

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



FEDERAL GRANTS: Monies Advanced not Reimbursed

FISCAL YEAR 2016-2018

AUDIT REPORT NO. 2019-01



**Manuel L. San Jose
Public Auditor**

Office of the Chuuk State Public Auditor
Audit on Federal Grant Receivables
Audit Report 2019-01



Chuuk State
Office of the Public Auditor

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January 31, 2020

Honorable Johnson Elimo Governor, Chuuk State Federated States of Micronesia	Honorable Ishiro Choram President House of Senate Chuuk State Legislature	Honorable Innocente Oneisom Speaker House of Representatives Chuuk State Legislature
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RE: Audit on Federal Grant Receivables

We have completed the audit on Federal Grant Receivables. We conducted this audit in accordance with the U.S. Generally Accepted Auditing Standards. The objective of this performance audit was to determine whether all monies advanced by the Chuuk State Government for the purpose of running the different federally funded programs during the period FY 2016 to FY 2018 were collected in full by the Chuuk State Finance Funds Division.

The results of the audit disclosed that there was uncollected advance of roughly \$397,000. This amount was an accumulated amount up to the end of fiscal year 2018. Furthermore, we found that a portion of the above amount was not separately reported per program. On the same hand, we have also noted that there was underutilization of grants during the period.

Our finding and recommendations have been discussed with the Department of Administrative Services' (DAS) Management and they concurred with them and will implement plans to address them. The details of this performance audit can be found in the following pages.

Sincerely,

A handwritten signature in black ink, appearing to read "Manuel L. San Jose Jr.", written over a circular stamp.

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

**Office of the Chuuk State Public Auditor
Audit on Federal Grant Receivables
Audit Report 2019-01**

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INTRODUCTION

We conducted this audit upon the request of Honorable Innocente I. Oneisom, Speaker of the Chuuk State House of Representatives. The House of Representatives/Speaker wants to have a clear understanding of how the reimbursements for federal grants are handled.

Background

Sector/Compact Grants

Title II Article I Section 211 of the Compact of Free Association, as amended, sets forth the Sector Grants that the U.S. government provided to the FSM government for economic assistance. “...*the Government of the United States shall provide assistance on a sector grant basis for a period of twenty years... Such grants shall be used for assistance in the sectors of education, health care, private sector development, the environment, public sector capacity building, and public infrastructure, or for other sectors mutually agreed, with priorities in the education and health care sectors*” (§ 211a).

Federal Grants

In addition to the Sector Grants that the FSM government receives from the U.S. government through the Amended Compact Agreement of 2003, FSM is eligible to apply for federal grants¹. It is stated in Title II Article II Section 221 of the amended Compact that “...*the Government of the United States shall make available to the Federated States of Micronesia the services and programs that were available to the Federated States of Micronesia on the effective date of this Compact, as amended...*” (§ 221b)

The State of Chuuk availed itself of federal grants to support 27 programs in fiscal years 2016 and 2017 and 25 programs in fiscal year 2018. Table 1 shows all the programs for the period FY 2016 to FY 2018:

Table 1: FY 2016 to FY 2018 Program Listing

Program	Fiscal Years
Special Education	ALL
Family Planning	ALL
Comprehensive STD Prevention	ALL
Immunization Program	ALL
HIV Prevention	ALL
TB Prevention Program	ALL
System Based Diabetes Program	ALL
Tobacco Prevention & Control Program	ALL
HIV Surveillance (Personnel Budget)	ALL
Tracking Surveillance & Integration (TSI)	2016 & 2017
State System Development Initiative (SSDI)	ALL
Community Mental Health	ALL

¹ A federal grant is a financial assistance of economic aid or award monies that federal agencies of the U.S. government doles out to support programs of qualified applicants.

