

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

AUDITOR'S REPORT ON
SUPPLEMENTARY SCHEDULE OF FEDERAL AND LOCAL
FINANCIAL ASSISTANCE

REPORTS ON COMPLIANCE WITH LAWS
AND REGULATIONS

AND

REPORT ON INTERNAL (ACCOUNTING AND
ADMINISTRATIVE) CONTROLS

FOR THE YEAR ENDED SEPTEMBER 30, 1987

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

Honorable Yosiwo George
Governor, State of Kosrae
Federated States of Micronesia

We have examined the general purpose financial statements of the State of Kosrae as of September 30, 1987, and for the year then ended and have issued our report thereon dated July 12, 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 July 12, 1988, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

The management of the State of Kosrae is responsible for the State'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 State of Kosrae, 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 (pages 26 through 36).

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 State of Kosrae 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 State of Kosrae 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 State of Kosrae, 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 State of Kosrae had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

July 12, 1988



Certified Public Accountants

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

Honorable Yosiwo George
Governor, State of Kosrae
Federated States of Micronesia:

We have examined the general purpose financial statements of the State of Kosrae for the year ended September 30, 1987, and have issued our report thereon dated July 12, 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, P.L. 98-502, 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 financial assistance programs into the following categories: payroll, purchases/disbursements, treasury/cash management, revenues/receipts, external financial reporting, types of services, and the Davis-Bacon Act.

The management of the State of Kosrae 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 State of Kosrae expended 84% 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 type 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 other nonmajor federal financial assistance programs of the State of Kosrae, 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 these nonmajor federal financial assistance programs of the State did not extend beyond this preliminary review phase.

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

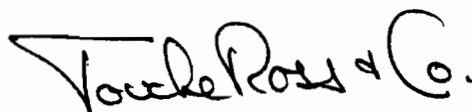
Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our examination disclosed conditions as presented in the following pages that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our examination of the 1987 general purpose financial statements and (2) our examination and review of the State's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and non-major federal financial assistance programs. This report does not affect our reports on the general purpose financial statements and on the State's compliance with laws and regulations dated July 12, 1988.

This report is intended solely for the use of the State of Kosrae, and the cognizant audit and other federal agencies and should not be used for any other purposes.

July 12, 1988



Certified Public Accountants

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

Honorable Yosiwo George
Governor, State of Kosrae
Federated States of Micronesia:

We have examined the general purpose financial statements of the State of Kosrae, for the year ended September 30, 1987, and have issued our report thereon dated July 12, 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 State of Kosrae is responsible for the State's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the State's compliance with laws and regulations noncompliance with which could have a material effect on the general purpose financial statements of the State.

The results of our tests indicate that for the transactions tested the State of Kosrae 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 State of Kosrae, had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

July 12, 1988



Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

INTRODUCTION TO COMPACT OF FREE ASSOCIATION
FUNDING, FEDERAL AND OTHER ASSISTANCE FUNDS

For the year ended September 30, 1987

Compact Funds

The FSM National Government and the Government of the United States 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 TTPI Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government will receive funding in five year increments over a fifteen year period. The Compact funding is to be received in four different account classifications; current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the FSM National Governments' and its four State entities' drawdown requirements. During fiscal year 1987, the Kosrae State Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to Kosrae State's designated banking institution based on the 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 by Kosrae State. 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 Kosrae State Legislature 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, federal grant funds were not available to the State while the role of primary grant recipient was transferred from the TTPI government to the FSM National Government. Due to the lack of federal funding for grant programs during this period, the Kosrae State Legislature appropriated portions of the Compact Block Grant funds to cover grant program expenditures which would have normally been made. 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 state for expenditures made against the appropriated Compact Block Grant funds used during the transition period.

Federal Funds

The Kosrae State Government remained the subrecipient of several federal grant programs from U.S. agencies, but pending implementation of the successor in interest agreements, the role of the primary recipient will transfer from the TTPI government to the FSM National Government. The Kosrae State Government may apply 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 will specify any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets. Prior to implementation of the Compact, most grant awards were received through the TTPI. The actual allotment advices were received by the FSM National Government Budget Office and then sub-allotted to its four component States. Following the Compact implementation, the grant award is received directly from the U.S. grantor agency by the FSM National Government and sub-allotted to Kosrae State.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the Kosrae State Government to the TTPI, or following the Compact implementation, 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 the 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, and in accordance with such program regulations which may be promulgated in the Code of Federal Regulations.

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:

- TTPI Federal Assistance Fund
- Other Federal and Direct Assistance Fund
- Compact of Free Association Health and Education Grant Fund
- Operations and Maintenance (O & M) Grants Fund
- TTPI Capital Projects Fund
- Compact of Free Association Capital Project Fund
- CFSM Capital Projects Fund

As mentioned earlier, the Compact Block Grant and Compact Capital Project Funds are administered under the guidelines of the Compact of Free Association. With the exception of a few of the grants in the Other Federal and Direct Assistance Fund and the CFSM Capital Project Fund, the revenue of the remaining Special Revenue and Capital Projects Funds is derived through allotments from the TTPI or the FSM National Government for specific purposes. All TTPI allotments are originally derived from U.S. Congressional appropriations. As the subrecipient, the State of Kosrae now reports to the FSM National Government and does not report directly to any other agency. The CFSM Capital Projects Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while the special assistance grants are comprised of grants from various U.S. departments and other international organizations. The State of Kosrae, through 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 the period of our examination, the State of Kosrae 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 Treasury. Disbursements and receipts were made and accounting documentation was maintained by the Division of Finance under the Department of Treasury.

