

**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 MARCH 31, 2007

INDEPENDENT AUDITORS' REPORT

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

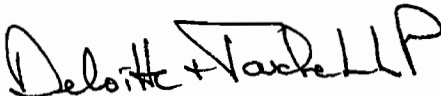
We have audited the accompanying schedule of cash drawdowns and expenditures of U. S. federal programs administered by the State of Chuuk (the State) for the quarter ended March 31, 2007. This schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this 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 statement, 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 March 31, 2007, 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 March 31, 2007

Program	CFDA #	Cash drawdowns	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	\$ -	\$ 13,762
U.S. DEPARTMENT OF AGRICULTURE TOTAL		-	13,762
U.S. DEPARTMENT OF LABOR			
WIA Cluster	17.255/17.258/17.259/17.260	7,885	-
U.S. DEPARTMENT OF LABOR TOTAL		7,885	-
U.S. DEPARTMENT OF HOMELAND SECURITY			
Public Assistance	83.544/97.036	80,671	263,211
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		80,671	263,211
U.S. DEPARTMENT OF EDUCATION			
BECLEPS (Bilingual Education)	84.290	-	(1,058)
Special Education - Grants to States	84.027B	325,795	175,601
U.S. DEPARTMENT OF EDUCATION TOTAL		325,795	174,543
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Maternal and Child Health Federal Consolidated Programs	93.110	592	868
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	6,121	1,050
Health Activities	93.203	1,141	-
Family Planning Services	93.217	9,464	10,878
Substance Abuse and Mental Health Services	93.243	15,494	-
Immunization Grants	93.268	27,507	3,892
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	-	1,271
HIV Care Formula Grants	93.917	3,977	3,314
AIDS Prevention	93.940	3,835	1,474
HIV/AIDS Surveillance	93.944	1,185	589
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	22,048
System Based Diabetes	93.988	1,819	2,763
MCH Services Block Grant to the States	93.994	15,842	15,376
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		86,977	63,523

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**

Schedule of Cash Drawdowns and Expenditures of U.S. Federal Programs
Administered by the State of Chuuk
Quarter Ended March 31, 2007

Program	CFDA #	Cash drawdowns	Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
Compact Sector Grants - Education	15.875	\$ 2,427,569	\$ 1,621,961
Compact Sector Grants - Health	15.875	1,648,581	1,291,293
Compact Sector Grants - Capacity Building	15.875	586,841	369,964
Compact Sector Grants - Environment	15.875	133,578	65,254
Compact Sector Grants - Private	15.875	126,733	69,083
Supplemental Education Grant	15.875	-	760,897
Total Compact Sector Grants Fund		<u>4,923,302</u>	<u>4,178,452</u>
Historic Preservation Fund Grants-In-Aid	15.904	-	4,342
U.S. DEPARTMENT OF THE INTERIOR TOTAL		<u>4,923,302</u>	<u>4,182,794</u>
GRAND TOTAL		<u>\$ 5,424,630</u>	<u>\$ 4,697,833</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 March 31, 2007

(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 March 31, 2007, 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.

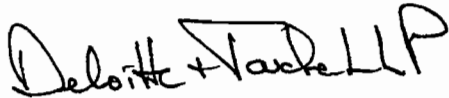
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we consider items 2007-01-B and 2007-02-B 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-B through 2007-04-B.

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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

October 4, 2007

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Quarter Ended March 31, 2007

Finding No.: 2007-01-B
 CFDA No.: 93.959, 93.994, 84.027B, 15.875
 Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
 Block Grant, Special Education, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$74,682

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 Substance Abuse Block Grant Program, CFDA No. 93.959, no cancelled check was provided.

<u>FUNDORG</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
301201	03B	30284	\$410

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

<u>FUNDORG</u>	<u>PPE</u>	<u>Employee</u>	<u>Transaction Amount</u>
301201	01B	22679	\$ 1,269

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

<u>FUNDORG</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
301201	01B	22679	\$1,269

- For 2 (or 40%) of 5 transactions tested for the Special Education Program, CFDA No. 84.027B, we noted a difference in recalculation of gross pay.

