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**REVIEW OF  
SELECTED FINANCIAL MANAGEMENT ACTIVITIES  
OF THE  
GOVERNMENT OF AMERICAN SAMOA**

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**OFFICE OF TERRITORIES  
DEPARTMENT OF THE INTERIOR**



**UNITED STATES  
GENERAL ACCOUNTING OFFICE**

**JUNE 1966**

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL ACCOUNTING AND  
AUDITING DIVISION

JUN 16 1966

B-114870

Dear Mr. Secretary:

The General Accounting Office has made a review of selected financial management activities of the Government of American Samoa, Office of Territories, Department of the Interior. We also made a follow-up review of the status of matters previously reported, which disclosed generally that corrective action had been or was being taken. Our findings are summarized in this letter and described in more detail in the accompanying report.

Our review disclosed that the Territorial Government withdrew from the United States Treasury and retained in its possession grant-in-aid funds which were substantially in excess of amounts needed to finance current operations. On the basis of financial records and other documents available during our review in American Samoa, we estimate that the United States Treasury in fiscal year 1963 may have incurred interest costs of as much as \$154,000 because of additional borrowings necessary as a result of the premature withdrawal of funds. Also, we noted that, at June 30, 1963, the Territorial Government had accumulated grant-in-aid funds which were about \$8 million in excess of amounts needed to liquidate its current obligations. We believe that this situation occurred because the Governor followed the practice of withdrawing grant-in-aid funds as the funds became available rather than as needed to finance current operations and because the Territorial Government, in its annual budget justifications did not recognize that prior years' unused funds would be available to meet current needs, overstated the prior year obligations, and continually underestimated local revenues which would be available to reduce the amount of grant-in-aid funds needed to finance current operations.

In bringing these matters to the attention of your Department, we proposed that a review be made of the Territorial Government's financial management system with a view toward strengthening it and, where necessary, establishing adequate guidelines and procedures for the systematic accomplishment and reporting of realistic and accurate financial data for management purposes.

In June 1965 the Director, Office of Survey and Review, advised us that an effective method had been established whereby grant-in-aid funds would be withdrawn from the Treasury only as needed to finance current operations and that the Department intended to exert its leadership in directing the ways and means for improving the financial management system of the Territorial Government. He further stated that because of staff limitations specific actions would be delayed pending completion of other high priority projects.

Our review also disclosed a number of areas related to accounting and fiscal practices and procedures which were in need of improvement. These matters were brought to the attention of the Director, Office of Territories, in a separate report in January 1966 because we believed that they indicated the need for the Office of Territories to assist the Governor in improving and strengthening the accounting and fiscal practices and procedures of the Territorial Government.

We believe that the matters discussed in this report illustrate the need for improving certain aspects of the financial management system of the Territorial Government so as to ensure the availability of reliable financial information on which future requests for grant-in-aid funds can be based. Accordingly, we are recommending that a review be made of the financial management system of the Territorial Government with a view toward providing for the systematic accomplishment and reporting of realistic and accurate financial data for management purposes. We would appreciate being advised of any further actions taken by the Department pursuant to this recommendation.

In view of the elapsed time since the completion of our field work in American Samoa and since we have not had an opportunity to review the effectiveness of the corrective actions taken by the Department and the Governor on certain of the principal matters discussed in this report, we do not plan any further reporting of these matters at this time. However, we do plan to evaluate the effectiveness of the actions taken by the Department and the Governor, during our next audit of American Samoa, and we will issue a report to the Congress at that time, if warranted, on any matters which continue to require corrective action.

B-114870

Copies of this report are being sent to the Assistant Secretary for Public Land Management, the Deputy Assistant Secretary for Administration, the Director, Office of Territories, and the Governor of American Samoa.

