

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

STATE OF POHNPEI
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1989

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

Honorable Resio Moses
Governor
State of Pohnpei

We have audited the general purpose financial statements of the State of Pohnpei as of September 30, 1989, and have issued our report thereon dated March 16, 1990. These general purpose financial statements are the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Pohnpei, 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 general purpose financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The management of the State of Pohnpei, is also responsible for the State's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records from each major federal financial

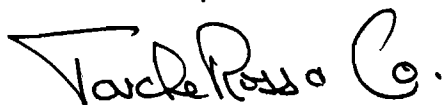
assistance program and certain non-major federal assistance programs. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the State of Pohnpei, had, in all material respects, administered its major programs, and executed the tested non-major program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instance of noncompliance that we found and the programs to which they relate are identified in the accompanying schedules of findings and questioned costs, the ultimate resolution of which cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made to the federal financial assistance programs to which they relate.

In our opinion, for the year ended September 30, 1989, the State of 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 non-major federal financial assistance programs indicate that for the transactions and records tested, the State of Pohnpei, complied with those laws and regulations referred to above, except as noted in the accompanying schedules of findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the State of Pohnpei administered its non-major 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.

March 16, 1990



Certified Public Accountants

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

Honorable Resio Moses
Governor
State of Pohnpei

We have audited the general purpose financial statements of the State of Pohnpei, for the year ended September 30, 1989, and have issued our report thereon dated March 16, 1990. These general purpose financial statements are the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs into the following categories:

A. Accounting Controls - Cycles of Activities

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

B. Administrative Controls

General Requirements:

- . Cash Management
- . Federal Financial Reports

Specific Requirements:

- . Types of Services
- . Monitoring of Subrecipients
- . Reporting

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, 1989, the State of Pohnpei, expended 87% 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.

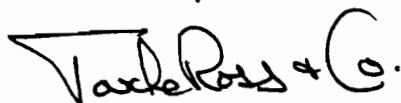
With respect to the internal control systems used solely in administering the non-major federal financial assistance programs of the State of Pohnpei, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the non-major federal financial assistance programs of the State of Pohnpei, 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 control systems used in administering the major and non-major federal financial assistance programs of the State of Pohnpei. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Pohnpei.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering non-major federal financial assistance programs. However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of the State of Pohnpei.

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

March 16, 1990



Certified Public Accountants

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

Honorable Resio Moses
Governor
State of Pohnpei

We have audited the general purpose financial statements of the State of Pohnpei, for the year ended September 30, 1989, and have issued our report thereon dated March 16, 1990. These general purpose financial statements are the responsibility of the State of Pohnpei's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

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

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 accompanying 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 in our testing referred to above.

March 16, 1990



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, 1989

Compact Funds

The FSM National Government and the Government of the United States implemented the Compact of Free Association during fiscal year 1987. The Compact funding replaced the Department of the Interior funding for general operations received through the TTPI Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government receives funding in five year increments over a fifteen year period. The Compact funding is 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 1989, the State of Pohnpei Government submitted quarterly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to State of Pohnpei'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 State of Pohnpei. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Block grant funds are 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 annually adjusts Compact funding for inflation.

Pursuant to section 233 of the Compact of Free Association and paragraph 1(d), Article IV of the Agreement Concerning Procedures for the Implementation of U.S. Economic Assistance, Programs, and Services provided in the Compact of Free Association between the Government of the U.S. and the Government of the FSM, audits of Compact funding shall be performed in compliance with Government Auditing Standards, issued by the Comptroller General of the United States, and the

Single Audit Act of 1984. The above states that audits shall be performed in accordance with Circular A-128, but compliance testing of Compact funding shall not include specific federal guidelines applicable to federal program assistance grants, but rather shall be in conformance with local laws and regulations and the program intent as provided in the Compact of Free Association.

Federal Funds

The State of Pohnpei Government remained the subrecipient of several federal grant programs from U.S. agencies, but with the implementation of the successor-in-interest agreements, the role of the primary recipient transferred from the TTPI government to the FSM National Government. The State of Pohnpei Government applies to the FSM National Government for grant funds, or receives an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets.