<u>FUNDORG</u>	<u>PP#</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	01B	16447	80	50	0	\$562	\$649	\$87
301401	04B	618216	400	404	4	810	818	8
<u>Total</u>								<u>\$95</u>

**STATE OF CHUUK
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Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-01-B, Continued
 CFDA No.: 93.959, 93.994, 84.027B, 15.875
 Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
 Block Grant, Special Education, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$74,682

Conditions, Continued:

5. For 5 (or 100%) of 5 transactions tested for the Special Education Program, CFDA No. 84.027B, no cancelled checks were provided.

<u>FUNDORG</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
301401	01B	16447	\$ 562
301401	05B	618546	324
301401	06B	35900	568
301401	02B	13227	1,470
301401	04B	618216	810
Total			\$ <u>3,734</u>

6. For 1 (or 1%) of 77 transactions tested for the Compact Sector Grants, CFDA No. 15.875, the journal voucher and underlying supporting documents were not provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Amount</u>
771401	Supplemental Education Grant	77JV5004	\$37,422

7. For 20 (or 26%) of 77 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no personnel action forms were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
721411	Education	1	8750	\$ 930
721411	Education	1	13236	1,212
721411	Education	1	8908	425
721411	Education	2	18145	353
721411	Education	2	23358	255
721411	Education	4	23358	1,919
721411	Education	4	54194	450

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Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-01-B, Continued
 CFDA No.: 93.959, 93.994, 84.027B, 15.875
 Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
 Block Grant, Special Education, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$74,682

Conditions, Continued:

<u>FUNDORG</u>	<u>Fund Description</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
731206	Health	5	621129	\$ 273
741105	Capacity Building	1	99754	1,100
741105	Capacity Building	2	34443	1,517
751159	Environment	2	26475	5,128
751159	Environment	6	60020	969
771401	Supplemental Education Grant	1	23025	865
771401	Supplemental Education Grant	2	41362	623
771401	Supplemental Education Grant	3	37234	421
771401	Supplemental Education Grant	6	22519	831
771401	Supplemental Education Grant	5	72050	467
771401	Supplemental Education Grant	6	427751	1,423
771401	Supplemental Education Grant	6	33550	692
771401	Supplemental Education Grant	1	23025	100
Total				<u>\$19,953</u>

8. For 7 (or 9%) of 77 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no timesheets were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
721421	Education	1	24508	\$1,045
721421	Education	3	35702	345
721421	Education	3	610465	1,727
731205	Health	4	621471	405
731201	Health	1	14615	655
731206	Health	3	53889	652
731201	Health	3	72249	1,108
Total				<u>\$5,937</u>

9. For 23 (or 30%) of 77 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>PP#</u>	<u>Employee</u>	<u>Hours per</u>			<u>Gross Pay</u>	<u>Gross</u>	<u>Gross Pay</u>
				<u>Labor Cost</u>	<u>Hours per Timesheet</u>	<u>Hours Difference</u>	<u>per Labor Cost</u>	<u>Pay per DIT</u>	<u>Difference</u>
721411	Education	1	23026	242	288	46	\$ 978	\$ 892	\$ 86
721411	Education	5	18156	144	216	72	554	830	276

**STATE OF CHUUK
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Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-01-B, Continued
 CFDA No.: 93.959, 93.994, 84.027B, 15.875
 Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
 Block Grant, Special Education, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$74,682

Conditions, Continued:

FUNDORG	Fund Description	PP#	Employee	Hours per	Hours per	Hours	Gross Pay	Gross	Gross Pay
				Labor	Timesheet	Difference	per Labor	Pay per	Difference
				Cost			Cost	DTT	
721411	Education	6	27844	60	72	12	\$ 410	\$ 345	\$ 65
721411	Education	6	32586	60	72	12	421	260	161
721421	Education	1	21967	264	264	0	563	345	218
721421	Education	5	37231	72	72	0	578	541	37
731206	Health	1	1241	72	72	0	506	541	35
731206	Health	2	260189	84	72	12	637	303	334
731201	Health	2	50974	160	160	0	1,722	1,489	233
731206	Health	4	229650	129	114	15	1,327	283	1,044
731201	Health	1	611368	168	160	8	1,676	1,436	240
731206	Health	6	1241	432	72	360	3,244	541	2,703
731201	Health	1	40192	360	360	0	2,525	2,588	63
731201	Health	4	26421	58	72	14	727	872	145
731206	Health	4	229650	129	114	15	1,327	283	1,044
731206	Health	4	602254	202	78	124	1,327	233	1,094
741105	Capacity Building	4	16775	72	72	0	421	345	76
741105	Capacity Building	5	14179	72	72	0	421	394	27
741624	Capacity Building	1	53103	29	88	59	639	540	99
761955	Private	2	47197	136	80	56	2,906	1,215	1,691
	Supplemental								
771401	Education Grant	4	42810	72	80	8	394	438	44
	Supplemental								
771401	Education Grant	2	72050	136	160	24	1,075	794	281
	Supplemental								
771401	Education Grant	5	39712	72	80	8	345	335	10
								Total	<u>\$10,006</u>

10. For 38 (or 49%) of 77 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no cancelled checks were provided.

FUNDORG	Fund Description	PP#	Employee	Transaction Amount
721411	Education	2	18085	\$ 310
721411	Education	2	18145	353
721411	Education	2	23358	255
721411	Education	3	18072	310
721411	Education	3	49198	541

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-01-B, Continued
 CFDA No.: 93.959, 93.994, 84.027B, 15.875
 Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
 Block Grant, Special Education, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$74,682

Conditions, Continued:

<u>FUNDORG</u>	<u>Fund Description</u>	<u>PP#</u>	<u>Employee</u>	<u>Transaction Amount</u>
721411	Education	3	33502	\$ 384
721411	Education	4	13424	310
721411	Education	4	23358	1,919
721411	Education	4	44526	366
721411	Education	6	27844	344
721411	Education	6	31213	310
721411	Education	6	32586	353
721421	Education	3	35702	345
721421	Education	5	37231	578
721421	Education	5	27882	369
721421	Education	6	42878	323
721411	Education	6	26443	323
731206	Health	3	53889	652
731201	Health	4	611368	1,676
731201	Health	6	52239	1,333
731201	Health	2	26445	870
731201	Health	3	72249	1,108
731201	Health	5	57152	1,108
731201	Health	6	611368	1,436
731206	Health	2	16974	394
741624	Capacity Building	1	37244	100
741105	Capacity Building	3	31260	473
741105	Capacity Building	4	16775	421
741105	Capacity Building	5	14179	421
741105	Capacity Building	6	600167	540
751159	Environment	6	60020	969
771401	Supplemental Education Grant	2	41362	623
771401	Supplemental Education Grant	3	37234	421
771401	Supplemental Education Grant	4	42810	394
771401	Supplemental Education Grant	6	22519	831
771401	Supplemental Education Grant	5	72050	467
771401	Supplemental Education Grant	6	427751	1,423
771401	Supplemental Education Grant	6	33550	692
			Total	<u>\$24,045</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-01-B, Continued
CFDA No.: 93.959, 93.994, 84.027B, 15.875
Program Name: Block Grants for Prevention and Treatment of Substance Abuse, MCH Services
Block Grant, Special Education, Compact Sector Grants
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$74,682

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.

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 \$104,140 a total of \$410 from condition one, a total of \$1,269 from condition three, a total of \$3,734 from condition five, and a total of \$24,045 from condition eleven do not result in a questioned cost as such pertain to cancelled checks and will be excluded in determining the final questioned cost amount. Therefore, a total questioned cost of \$74,682 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 ensuring record keeping of underlying supporting documents and that such are made available for examination.