*A. T. Samuelson*

Director, Civil Accounting  
and Auditing Division

The Honorable  
The Secretary of the Interior

## C o n t e n t s

	<u>Page</u>
INTRODUCTION	1
BACKGROUND INFORMATION	2
PRIOR FINDINGS AND RECOMMENDATIONS	4
Electric power rates adjusted to recover cost	4
Collection of revenues	5
Need to implement the provisions of the banking law	6
Administrative manual not developed	8
CURRENT FINDINGS AND RECOMMENDATION	9
Premature withdrawal of grant-in-aid funds from the United States Treasury	9
Department comment and our evaluation thereof	11
Accumulation of territorial funds in excess of current needs	13
Unused territorial funds	14
Overstatement of prior year obligations in budget justification	17
Local revenues continually underestimated	18
Need to improve and strengthen accounting and fiscal practices and procedures	21
Department comments and our conclusion	23
Recommendation	24

REPORT ON  
SELECTED FINANCIAL MANAGEMENT ACTIVITIES  
OF THE  
GOVERNMENT OF AMERICAN SAMOA  
OFFICE OF TERRITORIES  
DEPARTMENT OF THE INTERIOR

INTRODUCTION

The General Accounting Office has made a review of selected financial management activities of the Government of American Samoa, Office of Territories, Department of the Interior. The review was undertaken in accordance with our plans for periodically reviewing the activities of the Government of American Samoa and because of the increased amount of grant-in-aid funds provided the Territorial Government in recent years. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our examination was conducted at the offices of the Government of American Samoa on the Island of Tutuila. We examined, to the extent we deemed necessary, the transactions affecting Federal funds, but we did not make an audit of transactions affecting local revenues and grant-in-aid funds because the General Accounting Office does not have audit authority or settlement responsibility regarding such transactions. However, we did examine into the effectiveness of selected financial management procedures and controls over such funds. Our review was not intended to include all aspects of the financial management system of the Territorial Government. During the course of our review, we also examined into the status of matters previously reported to the Congress and the Governor of American Samoa and interviewed responsible officials of the Territorial Government.

## BACKGROUND INFORMATION

American Samoa is an unincorporated and unorganized territory of the United States whose government is administered by the Department of the Interior under Executive Order 10264, effective July 1, 1951. The Governor, who is the chief executive of American Samoa, is appointed by, and exercises his authority under the direction of, the Secretary of the Interior. The legislature of American Samoa is composed of 15 senators and 17 representatives who are elected by the Samoan people. The judicial branch of the Territorial Government is made up of a High Court and five district courts. The Chief Justice and the Associate Justice of the High Court are appointed by the Secretary of the Interior while four Associate Judges are appointed by the Governor on the recommendation of the Chief Justice.

Funds to finance the costs of the Government of American Samoa are appropriated annually. Appropriations made by the Congress are of two types: (1) regular appropriations from which the expenses of the legislative and judicial branches and those of the Office of the Governor are financed and (2) grant-in-aid funds which, together with local revenues, are used to finance costs incurred by the executive branch of the Territorial Government. The budget justification for grant-in-aid funds shows the estimated obligations for the year, reduced by the estimated local revenues for the year. Local revenues, as disclosed in the budget justification are derived principally from import and export duties, utilities, income taxes, and rents and leases.

In 1961 an accelerated program for the rehabilitation of American Samoa was undertaken to improve and overcome serious deficiencies in essential public works, health, and education on the islands. As a result, the amount of grant-in-aid funds appropriated

for the islands increased substantially in fiscal year 1962 and subsequent years. In fiscal year 1963 and 1964, grants-in-aid to the Territorial Government totaled about \$12.8 million and \$12 million, respectively, while local revenues totaled about \$1.7 million and \$2.5 million, respectively. Regular appropriations totaled \$236,600 and \$274,000, respectively, for the 2 years.



## PRIOR FINDINGS AND RECOMMENDATIONS

Our follow-up review of the principal findings and recommendations included in our prior report to the Congress dated April 25, 1960, on "Review of Selected Activities of the Government of American Samoa, Office of Territories, Department of the Interior" (B-114870) disclosed generally that corrective action had been or was being taken. Accordingly, no further recommendations are being made at this time. However, we plan to evaluate the actions taken and promised by the Department, during our next audit of the Government of American Samoa. These matters are summarized below.

### ELECTRIC POWER RATES ADJUSTED TO RECOVER COST

In our prior report, we commented on the need to establish a firm basis for setting commercial utility service rates. We reported that the Government of American Samoa had not developed rate schedules to recover the cost of furnishing utility services to commercial users and that available records for all utilities showed that expenditures exceeded revenues by \$92,215 in fiscal year 1958. We recommended that the Governor develop commercial rate schedules for utility services and that accounting records be established and maintained in such a manner that all costs relating to each utility could be accumulated and used in establishing rates based on the actual cost of furnishing the services. The Department fully concurred in this recommendation and stated that it would take the steps necessary for its implementation.

