

STATE OF POHNPEI
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

TABLE OF CONTENTS

Page

Auditor's Report on Compliance and on Supplementary Information of Federal and Local Grant Programs	1
Auditor's Report on Internal (Accounting and Administrative) Controls	3
Auditor's Report on Compliance Based on an Examination of the General Purpose Financial Statements	5
Introduction to Compact of Free Association Funding, Federal and Other Assistance Funds	6
Introduction to Special Revenue and Capital Projects Funds	8
Framework of Compact of Free Association and Federal Grant Accountability	8
Statement of Expenditures and Questioned Costs and Budgetary Position:	
TTPI Federal Assistance Fund	9
Other Federal and Direct Assistance Fund	11
Compact of Free Association Block Grant Fund	12
Operations and Maintenance Fund	13
TTPI Capital Projects Fund	14
Compact of Free Association Capital Projects Fund	15
CFSM Capital Projects Fund	16
Schedule of Grants Selected for Examination in Accordance With OMB Circular A-128	17
Summary of Questioned Costs	18
Schedule of Identified Non-Compliance and Internal Control Weaknesses	21
Resolution of Prior Years' Questioned Costs	35

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

Honorable Resio Moses
Governor, State of Pohnpei
Federated States of Micronesia

We have examined the general purpose financial statements of the State of Pohnpei as of September 30, 1987, and for the year then ended and have issued our report thereon dated January 4, 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 January 4, 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 Pohnpei 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 Pohnpei, 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 21 through 34).

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

January 4, 1988

Touche Ross & Co.

Certified Public Accountants

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

Honorable Resio Moses
Governor, State of Pohnpei
Federated States of Micronesia:

We have examined the general purpose financial statements of the State of Pohnpei for the year ended September 30, 1987, and have issued our report thereon dated January 4, 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 Pohnpei 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 Pohnpei expended 91% 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 Pohnpei, 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 Pohnpei. Accordingly, we do not express an opinion on the internal controls systems used in administering the federal financial assistance programs of the State of Pohnpei.

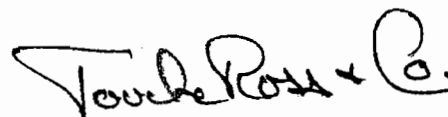
Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our examination disclosed the conditions specified 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 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 nonmajor 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 January 4, 1988.

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

January 4, 1988



Certified Public Accountants

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

Honorable Resio Moses
Governor, State of Pohnpei
Federated States of Micronesia:

We have examined the general purpose financial statements of the State of Pohnpei, for the year ended September 30, 1987, and have issued our report thereon dated January 4, 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 Pohnpei 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 Pohnpei 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 Pohnpei, had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

January 4, 1988



Certified Public Accountants

STATE OF Pohnpei
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 Pohnpei State Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to Pohnpei 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 Pohnpei 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 Pohnpei 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 Pohnpei 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 Pohnpei 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 Pohnpei 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 Pohnpei State.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the Pohnpei 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 Pohnpei 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 Pohnpei, 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 Pohnpei 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 Pohnpei 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, Pohnpei 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 Pohnpei
FEDERATED STATES OF MICRONESIA
TTPI FEDERAL ASSISTANCE FUND

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

Grantor Account Title	Pohnpei Orgn. No.	TTPI I.D.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
TTPI Federal Assistance									
Dept. of Agriculture:									
Food Services '87	3060	PE7020	\$ 400,000	\$ -	\$ 12,130	\$ 12,130	\$ 387,870	\$ -	
Food Services	3088	PE6010	1,440,390	510,340	876,205	1,386,545	53,845	18,919	24
Nutrition Education	3097	PE7020	4,000	-	4,033	4,033	(33)	33	25
Food Services '87	3099	PE7010	569,000	-	424,499	424,499	144,501	2,539	25
			<u>2,413,390</u>	<u>510,340</u>	<u>1,316,867</u>	<u>1,827,207</u>	<u>586,183</u>	<u>21,491</u>	
Dept. of Education:									
Client Assistance '87	3051	PA7020	800	-	180	180	620	-	
1986 Pohnpei Train- ing Project	3053	PA6202	2,136	-	2,141	2,141	(5)	-	
1987 Pohnpei Train- ing Project	3054	PA7202	20,000	-	15,052	15,052	4,948	-	
Teacher Training '87	3055	PA7300	138,368	-	110,870	110,870	27,498	-	
Chapter II/Gap Client Assistance Program	3066	PA6051	479,750	-	425	425	479,325	-	
	3077	PA6503	1,650	1,061	78	1,139	511	-	
Bilingual Training	3080	PA6506	16,000	14,095	51,593	65,688	(49,688)	49,688	26
Voc. Rehab. Admin. '86	3084	PA6401	43,608	39,006	30,017	69,023	(25,415)	25,415	26
Voc. Rehab. Services	3085	PA6402	79,201	26,521	1,178	27,699	51,502	-	
Chapter II '86	3086	PA6200	882,809	324,903	327,724	652,627	230,182	9,459	27
Chapter II '87	3087	PA6100	813,380	372,601	275,603	648,204	165,176	1,781	28
Teacher Training '87	3089	PA6300	124,076	97,204	656	97,860	26,216	-	
Voc. Rehab. Admin. '87	3093	PA7030	44,383	-	8,623	8,623	35,760	-	
VRS Case Serv. '87	3094	PA7031	79,699	-	18,765	18,765	60,934	-	
Chapter II '87	3095	PA7200	231,965	-	294,201	294,201	(62,236)	-	
Chapter I '87	3096	PA7100	215,646	-	351,254	351,254	(135,608)	-	
Pacific Child Project	3098	PA6201	43,364	-	20,383	20,383	22,981	-	
			<u>3,216,835</u>	<u>875,391</u>	<u>1,508,743</u>	<u>2,384,134</u>	<u>832,701</u>	<u>86,343</u>	
Dept. of Energy									
Appropriate Tech- nologies	3103	PR4060	29,000	24,962	4,001	28,963	37	-	
Dept. of Health and Human Services									
1987 Comm. Health Center	3018	PV7060	39,275	-	24,892	24,892	14,383	-	
Family Planning '86	3029	PV6020	26,861	24,814	394	25,208	1,653	-	
SHDA	3031	PV6010	11,045	21,264	10,443	31,707	(20,662)	20,662	28
MCH '87	3033	PV7140	20,800	-	28,347	28,347	(7,547)	7,547	28
Preventive Health '86	3035	PV6060	14,991	6,809	7,678	14,487	504	-	
MCH '86	3036	PV6140	36,154	-	43,381	43,381	(7,227)	7,227	28
Family Planning '87	3038	3404	19,819	-	11,219	11,219	8,600	-	
Pohnpei Congregate Meal	3071	PV5092	122,839	97,431	21,441	118,872	3,967	-	
Aging Coordination	3072	PV5081-P2	75,216	58,456	8,239	66,695	8,521	-	
Aging Sup. Serv. '87	3074	PV7140	184,875	-	34,493	34,493	150,382	-	
Aging Sup. Serv. '87	3090	PV6080	216,151	68,156	152,386	220,542	(4,391)	4,391	29
			<u>768,026</u>	<u>276,930</u>	<u>342,913</u>	<u>619,843</u>	<u>148,183</u>	<u>39,827</u>	