Following the implementation of the Compact, the Kosrae State Government received its Compact and federal funding through the FSM National Government. As a subrecipient of federal grant funds, and as required under the Compact of Free Association, Kosrae State is required to maintain an accurate accounting of expenditures recorded against these funds. The official accounting system utilized to account for the fiscal affairs of the State is the Distributed and Integrated Local Government (DILOG) accounting system which is operated under the authority of the State Department of Treasury.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
TTPI FEDERAL AND OTHER ASSISTANCE FUND

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

<u>Grantor</u>	<u>Org. No.</u>	<u>TTPI Subgrant No.</u>	<u>Grant Title</u>	<u>1987</u>	<u>Questioned Costs</u>	
				<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
<u>TTPI Federal Grants</u>						
Dept. of Agriculture	6015	KE4010	School Food Service	\$ 300	\$ -	
	6017	KE5010	School Food Service	1,640	-	
	6026	KE6010	School Food Service	263,115	5,049	29
	6034	HE5020	Nutrition Educ. Program	-	-	
	6051		Nutrition Educ. Program	4,365	-	
	6052		School Food Service	128,061	2,970	29
	6058		Nutrition Educ. Program	1,446	-	
	6060		Chapter 1 & 2 GAP	55,386	-	
			<u>454,313</u>	<u>8,019</u>		
Dept. of Education	6003	KA4011	Chapter 1 Program	3,861	1,980	29
	6004	KA4020	Chapter 2 Program	986	-	
	6008	KA5110	Chapter 1 Program	17,890	-	
	6009	KA5210	Chapter 2 Program	10,764	-	
	6012	KA5411	Vocational Rehab. Case Svcs	(10)	-	
	6030	KA6400	Vocational Rehab. Admin.	3,597	-	
	6031	KA6400	Vocational Rehab. Case Svcs	29,650	-	
	6032	KA6100	Chapter 1 Program	56,050	-	
	6033	KA6200	Chapter 2 Program	66,283	-	
	6040	KA5200	Improv. School Climate Proj.	1,280	-	
	6041	KA6300	Teacher Training	12,562	-	
	6045		Teacher Training	40,971	-	
	6046		Vocational Rehab. Admin.	25,138	-	
	6047		Vocational Rehab. Case Svcs.	33,605	-	
	6048		Chapter 2 Program	78,807	-	
	6049		Chapter 1 Program	5,522	-	
	6053		Client Assistant Program	2,442	-	
	6056		Vocational Educ. Program	2,825	-	
	6057		Educ. Training Program	2,333	-	
			<u>394,556</u>	<u>1,980</u>		

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
TTPI FEDERAL AND OTHER ASSISTANCE FUND, Continued

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

<u>Grantor</u>	<u>Org. No.</u>	<u>TTPI Subgrant No.</u>	<u>Grant Title</u>	1987	<u>Questioned Costs</u>	
				<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
<u>TTPI Federal Grants, Continued</u>						
Dept. of Health and Human Services	6118	KV4081	Geriatric Health	\$ 7,446	\$ -	
	6121		Nutrition Program	3,381	-	
	6123	KV5081	Info & Ref	6,690	-	
	6124	KV5101	Home Delivered Meals	608	-	
	6125	KV5092	Cong. Meals	1,993	-	
	6127	KV6080	Aging Support Services	57,242	-	
	6128		Aging Support Services	19,364	-	
	6510	KV4060	Preventive Health Srv.	(1,678)	-	
	6512	KV5020	Family Planning	2,249	2,249	30
	6513	C5V078C00	IHS MOHS	(43)	-	
	6523	KV5081	Geriatric Health	401	-	
	6524	KV6020	Family Planning	1,825	-	
	6531		Mother/Child Health Prog.	20,717	1,493	30
	6532		Preventive Health	3,799	-	
	6533		MCH	1,008	-	
	6535		Family Planning	4,756	-	
	6537		Family Planning	1,065	-	
				<u>130,823</u>	<u>3,742</u>	
	Dept. of the Interior	6401	KH3050	Historic Preservation	(664)	-
6402		KH4020	Historic Preservation	(22,954)	-	
6451		Unknown	Forestry Project	1,156	-	
6455			Historic Preservation	23,609	23,609	30
6456			Historic Preservation	4,411	-	
			<u>5,558</u>	<u>23,609</u>		
Dept. of Labor	6212	K06040	Title V SCSEP	1,815	-	
	6213	K06010	Title II-A Serv. Trng.	7,695	-	
	6214		Title V SCSEP	29,522	-	
	6215		Title II JIPA	92,568	38,568	30
	6216		JIPA Program	(12,446)	-	
			<u>119,154</u>	<u>38,568</u>		

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
TTPI FEDERAL AND OTHER ASSISTANCE FUND, Continued

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

<u>Grantor</u>	<u>Org. No.</u>	<u>TTPI Subgrant No.</u>	<u>Grant Title</u>	1987	<u>Questioned Costs</u>	
				<u>Fiscal Year Expenditures Per Audit</u>	<u>Amount</u>	<u>Detailed At Page</u>
<u>TTPI Federal Grants, Continued</u>						
Dept. of Energy	6452		Energy Conservation Prog.	\$ 6,000	\$ 3,100	30
	6453		Energy Conservation Prog.	5,924	2,924	30
	6454		Energy Conservation Prog.	<u>5,500</u>	<u>3,300</u>	30
				<u>17,424</u>	<u>9,324</u>	
Dept. of Housing and Urban Development	6101		HUD Admin.	11	11	31
	6102	KB4010	Housing Reno. Loans	234	234	31
	6126	KB5010	COBG Administration	4,036	-	
	6601	Unknown	Public Recreation Expansion	14,000	-	
	6602	KB5014	UTWE Bridge Renovation	2,594	-	
	6604	KB1010	High School	8,620	-	
	6605		Public Market	324	-	
	6606	KB5020	Housing Reno. & Loan Ser.	107,315	-	
	6608		Recreation Facility Admin.	14,268	-	
	6609		Housing Reno. & Loan Serv.	<u>21,666</u>	<u>-</u>	
			<u>173,068</u>	<u>245</u>		
Environmental Pro- tection Agency	6530	KB6010	EPA	10,316	-	
	6534		EPA	22,334	334	31
	6536		EPA	<u>12,703</u>	<u>-</u>	
			<u>45,353</u>	<u>334</u>		
Total TTPI federal grants expenditures				<u>1,340,249</u>	<u>85,821</u>	
<u>Other Assistance Grants</u>						
University of Hawaii	6023		Palm Project	<u>2,562</u>	<u>-</u>	
Total other assistance grants				<u>2,562</u>	<u>-</u>	
Total federal and other assistance expenditures				<u>\$1,342,811</u>	<u>\$85,821</u>	