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

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

Special Revenue Funds:

- U.S. Direct Assistance Fund
- Other Direct Assistance Fund
- Compact 221 B Block Grant Fund
- Other Compact Block Grant Fund
- CFSM Special Revenue Fund

Capital Projects Funds:

Compact 211A Capital Projects Funds
TTPI Capital Projects Fund

As mentioned above, the Compact Major Block Grant, Compact Program 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 Direct Assistance Fund and the CFSM Special Revenue Fund, the revenue of the 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 reports to the FSM National Government. The CFSM Special Revenue Fund is funded by appropriations from the Congress of the Federated States of Micronesia, while grants recorded in the Other Direct Assistance Funds are received from various international organizations. The State of Pohnpei, through the Federated States of Micronesia, reports to the applicable grantor concerning other direct assistance grants.

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

<u>Grantor Account Title</u>	<u>Pohnpei Orgn. No.</u>	<u>CFDA No.</u>	<u>1989 Fiscal Year Expenditures</u>	<u>Questioned Costs Amount</u>	<u>Detailed At Page</u>
<u>Department of Agriculture:</u>					
Food Services	3314	10.560	\$ 76,923	\$ -	
Food Services '88	3330	10.560	732,824	-	
Forestry Project	3342	10.564	<u>2,282</u>	<u>-</u>	
			<u>812,029</u>	<u>-</u>	
<u>Dept. of Education:</u>					
Chapter I GAP	3005	84.151	293,290	50,796	32
Chapter II GAP	3006	84.151	104,712	13,000	33
Teacher Training FY87	3058	84.124	21,197	-	
FY-86 Chapter I	3065	84.151	17,528	17,528	34
FY-88 Teacher Training	3073	Unknown	70,573	70,573	34
Teacher Training	3074	84.124	22,247	-	
Vocational Rehabilitation Services	3085	84.126	1,147	-	
Vocational Rehabilitation Service '88	3086	84.126	3,019	-	
Chapter I Transition	3104	84.998	452,676	10,831	32
Chapter II Transition	3105	84.998	327,610	3,169	32
Bilingual Education Project	3110	84.998	22,510	-	
FY-88 Chapter I	3116	84.998	149,481	3,169	32
FY-88 Chapter II	3117	84.998	<u>130,488</u>	<u>-</u>	
			<u>1,616,478</u>	<u>169,066</u>	
<u>Department of Housing and Urban Development</u>					
CDBG Administration '85	3156	14.219	3,085	-	
Mesihsou Water System	3157	14.219	3,499	-	
Sokehs Multipurpose Courts	3162	14.219	10,170	-	
Baseball Field Renovation	3163	14.219	899	-	
Kolonia Section 7 Water System	3164	14.219	26,400	-	
1984 CDBG Administration	3166	14.219	147	-	
Sekere Water System	3167	14.219	41,808	-	
Kitamw Lukop Water System	3185	14.219	1,932	-	
FY-87 U Water Improvement	3186	14.219	<u>15,000</u>	<u>-</u>	
			<u>102,940</u>	<u>-</u>	
Balance forward			2,531,447	169,066	

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

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded			\$2,531,447	\$169,066	
<u>Department of Health and</u>					
<u>Human Services</u>					
Family Planning '88	3670	13.217	5,537	-	
FY-89 CHC	3685	13.224	76,263	-	
Community Health Center	3690	13.224	1,985	1,985	34
FY-89 STD Program	3697	13.997	2,103	-	
Aging Sup. Services '87	3710	13.633	1,765	-	
MCH '87	3717	13.994	(178)	-	
Preventive Health '88	3724	13.991	3,352	1,038	34
FY-88 C.E for Nurses	3738	13.359	9,859	-	
FY-89 C.E. for Nurses	3739	13.359	8,193	-	
MCH '88	3746	13.994	79,859	-	
FY-88 MCJ'	3748	Unknown	853	853	34
Immunization Program '88	3753	Unknown	492	492	34
Sexually Trans. Disease	3755	13.997	581	-	
1988 Community Health Center	3758	13.224	1,255	-	
FY-89 MCH	3760	13.994	1,827	-	
FY-88 CSBG Program	3768	13.665	44,436	-	
Aging Sup. Services '88	3775	13.633	117,474	-	
FY-89 Sup. Services	3776	13.633	2,240	-	
FY-89 AIDS Program	3779	13.217	4,933	-	
Fy-88 AIDS Program	3782	13.217	791	-	
FY-89 Family Planning	3788	13.217	12,586	-	
FY-90 Family Planning	3789	13.217	2,739	-	
FY-88 Immunization. Program	3791	13.268	681	-	
FY-88 Preventive Health	3794	13.991	32,983	-	
FY-89 Immunization	3795	13.268	2,575	-	
			<u>415,184</u>	<u>4,368</u>	
<u>Environmental Protection</u>					
<u>Agency</u>					
EPA '88	3569	66.600	1,388	-	
FY-89 EPA	3597	66.600	38,097	-	
			<u>39,485</u>	-	
Balance forward			2,986,116	173,434	