STATE OF Pohnpei
 FEDERATED STATES OF MICRONESIA
 TTPI FEDERAL ASSISTANCE FUND, Continued

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

Grantor Account Title	Pohnpei Orgn. No.	TTPI I.D.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
TTPI Federal Assistance									
Dept. of Housing and Urban Development									
Hand Hydroelectric Energy Conserv. Prog. Brochures	3101	PB1012	\$ 40,000	\$ 5,118	\$ 16	\$ 5,134	\$ 34,866	\$ -	
Nett Peninsula Water System	3105	PB1014	-	-	27	27	(27)	27	29
Kitanw/Lukop Water System	3124	PB4012	170,297	80,860	48,449	129,309	40,988	-	
Kipar Water System	3125	PB4013	28,350	2,783	4,912	7,695	20,655	-	
CDBG Administration	3126	PB4014	62,850	128,183	13,340	141,523	(78,673)	78,673	29
Kitanw/Lukop Water System	3128	PB5012	20,200	11,042	210	11,252	8,948	-	
Sekere Water System	3131	PB5015	20,000	-	3,693	3,693	16,307	-	
Awak Water System	3133	PB5011	275	-	3,000	3,000	(2,725)	2,725	29
Supp. CDBG Ad.,m/ '85	3135	PB5020	12,673	2,988	22,110	25,098	(12,425)	12,425	29
Sokehs Multipurpose Crts.	3136	PB5021	34,000	-	10,212	10,212	23,788	-	
Kipar Water System	3137	PB5024	58,429	-	27,503	27,503	30,926	-	
Baseball Field Renov.	3140	PB5023	70,050	-	15,018	15,018	55,032	-	
	3158	PB5025	22,900	255	6,508	6,763	16,137	-	
			<u>540,024</u>	<u>231,229</u>	<u>154,998</u>	<u>386,227</u>	<u>153,797</u>	<u>93,850</u>	
Dept. of the Interior									
Historic Preservation '86	3401	PHE000	10,655	-	469	469	10,186	-	
Environmental Protection Agency									
EPA Sanitation	3020	PK7000	28,000	-	16,224	16,224	11,776	-	
EPA '86	3021	PK6010	74,400	68,468	(251)	68,217	6,183	-	
EPA '87	3092	PK7010	27,800	-	18,905	18,905	8,895	-	
			<u>130,200</u>	<u>68,468</u>	<u>34,878</u>	<u>103,346</u>	<u>26,854</u>	<u>-</u>	
Dept. of Labor									
Title V SCSEP	3037	PC7040	89,734	-	75,946	75,946	13,788	-	
Unknown									
Forestry Project	3104	Unknown	16,603	2,350	8,454	10,804	5,799	-	
Miscellaneous Organizations									
Federal Grants -									
Education	3310	N/A*	-	-	(154,829)	(154,829)	154,829	154,829	29
1986 Federal Grants-Health	3320	N/A	-	-	42,407	42,407	(42,407)	42,407	30
1986 Federal Grants-Public Works	3330	N/A	-	-	55,591	55,591	(55,591)	55,591	30
1986 Federal Grants-C&RS	3349	N/A	-	-	7,447	7,447	(7,447)	7,447	30
1986 Federal Grants-Lands	3350	N/A	-	-	507	507	(507)	507	30
			<u>-</u>	<u>-</u>	<u>(48,877)</u>	<u>(48,877)</u>	<u>48,877</u>	<u>260,781</u>	
Total TTPI Federal Assistance Fund			<u>\$7,214,467</u>	<u>\$1,989,670</u>	<u>\$3,398,392</u>	<u>\$5,388,062</u>	<u>\$1,826,405</u>	<u>\$ 502,292</u>	

* Based on the manner of recording transactions in these summary organizations, individual grant expenditures and the associated grant numbers could not be ascertained.

