

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITOR'S REPORTS ON
SUPPLEMENTARY SCHEDULE OF FEDERAL
FINANCIAL ASSISTANCE
COMPLIANCE WITH LAWS AND REGULATIONS
AND
INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS
YEAR ENDED SEPTEMBER 30, 1989

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Independent Auditor's Report on Supplementary Schedules
of Federal Financial Assistance
and on Compliance

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

We have audited the general purpose financial statements of the State of Kosrae for the year ended September 30, 1989, and have issued our report thereon dated March 20, 1990. These general purpose financial statements are the responsibility of Kosrae State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Kosrae, taken as a whole. The accompanying statements of expenditures of federal financial assistance are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The management of the State of Kosrae, is also responsible for the State's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal assistance programs. The purpose of our testing of transactions and records from those federal assistance programs was to obtain reasonable assurance that the State of Kosrae, had, in all material respects, administered its major programs, and executed the tested nonmajor 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 instance of noncompliance that we found and the programs to which they relate are identified in the accompanying schedules of findings and questioned costs, the ultimate resolution of which cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made to the federal financial assistance programs to which they relate.

In our opinion, for the year ended September 30, 1989, 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 those laws and regulations referred to above, except as noted in the accompanying schedules 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.

March 20, 1990



Certified Public Accountants

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

Honorable Yosiwo George
Governor
State of Kosrae

We have audited the general purpose financial statements of the State of Kosrae for the year ended September 30, 1989, and have issued our report thereon dated March 20, 1990. These general purpose financial statements are the responsibility of Kosrae State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the aforementioned report, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements and whether management has complied with laws and regulations and has established and maintained a system of internal controls. An audit in accordance with these standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements and compliance with laws and regulations. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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:

A. Accounting Controls - Cycles of Activities

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

B. Administrative Controls

General Requirements:

- . Cash Management
- . Federal Financial Reports

Specific Requirements:

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

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, 1989, the State of Kosrae, expended 75.9% 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.

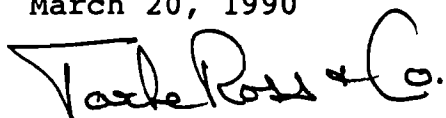
With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Kosrae, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Kosrae, 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 control systems used in administering the major and nonmajor 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 audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of the State of Kosrae.

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

March 20, 1990



Certified Public Accountants

Independent Auditor's Report on Compliance Based
on an Audit of the General Purpose
Financial Statements Performed
in Accordance with the Standards for Audit Issued by the GAO

Honorable Yosiwo George
Governor
State of Kosrae

We have audited the general purpose financial statements of the State of Kosrae for the year ended September 30, 1989, and have issued our report thereon dated March 20, 1990. These general purpose financial statements are the responsibility of Kosrae State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

The management of the State of Kosrae, is also responsible for the State's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the State of Kosrae's compliance with laws and regulations noncompliance with which could have material effect on the general purpose financial statements of the State of Kosrae.

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 attached schedule. 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 that the State of Kosrae, had not complied with laws and regulations in our testing referred to above.

March 20, 1990

Touche Ross & Co.

Certified Public Accountants

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA

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

Year ended September 30, 1989

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; (1) major block grants; current operations and capital projects; (2) special block grants, and (3) 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 1989, the State of Kosrae Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to the State of Kosrae'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, remains with the trustee institution and are drawdown upon request by State of Kosrae. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Special Block grant funding was transferred with the initial quarterly current 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 Government Audit Standards, issued by the Comptroller General of the United States 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 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.

Federal Funds

The State of Kosrae Government remained the subrecipient of several federal grant programs from U.S. agencies, but with the implementation of the successor in interest agreements, the role of the primary recipient transferred from the TTPI government to the FSM National Government. The State of Kosrae Government applies to the FSM National Government for grant funds, or receives 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.

