

STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA

LETTER ON INTERNAL CONTROLS

YEAR ENDED SEPTEMBER 30, 1987

Auditors' Report on Internal  
Accounting Control

Honorable Resio S. Moses  
Governor  
State of Pohnpei

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

The management of the State is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with statutory authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

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

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the State taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and

evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the State of Pohnpei may occur and not be detected within a timely period. These matters are set forth in the accompanying pages.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1987 financial statements and this report does not affect our report on the financial statements dated January 4, 1988.

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

January 4, 1988



Certified Public Accountants

GENERAL COMMENTS

Fiscal year 1987 marked the fourth year the State of Pohnpei has been subjected to an independent examination of its financial statements. Fiscal year 1987 also marked the implementation of the Compact of Free Association with the United States of America which commences fifteen years of compact funding. With the dissolution of the Trust Territory Government, the majority of the State's operational and capital drawdowns are now received by a capital management firm retained as a trustee of the compact funds. It was noted that a very conscientious effort is being made to manage and utilize these compact funds in the best way possible. Other noted strengths in the management of the State's fiscal affairs are as follows:

1. The discontinued practice of making transaction entries directly to the Dilog general ledger, via a TC-40, greatly decreased the number of mispostings and subsequent correction attempts to the State's general ledger. In addition, the avoidance of direct general ledger entry prevented the occurrence of material out of balances between the revenue and expense sub-ledgers and general ledger control balances, as was the case in the previous fiscal year.
2. The entire staff within the Department of Treasury should be commended for their ability to close the 12th period so soon after the fiscal year end allowing audit field work to commence promptly. Also, for the first time, the Department of Treasury prepared year end financial statements that did not materially differ from our pre-audit financial statement compilation.
3. Supporting documentation for expenditure transactions was basically found to be adequate, as was the attendant filing system. We also noted a diligent effort made in the area of account classification of expenditures based on the current year organization chart.
4. The task of promulgating standard financial management regulations was undertaken by the Department of Treasury staff during fiscal year 1987. These regulations will provide a firm foundation for managing the State's fiscal affairs in the future.
5. Beginning in November of 1987, the Department of Treasury established a policy to set aside one day of every month for performing reconciliations on all accounts.

Despite the above strengths and continued improvement, there continued to be areas of basic internal control weaknesses that are discussed in detail in the findings and recommendations section of this letter and are discussed in general below:

1. Basic monthly reconciliation procedures continued to be neglected by Pohnpei State during fiscal year 1987, leaving uncorrected errors in cash, accounts payable, accrued payroll liabilities, and encumbrances.

2. The non-segregation of duties in the processing of cash receipts is an evident internal control weakness over cash.
3. The lack of documented policy within the Revenue and Tax Division and the Utilities Division hinders the establishment of consistent procedures for handling long outstanding accounts and general operations.
4. Procedures for maintaining the General Fixed Assets Account Group are not being consistently followed.
5. Improvement was made in the filing of documentation to support data in the automated payroll master file, but some occurrences of unlocated support documents were noted.

#### ACCOUNTING ADVISOR

Pohnpei State hired an accounting advisor in February of fiscal year 1987. His role is to assist in the processing of daily transactions, train Treasury Department personnel in using the automated accounting system, and review the system generated accounting output information for proper utilization. Based on the marked improvement in financial information provided us at year end and based on its timeliness, it appears as this approach of hiring advisors will enhance Pohnpei State's ability to generate reliable, timely financial information.

FINDINGS, RECOMMENDATIONS AND CLIENT RESPONSES

Set forth in this section of this management letter are specific internal control weaknesses and identified noncompliance with local law or established policy. Included therein are our recommendations for taking corrective action and in some cases, Pohnpei State's response. Sections of the management letter are divided into the following account groupings: cash, receivables, fixed assets, accounts payable/expenditures, encumbrances, travel authorizations, revenue collections, and general findings solely for presentation purposes.

CASH

Finding No. 1 - Bank Reconciliations

Unreconciled differences of \$44,000 and \$32,000 were disclosed in the general fund and payroll fund year end bank account reconciliations, respectively.

