

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR

CHUUK STATE, FSM



Chuuk State Housing Authority: Not Aware of the Extent of Families in Housing Needs

FISCAL YEAR 2020 to 2022

AUDIT REPORT NO. 2023-02



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December, 18, 2023

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Chuuk State, FSM

Honorable Arno Kony
President
House of Senate
Chuuk State Legislature

Honorable Lester D. Mersai
Speaker
House of Representatives
Chuuk State Legislature

RE: Audit on the Chuuk State Housing Authority

We completed the audit on the Chuuk Housing Authority. We conducted this audit in accordance with the U.S. Generally Accepted Government Auditing Standards. The objectives of this performance audit were to determine whether the Chuuk Housing Authority spent its funds in accordance with the Chuuk State Financial Management Regulations and to determine the extent to which the Chuuk Housing Authority has been strategically managing its operations and effectively performing its function as mandated by the law.

The Authority used to provide loans for the construction of housing units but, due to limited funding, was currently administering only an in-house CHA Loan Fund for house repair and renovation. The Authority operates on two budgets. The first budget was non-appropriated fund for the operation of the CHA loan fund which was being approved by the board. The second budget was the appropriated fund passed by the Legislature and signed by the Governor. During three year period covered by the audit (FY2020-FY2022), the non-appropriated fund (loan fund) had average yearly collection of \$145,051.65 while the average yearly appropriated budget was \$67,182.50. The yearly average collections can be provided to only about 29 new loans..

The results of the audit disclosed that the Chuuk Housing Authority did not spend its funds in accordance with the Chuuk State Financial Management Regulations and other applicable laws for the spending of funds and managing its operations. We noted non-compliance issues involving improper documentations of loans. Furthermore, we noted that CHA did not strictly follow the budget control procedures. The deficit spending was consistently recurring for the appropriated budget and operating losses were sustained for the loan fund during the fiscal years covered by our audit. The loan fund was used for expenditures not allowed by the law, e.g., COVID 19 allowance, bonuses, and others. There is a need for the Chuuk Housing Authority (CHA) to strictly follow the budgetary control to ensure that it would not spend more than the approved budget or more than its income. Furthermore, there is a need for the CHA to update

and implement policies and procedure for approval, processing, loan amortization, penalties and collection.

We also noted that the CHA has not been strategically managing its operations and effectively performing its functions that were mandated by the law. Due to lack of fund, the current activities were limited to financing of small loans for house repair. We believe that by developing and implementing a long term strategic plan, the CHA could develop vision, mission, and strategies that are more relevant to its mandate. The CHA, likewise, could initiate one of its mandated activities to study the living and housing conditions in Chuuk State and report the findings and recommendations of such study to the government leadership and the public. With this study, the CHA could also able to make transparent the families with the housing problems and recommend strategies and policies on how to address them.

Furthermore, we noted that the CHA and the Department of Administrative Services (DA) could improve their operational efficiencies by streamlining the loan activities through refraining from being involved in the procurement of the construction materials to be used for house repair. So much administrative time was being consumed waiting for quotation, creating and issuing Purchase Order (PO) based on summary of quotations, and processing the disbursement for POed items in the financial system. The disbursements for a \$5,000 loan were normally made partial taking the CHA two to three disbursements before fully disbursing the loan. In this practice, interest income was not maximized because the actual receivable was only recorded after each partial disbursement. The CHA should simply process the payment for the total approved loan and then start collecting and monitoring the loan amortization. The CHA should, however, ensure that the loan was indeed used for the intended purpose through provisioning and implementing sanctions or penalties in the loan agreement.

In addition, we noted that the CHA has not effectively been managing its accounts receivables (AR) and accounts payables (AP) for the loan fund operation. The CHA was not efficient in the collection of loans. Of the new loans granted during the period covered by our audit, the customer accounts receivable from ten borrowers amounting to \$41,457.84 as of September 30, 2022 (11% of total new loans during the period covered by the audit) either had no collection or missed the periodic installment. Improvement is needed through implementing strategies that would ensure that receivables are collected on time and the recording problems both in the subsidiary ledgers and in the general ledger are addressed timely (e.g., time reconciliation of subsidiary ledgers and general ledger balances for AR and AP).

Lastly, there is a need to produce regular financial statements (through the DAS) that should correctly reflect information on net position and results of operation for decision making purposes. The AR was omitted in the financial statement resulting in understatement of the accumulated resources in the loan fund (net position). The Board should take its responsibility and be accountable for the performance of the loan fund by keeping it intact and not depleted by operating losses and uncollectible accounts. To do this however, the Board should be given a regular information on bank balance, AR, AP, net position, net income/(loss), projected interest collections, budget, and the loanable fund.

On other matters, the Executive Director of the CHA, based on a Memorandum of Understanding (MOU), was asserting that CHA has uncollected receivable account since 2007 from the Chuuk Public Utility Corporation (CPUC) amounting to \$219,838.82. It helped CPUC then in resolving power outages and in purchasing its fuel needs. The DAS Director confirmed that the money was indeed transferred to the CPUC through several cash releases as decreed by the Governor. He also said that the intention was to get back the money because of financial difficulties of all the component units; hence, an MOU was signed. He further said that they kept requesting for reimbursement. Since the CHA needs the fund for their activities, we recommend that the CHA should continue requesting for the reimbursement of the \$219,838.82.

We requested for a formal response on this audit both from the management of the CHA and the DAS. We received a formal management response from the CHA but not from the DAS. The CHA management generally agreed on some recommendations but explained that the deficit spending that has been recurring in the appropriated budget was the salary increase that was approved by the Board to be funded by the loan fund. The response was attached to this report under the section for management response.

Respectfully Yours,



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INTRODUCTION

Background

Reason for Audit: The Authority has not been subjected to performance audit ever since it started its operation

Chuuk Housing Authority

The purpose of the Authority is to facilitate, through low interest loans, the construction of safe and sanitary residential housing for low-income families.

The Board of Directors

Chuuk State Law No. 3-30 created the Chuuk Housing Authority (CHA). The affairs of the Authority are managed by a five-member Board of Directors appointed by the Governor for a four-year term with the advice and consent of the Legislature. The Board shall elect from among its members a chairman, a vice-chairman and a secretary. The daily operation of the Authority is delegated to an Executive Director, who is appointed by the Board. Section 2 enumerates the powers vested in the Chuuk Housing Authority (CHA) which shall be exercised by the Board of Directors referred to as Board. Refer to **Appendix A** for details of powers of the Board. The current composition of the Board is as follows:

Members (As of 2022)	
1. Mondale Tim	Chairman
2. Boone Rain	Vice Chairman
3. Skenson Erwin	Secretary
4. Jonas Paul	Member, DAS Director
5. Andreas Victus	Member

Powers and Duties of the Chuuk Housing Authority

The important powers and duties of the Chuuk Housing Authority (Section 3, Truck State Law (TSL) 3-30), among others, are as follows:

1. Undertake and carry out studies of living and housing conditions and determine where overcrowded and blighted conditions exist. (Section 3.15)
2. Prepare all necessary plans to carry out the purposes of the act and include in such plans without limitations, plans for construction of housing for low-income families and other plans (Section 3.16)
3. Borrow money from public and private sources and give such security as may be required (Section 3.7)
4. Apply for and accept advances, loans, grants, contributions, gifts, donations, appropriations of funds and any other form of financial assistance and enter into and carry out contracts in connection therewith (Section 3.8)
5. Administer low-cost housing program (Section 3.1)
6. Build, construct, manage, operate, and maintain housing projects for low-income families (Section 3.13)
7. Make loans or guarantee loans to individuals, groups, or associations to assist in the construction of low-cost housing in the state (Section 3.3.a)