Our follow-up review disclosed that the Territorial Government continued to use power rates that were not adequate to recover the cost of electric service through December 1963. However, effective January 1, 1964, the Territorial Government established new electric power rates on the basis of a study made by a private firm of

consulting engineers which was completed in September 1963. The Governor advised us that the new electric power rates were set to recover the costs of furnishing the utility services. Regarding other utilities, the Governor advised us that consulting engineers were making a survey of the water and sewer systems.

We estimate that, as a result of the new electric power rates, future revenues of the Territorial Government from the sale of electric power to the principal commercial user will increase by about \$25,600 annually. The Territorial Government will also realize additional revenues from the sale of power to other users.

#### COLLECTION OF REVENUES

In our prior report, we noted that the Territorial Government was not collecting revenues from all sources authorized by the Code of American Samoa and had not resolved whether certain taxes and duties were collectible in connection with a fish-canning operation carried out in facilities leased from the Territorial Government. We recommended that the Secretary of the Interior and the Governor establish adequate revenue policies and procedures and assess and collect all revenues due the Territorial Government.

In 1963 the Territorial Government's Legislature changed the tax structure of American Samoa by eliminating the real estate tax, the tax on leases, the poll tax, and the gross business tax and replaced these taxes with a local income tax which was based on the Federal Internal Revenue Code. Also in 1963 the Territorial Government reviewed the gross business tax returns for fiscal years 1961 and 1962 of a number of the larger merchants and assessed and collected over \$22,500 in additional taxes plus penalties. With regard to the fish-canning operation, the Territorial Government, in renegotiating the cannery lease in 1961, made provision for a

payment in lieu of taxes by the cannery operator of \$72,000 annually or a percentage of net sales, whichever was greater. Under this lease provision, the cannery operator paid \$72,000 and \$107,000 during 1961 and 1962, respectively. In 1963, the lease was revised to eliminate the above provision and the local income tax was made applicable to the fish-canning operation.

In addition, our review disclosed that in October 1961 the Territorial Government assessed \$359,790 against an exporter for fish products shipped from American Samoa during the 3-year period ended November 1959. The exporter denied liability for the tax and, to date, this matter has not been finally resolved. We have been advised that the Solicitor of the Department of the Interior is now considering what final action should be taken on this matter.

#### NEED TO IMPLEMENT THE PROVISIONS OF THE BANKING LAW

In our prior report, we pointed out that the Bank of American Samoa, a wholly owned instrumentality of the Territorial Government, did not have a charter and current bylaws and did not operate under any set regulations. We recommended that the Secretary of the Interior and the Governor establish rules and regulations for the Bank's operations to provide proper regulatory policies and procedures. In commenting on our prior report, the Department of the Interior advised us that it anticipated that the Bank's new charter would provide the necessary rules and regulations for the operation of the Bank.

On April 7, 1962, Public Law 7-11, hereinafter referred to as the banking law, chartered the Bank as a corporation whose purpose is "\*\*\* to provide adequate facilities for the deposit of money and the carrying on of a regular banking business by the people of

American Samoa, \*\*\*." Other pertinent provisions of the law state that the Bank shall have the power to adopt bylaws governing the conduct of its business and that the books and records shall be periodically audited by qualified independent examiners. There also is to be unannounced quarterly verification of cash and other accounts by examiners approved by the Board of Directors.

Our follow-up review disclosed that the Bank's bylaws had not been revised or updated since the banking law was passed in 1962. We noted also that certified public accountants had been engaged to audit the accounts of the Bank but that in their 1962 and 1963 audit reports they were unable to express an overall opinion on the Bank's statement of financial condition because the departments of the Territorial Government either failed to respond or were unable to respond to requests for confirmation of correctness of various fund balances and because the unconfirmed balances were material in relation to the total assets and deposit liability of the Bank. As to fulfilling the requirement for quarterly verification of cash and other accounts, we were informed that only one count of cash had been made by the Territorial Government's internal auditors.

The Director, Office of Survey and Review, in commenting on these matters in June 1965, advised us that (1) the bylaws had been rewritten in their entirety and were adopted by the Bank Board of Directors on April 23, 1964, (2) the procedural changes in accounting and reconciliation of bank balances had made it possible to confirm all fund balances for the audit conducted in April 1964, and (3) the Government was attempting to recruit an internal auditor who could make the quarterly verification required by the banking law.