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

Although program guidelines may not be specifically referenced in the allotment advice, subgrantees of federal programs other than Compact funding must adhere to the same cost principles as the grantee, as stated under 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 Project Funds

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

Federal Grants Fund

Compact Major Block Grant Funds:

- . 221(b) Special Block Grant
- . Health and Medical
- . Scholarship
- . Energy
- . Special Development

Compact Capital Project Fund

TTPI Capital Project Fund

CFSM Grant Fund

Operations and Maintenance Fund

Foreign Assistance Fund

A mentioned above, 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 Foreign Assistance Fund and the CFPM 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. The CFPM Capital Projects Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while the foreign assistance grants are comprised of grants from various foreign governments and other international organizations. The State of Kosrae, through the Federated States of Micronesia, reports directly to the applicable grantor concerning direct assistance grants.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
U.S. FEDERAL AND OTHER ASSISTANCE FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1989

Grantor	CFDA No.	Org. No.	Grant Title	1989	Questioned Costs	
				Fiscal Year Expenditures Per Audit	Amount	Detailed At Page
U.S. Federal Grants						
Dept. of Agriculture	10.560	6069	Food Service '87	\$ 677	\$ -	
	10.560	6078	Food Services '88	204,749	-	
	10.664	6459	Forestry Project '88	2,138	-	
	10.664	6460	Forestry Project '86	<u>1,992</u>	-	
				<u>209,556</u>	-	
Dept. of Education	84.124	6045	Teacher Training	613	-	
	84.126	6047	Vocational Rehabilitation Services	105	-	
	84.161	6055	Client Assistant Program	79	-	
	84.151	6060	Chapter I & II GAP	20,384	-	
	84.126	6064	Vocational Rehabilitation Administration	3,066	3,066	30
	84.126	6065	Vocational Rehabilitation Case Services	2,125	2,125	30
	84.124	6066	Teacher Training	13,926	-	
	84.998	6067	Education Transition	181,136	-	
	84.151	6076	Chapter II '86	24,729	-	
	84.124	6079	Teacher Training	41,788	-	
	84.998	6081	Chapter II '88	56,448	-	
	N/A	6556	Vocational Rehabilitation Administration '89	21,774	21,774	32
	N/A	6657	Vocational Rehabilitation Case Service '89	<u>1,020</u>	<u>1,020</u>	32
			<u>367,193</u>	<u>27,985</u>		
Dept. of the Interior	15.904	6456	Historic Preservation '87	2,901	-	
	15.904	6457	Historic Preservation	5,702	5,702	30
	15.904	6462	Historic Preservation	<u>10,437</u>	-	
			<u>19,040</u>	<u>5,702</u>		
Dept. of Labor	17.235	6129	Title V SCSEP '88	23	-	
	17.235	6131	Title V SCSEP '88	17,348	2,858	30
	N/A	6216	JTPA Program	8,171	8,171	32
	17.250	6217	JTPA Summer Youth	34	-	
	17.250	6218	JTPA Administration '88	13,684	1,901	30
	17.250	6219	JTPA/Training '88	<u>36,006</u>	-	
			<u>75,266</u>	<u>12,930</u>		
Balance forward				671,055	46,617	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
U.S. FEDERAL AND OTHER ASSISTANCE FUND, CONTINUED
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
BY GRANTOR
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u>	<u>CFDA</u> <u>No.</u>	<u>Org.</u> <u>No.</u>	<u>Grant Title</u>	1989	<u>Questioned Costs</u>	
				<u>Fiscal Year</u>	<u>Amount</u>	<u>Detailed</u> <u>At Page</u>
				<u>Expenditures</u> <u>Per Audit</u>		
<u>U.S. Federal Grants</u>						
			Balance forward	\$ 671,055	\$ 46,617	
Dept. of Housing and Urban Development	14.219	6605	Public Market	11,306	-	
	14.219	6606	Housing Rehabilitation Loan & Services	1,470	-	
	14.219	6608	Recreation Facility Administration	656	-	
	14.219	6610	Recreation Facilities	191,110	-	
	14.219	6614	CDBG Administration '85	7,384	-	
	14.219	6615	CDBG Administration '87	16,956	-	
	14.219	6616	Housing Renovation '87	49,767	-	
	14.219	6617	Housing Renovation '88	<u>47,252</u>	-	
				<u>325,901</u>	-	
Environmental Protection Agency	N/A	6530	EPA	273	273	32
	66.600	6534	EPA '87	168	168	31
	66.600	6542	EPA '88	6,664	-	
	66.418	6545	EPA Administration	103,188	-	
	66.600	6554	EPA '89	<u>15,674</u>	-	
				<u>125,967</u>	<u>441</u>	
Dept. of Health and Human Services	13.633	6104	Aging Supporting Service '89	303	-	
	13.633	6128	Aging Supporting Service	34	-	
	13.633	6130	Aging Supporting Service '88	35,903	-	
	N/A	6523	Geriatric Health	19	19	33
	N/A	6532	Preventive Health	302	302	33
	13.217	6537	Family Planning '88	327	-	
	13.994	6538	MCH '87	566	-	
	13.991	6540	Preventive Health	13,484	-	
	13.359	6541	C.E. Nurses '88	7,969	-	
	13.994	6543	MCH '88	23,270	-	
	13.665	6544	Community Action Program	46,150	372	31
	13.217	6547	Aids Program '88	7,538	6,264	31
	13.217	6548	Family Planning '89	7,474	-	
	13.217	6549	Family Planning '90	314	-	
	N/A	6553	MCH/Primary Care	640	640	33
	13.268	6558	Immunization Program	419	-	
	13.217	6559	Aids Program '89	486	-	
	13.359	6560	C.E. Nurses '89	<u>3,075</u>	-	
				<u>148,273</u>	<u>7,597</u>	
			Total federal and other assistance expenditures			
			balance forward	1,271,196	54,655	

