3,895	55,175	-	
South Pacific Commission (SPC):										
Yap - Algae	3903	Unknown	N/A	-	-	3,190	3,190	(3,190)	-	
Yap - Trochus	3904	Unknown	N/A	-	-	1,028	1,028	(1,028)	-	
Sub-total SPC				-	-	4,218	4,218	(4,218)	-	
Total other direct grants				267,792	81,870	81,553	163,423	104,369	503	

(Continued)

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
OTHER DIRECT ASSISTANCE FUNDS

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
AND BUDGETARY POSITION BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgn. Nb.	Grant I.D.Nb.	OFDA Nb.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
									Amount	Detailed at Page
Department of Health and Human Services (HHS)										
SFRANS	3009	MCJ-753924-01-1	13.110	\$ 50,929	\$ -	\$ 16,147	\$ 16,147	\$ 34,782	\$ -	-
MCH	3010	86BIFMCHS	13.994	5,284	-	5,318	5,318	(34)	-	-
Crippled Children Service	3011	86BIFMCHS	13.994	16,000	-	11,880	11,880	4,120	-	-
FY87 MCH	3018	87BIFMCHS	13.994	17,000	-	14,411	14,411	2,589	-	-
Community Health Center (CHC)	3012	098-001774-01-0	13.224	5,000	-	3,150	3,150	1,850	-	-
FY87 CHC	3016	09H-001774-02-0	13.224	51,602	-	20,124	20,124	31,478	-	-
Sexually Transmitted Disease	3013	09H-001792-01-1	13.977	23,854	-	8,865	8,865	14,989	-	-
Immunization	3014	09H-001789-01-0	13.268	23,540	-	13,184	13,184	10,356	-	-
Counsel and Test Aids	3019	062/CC8902703-01	13.118	13,952	-	-	-	13,952	-	-
Health Risk Reduction	3020	062/CC8902703-01	13.118	9,252	-	216	216	9,036	-	-
FY87 FSM AAA Admn.	3021	01-87-AA- TC-1320	13.663	48,605	-	15,567	15,567	33,038	-	-
Elderly Legal Assistance	3027	01-87-AA- TC-1320	13.663	27,688	-	-	-	27,688	-	-
FY87 Preventive Health	3026	87-BIFMFRVS-02	13.991	8,000	-	2,957	2,957	5,043	-	-
Leprosy Control	3008	N/A	N/A	25,000	-	19,047	19,047	5,953	-	-
Sub-total HHS FSM National Government				<u>325,706</u>	<u>-</u>	<u>130,866</u>	<u>130,866</u>	<u>194,840</u>	<u>-</u>	<u>-</u>
MCH - Kosrae	3202	86BIFMCHS	13.994	9,629	-	1,009	1,009	8,620	-	-
MCH - Pohnpei	3403	86BIFMCHS	13.994	20,800	-	15,261	15,261	5,539	-	-
MCH - Truk	3602	86BIFMCHS	13.994	16,615	-	-	-	16,615	-	-
MCH - Yap	3802	86BIFMCHS	13.994	11,534	-	3,104	3,104	8,430	-	-
FY87 MCH Pohnpei	3406	87BIFMCHS	13.994	2,700	-	-	-	2,700	-	-
FY87 MCH Truk	3605	87BIFMCHS	13.994	3,870	-	-	-	3,870	-	-
FY87 Family Planning - Kosrae	3203	09-H-001777-01-0	13.217	11,447	-	4,755	4,755	6,692	-	-
Pohnpei	3404	09-H-001777-01-0	13.217	19,819	-	7,604	7,604	12,215	-	-
Truk	3603	09-H-001777-01-0	13.217	21,157	-	12,961	12,961	8,196	-	-
Yap	3803	09-H-001777-01-0	13.217	13,577	-	7,764	7,764	5,813	-	-
FY86 Family Planning - Yap	3805	09-H-001777-02-1	13.217	10,600	-	2,065	2,065	8,535	-	-
Kosrae	3205	09-H-001777-02-1	13.217	10,759	-	775	775	9,984	-	-
SFRANS - Truk	3604	MCJ-753924-01-1	13.110	4,000	-	3,703	3,703	297	-	-
CHC - Pohnpei	3405	09-H-001774-02-0	13.224	39,275	-	2,900	2,900	36,375	-	-
FY87 Aging Support - Kosrae	3361	01-87-AA-TC-1320	13.663	68,475	-	16,289	16,289	52,186	-	-
Pohnpei	3455	01-87-AA-TC-1320	13.663	184,875	-	-	-	184,875	-	-
Truk	3764	01-87-AA-TC-1320	13.663	281,775	-	-	-	281,775	-	-
Geriatric Health - Yap	3995	01-87-AA-TC-1320	13.663	44,700	-	5,100	5,100	39,600	-	-
Elderly Housing - Yap	3996	01-87-AA-TC-1320	13.663	63,675	-	63,675	63,675	-	-	-
Aging Support - Truk	3710	01-87-AA-TC-1320	13.663	281,775	-	35,314	35,314	246,461	-	-
Sub-total HHS State Governments				<u>1,121,057</u>	<u>-</u>	<u>182,279</u>	<u>182,279</u>	<u>938,778</u>	<u>-</u>	<u>-</u>
Total Health and Human Services				<u>1,446,763</u>	<u>-</u>	<u>313,145</u>	<u>313,145</u>	<u>1,133,618</u>	<u>-</u>	<u>-</u>