## ADMINISTRATIVE MANUAL NOT DEVELOPED

In our prior report, we noted that the policies and procedures of the Territorial Government were not recorded in an orderly manner and that it was necessary to do considerable research to find the current policy or procedure on a particular subject matter. We recommended to the Secretary and the Governor that an administrative manual be developed to permit ready reference to the duties and responsibilities of each department in the Territorial Government and to the current policies and procedures of the various governmental activities.

In November 1961, the Governor assigned to the Secretary of American Samoa the responsibility for preparing, maintaining, and distributing the administrative manual. In May 1962, Public Law 7-28 was enacted to formalize the Governor's order for maintaining an administrative manual.

Our follow-up review disclosed that the Territorial Government had not completed an administrative manual setting forth the organization and functions of its executive departments and separate offices and the executive regulations for the guidance of personnel and others dealing with the Territorial Government. To the date of our review, only an insignificant portion of the administrative manual had been issued.

The Governor advised us that the Government of American Samoa recognized the need for a good administrative manual but that technically qualified members of his staff were working on the development program which was considered more urgent and of higher priority. The Director, Office of Survey and Review, in June 1965 advised us that the Department concurred in our statement concerning the need for an administrative manual and that since our review several chapters of the manual had been released but that the basic manual could not be completed in less than another 6 to 9 months.

## CURRENT FINDINGS AND RECOMMENDATION

Our review disclosed that the Territorial Government withdrew from the United States Treasury and retained in its possession grant-in-aid funds which were substantially in excess of amounts needed to finance current operations. On the basis of financial records and other documents available during our review in American Samoa, we estimate that the United States Treasury may have incurred interest costs of as much as \$154,000 because of additional borrowings necessary as a result of the premature withdrawal of funds. Also, we noted that, at June 30, 1963, the Territorial Government had accumulated grant-in-aid funds which were about \$8 million in excess of amounts needed to liquidate its current obligations. We believe that this situation occurred because (1) the Governor followed the practice of withdrawing grant-in-aid funds as the funds became available rather than as needed to finance current operations and (2) the Territorial Government, in its annual budget justifications, did not recognize that prior years' unused territorial funds would be available to meet current needs, overstated the prior year obligations, and continually underestimated local revenues which would be available to minimize the grant-in-aid funds needed to finance current operations.

### PREMATURE WITHDRAWAL OF GRANT-IN-AID FUNDS FROM THE UNITED STATES TREASURY

During the first 10-year period that the Department of the Interior administered the Government of American Samoa, appropriations averaged less than \$1.5 million annually. In 1961 an accelerated program for the rehabilitation of the islands was undertaken. In fiscal years 1962 through 1964, grants-in-aid totaling about \$34.2 million were made to the Territorial Government. During this period, the Governor followed the practice of withdrawing all

grant-in-aid funds from the Treasury as they were apportioned without regard to the current operating needs of the Territorial Government. These funds were deposited in the Territorial Government-owned Bank of American Samoa; a San Francisco, California, bank; and a Honolulu, Hawaii, bank. The Bank of American Samoa in turn reinvested a part of these funds in United States Government securities.

We were unable to obtain from the records of the Territorial Government accurate month-end balances of cash and related obligations for fiscal year 1963 because bank statements had not been reconciled for a number of months and various control accounts were not in balance with subsidiary records. We were able, however, to determine the amount of funds placed by the Territorial Government in certificates of deposit in the Bank of American Samoa during fiscal year 1963 as shown below:

	<u>Amount deposited</u>	<u>Total certificates of deposit</u>
Balance forward--July 1, 1962	\$ -	\$2,625,000
Deposit--October 1, 1962	1,570,000	4,195,000
Deposit--January 1, 1963	1,405,000	5,600,000
Balance--June 30, 1963	-	5,600,000

On the basis of the funds placed in certificates of deposit during fiscal year 1963 and the average interest rate paid by the Treasury on marketable securities during that period (3.425 percent), we estimate that the practice of withdrawing grant-in-aid funds from the Treasury without regard to current operating needs may have resulted in additional interest costs to the Treasury of about \$154,000 during fiscal year 1963.