Recommendation No. 1

As noted in all prior year management letters, the importance of timely (monthly) bank reconciliations cannot be over-emphasized. It is the single best indicator of what an accounting entity's cash position is and is indicative of whether all cash related accounting transactions have been duly recorded. It is recommended that a continued effort to perform monthly bank reconciliations be made, such reconciliations be reviewed by management and evidence of this review be indicated on the bank reconciliation.

Pohnpei State's Response No. 1

Monthly bank reconciliations are being performed in FY88, and are being reviewed by the management of the department.

Finding No. 2 - Treasury Personnel Segregation of Duties

No segregation of duties exist between Treasury Personnel who receive cash and record the TC-30 (cash receipt), and personnel who prepare the deposit slip, the daily cash recap, and verify the daily cash recap report.

Recommendation No. 2

A systematic segregation of duties should be established to have one person receive cash and prepare the TC-30, one person prepare the daily cash recap report and deposit slip, and one senior personnel verify the daily cash recap report.

Pohnpei State's Response No. 2

Duties have now been segregated, as recommended.

### Finding No. 3 - Daily Cash Recap Reports

Sixteen of seventeen daily cash recap reports tested were not signed by a senior official verifying that an independent review was performed.

#### Recommendation No. 3

It is recommended that verification of the daily cash recap report be performed by an individual who is not involved in receipting, receiving or reconciling cash. This individual should evidence review by signing the daily cash recap. In addition, we suggest wire transfers appear as a separate line item on the daily cash recap report.

#### Pohnpei State's Response No. 3

The daily report is now being verified by the Settlements Manager and wire transfers are being listed separately.

### Finding No. 4 - Handling of NSF Checks

It was observed that checks returned as non-sufficient funds (NSF) were being handled by a treasury staff employee who processes cash receipts. This represents a serious cash control weakness. Additionally, upon receipt of an NSF check, no entry was made to record a receivable.

#### Recommendation No. 4

Upon receipt of the NSF check, an appropriate adjusting entry should be prepared by a staff person independent of the treasury function to record the receivable. A copy of the NSF check should then be forwarded to Revenue and Taxation for collection.

#### Pohnpei State's Response No. 4

NSF checks are being treated as a receivable and are turned over to the Revenue Division immediately for collection.

### Finding No. 5 - Control of Unused Checks

It was observed that access to the check signing machine, signature plates, and unused checks is not adequately controlled which could lead to unauthorized disbursement of state funds.

#### Recommendation No. 5

It is recommended that unused checks be kept either in the safe or a locked room with access allowed only to authorized staff. The signature plates to the check-signing machine should be kept with the designated senior staff signator when not in use by authorized staff.

Pohnpei State's Response No. 5

The signature plate is now stored in the safe by the cashier. Locks have been changed on both doors of the computer room to improve security over blank checks; however, a more secure storage site is being sought.

Finding No. 6 - Public Land Trust Fund Cash Control

Only three large cash deposits were made of public land lease revenue collections by the Public Land Trust Fund to the State Treasurer during fiscal year 1987. This indicates that significant cash amounts are being maintained at the Public Lands Office.

Recommendation No. 6

Deposits should be made on a more timely basis accompanied by copies of prenumbered receipts.

Pohnpei State's Response No. 6

The State concurs with the cash control weakness of this practice and steps will be taken to see that more timely deposits are made by the Public Land Trust Fund of lease revenue.

RECEIVABLES

Finding No. 7 - Utilities Division Billings

The Utilities Division is not utilizing prenumbered customer invoices. This hinders the accurate recording of receivables and payments made against those receivables in the customer subsidiary ledger.

Recommendation No. 7

Customer invoices should be prenumbered and the invoice number recorded in the customer subsidiary ledger. Payments made should be applied to the proper outstanding invoice.

Pohnpei State's Response No. 7

The utilities software package, incorporating the above recommendations, is scheduled to be installed and in use by April, 1988.



### Finding No. 8 - Utilities Subsidiary Ledger

The current manual customer subsidiary ledger system utilized to account for utility billings does not inter-face with the automated Dilog general ledger. Thus, the utilities receivable balances in the sub-ledger do not agree with the general ledger control balance.