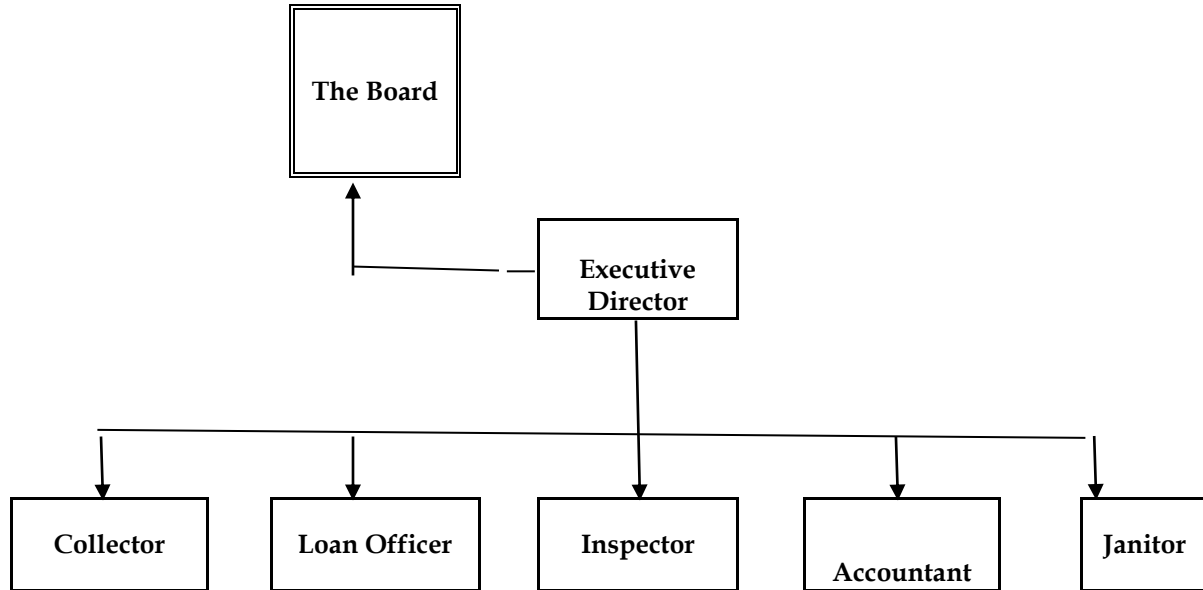
Refer to **Appendix B** for details.

Current Activities of the Chuuk Housing Authority

The CHA was mandated by the law to administer low-cost housing projects for low-income families. The Authority used to provide loans for the construction of housing units but, due to limited funding, was currently administering only an in-house CHA Loan Fund for house repair and renovation. The Authority has been providing a \$5,000 loan at 4% interest rate to each qualified borrower under various terms.

Organizational Chart of Chuuk Housing Authority

Figure A below shows the organizational chart of the Chuuk Housing Authority.



Chuuk Housing Authority Budget and Expenditures FY 2020-2022

The Authority operates on two budgets. The first budget (called in-house budget) was non-appropriated fund for the operation of the CHA loan fund which was being approved by the Board. The second budget was the appropriated fund passed by the Legislature and signed by the Governor. During three year period covered by the audit (FY2020-FY2022), the non-appropriated fund (loan fund) had average yearly collection of \$145,051.65 while the average yearly appropriated budget was \$67,182.50. Refer to **Appendix C** for the description of non-appropriated fund -CHA Loan Fund and CHA appropriated fund

Current Processing and Collecting House Repair Loans

The detailed steps for processing, disbursement and collecting of loans are indicated in **Appendix E** of this report.

Objectives, Scope, Methodology, Conclusion

Objectives

The objectives of the audit on the Chuuk State Housing Authority were as follows:

1. To determine whether the Chuuk Housing Authority spent its funds in accordance with the Chuuk State Financial Management Regulations and other applicable laws for the spending of funds, managing, and reporting the results of operations.
2. To determine the extent to which the Chuuk Housing Authority has been strategically managing its operations and effectively performing its function as mandated by the law

Scope

The audit covers the financial transactions and the agency's performance during the period from FY 2020-2022. The audit is 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 US Government Auditing Standards. 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 based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

To determine whether the Chuuk State Housing Authority spent its funds in accordance with the Chuuk State Financial Management Regulation, we judgmentally selected a sample of loans and collections during the period covered by the audit and did compliance verification with the

financial management regulations, internal documentary requirements for loans and with internal control procedures.

To determine the extent to which the Chuuk Housing Authority has been strategically managing its operations and effectively performing its function mandated by the law, we reviewed the mandate and requested for plans, targets, and performance. We also analyzed the loan processing; the management and collection of receivables if done efficiently and effectively.

Conclusion

We concluded that the Chuuk Housing Authority (CHA) needs improvement when it comes to spending of funds in accordance with the Chuuk State financial management regulations, policies, procedures and applicable laws. We noted non-compliances with regard to loan processing documentations and internal control requirements. For example, of the 25 samples of loans for house repair which were selected for examination, we noted that 52% or 13 samples were with non-compliance issues and some of the required documentations were missing. In another example, the yearly financial statements for FYs 2021 and 2022 lacked item information about the accounts receivable resulting in understatement of assets and net position of the CHA. The CHA in consultation with the Department of Administrative (Services) should obtain financial statements (through the DAS) that should correctly reflect information on net position and results of operation for decision making purposes. The CHA has to update and/or develop, and implement policies and procedure for loan processing and amortization. It was not able to show the auditor any written policies and procedures on file during the audit. Because of the potential crowding out effect, the CHA should develop and implement policy to regulate loans with conflict of interest and loans to CHA employees and officials of the government. Lastly, there was no compliance with budget control. There have been deficit spending and/or operating losses during the period covered by the audit from FYs 2020 to FY 2022. Furthermore, some of the expenditures that were charged to the loan fund appeared to be not in compliant with the law creating the loan fund. These expenditures, though approved by the Board, included COVID 19 allowances and bonuses which were given to the Board, management and staff.

We also conclude that the CHA had not been strategically managing its operations and effectively performing the substantive functions mandated by the law. There were inefficiencies and ineffectiveness in processing of loans, in managing and collecting receivables and in managing the operation of the CHA.

Their current activities were limited to financing activities thru lending and collecting small loans. We believe that by developing and implementing a long term strategic plan, the CHA could be effectively managed by the developing vision, mission, and strategies that are more relevant to its mandate. For example, the CHA with limited funding, could initiate the activities related to its mandate concerning the study of the living and housing conditions in Chuuk State and report the findings and recommendations on the results of such study to the leadership and the public. With this study, the CHA could also able to determine families with the housing problems or in need of housing and recommend strategies and policies on how to address them. Regarding the processing of loans, we believed that the processes involving loan disbursements were not efficient. The CHA and the DAS were involved in some administrative tasks regarding the procurement of construction materials on behalf of the borrower (e.g.; requiring quotation, creating the Purchase Order (PO) , and in processing of payment request every time the POed items were delivered). It is most efficient if the DAS would just cut the check for the approved loan instead of being involved in the procurement of construction materials. The CHA should simply implement internal control procedures to ensure that the loan was used for intended purpose and impose sanctions or penalties if they were violated. The procurement of construction materials should be left to the responsibility of the borrower and the CHA should just concentrate on collecting and monitoring of loan amortization.

Lastly, we noted that the CHA was not efficient in the collection of loans. Of the new loans granted during the period covered by our audit, ten customers' accounts receivable as of September 30, 2022 amounting to \$41,457.84 (11%) either had no collection or missed the periodic installment. Furthermore, the review of the FY 2021 loan collections disclosed that the monthly installment was not being consistently applied both to the principal and interest. For example, of the \$170,336.85 collections for FY 2021, we noted that 522 loan installments from

53 borrowers amounting to \$40,689.89 or 24% of the collections were totally applied to principal and none to interest payment. We further noted that 43 loan installments from 11 borrowers amounting to \$1,629 were totally applied to interest and none to principal.