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

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

Grantor Account Title	Pohnpei Orign. No.	TTPI I.D.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
<u>Direct Federal Assistance</u>									
<u>Federal Emergency Management Agency</u>									
Typhoon Lola Fema Fund	8118	CFDA 83.516	\$ 414,990	\$ 312,452	\$ 78,697	\$ 391,149	\$ 23,841	\$ -	
<u>Dept. of Justice</u>									
Pohnpei Upward Bound Program	8106	CFDA 16.540	48,291	73,041	546	73,587	(25,296)	25,296	31
<u>OTIA</u>									
Technical Assistance Grant	8121	CFDA 15.875	25,000	-	15,341	15,341	9,659	-	
<u>Dept. of Labor</u>									
JTPA Trainee Federal Relations	8122	CFDA 17.246	3,085	48	4,299	4,347	(1,262)	1,262	31
<u>Dept. of Education</u>									
Teacher Training	8126	CFDA 84.124A	26,300	-	12,616	12,616	13,684	-	
Total Direct Federal Assistance			517,666	385,541	111,499	497,040	20,626	26,558	
<u>Other Direct Grants</u>									
<u>Leo Etscheit</u>									
Etscheit Attorney's Fund	8115	None	50,000	39,237	10,823	50,060	(60)	60	31
<u>MS Matson</u>									
Sea Turtle Project Oruluk	8114	None	5,000	1,871	1,234	3,105	1,895	-	
<u>State of Kosrae</u>									
Hospital Contrib. Fund	8113	None	7,402	7,187	16,038	23,225	(15,823)	15,823	31
<u>Unknown</u>									
Japan/Pohnpei Student Exch. Ag. Regeneration Program	8120	None	18,260	8,203	3,361	11,564	6,696	-	
Moakilloa Airstrip Repair	8123	None	25,363	-	14,190	14,190	11,163	-	
Medical Officer Train	8124	None	24,647	-	24,646	24,646	1	-	
Voc. Agriculture (prep)	8125	None	18,414	-	12,671	12,671	5,743	-	
	8127	None	8,145	-	3,118	3,118	5,027	-	
	8129	None	5,769	-	4,629	4,629	1,140	-	
			100,588	8,203	62,615	70,818	29,770	-	
Total Other Direct Grants			162,990	56,498	90,710	147,208	15,782	15,883	
Total Other Federal and Direct Assistance Fund			\$ 680,656	\$ 442,039	\$ 202,209	\$ 644,248	\$ 36,408	\$ 42,441	

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

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

Grantor Account Title	Pohnpei Orgn. No.	Pohnpei P. L.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
Chapter I (Block Grant)	3511	1L-134-87	\$ 69,100	\$ -	\$ 24,213	\$ 24,213	\$ 44,887	\$ -	
Chapter II (Block Grant)	3512	1L-134-87	110,500	-	2,615	2,615	107,885	-	
PICS Physical Educ. Program	3514	1L-134-87	5,000	-	3,461	3,461	1,539	-	
Equipment for Home Art	3515	1L-134-87	6,000	-	753	753	5,247	-	
Health & Medical Referral	3611	1L-120-87	367,783	-	295,412	295,412	62,371	-	
Medical Services E/G	3612	1L-134-87	6,000	-	5,061	5,061	939	-	
Medical Referral Prior OB	3613	1L-134-87	900,000	-	344,390	344,390	555,620	-	
Post Secondary Scholar Prog.	3701	1L-149-87	349,783	-	25,534	25,534	324,249	-	
Total Compact of Free Association Block Grant Fund - Section 221 (b)			\$1,804,166	\$ -	\$701,429	\$701,429	\$1,102,737	\$ -	

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

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

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

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

Account Title	Pohnpei Orgn. No.	Grant I.D.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
* Recruit & Proc./ Perso.	5013	MOU-08M-2	\$ 140,000	\$ 19,713	\$ 26,293	\$ 46,006	\$ 93,994	\$ -	
* BIOMED Spare Part EQ	5014	MOU-08M-2	125,000	68,988	3,195	72,183	52,817	-	
* Structural Roofing	5015	MOU-08M-2	100,000	69,244	98	69,342	30,658	-	
Rehab. Water Boiler Pipe	5019		40,000	-	12,606	12,606	27,394	-	
** Personnel Serv. & Benefit	5045	A370.800M	525,000	522,138	3,143	525,281	(281)	281	33
** Misc. Maintenance	5051	A370.800M	164,812	167,258	60	167,318	(2,506)	2,506	33
* Skilled Personnel	5057	MOU-08M-3	110,000	16,126	18,932	36,058	74,942	-	
Technical Training	5060		40,000	-	2,467	2,467	37,533	-	
* Renovation PICS Sch.	5061	MOU-08M-3	125,000	14,559	450	15,009	109,991	-	
** Utilities	5062	MOU-08M-3	150,000	62,145	13,053	75,198	74,802	-	
Health Services	5100	Unknown	-	-	6,915	6,915	(6,915)	6,915	34
Public Works	5200	Unknown	-	-	183,215	183,215	(183,215)	183,215	34
Total Dept. of the Interior O&M Grants Fund			\$1,519,812	\$940,171	\$270,427	\$1,210,598	\$309,214	\$192,917	

* These grants are directly received from the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear a CFDA # of 15.875. The sum of these direct grants is \$64,088.

** These grants are received in a subgrant capacity from the Trust Territory Government.

STATE OF Pohnpei
 FEDERATED STATES OF MICRONESIA
 TTPI CAPITAL PROJECTS FUND

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

Account Title	Pohnpei Orgn. No.	TTPI I.D.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
Pohnpei State Power Upgrade	4004	Unknown	\$ 76,759	\$ 54,359	\$ 1,128	\$ 55,487	\$ 21,272	\$ -	
Kolonia Water System	4005	T-512	2,057,000	285,583	2,352	287,935	1,769,065	-	
State Admn. Cost	4010	Unknown	335,000	31,422	17,237	48,659	286,341	-	
Kolonia Electrical Distribution	4013	Unknown	175,000	27,303	1,411	28,714	146,286	-	
Pohnpei Water Resources Inves.	4014	Unknown	33,000	-	275	275	32,725	-	
Power Improvement Upgrade	4015	Unknown	75,000	-	25,000	25,000	50,000	-	
Historical Preservation	4020	Unknown	-	-	3,809	3,809	(3,809)	3,809	32
Public Works	4050	Unknown	-	-	230,022	230,022	(230,022)	230,022	32
Total Dept. of the Interior TTPI Capital Projects Fund			<u>\$2,751,759</u>	<u>\$398,667</u>	<u>\$281,234</u>	<u>\$679,901</u>	<u>\$2,071,858</u>	<u>\$233,831</u>	