### Recommendation No. 8

Because of the significance of utility revenue to the total amount of local revenue collections, it is recommended that an automated sub-ledger be implemented for billings and collections which interfaces directly with Dilog.

### Pohnpei State's Response No. 8

Utility billings software for the computer system is scheduled to be installed by April of fiscal year 1988, providing the necessary interface.

### Finding No. 9 - Public Land Trust Fund Receivable

The Public Land Trust Fund has receivables on their books as far back as fiscal year 1979. It appears that an inadequate billing/collection system exists.

### Recommendation No. 9

The Public Land Trust Fund officials should implement a prenumbered customer billing system and establish a subsidiary customer ledger. This system could be used to help recover some of its long outstanding receivables for lease payments.

### Pohnpei State's Response No. 9

The Public Land Trust Fund officials indicated a prenumbered billing system was implemented during fiscal year 1987. An effort will be made to recover portions of the outstanding receivables.

### Finding No. 10 - Agriculture Revolving Fund Receivable

The Agriculture Revolving Fund has a \$31,259 receivable from the Division of Agriculture general fund operations account. Review of the fiscal year 1987 Budget Act shows no appropriation to the Agriculture Division for expenditures from the revolving fund. This amount then appears to represent expenditures in excess of legislative authorization.

Recommendation No. 10

The Agriculture Revolving Fund officials should require any government division to render a purchase order when acquiring supplies from the Agriculture Revolving Fund to ensure that expenditures are properly charged to the divisions' general fund account and that reimbursements are ultimately recorded to the Agriculture Revolving Fund.

Pohnpei State's Response No. 10

The officials of the Agriculture Revolving Fund have been advised of the need for documentation of all transactions.

FIXED ASSETS ACCOUNT GROUP

Finding No. 11 - Infrastructure and Buildings

The prescribed procedures for ensuring all infrastructure and buildings are being correctly recorded in the fixed asset group of accounts do not appear to be adequate.

Recommendation No. 11

Procedures should be documented in manual form for the recording of infrastructure and buildings into the fixed assets account group and a review performed periodically to ensure compliance therewith.

Pohnpei State's Response No. 11

A review is scheduled to begin in February, 1988. The documentation of procedures will be performed as soon as possible.

Finding No. 12 - Fixed Assets Account Group Capitalization

Established capitalization procedures with respect to fixed assets having values greater than \$250 are not being consistently applied. Capitalization of fixed assets with values less than \$250 could cause the listing for fixed assets to become too difficult to accurately maintain.

Recommendation No. 12

We suggest periodic review of the fixed asset listing by senior officials to ensure compliance with established procedures.

Pohnpei State's Response No. 12

The review will be performed in February, 1988.

ACCOUNTS PAYABLE/EXPENDITURES

Finding No. 13 - Unrecorded Liabilities

We noted a \$595,988 under-accrual of Tripler Medical referral billings and a \$218,986 under-accrual in other general liabilities. While significant problems in recording year end payables are attributable to the lack of having dual year processing in CAPPs, there also does not appear to be a systematic procedure for ensuring all vendor invoices are properly recorded.

Recommendation No. 13

It is recommended that all unpaid vendor invoices be reconciled monthly to CAPPs to highlight unpaid liabilities and to prevent the occurrence of over payments or duplicate payments. We also recommend that accounts payable vouchers be paid on a FIFO (first-in, first-out) basis. This will ensure that only the most current invoices are unpaid.

Pohnpei State's Response No. 13

Following review of Tripler Medical billings by Department of Treasury staff, it was found that Pohnpei State was being billed for patients from the other three FSM States. Also, the pending agreement in the Compact of Free Association states that the U.S. government will pay all amounts due Tripler from the FSM States prior to September 30, 1985. Pohnpei State previously has not actively addressed its liability to Tripler. Also, procedures have been recommended to the Department of Health Services to use Honolulu-based personnel in order to obtain more accurate, timely billings from Tripler.