PRIOR AUDIT/RELATED EXMAINATION

This is the first performance audit conducted for this agency. However, the financial audit was done yearly by the external auditor. The last completed financial audit was for FY 2021 in which the issue that was raised was the absence of reconciliation between the accounts receivable subsidiary ledgers and its controlling account in the general ledger.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Compliance with Loan Processing, Internal Control Requirements and with Laws and Regulations Needs Immediate Improvement

The CSL law 3-30 creating the Chuuk Housing Authority requires the accounting of budget in accordance with applicable law (Section 8). Additionally, the CHA imposes documentary requirements for processing of loan applications.

We judgmentally selected a sample of loan folders processed during the period covered by this audit from FY 2020 to FY 2022 to conduct compliance checking with loan documentations and internal control requirements. Of the 25 samples of loan folders which were selected, there were 13 samples (52%) with non-compliances issues as follows:

1. No inspection reports on file before and after house repair
2. No pictures on file before and after house repair

Note that the above documentations would provide evidence that the house repair was indeed done. The inspector explained that the final inspection report and the pictures were attached to paid vouchers when submitted to finance upon final payment. An ocular review of some paid vouchers with Treasury, however, disclosed that the paid vouchers did not have the above documentations.

3. Some Purchase Orders(PO) were not on file. Furthermore, there were POs with the same number but issued to different vendor. It should be noted that the PO should have unique number for control purposes and each vendor should be issued with its own PO number. So, the same PO number issued to different vendor were invalid numbering.

Additionally, we noted some control issues as follows:

4. Gap in loan numbering in the system. Some numbers were missing and unaccounted. There were 35, 3, and 8 unaccounted loan numbers in FY 2020, FY 2021 and FY2022, respectively. For example, missing and unaccounted loan numbers were 810, 811, and 812 in FY 2020; 896, 897, and 907 in FY 2021; and 914, 916, and 919 in FY 2022, respectively.

Additionally, the loan numbers that were manually assigned in the loan application form were different from the loan numbers that were recorded in the system.

5. Filing of documentations in loan folders was not organized.

As a result, the following risks might occur:

1. There is a high risk that the actual house renovation was not done, and thus, the money was not actually used for the purpose of the loan.
2. The transactions in the system for new loans might not be complete since the document control numbering as a tool is not helping the CHA to manage the completeness of documents. There was gap in the loan numbering in the system and yet the Loan Officer was not aware why some numbers are missing.

Cause and Recommendation

The CHA maintains a documentation checklist to ensure that all of the required documentations were submitted by the borrower before the approval of loans and processing of any payment.

However, the supervisory review process did not ensure that the required documentations were submitted. The loans as well as the payments were processed even with documentation deficiencies. In addition, there was no manual of policies and procedures on file for reference purposes.

Recommendation

On supervisory review

1. Supervisor to ensure the required documents on the checklist are proper and on file.

The Loan Officer Review process should ensure that any loan for approval or payment should not be processed without complete documentation. Further, the Loan Officer must run through a checklist to ensure that the documentations are complete. This suggestion should be implemented by January 2024.

On filing of documents within the loan folder

2. Properly organize documents in loan folders to facilitate tracing.

Because the documentations were legal documents, the Loan Officer Review process should ensure that complete documentations are kept in loan folders in an organized manner to facilitate tracing. The checklist should be filed on top of the documents, which should be filed according to the sequence indicated in the checklist. If a borrower had previous paid loans, the documents pertaining to previously paid loans should be separated with a divider. This suggestion should be implemented by January 2024.

3. Update the loan policies and procedures and improve the existing processes or steps for approving and receiving of loans. The following improvements are recommended:
 - 3.1. Streamline the processing of loan payment to improve efficiency.

Disburse the cash loan proceeds directly to the borrower and eliminate the procurement process wherein the Department of Administrative Services (finance) is involved in processing of payment for materials and labor for the house repair. With the direct disbursement of the approved loan to borrower, the DAS could eliminate the inefficient administrative tasks of requiring quotations; and processing, preparing, approving, recording, and monitoring of forms like purchase order and payment request in the system. It's the borrower that should perform the procurement of the construction materials. The loan processing activities on Appendix F which were taking a lot of administrative time could be eliminated (e.g.; steps 8, 9, 10, 14, 11, 12, 13, 15). The CHA should only implement internal control procedures to ensure that the loan is actually used for house repair. This suggestion should be implemented in January 2024.
4. Maintain a manual log book for the applications wherein the CHA would log the loan application as received. This is to ensure that the loan is processed based on first-in-first-out basis. The application be initially assigned with a manual number and later on with the loan number automatically generated from the system when the application is approved and the loan is entered in the CHA Loan System. This suggestion be implemented by January 2024.

Finding 2 – The Current Financial Statements Were Not Reflecting The Results of Operation And The Net Position of The Chuuk Housing Authority

There are certain elements of a good design of a financial statement. One of these elements is the faithful representation of information which must be complete, unbiased and error-free. It must also follow the required structure, features and contents by generally accepted accounting principles.

The financial statements that were published for the Chuuk Housing Authority cannot be considered as a faithful representation of information about the net position and the results of operation of the Authority. These were due to the following:

1. \$128,253.82 Cash on Hand/in Bank was unreconciled in the financial statements. Using an indirect method for Cash Flow Statement, the ending cash in bank balance per book of September 30, 2021 was as short by \$64,079.24 compared to our computation of \$192,333.06.
2. Accounts Receivable (AR) from the house repair loans provided to borrowers was not reflected as an asset in the financial statement since FY 2021. This AR would increase the net position of the CHA.
3. The total Current Liabilities of the CHA at the end of each FY during the period covered by our audit were as follows:

Current Liabilities	FY2020	FY2021	FY2022
Accounts Payable	4,053.66	117,139.00	108,599.19
Due to Treasury	81,523.78	76,434.00	76,564.41
Total Current Liabilities	85,577.44	193,573.00	185,163.60

There were no subsidiary ledgers; hence, there was no reconciliation of total current liabilities subsidiary ledgers to the controlling account in the general ledger. The accuracy of balances is thus doubtful. From the analysis of the cash in bank balances, collections and new loans granted (on the table below) during the period covered by the audit, the Current Liabilities as of September 30, 2022 appeared to be incorrect.

Cash in Bank (per GL at the end of FY 2019)	\$ 214,070.00		
Total Current Liabilities e (per GL at the end of FY 2019)	83,006.00		
	FY2020	FY2021	FY2022
Cash in Bank (per GL at the end of FY)	\$ 163,872.66	\$ 128,254.82	\$ 115,112.69
Collections (per CHA collection report per FY)	133,405.50	170,333.85	131,415.59
New Loans (per CHA new loans per FY)	228,717.54	53,185.42	83,645.45
Operating Expenses, net of non-cash items	35,208.51	21,433.26	24,965.9

This condition could cause a potential misstatement of the financial statement specifically the net position of the CHA.

4. The expenditures incurred by the borrowers for materials and labor were being reflected in the statement of revenue and expenditures as operating expenses of the Authority when these same expenditures should have been the Accounts Receivable from the borrowers.
5. The CHA has been operating with net losses in FY 2021 and FY 2022. They might not be accurate losses as a result of charging payments for materials and labor to CHA's operating expenses.
6. The CHA Loan fund is to be accounted for as business-like activities in which the operating expenses are financed by self-generated revenues. The Board then has the responsibility to

ensure that the original loan fund (funds provided) is maintained and not reduced or depleted by the yearly losses and non-collection of accounts receivable. This means that the CHA should operate only within budget for its operating expenses which should be limited by the interest that it would be collected during the year if there is no year-to-date operating income. Further, the CHA should further ensure that the collection of accounts receivable representing due principal is collected so as not to reduce the funds that should be available for lending.