Note: The above grants are received in a sub-grantee capacity through the Trust Territory of the Pacific Islands (TTPI) Government and are accounted for in the Federal Grants Assistance Fund as are other grants set forth on page 16.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
TTPI CAPITAL PROJECTS FUND

STATEMENT OF EXPENDITURES OF FINANCIAL ASSISTANCE
AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

<u>TTPI Account Number</u>	<u>Kosrae Orgn. Number</u>	<u>Grant Title</u>	<u>1987 Fiscal Year Expenditures Per Audit</u>	<u>Questioned Costs Amount</u>	<u>Detailed at Page</u>
B38710	3004	Mini-Hydro Power Plant	\$ 13,971 (B)	\$ -	
	3007	Power Plant Expansion	60 (B)	-	
PGA T-653	3008	Circumferential Road Project and Road Improvement	1,977,259 (B)	-	
PGA T-667	3009	Airport Terminal Project	375,648 (B)	56,962	32
PGA T-616	3010	Waste Water Facility	162,497 (B)	-	
PGA T-661	3011	Dock Warehouse	9,833 (B)	-	
PGA T-671	3012	POL Storage Facility	10,419 (B)	-	
	3014	Computer Advisor	67,024 (B)	8,029	32
	3015	Water System Dev. Project	13,894 (B)	-	
PGA T-653	8770	Road Construction Project	<u>724,890 (A)</u>	<u>145,200</u>	32
			<u>\$3,355,495</u>	<u>\$210,191</u>	

(A) This grant is accounted for within the Capital Projects Road Construction Fund.

(B) These grants are accounted for within the TTG Capital Projects Fund.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
OPERATIONS AND MAINTENANCE (O & M) GRANTS FUND

STATEMENT OF EXPENDITURES OF FINANCIAL ASSISTANCE
AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

TTPI Account Number	Kosrae Orgn. Number	Grant Title	1987 Fiscal Year Expenditures Per Audit	Questioned Costs	
				Amount	Detailed at Page
A371.800M	4201	Personnel services/recruitment	\$ 24,988	\$ -	
A371.810M	4202	Public works new equipment	1,178	-	
A371.811M	4203	Existing equipment/parts	1,055	-	
	4205	Tools and Parts	32	32	33
A371.814M	4206	Hospital equipment/parts	1,962	-	
	4212	Dump Truck	65	-	
A371.834M	4216	Village water system	204	-	
	4218	Engineer Scholarship	3,000	3,000	33
A371.850M	4219	Raw materials production	23,700	-	
A371.860M	4221	Transformer parts	309	-	
A371.842M	4223	DME training	9,694	1,119	33
	4228	Engineering positions	128,495	-	
	4229	Facilities maintenance	18,350	14,250	33
	4231	Building maintenance	469	-	
	4232	Equipment	249	-	
	4234	Parts and tools	11,488	-	
	4235	O & M training	14,243	-	
	4236	Hospital equipment/materials	1,816	-	
	4239	Anesthesiologist	3,901	-	
	4240	Health services - FY1984	12,179	-	
	4241	Public works - FY1984	37,130	-	
	4243	Supply Warehouse	27,181	-	
	4244	Broadcasting system	6,682	-	
	4245	Public Works - FY 1985	17,453	-	
	4246	Planning and Statistics '85	9,640	-	
	4247	Public Works Spare Parts	961	-	
	4248	Governor O&M 1985	6,694	-	
	4299	Other Expenditures	8,409	8,409	33
			<u>\$371,527</u>	<u>\$26,810</u>	
			=====	=====	

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CFSM CAPITAL PROJECTS FUND

STATEMENT OF EXPENDITURES OF FINANCIAL ASSISTANCE
AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

CFSM Account Number	Kosrae Orgn. Number	Grant Title	1987	Questioned Costs	
			Fiscal Year Expenditures Per Audit	Amount	Detailed at Page
Q5E3018X1	6808	Lelu municipality renovation	\$ 914	\$ -	
	6809	L.K.I. seawall	2,000	-	
K35803	6818	Malem farm road/6804	4,105	-	
K35817	6824	Finkal - Taf Inpuskusak	981	981	34
K35814	6827	Utwe playground	4,000	-	
K35822	6836	Inside reef channel/6828	1,126	-	
	6837	Finanpes, Putuk/6829	149	147	34
	6839	Farm Road Utwe	3,701	-	
	6840	Micro Hydro Plant	10,000	-	
K35821	6842	Lelu farm road	4,450	1,883	34
	6844	UTWE bridge renovation	(5,177)	-	
	6857	Renovation & landscapping	5,433	-	
	6858	Malem Seawalls	500	-	
	6861	Water systems in Malem	(1,500)	-	
	6863	Malem farm projects	5,044	-	
	6866	Tafunsak playground	3,000	3,000	34
	6868	Tafunsak channel	(3,000)	-	
	6870	Panyea & Saoksa bridge	4,000	-	
	6871	Admin. Cost Project	2,450	-	
	6876	Lelu municipal office renovation	9,270	-	
	6878	Lelu Farm Project	3,875	-	
		sub-total	55,321	6,011	
K35812	6829	Ext - power & crop damage	1,790	-	
	6831	Enforcement-national crime code	342	-	
K35820	6833	Admin costs of communications	529	529	34
	6834	Chief Justice	(241)	-	
PL 4-11	6847	State court	17,922	-	
PL 4-17	6848	UTWE municipal	3,806	-	
PL 3-58	6849	KICA	9,658	642	34
PL 4-17	6850	Farmers home loan	2,943	2,943	34
PL 4-17	6853	Kosrae LNO office	520	-	
PL 4-17	6854	Medical referral	4,255	-	
	6860	Equipment & supplies for Malem	974	-	
	6869	Tafunsak equipment & supplies	2,712	-	
	6879	Leprosy preventive program	1,813	-	
	6882	Congress Delegation	134	-	
		sub-total	47,157	4,114	
		balances forwarded	102,478	10,125	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CFSM CAPITAL PROJECTS FUND, Continued