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211
(CFDA NO. 15.875)

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

Grantor Account Title	Pohnpei Orgn. No.	Pohnpei P. L.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailled At Page
Airport Terminal Project	4101	1L-120-87	\$1,000,000	\$ -	\$325,795	\$325,795	\$ 674,205	\$36,000	33
Airport Runway Renovation Program	4102	1L-120-87	124,405	-	117,736	117,736	6,669	-	-
Paliapali Road Project	4104	1L-134-87	60,000	-	9,728	9,728	50,272	-	-
Arenas Kapw Training Program	4106	1L-120-87	24,000	-	24,002	24,002	(2)	-	-
Purchase of 3 School Buses	4107	1L-140-87	39,000	-	16,272	16,272	22,728	-	-
Marine Res. Matching Fund	4108	1L-143-87	49,600	-	28,177	28,177	21,423	-	-
Pepper Dev. Prog.	4109	1L-134-98	35,650	-	18,534	18,534	17,116	-	-
Mwoakilloa Airfield Renov.	4110	1L-134-87	22,000	-	45,968	45,968	(23,968)	23,968	33
Pingelap Airfield Renov.	4111	1L-134-87	137,000	-	16,933	16,933	120,067	-	-
Sapwuhfik Airfield Const.	4112	1L-134-87	60,000	-	171	171	59,829	-	-
Police Officer Train. Prog.	4121	1L-134-87	17,000	-	8,400	8,400	8,600	-	-
Const. of Supreme Court	4122	1L-134-87	96,720	-	17,376	17,376	79,344	-	-
Rd. Maintenance Fund	4182	1L-134-87	130,000	-	12,378	12,378	117,622	-	-
Total Compact of Free Association Capital Project Fund - Section 211			\$1,795,375	\$ -	\$641,470	\$641,470	\$1,153,905	\$59,968	

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

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

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA
CFSM CAPITAL PROJECTS FUND

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

Account Title	Pohnpei Orgn. No.	CFSM P.L.No.	Total Authori- zations	Prior Year Expend- itures	1987 Fiscal Year Expenditures	Total Program Expenditures	Excess (Deficit) Authorizations Over Program Expenditures	Questioned Costs	
								Amount	Detailed At Page
CFSM State Appropriations:									
Classroom Proj. Summary	6000	4-93	\$ -	\$ -	\$ 32,661	\$ 32,661	\$ (32,661)	\$ 32,661	(A)
Land Management	6001	4-93	18,000	-	15,202	15,202	2,798	-	
Outer Island Affairs	6002	4-93	9,000	-	8,677	8,677	323	-	
Dept. of Justice Computer Correction & Rehab. Sect. 2	6004	4-93	5,000	-	850	850	4,150	-	
Aramas Kapw	6005	4-93	10,000	-	8,685	8,685	1,315	-	
Congressional Election	6006	4-93	14,000	-	14,000	14,000	-	-	
Leprosy Prevention Prog.	6008	4-93	35,900	-	33,264	33,264	2,636	-	
PNI State Dev. Loan Fund	6010	4-93	7,436	2,880	4,646	7,526	(90)	90	(A)
Special Education	6012	4-93	70,000	-	70,000	70,000	-	-	
Vocational Education	6014	4-22	10,000	9,824	119	9,943	57	-	
Ag. Dev. Matching Fund	6015	4-22	10,000	6,566	341	6,907	3,093	-	
PICS Library	6016	4-22	62,500	71,792	42,400	114,192	(51,692)	51,692	(A)
Medical & Dental Supp.	6017	4-22	10,000	4,832	11	4,843	5,157	-	
Elem. Educa. Computer	6021	4-93	75,000	-	45,341	45,341	29,659	-	
PNI Public Library	6022	4-93	5,000	-	3,744	3,744	1,256	-	
National Crimes	6023	4-93	10,000	-	10,000	10,000	-	-	
Mand/Dolosowi Powe/ Pah Rd.	6024	4-93	47,114	-	37,134	37,134	9,980	-	
Pohnlangas Farm Rd.	6067	4-93	3,000	-	10,000	10,000	(7,000)	7,000	(A)
PNI Sport Council	6075	4-93	2,000	-	2,000	2,000	-	-	
Kolonia Equipment	6108	4-93	7,000	-	2,960	2,960	4,040	-	
Kol. Sch. Toilet Facility	6132	4-22	17,000	16,746	(908)	15,838	1,162	-	
Ohmirne Sch. Classrooms	6133	4-22	8,000	-	5,008	5,008	2,992	-	
Kolonia Sch. Classrooms	6134	4-22	30,000	-	29,918	29,918	82	-	
Water Sealed Toilet Proj.	6135	4-22	45,000	-	14,310	14,310	30,690	-	
Sapwuhfik Mun. Operation	6165	4-22	3,000	1,037	830	1,867	1,133	-	
Rahnlapalal Sapwuhfik	6166	4-22	14,533	10,529	2,797	13,326	1,207	-	
Nukuoro Mun. Operation	6167	4-22	2,447	2,296	5,516	7,812	(5,365)	5,365	(A)
Nukuoro Youth Dev.	6176	4-93	-	5,588	2,005	7,593	(7,593)	7,593	(A)
March 15 Celebration	6179	4-93	-	6,891	6,205	13,096	(13,096)	13,096	(A)
Kapinga Con Con	6195	4-93	-	3,000	2,760	5,760	(5,760)	5,760	(A)
PNI Supreme Court	6198	4-22	10,000	375	38,490	38,865	(28,865)	28,865	(A)
CFSM Prior Year End	6402	4-22	30,000	81,867	22,407	104,274	(74,274)	74,274	(A)
	6998	Unknown	-	161,440	(10,781)	150,659	(150,659)	150,659	(A)
			570,930	385,663	460,592	846,255	(275,325)	377,055	
Out of bal. cond. in sub-ledger status			-	-	(21,864)	(21,864)	(21,864)	21,864	
Total CFSM State appropriations			\$570,930	\$385,663	\$438,728	\$824,391	\$(253,461)	\$398,919	

(A) Questioned costs represent current year expenditures exceeding total authorizations.