(Continued)

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
OTHER DIRECT ASSISTANCE FUNDS

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
AND BUDGETARY POSITION BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgh. No.	Grant I.D.No.	CFDA No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Express (Deficit)	Questioned Costs
								Authorizations Over Program Expenditures	Amount
U.S. Department of Agriculture (USDA)									
State Adm'n. Food Services	3022	F77746	10.560	\$ 43,042	\$ -	\$ 5,234	\$ 5,234	\$ 37,808	\$ -
State Adm'n. Reimbursements	3028	F77740	10.553/ 555	2,245,546	-	-	-	2,245,546	-
Forestry Project	3102	05-86-03	10.664	20,000	-	12,453	12,453	7,547	-
Sub-total USDA FSM National Government				2,308,588	-	17,687	17,687	2,290,901	-
FY87 Food Services -									
Kosrae	3256	F77740	10.553/ 555	104,516	-	-	-	104,516	-
Pohnpei	3456	F77740	10.553/ 555	407,500	-	-	-	407,500	-
Truk	3762	F77740	10.553/ 555	870,000	-	1,498	1,498	868,502	-
National Education - Truk	3763	F77740	10.553/ 555	6,800	-	6,800	6,800	-	-
FY87 Food Services - Yap	3855	F77740	10.553/ 555	10,000	-	7,236	7,236	2,764	-
Forestry Project -									
Pohnpei	3501	05-86-03	10.664	16,603	-	11,927	11,927	4,676	-
Truk	3701	05-86-03	10.664	10,388	-	2,075	2,075	8,313	-
Kosrae	3301	05-86-03	10.664	6,807	-	1,156	1,156	5,651	-
Yap	3901	05-86-03	10.664	11,202	-	3,311	3,311	7,891	-
Sub-total USDA State Governments				1,443,816	-	34,003	34,003	1,409,813	-
Total USDA				3,752,404	-	51,690	51,690	3,700,714	-
Environmental Protection Agency									
FY87 EPA -									
FSM	3023	M009431-870	66.600	15,586	-	5,245	5,245	10,341	-
Kosrae	3204	M009431-870	66.600	21,350	-	11,433	11,433	9,917	-
Pohnpei	3408	M009431-870	66.600	28,000	-	-	-	28,000	-
Truk	3606	M009431-870	66.600	56,100	-	684	684	55,416	-
Total EPA				121,036	-	17,362	17,362	103,674	-
Department of Education (DOE)									
FY87 Client Assistance Program									
Chapter II Adm'n.	3052	F00878196X	84.161	3,525	-	2,696	2,696	829	-
VRS Adm'n	3053	M00860890F	84.151	60,848	-	12,416	12,416	48,432	-
	3054	E008740960	84.126	28,318	-	28,018	28,018	300	-
Sub-total DOE FSM National Government				92,691	-	43,130	43,130	49,561	-