Note: The above grants are received in a sub-grantee capacity through the FSM National Government.

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, 1989

Grantor/ Account Title/ Kosrae Org. No./ Grant Number/ CFDA Number	Total Authorizations	Prior Year Expenditures	1989 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs Amount	Detailed At Page
Subrecipient balance forward	\$ -	\$ -	\$ 1,271,196	\$ -	\$ -	\$ 54,655	
U. S. Dept. of Education:							
FY1987 Bilingual Training Org. No. 6068 G008302803 CFDA No. 84.003C	153,358	176,930	12,962	189,892	(36,534)	12,962	31
Bilingual Instruction Org. No. 6080 G008302803 CFDA No. 84.003C	123,964	-	100,208	100,208	23,756	-	
United Nations Educational, Scientific and Cultural Organization (UNESCO):							
Population Education Org. No. 6025 TTP/84/P07 CFDA No. N/A	10,516	10,030	134	10,164	352	-	
Sub Total Other Direct Assistance	287,838	186,960	113,304	300,264	(12,426)	12,962	
Total expenditures and questioned costs, subrecipient and other direct federal assistance	\$ -	\$ -	\$ 1,384,500	\$ -	\$ -	\$ 67,617	

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
FOREIGN ASSISTANCE FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

Org. No.	Grant Title	1989 Fiscal Year Expenditures Per Audit	Questioned Costs Detailed Amount At Page
5601	Safe Drinking Water	\$ 5,134	\$ -
5610	G/Inspector Training	2,839	-
5611	Finance Technical Assistant '89	2,045	-
5612	Budget Technical Assistant '89	<u>5,258</u>	<u>-</u>
	Total Other Direct Assistance	<u>\$15,276</u>	<u>\$ -</u>

Note: The above grants are received directly from foreign governments and private organizations.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
TTPI CAPITAL PROJECTS FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

TTPI Account Number	Kosrae Orgn. Number	Grant Title	1989	Questioned Costs	
			Fiscal Year Expenditures Per Audit	Amount	Detailed At Page
B38710	3004	Mini-Hydro Power Plant	\$ 2,254	\$ -	
PGA T-653	3008	Circumferential Road Project and Road Improvement	152,394	-	
PGA T-667	3009	Airport Terminal Project	39,533	-	
PGA T-616	3010	Waste Water Facility	1,015	-	
PGA T-661	3011	Dock Warehouse	6,566	-	
	3013	Power Systems Improvement	23,362	-	
	3015	Water System Development Project	47,318	-	
	3017	Okat Dock Dredging	56,000	-	
PGA T-653	8770	Road Construction Project	38,385	-	
	8771	Dock Warehouse	120,160	-	
			<u>\$486,987</u>	<u>\$ -</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
CFM CAPITAL PROJECTS FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