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

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

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

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

<u>Grantor</u>	<u>TPI Grant No.</u>	<u>Pohnpei Org. No.</u>	<u>Description</u>	<u>Fiscal Year 1987 Expenditures</u>
<u>TPI Federal and Other Assistance Fund</u>				
Dept. of Agriculture	PE6010	3088	FY 1986 Food Services Program	\$ 876,205
	PE7010	3099	FY 1987 Food Services Program	424,499
				<u>1,300,704</u>
Dept. of Education	PA6100	3087	Chapter I - FY 1987	275,603
	PA7100	3096	Chapter I - FY 1987	351,254
	Total Chapter I			<u>626,857</u>
	PA6200	3086	Chapter II - FY 1986	327,724
	PA7200	3095	Chapter II - FY 1987	294,201
	Total Chapter II			<u>621,925</u>
	Total Dept. of Education			<u>1,248,782</u>
	Total TPI Federal Assistance Fund			<u>2,549,486</u>
Office of Territorial and International Affairs, Department of the Interior, CFDA # 15.875:				
	Compact of Free Association, Section 211(a) Operating Funds			10,343,213
	Compact of Free Association Block Grant Fund, Title Two, Article I, Section 221(b)			701,429
	Compact of Free Association Capital Project Fund, Title Two, Article I, Section 211			641,470
	Technical Assistance Grant - Org. #8106			15,341
	Operations and Maintenance (O&M) Grants Fund			64,088
	Total CFDA #15.875			<u>11,765,541</u>
	Total grants selected for examination			<u>\$14,315,027</u>
	Total federal grant assistance expenditures			<u>\$15,747,664</u>
	Percentage of grant assistance expenditures tested			<u>91%</u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

SUMMARY OF QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1987

<u>Grantor</u>	<u>TTPI Grant No.</u>	<u>Pohnpei Org.No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
<u>TTPI Federal and Other Assistance Fund</u>					
Dept. of Agriculture	PE6010	3088	Food Serv. Prog.	\$ 18,919	24
	PE7020	3097	Nutri. Ed. Prog.	33	25
	PE7010	3099	Food Serv. Prog.	2,539	25
				<hr/>	
				21,491	
Dept. of Education	PA6506	3080	Bilingual Train.	49,688	26
	PA6401	3084	Voc. Rehab. Adm.	25,415	26
	PA6200	3086	Chapt. II 1986	9,459	27
	PA6100	3087	Chapt. I 1986	1,781	28
				<hr/>	
				86,343	
Dept. of Health & Human Serv.	PV6010	3031	SHPDA	20,662	28
	PV7140	3033	MCH 1987	7,547	28
	PV6140	3036	MCH 1986	7,227	28
	PV6080	3090	Aging Supp. Serv. '87	4,391	29
				<hr/>	
				39,827	
Dept. of Housing & Urban Dev.	Unknown	3105	Energy conserv. Brochures	27	29
				<hr/>	
Dept. of Housing & Urban Dev.	PB4014	3126	Kipar Water sys.	78,673	29
	PB5011	3133	Sekere Water sys.	2,725	29
	PB5020	3135	Awak Water sys.	12,425	29
				<hr/>	
				93,823	
Miscellaneous Orgs.	N/A	3310	Fed. Grants Educ.	154,829	29
	N/A	3320	Fed. Grants Health '86	42,407	30
	N/A	3330	Fed. Grants Pub. Works '86	55,591	30
	N/A	3340	Fed. Grants C&RS '86	7,447	30
	N/A	3350	Fed. Grants Lands '86	507	30
				<hr/>	
				260,781	
Total TTPI Federal Assistance Fund					
Questioned Costs				<hr/>	
				502,292	

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

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

<u>Grantor</u>	<u>TTPI Grant No.</u>	<u>Pohnpei Org.No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
<u>Other Federal & Direct Assistance Fund</u>					
Dept. of Justice	N/A	8106	Pohnpei Upward Bound	\$ 25,296	31
Unknown	N/A	8115	Etscheit Attorney's Fund	60	31
State of Kosrae	N/A	8113	Hospital Contrib. Fund	15,823	31
Unknown	N/A	8122	JTPA Trainee Fed. Relation	1,262	31
Total Other Federal and Direct Assistance Fund Questioned Costs				42,441	
<u>Operations & Maintenance Fund</u>					
TTPI & FSM National Gov't.					
	N/A	5045	Personnel Serv. & Benefit	281	33
	N/A	5051	Misc. Mainten.	2,506	33
Miscellaneous Orgs.					
	N/A	5100	Health Services	6,915	34
	N/A	5200	Public Works	183,215	34
Total Operations & Maintenance Fund Questioned Costs				192,917	
<u>TTPI Capital Projects Fund</u>					
Dept. of the Interior					
	Unknown	4020	Historical Preservation	3,809	32
Miscellaneous Orgs.					
	N/A	4050	Public Works	230,022	32
Total TTPI Capital Projects Fund Questioned Costs				233,831	

