

December 2004

# AMERICAN SAMOA

## Accountability for Key Federal Grants Needs Improvement



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-05-41](#), a report to congressional requesters

# AMERICAN SAMOA

## Accountability for Key Federal Grants Needs Improvement

### Why GAO Did This Study

American Samoa, a U.S. territory, relies on federal funding to support government operations and deliver critical services. The Secretary of the Interior has administrative responsibility for coordinating federal policy in the territory. Under the Single Audit Act of 1996, American Samoa is required to perform a yearly single audit of federal grants and other awards to ensure accountability.

To better understand the role of federal funds in American Samoa, GAO (1) examined the uses of 12 key grants in fiscal years 1999-2003, (2) identified local conditions that affected the grants, and (3) assessed accountability for the grants.

### What GAO Recommends

GAO recommends that the Secretary of the Interior coordinate with other granting federal agencies and the American Samoa government to resolve fire-safety issues that threaten the hospital's continued certification to participate in Medicaid. GAO also recommends that the Secretary coordinate with the other agencies to designate the American Samoa government as a high-risk grantee at least until it has completed all delinquent single audits and to take steps designed to ensure that the American Samoa government completes its overdue, current, and future single audits in compliance with the Single Audit Act.

[www.gao.gov/cgi-bin/getrpt?GAO-05-41](http://www.gao.gov/cgi-bin/getrpt?GAO-05-41).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Gootnick, (202) 512-3149, [gootnickd@gao.gov](mailto:gootnickd@gao.gov).

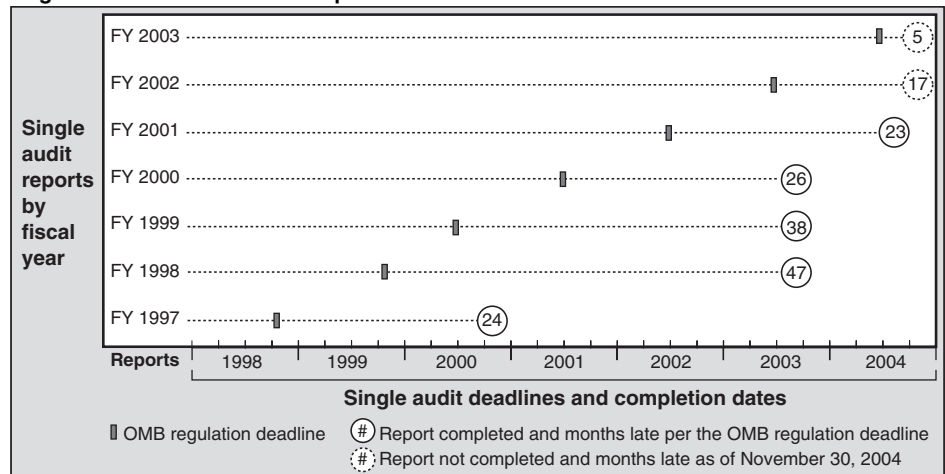
### What GAO Found

In fiscal years 1999-2003, 12 key federal grants supported essential services in American Samoa. These services included support for government operations, infrastructure improvements, nutrition assistance, the school system, special education, airport and highway infrastructure improvements, Medicaid, and early childhood education.

A shortage of adequately trained professionals, such as accountants and teachers, as well as inadequate facilities and limited local funds hampered service delivery or slowed project completion for many of the grants. For example, American Samoa's only hospital lacked an adequate number of U.S.-certified medical staff. Further, the hospital had persistent and serious fire-safety code deficiencies that jeopardized its ability to maintain the certification required for Medicaid funding.

American Samoa's failure to complete single audits, federal agencies' slow reactions to this failure, and instances of theft and fraud limited accountability for the 12 grants to American Samoa. The American Samoa government did not comply with the Single Audit Act during fiscal years 1998-2003. The 1998-2000 audit reports, completed in 2003, and the 2001 audit report, completed in 2004, cited pervasive governmentwide and program-specific accountability problems. Despite the audits' delinquency, federal agencies were slow, or failed, to communicate concern to the American Samoa government or to take corrective action. In addition, accountability for all of the grants was potentially undermined by instances of theft and fraud. For example, the American Samoa Chief Procurement Officer, whose office handles procurements for most of the grants GAO reviewed, was convicted of illegal procurement practices.

Single Audit Deadlines and Completion Dates



Source: GAO.

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**Abbreviations**

ASG	American Samoa government
CAFR	Comprehensive Annual Financial Report
CPI	Consumer Price Index
DOI	U.S. Department of the Interior, Office of Insular Affairs
DOT	U.S. Department of Transportation
EBT	electronic benefit transfer
ED	U.S. Department of Education
FAA	Federal Aviation Administration
FHWA	Federal Highway Administration
FNS	Food and Nutrition Service
HHS	U.S. Department of Health and Human Services
IDEA	Individuals with Disabilities Education Act
LBJ hospital	Lyndon Baines Johnson Tropical Medical Center
Medicaid	Medical Assistance Program
MOA	memorandum of agreement
MOU	memorandum of understanding
NCLBA	No Child Left Behind Act
NHS	National Highway System
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
TEA-21	Transportation Equity Act for the 21 <sup>st</sup> Century
TOFR	Territorial Office of Fiscal Reform
USDA	U.S. Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

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United States Government Accountability Office  
Washington, D.C. 20548

December 17, 2004

The Honorable Nick J. Rahall II  
Ranking Minority Member  
Committee on Resources  
House of Representatives

The Honorable Eni F.H. Faleomavaega  
House of Representatives

American Samoa, a U.S. territory,<sup>1</sup> relies on federal funding to support its general government operations and deliver critical services; over the last 5 years, federal awards to the territory represented, on average, about 45 percent of the territory's operating budget.<sup>2</sup> Each fiscal year, the government of American Samoa is required by the Single Audit Act of 1996 to undergo an audit of its federally funded programs within 9 months of the year's end.<sup>3</sup> The Secretary of the Interior has general administrative responsibility for coordinating this and other federal policies in American Samoa, and the U.S. Department of the Interior's Office of Insular Affairs (DOI) is authorized to take appropriate action regarding the single audit.<sup>4</sup> The American Samoa government, which has historically operated under deficits, has struggled to reform its financial management and decrease its dependence on federal funds by increasing local revenues. However, the territory has a limited economic base: its largest employer is the American Samoa government, and the next largest employers are two tuna canneries that benefit from federal tax incentives due to expire in 2005.

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<sup>1</sup>A territory is an area of the United States that is not included within any state and has a separate legislature. American Samoa has its own government and locally adopted constitution.

<sup>2</sup>Federal awards include grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and federal cost reimbursement contracts. In addition to federal awards, the American Samoa government's operating budget includes local revenue, enterprise funds (utilities and telecommunications), and other revenue.

<sup>3</sup>The act, as amended in 1996, required that nonfederal entities that spend \$300,000 or more in federal funding under more than one program undergo a single audit. In 2003, the threshold was raised to \$500,000 for fiscal years ending after December 31, 2003.

<sup>4</sup>In 1951, President Harry S. Truman issued Executive Order 10264, transferring administrative responsibility for the islands of American Samoa from the Secretary of the Navy to the U.S. Secretary of the Interior. DOI is designated to carry out federal responsibilities with regard to the single audit.

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We reviewed 12 key federal grants that provided about \$450 million to American Samoa during fiscal years 1999-2003. In fiscal year 2000, these grants represented about three-quarters of all federal expenditures by the American Samoa government. To better understand the role of federal funds in American Samoa, we (1) examined the uses of these key federal grants to American Samoa, (2) identified local conditions that affected the grants, and (3) assessed accountability for the grants.<sup>5</sup>

To examine the use of the grants and the effects of local conditions, we collected and reviewed grant data from the federal and local agencies responsible for overseeing the selected programs in fiscal years 1999-2003, interviewed federal and American Samoa program officials to learn about program activities and operations, and conducted site visits in American Samoa to observe programs and projects funded by the 12 grants. To assess accountability, we reviewed legislation, regulations, and other relevant documents; monitoring reports and financial audits conducted by federal agencies; and American Samoa's single audit reports for fiscal years 1998-2001, which were completed in 2003 and 2004. We also conducted federal agency interviews and on-site observations. We performed this work between September 2003 and October 2004 according to generally accepted government auditing standards. Appendix I provides further details of our scope and methodology. Appendixes II through VI describe each federal department's use of grant funds and assess the performance and accountability for each of the 12 grants we reviewed.

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## Results in Brief

In fiscal years 1999-2003, five federal departments provided 12 key grants to the American Samoa government to support several essential services. DOI provided grants to support government operations and infrastructure improvements. The U.S. Department of Agriculture (USDA) offered nutrition assistance to about half of the territory's population. The U.S. Department of Education (ED) provided a large share of grant funding to the American Samoa school system and supported the Special Education Program. Airport and highway grants from the U.S. Department of Transportation (DOT) supported important infrastructure improvements. The U.S. Department of Health and Human Services (HHS) supported health care services at Lyndon Baines Johnson Tropical Medical Center

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<sup>5</sup>The period of our review of American Samoa's accountability for the grants included fiscal year 1998.



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(LBJ Hospital), the territory's sole hospital, as well as early childhood education.