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 March 31, 2007

Finding No.: 2007-02-B
 CFDA No.: 10.664, 83.544/97.036, 15.875
 Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$559,863

Criteria: In accordance with 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 available for examination.

Conditions:

- For 1 (or 100%) of 1 transaction tested for the Cooperative Forestry Assistance Program, CFDA No. 10.664, no cancelled checks, purchase requisitions, contracts, vendor's invoices, receiving reports and procurement documents were provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
301541	760043901	01/17/07	\$1,674

- For 3 (or 100%) of 3 transactions tested for the Public Assistance Grants, CFDA No. 83.544/97.036, no cancelled checks, purchase requisitions, contracts, vendor's invoices, receiving reports, procurement documents, project worksheets, inspection or certification reports were provided.

<u>FUNDORG</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
301037	700240901	03/14/07	\$ 28,784
301037	700147601	02/14/07	80,671
301037	700299501	03/29/07	<u>137,943</u>
Total			<u>\$247,398</u>

- For 39 (or 100%) of 39 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no cancelled checks were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721403	Education	700173001	1/22/2007	\$ 14,736
721776	Education	JVD72014	3/30/2007	4,997
721403	Education	700235401	2/16/2007	875
721765	Education	700212601	2/19/2007	3,500
721765	Education	700218701	2/19/2007	3,500
721765	Education	700223301	2/19/2007	3,500
721765	Education	700221101	2/19/2007	3,250
721765	Education	700224601	2/19/2007	3,250

**STATE OF CHUUK
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Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-02-B, Continued
 CFDA No.: 10.664, 83.544/97.036, 15.875
 Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$559,863

Conditions, Continued:

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721765	Education	700227901	2/19/2007	\$ 3,250
721765	Education	700232701	2/19/2007	3,250
721765	Education	700211701	2/19/2007	3,000
721765	Education	700224501	2/19/2007	2,750
731201	Health	700147001	1/08/2007	60,000
731201	Health	700239101	2/23/2007	13,600
731201	Health	700245901	2/23/2007	21,257
731201	Health	700167401	1/12/2007	32,500
731206	Health	700299601	3/30/2007	34,926
731201	Health	700236501	2/16/2007	34,674
731206	Health	700262301	3/05/2007	34,009
731201	Health	700187401	1/25/2007	19,942
731201	Health	700292501	3/29/2007	18,998
731201	Health	700264703	3/14/2007	1,296
731201	Health	700180801	1/31/2007	19,592
731201	Health	700180601	1/31/2007	16,421
731201	Health	700180701	1/31/2007	12,265
731201	Health	700180914	1/31/2007	7,000
731201	Health	700180915	1/31/2007	6,733
731201	Health	700249301	2/26/2007	17,300
741061	Capacity Building	700242001	2/23/2007	7,400
761780	Private	700263501	3/13/2007	2,915
771401	Supplemental Education Grant	760043601	1/18/2007	5,981
771401	Supplemental Education Grant	760065101	2/15/2007	5,400
771401	Supplemental Education Grant	760088001	3/28/2007	4,036
771401	Supplemental Education Grant	760055801	1/31/2007	3,779
771401	Supplemental Education Grant	760085401	3/27/2007	3,631
771401	Supplemental Education Grant	700202701	2/13/2007	7,200
771401	Supplemental Education Grant	77JV6001	3/16/2007	14,016
771401	Supplemental Education Grant	700273401	3/22/2007	12,267
771401	Supplemental Education Grant	700192801	1/31/2007	<u>9,850</u>
			Total	<u>\$476,846</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-02-B, Continued
 CFDA No.: 10.664, 83.544/97.036, 15.875
 Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$559,863

Conditions, Continued:

4. For 11 (or 28%) of 39 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no purchase requisitions or contracts were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721403	Education	700173001	1/22/2007	\$ 14,736
721776	Education	JVD72014	3/30/2007	4,997
721403	Education	700235401	2/16/2007	875
731201	Health	700147001	1/08/2007	60,000
771401	Supplemental Education Grant	760043601	1/18/2007	5,981
771401	Supplemental Education Grant	760065101	2/15/2007	5,400
771401	Supplemental Education Grant	760088001	3/28/2007	4,036
771401	Supplemental Education Grant	760055801	1/31/2007	3,779
771401	Supplemental Education Grant	760085401	3/27/2007	3,631
771401	Supplemental Education Grant	77JV6001	3/16/2007	14,016
771401	Supplemental Education Grant	700192801	1/31/2007	<u>9,850</u>
Total				<u>\$127,301</u>

5. For 16 (or 41%) of 39 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no vendor invoices were provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721776	Education	JVD72014	3/30/2007	\$ 4,997
721403	Education	700235401	2/16/2007	875
731201	Health	700147001	1/08/2007	60,000
731201	Health	700245901	2/23/2007	21,257
731201	Health	700180801	1/31/2007	19,592
731201	Health	700180601	1/31/2007	16,421
731201	Health	700180701	1/31/2007	12,265
731201	Health	700180914	1/31/2007	7,000
731201	Health	700180915	1/31/2007	6,733
771401	Supplemental Education Grant	760043601	1/18/2007	5,981
771401	Supplemental Education Grant	760065101	2/15/2007	5,400
771401	Supplemental Education Grant	760088001	3/28/2007	4,036
771401	Supplemental Education Grant	760055801	1/31/2007	3,779

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-02-B, Continued
 CFDA No.: 10.664, 83.544/97.036, 15.875
 Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$559,863

Conditions, Continued:

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
771401	Supplemental Education Grant	760085401	3/27/2007	\$ 3,631
771401	Supplemental Education Grant	77JV6001	3/16/2007	14,016
771401	Supplemental Education Grant	700192801	1/31/2007	<u>9,850</u>
			Total	<u>\$ 195,833</u>

6. For 18 (or 46%) of 39 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no receiving report was provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721776	Education	JVD72014	3/30/2007	\$ 4,997
721403	Education	700235401	2/16/2007	875
731201	Health	700147001	1/08/2007	60,000
731201	Health	700245901	2/23/2007	21,257
731201	Health	700187401	1/25/2007	19,942
731201	Health	700292501	3/29/2007	18,998
731201	Health	700180801	1/31/2007	19,592
731201	Health	700180601	1/31/2007	16,421
731201	Health	700180701	1/31/2007	12,265
731201	Health	700180914	1/31/2007	7,000
731201	Health	700180915	1/31/2007	6,733
761780	Private	700263501	3/13/2007	2,915
771401	Supplemental Education Grant	760043601	1/18/2007	5,981
771401	Supplemental Education Grant	760065101	2/15/2007	5,400
771401	Supplemental Education Grant	760088001	3/28/2007	4,036
771401	Supplemental Education Grant	760055801	1/31/2007	3,779
771401	Supplemental Education Grant	760085401	3/27/2007	3,631
771401	Supplemental Education Grant	77JV6001	3/16/2007	<u>14,016</u>
			Total	<u>\$227,838</u>

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-02-B, Continued
 CFDA No.: 10.664, 83.544/97.036, 15.875
 Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
 Requirement: Allowable Costs/Cost Principles and Procurement
 Questioned Costs: \$559,863

7. For 18 (or 46%) of 39 transactions tested for the Compact Sector Grants, CFDA No. 15.875, no procurement documentation was provided.