In October 1963 we pointed out to the Governor that increased interest costs to the Treasury could have been avoided if

withdrawals had been made as needed to finance current operations. The Governor advised us that he would look into this matter further. On January 30, 1964, in hearings before a Subcommittee of the House Committee on Appropriations for the Department of the Interior and Related Agencies for 1965, the Governor, in commenting on the advance of grant-in-aid funds, stated that this matter had been called to the attention of the Bureau of the Budget and arrangements were being made to withdraw the money from the Treasury only as needed. However, we noted that the Governor continued to withdraw all available funds for each quarter of fiscal year 1964.

On August 12, 1964, the Office of Territories advised the Governor of American Samoa that all unobligated funds from prior years must be used before any cash withdrawals could be made from the 1965 appropriation and that necessary cash withdrawals would have to be justified by an itemized statement showing the cash on hand, the expenditures made during prior periods, and the cash required for the next 15 days. The Office of Territories pointed out that this procedure had been initiated to comply with Treasury Circular No. 1075, dated May 28, 1964, which provides that funds be withdrawn from the Treasury only as needed.

Department comment and our evaluation thereof

The Director, Office of Survey and Review, in commenting on this matter in June 1965, advised us that:

"The practice of withdrawing grants-in-aid funds as they become available was discontinued as of July 1, 1964. Also, as noted in the report, the Office of Territories advised the Governor that all unobligated funds from prior years must be used before any cash withdrawals could be made from the 1965 appropriation. Beginning in fiscal year 1965 an effective method has been established of timing cash requirements to preclude the withdrawal of funds from the U.S. Treasury any sooner than is necessary



to finance the grantee operations, and thus assist in the reduction of the level of the Federal debt and the interest costs of short term borrowing."

If properly implemented, the procedures established by the Office of Territories should help to avoid the future accumulation of large cash balances which are not needed to finance current operations. Accordingly, we are not making a recommendation. However, we plan to evaluate the results of this action during our next audit of the Government of American Samoa.

ACCUMULATION OF TERRITORIAL FUNDS  
IN EXCESS OF CURRENT NEEDS

Our review disclosed that, at June 30, 1963, the Territorial Government had accumulated territorial funds<sup>1</sup> which were about \$8 million in excess of the amounts needed to liquidate current obligations. We believe that this occurred because the Territorial Government, in its annual budget justifications, (1) did not recognize that prior years' unused territorial funds would be available to meet current needs, (2) overstated the prior year obligations, and (3) continually underestimated local revenues which would be available to minimize the grant-in-aid funds needed to finance current operations.

In our prior report to the Congress on the Government of American Samoa (B-114870, April 25, 1960), we commented on weak budgetary controls and incorrect budget estimates, and we recommended that the Territorial Government's budget justifications clearly and accurately show the estimated amounts needed to conduct all activities and the portion of requirements to be met from local revenues. In commenting on our report, the Assistant Secretary for Administration, Department of the Interior, advised us that steps would be taken to compel strict adherence to the budget justifications considered by the Congress and to ensure that additional local revenues would be expended only upon approval of appropriate higher authority.

Our follow-up review disclosed that the Territorial Government in its budget justifications continued to overstate prior year

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<sup>1</sup>Territorial funds as used in this report include both Federal grant-in-aid funds and local revenues.

costs and underestimate local revenues which would be available to reduce the amount of grant-in-aid funds needed to finance current operations. The more significant matters which contributed to the accumulation of unused territorial funds are discussed in further detail in the following sections of this report.

Unused territorial funds

Grant-in-aid funds together with local revenues are used to finance operations of the Territorial Government. The grant-in-aid funds needed annually for this purpose are arrived at by reducing the estimated annual obligations by the estimated annual local revenues. Records of the Territorial Government available during our review showed that, at the beginning of fiscal year 1963, about \$2.3 million in unused territorial funds was available to finance current operations. At June 30, 1963, this amount had increased to about \$8 million. Following is a schedule showing the status of territorial funds at June 30, 1963, and the total grant-in-aid funds and local revenues available and obligated during fiscal year 1963:

Unused territorial funds at June 30, 1962	\$ 2,322,468 <sup>a</sup>
Grant-in-aid funds withdrawn from United States Treasury during fiscal year 1963	12,807,400
Actual local revenues	<u>1,685,209</u>
 Total funds available	 16,815,077
 Actual obligations of funds during fiscal year 1963	 <u>8,783,222</u>
 Unused territorial funds at June 30, 1963	 <u>\$ 8,031,855</u>

<sup>a</sup>This figure represents the excess of cash over accounts payable and unliquidated obligations as shown by the Territorial Government's financial statements for fiscal year 1962.

