

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**SCHEDULE OF CASH DRAWDOWNS AND
EXPENDITURES OF U.S. FEDERAL PROGRAMS
ADMINISTERED BY THE STATE OF CHUUK
AND INDEPENDENT AUDITORS' REPORT**

QUARTER ENDED DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT

Honorable Wesley Simina
Governor, State of Chuuk
Federated States of Micronesia

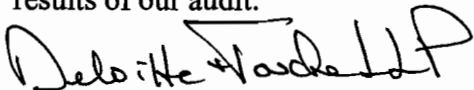
We have audited the accompanying schedule of cash drawdowns and expenditures of U. S. federal programs administered by the State of Chuuk (the State), for the quarter ended December 31, 2006. This schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this schedule based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 accompanying schedule of cash drawdowns and expenditures of U. S. federal programs is prepared on the modified accrual basis of accounting, as described in note 2, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the aforementioned schedule presents fairly, in all material respects, the cash drawdowns and expenditures of the U. S. federal programs administered by the State for the quarter ended December 31, 2006, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2007, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



October 4, 2007

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**Schedule of Cash Drawdowns and Expenditures of U.S. Federal Programs
Administered by the State of Chuuk
Quarter Ended December 31, 2006**

Program	CFDA #	Cash drawdowns	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ -	\$ 6,556
U.S. DEPARTMENT OF AGRICULTURE TOTAL		-	6,556
U.S. DEPARTMENT OF LABOR			
WIA Cluster	17.255/17.258/17.259/17.260	67,084	7,885
U.S. DEPARTMENT OF LABOR TOTAL		67,084	7,885
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance	83.544/97.036	140,597	127,778
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		140,597	127,778
U.S. DEPARTMENT OF EDUCATION			
School Improvement Project (SIP)	84.256A	77,294	-
BECLEPS (Bilingual Education)	84.290	-	29,546
Special Education - Grants to States	84.027B	219,982	118,667
U.S. DEPARTMENT OF EDUCATION TOTAL		297,276	148,213
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Maternal and Child Health Federal Consolidated Programs	93.110	434	737
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	12,769	8,325
Health Activities	93.203	1,698	-
Family Planning Services	93.217	13,640	9,464
Immunization Grants	93.268	34,225	36,376
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	4,243	1,420
HIV Care Formula Grants	93.917	9,877	3,976
HIV/AIDS Surveillance	93.944	1,777	9,526
AIDS Prevention	93.940	8,213	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	53,634	17,878
System Based Diabetes	93.988	2,522	-
MCH Services Block Grant to the States	93.994	61,245	16,758
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		204,277	104,460

Note: The above grants are received in a subrecipient capacity through the FSM National Government, except for the following, which was received directly from the U.S. Department of Education: CFDA # 84.256A.

See accompanying notes to schedule of cash drawdowns and expenditures of U.S. federal programs administered by the State of Chuuk.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

**Schedule of Cash Drawdowns and Expenditures of U.S. Federal Programs
Administered by the State of Chuuk
Quarter Ended December 31, 2006**

Program	CFDA #	Cash drawdowns	Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
Compact Sector Grants - Education	15.875	\$ 2,006,388	\$ 1,469,970
Compact Sector Grants - Health	15.875	1,648,582	827,198
Compact Sector Grants - Capacity Building	15.875	612,648	282,650
Compact Sector Grants - Environment	15.875	133,579	49,313
Compact Sector Grants - Private	15.875	126,733	28,416
Supplemental Education Grant	15.875	1,023,000	328,781
Total Compact Sector Grants Fund		<u>5,550,930</u>	<u>2,986,328</u>
Historic Preservation Fund Grants-In-Aid	15.904	<u>60,174</u>	<u>5,593</u>
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>5,611,104</u>	<u>2,991,921</u>
 GRAND TOTAL		 <u>\$ 6,320,338</u>	 <u>\$ 3,386,813</u>

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

See accompanying notes to schedule of cash drawdowns and expenditures of U.S. federal programs administered by the State of Chuuk.