Finding No. 14 - Accounts Payable Subsidiary Ledger (CAPPs) and General Ledger Control (DILOG)

Due to prior years direct entry to the general ledger control account, the accounts payable detail remains out of balance with numerous individual fund general ledger accounts payable control accounts.

Recommendation No. 14

It is recommended that CAPPs and Dilog be reconciled on a monthly basis. This will ensure that material incorrect postings will be detected. This coupled with immediate follow-up of reconciling items will serve as a detective control.

Pohnpei State's Response No. 14

A monthly reconciliation of CAPPs and Dilog has begun. Also, opening general ledger balances will be reconciled more rigorously.

ENCUMBRANCES

Finding No. 15 - Encumbrance Reconciliation

Timely reconciliation of outstanding encumbrances to source documentation is not being performed, hence liquidated encumbrances remain within the total encumbrances balance at year end. From a statistically selected sample of thirty-one fiscal year 1987 year end outstanding encumbrances, nine should have been liquidated as of September 30, 1987. In addition, purchase order L61663, selected for testing could not be found.

Recommendation No. 15

As stated in the prior year management letter, it is recommended that all encumbrances be reconciled to source documentation on a monthly basis and the individual encumbrance status be maintained on the source document, as well as in the encumbrance status sub-ledger within the automated system.

Pohnpei State's Response No. 15

A quarterly reconciliation of encumbrance liquidations by source document and computer records has begun.

Finding No. 16 - Prior Year Encumbrances

Approximately \$1.2 million of fiscal year 1986 encumbrances, mainly federal grants, were included in the total encumbrances balance of September 30, 1987.

Recommendation No. 16

The same points noted in recommendation No. 15 may be applied to this finding.

Pohnpei State's Response No. 16

Pohnpei State is reviewing and preparing an amendment to the financial management act policy which currently makes encumbrances valid for three years. The planned amendment would automatically liquidate prior year encumbrances at the subsequent year end.

A clarification of the status of some federal grant encumbrances is being sought.

TRAVEL AUTHORIZATIONS

Finding No. 17 - Travel Vouchers

In eighteen of the twenty travel authorizations selected statistically for substantive testing, either a travel voucher was not submitted or no supporting documentation was submitted with the travel voucher.

Recommendation No. 17

It is recommended that official notice be sent to the State employee designated on an open travel authorization, stating that no travel voucher has been received. If no response is received in a timely period, a salary deduction schedule should be established to recover the amount of the travel advance.

Pohnpei State's Response No. 17

Pohnpei State has discussed implementing this recovery procedure. If the policy is to be implemented it will need Executive Branch approval.

Finding No. 18 - Prior Year Travel Authorizations

Sixty-one travel authorizations totalling approximately \$16,433, are delinquent in excess of one year. The likelihood of collection against these travel advances appears remote.

Recommendation No. 18

The same points noted in recommendation No. 17 may be applied to this finding.

Pohnpei State's Response No. 18

Delinquent travel advances will be charged to end-use accounts, beginning in fiscal year 1988.

## REVENUE COLLECTION

### Finding No. 19 - Revenue and Tax Procedures

We were unable to locate any clearly documented procedures for the Division of Revenue & Taxation.

### Recommendation No. 19

It is recommended that a procedural manual be developed which outlines standard accounting procedures for tax revenue, actions to be taken for non-compliance with state tax laws, and audit procedures of taxpayers to substantiate compliance with tax laws.

### Pohnpei State's Response No. 19

Funds have been requested in the supplemental fiscal year 1988 budget to provide for the compilation of manuals for both revenue and tax and for utilities. The methodology is being discussed.

### Finding No. 20 - Utilities Procedures

We were unable to locate any clearly documented procedures for the Division of Utilities.

### Recommendation No. 20

It is recommended that a procedural manual be developed which outlines procedures for billing and collections and action to be taken to collect overdue accounts.

### Pohnpei State's Response No. 20

See above response to No. 19.

### Finding No. 21 - Stock and Supply Fund

As in the prior year, a difference between revenues and expenditures within the stock supply fund was disclosed. Theoretically, revenues and expenditures in this fund should be approximately the same. The current year difference is approximately \$12,500.