7. The loan fund was used to pay for expenses that appeared not authorized by the law. The law provides that the Board shall not receive any compensation but shall only be entitled to per diem and reimbursement for travel costs when engaged in the business of the Authority. Furthermore, the expenditures for the loan fund shall be limited to all salaries and logistical support (CSL-3-30 Sections 2.4 and 2.6). We noted though that expenses like COVID-19 allowance, and bonuses for the Board and the CHA staff were approved by the Board. Since the CHA is struggling with getting adequate revenue to fund for its expenses, these expenses contributed to the depletion of the loan fund because the CHA had been incurring operating losses.

During an ocular review of the accounting entries of expenses in the general ledger, we noted that the fund was used for the following expenditures:

Date	Description	Amount
FY 2020		
4/21/2020	COVID 19 Allowance given to the Board and employees of the CHA charged to Board Meeting Allowance Expense on the Statement of Revenues and Expenses \$500/person	\$ 5,000.00
FY 2021		
12/14/2020	Bonuses given to the Board and employees of the CHA charged to Board Meeting Allowance Expense on the Statement of Revenues and Expenses \$300/person	3,300.00
8/13/2021	Medical Referral Stipend	3,000.00
6/29/2021	Vehicle (note: this should have been capitalized as part of assets but was classified as part of expenses in the financial statements. The vehicle was also not recorded in the fixed assets record of the DAS)	7,420.00
FY 2022		

Date	Description	Amount
12/03/2021	Bonuses given to the Board and employees of the CHA charged to Miscellaneous Good and Services Expense in the Statement of Revenue and Expenses. \$625/person	5,000.00
Total		\$ 23,720.00

As a result, the financial statements may not reflect fairly the net position and the results of operation of the CHA. The accounts receivable was not reflected as an asset on the financial statements and this understated the net position (net resources) of the CHA. In addition, the operating expenses were overstated due to charging of construction materials for house repair as part of expenses instead of recognizing them as Accounts Receivable (an asset). The absence of reconciliations of subsidiary ledgers for Accounts Receivable and Accounts Payables could result in misstatements of the financial statements, particularly the receivable and payable balances.

The non-monitoring of the deduction to the fund capital could slowly deplete the loan fund to the extent of reaching a very low amount and yet the Board may not be able to act to address it for lack of information. Further, the use of the fund for unallowable expenditures resulted in the improper use of the housing loan fund.

Based on the statement of the statement of position, the overall net position was not stable, from a high of \$283,134 in FY 2020 in which total assets exceeded liabilities, the condition was reversed in FY 2021 and FY 2022 where liabilities exceeded assets in the amounts of \$32,868 and \$60,714, respectively. The cash flow had decreased during this period.

Cause and Recommendations

There were no bookkeeping procedures and financial reporting guidelines that should be followed for accounting and reporting of the activities of the Authority. There was no bank reconciliation prepared for Cash in Bank. There were also no subsidiary ledgers supporting the liabilities and reconciliation with General Ledger. It also appeared that the management did not have the basic understanding of the financial statements and how the information could be effectively used for decision making on matters concerning the operation of the CHA.

Recommendations

1. We recommend that the DAS consultant should prepare a cash flow statement for the fiscal

year ending September 30, 2021 to show proof of reconciled bank balance. We also suggest that a regular monthly reconciliation should be performed.

2. As the officers entrusted in exercising the fiduciary duty of protecting the fund from depletion and unauthorized uses, we recommend that the Management and the Board should develop a basic understanding of the financial statements of the CHA. Specifically, they should develop an understanding of the implication of the accumulated negative losses as well as the negative net position in preparing for its yearly budget for the loan fund and in determining the amount that could be made available for lending.
3. We recommend that the DAS Director should develop and implement bookkeeping procedures and financial reporting guidelines that should be followed for the accounting and reporting of the activities of the Authority. Some of the procedures that should be included are:
 - a. Reflect the yearly accounts receivable both in the accounting books and in the yearly financial statements to provide the correct net position of the Authority. Thus, this would eliminate construction expenses were being recorded in the books
 - b. As previously recommended, the DAS should not be involved in the procurement and recording of payment for materials and labor for house repair. This would save the DAS with processing time for those activities.
4. We recommend that the DAS Director should require that the liabilities should be prepared with subsidiary ledgers and reconciled with the general ledger controlling account. This is to identify the borrowers' procurement of construction materials which were not yet paid to the vendors and to book the corresponding receivable account from borrowers for those procurements. It should be noted that a receivable from borrower is only recognized when the check for the procurement of construction materials, on behalf of the borrowers, is paid.

The above recommendations are to be implemented by March 2024.

5. Line-item accounts be created in the Chart of Account to provide information both on loan fund (principal portion) and the accumulated net income/(loss) in the operation of the fund. This would provide information on the fund as well as the accumulated income/(loss) that increased or decreased the fund over the years of operation. This recommendation is to be implemented by March 2024.

6. The CHA should prepare a yearly budget for the operation of the loan fund and this budget is to be limited to the estimate of revenue (interest income) that would be collected during the year if there is no accumulated revenue to-date or the accumulated revenue to-date is negative. Any expenses that could not be accommodated by the estimated revenue for the year shall be requested to the Legislation for appropriation. This is to avoid the depletion of the loan fund thru incurring of operating losses. This recommendation is to be implemented in next budgeting cycle.
7. For their informed decision, we also recommend that the Board be provided with regular management information report on cash in bank, accounts receivable, uncollected accounts, net resources (net position), net income/losses, cash forecast, revenue and expense report for loan fund, and fund status report for appropriated fund. This recommendation is to be implemented in next budgeting cycle

Finding 3 – Unreconciled Accounts Receivable Between the CHA Detailed Subsidiary Ledger Against the General Ledger Control Total

The reconciliation of accounts receivable (AR) is the process of matching the total of all borrowers' subsidiary ledgers¹ (kept by the CHA) with the AR total stated in the general ledger (kept by the accounting section). This process confirms that the general ledger AR total and the total of loan subsidiary ledgers are accurate. The reconciliation process is typically conducted as part of the month-end and year-end closing activities prior to issuance of the financial statements. If there turns out to be a material error in the general ledger, this means there could be a material misstatement in the financial statements.

During the period covered by the audit, we found that there have been unreconciled discrepancies between the detailed accounts receivable ledgers kept by CHA with corresponding general ledger control balance kept by the accounting.

¹ Details of account receivable balances per borrower

Description	FY2020			FY2021			FY2022		
	Per CHS System	Per Finance GL	Difference	Per CHS System	Per GL	Difference	Per CHS System	Per Finance GL	Difference
Accounts Receivable	1,581,748.61	1,567,097.53	14,651.08	\$1,593,839.60	0	\$1,593,839.60	1,581,496.78	(13,237.820)	1,581,496.78
Allowance for Doubtful Accounts		(1,631,177.01)	(1,631,177.01)		0	0		0	
Net Accounts Receivable	1,581,748.61	(64,079.48)	(1,645,828.09)	1,593,839.60	-	1,593,839.60	1,581,496.78	(13,237.820)	1,594,734.60

The discrepancies were mainly due to allowance for doubtful accounts for AR which were not identified and provided for in the subsidiary ledgers. Additionally, direct write off on receivable was made (by DAS) in FY 2021 resulting in zero receivable appearing in the books. After the write-off, all loan collections were being recorded as income and all payments for construction materials are recognized as expenses of the CHA for the year. This should not be done because the CHA had existing receivables from borrowers. In fact, the CHA had new loans and collections during the period covered by the audit as follows:

Item	FY 2020	FY 2021	FY2022
New Loans (new AR)	228,717.54	53,185.41	
Collections	133,355.50	170,335.85	131,666.39
Note: Unaudited, the amounts are based on the printout provided by the CHA			

Accounts receivable is an asset account that represents the amount of money owed to the Authority by loan borrowers. When an entity does not reconcile accounts receivable loan ledger, it would make financial statements misstated. Omitting the Accounts Receivable in the Financial Statement would understate the net position of the fund.