STATE OF CHUUK
FEDERATED STATES OF MICRONESIA

Notes to Schedule of Cash Drawdowns and Expenditures of U. S. Federal Programs
Administered by the State of Chuuk
Quarter Ended December 31, 2006

(1) Organization

The State of Chuuk (the State) is one of the four States of the Federated States of Micronesia. The schedule of cash drawdowns and expenditures of U.S. federal programs administered by the State has been prepared as a result of certain special “high risk” conditions imposed on the State by the U.S. Department of the Interior on January 29, 2007.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The schedule is prepared on the modified accrual basis of accounting. The State’s policy is to recognize cash drawdowns in the accompanying schedule when the requested receipt of cash is physically received in the State’s bank account. Expenditures are recognized when the obligation is incurred on the accrual basis of accounting.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Wesley Simina
Governor, State of Chuuk
Federated States of Micronesia

We have audited the schedule of cash drawdowns and expenditures of U.S. federal programs administered by the State of Chuuk (the State) for the quarter ended December 31, 2006, and have issued our report thereon dated October 4, 2007, which report stated that the schedule was prepared on the modified accrual basis of accounting. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the State's financial statements that is more than inconsequential will not be prevented or detected by the State's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

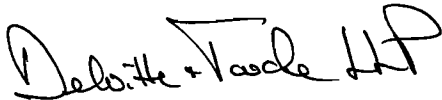
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we consider items 2007-01-A and 2007-02-A in the accompanying schedule of findings and questioned costs to be deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2007-01-A through 2007-04-A.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the State, the Office of the Public Auditor of the Federated States of Micronesia, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Deloitte + Touche LLP". The signature is stylized and cursive.

October 4, 2007

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Quarter Ended December 31, 2006

Finding No.: 2007-01-A
 CFDA No.: 17.255/17.258/17.259/17.260, 84.290, 93.994, 84.027B, 15.875
 Program Name: WIA Cluster, BECLEPS (Bilingual Education), MCH Program Services Block Grants to the States, Special Education Grants to States, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$17,595

Criteria: In accordance with applicable allowable costs/cost principles, payroll expenditures should be supported by employee personnel action forms, supporting timesheets and other underlying supporting documentation validating the expenditure. Furthermore, such should be kept on file and made available for examination.

Conditions:

- For 1 (or 100%) of 1 transaction tested for the WIA Cluster, CFDA No.17.255/17.258/17.259/17.260, no personnel action form or timesheet was provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Employee</u>	<u>Transaction Amount</u>
301001	23D	11/12/06	609698	\$ 375

- For 1 (or 100%) of 1 transaction tested for the BECLEPS (Bilingual Education) Program, CFDA No. 84.290, no timesheet was provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Employee</u>	<u>Transaction Amount</u>
301401	25B	12/10/06	35900	\$ 3,084

- For 1 (or 100%) of 1 transaction tested for the MCH Services Block Grant to the States Program, CFDA No. 93.994, no timesheet was provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Employee</u>	<u>Transaction Amount</u>
301201	24B	11/26/06	22575	\$ 819

- For 1 (or 17%) of 6 transactions tested for the Special Education Program, CFDA No. 84.027B, we noted a difference in the recalculation of gross pay.

<u>FUNDORG</u>	<u>APV</u>	<u>Employee</u>	<u>Hours per Labor Cost</u>	<u>Hours Per Timesheet</u>	<u>Hours Difference</u>	<u>Gross Pay per Labor Cost</u>	<u>Gross Pay per DTT</u>	<u>Gross Pay Difference</u>
301401	26B	50803	502	80	422	\$ 1,979	\$ 315	\$ 1,664

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-01-A, Continued
 CFDA No.: 17.255/17.258/17.259/17.260, 84.290, 93.994, 84.027B, 15.875
 Program Name: WIA Cluster, BECLEPS (Bilingual Education), MCH Program Services Block
 Grants to the States, Special Education Grants to States, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$17,595

Conditions, Continued:

5. For 43 (or 43%) of 100 transactions tested for the Compact Sector Grants, CFDA No. 15.875, we noted a difference in recalculation of gross pay.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Employee</u>	<u>Hours Per Labor Cost</u>	<u>Hours Per Timesheet</u>	<u>Hours Difference</u>	<u>Gross Pay per Labor Cost</u>	<u>Gross Pay per DTT</u>	<u>Gross Pay Difference</u>
721411	Education	26	8903	342	72	270	\$ 1,313	\$ 277	\$ 1,036
721421	Education	JVD72008	32432	80	80	0	260	226	34
721411	Education	22	1089	60	72	12	369	421	52
721411	Education	23	1089	60	72	12	369	421	52
721411	Education	24	1299	216	216	0	1,036	909	127
721411	Education	24	8758	216	216	0	606	830	224
721411	Education	24	22573	216	216	0	489	649	160
721411	Education	26	22517	121	72	49	520	230	290
721411	Education	26	612615	121	72	49	291	146	145
721411	Education	26	60988	60	72	12	245	303	58
721411	Education	JVD72007	49198	72	72	0	541	421	120
721421	Education	22	982	464	72	392	1,067	154	913
721421	Education	22	37231	72	72	0	578	541	37
721421	Education	24	24508	288	288	0	1,575	1,040	535
721421	Education	24	40119	144	144	0	554	383	171
721421	Education	26	13218	72	72	0	345	369	24
721421	Education	26	26548	339	72	267	1,303	277	1,026
721421	Education	JVD72008	45711	72	80	8	204	154	50
721411	Education	22	1089	60	72	12	369	421	52
721411	Education	26	1089	352	72	280	1,864	421	1,443
731205	Health	22	1379	72	72	0	473	541	68
731205	Health	23	40100	96	96	0	319	460	141
731205	Health	24	1379	72	72	0	813	541	272
731206	Health	22	1241	80	80	0	618	601	17
731201	Health	23	53125	88	88	0	607	540	67
731206	Health	24	15190	290	168	122	645	981	336
731206	Health	26	621124	140	164	24	279	513	234

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-01-A, Continued
 CFDA No.: 17.255/17.258/17.259/17.260, 84.290, 93.994, 84.027B, 15.875
 Program Name: WIA Cluster, BECLEPS (Bilingual Education), MCH Program Services Block
 Grants to the States, Special Education Grants to States, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$17,595

Conditions, Continued:

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Employee</u>	Hours Per <u>Labor</u> <u>Cost</u>	Hours Per <u>Timesheet</u>	Hours <u>Difference</u>	Gross Pay per Labor <u>Cost</u>	Gross Pay per <u>DTT</u>	Gross Pay <u>Difference</u>
731201	Health	22	3023	144	96	48	\$ 1,108	\$ 1,231	\$ 123
731201	Health	7JVD008	99888	80	80	0	1,496	962	534
731206	Health	24	15190	290	168	122	645	981	336
731201	Health	24	606719	160	160	0	1,518	1,615	97
741105	Capacity Building	23	600167	86	72	14	690	502	188
741105	Capacity Building	24	99754	80	72	8	1,000	771	229
771401	Supplemental Education Grant	22	22519	72	80	8	831	923	92
771401	Supplemental Education Grant	22	23025	72	80	8	865	962	97
771401	Supplemental Education Grant	23	31227	72	80	8	762	846	84
771401	Supplemental Education Grant	23	37234	72	80	8	421	410	11
771401	Supplemental Education Grant	24	41362	72	80	8	623	692	69
771401	Supplemental Education Grant	24	53114	152	168	16	549	571	22
771401	Supplemental Education Grant	26	53136	72	80	8	284	315	31
771401	Supplemental Education Grant	26	54343	72	80	8	442	490	48
771401	Supplemental Education Grant	26	610766	72	80	8	303	337	34
771401	Supplemental Education Grant	23	603416	276	80	196	530	150	<u>380</u>
Total									\$ <u>10,059</u>

6. For 3 (or 3%) of 100 transactions tested for the Compact Sector Grants, CFDA No. 15.875 no timesheets were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	Transaction <u>Date</u>	<u>Employee</u>	Transaction <u>Amount</u>
721411	Education	24C	11/26/06	26443	\$ 970
731205	Health	26	12/24/06	19735	345
731201	Health	26	12/24/06	621157	<u>279</u>
Total					\$ <u>1,594</u>

Cause: There appears to be weak internal controls over ensuring payroll expenditures are supported by employee personnel action forms, supporting timesheets and other underlying supporting documentation validating the expenditure. Furthermore, there appears to be weak internal controls over ensuring record keeping of underlying supporting documents and that such are made available for examination.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-01-A, Continued
CFDA No.: 17.255/17.258/17.259/17.260, 84.290, 93.994, 84.027B, 15.875
Program Name: WIA Cluster, BECLEPS (Bilingual Education), MCH Program Services Block
Grants to the States, Special Education Grants to States, Compact Sector Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$17,595

Effect: The conditions may result in potential noncompliance with applicable compliance requirements and potential misstatement of expenditures may exist. Furthermore, a total questioned cost of \$17,595 exists.

