

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

Deloitte & Touche LLP  
361 South Marine Drive  
Tamuning, Guam 96913-3911

Tel: (671)646-3884  
Fax: (671)649-4932  
www.dttguam.com



## **INDEPENDENT AUDITORS' REPORT**

Chairman  
Board of Directors  
Federated States of Micronesia  
Coconut Development Authority:

We have audited the accompanying balance sheets of Federated States of Micronesia Coconut Development Authority (the Authority), a component unit of the National Government of the Federated States of Micronesia, as of September 30, 2002 and 2001, and the related statements of loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP".

December 22, 2002

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Balance Sheets  
September 30, 2002 and 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and equivalents	\$ 50,742	\$ 83,556
Investments	110,442	169,607
Copra buyers' revolving fund, net	41,500	53,609
Accounts receivable, net	1,987	69,106
Interest receivable	155	843
Prepayments	1,955	1,251
Copra bags inventory	13,860	13,413
Copra inventory, net	<u>54,960</u>	<u>19,925</u>
Total current assets	275,601	411,310
Property, plant and equipment, net (note 2)	<u>185,836</u>	<u>198,371</u>
	<u>\$ 461,437</u>	<u>\$ 609,681</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 12,335	\$ 61,059
Accrued payroll and others	1,609	-
Customer deposits	<u>2,221</u>	<u>-</u>
Total current liabilities	<u>16,165</u>	<u>61,059</u>
Fund equity:		
Retained earnings	<u>445,272</u>	<u>548,622</u>
Total equity	<u>445,272</u>	<u>548,622</u>
Contingency (note 4)	<u>\$ 461,437</u>	<u>\$ 609,681</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Statements of Loss and Retained Earnings  
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Copra sales	\$ 17,694	\$ 82,614
Cost of copra sold	<u>(134,342)</u>	<u>(153,032)</u>
Gross loss	<u>(116,648)</u>	<u>(70,418)</u>
Operating expenses:		
Personnel services	66,640	60,246
Inventory shrinkage	39,605	-
Contractual services	26,695	39,134
Depreciation	22,504	25,120
Consumables and others	15,741	17,143
Travel	14,286	21,233
Bad debts	14,067	17,229
Damaged bags expense	11,258	10,285
Laboratory division	495	320
Stevedoring	469	67
Per diem and transportation	339	360
Handling	302	7,213
Ocean freight	178	32,589
Miscellaneous	<u>4,744</u>	<u>3,966</u>
Total expenses	<u>217,323</u>	<u>234,905</u>
Loss from operations	<u>(333,971)</u>	<u>(305,323)</u>
Nonoperating revenues (expenses), net:		
Grants and subsidies (note 3)	227,706	348,953
Interest income	1,929	8,925
Loss from fire (note 4)	-	(145,714)
Miscellaneous income (expenses), net	<u>986</u>	<u>185</u>
Total nonoperating revenues	<u>230,621</u>	<u>212,349</u>
Net loss	(103,350)	(92,974)
Retained earnings at beginning of year	<u>548,622</u>	<u>641,596</u>
Retained earnings at end of year	<u>\$ 445,272</u>	<u>\$ 548,622</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Increase (decrease) in cash and equivalents:		
Cash flows from operating activities:		
Operating loss	\$ (333,971)	\$ (305,323)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	22,504	25,120
Bad debts	14,067	17,229
Inventory shrinkage expense	39,605	-
Others	986	185
Loss from fire	-	(145,714)
Loss from disposal of equipment	1,953	-
	<u>(254,856)</u>	<u>(408,503)</u>
Changes in assets and liabilities:		
Accounts receivable	65,849	(93,083)
Inventory and prepayments	(75,790)	2,092
Accounts payable	(48,724)	41,725
Travel advances	-	6,437
Due from other funds	-	247
Accrued payroll and others	1,609	(5,327)
Customer deposits	2,221	-
	<u>(54,835)</u>	<u>(47,909)</u>
Net cash used for operating activities	<u>(309,691)</u>	<u>(456,412)</u>
Cash flows from noncapital financing activities:		
Congress of the FSM appropriations	<u>227,706</u>	<u>348,953</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	<u>(11,923)</u>	<u>(7,081)</u>
Net cash used for capital and related financing activities	<u>(11,923)</u>	<u>(7,081)</u>
Cash flows from investing activities:		
Liquidation of investments	59,165	44,233
Interest received	1,929	8,925
Net cash provided by investing activities	<u>61,094</u>	<u>53,158</u>
Decrease in cash	(32,814)	(61,382)
Cash and equivalents at beginning of year	<u>83,556</u>	<u>144,938</u>
Cash and equivalents at end of year	<u>\$ 50,742</u>	<u>\$ 83,556</u>