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

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded			\$2,986,116	\$173,434	
<u>Department of the Interior</u>					
Historic Preservation '87	3453	15.904	4,391	-	
Historic Preservation '87	3460	15.904	6,201	-	
Power Improvement	3501	15.875	21,145	-	
Kolonia Electric Dist/Upgrade	3502	15.875	74,960	26,253	33
Governor Office Renovation expense	3509	15.875	12,036	-	
FY-88 Historic Preservation	3513	15.904	16,986	-	
Hospital Roof Repair	3536	15.875	52,247	-	
Rehabilitation Water Boiler	3537	15.875	4,015	-	
5275 Roadside maintenance equipment	3538	15.875	27,424	-	
Spare Parts MOU-7	3544	15.875	240,682	71,963	33
Recruit & Proc/Preservation	3546	15.875	21,240	-	
Skilled Personnel	3556	15.875	2,125	-	
Renovation PICS School	3557	15.875	2,773	-	
Training Def. Skills	3558	15.875	142	-	
			<u>486,367</u>	<u>98,216</u>	
<u>Department of Labor</u>					
Title V SCSEP '88	3231	17.235	48,128	-	
FY-88 JTPA Administration	3244	17.250	14,944	-	
			<u>63,072</u>	-	
<u>Department of Justice</u>					
JJDP Cultural & Trading	3376	16.540	2,104	-	
FY-87 JJDP Program	3385	16.540	4,248	-	
			<u>6,352</u>	-	
 Total Federal Assistance Fund			 <u>\$3,541,907</u> =====	 <u>\$271,650</u> =====	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 OTHER DIRECT ASSISTANCE FUND
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor Account Title</u>	<u>Pohnpei Orgn. No.</u>	<u>1989 Fiscal Year Expenditures</u>
World Health Organization		
Family Planning UNFPA	3913	\$ 1,848
Family Health Program	3918	<u>497</u>
		<u>2,345</u>
Other Non U.S. Grants		
Aluminum can crusher	3929	72
Medical. Officer Training	3982	54,657
Hospital contribution Fund	3988	13,688
Power Distribution Equipment	3990	174,845
Pearl Shell Project	3991	4,474
Sports Council Contribution	3992	<u>3,778</u>
		<u>255,495</u>
 Total Other Direct Assistance Fund		 \$257,840 =====

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 CFMS SPECIAL REVENUE PROJECT FUND
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
CFMS Special Revenue Project Fund:					
Vocational Education	4726		\$ 375	\$ -	
Pohnpei Sport Council	4793		86	-	
PICS Library & Learning	4871		14,169	-	
Supreme Court OPS	4873		47,763	-	
Pohnpei Housing Authority	4875		99,864	-	
Pohnpei Trans. Authority	4876		99,914	-	
Pohnpei Sports Council	4877		9,754	-	
Pohnpei Medical Supplies	4878		36,912	-	
Farmers Home Administration	4879		20,434	-	
MS Micro Glory	4890		37,929	-	
Pohnpei Supreme Court	4891		4,030	-	
Joint Law Enforcement	4897		19,517	-	
Joint Law enforcement C&R	4898		57,923	-	
Joint Law Public Safety	4899		51,679	-	
Joint Law L. Affairs	4900		21,046	-	
Marine Resources Trochus	4970		<u>593</u>	<u>-</u>	
Total CFMS Special Revenue Project Fund			<u>\$521,988</u>	<u>\$ -</u>	

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
 TTPI CAPITAL PROJECTS FUND
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
State Administration Cost	6320	N/A	\$ 52,257	\$ -	
Kolonia Roadside Drainage	6327/3538	N/A	<u>82,618</u>	<u>-</u>	
 Total Dept. of the Interior TTPI Capital Projects Fund			 \$134,875 <u>=====</u>	 \$ - <u>=====</u>	