Kosrae Orgn. Number	Grant Title	1989 Fiscal Year Expenditures Per Audit	Questioned Costs	
			Detailed Amount	At Page
6842	Lelu farm road	\$ 672	\$ -	
6848	UTWE Office Equipment & SPP	417	-	
6849	KICA Inventory/COMM. CR	3,000	-	
6852	Sialat/Mutunnena Road	9,000	-	
6856	Continuing Education Center	30	-	
6859	Malem Farm Roads	18	-	
6860	Malem Supplies/Equipments	335	-	
6863	Malem farm projects	5,000	-	
6872	UTWE Playground	6,584	-	
6875	Lelu Seawall PL 4-17	6,865	-	
6877	Lelu Farm Roads	7,529	-	
6878	Lelu Farm Project	1,894	-	
6886	KSCIP Office Communication	900	-	
6896	Tansak Office Supplies	5,003	-	
6897	Malem Farm Road Repair	5,469	-	
6900	Mutunte Water System	948	-	
6901	Yekula & Mutunte H2O	702	-	
6903	Tansak Saolung Farm Road	119	-	
6908	Walung Water System	141	-	
6913	KICA as KIDCA< PL 4-92	8,061	-	
6914	Farmer's Coop	38	-	
6918	KSIPC Administration Cost	582	-	
6925	Lelu/Tansak Inner Road	20,000	-	
6927	Farmers Home Administration	289	-	
6929	CCM Extension Office CLRMS	10,653	-	
6930	Police Vehicle/Supplies	296	-	
6931	Lelu Office Supplies N/E	13,685	-	
6933	UTWE Farm Projects	9,917	-	
6934	UTWE Office Renovation & Supplies	2,586	-	
6935	KSIPC Equip/Travel	3,058	-	
6937	Finkol Landfill FRZR	555	-	
6940	Kosrae Supreme Court	3,235	-	
6944	Tansak Swine Product	6,801	-	
6945	Lelu Swine Production	12,748	-	
6946	Lelu Farm Road 4-92	225	-	
6948	Malem Swine Production Project	4,187	-	
6956	Tansak Farm Projects	12,000	-	
6958	Inwalul Sharar Seawall	3,521	-	
6959	UTWE Swine Production Project	4,955	-	
6960	KSCIP Operation	7,449	-	
	Balances forwarded	179,467	-	

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
CFSM CAPITAL PROJECTS FUND, CONTINUED
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

Kosrae Orgn. Number	Grant Title	1989	Questioned Costs	
		Fiscal Year Expenditures Per Audit	Amount	Detailed At Page
	Balance forward	\$179,467	\$ -	
6963	National Election CM	5,994	-	
6969	Kosrae State Court	24,286	-	
6970	Community Action Programs	2,909	-	
6972	Malem Playground	216	-	
6973	Malem Equipment	700	-	
6975	Tansak, Office Renovation	19,284	-	
6977	Tansak, Water System Improvement	154	-	
6978	Tansak, Farm Road	2,322	-	
6980	Joint Law Enforce '89	39,794	-	
6981	State Farmers Cooperation	8,289	-	
6983	Fumigation Citrus Center	7,604	-	
6985	Medical Supplies	4,055	-	
6986	Micro Legal Services	3,500	-	
6987	H/S Bus & Spare Parts	15,300	-	
6990	Community Action Program	10,338	-	
6991	Malem HYDRO Electric	306	-	
6993	Lelu Water System PL 5-80	12,342	-	
6994	Lelu Piggery Project PL 17	4,169	-	
		<u>\$341,029</u>	<u>\$ -</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
OPERATIONS AND MAINTENANCE GRANTS FUND
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

Kosrae Orgn. Number	Grant Title	1989 Fiscal Year Expenditures Per Audit	Questioned Costs Amount	Detailed At Page
(A) 4203	Existing equipment/parts	\$ 5	\$ -	
(A) 4207	Spare Parts	199	-	
(A) 4212	Dump Truck	15,825	-	
(A) 4214	Electric Meters	2,540	-	
(A) 4221	Transformer parts	6,647	-	
(B) 4234	Parts and tools	309	-	
(B) 4240	Health services - FY 1984	802	-	
(B) 4245	Public Works O&M - FY 1985	12,849	-	
(A) 4246	OPS/CE O&M '85 SL 4-12	63,230	-	
(B) 4247	Public Works Spare Parts	1,803	-	
(B) 4248	Governor O&M 1985	6,225	-	
(B) 4249	C&D FY85 O&M SL 4-12	15,496	-	
(B) 4250	Health Services O&M '85	20,618	-	
		<u>\$146,548</u>	<u>\$ -</u>	