### Recommendation No. 21

It is recommended that the State review the cost/transfer price relationship between acquisition of supplies and the journal voucher transfer price to the departments.

Pohnpei State's Response No. 21

A review of stock transfer pricing policies has been scheduled.

Finding No. 22 - Airport Revolving Fund

Based on audit procedures performed, it appears that the Airport Revolving Fund is in a deficit financial position at year end. This is in violation of the State's Financial Management Act.

Recommendation No. 22

It is recommended that the State review, in more detail, the fiscal operations of this fund during fiscal year 1988.

Pohnpei State's Response No. 22

New fund control procedures in fiscal year 1988 will ensure that the Airport Revolving Fund will not continue to expend while in a deficit position.

Finding No. 23 - Treasury Fund - Investments

The State did not record its investment activity during fiscal year 1987, thus understating its financial position. Additionally, there appears to be confusion as to when investment income is recognized on the above investments.

Recommendation No. 23

The State should record its investment activity on a monthly basis. Investment income should be recognized in accordance with the measurement focus of the fund type to which it relates, as required by generally accepted accounting principles.

Pohnpei State's Response No. 23

Procedures for recording investment income of all types are still under review.

GENERAL FINDINGS

Finding No. 24 - Payroll Revolving Fund

Due to its cash flow problems, the State recorded substantial year end payroll liabilities. Payments were not being made against these liabilities which were principally due to banks. Because of the non-payment, employees began requesting and receiving their individual allotments. This created confusion in the reconciliation of accrued payroll liabilities and the payment to employees created certain debit balances within the accounts of the payroll revolving fund.

#### Recommendation No. 24

It is recommended that the State consider discontinuing direct payments to individuals when allotments are authorized due to the accounting difficulties this practice creates. In addition, the employee has authorized the State to pay the allotment portion from the bi-weekly salary to the bank, hence the bank has claim to this allotment portion of the employee wage.

#### Pohnpei State's Response No. 24

Allotments are no longer withheld from the bank as of December, 1987. Individual allotments are no longer being accepted.

#### Finding No. 25 - Salary Expenditures in excess of Budget

The Medical Services Department and Utilities Division of the Department of Public Works were substantially in excess of budget authorization for personnel services.

#### Recommendation No. 25

These two departments experience frequent needs for authorized overtime work by employees. It is recommended that criteria be established for authorized overtime and provisions be incorporated in the fiscal year budget act.

#### Pohnpei State's Response No. 25

Recommendations on budgetary levels aimed at matching actual expenditure levels have been made. Also, departments with habitual overtime requests have been asked to re-schedule work assignments in order to reduce overtime costs.

#### Finding No. 26 - Payroll Master File Documentation

Personnel action forms and allotment authorization forms used to update the payroll master file were not always present in employee's personnel action file (PAF).

#### Recommendation No. 26

This finding was noted in the prior year management letter and progress has been made in maintaining the PAF as backup to the automated payroll master file. We recommend continued effort be made to maintain the PAF's, considering the materiality of personnel expenditures to the State's total expenditures.



Pohnpei State's Response No. 26

A quarterly reconciliation of grade/step levels in the automated payroll master file with the PAF was begun in December, 1987.

Finding No. 27 - Unlocated Contracts

In two out of twenty statistically selected contracts, neither Public Finance personnel or state contracting personnel could locate copies of the actual contract document. These contracts are numbered #70037 and #70087.

Recommendation No. 27

It is recommended that all contracts be properly kept on file for substantiation of State compliance regulations.

Pohnpei State's Response No. 27

All contracts are filed by contract number.

Finding No. 28 - Bid Advertisement

No evidence of advertisement for bid is on file at Public Finance Office or Public Works Office of Construction Management for contract #70072. This was the only such exception out of twenty items statistically selected for testing.

Recommendation No. 28

The State Financial Management Act states that all construction contracts greater than \$2,500 be advertised for competitive bid. It is recommended that proper review be performed to ensure compliance with this regulation.

Pohnpei State's Response No. 28

Financial regulations promulgated on October 1, 1987, provide for bids of all purchases or services greater than \$5,000. Those regulations are being followed.