Records available for our review showed that, of the unused territorial funds at June 30, 1963, about \$5.5 million represented funds provided for construction projects which were included in the fiscal year 1963 budget justification but were not expended or obligated during fiscal year 1963. In this regard, our review disclosed that no funds were obligated on at least 12 construction projects for which about \$925,000 was included in the fiscal year 1963 budget justification.

This matter was brought to the attention of the Governor who advised us that funds had not been obtained in excess of needs but that construction projects had been delayed for various reasons, including slippages in completion dates of projects.

In bringing this matter to the attention of your Department, we pointed out that, in our opinion, the delays in undertaking approved construction projects and the slippages in the completion dates of existing projects during fiscal year 1963 indicated a possible overprogramming of the Territorial Government's capability to undertake and complete projects in an orderly and timely manner. In this regard, we believe that the Governor should base requests for grant-in-aid funds for construction purposes on (1) a comprehensive program of projects to be developed and built and (2) a realistic schedule of priorities showing dates when funds would be required to permit the timely procurement and orderly completion of each project.

The Director, Office of Survey and Review, in June 1965 advised us that the relocation of the public works compound made necessary by the movement of three large industries to American Samoa in fiscal year 1963 and the assistance provided to these industries in constructing their factories were primarily responsible for the initial slippage in the construction program. The Director stated

that future economic growth was considered more important than the temporary consideration of a slippage in the construction program which may appear to be overprogramming the Territorial Government's ability for completing construction projects. He further stated that the Congress had been advised as to the status of unobligated construction funds during the appropriation hearings for fiscal year 1965.

We recognize the importance of new industries to the economic development of American Samoa. However, it should be noted that, after the Department advised the Congress during appropriation hearings for fiscal year 1965 that, as of January 20, 1964, the amount of unobligated construction funds had increased to \$12.1 million, the appropriation committees approved the budgeted construction program but decreased the amount of grant-in-aid funds requested for the Territorial Government by \$2.5 million. According to the report by the House Committee on Appropriations, the reduction in the appropriation request was made because the Committee believed that the amount of funds provided would be sufficient in view of the unobligated balance available and the fact that further slippage in the construction program was anticipated. The Senate Committee on Appropriations agreed to this reduction.<sup>1</sup>

It should be noted also that additional grant-in-aid funds for construction purposes were not requested for the Territorial Government for fiscal year 1966. In this regard, the budget justification presented to the House Subcommittee of the Committee on Appropriations, on the Department of the Interior and Related Agencies Appropriation for fiscal year 1966, disclosed that the

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<sup>1</sup>H. Rept. 1237, 88th Cong., 2d sess. 10, and S. Rept. 971, 88th Cong., 2d sess. 11.

Territorial Government had continued to experience slippages in the completion dates of construction projects. The budget justification stated in pertinent part that:

"In our construction program we have had to reprogram funds and to delay or change projects and priorities. With the exception of the water contract all of our construction is being accomplished by public works department with force account labor and even with the building experience we have gained in the past 3 years and the considerable training we have given Samoan personnel, our construction program is not proceeding as quickly as we had hoped; \*\*\*."

In view of the slippages in construction projects experienced in recent years, we believe that the Governor's future requests for grant-in-aid funds for construction projects should continue to be geared to the Territorial Government's capability to undertake and complete in a timely manner those projects for which funds are requested.

Overstatement of prior year obligations  
in budget justification

The fiscal year 1963 construction and operating obligations, which were reported as "actual" in the fiscal year 1965 budget justification, were overstated by about \$4.8 million. The fiscal year 1965 budget justification showed \$9,062,450 as "actual" construction obligations for fiscal year 1963 even though the Territorial Government's records showed that only \$4,553,075 had been so obligated. On a test basis we identified overstatements of operating obligations amounting to an additional \$330,000. These overstatements of obligations resulted because reservations of funds for programmed construction projects and for purchase of equipment, supplies, and services were considered as valid obligations even though purchase orders or contracts for such goods or services had

not been issued. We believe that it is unrealistic and misleading to report reservations of funds as actual obligations.