Cause and Recommendation

There was absence of a determined effort for timely reconciliation to establish an accurate total of AR subsidiary ledgers and the corresponding AR in the general ledger. This has been the finding and recommendation of the external financial auditor since 2018.

Recommendation

We reiterate the recommendation that the CHA's staff, in coordination with the DAS staff who is

keeping the General Ledger, should perform monthly reconciliations of AR subsidiary ledgers total of against the related General Ledger AR controlling account. The monthly reconciliation would provide assurance that any discrepancy in the AR account would be detected timely and thus, would ensure the correctness of AR account both the total of individual AR subsidiary ledger and the corresponding general ledger AR controlling account. This recommendation is to be implemented starting March 2024 and completed by May 2024.

Finding 4 – The CHA Needs to Improve the Management and Collection of Accounts Receivable

Entities should effectively manage their Accounts Receivable (AR). Good AR management impacts cash flow and many aspects of the operation like borrower's relation, loan fund operational budget, funds that could be made available for new loans, and bottom line or operation's net income/(loss). Thus, AR management should always be given the attention it deserves.

We analyzed the AR subsidiary ledgers for borrowers who were granted loans during the audit period from FY 2020 to FY 2022. We also analyzed the collections for those loans. We found that the AR was not being managed effectively. We found the following conditions:

1. Five accounts have negative AR balances amounting to \$4,821.25 indicating over allotment or over payment.
2. 10 accounts with outstanding accounts receivable as of September 30, 2022 amounting to \$44,658.48 either had no collection or had missed the monthly installments. This represents 12% of the total new loans during the audit period from FY 2020 to FY 2022 amounting to \$364,000. About \$23,000 (6%) of which should had been collected as of FY 2022 and could have been available for five new borrowers.
3. Inconsistent loan repayment period. The following repayment periods (in months) were granted to borrowers: 5, 6, 10, 17, 20, 24, 27, 28, 24, 36, 48, and 60 months. Most of the borrowers though were granted credit terms of 36 (3 years) and 60 months (5 years).
4. At least nine accounts were borrowers with conflict of interest or loans to the CHA employees, Board member, and government officials amounting to \$45,000 without

following a policy on how to properly handle them.

5. An approved loan of \$5,000 in FY 2022 was reimbursed for \$4,754.22 (net tax). The borrower said that the check for the reimbursed amount was not released because the work has not started. As of September 30, 2022, the loan has a balance of \$4,478.88. This loan has monthly installment of \$77.93 from 8/10/22 to 11/16/22 (8 installments) for a total of \$623.44. The loan officer said that the check was voided or cancelled but the Treasury Office was not able to provide us the copy of the check voucher package to verify the cancellation of the check,

The collection and recording of interest is very important to sustain the operating expenses. We analyzed the AR collection report generated from the CHA Information System for FY 2021 amounting to \$170,336.85. Of this amount, we noted that 522 loan installments from 53 borrowers amounting to \$40,689.89 or 25% of the total collections for FY 2021 were totally applied to principal and none to interest payment. We further noted that 43 loan installments from 11 borrowers amounting to \$1,629 were totally applied to interest none to principal. The details of these exceptions were provided to the CHA. They explained that some of those accounts were previously inactive accounts in which the interest was forgiven by the Board. Furthermore, some of these were monthly allotments made ahead of the loan disbursement. However, there was no policy guideline on this matter specifically on recovery of a loan previously provided with allowance for bad debts or loans written off.

The uncollected loans would reduce and deplete the loan fund. Additionally, these could lead to new uncollectible loans that will add to more than \$1 million loans already written off by the CHA due to non-collection.

Improper application of monthly installment to principal and interest would lead to improper recognition of interest income.

Conflicts of interest are common and do not have to be a serious problem. If they are managed appropriately through good governance, processes, and policies; these conflicts can be identified and resolved, or even prevented. In the absence of related policy, these loans may have been prioritized and unnecessarily competed and crowded out the funds that were otherwise available to low-income households. Thus, these loans could damage the Authority's reputation and may

even be violating the law on conflict of interest and ethical standards if they are not managed properly according to a policy.

Cause and Recommendations

There were no written credit and collection policies and procedures that would provide guidance and/or clarification on granting and collecting loans. Some procedures for decision making may be unclear but without the guidance, a decision would not be consistent and prudent.

Recommendations

1. We suggest that the Executive Director should develop and implement a written loan policy to help ensure that the CHA lending function operates within established risk tolerances. The policy, for example, should include the process of activating, recovering, and recording of loans previously written off or provided with allowance for bad debts; and guidance on loans with conflict of interest or loans to CHA employees or directors and officials of the government. The policy on conflict of interest should contain more stringent restrictions or a limit on the loan fund that could be allocated for these types borrowers. This suggestion is to be implemented by February 2024.
2. The CHA Management should study the existing payment terms and implement a consistent loan payment term for all the borrowers. This suggestion is to be implemented by February 2024.

Finding 5 – The Monthly Loan Repayment and Its Allocation to Principal And Interest Need Improvement

In paying back the loan payment schedule, every installment is scheduled and consists of two portions: interest accrued and principal amount. The fixed rate of interest is deducted from the pre-scheduled installment amount in each period. The remaining amount is to be treated as a deduction to principal. For every periodic payment, both the due amount of principal and accrued interest reduces until the loan is fully paid by the end of the repayment schedule. At the end of the amortization schedule, there is no amount due on the borrower.

The CHA has been providing loan for house repair of \$5,000 for certain number of years at the annual interest rate of 4%. However, we noted that the CHA needs to improve the computation

of monthly loan repayment and its allocation to principal and interest. During our review of a sample of monthly loan statements, we noted that the pattern of payment for interest was not in accordance with the general practice of amortizing loans in which the portion of the monthly payment is going towards the interest payment then to principal. Sometimes the allocation of the monthly payments for interest was high, low, or none at all. We provided the loan officer with samples of these cases. We also noted cases where the monthly payments were not equal during the term of the loan when it should have been equal until the loan is fully paid.

As a result, the correct amount of monthly amortization, the deduction for both the principal and the interest, were not being collected recorded properly.

Cause and Recommendations

The Loan Officer explained that sometimes the borrower was the one deciding on how much the monthly payment would be and, so, the allocation of the monthly payment for principal and for interest would be adjusted depending on the request of the borrower. This practice indicates that an amortization policy that should be strictly followed was not in place.

Recommendations

We recommend that the Executive Director should develop and implement an amortization policy. This suggestion is to be implemented by March 2024.

Finding 6 – The CHA was Not Aware of the Extent of Families in Housing Needs

Access to a home is a fundamental human need that should be available to all (United Nations Universal Declaration of Human Rights (UN, 1948)). Further, the UN recognizes that adequate housing is fundamental to improving living standards among poor and low-income households.