STATEMENT OF EXPENDITURES OF FINANCIAL ASSISTANCE
AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

<u>CFSM Account Number</u>	<u>Kosrae Orgn. Number</u>	<u>Grant Title</u>	<u>1987 Fiscal Year Expenditures Per Audit</u>	<u>Questioned Costs Amount</u>	<u>Detailed at Page</u>
		balances forwarded	\$102,478	\$10,125	
	6883	Census Program	3,964	-	
	6884	Medical/Dental Supplies	48,683	-	
	6885	Congress Election	9,582	-	
	6886	Kosrae Improvement Comm.	325	-	
	6887	Marketing Board	4,000	-	
	6888	Vegetable Development	3,007	-	
	6889	Small Scale Fisheries	3,964	-	
	6893	Citrus Development	9,881	-	
	6894	Poultry Development	40	-	
	6896	Municipal Bldg. Support	857	-	
	6897	Farm Road Repair	2,675	-	
	6899	Drainage Project	2,000	-	
	6902	Farm Road Repair	1,000	-	
	6905	Farm Road Repair	2,511	-	
	6906	Farm Road Repair	2,418	-	
	6909	Walung Farm Road	1,500	-	
	6913	KICA	12,960	-	
	6914	Farmer's Coop	8,133	-	
	6915	Kosrae Delegation	5,882	-	
	6918	KSIPC Admin. Cost	462	-	
	6919	KSIPC Equipment	7,200	7,200	35
	6921	State Court	19,237	-	
	6922	Goodwill Trip	3,000	-	
	6923	High School Bus Parts	486	-	
	6924	Kosrae CAP	3,191	-	
	6926	Newsletter Project	2,000	-	
	6927	Farmer's Home Admin.	5,845	-	
	6930	Public Safety	9,405	-	
	6934	UTWE Bridge Renov.	565	-	
	6935	KSIPC Equip/Travel	66,760	-	
	6936	Attorney General	2,071	2,071	35
			<u>\$346,082</u>	<u>\$19,396</u>	

Note: The above grants are received as a result of appropriations made by the Congress of the Federated States of Micronesia.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
OTHER DIRECT ASSISTANCE FUND

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

Grantor/ Account Title/ Kosrae Org. No./ Grant Number/ CFDA Number	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess(Deficit) Authorizations Over Program Expenditures	Questioned Costs Detailed Amount At Page
U. S. Dept. of Education:						
FY1986 Bilingual Instruction Org. No. 6027 G008302803 CFDA No. 84.003C	\$ 23,680	\$ 14,406	\$ 358	\$ 14,764	\$ 8,916	\$ -
FY1986 Bilingual Instruction Org. No. 6028 G008302803 CFDA No. 84.003C	148,140	105,638	37,920	143,558	4,582	-
FY1987 Bilingual Training Org. No. 6050 G008302803 CFDA No. 84.003C	153,358	-	108,351	108,351	45,007	-
United Nations Educational, Scientific and Cultural Organization (UNESCO):						
Population Education Org. No. 6025 TTP/84/P07 CFDA No. N/A	10,516	849	3,914	4,763	5,753	-
University of Hawaii Pole and Line Fishing Org. No. 3520	<u>8,226</u>	<u>-</u>	<u>7,190 (A)</u>	<u>7,190</u>	<u>1,036</u>	<u>-</u>
Total other direct assistance grants expenditures	<u>\$343,920</u>	<u>\$120,893</u>	<u>\$157,733</u>	<u>\$278,626</u>	<u>\$ 65,294</u>	<u>\$ -</u>

Note: The above grants are received in a grantee capacity from the various grantors. Of the total, \$7,190 is accounted for within the Fishermen's Revolving Fund (A) and the balance (\$150,543) is accounted for within the Federal Grants Assistance Fund (See p.11).

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION, VARIOUS FUNDS
(OFDA NO. 15.875)

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

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>Total Authori- zations</u>	<u>1987 Fiscal Year Expenditures</u>	<u>Excess(Deficit) Authorizations Over Program Expenditures</u>	<u>Questioned Costs Detailed Amount At Page</u>
Section 211A, Capital Account:					
Fish Processing Plant	3102	\$ 270,000	\$ 186,925	\$ 83,075	\$ -
Frusna Dry Dock	3103	450,000	237,803	212,197	-
Elem. Classroom Constr.	3104	120,000	63,406	56,594	-
Citrus Expansion	3105	56,000	34,066	21,934	-
Indust. Park Ph. I	3106	340,000	340,000	-	-
Manpower Dev./Train.	3107	185,000	89,115	95,885	-
Comm. Action Admin.	3108	41,500	7,186	34,314	-
Prod. Dev. Loan Fund	3110	150,000	100,000	50,000	-
Land Acquisition	3112	135,000	2,827	132,173	-
Total Compact of Free Association Capital Projects Fund - Section 211		<u>\$1,747,500</u>	<u>\$1,061,328</u>	<u>\$686,172</u>	<u>\$ -</u>
Section 211A, Current Account		<u>\$3,284,400</u>	<u>\$3,284,400</u>	<u>\$ -</u>	<u>\$ -</u>
Section 217, Current Account		<u>\$ 722,568</u>	<u>\$ 722,568</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION HEALTH AND MEDICAL
REFERRAL PROGRAM SECTION 216 (a)(2) (CFDA NO. 15.875)