We brought these matters to the attention of the Governor and pointed out that, while the provisions of section 1311 of the Supplemental Appropriation Act, 1955 (31 U.S.C. 200), were not legally binding on amounts reported in the territorial budget, the criteria for recording an obligation, as set forth in section 1311(a), were in accord with sound financial management practices, and we proposed that such criteria be adopted for recording territorial obligations. The Governor agreed to our proposal and advised us that these criteria had been adopted for recording all obligations of the Territorial Government.

We believe that the adoption of the criteria provided in section 1311(a) for recording obligations will result in more realistic reporting of obligations in budget justifications submitted to the Congress. We plan to evaluate the results of this action during our next audit of the Government of American Samoa.

#### Local revenues continually underestimated

In our prior report we pointed out that estimated local revenues which were reported in budget justifications for fiscal years 1954 through 1958 had been continually underestimated. Our follow-up review disclosed that this condition still existed and that, for fiscal years 1959 through 1964, the local revenues reported as available to meet the costs of the Territorial Government were underestimated, as shown on the following page.

Fiscal year	Local revenues		Underestimated	
	Estimated	Actual	Amount	Percentage
1959	\$ 700,000	\$ 911,818	\$211,818	23
1960	725,000	1,003,923	278,923	28
1961	850,000	1,068,413	218,413	20
1962	1,100,000	1,321,336	221,336	17
1963	1,100,000	1,685,209	585,209	35
1964	1,800,000 <sup>a</sup>	2,478,416	678,416	27

<sup>a</sup>The initial estimate of \$1,300,000 for fiscal year 1964 was increased by \$500,000 during appropriation hearings in anticipation of increased revenues as a result of the new income tax law.

This tabulation shows that local revenues have been underestimated from 17 percent to 35 percent during the past 6 years. The continual underestimate of local revenues in the budget justifications was brought to the attention of the Governor who advised us that estimates of local revenues for budget purposes generally have been based on the previous year's revenues and that, with the economy expanding as rapidly as it has, the Territorial Government was unable to guarantee more funds than had been estimated.

We recognize that with the rapid growth of economic activity it may be difficult to obtain accurate estimates of revenues; however, in our opinion, the continued underestimate of local revenues over a long period of time indicates that insufficient attention has been directed to developing realistic estimates of revenues consistent with the trend of activities.

The Director, Office of Survey and Review, in commenting on this matter in June 1965, stated that:

"In compiling the budget for local revenues, the various departments of government concerned with the specific source of revenue are consulted and the budget compiled based on the trends, known economic improvement, and past experience. In 1963 an income tax law was enacted, adopting the Federal Income Tax Code as the Income Tax



Code of American Samoa. The Territorial Government simply did not have the necessary statistics or experience to forecast accurately revenues to be earned from this source in 1963 or 1964."

Although the Director's comments stated that the underestimates during fiscal years 1963 and 1964 were caused largely by a lack of experience in estimating income tax revenues, our review disclosed that about \$904,000, or about 72 percent of the total underestimate of approximately \$1,263,625 for the two fiscal years, represented underestimates of sources of local revenue other than income taxes. The principal other sources of local revenue which were underestimated included import and export duties, sale of electricity, customs and harbor charges, and interest from time-savings deposits. The Director did not comment on the continual underestimate of local revenues for the fiscal years prior to enactment of the income tax law.

In addition, it should be noted that the Territorial Government again underestimated local revenues for fiscal year 1965. The actual local revenues collected in fiscal year 1965 amounted to \$3,153,375 compared with estimated revenues of \$2,416,000, or an underestimate of \$737,375.

In view of the relationship between estimates of local revenue and requests for grant-in-aid funds from the Congress, we believe that more attention should be directed toward developing realistic estimates of local revenues consistent with the expanding economy of American Samoa.

NEED TO IMPROVE AND STRENGTHEN ACCOUNTING  
AND FISCAL PRACTICES AND PROCEDURES

Our review disclosed a number of areas related to accounting and fiscal practices and procedures which are in need of improvement. Several of these matters, which were previously reported to the Governor of American Samoa in August 1959, continue to exist. These matters were brought to the attention of the Director, Office of Territories, in January 1966 because we believe that they indicate the need for the Office of Territories to assist the Governor of American Samoa in improving and strengthening the accounting and fiscal practices and procedures of the Territorial Government. A summary of these matters is presented below.