OPIOID STR (State Target Response)	2018 ONLY
Substance Abuse & Mental Health (SAMH) Program	ALL
Substance Abuse Prevention & Treatment (SAPT)-Fonuengin Drug Free Youth	ALL
Maternal and Child Health Services (MCH) Program	ALL
Universal Newborn Hearing Screening & Intervention (UNHSI) Program	2016 & 2017
Strategic Prevention Framework Partnership for Success (SPF PFS) Chuuk Public Health	ALL
Oral Health Program	2016 & 2017
SPF PFS Mechitiw Noomanei Project	ALL
SPF PFS Udot Youth Alliance	ALL
SPF PFS Fefan Sapeta Youth Center Museum	ALL
SPF PFS North Star	ALL
SPF PFS PPO Youth	ALL
SPF PFS Re-South Remedy Project	ALL
Personal Responsibility for Education (PREP) Program	ALL
Comprehensive Cancer Control (CCC) Program	ALL

Federal Programs Budget and Expenditure for FY16-FY18

Overall, the federal grants received for the period FY 2016 to FY 2018 is roughly \$6.8 million. The average budget for each of the federally funded programs is \$88,318, \$62,094 and \$110,101 in fiscal years 2016, 2017 and 2018, respectively. Please refer to Appendix A for the per program budget for each of the fiscal years. The following table presents Chuuk State’s yearly budget and expenditures relative to federal grants (federally funded programs) during the fiscal years 2016 to 2018.

Table 2: FY2016 to FY 2018 Federal Programs Budget & Expenditure

Fiscal Year	Budget	Expenditures	Excess/(Under)
2016 ²	\$1,981,077.09	\$2,036,295.41	(\$55,218.32)
2017 ³	\$2,080,060.55	\$2,138,523.07	(\$58,462.52)
2018	\$2,752,529.78	\$2,237,272.41	\$515,257.37
Total	\$6,813,667.42	\$6,412,090.89	\$401,576.53

Source: Chuuk Department of Administrative Services (DAS)

Although there was over and under spending during the period, the overall spending was within the budget. Nevertheless, a portion of the expenditures remains as receivables throughout the period. Respectively, about 17%, 14%, and 18% of the expenditures in fiscal years 2016, 2017, and 2018 were classified as receivables.

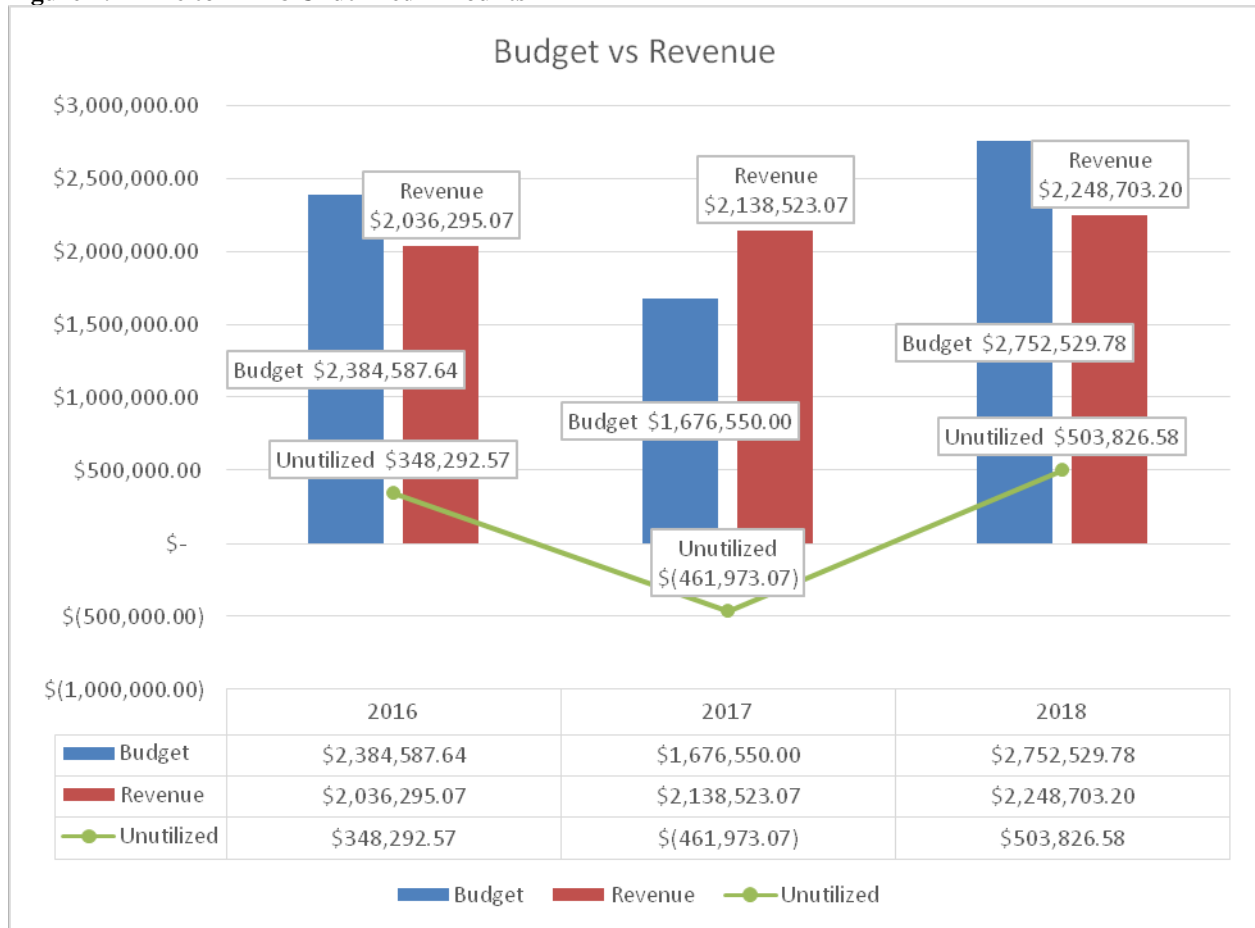
On another note, a budget versus revenue comparison for the period indicated that the federal programs were not able to use up all the funds allotted to them. Approximately 15%, -28%, and 18% of grant funds allotted were unutilized for the fiscal years 2016, 2017, and 2018, respectively. Altogether, roughly 5% or \$390,146.08 of the total budget for the period FY 2016 – FY 2018 was not utilized. During the Exit Conference to discuss the draft report, the Accountant