See accompanying notes to financial statements.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements  
September 30, 2002 and 2001

**(1) Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Federated States of Micronesia Coconut Development Authority (the Authority) was established in 1981 by Public Law 1-145, as amended by Public Law 2-8, and incorporated as Chapter Two, Title 22 of the Code of the Federated States of Micronesia. The purpose of the Authority is to manufacture, process, buy, collect, market, sell, export, inspect, improve the quality, and deal with, in general, all products derived from the coconut tree. The Authority has the additional responsibility to establish prices to producers or sellers of coconut products in the Federated States of Micronesia, to collect and receive all monies derived from the sales of coconut products, and to stabilize the price of these products. The Authority is a component unit of the National Government of the Federated States of Micronesia.

The affairs of the Authority are managed by a five-member board, consisting of representatives of the four FSM states and the FSM National Government. Daily operations of the Authority are delegated to a general manager, who is hired by and serves at the pleasure of the board.

The operation of the Authority is funded by annual appropriations from the FSM Congress. The purchase of coconut products is funded by copra subsidy appropriations from the FSM Congress and revenues generated through sales of copra.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

**B. Fund Structure and Basis of Accounting**

The accounts of the Authority are organized in the same manner as a proprietary fund-component unit. A proprietary fund is used by governmental units that are operated in a manner similar to private business enterprises. The purpose of a proprietary fund is to provide periodic determination of revenues, expenses and net income, with maintenance of capital. Proprietary funds are accounted for on the flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. This is in contrast to "governmental" fund type accounting, which has a measurement focus on the sources and uses of funds, and includes only current assets and current liabilities on the balance sheet.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related liabilities are incurred, regardless of when cash is received or payment is made.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements  
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies, Continued

C. Reclassification

Certain accounts in the 2001 statements have been reclassified to conform with the 2002 presentation.

D. Cash and Equivalents

For the purposes of the balance sheets and the statements of cash flows, cash and equivalents are defined as cash in checking accounts and certificates of deposit with initial maturities of ninety days or less. As of September 30, 2002 and 2001, \$100,000 is subject to FDIC coverage with remaining balances being uncollateralized.

E. Investments

Investments consist of time certificates of deposits (TCDs) with original maturity dates in excess of ninety days.

F. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Receivables

Receivables are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts is estimated using the valuation method. Accounts determined to be uncollectible are charged against the allowance. Uncollectibility of accounts is determined by management based on the financial condition and responsiveness of the debtors to the Authority's collection efforts. Amounts ultimately collected could differ materially from the amounts estimated in determining the allowance for doubtful accounts.

Copra Buyers Revolving Fund. In prior years, the Authority executed contracts with local businesses within the FSM states, wherein the businesses agreed to act on behalf of the Authority as copra purchasing agents. As part of the agreements, the Authority advances \$10,000 to each agent to be used for the purchase and collection of copra. The advances are treated as a revolving fund, whereby the agents purchase copra from the producers in their home states and submit voucher claims to the Authority for replenishment. There are ten designated purchasing agents of which only four were active during the year ended September 30, 2002.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements  
September 30, 2002 and 2001

(1) Summary of Significant Accounting Policies, Continued

G. Receivables, Continued

A summary of the copra revolving fund at September 30, 2002 and 2001, is presented below:

	<u>2002</u>	<u>2001</u>
Copra revolving funds advanced	\$ 99,500	\$ 111,609
Allowance for doubtful accounts	<u>(58,000)</u>	<u>(58,000)</u>
Copra revolving funds, net	\$ <u>41,500</u>	\$ <u>53,609</u>

Accounts Receivable. Accounts receivable substantially arise from local copra sales, of which one entity is considered to be a related party. The Chairman of the Board of Directors of Coconut Development Authority is also a stockholder of Pohnpei Coconut Products, from whom the total related party receivable is due. A summary at September 30, 2002 and 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Trade accounts receivable	\$ 33,339	\$ 85,334
Related party accounts receivable	<u>104,664</u>	<u>104,921</u>
	138,003	190,255
Allowance for doubtful accounts	<u>(136,016)</u>	<u>(121,149)</u>
Accounts receivable, net	\$ <u>1,987</u>	\$ <u>69,106</u>

H. Inventory

The Authority purchases and collects copra from local vendors within the FSM states. Inventory consists of dried copra and copra bags which are collected and stored at designated warehouses located within the four FSM states. Copra inventory is carried at cost determined through use of average costs. Cost may ultimately exceed market value, a factor which is offset by subsidies for this purpose which are received from the FSM National Government (note 3).