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

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>Total Authori- zations</u>	<u>1987 Fiscal Year Expenditures</u>	<u>Excess(Deficit) Authorizations Over Program Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Medical Referrals	6350	<u>\$112,122</u>	<u>\$352,926</u>	<u>\$(240,804)</u>	<u>\$240,804</u>	35
Total Compact of Free Association Health and Medical Referral Program - section 216(a)(2)		<u>\$112,122</u>	<u>\$352,926</u>	<u>\$(240,804)</u>	<u>\$240,804</u>	

Note: These funds are made available by Title Two, Article I, Section 216
of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION SCHOLARSHIP PROGRAM
SECTION 216 (a)(3) (CFDA NO. 15.875)

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

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>Total Authori- zations</u>	<u>1987 Fiscal Year Expenditures</u>	<u>Excess(Deficit) Authorizations Over Program Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Scholarships	6551	<u>\$155,900</u>	<u>\$48,552</u>	<u>\$107,348</u>	<u>\$ -</u>	
Total Compact of Free Association Scholarship Program - section 216(a)(3)		<u>\$155,900</u>	<u>\$48,552</u>	<u>\$107,348</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article I, Section 216
of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION BLOCK GRANT
FUND - SECTION 221(b) (OFDA NO. 15.875)

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

<u>Grantor/ Account Title</u>	<u>Kosrae Orgh. Number</u>	<u>Total Authori- zations</u>	<u>1987 Fiscal Year Expenditures</u>	<u>Excess(Deficit) Authorizations Over Program Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Education	6151	\$755,000	\$500,228	\$254,772	\$18,852	36
Public Health	6171	<u>120,000</u>	<u>132,203</u>	<u>(12,203)</u>	<u>12,203</u>	36
Total Compact of Free Association Block Grant Fund - Section 221(b)		<u>\$875,000</u>	<u>\$632,431</u>	<u>\$242,569</u>	<u>\$31,055</u>	

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

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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 standards.

<u>Grantor</u>	<u>TTPI Grant No.</u>	<u>Kosrae Org. No.</u>	<u>Description</u>	<u>Fiscal Year 1987 Expenditures</u>
<u>TTPI Federal Grants Fund</u>				
Dept. of Agriculture		6015	School Food Service	\$ 300
		6017	School Food Service	1,640
		6026	School Food Service	263,115
		6052	School Food Service	<u>128,061</u>
Total TTPI Federal Grants Fund major programs				<u>393,116</u>

TTPI Capital Projects Fund

Dept. of the Interior	T-653	3008	Circumferential Road Project	1,977,259
	T-667	3009	Airport Terminal Project	375,648
	T-653	8770	Road Construction Proj.	<u>724,890</u>
Total TTPI Capital Projects Fund major programs				<u>3,077,797</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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

<u>Grantor</u>	<u>TTPI Grant No.</u>	<u>Kosrae Org. No.</u>	<u>Description</u>	<u>Fiscal Year 1987 Expenditures</u>
<u>Office of Territorial and International Affairs, Department of the Interior, CFDA #15.875:</u>				
			Compact of Free Association, Section 211(a) Current Account	\$ 3,284,400
			Compact of Free Association, Section 217 Current Account	722,568
			Compact of Free Association Block Grant, Title Two, Article I, section 221(b)	632,431
			Compact of Free Association Capital Project Fund, Title Two, Article I, section 211	1,061,328
			Compact of Free Association Health and Medical, Title Two, Article I, Section 216 (a) (2)	352,926
			Compact of Free Association Scholarship, Section 216 (a) (3)	<u>48,552</u>
			Total CFDA #15.875	<u>6,102,205</u>
Total programs selected for examination				<u>\$ 9,573,118</u>
Total federal grant assistance expenditures				<u>\$11,318,667</u>
Percentage of grant assistance expenditures tested				<u>84%</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SUMMARY OF QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Kosrae Org.No.</u>	<u>CFDA No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
Dept. of Agriculture	6026	N/A	School Food Service	\$ 5,049	29
	6052	N/A	School Food Service	2,970	29
Dept. of Education	6003	N/A	Chapter 1 Program	1,980	29
Dept. of Health and Human Services	6512		Family Planning	2,249	30
	6531		Mother/Child Health Prog.	1,493	30
Dept. of the Interior	6455		Historic Preservation	23,609	30
Dept. of Labor	6215		Title II JTPA	38,568	30
Dept. of Energy	6452		Energy Conserv. Prog.	3,100	30
	6453		Energy Conserv. Prog.	2,924	30
	6454		Energy Conserv. Prog.	3,300	30
Dept. of Housing and Urban Development	6101		HUD Admin.	11	31
	6102		Housing Reno. Loans	234	31
Environmental Pro- tection Agency	6534		EPA	<u>334</u>	31
Total TTPI federal and other assistance grants questioned costs				<u>85,821</u>	
Balance forwarded				<u>85,821</u>	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SUMMARY OF QUESTIONED COSTS, Continued
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Kosrae Org.No.</u>	<u>CFDA No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
Balance Forwarded				\$ 85,821	
<u>TTPI Capital Projects Fund</u>					
Dept. of the Interior	3009		Airport Terminal Proj.	56,962	32
	3014		Computer Advisor	8,029	32
	8770		Road Const. Proj.	<u>145,200</u>	32
Total TTPI Capital Projects fund questioned costs				<u>210,191</u>	
<u>O&M Grants Fund</u>					
TTPI	4205		Tools and Parts	32	33
	4218		Engineer Scholarship	3,000	33
	4223		DME training	1,119	33
	4229		Facilities Maintenance	14,250	33
	4299		Other Expenditures	<u>8,409</u>	33
Total O&M questioned costs				<u>26,810</u>	
<u>CFSM Capital Projects Fund</u>					
CFSM	6824		Finkal-Taf Inpuskusak	981	34
	6837		Finanpes, Putuk/6829	147	34
	6842		Lelu Farm Road	1,883	34
	6866		Tafunsak Playground	3,000	34
	6833		Admin. Costs of Commun.	529	34
	6849		KICA	642	34
	6850		Farmers Home Loan	2,943	34
	6919		KSIPC Equipment	7,200	35
	6936		Attorney General	<u>2,071</u>	35
Total CFSM Capital projects fund questioned costs				<u>19,396</u>	
Balance forward				<u>342,218</u>	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SUMMARY OF QUESTIONED COSTS, Continued
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Kosrae Org.No.</u>	<u>CFDA No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
Balance forwarded				<u>\$342,218</u>	
Compact of Free Association Health & Medical Referral Program - section 216(a)(2)					
Compact of Free Association	6350	15.875	Medical Referrals	<u>240,804</u>	35
Total compact of Free Association Health & Medical Referral Program - section 216(a)(2)				<u>240,804</u>	
Compact of Free Association Block Grant Fund - section 221(b)					
Compact of Free Association	6151	15.875	Education	18,852	36
	6171	15.875	Public Health	<u>12,203</u>	36
Total Compact of Free Association Block Grant Fund - section 221(b)				<u>31,055</u>	
Total questioned costs				<u>\$614,077</u>	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
YEAR ENDED SEPTEMBER 30, 1987

