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December 18, 2023

OFFICE OF THE CHUUK STATE PUBLIC AUDITOR (OCPA)
PRESS RELEASE 2023-02

OCPA releases its audit on the Chuuk Housing Authority (Audit Report No. 2023-02)

The OCPA completed its Audit Report No. 2023-02 entitled “**Chuuk State Housing Authority: Not Aware of the Extent of Families in Housing Needs**”. The coverage of the audit was for the period beginning fiscal year 2020 to fiscal year 2022. The audit was conducted in accordance with the U.S. Generally Accepted Government Auditing Standards for performance audit. The objectives of this performance audit were to determine whether the Chuuk Housing Authority (CHA) 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 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, which was being approved by the board for the operation of the CHA loan fund. 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 CHA 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. The OCPA noted non-compliances with regard to loan processing documentations and internal control requirements for the operation of the CHA loan fund. Of the 25 samples of loan folders examined, there were 13 samples (52%) with non-compliance issues involving improper documentations of loans. Furthermore, the OCPA noted that CHA did not strictly follow the budget control procedures. The deficit spending was recurring problem in appropriated budget at an average of \$7,000 per year or 10% over the budget while the cash operating losses were sustained in the operation of the loan fund at an average of \$40,000 per year during the fiscal years covered by the audit. The OCPA also noted that the loan fund was used for expenditures not allowed by law, e.g., COVID 19 allowance, bonuses, and others. The Board approved these expenditures. The audit found that a total of \$23,720 was spent for unallowable expenditures. Lastly, the OCPA noted at least nine conflicts of interest loans amounting \$45,000. 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.

The OCPA also noted that the CHA has not been strategically managing its operation and effectively performing its functions that were mandated by the law. There was no strategic plan in place that will provide direction on how it could fulfill its functions mandated by the law. The CHA was not aware of the extent of families in housing needs. On current lending activities, the OCPA noted that the CHA and the Department of Administrative Services (DAS) could improve their operating efficiencies by refraining from being involved in the procurement of the construction materials on behalf of the borrower. Unnecessary administrative time was being consumed waiting for quotation, creating and issuing Purchase Order (PO) based on summary of quotations, and processing the disbursements for POed items. These activities must be transferred to the responsibility of the borrowers. Furthermore, the OCPA also noted that the CHA has not been efficiently managing its accounts receivables (AR) and accounts payables (AP). The CHA was not efficient in collecting loans. In FY 2021, the CHA had written-off \$1.5 million bad debts or uncollectible accounts on loans for the construction of housing units. Of the new loans granted during the period covered by the audit, the accounts receivable as of September 30, 2022 amounting to \$44,658.48 from 10 debtors either had no collection or missed the periodic installment. There was also absence of reconciled subsidiary ledgers

for both Accounts Receivable and Accounts Payable which could result in potential misstatements of the financial statements, particularly the receivable and the payable balances.

On other matters, the CHA Executive Director, 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 provided to the CPUC through several cash releases as decreed by the Governor. He also said that intention was to get back the money; hence, an MOU was signed. He further said that they kept requesting for reimbursement. Since the CHA needs the fund for their loan activities, the OCPA recommend that the CHA should continue requesting for the reimbursement of the amount.

The OCPA had several recommendations to improve the operation of the CHA. It should update loan policies and procedures that should include policy on conflict of interest. Furthermore, it should strictly follow the budgetary control. Also, it should implement long term strategic plan and should refrain from being involved in the procurement of the construction materials on behalf of the borrower. Furthermore, it should implement strategies that would ensure that receivables are collected on time and the subsidiary ledgers are reconciled. Lastly, there should be regular management information reports that should be provided to the Board on cash in bank, accounts receivable, uncollected accounts, net resources (net position), net income/losses, cash forecast, revenue and expense report, and fund status report to serve as the basis of their informed decision related to the operation of the CHA and to keep intact and sustain the value of the loan fund.

The OCPA requested a formal response from both the management of the CHA and the DAS. It received the 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

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<p>The actual audit report can be accessed on the “Office of the Chuuk State Public Auditor” Face book post entitled “Chuuk State Housing Authority: Not Aware of the Extent of Families in Housing Needs”</p>