Ending copra inventory at September 30, 2002 and 2001 is valued at estimated realizable market value.

The inventory of bags is recorded at cost. Provision for damaged bags and deterioration in value of usable bags is made at the end of each fiscal year.

I. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation expense is calculated by the straight-line method over the estimated useful life of the assets.



**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Notes to Financial Statements  
September 30, 2002 and 2001

**(2) Property, Plant and Equipment**

A summary of the Authority's property, plant and equipment at September 30, 2002 and 2001, is as follows:

	<u>Estimated Useful Life</u>	<u>2002</u>	<u>2001</u>
Buildings	20 years	\$ 245,429	\$ 238,333
Vehicles	5 years	30,582	28,082
Furniture and fixtures	5-10 years	84,576	84,656
Leasehold improvements	20 years	11,255	11,255
Water tank	10 years	<u>3,489</u>	<u>3,489</u>
		375,331	365,815
Accumulated depreciation		<u>(189,495)</u>	<u>(167,444)</u>
Property, plant and equipment, net		\$ <u>185,836</u>	\$ <u>198,371</u>

**(3) Grants and Subsidies**

During the years ended September 30, 2002 and 2001, the Authority recognized grants and contributions from FSM Congressional appropriations as follows:

	<u>2002</u>	<u>2001</u>
Copra subsidy funds	\$ 100,000	\$ 200,000
Operational grants:		
FSM Food Division contribution	-	12,364
Administrative expenses	117,213	129,205
Capital asset additions	<u>10,493</u>	<u>7,384</u>
Total grants and subsidies	\$ <u>227,706</u>	\$ <u>348,953</u>

**(4) Risk Management**

The Authority purchases insurance to cover risks associated with its warehouses. As of September 30, 2002, the Authority's Pohnpei and Chuuk warehouses were insured for coverage of \$96,500 and \$86,000, respectively. Furthermore, the inventory held at the Pohnpei and Chuuk warehouses were insured for coverage of \$90,000 and \$45,000, respectively. The Authority's Pohnpei office building contents were insured for coverage of \$40,000. The Authority is self insured for all other risks. During the year ended September 30, 2001, the Authority's inventory in Yap was completely destroyed by fire resulting in an estimated loss of \$145,714 which was charged to operations during 2001.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Chairman  
Board of Directors  
Federated States of Micronesia  
Coconut Development Authority:

We have audited the financial statements of Federated States of Micronesia Coconut Development Authority (the Authority), as of and for the year ended September 30, 2002, and have issued our report thereon dated December 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements of the Authority for the year ended September 30, 2002, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted eight matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2002-01 through 2002-08.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Deloitte + Touche LLP".

December 22, 2002

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-1  
Area: Reconciliation of Operational Expenditures

**Criteria:** All operational expenditures directly paid by the FSM National Government should be recorded by the Authority.

**Condition:** Operational expenditures recorded by the FSM National Government totaled \$135,918. Operational expenditures recorded by the Authority totaled \$217,323. The following reconciling items were noted. However, there was no reconciliation on file to explain an \$8,623 difference.

<b>Total expenditures per FSM National Government</b>	\$ 135,918
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**Expenditures recorded by FSM National Government, not by the Authority:**

Equipment/supplies relating to FY 2000	(11,811)
Capitalized assets	(10,493)
Travel cancelled	(2,473)

**Adjustments made by FSM National Government, not by the Authority:**

Expenses transferred to compact of free assn. fund (12)	5,971
Salaries & benefits adjustment	4,154

**Expenditures recorded by the Authority, not by FSM National Government:**

Depreciation	22,504
Copra bags expense	11,258
Shrinkage allowance	39,605
Bad debts expense	<u>14,067</u>

<b>Subtotal</b>	<b>208,700</b>
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Unexplained Difference	<u>8,623</u>
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<b>Total expenditures per the Authority</b>	<b>\$ <u>217,323</u></b>
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**Cause:** There appears to be weak controls in place to ensure that all expenditures paid for by the FSM National Government are reconciled to expenditures recorded by the Authority.