Recommendation: The State should strengthen internal controls over ensuring payroll expenditures are supported by employee personnel action forms, supporting timesheets and other underlying supporting documentation validating the expenditure. Furthermore, the State should strengthen internal controls over retention of underlying supporting documents.

Auditee Response and Corrective Action Plan:

We agree with the recommendation to strengthen internal controls over the payroll process; ensuring better documentation to support payroll expenditures and allow for easier retrieval.

Management believes most of the exceptions noted are the result of failure to provide adequate documentation and not reflective of any underlying irregularities with respect to payroll processing. The Chief of Finance will research all exceptions and provide the proper documents to clear or explain the findings before the 2007 audit fieldwork is complete.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-02-A
 CFDA No.: 83.544/97.036, 15.875
 Program Name: Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$109,104

Criteria: In accordance with applicable allowable costs/cost principles and procurement, non-payroll expenditures should be supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, procurement documents and other underlying supporting documentation validating the expenditure and procurement method. Furthermore, such should be kept on file and be made available for examination.

Conditions:

1. For 2 (or 33%) of 6 transactions tested for the Public Assistance Program, CFDA No. 83.544/97.036, no inspection or certification reports were provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
301037	700012501	10/13/06	\$22,649
301037	700147501	12/20/06	<u>50,000</u>
		Total	<u>\$72,649</u>

2. For 6 (or 100%) of 6 transactions tested for the Public Assistance Program, CFDA No. 83.544/97.036, no project worksheets were provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
301037	700097701	12/18/06	\$ 4,032
301037	700097401	12/18/06	2,000
301037	700012501	10/13/06	22,649
301037	700147501	12/20/06	50,000
301037	700097001	12/18/06	5,000
301001	700054001	11/09/06	<u>1,160</u>
		Total	<u>\$84,841</u>

3. For 2 (or 33%) of 6 transactions tested for the Public Assistance Program, CFDA No. 83.544/97.036, no competitive procurement documents were provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
301037	700012501	10/13/06	\$22,649
301037	700147501	12/20/06	<u>50,000</u>
		Total	<u>\$72,649</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-02-A, Continued
 CFDA No.: 83.544/97.036, 15.875
 Program Name: Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$109,104

Conditions, Continued:

4. For 7 (or 7%) of 100 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no competitive procurement documents were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
731201	Health	700110701	12/28/06	\$ 522
731201	Health	73JVD022	12/29/06	1,033
761780	Private	760035001	11/01/06	2,294
771401	Supplemental Education Grant	760023101	11/24/06	2,983
771401	Supplemental Education Grant	700113401	12/12/06	11,250
771401	Supplemental Education Grant	700094801	12/01/06	3,300
771401	Supplemental Education Grant	700113301	12/08/06	<u>2,881</u>
			Total	<u>\$24,263</u>

Cause: There appears to be weak internal controls over ensuring that expenditures are supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, procurement documents and other underlying supporting documentation validating the expenditure or procurement method. Furthermore, there appears to be weak internal controls over retention of underlying supporting expenditure related documents.

Effect: The conditions may result in potential noncompliance with applicable compliance requirements and potential misstatement of expenditures may exist. Although the aggregate amount of all conditions listed above is \$254,402, a total of \$72,649 from condition two and \$72,649 from condition three have already been questioned at condition one above and will be excluded in determining the final questioned cost amount. Therefore, a total questioned cost of \$109,104 exists.

Recommendation: The State should strengthen internal controls over ensuring expenditures are supported by purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers, procurement documents and other underlying supporting documentation validating the expenditure and procurement method. Furthermore, the State should strengthen internal controls over retention of underlying supporting documents.