Note: These funds are received by Pohnpei State through the FSM National Government in a sub-grantee capacity through the Trust Territory Government.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 221 (b)
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial</u>					
<u>and International Affairs CFDA NO. 15.875</u>					
Medical Supplies	2065		\$ 31,123	\$ -	
Pre-School & Elementary Supplies	2113		170,523	-	
Secondary Education School Supplies	2114		34,466	-	
Pohnpei Legislature School Buses	2115		(3,740)	-	
Vocational Education Orchid	2118		19,043	-	
Education Service & Development	2119		30,384	-	
Youth & Activities	3123		5,430	-	
Pre-School & Elementary Vehicle	2124		(9,208)	-	
Medical Referral	2125		69,573	-	
EPA Personnel	2126		15,921	-	
Pre-School & Elementary School	2127		2,371,525	-	
Aging Supportive Services	2128		17,440	-	
Title IV SCSEP	2129		26,404	-	
FY-89 Vocational Rehabilitation Improvement	2130		17,938	-	
Medical Coordinator Honolulu	2347		<u>9,572</u>	<u>-</u>	
Total Compact of Free Association Block Grant Fund - Section 221 (b)			<u>\$2,806,394</u>	<u>\$ -</u>	

(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 bear CFDA No. 15.875. The National Government of the FSM receives all grant awards on behalf of the FSM and then reallots such to the component States.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 216 (a)(2)
 HEALTH AND MEDICAL REFERRAL
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial</u>					
<u>and International Affairs CFDA NO. 15.875</u>					
M/Referral Hemodialysis	2349		\$ 24,638	\$ -	
Medical Referral Grant	2350		52,357	-	
Medical Referral	2352		<u>316,567</u>	<u>-</u>	
Total Compact of Free Association Block Grant Fund - Section 216 (a)(2)			\$393,562 =====	\$ - =====	

(Note: These funds are made available by Title Two, Article I, Section 216 (a)(2) 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 reallots such to the component States.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 216 (a)(3)
 POST SECONDARY EDUCATION
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u>		<u>1989</u>	<u>Questioned Costs</u>	
	<u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>Fiscal Year</u> <u>Expenditures</u>	<u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial</u> <u>and International Affairs CFDA NO. 15.875</u>					
Pohnpei State Scholarship	2902		\$248,692	\$ -	
Total Compact of Free Association Block Grant Fund - Section 216 (a)(3)			\$248,692 =====	\$ - =====	

(Note: These funds are made available by Title Two, Article I, Section 216 (a)(3) 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
 COMPACT OF FREE ASSOCIATION BLOCK GRANT FUND - SECTION 214 (b)
 ENERGY GRANT
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial</u>					
<u>and International Affairs CFDA NO. 15.875</u>					
Purchase of fuel		2770	\$104,386	\$ -	
Purchase of fuel		2771	<u>723,834</u>	<u>-</u>	
Total Compact of Free Association Block Grant Fund - Section 214 (b)			\$828,220 -----	\$ - -----	