² Adjusted the budget amount to consider a two-year grant.

³ Budget adjusted in consideration of an overlapping two-year grant.

from Funds Division–Department of Administrative Service (Finance) explained that this was due to various reasons. There were instances that the amount of reimbursement received from the FSM National Government was less, some grants had expired and that some costs incurred were not allowed. The following figure presents the comparison of the budget versus revenue.

Figure 1: FY 16 to FY 18 Unutilized Amounts



Underutilized funds may mean several things but the top direct implications are programs do not need the funds awarded or are not effectively doing what it is supposed to do by providing sufficient benefit to the public. Consequently, the *money left* may be forfeited and redistributed to those that will make full use of it. Furthermore, programs that do not fully utilize their funds may experience reduction in their future grant award amount equal to the underutilized amount. It is essential to monitor revenue versus grant award amounts in order to be aware of unused funds and ensure maximum utilization.

Process

The federal grants that the State of Chuuk availed of 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. “These programs are designed to break even and result in no drain of financial resources on the government.”⁴

The following presents the process involved:

- Departments/Programs submit budget or estimated expenditures of each programs to the FSM National Government.
- FSM National Government in charge of federal grants compiles them into packages and sends them to applicable US federal agencies.
- US federal agencies send grant awards to the FSM National Government
- FSM National Congress approves budget and appropriate funds.
- FSM National Government issues advice of allotment (Governor is the allottee) along with copies of grant awards to Departments/Programs.
- Governor received the budget and transmitted it to State Legislature.
- Legislature re-appropriates fund and issues state budget allotment to Finance.
- Finance (Budget Office) inputs budget into the system for processing of accounts and disbursing of payments.
- Semimonthly Expenditure report, Breakdown of expenditures, and Cover Letter from DAS Director are transmitted to National Government for reimbursements—to draw down the funds allocated to each programs based on the grant awards.
- In instances where reimbursement is late for more than a week,
 - The action being taken is to follow up with the Federal Grant Specialist through email.
- At fiscal year-end, expenditures not reimbursed during the year are recognized as Accounts Receivable – Federal Agencies/Grants in the books.
- 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,
 - Salary⁵ (Most cases)
 - Communicate with payroll to correct fiscal period or date
 - Prepare JV dating it to current year
 - Other expenditures (Rare cases)
 - Notify relevant programs to communicate directly with grantors

Objectives, Scope and Methodology

Objective

The objective of the audit on Federal Grant Advances/Receivables was:

To determine whether all monies advanced by the Chuuk State Government for the purpose of running the different federally funded programs were collected in full by the Chuuk State Finance Funds Division.