(Continued)

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
OTHER DIRECT ASSISTANCE FUNDS

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
AND BUDGETARY POSITION BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgn. No.	Grant I.D.No.	OFDA No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs Amount	Questioned Costs Detailed at Page
<u>Department of Education</u>										
<u>Bilingual Instruction -</u>										
Kosrae	3251	G008635373	84.003	\$ 153,358	\$ -	\$ -	\$ -	\$ 153,358	\$ -	
Truk	3651	G008425199	84.003	278,000	-	-	-	278,000	-	
Truk	3652	G008425199	84.003	22,000	-	-	-	22,000	-	
Truk - Belts	3655	G008625424	84.003	89,918	-	-	-	89,918	-	
Truk - Belts	3656	G008625424	84.003	24,500	-	-	-	24,500	-	
<u>Client Assistance Program-</u>										
Kosrae	3254	F00878196X	84.161	3,074	-	-	-	3,074	-	
Pohnpei	3453	F00878196X	84.161	800	-	-	-	800	-	
Truk	3658	F00878196X	84.161	800	-	-	-	800	-	
Yap	3854	F00878196X	84.161	800	-	-	-	800	-	
Chapter I & II GAP Kosrae	3257	M00860890F	84.151/ 012	338,855	-	51,051	51,051	287,804	-	
Chapter I Pohnpei	3457	M00860890F	84.012	419,000	-	-	-	419,000	-	
Chapter II Pohnpei	3458	M00860890F	84.151	479,750	-	-	-	479,750	-	
Chapter I & II GAP Truk	3659	M00860890F	84.012/ 151	1,440,000	-	174,520	174,520	1,265,480	-	
Chapter I & II GAP Yap	3856	M00860890F	84.012/ 151	496,582	-	-	-	496,582	-	
VRS Admn - Kosrae	3258	E008740960	84.126	33,702	-	19,203	19,203	14,499	-	
VRS Case Service - Kosrae	3259	E008740960	84.126	45,800	-	25,505	25,505	20,295	-	
VRS Admn. - Pohnpei	3459	E008740960	84.126	44,383	-	-	-	44,383	-	
VRS Case Service - Pohnpei	3460	E008740960	84.126	79,699	-	-	-	79,699	-	
VRS Admn. - Truk	3662	E008740960	84.126	91,399	-	-	-	91,399	-	
VRS Case Service - Truk	3663	E008740960	84.126	180,956	-	-	-	180,956	-	
VRS Admn. - Yap	3857	E008740960	84.126	29,900	-	-	-	29,900	-	
VRS Case Service - Yap	3858	E008740960	84.126	70,715	-	-	-	70,715	-	
Truk School Excellence Program	3657	ERI-6-86-0066	84.171	20,000	-	-	-	20,000	-	
Sub-total DOE State Governments				<u>4,343,991</u>	<u>-</u>	<u>270,279</u>	<u>270,279</u>	<u>4,073,712</u>	<u>-</u>	
Total Department of Education				<u>4,436,682</u>	<u>-</u>	<u>313,409</u>	<u>313,409</u>	<u>4,123,273</u>	<u>-</u>	
<u>Department of Energy</u>										
State Energy Conservation	3104	DE-F003-875 F17038	81.041	44,396	-	9,038	9,038	35,358	-	
<u>Department of Commerce</u>										
FY87 Regional Catch Data	3103	NA-84-AED- 00209	11.407	15,100	-	10,224	10,224	4,876	-	
<u>Federal Emergency Management Act</u>										
Disaster Preparedness	3165	EMF-87-K-0270	83.505	24,426	-	19,151	19,151	5,275	-	

(Continued)

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT
OTHER DIRECT ASSISTANCE FUNDS