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

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

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial</u>					
<u>and International Affairs CFDA NO. 15.875</u>					
Road Maintenance PTA	6001		\$ 11,608	\$ -	
Courthouse Construction	6003		2,810	-	
Pepper Project	6004		1,915	-	
School Bus Stop Shelter Project	6005		7,059	-	
Elementary School Supply & Furniture	6006		22,573	-	
A&E Study Circumstance Road	6009		348,404	-	
Electric Distribution Extensions	6010		1,038,598	-	
Solar Power Installation Disp.	6012		379	-	
School Construction Paliopailong	6013		9,448	-	
Ohmine Elementary School	6014		23,000	-	
Fence-Special Education	6015		3,288	-	
A/E Study Land Fill	6016		3,567	-	
Upgrading WSZD	6018		15,811	-	
Sekere Elementary School	6021		10,108	-	
Palikir Elementary School	6022		5,180	-	
Rohnkitti Elementary School	6023		4,964	-	
Wone Elementary School	6024		2,900	-	
Wapar Elementary School	6025		5,632	-	
Mand Elementary School	6026		6,282	-	
Sapwerek Elementary School	6027		11,651	-	
Sapwalap Elementary School	6028		4,872	-	
Lukop Elementary School	6029		24,194	-	
Kinakapw Elementary School	6030		1,335	-	
Saladak Elementary School	6031		14,251	-	
Nett Elementary School	6032		4,801	-	
Kolonia, Elementary School	6033		40,241	-	
Ohmine Elementary School	6034		14,021	-	
Sokehs Powe Elementary School	6035		2,400	-	
Sapwuahfik Elementary School	6036		8,242	-	
Kapina Elementary School	6037		1,751	-	
Nukuoro Elementary School	6038		3,947	-	
Mwoakilloa Elementary School	6039		1,379	-	
Pinglap Elementary School	6040		6,749	-	
Salapwuk Elementary School	6041		2,535	-	
Pahn Meitoal Road	6042		2,900	-	
Pahlap Road	6044		4,900	-	
Pohnpaip Road	6047		8,900	-	
Rohi Road Construction	6049		5,900	-	
Mwand Island road	6051		<u>3,000</u>	<u>-</u>	
Balance forward			1,691,495	-	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
Balance forwarded			\$1,691,495	\$ -	
<u>Office of Territorial</u>					
<u>and International Affairs CFDA NO. 15.875</u>					
Kahmar/Nanparongon	6054		5,000	-	
Eirike Road	6055		4,800	-	
Nukuoro Secondary Road	6058		8,500	-	
Dolon/Nanais/Irongk	6062		68,500	-	
Alokapw Road	6065		9,800	-	
Mwoakilloa Road	6067		8,500	-	
Kapingamarangi Road	6068		8,500	-	
Kitti Secondary Road	6069		3,900	-	
Mwoakillo Airfield Renovation	6076		800	-	
Sapwuahfik Airstrip	6078		60,000	-	
Marine Resources Matching	6079		922	-	
Agriculture Matching Fund	6080		8,295	-	
Pohnpei State Housing Loan Fund	6081		470,000	-	
Airport Terminal Project	6082		1,350	-	
Cleaning & Rehabilitation Nan Madol	6083		25,681	-	
Paliapailong Elementary School	6085		2,296	-	
MTAP	6086		800	-	
Purchase of Electric Drop-Line	6088		149	-	
Power Extension & Distribution	6091		1,120,676	-	
Likinpein Awak Elem School	6092		30,000	-	
EDA Fish Processing Plant	6093		1,498,500	-	
Aramas Kapw	6094		28,402	-	
Tourism Promotion & Market	6095		17,844	-	
Tourism Development Plan	6096		1,500	-	
Purchase of Fire Truk	6098		53,280	-	
Pepper Development Project	6099		74,115	-	
Seaweed Project	6101		<u>40,992</u>	-	
			<u>3,553,102</u>	-	
Balance forward			5,244,597	-	

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECT FUND- SECTION 211(a) CAPITAL ACCOUNT
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

Grantor Account Title	Pohnpei Orgn. No.	CFDA No.	1989	Questioned Costs	
			Fiscal Year Expenditures	Amount	Detailed At Page
Balance forwarded			\$5,244,597	\$ -	
<u>Office of Territorial and International Affairs CFDA NO. 15.875</u>					
Nukuoro Seaweed Project	6102		22,443	-	
Compact Capital Project Administration	6103		15,713	-	
Livestock Development Broiler Program	6104		93,108	-	
Second Floor PSL Building	6105		15,424	-	
Outer Island Airstrip	6106		39,400	-	
Upgrading Paving/Kolonia	6107		175,471	-	
Paving of POHNPEI Circumferential Road	6110		907,538	-	
Pohnpei Housing Loan Fund	6115		197,000	-	
Renovation of Pohnpei Hospital	6116		24,090	-	
Technical Study F/Secondary Road	6117		23,000	-	
Maintenance Improvement Kolonia Sewer System	6118		2,087	-	
Skills Development & Upgrading Equipment & Replacement Part	6119		59,724	-	
6120			179,147	-	
Renovation of Nanpohnmal Plant	6121		1,146,680	-	
Renovation of Pehleng School	6124		510	-	
Nett Green House	6129		10,258	-	
Development Loan F/Pepper & project	6131		400,000	-	
Contribution to the PIDB	6133		100,000	-	
Sapwuahfik Seaweed	6687		<u>13,924</u>	-	
			<u>3,425,517</u>	-	
Total Compact of Free Association Capital Project Fund - Section 211(a) Capital Account			\$8,670,114	\$ -	
			=====	=====	

(Note 1: \$1,358,004 is accounted for as a transfer from the Compact Capital Project Fund to the Pohnpei State Transportation Authority (PTA) Enterprise Fund in the General Purpose Financial Statements).