Local conditions in American Samoa in fiscal years 1999-2003 limited the delivery of services or project completion for many of the 12 grants we reviewed. A shortage of adequately trained professionals in American Samoa, such as qualified accountants, technical staff, teachers, and health care specialists, hindered financial oversight for all of the grants as well as service delivery for several of the programs we reviewed. For example, LBJ Hospital lacked an adequate number of U.S.-certified medical staff. Additionally, inadequate facilities at schools and LBJ Hospital hampered the ability of the Head Start and Medicaid Programs to deliver services to their target recipients. In particular, the hospital suffered from persistent and serious fire-safety code deficiencies that jeopardized its ability to maintain the certification required for continued Medicaid funding. Limited local funds also affected the hospital's ability to hire needed staff to deliver required services as well as its ability to upgrade its facility to correct long-standing fire-safety issues. Similarly, insufficient local revenues affected the ability of American Samoa airports to complement or match federal Airport Improvement Program grant funds and slowed the completion of critical infrastructure upgrades and the acquisition of rescue equipment.

In fiscal years 1998-2003, American Samoa failed to complete single audits as required, limiting accountability for the grants, and federal agencies reacted slowly to this failure; accountability may have been further weakened by incidents of theft and fraud. The American Samoa government did not comply with the Single Audit Act during fiscal years 1998-2003, compromising the accountability of all federal grants to the territory. Further, delinquent single audit reports for fiscal years 1998-2000, completed in 2003, and the 2001 single audit, completed in 2004, cited pervasive governmentwide and program-specific accountability problems. Despite the lack of single audits, most federal agencies responsible for the 12 grants that we reviewed were slow to communicate their concern to the American Samoa government or did not take corrective action, although they were authorized to do so. In August 2002, DOI, the agency responsible for audit supervision, and the American Samoa government signed a memorandum of agreement (MOA) that included a schedule for completing the delinquent audits. In September 2003, ED designated American Samoa as a high-risk grantee because of its lack of single audits. However, DOI did not coordinate with the other awarding agencies to ensure compliance with the Single Audit Act and the terms of the MOA. Furthermore, documented instances of theft and fraud undermined the accountability of most of the

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grants we reviewed. For example, the Chief Procurement Officer of the American Samoa Government was convicted of illegal procurement practices, potentially affecting most of the grants. Other examples of theft or fraud included bid-rigging in the American Samoa department that administers the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Food Stamp Program, as well as vendor fraud in WIC and theft of goods from the School Lunch Program warehouse.

We are recommending that the Secretary of the Interior coordinate with other federal granting agencies and the American Samoa government to ensure the resolution of fire-safety deficiencies threatening LBJ Hospital's continued Medicare certification as well as to address the hospital's staffing and resources constraints, as warranted. To improve fiscal accountability, we are recommending that the Secretary coordinate with other federal agencies to designate the American Samoa government as a high-risk grantee, particularly until it has completed all of its overdue single audits; to take steps designed to ensure that the American Samoa government completes its overdue single audits in compliance with the Single Audit Act; and to take steps designed to ensure that current and future single audits are completed in compliance with the act.

We provided a draft of this report to the Departments of the Interior, Agriculture, Education, Transportation, and Health and Human Services as well as to the government of American Samoa. We received oral comments from the Departments of Agriculture, Education, and Transportation. The Departments of Agriculture and Transportation limited their oral comments to technical corrections. The Department of Education agreed with our recommendations and provided technical corrections. We received written comments from the Departments of the Interior and Health and Human Services as well as the American Samoa government, which are reprinted in appendixes VIII, IX, and X. Both departments agreed with all but our recommendation to designate American Samoa a high-risk grantee. However, DOI agreed to consult with the other federal agencies to evaluate whether, or under what conditions, a joint declaration of American Samoa's high-risk status would be prudent and to discuss what other steps might be taken to help American Samoa come into compliance with the Single Audit Act more quickly. The American Samoa government strongly recommended against its being declared a high-risk grantee, because it believes that high-risk status would imperil future funding. We believe that a coordinated, consistent approach to a high-risk grantee across the agencies would be more productive than the agencies' current

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inconsistent approaches. A high-risk designation would not result in an immediate suspension of federal grants.

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## Background

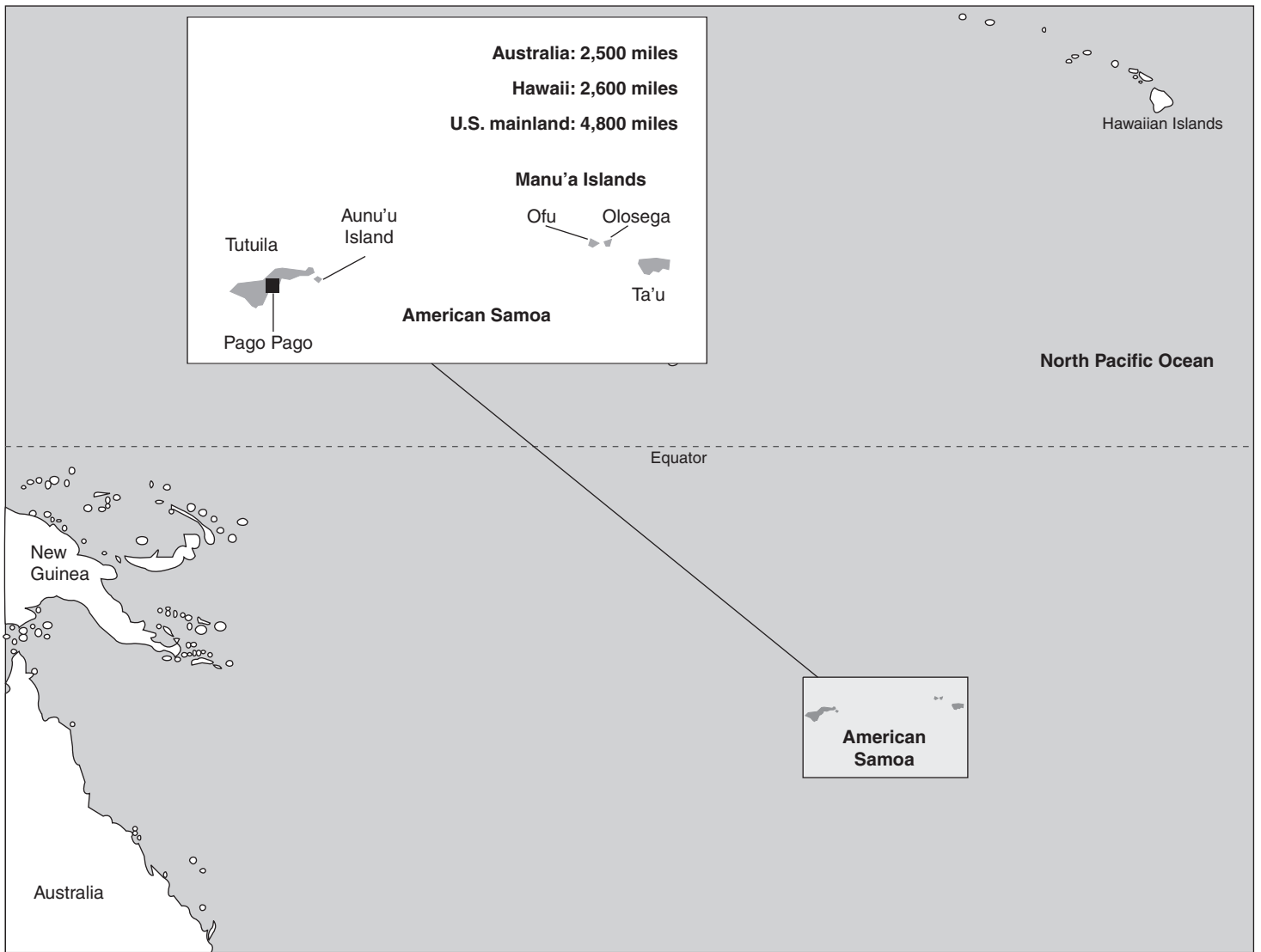
American Samoa lies 2,600 miles southwest of Hawaii and consists of seven islands,<sup>6</sup> covering a land area of 76 square miles (see fig. 1). In 2003, it had a population of 57,844.<sup>7</sup> The main island of Tutuila has very little level land and is mostly rugged, with four high peaks, the tallest rising over 2,000 feet. Agricultural production is limited by the scarcity of arable land, and tourism is impaired by the island's remote location and lack of tourist-rated facilities. Two tuna canneries constitute the main sources of private sector employment. Most of the economic activity and government operations on Tutuila take place in the Pago Pago Bay area.

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<sup>6</sup>American Samoa consists of the island of Tutuila; the Manu'a Islands of Ta'u, Ofu, and Olosega; Swains Island; Rose Island; and Sand Island.

<sup>7</sup>In 2000, according to the U.S. Census, about 65 percent of the population were U.S. nationals or citizens and 37 percent were foreign-born residents. In addition, 88 percent of the population were Samoan, 3 percent were Tongan, and 9 percent were other ethnicities.

**Figure 1: Map Showing Location of American Samoa**



Sources: 1992 MAGELLAN Geographix<sup>SM</sup> Santa Barbara, CA, and GAO.