GENERAL NON-COMPLIANCES AND INTERNAL CONTROL WEAKNESSES

Financial Management

Finding

1. Based on responses by program administrators to a questionnaire on procedures and controls used to administer federal grant programs, there appears to be no formal system established by Kosrae State or the individual departments to ensure that OMB Circular A-102 compliance requirements are understood and are being met.

Recommendation

We recommend Kosrae State take immediate action to ensure that adequate preventive and detective controls are established at the appropriate department levels, to ensure OMB Circular A-102 requirements are understood and are being adhered to.

Finding

2. Timely reconciliations are not performed between the program level accounting records and Kosrae State Division of Finances' accounting records, as evidenced by material discrepancies between program level records and the subledger status report 132-P produced at the Division of Finance.

Recommendation

As the Federated States of Micronesia and Kosrae now have complete responsibility for Federal grant administration, we recommend that some effort be made in training and making program managers aware of that responsibility. Training should focus on those areas where we have found weaknesses, namely documentation of compliance requirements and reconciliation of financial reports.

Finding

3. The departments do not on the whole maintain updated records of fixed assets acquired with federal funds. Based on audit procedures performed at the State's Property Management Division no effective system is being followed to account for the State's fixed assets in general, let alone attempting to account for assets procured with federal funds.

Recommendation

Departments which received federal grants should obtain necessary detailed fixed assets records acquired through use of their respective federal grants. These assets should be periodically inventoried. All asset deletions should be properly surveyed in accordance with applicable federal guidelines.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

GENERAL NON-COMPLIANCES AND INTERNAL CONTROL WEAKNESSES

Finding

4. Per review of disbursement supporting documentation, accounts payable disbursement vouchers (APV's) were not authorized by appropriate department of finance personnel in 20 out of 138 transactions tested. Although additional controls appear adequate to prevent an unauthorized disbursement of funds, unauthorized input into the automated accounting system could result.

Recommendation

All APV's should be properly reviewed for accounting propriety by appropriate management personnel and so indicated by an authorizing signature.

Finding

5. Individual grant program administrators do not always receive on a regular basis report 132-P produced by the Division of Finance.

Recommendation

Grant program administrators should request copies of report 132-P from the department of finance federal grant managers on a monthly basis and reconcile their accounting records to this report.

Finding

6. Spending authorizations reflected on the 132-P report did not reconcile to the FSM and the State of Kosrae Budget Office allotment advices as of September 30, 1987. Failure to reconcile these budget levels limits efficient management of federally assisted programs which could result in questioned and possible disallowed costs.

Recommendation

Funds allotted to the State of Kosrae via the FSM National Government should be recorded in the accounting system upon their receipt by the budget office. As these funds are allotted to their respective departments/programs, copies of the allotment advices should be forwarded to the departments/agencies and to the Finance Office. Periodic checks of the 132-P report should be performed by the Budget Office to ensure that all funds received and allotted have been properly recorded.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

GENERAL NON-COMPLIANCES AND INTERNAL CONTROL WEAKNESSES

Finding

7. The State has no formal procurement procedures documented. Although competitive bid solicitation procedures were found to have been pursued in some procurement transactions tested, the procedure was followed inconsistently and for some material construction contracts and equipment procurement there was no evidence of competitive bid solicitation.

Recommendation

The State should take action to establish and formally document procurement procedures. Guidelines for competitive bid procurement should be included. These procedures will assist the State with an added control over the use of public funds.

8. Finding

The State of Kosrae receives Federal and other assistance grants through the TTPI and the FSM National Government without CFDA numbers.