Finding No. 29 - PTA Revolving Fund

The Public Finance Office has not been accounting for the PTA revolving fund in accordance with GAAP. Numerous contracts in progress were not accounted for on a percentage of completion basis.

Recommendation No. 29

It is recommended that a system be established to recognize revenues and expenditures as progress is made toward the completion of long-term construction contracts. A system should be established that measures the extent of work in process at the financial statement date in terms of expenditures made, units completed, or value added.

Pohnpei State's Response No. 29

A series of meetings has begun with the PTA to analyze its various projects in order to establish accounting on a percentage of contract completion basis.

Finding No. 30 - Grant Classification

Within the federal grant, CIP and CFSM funds, some individual grants were found to be misclassified in their respective funds.

Recommendation No. 30

It is recommended that a review of all federal grants, CIP funds, and CFSM grants be performed at the beginning of the fiscal year to ensure proper fund classification.

Pohnpei State's Response No. 30

A review was performed at the beginning of fiscal year 1988 and is being monitored continually.

Finding No. 31 - Revenue Accrual

As stated in prior year management letters, the State Finance Office is not accounting for federal grant assistance on an earned reimbursement basis.

Recommendation No. 31

As recommended in prior years, a prescribed billing procedure needs to be established for authorized expenditure amounts and the proper accrual of this revenue entered into the respective fund's general ledger.

Pohnpei State's Response No. 31

A monthly billing procedure has been established.

Finding No. 32 - Journal Voucher Documentation

As observed in prior year audit engagements, journal vouchers made to the automated accounting system are not being supported by adequate descriptions or documentation.

Recommendation No. 32

As recommended in prior years, journal vouchers made to the automated accounting system should be reviewed and authorized by appropriate senior personnel, and an adequate description of the journal entry combined with copies of any appropriate supporting documentation should be attached to and filed with the journal voucher document.

Pohnpei State's Response No. 32

Journal vouchers must now be accompanied by supporting documentation, and be authorized by senior personnel.

Finding No. 33 - Documentation of Data Processing Procedures

Adequate documentation of daily data processing procedures does not exist such that the daily recording function could continue in the event important data processing employees leave.

Recommendation No. 33

We recommend the task of documenting daily data processing procedures into a manual form be undertaken immediately to help reduce the amount of lost time required for retraining new employees.

Pohnpei State's Response No. 33

Data processing daily, bi-weekly, and monthly have been documented since March 1987.

Finding No. 34 - Receipt of Mail

We observed that no systematic procedure for the receipt of mail is utilized by the Department of Treasury.

Recommendation No. 34

It is recommended that a mail receiving system be established which initiates by having one centralized staff personnel receive all mail, record the date, sender, and to which division/personnel the mail is forwarded to in a log book. Mail should be delivered to a designated box or desk drawer of appropriate senior staff personnel to prevent mail from being lost or opened by unauthorized personnel.

Pohnpei State's Response No. 34

All mail should now be addressed to, and pass through, the Director's office, for routing to appropriate divisions. A logging in system is being devised.

In addition, a position of secretary has been requested in the fiscal year 1988 supplemental budget.

Finally, the Department has advised the Office of P.L. and M.D. of its intention to begin receiving its own mail from the post office.

Prior Year Unresolved Findings and Recommendations

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

Report on Internal Accounting Control, September 30, 1986, report dated June 17, 1987.

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Report on Internal Controls, September 30, 1985, report dated March 7, 1986.

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Report on Internal Controls, September 30, 1984, report dated March 27, 1985.

3	General Fixed Assets	6
8(b)	Unreconciled Cash Account	9

CONCLUSION

During the period of compact funding, the continued improvement of the accounting system and related internal controls of the Pohnpei State Government should be a priority. From our experience, we feel improvements have been made but many areas exist which warrant additional improvement in internal controls and in financial statement preparation. We believe that if Pohnpei state implements the above recommendations, the rate of improvement of accounting procedures will accelerate.

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We wish to thank the management and Treasury Department officials of Pohnpei State for their cooperation during our examination.