The Chuuk State law requires the CHA to study the housing conditions at Chuuk State. Section 3.15 of the law requires the CHA to “*undertake and carry out studies, analyses, research, and investigations of living and housing conditions; determine where overcrowded and blighted conditions exist, where there is shortage of safe, decent, and sanitary dwellings for low income families, make findings, determinations, and recommendations as to means and methods of dealing with such matters; carry into effect such findings, determinations and recommendations; make available to the public the results of such studies and information*”

Furthermore, it is within the powers and duties of the CHA to:

1. Borrow money from the public and private sources, giving such security as may be required (CSL 3-30, Section 3.7)
2. Administer low-cost housing loan program (CSL 3-30, Sec 3.1)

The CHA was not aware of the extent of families in housing needs.. The housing problems are realities anywhere in the world and particularly in Chuuk State, but such housing problems will continue if the government is not transparent on them, and the policy fails to address its root cause. We noted that the CHA had no data on families in housing needs. And so, the challenges confronting the Chuuk State were not identified. These challenges may include limited economic growth, poverty and declining living standards, poor resource management, lack of suitable land, poor housing regulatory mechanisms, no access to housing finance, and others.

The government was not paying attention to improving the conditions in which the families live and work. Without the adequate shelter, families lack security and are vulnerable to natural disasters and chaos of conflict. Without adequate shelter, families are destined to poverty, poor health and low educational attainment. The lack of decent housing could increase stress, toxins, and infectious diseases, which may in turn lead to social problems like deterioration of physical and mental health among the people.

Cause and Recommendations

The law requires the authority to undertake and carry out study of living and housing conditions in Chuuk State. The law also requires the CHA to determine and recommend the means and methods of dealing with such matters. Furthermore, the law also requires the CHA to report the findings and recommendations on the results of the study and make the report available to the public. However, this study has not been done.

The CHA was not following a Strategic Plan. The best practice for a government agency entity is to prepare a Strategic Plan that would communicate vision and mission, goals/objectives, and strategies to satisfy the agency's mandate. The CHA could provide clarity, direction and focus towards achieving the goals and objectives relative to its mandate on housing. By having a strategic planning, the CHA would be able to identify the external opportunities, internal weaknesses, external challenges or threats, and the internal strengths with regard to housing. It could analyze obstacles, options and solutions to improving housing. Lastly, it could explore

working and establishing relationships with multilateral organizations, bilateral donors and private sectors in financing its housing projects.

Recommendations:

1. We recommend that the Executive Director initiate a study on living and housing conditions. In addition, the Executive Director shall report the findings and recommendations on the results of the study and make the report available to the public. This suggestion is to be implemented by June 2024.
2. We also recommend that the Executive Director should develop and establish a strategic plan; monitoring and evaluation framework; and an annual operational plan to prioritize activities that would ensure direction and focused activities on public housing. This suggestion is to be implemented by next fiscal year (2025) budget.

Other Matters

1. MOU with Chuuk Public Utility Corporation

During our interview with the Executive Director of the Chuuk Housing Authority (CHA) and based on a Memorandum of Understanding (MOU), the Executive Director was asserting that CHA has uncollected receivable account since 2007 from the Chuuk Public Utility Corporation (CPUC) amounting to \$219,838.82. The Executive Director provided us with a copy of the MOU. We noted that this amount was not appearing anymore in the accounting books maintained by the DAS for the CHA and there were no more documents to verify the transactions.

From the MOU, it appeared that the amount was an accumulation from several cash releases made by the CHA to the CPUC sometime in 2007 to help the latter in resolving power outages and in purchasing its fuel needs. According to the Executive Director, the amount was taken from the escrow fund kept by the CHA then. This escrow fund did not exist anymore. It was stated in the MOU that to facilitate the release of the much-needed funds, there was a declaration of emergency which suspended the operation of the Financial Management Act as well as the implementation of financial regulations.

The MOU provided certain agreement by the parties. Among others, the parties agreed that:

(note some sentences were rephrased to provide clarity)

1. *The total amount owed by CPUC to the CHA is \$219,838.82.*
2. *The CPUC acknowledges that it owes CHA a total amount of \$219,838.82.*
3. *The CPUC should request for appropriation not later than October 31, 2007, from the Chuuk State Legislature, the amount of 219,838.82 for the reimbursement of the said amount.*
4. *The CPUC shall set aside a separate special non-withdrawable fund until the amount reaches \$219,838.82.*
5. *The CPUC shall make reasonable effort to pay and reimburse the CHA the amount of \$219,838.82 within a period of not more than two years.*
6. *In case of failure to comply with any provisions of the agreement, the CPUC shall assign to the CHA any sums of money payable to the CPUC from its customers until the amount of \$219,838.82 is fully paid.*

The non-collection was due to a lack of efficient collection management. The Executive Director said that the collection strategies agreed upon in the MOU were not implemented.

The DAS Director confirmed that the money was indeed provided to the CPUC as decreed by the Governor then. The intention was to get back the money; hence, an MOU was signed. He further said that they kept requesting for reimbursement of the fund.

Since the CHA needs fund for their activities, we recommend that the CHA should continue requesting for the reimbursement to be able to collect the \$219,838.82 it transferred to CPUC.

APPENDICES

Appendix A – Powers Vested in Chuuk Housing Authority exercised by the Board

Source- Section 2 TSL 3-30

Section 2 enumerates the powers vested in the Chuuk Housing Authority (CHA) which shall be exercised by the Board of Directors referred to as Board.

The Board shall consist of five members called Directors. The Governor shall appoint the Directors with the advice and consent of the legislature. The persons appointed shall hold memberships on the Board for a period of four years, subject to reappointment, and until the successors have been appointed and qualified (Section 2.1) The State Director of Public Works, the State Finance office and the State Planning Officer shall be ex-officio, non-voting members of the Board. Any Director may be removed from the Board by the Governor for inefficiency, neglect of duty or misconduct in office (Section 2.2).

The Board shall elect from among its members a Chairman, a Vice-Chairman, and a Secretary. The State Finance Officer shall serve as Treasurer of the Board unless the Board employs a full-time Treasurer. The Governor shall designate a member to serve as temporary Chairman of the Board until such time as the Board shall elect a Chairman. The Planning Officers shall act as a technical adviser. The officers of the Board shall hold office for such terms and shall have such duties as the Board shall by laws specify. (Section 2.3)

The Directors shall receive no compensation for their services, but shall be entitled to per diem at standard FSM rates and reimbursement for travel costs when engaged in the business of the Chuuk Housing Authority (Section 2.4)

The Board shall meet not less than once each calendar, and may hold such additional meetings as it deems necessary and appropriate (Section 2.5)

The Board shall appoint an Executive Director, who shall not be a member of the Board. The Executive Director shall submit to the Board an annual budget for its approval, which budget shall include provisions for the expenditures of all salaries and logistical support incurred by the Authority during the fiscal years to which the budget applies. The Executive Director shall, subject to the approval of the Board, have the power to hire and fire all employees of the Authority. The employees of the Authority shall be subject to the same laws, rules, and regulations applicable to employees of the State Government. (Section 2.6)

Appendix B – Powers and Duties of the Authority

Source- Section 3 TSL 3-30

The important powers and duties of the Chuuk Housing Authority (Section 3), among others, are as follows:

1. Undertake and carry out studies, analyses, research, and investigations of living and housing conditions; determine where overcrowded and blighted conditions exist, where there is shortage of safe, decent, and sanitary dwellings for low income families, make findings, determinations, and recommendations as to means and methods of dealing with such matters; carry into effect such findings, determinations and recommendations; make available to the public the results of such studies and information (Section 3.15)
2. Prepare all necessary plans to carry out the purposes of this act and include in such plans, without limitations, plans for construction of housing for low-income families and other plans (Section 3.16)
3. Administer low-cost housing program (Section 3.1)
4. Build, construct, manage, operate, and maintain housing projects for low-income families, and install, construct, and reconstruct streets, utilities, parks, playgrounds and other public improvements (Section 13)
5. Make loans or guarantee loans to individuals, groups, or associations to assist in the construction of low-cost housing in the state (Section 3.a).
6. Sue and be sued in its name (Section 3.2).
7. Be exempt from all licensing requirements and taxation (Section 3.4)
8. Enter into and execute contracts and instruments of every kind and nature, necessary or convenient to the exercise of its power (Section 3.8)
9. Make, from time to time, modify and repeal, by laws, and regulations not consistent with this act, providing for internal organization management for administration of its affairs and operations, and for carrying out the powers and duties granted and imposed by law (Section 3.6)
10. Borrow money from public and private sources and give such security therefore as may be required (Section 3.7)