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
AND BUDGETARY POSITION BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgh. No.	Grant I.D.No.	OFDA No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs Amount	Questioned Costs Detailed at Page
<u>Department of Labor (DOL)</u>										
FY87 JTPA/PATS	3166	64-03	17.250	\$ 33,770	\$ -	\$ 32,350	\$ 32,350	\$ 1,420	\$ -	
FY87 JTPA/Admin	3167	64-03	17.250	37,175	-	2,880	2,880	34,295	-	
Sub-total DOL FSM National Government				70,945	-	35,230	35,230	35,715	-	
FY87 JTPA Kosrae	3362	64-03	17.250	39,427	-	(12,872)	(12,872)	52,299	-	
FY87 JTPA Pohnpei	3564	64-03	17.250	137,983	-	-	-	137,983	-	
FY87 JTPA Truk	3761	64-03	17.250	188,555	-	85,984	85,984	102,571	-	
FY87 JTPA Yap	3993	64-03	17.250	43,705	-	3,938	3,938	39,767	-	
Sub-total DOL State Governments				409,670	-	77,050	77,050	332,620	-	
Total Department of Labor				480,615	-	112,280	112,280	368,335	-	
<u>Department of the Interior:</u>										
Historic Preservation -										
Kosrae	3363	75-FSM60	15.904	22,200	-	4,411	4,411	17,789	-	
Kosrae	3364	64-87-2140	15.904	25,950	-	-	-	25,950	-	
Pohnpei	3564	75-FSM60	15.904	18,545	-	-	-	18,545	-	
Pohnpei	3565	64-87-2140	15.904	10,655	-	-	-	10,655	-	
Truk	3765	75-FSM60	15.904	11,854	-	4,494	4,494	7,360	-	
Truk	3766	64-87-2140	15.904	18,545	-	-	-	18,545	-	
Yap	3994	75-FSM60	15.904	8,600	-	-	-	8,600	-	
Yap	3997	64-87-2140	15.904	26,350	-	-	-	26,350	-	
Total Department of the Interior				142,699	-	8,905	8,905	133,794	-	
Total Other Direct Assistance Fund				\$10,731,913	\$81,870	\$936,757	\$1,018,627	\$9,713,286	\$ 503	

FEDERATED STATES OF MICRONESIA
 NATIONAL GOVERNMENT
 OTIA TECHNICAL ASSISTANCE AND
 OPERATIONS AND MAINTENANCE (O & M) GRANTS FUND
 DEPARTMENT OF THE INTERIOR

STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 AND BUDGETARY POSITION BY GRANTOR
 YEAR ENDED SEPTEMBER 30, 1987

Grantor Account Title	FSM Orgn. No.	Grant I.D.No.	CFDA No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
									Amount	Detailed at Page
OTIA TECHNICAL ASSISTANCE:										
Office of Territorial and International Affairs										
Needs Assessment and Evaluation of Exist- ing U. S. Federally Funded Programs in the FSM										
	5001	MOJ FSM-22	15.875	\$ 60,000	\$ 45,000	\$ 7,535	\$ 52,535	\$ 7,465	\$ -	
Tax and Revenue										
Administrator										
	5004	MOJ FSM-12	15.875	80,000	64,673	17,204	81,877	(1,877)	1,877	23
Power Plant Project										
	5005	MOJ FSM-18	15.875	100,000	35,513	8,226	43,739	56,261	-	
Finance Advisor EDP										
	5006	MOJ FSM-7	15.875	25,212	-	22,198	22,198	3,014	-	
Automated Land Records										
	5008	MOJ FSM-24	15.875	80,000	2,499	41,315	43,814	36,186	-	
Financial Advisor										
	5009	MOJ FSM-11	15.875	70,000	75,108	2,686	77,794	(7,794)	-	
Medical Training										
	5014	MOJ FSM-1	15.875	-	-	1,530	1,530	(1,530)	-	
Mariculture Development										
	5016	MOJ FSM-27	15.875	3,000	-	3,000	3,000	-	-	
Budget/Finance System										
	5026	MOJ FSM-10	15.875	25,000	-	6,376	6,376	18,624	-	
Financial Advisor										
	5027	MOJ FSM-25	15.875	40,000	10,360	24,800	35,160	4,840	-	
Feasibility Study										
Pohnpei										
	5028	Unknown	15.875	6,000	-	6,000	6,000	-	-	
Mariculture Development										
Planning										
	5029	MOJ FSM-26	15.875	6,000	-	5,988	5,988	12	-	
Power System										
Improvement										
	5031	MOJ FSMPOWER	15.875	128,000	64,787	52,255	117,042	10,958	-	
Alcoo Power Plant Tmg										
	5032	MOJ FSM-32	15.875	6,000	-	-	-	6,000	-	
Pacific Conference										
Privatization										
	5033	MOJ FSM-33	15.875	3,200	-	1,494	1,494	1,706	-	
Pacific Conference										
Investments										
	5034	MOJ FSM-33	15.875	1,800	-	1,800	1,800	-	-	
Public Safety Tmg										
	5035	MOJ FSM-34	15.875	140,000	-	110,073	110,073	29,927	-	
Power Improvement Up- grade - Pohnpei										
	5036	MOJ FSMPOWER	15.875	<u>125,000</u>	<u>-</u>	<u>77,682</u>	<u>77,682</u>	<u>47,318</u>	<u>-</u>	
Total OTIA/O & M Grants				\$ 899,212	\$ 297,940	\$ 390,162	\$ 688,102	\$ 211,110	\$ 1,877	

