

**OFFICE OF THE CHUUK STATE PUBLIC AUDITOR
CHUUK STATE, FSM**



**FOLLOW UP AUDIT ON FEDERAL GRANT RECEIVABLES
FISCAL YEAR 2022**

AUDIT REPORT NO. 2022-01



**Manuel L. San Jose
Public Auditor**

**Office of the Chuuk State Public Auditor
Audit on Federal Grant Receivables
Audit Report 2022-02**



**Chuuk State
Office of the Public Auditor**

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September 9, 2022

Honorable Alexander Narruhn Governor, Chuuk State Federated States of Micronesia	Honorable Arno Kony President House of Senate Chuuk State Legislature	Honorable Lester D. Mersia Speaker House of Representatives Chuuk State Legislature
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RE: Follow-up Audit on Federal Grant Receivables

We have completed a follow-audit on Federal Grant Receivables. It was last audited in 2019. This follow up audit was conducted in accordance with the auditing standards for performance audit following the U.S. Generally Accepted Auditing Standards (GAGAS). The purpose was to follow up whether the Department of Administrative Services had implemented corrective actions to address the findings and recommendations disclosed in the Audit Report 2019-01.

We made two recommendations in the report to improve the management and monitoring of Accounts Receivable-Federal Grants¹ and to ensure that the money advanced by the Chuuk State Government to run the federal programs was promptly collected back.

1. We recommended that the Funds Division Accountant should establish an accounts receivable subsidiary ledger and should maintain their own record of collections to reconcile the billed amounts with collections and receivable balance.
2. In addition, we recommended that the Federal Grants Fund Accountant should study the collectability of the accounts receivable and initiate collection if still collectible.

¹ Unreimbursed expenses for federal programs wherein payment was advanced by the government

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During the follow up audit, we found that recommendation # 1 was implemented. The Accounts Receivable-Federal Grant Subsidiary ledger (using excel sheet) was now in place to monitor and provide details of the Accounts Receivable- Federal Grants. However, there was no action taken on recommendation # 2.

Based on the standard collection period, the unreimbursed federal grants from federal agencies (accounts receivable) as of September 30, 2021 should have been collected by January 27, 2022. However, we noted that there were still outstanding accounts with positive and negative balances although the net accounts receivable amounts to \$45,739.29. The Department of Administrative Services should ensure that the money advanced by the government for federal programs are fully collected on time.

We discussed this audit report and later requested for a formal management response from Deputy Director of the Department of Administrative Service (DAS). We did not receive the management and so, we are issuing this audit report without the management response.

Sincerely,

Manuel L. San Jose Jr., CPA, CGAP, CIA, CISA, CRMA, CFIP
Public Auditor
Office of the Chuuk State Public Auditor

**Office of the Chuuk State Public Auditor
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INTRODUCTION

Reason for Audit: The Office of the Chuuk State Public Auditor (OCPA) shall ensure that the recommendations made to Department/Agency officials are adequately considered and appropriately addressed. It is through the implementation of recommended improvements that the OCPA could ensure that it is contributing value added services that benefits the citizens.

Background

Processing of Federal Grants and Accounts Receivable-Federal Grants

Most of the federal grants that the Chuuk State had received were generally reimbursement-type or expenditure-driven grant. In this type of grant, the Chuuk State is required to use its own funds first to incur expenditures for the program/project activities then claim for reimbursement from the grantor or federal agency. *“These programs are designed to break even and result in no drain of financial resources on part of the government.”*²

The funds advanced by the government but were not collected (unreimbursed) at the end of the fiscal year are recognized in the books as “Accounts Receivable-Federal Grants”. There are several steps in the processing of grants as indicated below. The movements pertaining to Accounts Receivable-Federal Grants are referenced in items # 10 -12 below.

1. The Chuuk State Departments/Programs submit the budget or estimated expenditures of each program to the FSM National Government in charge of federal grants.
2. The FSM National Government in charge of federal grants is compiling them into packages and sending them to applicable US federal agencies.
3. The US federal agencies send grant awards to the FSM National Government
4. The FSM National Congress approves budget and appropriates funds in charge of federal grants.
5. The FSM National Government issues advice of allotment (Governor is the allottee) to Chuuk State Departments/Programs along with copies of the grant awards.
6. The Chuuk State Governor receives the budget and transmits it to the Chuuk State Legislature.