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As an unorganized, unincorporated<sup>8</sup> U.S. territory, American Samoa is not subject to the U.S. Constitution in the same manner as the 50 states. For example, some constitutional rights, such as the rights to vote in national elections and to full voting representation in the U.S. Congress, do not apply to American Samoa. Although no congressional act formally establishes a government structure in American Samoa, the territory has its own local government and constitution. Those born in American Samoa are U.S. nationals.<sup>9</sup> Since 1977, a popularly elected governor has headed the American Samoan executive branch for a 4-year term, and the legislature, or *Fono*, has comprised 18 elected senators and 20 elected representatives. Nearly 40 American Samoan departments, offices, and other entities provide public safety, public works, education, health, commerce, and other services to American Samoans.

Providing these services has proved financially challenging for the American Samoan government. After a period of relative budget growth in the early 1980s, the territory's finances rapidly deteriorated in the second half of the decade when expenditures exceeded income in American Samoa's budget. In fiscal year 1991, the government borrowed \$5 million from its employee pension fund to temporarily relieve its cash flow problems.

Following a GAO report in 1992, Congress directed DOI and the American Samoa government to form a joint working group to address the government's financial management problems.<sup>10</sup> The working group made recommendations to the American Samoa government, which pledged to

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<sup>8</sup>An unorganized territory is an unincorporated U.S. insular area for which Congress has not adopted an organic act (i.e., a law that establishes the local political framework—executive, judicial, and legislative—for governing a territory). An unincorporated territory is a U.S. insular area to which Congress has determined that only selected parts of the U.S. constitution apply. (See GAO, *U.S. Insular Areas: Application of the U.S. Constitution*, [GAO/OGC-98-5](#) [Washington, D.C.: Nov. 7, 1997]).

<sup>9</sup>A U.S. national is either a citizen or someone who “owes permanent allegiance to the United States.” 8 U.S.C. § 1101(a)(21),(22). Citizenship is derived either from the Fourteenth Amendment to the Constitution (“All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States”) or from a specific statute that confers citizenship on the inhabitants of an area that, although not a state, is under the sovereignty of the United States. No such legislation conferring citizenship has been enacted for American Samoa.

<sup>10</sup>GAO, *American Samoa: Inadequate Management and Oversight Contribute to Financial Problems*, [GAO/NSIAD-92-64](#) (Washington, D.C.: April 7, 1992).

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implement a financial recovery plan based on these recommendations. Beginning in fiscal year 1997, the Senate Appropriations Committee directed DOI to withhold \$2 million of capital improvement funding from the territory until DOI could certify that the American Samoan government had adequately implemented the recovery plan.<sup>11</sup> However, the territory's financial situation subsequently worsened and, in 1999, Congress authorized<sup>12</sup> a direct federal loan to American Samoa for \$18.6 million<sup>13</sup> to pay debts and implement reforms. In 2001, the American Samoa government submitted an initial fiscal reform plan to DOI. DOI and the American Samoa government signed an MOA in 2002, implementing fiscal and operational reforms. The MOA was designed to bring the American Samoa government operating expenses into balance with projected revenues for fiscal years 2003 and beyond. It also outlined a schedule for American Samoa to complete all outstanding single audit reports.

Five federal departments have historically provided significant grants to the American Samoa government, including one large grant from DOI to support government operations. During fiscal years 1999-2003, DOI, USDA, ED, DOT, and HHS provided about \$450 million in grant funds to American Samoa through 12 key grants. Of these 12 grants, 4 were structured specifically for American Samoa, 2 were structured for all U.S. insular areas, and 6 were structured in the same manner as in the 50 U.S. states. Table 1 shows the federal awarding departments and agencies, the grants, the grant structures, and the grant award amounts for fiscal years 1999-2003.

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<sup>11</sup>Senate Report 104-319, pp. 51-53; and House Report 105-825, *Making Omnibus Consolidated and Emergency Supplemental Appropriations for Fiscal Year 1999*, Conference Report to Accompany H.R. 4328, p. 1210.

<sup>12</sup>Pub. L. No. 106-113—Appendix C, Section 125.

<sup>13</sup>American Samoa is to repay the loan from its share of the Tobacco Master Settlement Agreement (and the subsequent Enforcing Consent Decree) entered into on November 23, 1998, and the judgment granted by the High Court of American Samoa on January 5, 1999, in Civil Action, No. 119-98. *American Samoa Government vs. Phillip Morris Tobacco Co, et. al.*

**Table 1: Key Federal Grants to American Samoa, Fiscal Years 1999-2003**

Dollars in millions

Awarding department, agency, and grant	Grant structure <sup>a</sup>	Grant award <sup>b</sup>					5-year total
		1999	2000	2001	2002	2003	
Interior, Office of Insular Affairs							
Government operations grant	American Samoa	\$22.8	\$22.8	\$22.7	\$22.8	\$22.7	<b>\$113.8</b>
Capital improvement grants	Insular areas	8.2	10.1	12.1	10.1	10.1	<b>50.8</b>
Technical assistance grants	Insular areas	0.3	0.1	0.7	0.6	0.1	<b>1.7</b>
Agriculture, Food and Nutrition Services							
School Lunch Program	American Samoa	8.5	9.1	9.7	10.5	11.2	<b>49.0</b>
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	United States	4.9	5.0	5.2	5.5	6.1	<b>26.7</b>
Food Stamp Program	American Samoa	5.3	5.3	5.3	5.3	5.4	<b>26.6</b>
Education, Office of Elementary and Secondary Education							
Innovative Programs grant	United States	6.8	7.0	7.7	15.3	16.8	<b>53.6</b>
Education, Office of Special Education and Rehabilitative Services							
Special Education Grants to States	United States	4.8	5.0	5.1	5.7	5.8	<b>26.4</b>
Transportation, Federal Aviation Administration							
Airport Improvement Program	United States	9.6	8.9	7.5	8.9	4.4	<b>39.3</b>
Transportation, Federal Highway Administration							
Federal-aid Highway Program	United States	5.0	5.5	5.8	7.5	6.6	<b>30.4</b>
Health and Human Services, Centers for Medicare & Medicaid Services							
Medical Assistance Program (Medicaid)	American Samoa	3.1	3.2	3.3	3.5	3.7	<b>16.8</b>
Health and Human Services, Administration for Children and Families							
Head Start	United States	1.7	2.7	3.2	3.7	2.3	<b>13.5</b>
<b>Grant award total<sup>c</sup></b>		<b>\$81.0</b>	<b>\$84.7</b>	<b>\$88.4</b>	<b>\$99.5</b>	<b>\$95.2</b>	<b>\$448.8</b>

Source: GAO analysis of federal agency award data.

<sup>a</sup>Of the 12 grants, 4 were structured specifically for American Samoa, 2 were structured for all U.S. insular areas, and 6 were structured in the same manner as in the 50 states.

<sup>b</sup>Grant awards are shown in nominal dollars and exclude grant amendments. DOI's Government Operations grant includes general U.S. government budget rescissions.

<sup>c</sup>Total may not correspond to the column sum because of rounding.

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## Federal Grants Provided Essential Services to American Samoa

In fiscal years 1999-2003, 12 federal grants, funded by five departments, provided and supported several essential services in American Samoa. DOI awarded grants that subsidized government operations, supported infrastructure improvements, and provided technical assistance. USDA awarded grants that provided nutrition assistance for which about half of the territory's population was eligible. ED awarded grant funds that supported American Samoa's education programs, including the special education program. DOT awarded grants for critical infrastructure improvements to the territory's airports and roadways. Finally, HHS awarded grants to support health care and early childhood education in American Samoa.

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## DOI Supported Government Operations and Infrastructure Improvements

In fiscal years 1999-2003, DOI provided grants that supported government operations and infrastructure improvements in American Samoa. DOI provided, on average, about 16 percent of the American Samoa government's total budget during the period of our review, through an annual direct subsidy as well as through grants for capital improvements and technical assistance. (See app. II for more details and an assessment of the DOI grants.)

## Government Operations Grant

DOI provides the government operations grant as an annual direct subsidy to the American Samoa government to help fund the difference between the territory's revenues and the cost of maintaining its current government programs and services. To promote the American Samoa government's self-sufficiency, DOI has held the amount of the grant constant, without adjusting it for inflation or population growth. The grant supports general government operations, including public works, economic development, and salaries. Specific operations that the grant supports include American Samoa's Department of Education; LBJ Hospital, the territory's primary clinic and only hospital; and the High Court of American Samoa. In fiscal years 1999-2003, the American Samoa government received an average annual operations grant award of about \$23 million. According to DOI officials and our analysis, the portion of the American Samoa government's budget supported by the government



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operations grant decreased from about 18 percent in fiscal year 1999 to about 15 percent in fiscal year 2003.<sup>14</sup>

#### Capital Improvement Grants

DOI's capital improvement grants provide funds to improve the physical infrastructure of American Samoa and other U.S. insular areas. Capital improvement projects in American Samoa are prioritized and carried out according to the American Samoa government's Capital Improvements Plan. In fiscal years 1999-2003, DOI provided an average annual award for capital improvement grants of \$10.2 million to the American Samoa government. During this period, about 28 percent of the funds awarded to American Samoa were allotted for water and sewer improvements; 25 percent for school improvements, including new and renovated classrooms; 16 percent for improvements to the LBJ Hospital; and 4 percent for roads. LBJ Hospital was allotted about \$1.5 million for each year during that period.