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

(B) These grants are received in a sub-grantee capacity through the Federated States of Micronesia National Government.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION CAPITAL PROJECT
FUND - SECTION 211 (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Elementary Classroom Construction	3104	\$ 580	\$ -	
Citrus Expansion	3105	2,877	-	
Community Action Administration	3108	12,405	-	
UTWE Water Upgrade	3109	7,200	-	
Road Development/Paving	3114	575,040	-	
Manpower Development Training	3120	21,839	-	
Power System Improvement	3122	819,674	-	
Airport Improvement	3123	115,215	-	
Legislature Chamber Renovation	3124	24,575	-	
Land Acqui/Site Development	3127	67,478	-	
Tourism Planning Promotion	3128	24,854	-	
EDA Matching Fund	3129	144	-	
Fish Processing Plant	3130	2,513	-	
Housing Program 4-50	3131	42,780	-	
Manpower Development Training	3132	38,282	-	
Elementary Classroom	3134	56,533	-	
Project Administration Cost	3135	11,585	-	
Production/Development Loan Fund	3136	5,000	-	
Land Acquisition Development	3137	42,857	-	
Citrus & Vegetable Supporting	3138	15,062	-	
Poultry & Swine Project	3139	30,276	-	
Consultancy Services	3140	37,993	-	
Elementary Classrooms	3141	4,014	-	
Manpower Development Training	3142	24,956	-	
Housing Renovation	3143	44,506	-	
Road Development Sinking/Fund	3144	56,814	-	
Sewerage Phase I	3145	73,760	-	
Administration	3147	26,863	-	
Tuna Development Project	3149	73,506	-	
Agriculture Development Crop Prod.	3151	30,000	-	
Crush Aggregate	3152	<u>125,999</u>	<u>-</u>	
Total Compact of Free Association				
Capital Projects Fund - Section 211		<u>\$2,415,180</u>	<u>\$ -</u>	

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

The Funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The National Government receives all grant awards on behalf of the FSM and 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
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Medical Referrals	8001	\$ 197,499	\$ -	
Total Compact of Free Association Health and Medical Referral Program - section 216(a)(2)		<u>\$ 197,499</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 reallots such to the component States.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION SPECIAL DEVELOPMENT PROGRAM
SECTION 212 (a) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
P/W O&M 89-212 B	5901	\$ 61,150	\$ -	
Utilities 89-212 B	5902	<u>30,706</u>	<u>-</u>	
Total Compact of Free Association Special Development - section 212(A)		<u>\$ 91,856</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article I, Section 212 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 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
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Scholarships	6551 (A)	\$ 350	\$ -	
Scholarship 216 '89	6555 (A)	<u>43,128</u>	<u>-</u>	
Total Compact of Free Association Scholarship Program - section 216(a)(3)		<u>\$ 43,478</u>	<u>\$ -</u>	

(A) This amount is carried as a loan receivable balance in the Compact Scholarship Special Revenue fund financial statements.

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 reallots such to the component States.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION BLOCK GRANT
FUND - SECTION 221(b) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Detailed Amount At Page</u>
Education	6151	\$ 4,912	\$ -
SP Block Grant '88	6152	61,574	-
Vocational Education 4-45	6153	3,826	-
Youth Activities	6154	923	-
State Scholarship	6155	150,249	-
Food Service	6156	115,795	-
Curriculum Support	6157	277,188	-
Education Administration '89	6159	25,070	-
Elementary Education	6160	79,774	-
Secondary Education	6161	<u>271,863</u>	<u>-</u>
		<u>991,174</u>	<u>-</u>
 Public Health	 6171	 1,019	 -
Dental/Public Health	6172	4,007	-
Dental '89	6173	31,832	-
Public Health '89	6174	<u>37,796</u>	<u>-</u>
		<u>74,654</u>	<u>-</u>
 Total Compact of Free Association Block Grant Fund - Section 221(b)		 <u>\$1,065,828</u>	 <u>\$ -</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 CFDA No. 15.875. The National Government receives all grant awards on behalf of the FSM and reallots such to the component States.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION BLOCK GRANT
FUND - SECTION 214(b) (CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
Energy	5701	\$ 50,571	\$ -	
Energy Compact 214 (b) '89	5702	<u>530,500</u>	<u>-</u>	
 Total Compact of Free Association				
Energy Program - section 214(b)		<u>\$ 581,071</u>	<u>\$ -</u>	

Note: These funds are made available by Title Two, Article II, Section 214(b) of the Compact of Free Association.