⁴Ruppel, Warren. 2015. *Wiley GAAP for Governments 2015: Interpretation & Application of Generally Accepted Accounting Principles for State and Local Governments*. p.511.

⁵ Concerns internal oversight

Scope

This review covered the period FY 2016 to FY 2018. 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 whether all monies advanced by the Chuuk State Government for the purpose of running the different federally funded programs were collected in full by the Chuuk State Finance Funds/Accounting Division/Department, we identified the specific federal programs in which monies were advanced to and test whether these advances were collected. We also performed an aging analysis of receivables.

Prior Audit 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. From fiscal years 2015 to 2018, the audited financial statement also showed Accounts Receivable from Federal Agencies as follows:

Table 3: FY 2015 - FY 2018 A.R.US Federal Grants

Fiscal Year	Accounts Receivable – Federal Agencies/Grants
2015	\$233,539
2016	\$351,512
2017	\$307,097
2018	\$406,930

Source: FS Deloitte

Further, in the Inspection Report (Report No. 2013-01) for the fiscal years 2013 by Office of the National Public Auditor (ONPA) concerning federal awards, there were accumulated uncollected cash advances by the national government and outstanding receivables related to Chuuk State that remained unreimbursed. The age of the outstanding receivables were dated as far back as FY 2007.

Conclusion

We conclude that the monies advanced by the Chuuk Government for the purpose of running different reimbursable federally funded program were not fully recollected back. Uncollected amounts were dated as far back as 2015. The old uncollectible amounts from the Accounts Receivable from Federal Agencies/Grants were explained as due to expiry of the grant, amount

reimbursed was less than the actual expenditures advanced and some expenditure were not allowable.

FINDINGS AND RECOMMENDATIONS

Finding – Chuuk State has Uncollected Advances for the Federal Programs amounting to \$396,202.19

Best practice requires that effort should be made to ensure that receivables are collected in a timely fashion⁶. In addition to that, accounts receivable management best practice dictates that all accounts receivable should be recorded in a manner that allows for identification and aging analysis⁷ which includes establishing a receivables subsidiary ledger among other things.

During our analysis of the federal grant receivables at the end of fiscal year 2018, we found net receivables outstanding that dates far back as fiscal year 2015. These amounts remain floating in the receivable and continue to accumulate until it made up roughly 31% (\$124,468.55) of the federal receivable balance at the end of FY 2018.

Table 4: Receivables Aging Schedule

	FY 2018	%
Current Year	\$ 271,733.64	68.6%
FY 2014	\$ -	
FY 2015	\$ 18,631.98	4.7%
FY2016	\$ 102,999.00	26.0%
FY2017	\$ 2,837.57	0.7%
Total	\$ 396,202.19	100%

Source: Extracted from AR Nat'l FG Ledger Report

Furthermore, of the total outstanding balance of \$396,202.19 at fiscal year-end 2018, \$188,716.82 or approximately 48% is not separately accounted for per program.

As such, there is risk that the government may not be able to collect the old and unidentified receivables. This will result in a loss of money to the state of Chuuk for the amount of uncollectible receivables. Further, non-collection of money advanced by the Chuuk government to run federal programs may also result in a loss of precious local funds for local operational budget purposes. In this case, the possible loss of about \$300,000 is material enough for local budget purposes.

There is inadequate monitoring and management of federal receivables per program. This leads to the recording of an estimated receivable at fiscal year-end that is based solely on the calculated difference between fiscal year revenue and expenditure and not supported by other details such as a record of invoices billed but not yet collected or an accounts receivable subsidiary ledger.

⁶ Government Finance Officers Association (GFOA). 2018. *Revenue Control Policy*.

⁷ GFOA.

We recommend that the Funds Division Accountant in charge of federal grants should establish an accounts receivable subsidiary ledger for each of the federally funded programs and maintain their own record of collections to reconcile the billed amounts and its subsequent collections with that of the national government. This is to ensure the proper recording of federal receivables and to facilitate monitoring.

We also recommend 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. Otherwise, should initiate write-off of uncollectible accounts.