#### Technical Assistance Grants

DOI provided general technical assistance grants to all U.S. insular areas for short-term noncapital projects, such as obtaining computer hardware and software and providing training to improve the insular area's capacity to conduct government operations. In fiscal years 1999-2003, DOI's general technical assistance grants provided American Samoa an average of about \$350,000 annually. Examples of DOI's technical assistance included, in April 2001, a \$200,000 grant to the American Samoa Port Authority to purchase and install a container tracking system for cargo entering and leaving American Samoa's harbor of Pago Pago and, in April 2002, a \$185,000 grant to the American Samoa government to purchase and install an upgraded immigrant tracking system. LBJ Hospital also received technical assistance grants.

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#### USDA Offered Nutrition Assistance to About Half of the American Samoan Population

Three USDA programs made nutrition assistance available to about half of the American Samoan population during most of the period of our review. The School Lunch Program made free breakfast and lunch available to all school-age children. WIC provided nutrition assistance to pregnant, breast-feeding, and postpartum women and to infants and children up to 5 years of age. The Food Stamp Program in American Samoa provided nutrition

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<sup>14</sup>The portion of the American Samoa government's budget supported by all federal awards decreased from about 48 percent in fiscal year 1999 to about 40 percent in fiscal year 2003. (Percentages are calculated in nominal dollars.) The federal award percentages do not include sporadic federal financial supplements to cover accumulated deficits.

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assistance to the low-income elderly, the blind, and the disabled. (See app. III for a more detailed description and an assessment of the USDA grants.)

### School Lunch Program

USDA's School Lunch Program is funded as a special block grant and operates under a memorandum of understanding (MOU) established specifically for American Samoa in 1991 and administered by the American Samoa Department of Education. Before 1991, the program in American Samoa followed the same requirements as in the rest of the United States, providing subsidized breakfast and lunch to children in public and nonprofit schools, based on the income level of the children's households. Since 1991, the American Samoa School Lunch Program has provided free breakfast and lunch to all school-age children. Officials explained that the change in grant and program structure gave American Samoa greater flexibility to serve the needs of its children. In fiscal years 1999-2003, USDA provided an average annual grant of \$9.8 million. In school year 2002-2003, the American Samoa Department of Education reported public and private school enrollment of about 19,000 students, all of whom are eligible for the program. In the same year, the School Lunch Program served about 3.2 million breakfasts and 3.6 million lunches. The program currently serves meals at 23 elementary schools, 6 high schools, 10 private schools, 55 early childhood education (Head Start) centers, and 37 day care centers. The program has no citizenship, residency, or income requirements.

### Special Supplemental Nutrition Program for Women, Infants, and Children

USDA's WIC Program in American Samoa follows the same requirements as the program in the 50 states, providing supplemental food and nutrition education at no cost to eligible pregnant, breast-feeding, and postpartum women and to infants and children up to 5 years of age. The American Samoa WIC Program was established in 1996 and is administered by the American Samoa Department of Human and Social Services. In fiscal years 1999-2003, USDA provided an average annual grant of \$5.3 million. During fiscal years 2000-2003, an average of about 6,000 recipients were receiving monthly WIC "food instruments," or checks. Eligibility for benefits is determined on the basis of nutritional risk, income,<sup>15</sup> and residency.

### Food Stamp Program

USDA's Food Stamp Program in American Samoa is designed specifically for the territory and operates under a MOU that allows American Samoa to provide food vouchers for the low-income elderly and for blind and

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<sup>15</sup>WIC's current income requirement is 185 percent of the U.S. poverty level. The U.S. Census Bureau calculates poverty level by family size. In 2003, the poverty level was \$9,393 for a family unit of one person and \$18,810 for a family unit of four persons.

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disabled persons. Under the MOU, American Samoa is able to set its own eligibility standards as long as it stays within the capped block grant—in fiscal year 2003, about \$5.4 million.<sup>16</sup> In the 50 states, the Food Stamp Program is an entitlement program; all qualified applicants receive benefits, and funding is not capped. In American Samoa, Food Stamp recipients must meet financial and nonfinancial eligibility criteria, as specified in the MOU;<sup>17</sup> however, benefits are calculated so as not to cumulatively exceed the capped grant. The maximum benefit in American Samoa for fiscal year 2004 was \$132 per person per month. In fiscal years 1999-2003, USDA provided an average annual grant of \$5.3 million. During fiscal years 2000-2003, the program served an average of about 2,800 recipients monthly. The program is one of the few remaining U.S. Food Stamp Programs that still uses paper food coupons; most of the other programs have implemented an electronic benefits transfer system to provide food assistance to eligible recipients.

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## ED Supported the American Samoa School System and Special Education Students

ED's Innovative Programs grant provides a large share of funds to the American Samoa Department of Education to support its education programs, and ED's Special Education grant funds the territory's special education program. In fiscal year 2003, the two grants provided, respectively, about \$16.8 million and \$5.8 million. (See app. IV for a more detailed description and an assessment of the ED grants.)

## Innovative Programs Grant

State and local education agencies are eligible for federal grants and funds to implement numerous federal education programs. In fiscal years 1999-2003, using a consolidated grant application, American Samoa applied for and received an Innovative Programs grant to fund many of the territory's education programs. The Innovative Programs grant is designed to assist state and local education agencies in implementing education reform programs and improving student achievement. Funding under the grant can be used to implement local Innovative Programs, which may include at least 27 activities identified in the No Child Left Behind Act of 2001.<sup>18</sup> For

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<sup>16</sup>This amount represented an increase over block grant caps in prior years, as a result of the 2000 Farm Bill (Section 4124), which tied American Samoa's funding to Puerto Rico.

<sup>17</sup>An American Samoa Food Stamp recipient must be a U.S. national, a U.S. citizen, or an alien lawfully admitted to the United States or American Samoa.

<sup>18</sup>For a full listing of the 27 authorized Innovative Program assistance areas, see <http://www.ed.gov/programs/innovative/legislation.html>.

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fiscal years 1999-2003, the American Samoa Department of Education reported that it implemented programs for training instructional staff, acquiring student materials, implementing technology, meeting the needs of students with limited English proficiency, and enhancing the learning ability of students who are low achievers. During the 5-year period, the annual Innovative Programs grant increased from about \$6.8 million in fiscal year 1999 to about \$16.8 million in fiscal year 2003. Beginning in 2002, the grant award to American Samoa more than doubled as a result of the No Child Left Behind Act of 2001, which increased appropriations for the Innovative Programs and other education programs.<sup>19</sup> The grant award that the American Samoa government received in fiscal year 2003 provided about 40 percent of the American Samoa Department of Education's budget for that year. Other federal funds provided another 30 percent of American Samoa's education budget (including funds from the DOI Government Operations grant), with local funds contributing the remaining portion.

#### Special Education Program

In fiscal years 1999-2003, ED provided an average of \$5.3 million, under its Individuals with Disabilities Education Act (IDEA) grants, for American Samoa's Special Education Program. The program is required to provide a free, appropriate public education to eligible children with disabilities, regardless of nationality or citizenship. The Special Education Program in American Samoa operates under the same requirements and guidelines as special education programs in the 50 states and is almost entirely funded by its annual IDEA grant. The American Samoa Department of Education reported that, as of January 2004, its Special Education Program was providing services to slightly more than 1,100 eligible 3- to 21-year-old students with disabilities.

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#### DOT Provided Grants for Airport and Highway Infrastructure Improvements

DOT provided funds that allowed for important airport and roadway infrastructure improvements through the Airport Improvement Program and the Federal-aid Highway Program grants. (See app. V for more details and an assessment of the DOT grants.)

#### Airport Improvement Program

In fiscal years 1999-2003, DOT, through the Federal Aviation Administration's (FAA) Airport Improvement Program, provided American

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<sup>19</sup>Title V, Part A, Subpart 4, Section 5146, of the No Child Left Behind Act (Pub. L. No. 102-10) authorized an increase of about \$65 million in the first year in total federal appropriations for Innovative Programs and parental choice provisions.

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Samoa an average annual grant of \$7.9 million. The program operates under the same regulations in American Samoa as in the rest of the United States. American Samoa has three airports, all of which receive Airport Improvement Program grants. The main airport, Pago Pago International, has two runways, one of which can accommodate large commercial jets,<sup>20</sup> and has eight commercial airline flights departing per week. Since 1998, the Airport Improvement Program grants have been used for extending runways and constructing taxiways and for rehabilitation and new overlays of existing runways, taxiways, and shoulders. Projects funded with Airport Improvement Program grants also included the construction of a rescue and firefighting training facility, new aircraft rescue and firefighting vehicles, and perimeter fencing to improve airport security. Runway safety areas at Pago Pago International Airport, the territory's main airport, were upgraded to meet FAA standards, providing additional margins of safety. These projects have benefited from the presence of an airport engineer, hired with funds from the Operations and Maintenance Improvement Program, a separate DOI grant.