Compact Capital Expenditures	\$8,670,114
Transfer to PTA	<u>1,358,004</u>

General Purpose Financial Statement Expenditures	\$7,312,110
	=====

(Note 2: These funds are made available by Title Two, Article I, Section 211(a) 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 reallots such to the component States.

STATE OF POHNPEI
 FEDERATED STATES OF MICRONESIA
 COMPACT OF FREE ASSOCIATION CURRENT ACCOUNT FUND - SECTION 211(a) CURRENT ACCOUNT
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS
 YEAR ENDED SEPTEMBER 30, 1989

<u>Grantor</u> <u>Account Title</u>	<u>Pohnpei</u> <u>Orgn.</u> <u>No.</u>	<u>CFDA No.</u>	<u>1989</u> <u>Fiscal Year</u> <u>Expenditures</u>	<u>Questioned Costs</u> <u>Amount</u>	<u>Detailed</u> <u>At Page</u>
<u>Office of Territorial and International Affairs CFDA NO. 15.875</u>					
General Fund Current Account	Various		\$10,767,060 -----	\$ - -----	
Total Compact of Free Association Expenditures			\$23,714,042 -----	\$ - -----	

(Note: These funds are made available by Title Two, Article I, Section 211(a) 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 reallots such to the component States.

POHNPEI STATE GOVERNMENT
 SCHEDULE OF PROGRAMS SELECTED FOR
 AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
 YEAR ENDED SEPTEMBER 30, 1989

Grantor <u>Account Title</u>	<u>FDA No.</u>	<u>Description</u>	1989 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>	15.875		
Compact of Free Association:			
211(a) Capital Account			\$ 8,670,114
221-B Block Grant			2,806,394
Health and Medical			393,562
Energy Programs			828,220
Post secondary education			248,692
Dept. of Interior Operations & Maintenance Grants			458,789
Total CFDA # 15.875 excluding Compact Section 211 (a) current account expenditures			13,405,771
<u>U.S. Dept. of Education</u>	84.151	Chapter I: Consolidated Grant Org. No. 3005	293,290
		Consolidated Grant Org. No. 3006	104,712
		Program Sub total	398,002
	84.998	Educational Transition Org. No. 3104	452,676
		Chapter II Consolidated Grant '88 Org. No. 3116	149,481
		Educational Transition Org. No. 3105	327,610
		Consolidated Grant '88 Org. No. 3117	130,488
		Program Sub total	1,060,255
<u>U.S. Dept. of Agriculture</u>	10.560	Food Services '88 Org. No. 3330	732,824
		Total U.S. Federal Program Expenditures selected excluding Compact Section 211 (a) Current Account Expenditures	\$15,596,852
		Total U.S. Federal Program Expenditures excluding Compact Section 211 (a) Current Account Expenditures	\$16,623,764
		% of total U.S. Federal expenditures covered by Major Programs excluding Compact Section 211 (a) Current Account Expenditures	93.8%

Administrative Controls Review

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

Prior Year Outstanding Finding

1. CRITERIA: Prior year Administrative Control findings should be resolved appropriately by the State's management.

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

<u>Finding No.</u>	<u>Description</u>	<u>Page No</u>
1	Lack of Administrative Control Structure	23
4	Federal Property Standards (except the detailed accounting by funding source, which has been resolved).	26

CAUSE: Unknown.

EFFECT: These conditions have the same impact in fiscal year 1989 as in fiscal year 1988.

RECOMMENDATION: It is recommended that the State's management resolve prior year administrative control findings appropriately.

AUDITEE RESPONSE:

Lack of Administration Control Structure

The Department of Treasury has assumed (since January, 1989) the monitoring of federal grant expenditures under the Project Grant Agreements from the Budget Office and we feel the controls and procedures are now administered in accordance with terms and conditions of individual grant awards and applicable federal compliance requirements.

Federal Property Standards

Pohnpei State accounts for assets acquired by funding source, and we will provide such a report if you do not have one already.