APPENDICES

Appendix A: Breakdown of Fiscal Year Budgets per Program

Program	Fiscal Year Budget		
	2016	2017	2018
Special Education	\$ 1,236,068	\$ 189,161	\$ 1,224,286
Family Planning	13,300	64,370	73,080
Comprehensive STD Prevention	19,171.30	5,828	17,655.50
Immunization Program	205,119.50	327,312	251,861
HIV Prevention	10,448.85	65,383.50	77,318.10
TB Prevention Program	98,406	90,967.50	141,402.31
System Based Diabetes Program	3,411	18,760	17,712
Tobacco Prevention & Control Program	4,000	15,525	23,620
HIV Surveillance (Personnel Budget)	6,361	12,089	13,917.87
Tracking Surveillance & Integration (TSI)	3,256	3,256	
State System Development Initiative (SSDI)	6,034	9,320	9,147
Community Mental Health	10,004	11,252	13,685
OPIOID STR (State Target Response)			53,500
Substance Abuse & Mental Health (SAMH) Program	143,074	163,897	177,423
Substance Abuse Prevention & Treatment (SAPT)-Fonuengin Drug Free Youth	7,380	17,580	17,580
Maternal and Child Health Services (MCH) Program	140,345	102,340	104,083
Universal Newborn Hearing Screening & Intervention (UNHSI) Program	0	24,612	
Strategic Prevention Framework Partnership for Success (SPF PFS) Chuuk	91,600	77,600	56,600
Public Health	3,588.99	0	10,000
Oral Health Program	15,000	15,000	
SPF PFS Mechitiw Noomanei Project	53,435	53,435	53,435
SPF PFS Udot Youth Alliance	60,028	60,028	60,028
SPF PFS Fefan Sapeta Youth Center Museum	51,703	51,703	51,703
SPF PFS North Star	36,008	36,008	36,008
SPF PFS PPO Youth	78,966	78,966	78,966
SPF PFS Re-South Remedy Project	40,334	40,334	40,334
Personal Responsibility for Education (PREP) Program	36,000	33,577	31,577
Comprehensive Cancer Control (CCC) Program	11,546	108,246	117,608
Total	\$ 2,384,587.64	\$ 1,676,550	\$ 2,752,529.78

MANAGEMENT RESPONSE



**DEPARTMENT OF ADMINISTRATIVE
SERVICES, CHUUK STATE
FEDERATED STATES OF MICRONESIA**

Tel.No.(691) 330-2230
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Jesse R. Mori
Director

Tesime Kofot
Deputy Director

January 29, 2020

MEMORANDUM

TO: Mr. Manuel L. San Jose, Jr.
FROM: JESSE R. MORI
Director
Department of Administrative Services-Finance

SUBJECT: Management Response on Audit of Federal Grant Receivables

Dear Mr. San Jose,

We would like to thank your office for conducting an audit for Chuuk State Government especially to our department and giving us an opportunity to respond to your finding. We value the undertaking that your office is providing to our government.

We agree to your finding and will consider your recommendations. We will closely monitor the financial activities of the federal programs and establish and maintain a subsidiary ledger to determine and analyze the expenditures and revenues of each program. We will also meet each program manager or program specialist for them to help us monitor their respective activities particularly expiration of grant. We will also ask them to talk to the grantor for the possibility of collecting the outstanding receivables.

We hope that our response addressed most if not all of the issues in your audit. We appreciate your endeavor of pointing out our weaknesses so we can correct such and work more efficiently.

Sincerely yours,

Jesse Mori
Director
Chuuk Department of Administrative Services

Thank you,

Jesse R. Mori
Director, DAS

OCPA's EVALUATION OF MANAGEMENT RESPONSES

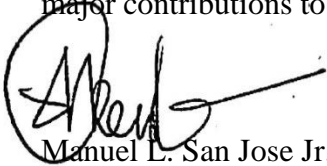
We received the management response from the Department of Administrative Services, on Thursday, January 30th, 2020. The management agreed with our finding and recommendations in their management response.

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.

A handwritten signature in black ink, appearing to read "Manuel L. San Jose Jr.", enclosed within a circular stamp or seal.

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

January 31, 2020

OCPA CONTACT AND STAFF ACKNOWLEDGEMENT

OCPA CONTACT: Manuel L San Jose, CPA, CGAP, CIA, CISA, CRMA, CFIP
Public Auditor
Email: manny122858@yahoo.com.ph

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

Troy Chiwi, Auditor I, Acted as the Audit-in-Charge for this Assignment
Rosalinda Mori, Senior Auditor

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

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