#### Federal-Aid Highway Program

DOT's Federal Highway Administration provided American Samoa an average annual grant of \$6.2 million under the Federal-aid Highway Program during fiscal years 1999-2003.<sup>21</sup> Although the territory's highway subprograms are funded under a separate statute,<sup>22</sup> the Federal Highway Administration administers them in the same manner as programs in the other states under the Federal-aid Highway Program, with the territorial transportation agency functioning as the state highway agency. American Samoa's Five-Year Highway Division Master Plan sets forth sequenced budgets and time frames to improve and maintain Route 1, the island's main traffic corridor. The American Samoa Department of Public Works typically handles the planning and construction supervision of the highway

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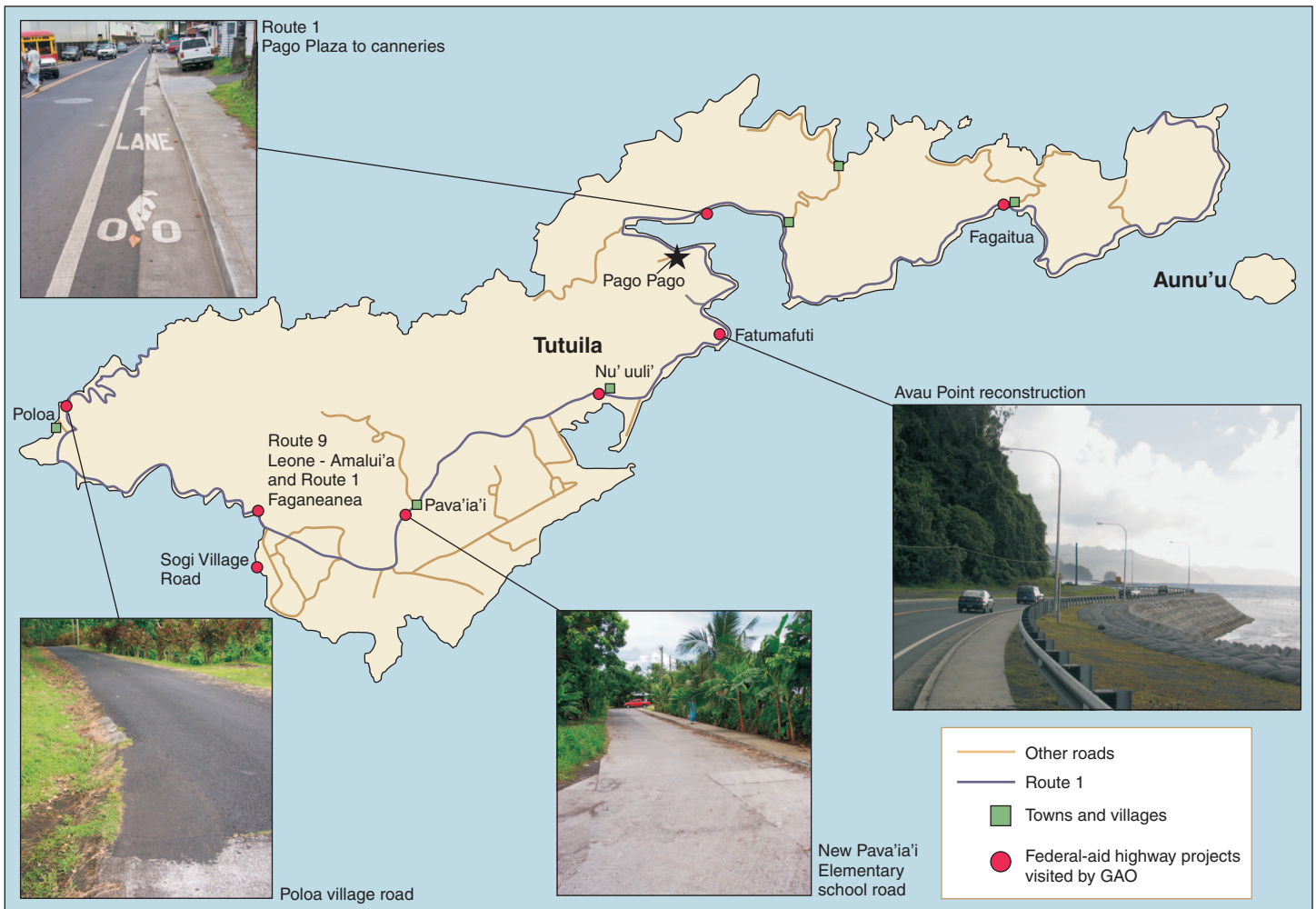
<sup>20</sup>The other two airports, Fitiuta and Ofu, are too small to accommodate large commercial carriers.

<sup>21</sup>The Federal-aid Highway Program comprises, among others, (1) the Territorial Highway Program, (2) the High Priority Projects Program, and (3) the Emergency Relief Program.

<sup>22</sup>23 U.S.C. 215.

program. Figure 2 shows a map of American Samoa and selected highway projects that we reviewed along Route 1 and other village roads.<sup>23</sup>

**Figure 2: Selected Federal-aid Highway Projects in American Samoa**



Source: GAO.

<sup>23</sup>About 115 miles of federally funded highways traverse the 76-square-mile territory.

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## HHS Supported Health Care and Early Childhood Education

HHS grants supported (1) health care at LBJ Hospital under the Medicaid program and (2) early childhood education for American Samoan children under the Head Start Program. (See app. VI for more details and assessments of each grant.)

### Medicaid

HHS's Medicaid Program in American Samoa operates under a U.S. statutory waiver, which exempts it from most Medicaid laws and regulations;<sup>24</sup> instead, it uses a plan of operations approved by HHS. A territorial statute requires American Samoa to provide free health care to its population.<sup>25</sup> Virtually all care, both inpatient and outpatient, is provided by LBJ Hospital, which is managed by the LBJ Medical Center Authority. In fiscal years 1999-2003, HHS provided the hospital an average annual reimbursement of \$3.4 million; in fiscal year 2003, federal Medicaid funds represented about 13 percent of the hospital's revenues.<sup>26</sup> American Samoa receives a capped amount for its Medicaid Program, like the other U.S. territories<sup>27</sup> but unlike the states, where Medicaid is treated as an entitlement program with no cap on total federal funds. In American Samoa, the federal Medicaid grant is used as one of the hospital's sources of revenue to support the territory's universal health care system, rather than as support for a separate Medicaid Program with enrolled Medicaid beneficiaries as in the 50 states. Although there is no separate Medicaid enrollment in American Samoa, HHS requires the LBJ Medical Center Authority to submit an annual estimate of the population presumed to be eligible for Medicaid. This estimate of "presumed eligibility" is based on the

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<sup>24</sup>The waiver under which American Samoa operates is set forth at section 1902(j) of the Social Security Act (42 U.S.C. § 1396a(j)).

<sup>25</sup>Title 13 of the American Samoa Code Annotated states that American Samoans and legal residents are entitled to "free medical and dental attention." The Department of Health or the Medical Center may "make a reasonable charge for the use of their respective facilities."

<sup>26</sup>LBJ Hospital's financial statements for fiscal year 2003 have not yet been conducted. Consequently, although the hospital reported revenues of \$29.3 million in 2003, we cannot be confident that this amount is accurate.

<sup>27</sup>See 42 U.S.C. § 1308 of the Social Security Act, which established a cap on Medicaid reimbursements to the territories, including American Samoa.

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size of the population in American Samoa and the percentage of families living below the U.S. poverty level, according to the U.S. Census.<sup>28</sup>

As the territory's Medicaid provider, LBJ Hospital must provide all Medicaid-required services. If these services are not available on-island, American Samoa must arrange for them to be provided off-island. Although the Medicaid grant's broadly stated goal is the provision of basic medical services, HHS officials do not require the hospital to supply data on its provision of such services. As a result, no data were available for us to determine the quality of the care or whether all required Medicaid services were provided to the eligible population. HHS officials stated that they have some assurance that a minimum standard of care is provided, because LBJ Hospital must meet Medicare certification standards to participate in Medicare and Medicaid. However, the hospital faces long-standing challenges in maintaining its Medicare certification (see app. VI).

## Head Start

The Head Start Program in American Samoa, referred to locally as the Early Childhood Education Program, is part of the American Samoa Department of Education. The program in American Samoa is subject to the same performance requirements as Head Start Programs in the rest of the United States and delivers most required services, according to HHS officials. In fiscal years 1999-2003, HHS provided the Early Childhood Education Program an average annual grant of \$2.7 million. The grant set the enrollment level at 1,532 slots for 3- to 5-year-old children. As of March 2004, the program had 54 classrooms and 111 classroom instructors, according to American Samoa officials. Early Childhood Education officials stated that although there are more eligible children than available slots, the program serves virtually all of the children who apply for it. Program highlights include dental screening and follow-up treatment for almost all enrolled children and a literacy program emphasizing both Samoan and English. The curriculum and materials are locally designed and incorporate native culture, community, and environment, as well as family traditions. Another key program activity is the construction of several new facilities dedicated exclusively to early childhood education classrooms. In fiscal years 1999-2003, HHS provided the program about

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<sup>28</sup>According to HHS officials, this estimate is intended only to ensure that federal Medicaid reimbursement does not exceed the federal share of estimated expenditures for services to the Medicaid-eligible population in lieu of actual reimbursements for services to an enrolled Medicaid population. In the rest of the United States, Medicaid enrollment does not include the entire population living below the federal poverty level. For example, low-income adults without children are not categorically eligible to enroll in Medicaid.



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\$3.8 million in additional “program improvement” grant awards for the construction of seven new facilities containing 38 classrooms.