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

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION CURRENT ACCOUNT FUND - SECTION 211
(CFDA NO. 15.875)
STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor/ Account Title</u>	<u>Kosrae Orgn. Number</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
General Fund Current account	Various	<u>\$4,171,188</u>	<u>\$ -</u>	
 Total Compact of Free Association Expenditures		 <u>\$8,569,100</u>	 <u>\$ -</u>	

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

The funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The National Government 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
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor CFDA</u>	<u>Description</u>	<u>Amount of 1989 Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875	
Compact of Free Association:		
211(a) Capital Account		\$2,415,180
221-B Block Grant		1,065,828
Health and Medical		197,499
Energy Programs		581,071
Post Secondary Education:		
Loans		43,478
Special Development Grant		91,856
Special operations and maintenance funds		<u>146,548</u>
Total CFDA # 15.875 excluding compact		
Section 211 (a) Current Account		
Expenditures		4,541,460
<u>Dept. of Housing and Urban Development</u>		
Community Development		
Block Grants	14.219	Various Projects <u>325,900</u>
Total U.S. Federal Program		
expenditures selected excluding		
Compact 211(a) Current Account		
expenditures		<u>\$4,867,360</u>
Total U.S. Federal Program		
expenditures excluding Compact		
Section 211(a) Current Account		
expenditures		<u>\$6,412,947</u>
% of Total U.S. Federal program expenditures		
covered by Major Programs excluding		
Compact Section 211(a) Major Block		
Grant expenditures.		<u>75.9%</u>

Administrative Controls Review

Kosrae State receives federal assistance program funding in subrecipient capacity through the FSM National Government and in a direct capacity from various grantor agencies. For the administration of federal funds, the State of Kosrae uses a centralized system for all billings and financial reporting, which is performed by the Department of Finance, and a decentralized system for compliance and program performance which is performed by each of the Departments which receive and administer federal funds. The following findings are the result of an administrative controls review which has been performed on the federal grants system of the State of Kosrae and does not necessarily relate to the responsibility of any one individual department.

Prior Year Administrative Control Findings

1. CRITERIA: Administrative control findings from prior audit reports should be resolved appropriately,

CONDITION: Based on our audit procedures performed it appears the following administrative control findings from the Single Audit Report for the fiscal year ending September 30, 1988, remain unresolved:

<u>Page No.</u>	<u>Description</u>
22	1. Lack of Administrative Control Structure
23	2. Unobligated Expenditures
24	3. Distribution of Funds Status Reports
25	4. Inventory of Federal Programs
26	5. Federal Property Standards
27	6. Chart of Accounts

CAUSE: Unknown

EFFECT: Prior year audit findings remain unresolved.

RECOMMENDATION: It is recommended that effort be made to effectively address and resolve prior year administrative control findings.

AUDITEE RESPONSE:

1. - Lack of Administrative Control Structure

We are still of the opinion that current appropriation laws and controlling regulations strongly uphold this requirement. Unless specific examples could find us to the contrary we still are of the position that our current certification processes therefore disbursements are strictly based on the laws establishing such programs. We also feel that reviews such as these should be on the "site monitoring" basis by FSM rather than to require other reports that would be repetitive reports only to the 132-P. That message has already been made clear to the grants' managers here.

2. - Unobligated Expenditures

Our procedures are such that only items not requiring immediate liquidations get encumbered and held. We again express that urgent requests via memorandums only are still needed and that they are properly accounted for at our expenditure levels.

3. - Distribution of Fund Status Reports

This problem is already being addressed as of the date of this write-up.

4. - Inventory of Federal Programs

This problem is also being addressed. Both Budget office and the Grants managers along with Finance are seeking to improve on the Federal Roster now maintained by the state to meet this requirement.

5. - Federal Property Standards

This problem is also being addressed this year.

6. - Chart of Accounts

Our 1990 chart of accounts has already been changed to meet this requirement.

Expenditure Reimbursement

2. CRITERIA: The State's accounting management should provide timely expenditure reimbursement reports to program management.

CONDITION: Based on review of current year expenditures and reimbursements received, it appears timely reimbursement reports are not being filed for the following funding sources:

1. CFSM Capital Projects
2. Bilingual Education Program from the U.S. Department of Education.
3. As a subrecipient of Special O&M and Technical Assistance funding from the U.S. OTIA through the FSM National Government.