1. Need for timely and accurate financial statements--The financial statements for fiscal year 1963 were not available within a reasonable period of time after the close of the fiscal year and were not available for our examination during our review in American Samoa. In addition, our review of financial statements which were provided to us 11 months after the close of fiscal year 1963 disclosed a number of errors, including understatements of accounts and interfund accounts which did not balance.
2. Need for establishing revolving funds as separate accounting entities--Several revolving funds which were created by the Territorial Government with grant-in-aid funds and local revenues and which were supposed to be self-financing were accounted for in the general fund group of accounts rather than being established as separate accounting entities. Consequently, reports on the operation of each separate activity could not be prepared and responsible management officials did not have an opportunity to review and evaluate the manner in which such activities were being carried out.
3. Need for control account balances to agree with subsidiary accounts--The Territorial Government did not reconcile control accounts with other sources of information. For example, a number of subsidiary records did not balance with

control accounts, subsidiary records for miscellaneous accounts payable of over \$2 million were not maintained, and cash accounts had not been reconciled with bank balances for periods ranging from 7 to 13 months.

4. Need for improving internal controls relating to collections and disbursements of funds--Our review disclosed a number of deficiencies in internal controls over collections and disbursements of funds including (1) failure to record all collections of Federal funds and (2) failure to record all issued checks.
5. Need for control over billings--There was general lack of management control over billing documents. Also, no written procedures for recording billings were available.

We believe that a system of financial controls that ensures reasonable accuracy and reliability of financial information is necessary for the efficient and effective accomplishment of the financial management activities of the Territorial Government. During our review and discussions with Territorial Government officials and employees, it appeared to us that there was insufficient understanding of the need for sound internal financial management controls. In this regard, there appeared to be a need for improved supervision and training of the employees engaged in financial management activities.

Accordingly, in our January 1966 report we recommended that the Director, Office of Territories, assist the Governor of American Samoa in developing the guidelines and staff capabilities needed to strengthen the accounting and fiscal practices and procedures so as to reasonably ensure that the Territorial Government's fiscal activities are being carried out in accordance with sound financial management practices.

## DEPARTMENT COMMENTS AND OUR CONCLUSION

In bringing the matters discussed in this report to the attention of your Department, we proposed that a review be made of the Territorial Government's financial management system with a view toward strengthening it and, where necessary, establishing adequate guidelines and procedures for the systematic accomplishment and reporting of realistic and accurate financial data for management purposes.

The Director, Office of Survey and Review, in commenting on our recommendation advised us that:

"It is not clear from the report whether criticism is directed to the structure of the accounting system or to the misapplication of the system by financial management personnel. As indicated above, the Territorial Government has been handicapped by its inability to recruit qualified people. Since the system was approved by the Department and in view of the approval by the General Accounting Office, the Department intends to exert its leadership role in directing the ways and means for improving the financial management system of the Territorial Government. However, because of the limited staff in the Office of Survey and Review, specific actions may be temporarily deferred until some high priority projects now in process have been completed."

Our examination was devoted primarily to examining into the policies, procedures, and practices relating to selected financial management activities of the Territorial Government and was not intended to include all aspects of the financial management system. In this regard, the individual matters discussed in this report relate specifically to the reliability of the financial information accumulated for management purposes. However, we did not make an overall evaluation of the adequacy of the accounting system.

We recognize the difficulties experienced by the Department and by the Territorial Government in recruiting qualified personnel for American Samoa. However, in our opinion, this situation does not lessen management's responsibility for maintaining an adequate system of financial controls to ensure that accurate financial data on resources, liabilities and obligations, expenditures, revenues, and costs can be obtained and reported for the information of and use by appropriate levels of internal management, the Bureau of the Budget, and the Congress.

The Director states that the Department intends to exert its leadership in improving the financial management system of the Territorial Government. However, he indicates that because of staff limitations specific actions may be temporarily deferred pending completion of other high priority projects already in process.

We believe that the matters discussed in this report illustrate the need for improving certain aspects of the financial management system of the Territorial Government so as to ensure the availability of reliable financial information on which future requests for grant-in-aid funds can be based. We further believe that the needed improvements can best be accomplished through a review of the financial management system of the Territorial Government.

#### RECOMMENDATION

We recommend that the Department undertake a review of the financial management system of the Territorial Government with a view toward providing for the systematic accomplishment and reporting of realistic and accurate financial data for management purposes. We would appreciate being advised of any actions taken pursuant to this recommendation. We plan to evaluate the results of these actions during our next audit.