²Ruppel, Warren. 2015. *Wiley GAAP for Governments 2015: Interpretation & Application of Generally Accepted Accounting Principles for State and Local Governments*. p.511.

7. The Chuuk State Legislature appropriates the budget. Then, the Department of Administrative Services' (DAS) Budget Office issues an allotment form to spend the fund.
8. The Budget Office inputs the budget into the system for processing and disbursing of payments.
9. Monthly, an Expenditure Report, Breakdown of expenditures, and Cover Letter from the DAS Director are transmitted to FSM National Government for reimbursements—to draw down the funds allocated to each program based on the grant awards.
 - a. In instances where the reimbursement is late (for more than a week), the action taken is to follow up with the Federal Grant Specialist through email.
10. At fiscal year-end (September 30th), the expenditures that were not reimbursed during the year are recognized as Accounts Receivable – Federal Agencies/Grants in the books.
11. The accounts receivable are monitored and collected every after fiscal year-end by checking its subsequent collection per program and the expiration date of grant award to determine whether the fund has lapsed. If so,
 - a. Salary³ (Most cases)
 - Communicate with payroll to correct fiscal period or date
 - Prepare Journal Entry dating it to current year
 - b. Other expenditures (Rare cases)
 - Notify relevant programs to communicate directly with grantors

³ Concerns internal oversight

Objectives, Scope and Methodology

Objective

The objective of this audit was to follow up the corrective actions taken by the Department of Administrative Services (Finance) to address the audit findings and recommendations on audit of Accounts Receivable – Federal Grants per audit report 2019-01.

Scope

This review covered the Accounts Receivable-Federal Grants as of end of FY September 30, 2021 and subsequent collections up to January 27, 2022.

The audit was conducted pursuant to Article VIII Section 9 of the Chuuk State Constitution and TSL 6-21 which states in part: *“The Auditor shall conduct audits of all financial transactions of all branches, departments, offices, agencies and instrumentalities of the government, and of all accounts kept by or for them.”*

Methodology

We conducted this performance audit in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions on our audit objectives.

To determine the action taken as regards to the recommendation that the Accounts Receivable Subsidiary Ledger for Federal Grants is established and records of collections are maintained to reconcile the billed amounts with collections and receivable balance, we reconciled the total controlling account for Accounts Receivable – Federal Grants (General Ledger) as of September 30, 2021 (end of fiscal year 2021) against the related subsidiary ledger total. Further, we test-traced back the related accounts receivable transactions (October 1, 2021 to January 2022) from the General Ledger and Subsidiary Ledger to the source documents.

To determine the action taken as regards to the recommendation that the Federal Grants Fund Accountant should study the collectability of the accounts receivable and initiate collection if still collectible, we analyzed the aging of long outstanding Accounts Receivable- Federal Grants.

Related Prior Audits Coverage

Deloitte & Touche has been performing financial audits of the financial statement of Chuuk State Government that include federal programs and/or federal grant receivables. The historical Accounts Receivable from Federal Agencies is as follows:

Table 1: FY 2015 - FY 2021 A.R. US Federal Grants	
Fiscal Year	Accounts Receivable – Federal Agencies/Grants
2015	\$233,539
2016	\$351,512
2017	\$307,097
2018	\$406,930
2019	\$337,811
2020	\$487,798
Source: FS Deloitte	
2021	\$650,826
Source: DAS (Finance)	

Conclusion

We conclude that the Department of Administrative Services (Finance) has not totally implemented the recommendations in the previous Audit Report No 2019-01.

FINDING AND RECOMMENDATION

Finding – No action was taken to implement the recommendation that the Federal Grants Fund Accountant should study the collectability of the accounts receivable – federal grants and initiate collection if still collectible

An appropriate and timely implementation of audit recommendations agreed by management is an important part of realizing the full benefit of an audit to the citizens.

As to the Accounts Receivables – Federal Grants which are recorded as short-term assets on the Chuuk State balance sheet, the best practice is to convert it to cash within due date or immediately collect them back because the government is likely struggling to generate enough cash to pay for the needed services and programs the government would like to provide to its citizens.

We made two recommendations in the previous report to improve the management and monitoring of Accounts Receivable-Federal Grants⁴ and to ensure that the money advanced by the Chuuk State Government to run the federal programs was promptly collected back.

1. We recommended that the Funds Division Accountant should establish an accounts receivable subsidiary ledger and should maintain their own record of collections to reconcile the billed amounts with collections and receivable balance.
2. In addition, we recommended that the Federal Grants Fund Accountant should study the collectability of the accounts receivable and initiate collection if still collectible.