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### Local Conditions Limited Delivery of Services or Project Completion for Many of the Grants

Conditions in American Samoa limited the delivery of services or project completion for many of the grants we reviewed. A lack of adequately trained professionals limited financial oversight for all programs and service delivery in several programs. In addition, inadequate facilities affected the delivery of services under Head Start at Early Childhood Education Program centers and under Medicaid at LBJ Hospital. In particular, the LBJ Hospital building had persistent fire-safety deficiencies that jeopardized the hospital’s ability to maintain the certification required for continued Medicaid funding. Finally, limited local resources to complement federal grants slowed the completion of critical projects at LBJ Hospital and Pago Pago International Airport.

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### Lack of Professional Staff Limited Service Delivery

Some of the programs that we reviewed experienced a shortage of staff with adequate professional training, which limited the financial oversight of federal funds and delivery of certain services. The relatively low salaries in American Samoa and the remote location of the territory made it difficult to attract and retain individuals with specialized training. Staff shortages included the following:

- In the American Samoa government, the position of Territorial Auditor remained unfilled in fiscal years 1998-2003. An official in the American Samoa Department of Treasury, the department that processes nearly all federal grants, reported that the department experiences difficulty in retaining certified public accountants, because the American Samoa government is unable to afford competitive salaries for these professionals.
- In the American Samoa Department of Education, most teachers had obtained only an associate in arts degree from the American Samoa Community College. Further, according to the Special Education Division Office, the program had only one physical therapist during the period of our review and needed speech pathologists, occupational therapists, audiologists, and psychologists. In addition, the local Head Start Program was unable to comply with the federal standard to deliver mental health services to enrolled children and families, because no

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mental health professionals were available in the territory to work with the program.

- In the American Samoa Department of Human and Social Services, the WIC and Food Stamp Programs lacked sufficient staff with technical skills to adequately maintain the databases on which the programs rely to record and process recipient transactions, reconcile transactions, and perform required monitoring and evaluation of issued benefits.
- LBJ Hospital officials reported that they did not have an adequate number of U.S.-certified medical doctors or registered nurses, despite incentive programs to attract them. The hospital also had unmet needs for medical technicians, such as radiology and operating room technicians. The hospital lacks the capacity to provide the full range of Medicaid-covered services, and consequently those services that are not available must be provided off-island. For fiscal years 2001-2003, the hospital reported an average off-island medical care expenditure of about \$2 million annually.

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## Inadequate Facilities Also Affected Service Delivery

Limited facilities hampered the ability of the Head Start and Medicaid Programs to deliver services to their targeted populations. Examples are as follows:

- While the Head Start Program in American Samoa made progress in constructing several new facilities to provide modern classrooms, the program continued to depend on villagers who made their homes available for Early Childhood Education classes. As of March 2004, 19 of the program's 54 classes were held in village homes, according to the local program officials. The officials stated that their first priority for the use of supplemental federal Head Start grant funds was to continue to build additional classrooms but that, as a result, no funds were available to provide adequate playgrounds or perimeter security fencing.
- LBJ Hospital's poor physical infrastructure made it difficult to deliver a minimum standard of care to the population of American Samoa, including the Medicaid-eligible population. For more than a decade, the hospital suffered from persistent, serious fire-safety building code deficiencies that threatened its ability to maintain the Medicare certification required for participation in Medicare and Medicaid. In a Medicare-certification survey of the hospital conducted in November 2003, the survey team cited the hospital for a lack of "basic features of

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fire protection, which are fundamental to all health care facilities,” such as smoke and fire detection and alarm systems, automatic sprinklers, adequate water pressure, and fire-rated smoke and fire compartmentation. Earlier Medicare certification surveys cited many of the same problems, but the hospital has failed to correct them despite HHS’s threats, since at least 1993, to terminate the hospital’s certification.

In 2004, in response to the fire-safety deficiencies identified in the 2003 Medicare-certification survey, the hospital reprogrammed \$650,000 of its fiscal year 2003 DOI capital improvement funds to install a facilitywide sprinkler system. However, hospital officials said that the project would not be completed until December 2005 and that the renovation efforts would be constrained by “a fixed barrier of time, money and space.” Although the hospital depends primarily on DOI funds to bring its facility up to HHS standards, DOI and HHS did not collaborate during fiscal years 1999-2003 to identify construction needs and funding resources to ensure that common goals are met. Specifically, when awarding capital improvement grants to the America Samoa government and LBJ Hospital, DOI did not obtain information from HHS regarding deficiencies that threatened the hospital’s Medicare certification.

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### Limited Local Funds Hampered Service Delivery and Slowed Project Completion

Limited local resources also affected some of the programs in our review. LBJ Hospital’s ability to upgrade its facility and hire needed staff was severely hampered by chronic budget deficits and outstanding debt. Likewise, the lack of local funds to complement Airport Improvement Program grants slowed the pace of completing critical projects, according to American Samoa officials. Examples of the effect of limited local resources on these programs include the following:

- LBJ Hospital officials reported that because of persistent operating budget deficits, they were unable to hire needed staff and respond to the many infrastructure needs of its aging facility. DOI capital improvement grants, which average about \$1.5 million annually for the hospital, support only one or two new construction projects per year. According

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to hospital officials, the hospital depends entirely on federal grant funds to support its infrastructure upgrades, including those needed to correct the fire-safety deficiencies cited by HHS hospital certification surveys.<sup>29</sup>

Two key sources of revenue for LBJ Hospital, from DOI and the American Samoa government, did not increase during the period of our review (see fig. 3). The hospital's annual subsidy from the government of American Samoa dropped from about \$8.1 million in fiscal year 1998 to about \$5.3 million in fiscal year 2003. During the same period, DOI directly provided LBJ Hospital about \$7.8 million of the government operations grant annually without adjusting this amount for inflation. Although the Medicaid grant increased over time to cover the cost of inflation, HHS officials reported that the cap on the Medicaid grant resulted in a smaller federal contribution than American Samoa would have received if funded like the 50 states.<sup>30</sup> A hospital official reported that patient revenues increased during fiscal years 1998-2003 but that much greater increases would be needed if the hospital could not identify other sources of revenue. The LBJ Medical Center Authority has proposed to charge service fees to patients to cover about 20 percent of the cost of their medical care. However, hospital officials believed that the local legislation needed to change such fees would be difficult to obtain, because the public views free medical care as an entitlement. Currently, the hospital charges residents a facility fee of \$5 per outpatient visit and \$20 per day for inpatient stays. The hospital charges nonresidents \$10 for outpatient visits and \$100 per day for inpatient stays.

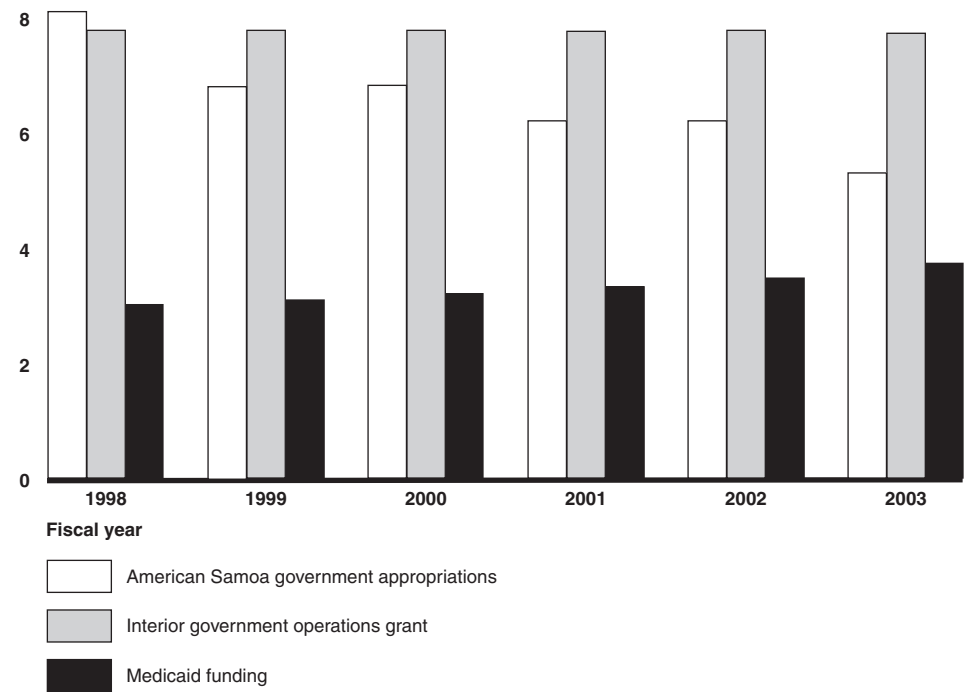
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<sup>29</sup>LBJ Hospital officials stated that, in addition to receiving DOI funds, the hospital received some additional grant funds from the U.S. Department of Housing and Urban Development to renovate one of the hospital wards. These grants were not part of our review.

<sup>30</sup>The federal share of Medicaid expenditures for all of the territories is set at 50 percent until expenditures reach the capped amount. In the 50 states and the District of Columbia, Medicaid operates as an entitlement program, with no cap on the federal share of payments. These payments can be no lower than 50 percent and may be as high as 83 percent depending on a state's per capita income.

**Figure 3: LBJ Hospital's Key Revenue Sources, Fiscal Years 1998-2003**

Dollars in millions  
10



Source: GAO analysis of HHS, DOI, and LBJ hospital data.