Recommendation

Steps should be taken to ensure that the State of Kosrae obtains both the CFDA numbers and regulations for each Federal program the State receives.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>									
		Based on a sample of 138 transactions for a a total of \$2,987,787, we found the following following exceptions:										
	<u>TTPI Federal Assistance Fund</u>											
U.S. Dept. of Agriculture	School Food Services Orgs. 6015, 6017 6026, 6052	Based on testing of four months out of the school year and two schools tested per month, none of the daily meal count reports for individual schools agreed to the monthly reimbursement request summary report submitted to the FSM National Government office for the School Food Services Federal Grant Program.										
	School Food Services Org. 6026	Two expenditure transations were questioned due to lack of vendor invoice support.										
		<table><tr><td><u>P.O.#</u></td><td><u>APV #</u></td><td><u>Amount</u></td></tr><tr><td>P10882</td><td>016935</td><td>\$2,805</td></tr><tr><td>P13499</td><td>020603</td><td><u>2,244</u></td></tr></table>	<u>P.O.#</u>	<u>APV #</u>	<u>Amount</u>	P10882	016935	\$2,805	P13499	020603	<u>2,244</u>	\$ 5,049
<u>P.O.#</u>	<u>APV #</u>	<u>Amount</u>										
P10882	016935	\$2,805										
P13499	020603	<u>2,244</u>										
	School Food Services Org. 6052	One expenditure transation was questioned due to the lack of vendor invoice support and the other is due to the lack of documentation support.										
		<table><tr><td><u>P.O.#</u></td><td><u>APV #</u></td><td><u>Amount</u></td></tr><tr><td>P15356</td><td>023485</td><td>\$2,805</td></tr><tr><td>P13873</td><td>021133</td><td><u>1,050</u></td></tr></table>	<u>P.O.#</u>	<u>APV #</u>	<u>Amount</u>	P15356	023485	\$2,805	P13873	021133	<u>1,050</u>	<u>2,970</u>
<u>P.O.#</u>	<u>APV #</u>	<u>Amount</u>										
P15356	023485	\$2,805										
P13873	021133	<u>1,050</u>										
			<u>8,019</u>									
U.S. Dept. of Education	FY 1985 Chapter 1 Org. 6003	Total expenditures exceed total authorization.	1,980									

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>TTPI Federal Assistance Fund</u>			
U.S. Dept. of Health and Human Ser- vices	FY 1985 Family Planning Org. 6512	Total expenditures exceed total authorization.	\$ 2,249
	Mother/Child Health Program Org. 6531	Total expenditures exceed total authorization.	<u>1,493</u>
			<u>3,742</u>
U.S. Dept. of the Interior	Historic Preservation Org. 6455	Total expenditures exceed total authorization.	<u>23,609</u>
U.S. Dept. of Labor	Title II JTPA Org. 6215	Total expenditures exceed total authorization.	<u>38,568</u>
U.S. Dept. of Energy	Energy Conservation Program Org. 6452	Total expenditures exceed total authorization.	3,100
	Energy Conservation Program Org. 6453	Total expenditures exceed total authorization.	2,924
	Energy Conservation Program Org. 6454	Total expenditures exceed total authorization.	<u>3,300</u>
			<u>9,324</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>TIPI Federal Assistance Fund</u>			
U.S. Dept. of Housing & Urban Development	HUD Administration Org. 6101	Total expenditures exceed total authorizations.	\$ 11
	Housing Renovation Loans Org. 6102	Total expenditures exceed total authorizations.	<u>234</u>
			<u>245</u>
U.S. Environmental Protection Agency	EPA Org. 6534	Total expenditures exceed total authorizations.	<u>334</u>
Total TIPI Federal Assistance Fund Questioned Costs			<u>\$ 85,821</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>															
<u>TIPI Capital Projects Fund</u>																		
TIPI	Circumferential Road Project FGA T-653 Org. 3008	Based on procedures performed to reconcile accounting records at the State's Division of Construction Management with those at the Department of Finance for Org. 3008 and Org. 8770 (force account agreement with Kosrae State Dept. of Public Works) material unreconciled differences were evident.																
	Airport Terminal Proj. FGA T-667 Org. 3009	Per review of supporting documentation, check #11822 was disbursed against contract 03366, Water System Improvement Design, and charged to the Airport Terminal Project	\$ 56,962															
	Computer Advisor Org. 3014	Total expenditures exceed total authorization	8,029															
	Road Construction Project FGA T-653 Org. 8770	Based on procedures performed to reconcile accounting records at the State's Division of Construction Management with those at the Department of Finance for Org. 3008 and Org. 8770 (force account agreement with Kosrae State Dept. of Public Works) material unreconciled differences were evident. There was no evidence of competitive bid procurement for the following transactions:																
		<table><tr><td><u>FO #</u></td><td><u>Check #</u></td><td><u>Amount</u></td></tr><tr><td>14022</td><td>14366</td><td>\$19,800</td></tr><tr><td>10415</td><td>13304</td><td>41,800</td></tr><tr><td>10415</td><td>13135</td><td>41,800</td></tr><tr><td>10415</td><td>12759</td><td><u>41,800</u></td></tr></table>	<u>FO #</u>	<u>Check #</u>	<u>Amount</u>	14022	14366	\$19,800	10415	13304	41,800	10415	13135	41,800	10415	12759	<u>41,800</u>	
<u>FO #</u>	<u>Check #</u>	<u>Amount</u>																
14022	14366	\$19,800																
10415	13304	41,800																
10415	13135	41,800																
10415	12759	<u>41,800</u>																
			<u>145,200</u>															
Total TIPI Capital Projects Fund Questioned Costs			<u>\$210,191</u>															