Note: The above grants are received directly from the abovementioned grantor.

FEDERATED STATES OF MICRONESIA
 NATIONAL GOVERNMENT
 COMPACT SPECIAL REVENUE FUNDS
 DEPARTMENT OF THE INTERIOR

STATEMENT OF EXPENDITURES AND BUDGETARY
 POSITION BY FUND
 YEAR ENDED SEPTEMBER 30, 1987

Fund Account Title	FSM Org.No.	CFDA No.	Total Authorizations	FY87 Total Program Expenditures	Excess (Deficit) Authoriza- tions Over Expenditures	Questioned Costs	
						Amount	Detailed at Page
<u>Communications - Annual Section, 215 (a)(2)</u>	2511	15.875	\$ 724,200	\$724,200 ✓	\$ -	\$559,398	23
<u>Communications - One- Time Section, 215 (a)(2)</u>							
Architectural	2521	15.875	313,495	-	313,495	-	
Work/Equip	2522	15.875	318,288	-	318,288	-	
HUB Bldg	2523	15.875	1,630,217	-	1,630,217	-	
Comsat Buyout	2524	15.875	3,080,000	-	3,080,000	-	
Digital Switches	2525	15.875	1,900,000	-	1,900,000	-	
			<u>7,242,000</u>	<u>-</u>	<u>7,242,000</u>	<u>-</u>	
<u>Marine Surveillance, Section 216 (a)</u>	2611	15.875	-	59,405	(59,405)	-	
<u>Health and Medical Section 216 (a) (2)</u>	N/A	15.875	-	-	-	-	
<u>Post Secondary Education Section 216 (a) (3)</u>							
Scholarship - Kosrae	2631	15.875	155,900	-	155,900	-	
Scholarship - Pohnpei	2632	15.875	349,783	-	349,783	-	
Scholarship - Yap	2633	15.875	194,828	-	194,828	-	
Scholarship - Truk	2634	15.875	499,448	-	499,448	-	
Scholarship - FSM	2649	15.875	200,000	200,000	-	-	
			<u>1,399,959</u>	<u>200,000</u>	<u>1,199,959</u>	<u>-</u>	
<u>Marine Surveillance, One- Time, Section 216 b</u>	N/A	15.875	-	-	-	-	
<u>Special Block Grant, Section 221 b</u>	N/A	15.875	-	-	-	-	
Total Compact Special Revenue Funds			<u>\$9,366,159</u>	<u>\$983,605</u>	<u>\$8,382,554</u>	<u>\$559,398</u>	

FEDERATED STATES OF MICRONESIA
 NATIONAL GOVERNMENT
 COMPACT CURRENT ACCOUNTS SECTION 211(a)
 DEPARTMENT OF THE INTERIOR
 CFDA # 15.875