- American Samoa airport officials reported that they lacked the local resources to complement FAA's Airport Improvement Program funds, which slowed the pace of critical airport infrastructure projects. For example, the airports had not acquired all of the rescue vehicles they needed, and upgrades of the main runway at Pago Pago International had to be phased in over several years. In August 2003, following damage to a commercial airplane from loose asphalt on the runway, the airport's main runway shut down for 2 weeks. The closure left American Samoa cut off from commercial flights to Honolulu until the pavement could be repaired. According to FAA and American Samoa airport officials, a great deal of progress was made in improving Pago Pago International Airport's infrastructure and rescue response capability

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during the past several years; however, it will probably not reach an acceptable standard until 2007.

For most U.S. airports, including those in American Samoa, a passenger facility charge of up to \$4.50 per passenger provides a key source of revenue. However, because only eight flights per week depart from Pago Pago International, the airport generates relatively little revenue and operates at a loss annually. Congress raised the cap on passenger facility charges from \$3.00 to \$4.50 in fiscal year 2000 in FAA's reauthorization legislation<sup>31</sup> but elected not to raise it again in legislation reauthorizing FAA for fiscal years 2004-2007.<sup>32</sup>

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## Grants Had Limited Accountability, and U.S. Agencies Reacted Slowly

A lack of required single audits, U.S. agencies' slow reactions to lack of single audits, and incidents of theft and fraud compromised the accountability of federal grants to American Samoa. The American Samoa government did not comply with the Single Audit Act<sup>33</sup> during fiscal years 1998-2003. The delinquent single audit reports issued for fiscal years 1998-2001 cited governmentwide and program-specific accountability problems. However, most federal agencies responsible for programs in American Samoa did not formally express concern about the delinquent single audit reports and were slow, or failed, to set forth a plan of action to complete single audits. In addition, two grants had instances of theft and fraud, and the accountability of almost all of the grants was potentially compromised by fraud in the American Samoa Government's Office of Procurement.

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<sup>31</sup>Air 21: The Wendell H. Ford Aviation Investment and Reform Act for the 21<sup>st</sup> Century (Pub. L. No. 106-181).

<sup>32</sup>Vision 100: Century of Aviation Reauthorization Act (Pub. L. No. 108-176).

<sup>33</sup>OMB's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which was issued pursuant to the Single Audit Act, as amended, requires entities to (1) maintain internal control over federal programs; (2) comply with laws, regulations, and the provisions of contracts or grant agreements; (3) prepare appropriate financial statements, including a schedule of expenditures of federal awards; (4) ensure that the required audits are properly performed and submitted when due; and (5) follow up and take corrective actions on audit findings.

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## Lack of Single Audits Compromised Accountability, Recent Audits Cited Problems

The American Samoa government did not complete single audits for fiscal years 1998-2003 in accordance with the time frame specified in the Single Audit Act. As a result, U.S. agencies had limited knowledge of American Samoa's accountability for federal funds received during the period of our review. Specifically, they were unaware of whether grantees complied with the Davis-Bacon Act<sup>34</sup> and with requirements for financial reporting and retention of and access to financial records, among other requirements.

Federal agencies are responsible for ensuring that grant recipients subject to the Single Audit Act complete single audits no later than 9 months after the end of each fiscal year.<sup>35</sup> An August 2002 MOA between DOI and the American Samoa government established a schedule for completing overdue single audits; however, American Samoa failed to comply with the schedule. The single audit reports for fiscal years 1998, 1999, and 2000 were completed by the auditors in August 2003. Relative to the deadlines in the MOA, the 1998 and 1999 reports were 8 months late, and the 2000 report was 3 months late. The auditors completed the 2001 single audit report in June 2004, 12 months late.

The single audit reports for fiscal years 1998-2001 cited pervasive governmentwide and program-specific accountability problems. For the 1998, 1999, and 2000 single audits, the auditors did not express an opinion on the financial statements of the American Samoa government because the scope of their work did not enable them to do so.<sup>36</sup> However, in the single audit report for fiscal year 2001, the auditor expressed a qualified opinion regarding American Samoa's financial statements. According to the report, the qualified opinion was issued because the limitations on the scope of the audit resulted in the auditor's inability to locate or verify physical inventory records, verify the accuracy of the beginning balance of

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<sup>34</sup>For certain federal programs, the Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by federal assistance be paid wages not less than those established for the locality of the project by the Secretary of Labor.

<sup>35</sup>According to the Single Audit Act, there is generally no standard due date for the annual single audit. The audited entity, upon hiring the auditor, negotiates a due date for the audit within 9 months after the close of the entity's fiscal year. The entity must have time to read the report and prepare the corrective action plan that is required in the reporting package.

<sup>36</sup>An auditor's decision to qualify or disclaim an opinion because of a scope limitation indicates an inability to obtain sufficient competent evidential matter or an inadequacy in the accounting records.

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the government's general funds, and verify the physical existence and cost of recorded fixed assets, among other items. These opinions are similar to those in American Samoa's single audits for fiscal years 1996 and 1997, indicating that federal and American Samoa officials did not resolve issues identified in prior single audit reports, as required.

The reports for fiscal years 1998-2001 cited an average of 31 governmentwide and program-specific findings for each fiscal year. For example, each audit found that the American Samoa government and its entities did not maintain adequate systems of internal controls<sup>37</sup> to ensure compliance with laws, regulations, contracts, and grants applicable to federal programs. The auditors reported that the American Samoa government did not comply with major federal program requirements for, among other items, financial reporting, grant payment, and retention of and access to records.<sup>38</sup> The audits stated that these problems could adversely affect the American Samoan government's ability to administer federal grant programs in accordance with applicable requirements.

The single audits for fiscal years 1998-2001 also reported program-specific findings each year for at least 6 of the 12 programs we reviewed.<sup>39</sup> For example, the auditors reported that in fiscal year 2000, DOI's capital improvement funds for constructing toilet facilities were used to purchase computers. The 2000 report also stated that ED contract documents for \$39,960 were missing. According to auditors, a number of program files

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<sup>37</sup>Internal controls are an integral component of an organization's management and provide reasonable assurance that the objectives of an organization are being achieved in the following categories: effectiveness and efficiency of operations, including the use of the entity's resources; reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and compliance with applicable laws and regulations.

<sup>38</sup>The *Compliance Supplement* to OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* identifies the following 14 types of compliance requirements applicable to most federal programs: (1) activities allowed or unallowed; (2) allowable costs/cost principles; (3) cash management; (4) Davis-Bacon Act; (5) eligibility; (6) equipment and real property management; (7) matching, level of effort, and earmarking; (8) period of availability of federal funds; (9) procurement, suspension, and debarment; (10) program income; (11) real property acquisition and relocation assistance; (12) reporting; (13) subrecipient monitoring; and (14) special tests and provisions.

<sup>39</sup>The 1998-2000 single audits did not test for program-specific findings in the following four grant programs that were included in our review: (1) Airport Improvement, (2) Head Start, (3) Medicaid, and (4) Technical Assistance. The 2001 single audit did not test transactions for those same programs, with the exception of the Airport Improvement Program.



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were incomplete and many programs' transactions were difficult to assess because the American Samoa government maintained its records in a haphazard and open manner. In spite of document retention issues, the auditors reported about \$1.3 million in questioned costs<sup>40</sup> and a total of about \$18 million in budget overruns from their sampling of approximately \$295 million in transactions funded by federal grants in fiscal years 1998-2001.<sup>41</sup>

In our sample review of 12 selected grant transactions,<sup>42</sup> we found that 7 of these had inadequate supporting documentation and insufficiently detailed data to show whether program expenditures were allowable. Of 12 transaction files that we requested from the American Samoa Department of the Treasury, 3 could not be located; 4 lacked purchase orders, invoices, receiving reports, or pricing estimates; and 2—from the Food Stamp and Head Start Programs—were complete. According to an American Samoa government official, grant transaction files should contain a purchase order or request; an invoice; a pricing estimate (if applicable); a copy of a receiving report, indicating that a purchased item was received, or a copy of the check issued for payment; and an accounts payable voucher. (See app. VII for a detailed description of federal grant processing in American Samoa.)

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<sup>40</sup>According to OMB Circular A-133, questioned costs include those questioned by the auditor because of an audit finding (1) that resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) that the costs, at the time of the audit, were not supported by adequate documentation; or (3) that the costs appeared unreasonable and did not reflect the actions that prudent person would take in the circumstances.

<sup>41</sup>The fiscal year 2001 single audit tested \$82,575,820 (73 percent) of \$113,641,331 in total federal expenditures; the 2000 single audit tested \$67,491,230 (67 percent) of \$99,305,882 in total federal expenditures to American Samoa; the fiscal year 1999 single audit tested \$74,116,313 (72 percent) of \$101,898,886 in total federal expenditures; and the fiscal year 1998 single audit tested \$71,195,605 (75 percent) of 94,376,919 in total federal expenditures to American Samoa.

<sup>42</sup>We selected one transaction (between fiscal years 1999 and 2003) from each of the 12 programs to determine whether the required supporting documentation was included in the transaction file and, if so, whether the documentation was sufficiently detailed to determine whether expenditures were allowable.