Competitive Procurement Requirement

2. CRITERIA: In accordance with the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) for procurement transactions less than \$25,000 using U.S. federal program funds local bidding regulations should be adhered to. Local regulations require competitive procurement for procurement transactions that exceed \$5,000.

CONDITION: Based on audit tests performed on a sample of thirteen U.S. federal program transactions one transaction for the procurement of a photo copy machine using U.S. federal program funding was not procured competitively.

<u>Org. No.</u>	<u>APV #</u>	<u>Amount</u>
3006	901201	\$13,000 =====

CAUSE: Unknown.

EFFECT: The effect is question costs of \$13,000.

RECOMMENDATION: It is recommended that Pohnpei State comply with U.S. federal program compliance requirements.

AUDITEE RESPONSE: The Department of Education has represented attached to the requisitions that the machine to be purchased was chosen by their own comparative prices. We therefore ask that the Department provide the documentation.

Competitive Procurement Requirement

3. CRITERIA: In accordance with Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) for procurement transactions less than \$25,000 using U.S. federal program funds local bidding regulations should be adhered to. Local regulations require competitive procurement for procurement transactions that exceed \$5,000.

CONDITION: Based on audit tests performed on a sample of thirty five major program transactions we found six transactions for the procurement of computer hardware for which competitive procurement procedures were not followed.

<u>Org. No.</u>	<u>Purchase Order Numbers</u>	<u>Amount</u>
3005	L8400, L8401, L8402 and L8369	\$50,796
3104	L9232, and L9216	<u>10,831</u>
		\$61,627 =====

The total of each purchase order exceeds \$5,000 which is the State's financial management criteria for competitive procurement.

CAUSE: Unknown.

EFFECT: The effect is question costs of \$61,627.

RECOMMENDATION: It is recommended that Pohnpei State comply with U.S. Federal Program compliance requirements.

AUDITEE RESPONSE: In each instance, the Department of Education has represented (by memo attached to requisitions) that the computers to be purchased were those chosen for their selected curriculum and were therefore available from only one local source.

Competitive Procurement Requirement

4. CRITERIA: The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) dictate that all procurement transactions in excess of \$25,000 are to be competitively procured.

CONDITION: Based on audit tests performed on a sample of thirteen U.S. federal program transactions we found three transactions for the procurement of power plant parts for which competitive procurement procedures were not evident. A bid waiver from the governor was noted with the power plant parts procurement transactions but this waiver is not applicable to U.S. federal program procurement transactions.

<u>Org. No.</u>	<u>Contract Purchase Order Numbers</u>	<u>Voucher/Check Numbers</u>	<u>Amount</u>
3502	P90129	PV 906037	\$ 26,253
3544	P8065653	CK 33303	40,463
3544	N/A	PV 903297	<u>31,500</u>
			<u>\$ 98,216</u> =====

CAUSE: Unknown.

EFFECT: The effect is question costs of \$98,216.

RECOMMENDATION: It is recommended that Pohnpei State comply with U.S. Federal Program compliance requirements.

AUDITEE RESPONSE: The finding on the purchase of spare parts under the Governors' declaration of power emergency is referred to the Governor's Special Counsel.

Federal Funds Certification

5. CRITERIA: Requisitions for U.S. federal program expenditures should be certified as funds available by authorized personnel prior to the execution of the transaction.

CONDITION: Based on audit tests performed on a sample of thirty five major program transactions we found two transactions in which the goods were received prior to funds certification.

<u>Org. No.</u>	<u>Purchase Order Numbers</u>	<u>Amount</u>
3105	L9391	\$ 3,169
3116	L9393	<u>3,169</u>
		\$ 6,338
		=====

CAUSE: Unknown.

EFFECT: The effect is question costs of \$6,338.

RECOMMENDATION: It is recommended that Pohnpei State comply with U.S. Federal Program compliance requirements.

AUDITEE RESPONSE: The finding is that the Department of Education accepted goods prior to funds certification.

The reply to this finding is referred to that Department.