STATEMENT OF EXPENDITURES, QUESTIONED COSTS
 AND BUDGETARY POSITION BY FUND
 YEAR ENDED SEPTEMBER 30, 1987

FSM Orgn. Nb.	Grant Title	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs Amount	Detailed at Page
<u>Compact Capital Account - Capital Projects Fund</u>							
2112	Pest and Disease Survey	\$ 45,000	\$ -	\$ 698	\$ 44,302	\$ -	
2113	Livestock Project	25,000	-	946	24,054	-	
2114	ODA Copra Price Subsidy	200,000	-	200,000	-	-	
2115	MLSC Office Building	60,000	-	1,200	58,800	-	
2116	Local Catch Statistics	45,000	-	37,280	7,720	-	
2117	Fish Poisoning Investi- gation	10,000	-	4,832	5,168	-	
2118	Supreme Court Building	60,000	-	60,000	-	-	
2119	Investment Development	5,000	-	2,522	2,478	-	
2120	Truk Cold Storage	50,000	-	-	50,000	-	
Total Compact Capital Projects Fund		<u>\$500,000</u>	<u>\$ -</u>	<u>\$307,478</u>	<u>\$192,522</u>	<u>\$ -</u>	
<u>Compact Current Account - General Fund</u>							
Title II, Article I, Section 211(a) current account		<u>\$6,403,536</u>	<u>\$ -</u>	<u>\$6,403,536</u>	<u>\$ -</u>	<u>\$ -</u>	

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

SCHEDULE OF PROGRAMS
- SELECTED FOR EXAMINATION IN ACCORDANCE WITH
OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1987

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

<u>Grantor</u>	<u>FSM Org. No.</u>	<u>Description</u>	<u>Fiscal Year 1987 Expenditures</u>
<u>TTPI Federal and Other Assistance Fund</u>			
Dept. of Agriculture	4020	Food Services Administration	\$ 133,736
	4025	FY 1986 Food Services Program	274,069
	4034	FY 1986 Food Services Program	<u>424,364</u>
			<u>832,169</u>
 <u>OTIA/TTPI Capital Projects Fund</u>			
Dept. of the Interior	7151	FSM Capitol Relocation and COM Campus	<u>4,728,091</u>
 <u>Department of the Interior, CFDA # 15.875</u>			
		Compact of Free Association:	
		Title II, Article I, Section 215 (a)(2)	724,200
		Title II, Article I, Section 211 (a), current account	6,403,536
		Section 216 (a)	59,405
		Section 216 (a) 3	200,000
		Section 211 a, capital account	307,478
		OTIA Technical Assistance and O & M Grants Fund	<u>390,162</u>
		Total CFDA # 15.875	<u>8,084,781</u>
Total programs selected for examination			\$13,645,045 =====
Total federal grant assistance expenditures			\$15,243,318 =====
Percentage of grant assistance expenditures tested			89% ===

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GENERAL NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES
YEAR ENDED SEPTEMBER 30, 1987

1. Financial Reports - Departmental Level

Finding

The 132-P reports provide detail of all expenditures incurred against a funding source during a given month. Based on our review of departmental procedures, it does not appear as if these 132-P reports are reviewed by department officials. We noted where allotment advices establishing the grant funding level were not equivalent to the level reflected in the 132-P.

Recommendation

The departments have not established adequate controls to comply with the most basic of grants management practices; review of financial reports. These controls must be initiated and the reports should be reviewed on a monthly basis. This review should be evidenced by the signature of the applicable grant officials.

FSM Response

FSM Finance currently uses a monthly transmittal letter to be sent to each Program Coordinator along with the 132-P reports, to the various Departments/Offices.

2. Fixed Asset Records

Finding

The departments do not have adequate controls to ensure that assets acquired with grant funds are accounted for by program management. Rather, most departments believe that this responsibility rests with Supply. However, Supply does not track assets by funding source. Therefore, the departments are not in compliance with required procedures to account for assets acquired with federal funds.