During the follow up audit, we found that recommendation # 1 above was implemented while no action was taken on recommendation # 2.

The Accounts Receivable-Federal Grant Subsidiary ledger (using excel sheet) was now in place to monitor and provide the details of the Accounts Receivable- Federal Grants.

On recommendation # 2, we reviewed the subsequent collections made on ‘Accounts Receivable –Federal Grants’ after fiscal year ending 2021 (September 30, 2021) from October 1, 2021 to January 27, 2022, as well as the details and aging of Accounts Receivable –Federal Grants as of January 27, 2022. We noted that there was no complete study made on the collectability of the accounts as recommended. Old uncollected accounts still existed but not documented whether

⁴ Unreimbursed expenses for federal programs wherein payment was advanced by the government

they can still be collected. From Table 4, it would appear that the net receivable was only \$45,739.29.

Table 4: Accounts Receivable-Federal Grants as of January 27, 2022	
Description	Amount
Accounts Receivable (AR)-Federal Grants as of September 30, 2021 (FY 2021)	\$ 650,826.51
Less : Collections from October 1, 2020 to January 27, 2022	587,447.27
Less: Reconciling item	17,639.95
AR-Federal Grants as of January 27, 2022	\$ 45,739.29

However, the aging of individual accounts in Table 5 showed yearly receivable accounts with positive and negative balances. They cannot be offset because they represent receivables from different federal agencies providing the grants. It should also be noted \$200,496.38 of such receivable (uncollected by Chuuk Government⁵) was aged FY2017 and below as shown in Table 5.

Table 5: Aging of Accounts Receivable-Federal Grants as of January 27, 2022			
Year	Positive Balances	Negative Balances	Net AR Balance
FY 2021	\$ 6,546.54	0	\$ 6,546.54
FY 2020	12,627.09	(51,124.60)	(38,497.51)
F Y 2019	28,696.61	(94,537.56)	(65,840.95)
FY 2018	8,138.30	(65,103.47)	(56,965.17)
FY 2017 & Below	290,049.33	(89,552.95)	200,496.38
AR-Fed Grants as of 1/27/22	\$ 346,057.87	\$ (300,318.58)	\$ 45,739.29

Furthermore, the DAS is still not strictly collecting new receivables for federal grants. We noted from ocular review of receivable-federal grants as of September 30, 2021 that recent cash advances (advances payments for grant expenses) made by the Chuuk State government amounting to about \$19,000 (in 2020 and 2021) remained uncollected as of January 27, 2022 when according to the monthly billing policy, the amount should have been fully collected.

⁵ The US federal grants availed by Chuuk State are generally reimbursement-type or expenditure-driven grant. Herein, Chuuk State is required to use its own funds first to incur expenditures for the program/project activities before claiming the reimbursement from the grantor or federal agency. Unreimbursed amount at year end is recognized in the books as an asset “Accounts Receivable-Federal Grants.”

There was no further economic benefit of floating Accounts Receivables – Federal Grants in the balance sheet as an asset if they cannot anymore be collected for any reason and more so, if the receivables were negatives (seemingly recording error or overpayment by federal agencies).

There was lack of strict and timely monitoring of the collection the Accounts Receivable – Federal Grants.

Cause and Recommendation

The Accounts Receivable – Federal Grants were not properly managed to ensure their timely collection from the federal agencies.

We reiterate our previous audit recommendation that the Federal Grants Fund Accountant or the Director of the ‘Department of Administrative Services’ designee should study the collectability of the accounts receivable and initiate collection if still collectible or write it off from the accounts. There is no use floating an asset (whether positive or negative asset) in the books if considered irrecoverable.

PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff at Chuuk State Department of Administrative Services for their assistance and cooperation during the course of the audit.

We have provided copies of the final report to the Governor, Senate and Members of the Representatives for their use and information. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office along with the Public Auditor and staff that made major contributions to this report can be found on the next page.



Manuel L. San Jose, Jr.
Public Auditor
Office of Chuuk State Public Auditor

September 5, 2022 .

OCPA CONTACT AND STAFF ACKNOWLEDGEMENT

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ACKNOWLEDGEMENTS In addition to the contact named above, the following staff made key contributions to this report:

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OCPA MISSION We conduct audits and investigations to improve government operations, efficiency, and accountability for the public's benefit.

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