**Effect:** The Authority's expenditures may be misstated.

**Recommendation:** We recommend that expenditures recorded by the FSM National Government and the Authority be reconciled on a periodic basis to ensure that all expenditures are properly recorded.

**Auditee Response and Corrective Action Plan:** The unexplained difference of \$8,623 is a payment towards the Authority's account at the FSM Finance which the Authority recorded during the fiscal year but the actual processing of the payments were made during the month of October 2002, after the close of the fiscal year.

As recommended, the Authority will make sure that our records are reconciled on a periodic basis to ensure that all our records agree with each other.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-2  
Area: Trade Receivables

Criteria: Policies and procedures should be in place to promote timely collection of trade accounts receivable.

Condition: Trade accounts receivable balances from some customers have been outstanding for over one year. Credit sales to one of these customers, Pohnpei Coconut Products, continued to be made during fiscal year 2002, despite the outstanding receivable balance.

Cause: Set procedures are not in place monitor and enforce collection of trade accounts receivable. In addition, management has been reluctant to cut off sales to major customers (primarily Pohnpei Coconut Products).

Effect: Excessively aged accounts receivable balances increase the likelihood of large balances becoming uncollectible.

Recommendation: We recommend that management actively pursue collection of accounts receivable over 90 days. If management does not believe these amounts will be recovered, these accounts should be written off.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for the year ended September 30, 2001.

Auditee Response and Corrective Action Plan: Unlike other outstanding customers, PCP is processing the copra into valuable by-products and continuing in its efforts to expand its markets through increased production which increases the consumption of copra leading to cutting down on copra subsidy. The copra sold to PCP is at the actual cost without any subsidy.

Our Authority is watching closely its prospects of the increased markets. At the end of this fiscal year, the Authority will determine the basis of implementing the recommendation in the audit report.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-3  
Area: Cash Advances

Criteria: Policies and procedures should be in place to promote timely collection and verification of cash advances given to copra buyer agents.

Condition: Cash advances made to copra buyer agents have not been recovered on a timely basis upon termination/expiration of the copra buyer's agreement. In addition, there has been no verification that the balances of cash advances given to active copra buyer agents are properly maintained.

Cause: Set procedures are not in place to collect and verify cash advances to copra buyer agents.

Effect: There is an increased likelihood that cash advances will be uncollectible if management fails to ensure that cash advances are properly maintained and repaid on a timely basis.

Recommendation: We recommend that prior to termination of the copra buyer's agreement, payments for copra purchases be offset against the advance for the buyer agent. This will ensure the recovery of these advances on a timely basis. In addition, we recommend that during the term of the copra buyer's agreement, management should physically verify the amount of cash advance maintained by the copra buyer.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for the year ended September 30, 2001.

Auditee Response and Corrective Action Plan: As regards the recommendation to recover the cash advances made to copra buying agents on a timely basis, the Authority will discuss the matter with the buying agents and implement it through an agreement. For the old buyers who are no longer active, the Authority has made arrangements and monthly payments are now in progress. This was made during the prior audit and it seems to be working.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-4  
Area: Copra Purchase

Criteria: Payments for copra purchases should agree to amounts recorded as inventory purchases.

Condition: The following differences were noted between amounts invoiced by copra buyers and amounts recorded in inventory purchases for ocean freight, handling, dryage and wharfage fees.

<u>Copra buyer</u>	<u>Check #</u>	<u>Recorded Amount</u>	<u>Invoice Amount</u>	<u>Difference</u>
FSCO	1112/1122	\$ 1,871.91	\$ 2,773.51	\$ (901.60)
FSCO	1148	\$ 1,953.71	\$ 2,354.93	\$ (401.22)
WAAB	1127	\$ 3,990.47	\$ 742.15	\$ 3,248.32

Cause: There appears to be a lack of procedures in place to ensure proper recording of inventory purchases.

Effect: Amounts recorded as purchases may be erroneous.

Recommendation: We recommend that all amounts recorded as purchases be reconciled to vendor invoices, and that such entries make reference to the vendor's invoice number and check number. Any variances should be documented in writing.

Auditee Response and Corrective Action Plan: The Authority will again follow recommendation provided by your auditor to reconcile each transaction with the vendors invoice and make clear references with each transaction in writing to provide a clearer picture of the transaction.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-5  
Area: Copra Buyer's Agreement

Criteria: Payments made to copra buyers should be in accordance with the copra buyer's agreement or authorized in writing by management. In addition, payments to agents for the purchase of copra should be consistent with copra prices approved by the Authority's Board of Directors (\$.13 per pound for grade I copra and \$.125 per pound for grade II copra.)