Auditee Response and Corrective Action Plan:

We agree with the recommendation to strengthen internal controls with respect to properly document all non-payroll procurement expenditures. It is the division of finance's standard policy to require purchase requisitions, purchase orders, vendor invoices, receiving reports, contracts, journal vouchers and other procurement documents to properly validate expenditures before they are incurred. Moreover, procedures are in place to require competitive procurement on all expenditures made from sector or other U.S. federal grant funds.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-02-A, Continued
CFDA No.: 83.544/97.036, 15.875
Program Name: Public Assistance Grants, Compact Sector Grants
Requirement: Allowable Costs/Cost Principles and Procurement
Questioned Costs: \$109,104

Auditee Response and Corrective Action Plan:, Continued

Management believes most of the exceptions noted are the result of failure to provide adequate documentation and not reflective of any underlying irregularities with respect to procurements from sector or other U.S. federal grants. The Chief of Finance will research all exceptions and provide the proper documents to clear or explain the findings before the 2007 audit fieldwork is complete.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-03-A
CFDA No.: 83.544/97.036
Program Name: Public Assistance Grants
Requirement: Cash Management
Questioned Costs: Undeterminable

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks should be minimized. The specified clearance pattern for Chuuk State is three days. Furthermore, any amount of interest from advances over \$100 should be returned to the Federal government.

Condition: For 6 (or 100%) of 6 transactions tested (\$84,841 of the aggregate amount of \$84,841 tested), for the Public Assistance Program, CFDA No. 83.544/97.036, we were unable to perform required cash management tests as detailed federal draw downs and supporting reimbursements were not available for examination.

Cause: There appears to be weak internal controls over ensuring compliance with applicable cash management requirements.

Effect: The State appears to be in noncompliance with applicable cash management requirements.

Recommendation: The State should comply with the criteria.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. The CFDA's cited in the finding pertain to FEMA expenditures made for the Chuuk Dock Project. Although these funds were received in advance prior to payment, a local contractor was immediately paid when the drawdown was received by Chuuk State and as noted in the audit finding, the clearance pattern was believed to have been within three days. There may have been delays from the receipt of the funds by the FSMNG until they were passed through to Chuuk State but we have no way of knowing this.

In May 2007, the local finance office of the FSM national government (FSMNG) began processing all expenditures incurred under non-sector U.S. federal grants. As a result, the delays in receiving drawdowns and making disbursements resulting from Chuuk State's former sub-recipient status with respect to these grants should be eliminated. Subsequent to May 2007, the Chief FSMNG Chuuk State finance office will be responsible for providing required documentation supporting proper cash management procedures for non-sector US federal grants.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended December 31, 2006

Finding No.: 2007-04-A
 CFDA No.: 83.544/97.036
 Program Name: Public Assistance Grants
 Requirement: Matching Requirement
 Questioned Costs: \$31,493

Criteria: In accordance with applicable matching requirements as specified in the FEMA-Chuuk State agreement – Chata’an Disaster, the maximum Federal share of eligible cost cannot exceed 90%; FEMA-Chuuk State agreement – Pongsona Disaster, the maximum Federal share of the eligible cost cannot exceed 75%; and the HMGP-Chuuk State agreement states the maximum Federal share of the eligible cost cannot exceed 75%.

Condition: For 6 (or 100%) of 6 transactions tested (\$84,841 of the aggregate amount of \$84,841 tested), for the Public Assistance Program, CFDA No. 83.544/97.036, we were unable to determine if the specified matching requirements were applied or recorded as we could find no record of the match within the State’s financial statements. Furthermore, based on examination of the total expenditures, we recalculated the matching requirement as follows.

Fund Acct	Cost Center	Fund Description	Expenditures	Matching Requirement %	Estimated Matching Requirement \$
301036	TX7204	FEMA 1427 CHAATAN	\$ 3,015	10%	\$ 302
301037	TX7301	FEMA 1449 PONGSONA	111,017	25%	27,754
301037	TX7404	O.I. STORAGE TANKS	5,800	25%	1,450
301001	TX7408	AGRI MITIGATION HMGP #08	4,750	25%	1,188
301001	TX7410	HMGP #13 MGT COST	3,196	25%	799
			\$ 127,778		\$ 31,493

Cause: There appears to be weak internal controls over ensuring compliance with applicable matching requirements.

Effect: The State appears to be in noncompliance with applicable matching requirements and a questioned cost of \$31,493 exists.

Recommendation: The State should comply with the criteria.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. The Chief of Finance will provide the auditors with a proposed adjusting entry as of September 30, 2007 to record Chuuk State’s matching share for FEMA expenditures.