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

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

<u>Grantor</u>	<u>TTPI Grant No.</u>	<u>Pohnpei Org.No.</u>	<u>Description</u>	<u>Amount</u>	<u>Detailed at Page</u>
U.S. Dept. of the Interior, CDFA #15.875 Compact of Free Association Capital Project Fund - Title II, Article 1, Section 211					
N/A	N/A	4101	Airport Terminal Proj.	\$ 36,000	33
	N/A	4110	Mwoakilloa Airfield Renov.	<u>23,968</u>	33
Total Compact of Free Association Capital Project Fund - Title II, Article 5, Section 211 Questioned Costs				<u>59,968</u>	
 <u>CFSM Capital Project Fund</u>					
CFSM	N/A	Various Orgs.	CFSM State appropriations	<u>398,919</u>	34
Total CFSM Capital Projects Fund Questioned Costs				<u>398,919</u>	
Total Questioned Costs				<u>\$1,430,368</u> =====	

STATE OF Pohnpei
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. No formal system was established by Pohnpei State or the individual departments to ensure that OMB Circular A-102 compliance requirements are being met.

Recommendation

We recommend Pohnpei 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. Reconciliations are not performed between the program level accounting records and Pohnpei 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 Pohnpei 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. On several occasions, documentation supporting acquisitions could not be located, detailed property records were not maintained, and inoperative equipment had not been properly surveyed.

Recommendation

Departments which receive federal grants should obtain necessary detailed fixed asset 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 POHNPEI
 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

Finding

4. Individual grant program managers do not always appear to be aware of, and in some cases cannot provide documentation of, terms and conditions of their particular grant award.

Recommendation

Grant program managers should request copies of all pertinent documentation relating to their grant award from the primary recipient, the FSM National Government.

Finding

5. Numerous original budget levels reflected on the 132-P report did not reconcile to the FSM and the State of Pohnpei Budget Office allotment advices as of September 30, 1987. We were unable to ascertain the exact reasons for the discrepancies; however, it appears that the FSM allotment advices are not being input into the DILOG accounting system upon receipt.

Recommendation

Funds allotted to the State of Pohnpei 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 POHNPEI
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

Treasury/Cash Management

Finding

Pohnpei State utilized Compact fund cash, authorized for Special Block Grants and Capital accounts, to liquidate other liabilities. While such has no effect on the total budgetary amount available for expenditure in the above funds, future outlays could be restricted if cash shortages continue.

Recommendation

Pohnpei State should prepare a quarterly cash forecast for these special fund types and ensure cash is utilized in accordance with the grant and legislative approval.

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

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

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
----------------	----------------	--	-------------------------

TTPI Federal Assistance Fund

U.S Dept. of Agriculture
Food Services Program FY 86
Org. 3088

1. Despite repeated inquiries, neither the State nor National Government Food Service officials were able to produce a copy of the grant award indicating terms and conditions of the award.
2. The accounting records maintained at the State Food Service office differed materially from the 132-P subledger status report maintained at the Division of Finance indicating a lack of timely reconciliations.
3. Receiving reports are prepared by the Food Service Stock Supervisor but are not reconciled to the vendor invoice, as invoices are sent to the Division of Finance with the vendor's copy of the purchase order. Hence, it appears the State has no assurance that goods that are paid for were received.
4. No formal documentation was provided to indicate that the 30% matching requirement of the National School Lunch Program had been waived for Pohnpei State.
5. Based on tests of 17 non-personnel expenditures for a total of \$59,400, two transactions were improperly classified as follows:

<u>Sub Account</u>	<u>Doc.#</u>	<u>PV#</u>	<u>Amount</u>	
POL	L7011901	80574	\$ 250	
Food stuff	TC-54		<u>18,669</u>	\$ <u>18,919</u>

Review of supporting documentation indicates the POL expenditure should have been recorded under food stuffs and the food stuff expenditure is actually a payroll expenditure.

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Agriculture	Nutrition Education FY 87 Org. 3097	Total expenditures exceed total authorizations.	\$ <u>33</u>	
	Food Services Program FY 87 Org. 3099	<ol style="list-style-type: none"> 1. Despite repeated inquiries, neither the State nor National Government Food Service officials were able to produce a copy of the grant award indicating terms and conditions of the award. 2. The accounting records maintained at the State Food Service office differed materially from the 132-P sub-ledger status report maintained at the Division of Finance indicating a lack of timely reconciliations. 3. Receiving reports are prepared by the Food Service Stock Supervisor but are not reconciled to the vendor invoice, as invoices are sent to the Division of Finance with the vendor's copy of the purchase order. Hence, it appears the State has no assurance that goods that are paid for were received. 4. No formal documentation was provided to indicate that the 30% matching requirement of the National School Lunch Program had been waived for Pohnpei State. 5. Per our review of the monthly reports for three different schools, we found that meal counts differed between those reported to TTPI and those reported by the schools. (PICS high school, Ohmine, and Sokehs Powe in December, 1986). 6. Based on 10 non-personnel expenditures selected for testing totaling \$19,283, three appeared to be non-program related transactions. Review of supporting documentation shows the travel and other charges were for an unrelated PREP conference in Hawaii. The professional services were for repair of a damaged Pohnpei State Government vehicle. 		
	Sub- Account	Doc.#	PV#	Amount
	Travel	T70490	85873	\$ 789
	Prof. Serv.	L7242301	87727	1,550
	Other Chrgs.	Unknown	84948	200
				<u>2,539</u>

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Education	Bilingual Training Program FY 1986 Org. 3080	Total expenditures exceed total authorizations.	\$ <u>49,688</u>
	Vocational Rehabilitation Administration FY 1986 Org. 3084	Total expenditures exceed total authorizations	<u>25,415</u>
	Chapter II Program FY 1986 Org. 3086	<ol style="list-style-type: none"> 1. No documentation could be provided indicating that federal funds supplement rather than supplant the State's Chapter II programs. 2. Program administrators were unfamiliar with and could not provide documentation waiving the compliance requirement that preceeding year expenditures must be at least 90% of the second preceeding year's expenditures. 3. Based on our observation of the Chapter II program's filing retention system, we found it inadequate to reference prior year documentation in a timely manner. 	