CAUSE: It appears the cause of this situation lies in the lack of adequate administrative controls over federal and non-federal (U.S.) programs as indicated in administrative control finding number one in the September 30, 1988 Single Audit report.

EFFECT: The State is incurring expenditures and is disbursing cash from other funding sources to meet obligations under grant programs but is receiving almost no reimbursements for these expenditures. Therefore, cash is being diverted from other funding sources which results in general cash flow shortfalls.

RECOMMENDATION: We recommend that State management implement controls to ensure that expenditure reimbursement reports are compiled and remitted on a timely basis for all funding sources on an expenditure reimbursement basis.

AUDITEE RESPONSE: We have been sending on a regular basis, billings to FSM for CFSM projects and Federal Grants projects. Perhaps this audit statement will assist in speeding up FSM's processes of payments to above two categories. Our problems in late reimbursements from Bilingual Education Programs, and O&M are now being addressed. We hope to be reimbursed by July 1990. From then on, we will bill them regularly like the others.

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
The following represent questioned costs where expenditures exceed authorizations.			
U.S. Dept. of Education	Voc. Rehabilitation Org. 6064		\$ 3,066
	Voc. Rehabilitation Case Services Org. 6065		2,125
U.S. Dept. of the Interior	Historic Preservation Org. 6457		5,702
U.S. Dept. Labor	Title V SCSEP '88 Org. 6131		2,858
	JTPA Administration '88 Org. 6218		<u>1,901</u>
Balance forward			15,652

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
		Balance forward	\$ 15,652
U.S. Environmental Protection Agency	Consolidated EPA '87 Org. 6534		168
U.S. Dept. of Health and Human Services	Community Action Program Org. 6544		372
	Aids Prevention Program '88 Org. 6547		6,264
U.S. Dept. of Education	Bilingual Education Training Org. 6068		<u>12,962</u>
		Balance forward	35,418

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
		Balance forward	\$ 35,418
		We were not able to agree expenditures per Kosrae State's financial records to the FSM National Government's authorization under which these expenditures are to be charged.	
U.S. Dept. of Education	Vocational Rehabilitation Administration '89 Org. 6556	Grant Cancelled	21,774
	Vocational Rehabilitation Case Services '89 Org. 6557	Grant Cancelled	1,020
U.S. Dept. of Labor	JTPA Program Org. 6216		8,171
U.S. Environmental Protection Agency	Consolidated EPA Org. 6530		<u>273</u>
		Balance forward	66,656

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES, CONTINUED
YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-Compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
		Balance forward	\$ 66,656
U.S. Dept. of Health and Human Services	Geriatric Health Org. 6523		19
	Preventive Health Org 6532		302
	MCH Primary Care Org. 6553		<u>640</u>
	Total U.S. federal assistance questioned costs		<u>\$ 67,617</u>

STATE OF KOSRAE
FEDERATED STATES OF MICRONESIA
RESOLUTIONS TO PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1989

Pursuant to a letter issued June 13, 1990 by the Assistant Secretary, Office of the Territorial and International Affairs, U.S. Department of the Interior, and supported by detail provided by the Department of the Interior's Office of the Inspector General all remaining unresolved fiscal year 1986 questioned costs are resolved and all unresolved fiscal year 1987 questioned costs are resolved except for the following:

<u>Page No.</u>	<u>Kosrae Org. No.</u>	<u>Amount</u>
32	4229	\$ 14,250
36	6151	<u>18,252</u>
		<u>\$ 33,102</u>

No other resolutions of prior year questioned costs have been received from U.S. grantor agencies on behalf of the State pursuant to the summary of prior year questioned costs presented in the Single Audit Report for the year ended September 30, 1988. Consequently, the following is a summary of unresolved questioned costs for the State of Kosrae:

FY84 unresolved questioned costs	\$ 573
FY85 unresolved questioned costs	12,838
FY86 unresolved questioned costs	-
FY87 unresolved questioned costs	33,102
FY88 unresolved questioned costs	<u>215,383</u>
Total prior year unresolved questioned costs	261,896
FY89 questioned costs	<u>67,617</u>
Total unresolved questioned costs	<u>\$329,513</u>

In addition to the above, \$5,745 of questioned costs exist for the operations of State administered Congress of the Federated States of Micronesia grants.

Note: Pursuant to Title I, Section 105 of United States Public Law 99-239 (Compact of Free Association) the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.