11. Apply for and accept advances, loans, grants, contributions, gifts, donations, appropriations of funds and any other form of financial assistance and enter into and carry out contracts in connection therewith (Section 3.8)
12. Deposit funds in banking institution (Section 3.9)
13. Invest funds in property or securities approved for investment by the State government (Section 3.10)
14. Acquire any real or personal property, or any interest or estate therein, by lease, option, purchase, gift, grant, donations, hold, improve, clear, to prepare or development of such property (Section 3.11)
15. Lease any dwellings, accommodations, land, structures, or facilities embraced in any project (Section 3.18)
16. Establish from time-to-time standards of eligibility, rules, regulations and conditions or admission to, and occupancy of, housing accommodations for low-income families dwelling and facilities (Section 3.20)

Appendix C: Non-Appropriated Fund -CHA Loan Fund and CHA Appropriated Fund

Non-Appropriated Fund -CHA Loan Fund

The law did not explicitly mandate how the CHA would account the activities (transactions) for this fund. Based on the DAS current practice however, this fund was accounted for as an enterprise proprietary-fund. Under this concept, the enterprise fund accounts for business-like activities which were financed by self-generated revenues.

The DAS used the concept of enterprise fund accounting to account the fund for which 4% interest rate was charged for loan services. For this fund, the DAS was preparing financial statements consisting of the Statement of Net Position and the Statement of Revenue and Expenses. What should be noted in the financial statements is the Authority's performance in terms of net income and fund position. In the financial statement presented in **Appendix C**, the difference between an organization's total assets minus fixed assets minus liabilities is its net position

The Statement of Net Position gives a snapshot of what the Authority owns (assets such as cash in bank; accounts receivable; fixed assets-equipment, vehicles), what it owes (liability or Accounts Payables to suppliers and vendors), and how much of the assets are left over (net position or net assets). The left over must have come from cash in bank and accounts receivable-cash and collectibles (within a year) that could be used for operation. The Statement of Net Position is expressed in equation form: $Assets = Liabilities + Net\ Position$.

The Net Position/Assets is further expressed in the equation form: $Net\ Position = Assets - Liabilities$. If the Net Position is increasing over time, this means that the Authority is creating value and building a surplus that it can use to achieve its future goals for lending operation. However, if the Net Position is decreasing, then something is wrong, and the management better fix it or it will find itself out of fund. If the amount of Net Position is negative, it will have difficulty providing cash for operating expenses and new loans. The net position should be further classified into restricted and unrestricted funds. Thus, there is a need to provide a line-item information showing the original fund (restricted fund), which was the fund set aside by the CHA for lending purposes (similar to a capital account in a business enterprise), and another line-item information showing the accumulated net income/loss. Combining the two pieces of

information would be the net position of the CHA. The loan fund (principal) is a restricted fund because it should be used only for loan lending purposes and investment in assets and not for operating expenses. If for example, the loan fund was used to purchase fixed assets like vehicle or equipment, the Authority should be able to get back (through excess income) an amount equivalent to the yearly depreciation expenses so it could restore back the amount expended for fixed assets to the loan fund.

The Statement of Revenue and Expenses (Appendix C) is a financial statement that shows the entity’s revenues, expenses, and other net income over a specific period, typically a year. It provides important information about the Authority’s profitability and the contribution to the growth of the fund, which is essential for an enterprise fund to evaluate its financial health. A well-prepared Statement of Revenue and Expenses can provide valuable insights into the Authority’s financial performance and help the Authority makes informed decisions on how to increase wealth (revenue) of the CHA, control expenses, and other decisions involving financial matters.

It is essential that the Authority should maintain an adequate level of fund position to mitigate current and future risks (e.g., revenue shortfall and unanticipated AR uncollectible). The Statement of Net Position and the results of operation for this fund for the three-year period from FY 2020-2022 are shown as Appendix C of this report. It appears that the Authority’s operation was showing red signal (negative balances) both in terms of net position and net income. During the period covered by the audit, the Authority has the following positive (negative) net position and net income:

Description	FY 2020	FY 2021	FY 2022
Net Position	\$283,134.19	(\$ 52,869.21)	(60,715.94)
Net Income	(\$32,558.00)	(\$336,002.18)	(\$ 7,846.49)
Reference- Appendix D			

The main reason for the significant amount of net loss for FY 2021 was the non-recognition of the accounts receivable in the financial statement.

To sustain the fund, only the interest income that the loan fund earned could be used for operating expenses. Thus, if the accumulated net income/loss is negative, then the CHA should

forecast the next year's collection for interest income (not principal) to provide a budget for the next year's expenditures.

The loan fund that could be available for next fiscal year operation should be:

Cash in bank at end of previous fiscal year

Plus forecasted portion of accounts receivable which is due for collection next fiscal year

Minus Accounts payable at end of previous f fiscal year

Equals total cash forecast for both operating expenditures and new loans for next fiscal year

If this will result into negative, then no loan could be approved. Thus, it is necessary to collect what is due in terms of both the principal and interest to keep the loan fund intact.

CHA Appropriated Fund

Additionally, the Legislature appropriates a yearly budget to CHA under the General Fund. The comparison of the approved budget versus the actual expenditures for this fund is shown as Appendix E of this report. The performance of the CHA for this budget has been 10% average deficit spending for the last three-year period or an average of \$7,000 deficit spending per year of the average \$67,182.50 CHA approved budget per year.

All the expenditure of the Authority must be spent in accordance with the provisions of the Financial Management Act and other applicable laws and regulations.

The Chuuk State law 3-30 specifies the following provisions with respect to the budget of the Authority:

“The Executive Director shall submit to the Board an annual budget for its approval, which budget shall include provisions for the expenditures of all salaries and logistical support incurred by the Authority during the fiscal years to which the budget applies.”
(Section 2.6 CSL 3-30)

The operational costs and contingent expenses of the Authority shall be the responsibility of the State Legislature. (Section 8 CSL 3-30)

Appendix D- Financial Statements Chuuk Housing Authority Loan Fund

FY 2020 to FY 2022

Line Item	2020		2021		2022	
		Actual		Actual	Budget	Actual
Statement of Net Position						
Current Assets						
Cash and Cash Equivalents		\$ 163,872.66		\$ 128,253.82		\$ 115,919.69
Accounts Receivables		192,389.00				0
Total Current Assets		356,261.66		128,253.82		115,919.69
Non-current assets						
Other Assets		10,991.05		10,991.05		10,991.05
Fixed Assets, net of Depreciation		1,458.92		1,458.92		1,458.92
Total Non—current assets		12,449.97		12,449.97		12,449.97
Total Assets		\$ 368,711.63		\$ 140,703.79		\$ 128,369.66
Current Liabilities						
Accounts Payable		4,053.66		117,139.00		108,599.19
Due to Treasury		81,523.78		76,434.00		76,564.41
Total Current Liabilities		85,577.44		193,573.00		185,163.60
Net Position						
Net Investment in Capital Assets		12,499.97		12,499.97		12,499.97
Unrestricted Assets		270,684.22		(40,369.24)		(69,243.91)
Total Net position		283,134.19		(52,869.21)		(56,793.94)
Total Liabilities and Net Position		\$ 368,711.63		\$ 140,703.79		\$128,369.66
Statement of Revenues and Expenses						
Revenue		\$ 148,900.00		\$ 32,512.82		\$ 122,260.18
Operating Expenses						
Medical Referral				3,000.00		
Salaries		6,750.00				
Travel		7,161.78				
Communications		945.00		816.01		142.55
Office Supplies		5,954.93		789.19		60.00
POL		497.75		249.00		605.50