STATE OF PONPEI
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Education
Chapter II Program
FY 87
Org. 3086

- We could not find formal documentation of the requirement waiver indicating that all students in Micronesia are designated as educationally deprived.
- Based on 16 non-personnel expenditures selected for testing totaling \$82,277, two appeared to be misclassified expenditures.

<u>Sub-Account</u>	<u>Doc.#</u>	<u>PV#</u>	<u>Amount</u>
Furn. & Fix.	L7018201	82836	\$2,630
Freight	P7003901	82125	6,829

\$ 9,459

Per review of supporting documentation, the furniture and fixture expenditure was actually for two motorcycles that should have been charged to equipment and machinery. The freight expenditure also included the cost of new computer equipment which should have been charged to equipment and machinery.

Chapter I Program
FY 1986
Org. 3087

- No expenditure analysis could be provided indicating that federal funds supplement rather than supplant the State's Chapter I programs.
- Program administrators were unfamiliar with and could not provide documentation waiving the compliance requirement that preceding year expenditures must be at least 90% of the second preceding year's expenditures.
- Based on our observation of the Chapter I program's filing retention system, we found it inadequate to produce prior year documentation in a timely manner.
- We could not find formal documentation of the requirement waiver indicating that all students in Micronesia are designated as educationally deprived.

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Education	Chapter I Program FY 1986 Org. 3087	5. Based on 12 non-personnel expenditures selected for testing totaling \$36,937, one appeared to be charged against a closed purchase order.									
		<table border="1"> <thead> <tr> <th><u>Sub- Account</u></th> <th><u>Doc.#</u></th> <th><u>PV#</u></th> <th><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>Books & Lib.</td> <td>P6044901</td> <td>070736</td> <td>\$ 1,781</td> </tr> </tbody> </table>	<u>Sub- Account</u>	<u>Doc.#</u>	<u>PV#</u>	<u>Amount</u>	Books & Lib.	P6044901	070736	\$ 1,781	\$ <u>1,781</u>
<u>Sub- Account</u>	<u>Doc.#</u>	<u>PV#</u>	<u>Amount</u>								
Books & Lib.	P6044901	070736	\$ 1,781								
	Chapter II Program FY 1987 Org. 3095	Although total expenditures exceed total authorizations, the Pohnpei State Legislature appropriated funds from the block grant section of the Compact to cover Chapter II program expenditures during the "GAP" transition period from January 1, 1987 through June 30, 1987, when no federal funds were received from the U.S. Dept. of Education. Hence, these excess expenditures are not questioned.									
	Chapter II Program FY 1987 Org. 3096	Same as Chapter 2 1987 Org. 3095 above.									
U.S. Dept. of Health and Human Services	SHPDA Org. 3031	Total expenditures exceed total authorization.	<u>20,662</u>								
	MCH FY 1987 Org. 3033	Total expenditures exceed total authorizations.	<u>7,547</u>								
	MCH FY 1986 Org. 3036	Total expenditures exceed total authorizations.	<u>7,227</u>								

STATE OF PONPEI
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Services	Aging Supp. Services FY 1987 Org. 3090	Total expenditures exceed total authorizations.	\$ <u>4,391</u>
U.S. Dept. of Housing and Ur- ban Develop- ment	Energy Conservation Brochures Org. 3105	Total expenditures exceed total authorizations.	<u>27</u>
	Kipar Water System Org. 3126	Total expenditures exceed total authorizations.	<u>78,673</u>
	Sekere Water Sys. Org. 3133	Total expenditures exceed total authorizations.	<u>2,725</u>
	Awak Water System Org. 3135	Total expenditures exceed total authorizations	<u>12,425</u>
Miscellaneous Orgs.	Federal Grants Education Org. 3310	During the initial part of fiscal year 1987, federal grant and capital improvement project expenditures were recorded cumulatively in a limited number of organization accounts. It was realized that it would be difficult to match expenditures to their respective grant using this cumulative accounting method. Hence, an attempt was made to separate grants into individual organizations. The process was not completed prior to year end and residual amounts remain in the cumulative organization account. These residual amounts are questioned due to lack of budget authorization and proper account classification.	<u>154,829</u>

STATE OF PONPEI
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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>			
Miscellaneous Orgs.	Federal Grants Health FY 1986 Org. 3320	Same as Federal Grants Education Org. 3310 above.	\$ <u>42,407</u>
	Federal Grants Public Works FY 1986 Org. 3330	Same as Federal Grants Education Org. 3310 above.	<u>55,591</u>
	Federal Grants C&RS FY 1986 Org. 3340	Same as Federal Grants Education Org. 3310 above.	<u>7,447</u>
	Federal Grants Lands FY 1986 Org. 3350	Same as Federal Grant Education Org. 3310 above.	<u>507</u>
Total TIPI Federal Assistance Fund Questioned Costs			<u>502,292</u>

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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>Other TPI and Direct Assistance Fund</u>			
U.S. Dept. of Justice	Pohnpei Upward Bound Program Org. 8106	Total expenditures exceed total authorizations	\$ <u>25,296</u>
Unknown	Etscheit Attorney's Fund Org. 8115	Total expenditures exceed total authorizations	<u>60</u>
State of Kosrae	Hospital Contribution Fund Org. 8113	Total expenditures exceed total authorizations.	<u>15,823</u>
Unknown	JTPA Trainee Federal Relations Org. 8122	Total expenditures exceed total authorizations.	<u>1,262</u>
Total Other Federal and Direct Assistance Fund Questioned Costs			<u>42,441</u>