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>Operations and Maintenance Grant Funds</u>			
Dept. of the Interior	Tools and Parts Org. 4205	Total expenditures exceed total authorization.	\$ 32
	Engineer Scholarship Org. 4218	Total expenditures exceed total authorization.	3,000
	DME Training Org. 4223	Total expenditures exceed total authorization.	1,119
	Facilities Maintenance Org. 4229	There was no evidence of competitive bid procurement for the following transaction:	
		<u>PO #</u> <u>Check #</u> <u>Amount</u>	
	06679 13449 <u>\$14,250</u>	14,250	
	Other Expenditures Org. 4299	Total expenditures exceed total authorization.	<u>8,409</u>
Total O&M Grant Funds Questioned Costs			<u>\$26,810</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>OFSM Capital Projects Fund</u>			
OFSM	Firkal-Taf Inpuskusak Org. 6824	Total expenditures exceed total authorization.	\$ 981
	Finanpes, Putuk Org. 6837	Total expenditures exceed total authorization.	147
	Lelu farm Road Org. 6842	Total expenditures exceed total authorization.	1,883
	Tafunsak Playground Org. 6866	Total expenditures exceed total authorization.	3,000
	Admin. Cost Communications Org. 6833	Total expenditures exceed total authorization.	529
	KICA Org. 6849	Total expenditures exceed total authorization.	642
	Farmers Home Loan Org. 6850	Total expenditures exceed total authorization.	<u>2,943</u>
		sub-total	<u>10,125</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
<u>OFSM Capital Projects Fund</u>			
	KSIPC Equipment Org. 6919	Total expenditures exceed total authorization.	\$ 7,200
	Attorney General Org. 6936	Total expenditures exceed total authorization.	<u>2,071</u>
	Total OFSM Capital Projects Fund Questioned Costs		<u>\$19,396</u>
<u>U.S. Dept. of the Interior</u> <u>CFDA #15.875, Compact of</u> <u>Free Association Health</u> <u>and Medical Referral Program</u> <u>Article I, section 216(a)(2)</u>			
	Medical Referral Org. 6350	Total expenditures exceed total authorization.	<u>\$240,804</u>
	Total Compact of Free Association Health and Medical Referral Program Section 216 Questioned Costs		<u>\$240,804</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>																					
U.S. Dept. of the Interior CFDA #15.875, Compact of Free Association Block Grant Fund, Article II, Section 221(b)																								
	Education Org. 6151	Per expenditure testing, associated vendor invoices could not be located to support the following dis- bursement amounts:																						
		<table><tr><td><u>PO #</u></td><td><u>Check #</u></td><td><u>Amount</u></td></tr><tr><td>15492</td><td>14550</td><td>\$7,200</td></tr><tr><td>15712</td><td>14552</td><td>3,725</td></tr><tr><td>15611</td><td>14423</td><td>1,342</td></tr><tr><td>15292</td><td>14081</td><td>2,235</td></tr><tr><td>15083</td><td>14015</td><td>1,200</td></tr><tr><td>14958</td><td>13772</td><td><u>3,150</u></td></tr></table>	<u>PO #</u>	<u>Check #</u>	<u>Amount</u>	15492	14550	\$7,200	15712	14552	3,725	15611	14423	1,342	15292	14081	2,235	15083	14015	1,200	14958	13772	<u>3,150</u>	\$18,852
<u>PO #</u>	<u>Check #</u>	<u>Amount</u>																						
15492	14550	\$7,200																						
15712	14552	3,725																						
15611	14423	1,342																						
15292	14081	2,235																						
15083	14015	1,200																						
14958	13772	<u>3,150</u>																						
	Public Health Org. 6171	Total expenditures exceed total authorization.	<u>12,203</u>																					
Total Compact of Free Association Block Grant Fund Section 221 Questioned Costs			<u>\$31,055</u>																					
Total Questioned Costs			\$614,077																					

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

RESOLUTIONS OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

The following questioned costs, per the September 30, 1986 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 State of Kosrae for these TTPI federal grants fund expenditures.

Questioned costs resolved:

<u>Kosrae Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
6509	Continuing Education for Nurses	\$ 6,084
6510	Preventive Health	2,188
6513	HHS MCHS	26,085
6207	Title V SCSEP	263
6502	Consolidated EPA	1,633
6401	Historic Preservation	664
		<u>36,917</u>

2. Questioned costs for which the allotment authority was located or extended.

Federal Grants:

6016	Nutrition Education	2,991
6022	Client Assistance Program	509
6118	Geriatric Health	262
6120	Geriatric Health	3,976
6402	Historic Preservation	21,614
6604	High School	26,017
		<u>55,369</u>

Capital Projects:

3001	Kosrae Road Construction	1,008
3010	Waste Water Facility	63,044
3011	Dock Warehouse	1,210
3012	POL Storage Facility	8,510
		<u>73,772</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS, CONTINUED
YEAR ENDED SEPTEMBER 30, 1987

3. Questioned costs resulting from lack of proper supporting documentation have been resolved as Kosrae State was able to subsequently produce adequate documentation.

<u>Kosrae Org. No.</u>	<u>Program Title</u>	<u>Amount</u>
Federal Grants:		
6017	1985 School Food Services	\$ 2,085
6026	1986 School Food Services	4,708
6008	Chapter I FY1985	6,562
6032	Chapter I FY1986	6,643
6606	Housing Rehabilitation and Loans	921
6606	Housing Rehabilitation and Loans	<u>2,505</u>
		<u>23,424</u>
Capital Projects:		
3008	Circumferential Road	526
3009	Airport Terminal	291
3009	Airport Terminal	1,206
3009	Airport Terminal (partial resolution)	<u>748</u>
		<u>2,771</u>
Direct Assistance:		
6027	Bilingual Education	<u>3,984</u>
Total questioned costs resolved		196,237
Total questioned costs as of September 30, 1986		<u>497,662</u>
Unresolved questioned costs		\$301,425 =====