Recommendation

Each department of the FSM should ensure that it conducts a physical inventory of assets acquired with federal funds. This list should be reconciled to all available 132-P reports for the applicable grants. All differences should be investigated. Henceforth, these fixed asset listings should be properly maintained and updated based on current expenditure information.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GENERAL NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED

FSM Response

The federal grants manager met with several coordinators to keep track of all Fixed Assets purchased with Federal funds. The Department of Natural Resources possesses the most grants and has kept records of all fixed assets purchased at the National level.

3. Departmental Grants Administration

Finding

Departments of the National Government are de-centralized with respect to grants management. When a grant is received, an administrator is assigned. This administrator then operates the grant with nominal departmental oversight. Therefore, the departments do not have any other established internal controls to ensure that the grant is being expended for proper purposes and that required compliance with applicable terms and conditions occurs.

Recommendation

In the past, the National Government has acted in a sub-grantor capacity with the Trust Territory being responsible for answering to the federal agencies. This situation was revised in fiscal year 1987 as the National Government became the prime recipient and coordinated its sub-grants with the States. As such, the required internal controls must be implemented in the departments to ensure compliance with grant terms and conditions at both the National Government and the State level.

FSM Response

FSM Secretary of Finance sent a memorandum to FSM Budget Officer, recommending that a copy of the grant terms and conditions be sent to the States with the Allotment for each grant.

4. Conflicts of Interest

Finding

We found one instance in which a federal program coordinator approved purchases from his wife's business. As all applicable procedures were followed and the charges were not unreasonable compared to other vendors, no costs were questioned. However, it appears that the National Government should implement specific conflict of interest regulations.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

GENERAL NONCOMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED

Recommendation

We recommend that the Attorney General and other appropriate departments promulgate regulations regarding such purchases with related parties in order to avoid any potential conflict of interest concerns.

FSM Response

Although the report recommends regulations to avoid potential conflicts of interest, it should be noted that there is a provision in the FSM criminal code prohibiting certain acts affecting a personal financial interest (11 F.S.M.C. 1305 Supp.1987). This office will review that prohibition in light of the situation described in the report to determine whether regulations would also be appropriate.

5. Personnel Contracts

Finding

Local personnel services regulations require that contracts for personal services should first be offered to FSM citizens through normal public service requirement, including classification and advertising. Because of the lack of documentation, we were unable to determine if proper procedures were followed prior to the issuance of numerous personnel services contracts.

Recommendation

We recommend that FSM personnel department review the local regulation regarding personal services contracts and initiate procedures to comply with those regulations.

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

COMPLIANCE EXCEPTION SUMMARY
YEAR ENDED SEPTEMBER 30, 1987

<u>Org.No.</u>	<u>Description</u>	<u>Amount</u>
2511	<u>Telecommunications Fund</u>	
	The examination of the FSM Telecommunications Corporation identified two purchases totalling \$341,259 which were separated into 11 purchase orders, thereby circumventing the requirement for free and open competitive bidding by sealed bids.	\$341,259
	Review of supporting documentation for another purchase order indicated that no bidding procedures were performed which violated Public Law 2-65.	<u>218,139</u>
	Total Compact Section 215 (A) 2	\$559,398 =====
7105	<u>Kolonia Water System</u>	
	Based on our review of program expenditures, we noted the following exceptions:	
	While bidding procedures appear to have been properly followed for the original contract No.C70120, change orders of \$25,516 and \$45,914 had no evidence of any bids whatsoever. Thus we question the costs of the change orders.	<u>\$71,430</u>
	Total OTIA/DOI Capital Projects	\$71,430 =====
	Expenditures exceed grant budget authorizations for the following:	
	<u>Grant Description</u>	<u>Expenditure Amount</u>
5004	Tax and Revenue Admin.	<u>\$1,877</u>
	Total OTIA programs, CFDA # 15.875	\$1,877 =====

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

COMPLIANCE EXCEPTION SUMMARY, CONTINUED

Expenditures exceed grant budget authorizations for the following grant:

<u>Org.No.</u>	<u>Description</u>	<u>Amount</u>
3005	Education Materials Workshop	\$ <u>503</u>
	Total questioned costs - Other Direct Assistance Fund	\$ 503 =====

Local Compliance Exception Summary

Contract listings revealed one particular contract where disbursements started in January, 1987, and the obligation was recorded against the 1987 funds, yet the contract was not signed until December 4, 1987. This violates the local financial management act which states at Section 12, paragraph (2)(a) that "no amount should be recorded as an obligation of the Government of the Federated States of Micronesia unless it is supported by documentary evidence of a binding agreement in writing, between the parties thereto in a manner and form and for a purpose authorized, executed before the expiration of the period of availability for obligation of the appropriation or fund concerned for work or services to be performed".