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Non-compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
US Dept. of Education			Based on our audit tests performed on a sample of thirty five major program transactions six transactions provided no evidence of competitive procurement procedures for the procurement of computer hardware.	
			<u>Document #</u>	
		Chapter I-GAP		
	84.151	Org. 3005	L8400, L8401, L8402 & L8369	\$ 50,796
		Chapter I-Tran.		
	84.998	Org. 3104	L9232, L9216	<u>10,831</u>
				<u>61,627</u>
			Based on our audit tests performed on a sample of thirty five major program transactions two transactions were found to be fund certified following the receipt of goods.	
			<u>Document #</u>	
		Chapter II-Tran.		
	84.998	Org. 3105	L9391	3,169
		Chapter I-88		
	84.998	Org. 3116	L9393	<u>3,169</u>
				<u>6,338</u>
			Balance forward	67,965

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Non-compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>								
			Balance forward	\$ 67,965								
<u>U.S. Direct Assistance Fund</u>												
U.S Dept. of Education			Based on audit tests performed on a sample of thirteen U.S. federal program transactions one transaction for the procurement of a photo copy machine using U.S federal program funding was not properly procured competitively									
	84.151	Chapter II GAP Org. No. 3006	<u>APV #</u> 901201	13,000								
U.S. Dept. of Interior			Based on audit tests performed on a sample of thirteen federal program transactions we found three transactions for the procurement of power plant parts and the payment on a hospital renovation contract for which procurement procedures were not evident.									
			<table border="0" style="width: 100%; margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: center;"><u>PO/Contract</u></td> <td style="text-align: center;"><u>Voucher/Check</u></td> <td></td> </tr> <tr> <td style="text-align: center;"><u>Org. No.</u></td> <td style="text-align: center;"><u>No.</u></td> <td style="text-align: center;"><u>No.</u></td> <td></td> </tr> </table>		<u>PO/Contract</u>	<u>Voucher/Check</u>		<u>Org. No.</u>	<u>No.</u>	<u>No.</u>		
	<u>PO/Contract</u>	<u>Voucher/Check</u>										
<u>Org. No.</u>	<u>No.</u>	<u>No.</u>										
	15.875	Kolonia Electrical Distribution Upgrade	3502 P90129 PV906037	26,253								
	15.875	Spare Parts MOU-7	3544 P8065653 Ck33303 3544 N/A PV903297	40,463 <u>31,500</u>								
			Balance forward	179,181								

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Identified Non-compliance and Internal Control Weaknesses</u>	<u>Questioned Costs</u>
Balance forwarded				\$179,181
<u>U.S. Direct Assistance Fund</u>			Based on our evaluation of authorization vs expenditures at the major grant recipient level, these represent questioned costs where expenditures exceeded authorization.	
U.S. Dept. of Education	84.151	FY 86 Chapter I Org. 3065		17,528
U.S. Dept. of Health and Human Services	13.224	Community Health Center Org. 3690		1,985
	13.991	Preventive Health FY88		1,038
			Based on our evaluation of authorizations vs expenditures at the major grant recipient level, we were not able to agree expenditure per Pohnpei State's financial records to the FSM National Government's authorization under which these expenditures are to be charged.	
U.S. Dept. of Education	Unknown	FY88 Teacher Training Org. No. 3073		70,573
U.S. Dept. of Health and Human Services	Unknown	FY88 MCJ Org. No. 3748		853
	Unknown	Immunization Program '88 Org. No. 3753		<u>492</u>
Total questioned costs				<u>\$271,650</u> =====

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

The Director, Budget and Technical Assistance, Territorial and International Affairs, U.S. Department of the Interior has resolved prior year questioned costs of \$1,951,097 associated with a grant award from the Government of the Trust Territory for circumferential road construction administered by the Pohnpei State Transportation Authority, an Enterprise Fund.

As of the report date for the audit of the general purpose financial statements of the State of Pohnpei, March 16, 1990, for the year ended September 30, 1989 no other resolutions of prior year questioned costs have been received from U.S. grantor agencies on behalf of the State pursuant to the summary of prior year questioned costs presented in the Single Audit Report for the year ended September 30, 1988.

Consequently, the following is a summary of unresolved questioned costs for the State of Pohnpei:

FY85 unresolved questioned costs	\$227,940
FY86 unresolved questioned costs	205,728
FY87 unresolved questioned costs	1,216,312
FY88 questioned costs	393,372
FY89 questioned costs	<u>271,650</u>
Total outstanding federal questioned costs	\$2,315,002
Unresolved local questioned costs	<u>26,094</u>
Total unresolved questioned costs	\$2,341,096 =====

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