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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 Capital Projects Fund</u>			
Dept. of the Interior	Historical Preservation Org. 4020	Total expenditures exceed total authorizations.	\$ <u>3,809</u>
Miscellaneous Orgs.	Public Works Org. 4050	During the initial part of fiscal year 1987, federal grant and capital improvement project expenditures were recorded cumulatively in a limited number of organizations. It was realized that it would be difficult to match expenditures to their respective grant using this cumulative accounting method. Hence, an attempt was made to separate grants into individual organizations. The process was not completed prior to year end and residual amounts remain in the cumulative organization. These residual amounts are questioned due to lack of budget authorization and proper account classification.	<u>230,022</u>
Total TTPI Capital Projects Fund Questioned Costs			<u>233,831</u>
<u>U.S. Dept. of the Interior</u> <u>CFDA #15.875, Compact of Free Association Capital Project Fund - Title II, Article I, Section 211</u>			
Federal Aviation Administration	Airport Terminal Project Org. 4101	<ol style="list-style-type: none"> 1. The manual ledger of expenditures related to the airport project maintained by the Public Works office of Construction Management did not include approximately \$10,000 in A&E charges reflected in the 132-P subledger status report at the State Division of Finance. 2. The State's on-site construction inspector is charging all initial expenditures incurred for the Airport Terminal Project against federal funds until all grant funds are exhausted and then will apply charges against locally appropriated funds. 3. Based on seven non-personnel expenditures selected for testing totaling \$325,795, the following appears to be a non-program related expenditure. 	

STATE OF Pohnpei
FEDERATED STATES OF MICRONESIA

SCHEDULE OF IDENTIFIED NON-COMPLIANCE AND INTERNAL CONTROL WEAKNESSES
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>Sub-Account</u>	<u>PV. #</u>	<u>CK#</u>	<u>Amount</u>	
<u>TIPI Capital Projects Fund</u>						
N/A	Airport Terminal Project Org. 4101	Other chrgs.	83836	21141	\$36,000	\$ 36,000
		Review of supporting documents showed that this expenditure was a portion of the \$200,000 matching requirement remitted to the FSM National Government, which was subsequently reimbursed to Pohnpei State. This expenditure should not be reflected as a direct cost to the construction project and hence, should not be included in requested reimbursements.				
	Mwoakilloa Airfield Renovation Org. 4110	Total expenditures exceed total authorizations.				23,968
Total Compact of Free Association Capital Project Fund Questioned Costs						59,968
<u>Operations and Maintenance Fund</u>						
<u>TIPI & FSM National Gov't.</u>						
	Personnel Services & Benefits Org. 5045	Total expenditures exceed total authorizations.				281
	Miscellaneous Maintenance Org. 5051	Total expenditures exceed total authorizations.				2,506

STATE OF PCHNPEI
FEDERATED STATES OF MICRONESIA

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

<u>Grantor</u>	<u>Program</u>	<u>Identified Non-compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
TTPI Capital Projects Fund			
Miscellaneous Orgs.	Health Services Org. 5100	During the initial part of fiscal year 1987, federal grant and capital improvement project expenditures were recorded cumulatively in a limited number of organizations. It was realized that it would be difficult to match expenditures to their respective grant using this cumulative accounting method. Hence, an attempt was made to separate grants into individual organizations. The process was not completed prior to year end and residual amounts remain in the cumulative organization. These residual amounts are questioned due to lack of budget authorization and proper account classification.	\$ <u>6,915</u>
	Public Works Org. 5200	During the initial part of fiscal year 1987, federal grant and capital improvement project expenditures were recorded cumulatively in a limited number of organizations. It was realized that it would be difficult to match expenditures to their respective grant using this cumulative accounting method. Hence, an attempt was made to separate grants into individual organizations. The process was not completed prior to year end and residual amounts remain in the cumulative organization. These residual amounts are questioned due to lack of budget authorization and proper account classification.	<u>183,215</u>
		Total Operations & Maintenance Fund Questioned Costs	<u>192,917</u>
CFSM Capital Projects Fund			
Congress of the FSM	State Appropriations Various Orgs.	Total expenditures exceeding total authorizations.	<u>398,919</u>
		Total Questioned Costs	<u><u>\$1,430,368</u></u>

STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA

RESOLUTIONS TO 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 Pohnpei for these TTPI federal grants fund expenditures.

Questioned costs resolved:

<u>Pohnpei Org.No.</u>	<u>Program Title</u>	<u>Amount</u>
3064	FY85 Food Services	\$ 484
3083	FY85 Nutrition Education	1,928
3065	Voc. Rehab - Case Service	441
3066	Voc. Rehab - Admin	3,849
3081	Chapter 2 - Parental Role	1,617
3082	Chapter 2 - Postive School Climate	14,082
3089	Teacher Training	12,436
3025	SHPDA	185
3026	Preventive Health	3,000
3031	SHPDA	10,219
3035	Preventive Health	3,538
3121	FY80 CDBG Admin	5,012
3126	Kiper Water System	10,992
3128	FY84 CDBG Admin	2,080
3130	Mesihsou Water System	1,725
3051	SCSEP Title V	121
		<u>\$ 71,709</u>
		=====

2. Questioned costs from the September 30, 1985, audit report for which the allotment authority was located have been resolved.

3004	JTPA Summer Program	\$ 61,198
		=====

Summary of questioned costs unresolved at September 30, 1987.

Outstanding amount for the year ended September 30, 1984	\$ 29,020
Outstanding amount for the year ended September 30, 1985	319,822
Outstanding amount for the year ended September 30, 1986	663,627
	<u>\$1,012,469</u>
	=====