Condition: The following reimbursements were made to copra buyers for items not specifically authorized by the copra buyer's agreement. In addition, payments made to K&I Enterprises (a copra buyer) for grade II copra were less than the Board approved price of \$.125 per pound.

<u>Copra Buyer</u>	<u>Description</u>	<u>Amount</u>	<u>Check #</u>
FSCO	Per Diem	\$ 93.50	1125
FSCO	Per Diem	\$ 46.50	1148
FSCO	Per Diem	\$ 21.50	1169
WAAB	Per Diem	\$ 439.16	1127
K & I	Per Diem	\$ 283.75	1103
K & I	Handling Fees	\$ 366.44	1103
K & I	Per Diem	\$ 1,290.78	1109/1116
K & I	Per Diem	\$ 865.50	1128
K & I	Per Diem	\$ 688.00	1137
K & I	Per Diem	\$ 778.00	1144
K & I	Per Diem	\$ 1,279.50	4

Cause: There appears to be weak controls in place to ensure that all amounts paid to copra buyers are specifically authorized by the copra buyer's agreement, by the Authority's board, or by management.

Effect: Payments have been made to copra buyers that are not in accordance with the copra buyer's agreement and prices approved by the Board of Directors.

Recommendation: We recommend that all payments to copra buyers be made in accordance with the copra buyer's agreement and the Board approved copra price schedule. Written documentation should be maintained for authorization of any deviations from the copra buyer's agreement or the Board approved copra price schedule.

Auditee Response and Corrective Action Plan: This is an oversight. It is already indicated in the attachment to the Buyer's Contract that any deviation from the copra buyer's agreement will be authorized by the management to ensure better control of funds.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-6  
Area: Fixed Assets

Criteria: Policies and procedures should be in place to dispose of fixed assets.

Condition: The following fixed assets were disposed of without any documented authorization.

<u>Description</u>	<u>Cost</u>
Coconut Presser	\$ 475.56
Coconut Grater	\$ 483.00
Mechanical Coconut Press	\$ 425.50
Coconut Grater with Stand	\$ 443.90
Spare Screen for Coco Press	\$ 579.12

Cause: Set procedures are not in place to dispose of fixed assets.

Effect: Lack of management oversight over the disposal of fixed assets could result in the misappropriation of such assets.

Recommendation: We recommend that all disposals of fixed assets be supported by written documentation of approval from the board of directors or general manager.

Prior Year Status: This condition was reported as an internal control finding in the audit of the Authority for the year ended September 30, 2001.

Auditee Response and Corrective Action Plan: The Authority will process proper documentation reflected under this finding to properly record the damaged and disposed fixed assets.



**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-7  
Area: Inventory Control

Criteria: The Authority's personnel should perform periodic physical inventory observations to verify the quantity of copra in the warehouses.

Condition: The Authority's personnel do not verify the quantity of copra on hand. Inventory records are based solely on purchase and sales invoices provided by copra agents.

Cause: There appears to be no policy in place to verify that quantities of copra purchased and sold agree to the quantities per the copra agents' purchase and sales invoices.

Effect: Lack of verification of copra inventory levels could result in the misappropriation of assets.

Recommendation: We recommend that management establish and implement a policy to perform periodic physical inventory counts at all copra warehouses.

Auditee Response and Corrective Action Plan: Funding is the problem here but the Authority will try to implement policy to accommodate this recommendation. Currently, the Authority performs annual inventory but will incorporate something to create a better recording of incoming copra on a daily basis to better control of the inventory.

**FEDERATED STATES OF MICRONESIA  
COCONUT DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

Finding No.: 2002-8  
Area: Contract Documentation

Criteria: All contract payments should be supported by contracts effective for the period in which services are performed.

Condition: The copra buyer's agreement with Federated Shipping Company effective during fiscal year 2002 could not be located. In addition, two contract workers were paid for services performed from 5/1/02-9/30/02, however, there was no contract in effect during that time period.

Cause: There appears to be weak recordkeeping controls in place to ensure that contracts are maintained on file.

Effect: Payments made without a valid contract could result in misappropriation of funds.

Recommendation: We recommend that no contract payments be made without a valid contract. Such contracts should be maintained on file. Management should periodically review contract payments to ensure that valid contracts are in effect for such payments.

Auditee Response and Corrective Action Plan: This is an oversight by the management of the Authority. We will update our record and follow the recommendation provided under this finding to ensure proper control over our contract documentations.