<u>Org.No.</u>	<u>Contract No.</u>	<u>Contract Amount</u>
1502	C70301	\$23,000

We were unable to find any bid documents for Contract No. C70310 in the amount of \$35,000. Furthermore, it appears that proper matching of budget to expenditures was violated and as a result, no disbursements had been recorded against the contract through February, 1988, nor was any date specified for the performance of the contract.

Total Compact Section 211 a Operations	\$ 23,000 =====
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FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

RESOLUTION OF PRIOR YEAR QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

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

1. Questioned costs resulting from expenditures in excess of authorizations have been resolved as the TTPI did not reimburse the National Government for the federal grant expenditures.

<u>Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
F2A22	Special Education	\$ 190
C4A76	Teacher Training	511
C4A81	Vocational Rehabilitation	2,690
F3E01	Child Nutrition	472
F3E01	Child Nutrition	11,197
C4E01	Child Nutrition	228
F3F01	JJDP Supplemental	6,471
F3V07	Maternal/Child Health	5,338
F3V11	Preventive Health Services	75
C4V21	State Health Planning	190
F4V02	Family Planning	427
		<u>27,789</u>
F3W04	World Health Organization	<u>100</u>
	Total questioned costs resolved per the above	27,889
	Total questioned costs per the September 30, 1984 audit report	<u>85,532</u>
	Unresolved 1984 questioned costs at September 30, 1987	\$57,643 =====

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

RESOLUTION OF PRIOR YEAR QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

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

1. Questioned costs resulting from expenditures in excess of authorizations have been resolved as the TTPI or DOI did not reimburse the National Government for the federal grant expenditures.

	<u>Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
TTPI	6155	Food Services Adm	\$ 1,265
	6151	Vocational Rehab	3,663
	6158	Inservice Teacher Training	1,500
	6171	CSSO Phase I Project	750
	6220	Bilingual Education	118
	6028	Crippled Children Service	3,362
	6033	Preventive Health Program	3,850
	6132	Preventive Health Services	1,171
	6127	MCHS	<u>2,867</u>
		<u>18,536</u>	
OTIA	6081	Development Specialist	3,644
	6092	Financial Advisor	3,076
	6110	Truk Power	<u>1,841</u>
		<u>8,561</u>	
Total questioned costs resolved per the above			27,097
Total questioned costs per the September 30, 1985 audit report			<u>34,160</u>
Unresolved 1985 questioned costs at September 30, 1987			\$ 7,063 =====

FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT

RESOLUTION OF PRIOR YEAR QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

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

1. Questioned costs for which supporting documentation was located and approved.

<u>Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
4011	Food Services	\$ 1,050
4011	Food Services	<u>86</u>
		<u>1,136</u>

2. Questioned costs resulting from expenditures in excess of authorizations have been resolved as the TTPI or DOI did not reimburse the National Government for the federal grant expenditures.

4006	Gerontological Data Research - TTPI	814
5009	Financial Advisor - DOI	5,108
5017	Truk State Power - DOI	<u>7,979</u>
		<u>13,901</u>

3. Questioned costs resolved by proper transfer being made or authorized reprogramming occurred.

4017	Immunization	629
4019	Community Health Center	296
4021	Area Agency on Aging	6
4022	Leprosy Control	2,162
3007	FSM Nutrition Survey	1,776
3161	Video Production Training	67
3005	Education Materials Workshop	256
4012	UNFPA Family Health	<u>1,252</u>
		<u>6,444</u>

Total questioned costs resolved per the above 21,481

Total questioned costs per the September 30, 1986
audit report 73,995

Unresolved 1986 questioned costs at September 30, 1987 \$52,514
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