<u>FUNDORG</u>	<u>Fund Description</u>	<u>APV</u>	<u>Transaction Date</u>	<u>Transaction Amount</u>
721776	Education	JVD72014	3/30/2007	\$ 4,997
731201	Health	700147001	1/08/2007	60,000
731201	Health	700239101	2/23/2007	13,600
731201	Health	700245901	2/23/2007	21,257
731201	Health	700167401	1/12/2007	32,500
731201	Health	700187401	1/25/2007	19,942
731201	Health	700292501	3/29/2007	18,998
731201	Health	700180914	1/31/2007	7,000
731201	Health	700180915	1/31/2007	6,733
761780	Private	700263501	3/13/2007	2,915
771401	Supplemental Education Grant	760043601	1/18/2007	5,981
771401	Supplemental Education Grant	760065101	2/15/2007	5,400
771401	Supplemental Education Grant	760088001	3/28/2007	4,036
771401	Supplemental Education Grant	760055801	1/31/2007	3,779
771401	Supplemental Education Grant	760085401	3/27/2007	3,631
771401	Supplemental Education Grant	77JV6001	3/16/2007	14,016
771401	Supplemental Education Grant	700273401	3/22/2007	12,267
771401	Supplemental Education Grant	700192801	1/31/2007	<u>9,850</u>
Total				<u>\$246,902</u>

Cause: There appears to be weak 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 or procurement method. Furthermore, there appears to be weak internal controls over ensuring record keeping of underlying supporting documents and that such are made available for review.

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 the conditions listed above is \$1,523,792, a total of \$476,846 from condition three does not result in a questioned cost as such pertain to cancelled checks and will be excluded in determining the final questioned cost amount. Additionally, a total of \$112,565 from condition five, a total of \$185,983 from condition six and a total of \$188,535 from condition seven have already been questioned at conditions four, five and six above and will be excluded in determining the final questioned cost amount. Therefore, a total questioned cost of \$559,863 exists.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-02-B, Continued
CFDA No.: 10.664, 83.544/97.036, 15.875
Program Name: Cooperative Forestry Assistance, Public Assistance Grants, Compact Sector Grants
Requirement: Allowable Costs/Cost Principles and Procurement
Questioned Costs: \$559,863

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 ensuring record keeping of underlying supporting documents and that such are made available for examination.

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.

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 March 31, 2007

Finding No.: 2007-03-B
CFDA No.: 10.664, 83.544/97.036
Program Name: Cooperative Forestry Assistance Program, 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.

Conditions:

For 1 (or 100%) of 1 transaction tested (\$1,674 of the aggregate amount of \$1,674 tested), for the Cooperative Forestry Assistance Program, CFDA No.10.664, we were unable to perform required cash management tests as detailed federal draw downs and supporting reimbursements were not made available for examination.

For 3 (or 100%) of 3 transactions tested (\$247,398 of the aggregate amount of \$247,398 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 made 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. At the time of the audit there were several unidentified deposits pertaining to US Federal Grant drawdowns. All of these have now been identified so that verification of grant receipts can now be performed for cash management purposes.

Additionally, in May 2007, the local finance office of the FSM national government (FSMNG) began processing all new expenditures incurred under non-sector U.S. federal grants. Consequently, 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. Documentation for exceptions cited for this and previous audits will be provided by the Chief of Finance no later than the close of FY-07 audit fieldwork. Documentation pertaining to new obligations incurred in May 2007 and subsequently will be provided by the Chief of the FSMNG local finance office.

**STATE OF CHUUK
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Quarter Ended March 31, 2007

Finding No.: 2007-04-B
CFDA No.: 83.544/97.036
Program Name: Public Assistance Grants
Requirement: Matching Requirement
Questioned Costs: \$65,479

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 3 (or 100%) of 3 transactions tested (\$247,398 of the aggregate amount of \$247,398 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	\$ 2,164	10%	\$ 216
301037	TX7301	FEMA 1449 PONGSONA	253,027	25%	63,257
301001	TX7408	AGRI MITIGATION HMGP #08	2,550	25%	638
301001	TX7410	HMGP #13 MGT COST	3,798	25%	950
301001	TX7501	HMGP MGT COST	<u>1,672</u>	25%	<u>418</u>
			\$ <u>263,211</u>		\$ <u>65,479</u>

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 \$65,479 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.