Line Item	2020		2021		2022	
		Actual		Actual	Budget	Actual
Rental Services		30.00				
Repairs and Maintenance		682.39		746.05		601.10
Constructional		145,323.17		90,614.72		101,218.77
Utilities		74.82		2,538.02		334.52
Misc Goods		6,311.84		586.99		7,390.75
Gen Contractual						12,942.40
Meeting/Allowance		6,800.00		5,250.00		2,826.08
Bank Charges				38.00		63.00
Depreciation		925.90				3,992.00
Vehicles				7,420.00		
Net Adjustment by Deloitte-Bad Debt Exp				256,467.02		
Total Expenses		181,457.58		368,515.00		\$130,106.67
Net Income/(Loss)		(32,557.58)		(336,002.18)		(7,846.49)
Net position at the beginning of fiscal year		315,962.00		283,134.00		(\$52,868.00)
Net position at the end of fiscal year		283,134.00		(\$52,868)		(60,714.49)
Average cash losses per year		(\$32,557.58)+(79535.16)+ (7846.49)				\$40,000 .00
Source – FY2020- FY2021 – Audited by Deloitte FY 2022 – Finance (unaudited)						

Appendix E – Budget Provided by the General Fund Thru Legislature Appropriation

FY 2020 to FY 2022

Line Item	2020		2021		2022	
	Allotted Budget	Actual	Allotted Budget	Actual	Allotted Budget	Actual
Salaries	61,549.00	65,801.35	61,549.00	70,571.24	61,549.50	69,803.25
Travel						
Consumable Goods					1,000.00	
Communication	500.00	797.75	500.00	481.05	2,000.00	1,408.03
Office Supplies	1,500.00	1,363.97	500.00	494.33	2,800.00	2,704.00
POL	1,000.00	749.00	1,350.00	1,349.78	1,000.00	1,282.30
Repairs & Maintenance	700.00	708.15	700.00	679.03	700.00	580.33
Utilities	2,000.00	2,101.48	650.00	674.53	0	955.79
Total	67,249.00	71,521.70	65,249.00	74,249.96	69,049.50	76,733.70
Deficit Spending over Budget		4,272.70		9,000.96		7,684.20
Average deficit per year						\$7,000
Source – Fund Status Report from Automated Data Processing Section (Finance)						

Appendix F: Processing and Collecting House Repair Loans

Processing of Loan Application

1. The loan applicant fills-up the loan application form and submits to the loan officer all the general requirements- last payroll check, employment verification, other source of income, breakdown and cost estimate, scope of work, sketch & photo, competitive pricing assessment per vendor, competitive pricing summary, allotment form for government employee, and others
2. The Inspector undertakes a site-visit, takes pictures of the house for repair and prepares an initial inspection report. The Inspector submits the Inspection report together with the pictures to the loan officer.
3. The loan officer assesses and determines the ability and capacity of the borrower to pay back the loan. The loan officer determines the term of payment as well as the monthly loan amortization. The Executive Director reviews the assessment.
4. The loan application together with the documents is forwarded to the Board for approval.
5. If the loan application is approved, the loan package is finalized at the court house. All concerned sign the promissory note, loan agreement, power of attorney and security.
6. The loan officer forwards the signed (by borrower) allotment form to the payroll section for the regular salary deduction of loan amortization.

To be able to credit the loan to the borrower, the CHA and the Department of Administrative Services (DAS) is involved in the disbursement of materials and labor that would be used for the repair

7. The loan officer enters the approved loan in the CHA Loan System. The salary deduction is implemented even without the disbursement yet. (Note: the actual disbursement is only done after the PO is processed and the materials are delivered to the borrower. The CHA would pay the delivered materials in behalf of the borrower and this payment represents the disbursement. The disbursement may take months to be processed or may even be done on

installment)

8. The borrower submits at least three quotations to the CHA to comply with the financial regulations.
9. The CHA accountant prepares a requisition form on behalf of the vendor, have it signed by the Executive Director and approved by the Board. The CHA accountant forwards the approved requisition to the supply section for the approval of the PO.
10. Based on the approved requisition, the supply section prepares PO, has it approved by the contracting officer and issues the approved PO for the purchase of materials.
11. After the materials are delivered, the repair work could be started. At the same time, the vendor whom the PO was issued could request the payment of the delivered materials based on PO and the vendor invoice. The required documentation for payments are forwarded to the Treasury Staff.
12. The Treasury staff prepares a request for payment form (Encumbrance/Obligation Distribution Listing) on behalf of the vendor and has it approved by the Treasurer.
13. The approved request for payment, with the supporting documents, is requested for check payment. The printed check is transferred to Accountant II where the vendor could claim the check.

[It is at this point that the loan amount is actually is disbursed and should be recognized as the loan of the borrower].
14. When the house repair is completed, the Inspector takes pictures and prepares a final inspection report. A request for payment is again processed for payment of labor.
15. The Treasury staff prepares a request for payment form (Encumbrance/Obligation Distribution Listing) on behalf of the vendor and has it approved by the Treasurer.

Collecting Loans

1. For employees with signed allotment form, regular employee deduction is made every payroll. The Payroll Section generates an Employee Deduction List from the Finance System for all the deductions made from employees' pay for housing loan. For non employee borrowers, collection is made over the counter at the CHA office which issues an official receipt to acknowledge collection.

2. The Employee Deductions List for employees (from payroll) as well as the collection list is forwarded to the loan officer for encoding in the CHA Loan System. These are also forwarded, including the cash for the over-the-counter collection, to the to the Tax and Revenue section of the State Government for encoding the data to the General Ledger.

MANAGEMENT RESPONSE

Chuuk State Housing Authority
P.O. Box 427
Weno, Chuuk State
Federated States of Micronesia 96942

December 13, 2023

MEMORANDUM

TO : Manuel L. San Jose Jr, Public Auditor, Chuuk State

FROM : Chuuk State Housing Authority

SUBJECT: Management Responds to Auditor's Finding

We agree to the auditor's findings and recommendations pertaining to maintaining important documents and updated data on file. However, regarding the financial matters of this agency, please refer to DAS for more clarification since they are doing our financial transaction with both our accounts (appropriation and loan fund).

The deficit on our appropriation money was a salary supplement to be funded through the loan fund as approved by the Board. However, it was processed and charged to the appropriation money from the legislator instead. Again, refer to DAS for further enlightening.

Thank you.

Sincerely,

for 
Kathy Lukas
Executive Director, CSHA

OCPA's EVALUATION OF MANAGEMENT RESPONSES

The CHA management generally agreed on some recommendations but explained that the deficit spending that has been recurring in the appropriated budget was the salary increase that was approved by the Board to be funded by the loan fund

PUBLIC AUDITOR'S COMMENTS

We would like to thank the management and staff CHA and the DAS 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 can be found on the last page of this report along with the Public Auditor and staff that made major contributions to this report.



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

December 15, 2023

OCA CONTACT AND STAFF ACKNOWLEDGMENT

OCA CONTACT:

Manuel L San Jose Jr.
Public Auditor
Telephone: (691) 330-8832/5

ACKNOWLEDGEMENTS

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

Rosalinda Mori, Senior Auditor
Shannaleen Braiel, Assisting Auditor

OCA VISION and MISSION

Our Vision

An effective audit agency that promotes a high performing government

Our Mission

To conduct audits and investigations that will help the government become responsible and transparent in delivering services for the benefit of the people of Chuuk.

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