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## Despite Delinquent Single Audits, Most Federal Agencies Reacted Slowly

In spite of the lack of single audits in fiscal years 1998-2003, most federal agencies were slow to act. For example, DOI did not set forth a plan of action to complete single audits until 2002 and ED did not take remedial action until 2003. In order for entities, such as federal and American Samoa agencies, to administer and control the grant programs, officials must have relevant, reliable, and timely communications relating to internal and external events.<sup>43</sup>

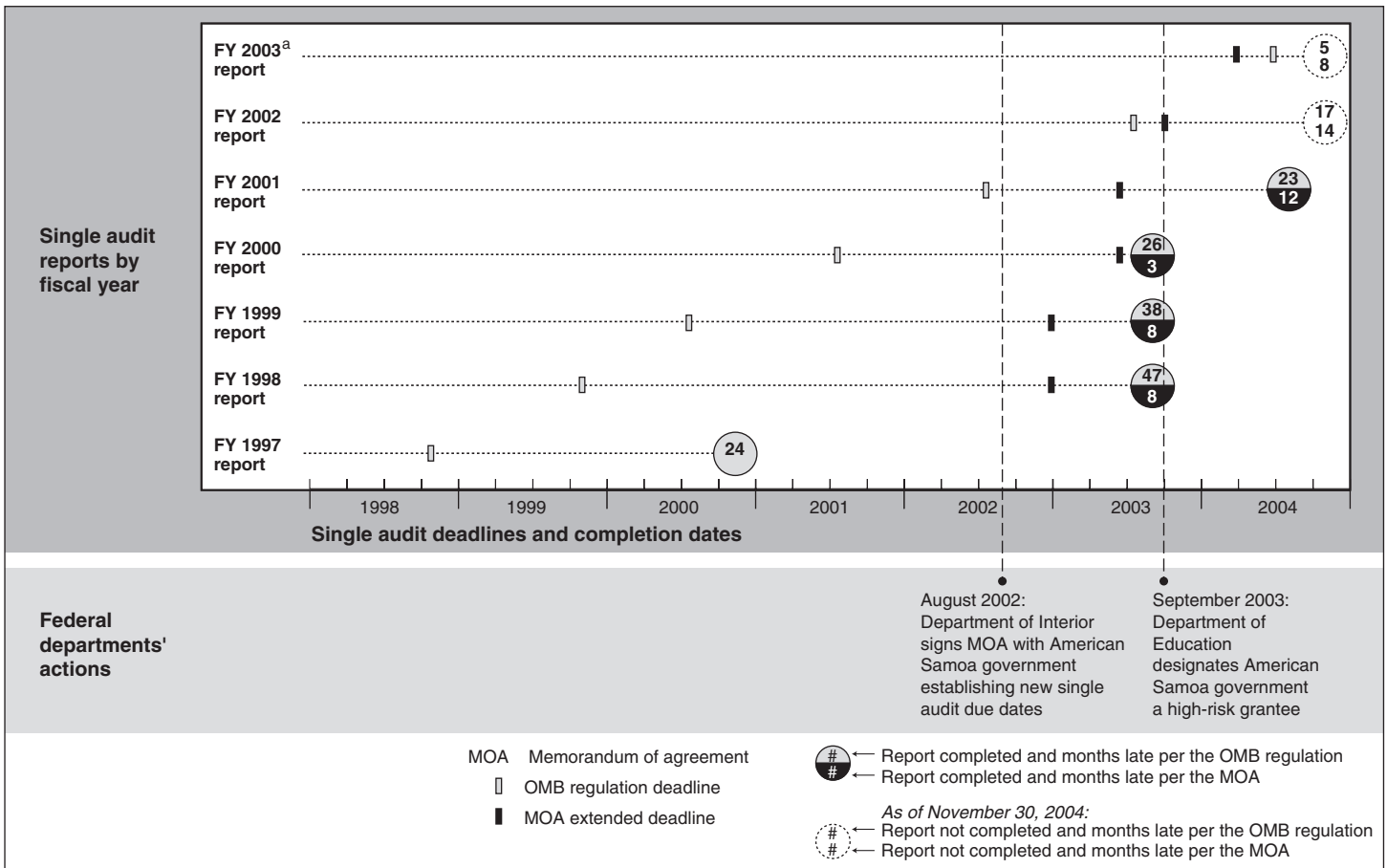
DOI, the cognizant agency<sup>44</sup> for American Samoa, established a schedule for completing the delinquent single audit reports, in an MOA with the American Samoa government in August 2002 following several months of discussion. The MOA established a new completion schedule for the delinquent single audits, among other fiscal and operational reforms for the territory. Figure 4 provides a time line showing the single audits and federal actions, including OMB's regulation deadlines for the reports, the MOA's extended deadlines, the dates when American Samoa's reports were completed, and the number of months that the reports were late.

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<sup>43</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

<sup>44</sup>The cognizant agency is the federal agency designated to carry out the federal responsibilities with regard to a single audit and is the agency that provides the predominant amount of direct funding to an entity, such as the American Samoa government. Grantees receiving more than \$25 million in federal assistance are assigned to a cognizant agency for audit supervision (OMB issued a revision in June 2003 that increased the threshold for grantees to be assigned to a cognizant agency from \$25 million to \$50 million). The functions of the cognizant agency are operated within the agency's Office of Inspector General for Audits. The cognizant agency is responsible for (1) providing technical advice to auditees and auditors, (2) considering grant extensions to the report submission date, and (3) coordinating management decisions for audit findings that affect the federal programs of more than one federal agency, among other responsibilities.

**Figure 4: American Samoa Single Audit Time Line and Federal Actions, Fiscal Years 1997-2003**



Source: GAO.

<sup>a</sup>The 2003 date for the MOA deadline is before the date of the OMB deadline.

ED reported that it sent a letter in March 2002 to the then Governor of the territory expressing concern about the late single audits and advising that the department is authorized to take various administrative actions, including interrupting grant funding. ED's Inspector General subsequently visited American Samoa and alerted its Deputy Secretary in December 2002 that inspectors had found instances of fraud, waste, and abuse that might have been detected and prevented if single audit reports had been completed and submitted on time. The memo from the Inspector General also indicated a need for ED to develop a coordinated strategy for obtaining the required Single Audits. USDA officials cited the lack of single

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audits in their 2003 on-site review. HHS noted the delinquency of single audit reports in on-site program reviews in 2000 and 2003; DOT reported that the last American Samoa single audit it had received was for fiscal year 1996.

According to OMB Circular A-133, which implements the Single Audit Act, if a grantee has specifically failed to conduct its single audit reports, federal agencies should impose sanctions such as, but not limited to, (1) withholding a percentage of federal awards until single audits are completed satisfactorily, (2) withholding or disallowing overhead costs, (3) suspending federal awards until the single audit is conducted, or (4) terminating the federal award. None of the agencies in our review imposed any of these sanctions on American Samoa.

According to the Grants Management Common Rule,<sup>45</sup> federal awarding agencies may designate a grantee “high risk” if the grantee has a history of unsatisfactory performance, is not financially stable, has an inadequate management system, has not conformed to terms and conditions of previous awards, or is otherwise irresponsible. Single audits provide key information about the adequacy of a grantee’s management system. Federal agencies that designate a grantee high-risk may impose special conditions including (1) issuing funds on a reimbursement basis; (2) withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period; (3) requiring additional, more detailed financial reports; (4) requiring the grantee to obtain technical or management assistance; or (5) establishing additional prior approvals. According to DOI and DOT, they have required some similar conditions for American Samoa for years. For example, both agencies issue funds to American Samoa on a reimbursement basis. However, only ED exercised its authority under the common rule, when, in

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<sup>45</sup>The Grants Management Common Rule was established in 1987 under presidential direction to adopt governmentwide terms and conditions for grants to state and local governments and replaced attachments to OMB Circular A-102. Each federal department incorporates the Grants Management Common Rule in its agency regulations. DOI’s Grants Management Common Rule is found at 43 C.F.R. §12; USDA’s at 7 C.F.R. §3016; ED’s at 34 C.F.R. §80; DOT’s at 49 C.F.R. §18; and HHS’s at 45 C.F.R. §92. Among the many provisions in the regulations, the Grants Management Common Rule provides authority to designate a grantee “high risk.”

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September 2003, it placed American Samoa on high-risk status<sup>46</sup> as a result of American Samoa's noncompliance with the Single Audit Act. ED now allows American Samoa to draw down only 50 percent of its grant funds until certain conditions defined by the department are fulfilled. Other agencies included in our review took none of the corrective actions available, under the common rule or under the OMB circular, as a result of the delinquent single audits. Specifically, although American Samoa did not comply with the agreed-on schedule for completing the outstanding single audits, the departments included in our review neither placed American Samoa on high-risk status nor withheld, disallowed, suspended, or terminated funds under any of their grants.<sup>47</sup>

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### Theft or Fraud Weakened Accountability of Most Grants

Recent instances of theft and fraud by American Samoa government officials call into question accountability for most of the grants that we reviewed. Examples of theft or fraud are as follows:

- In May 2004, the Chief Procurement Officer of the American Samoa Government was found guilty of illegal procurement practices. Since this office handles the procurement activity for most of the grants that we reviewed, the accountability of the grant funds may be compromised.
- In the American Samoa Department of Education, the Director of the School Lunch Program pled guilty in July 2004 to charges of stealing approximately \$68,000 worth of food and goods from the School Lunch Program warehouse between October 2001 and September 2003. The former School Lunch Program Director was also charged with conspiring with others to commit offenses against the United States. The current School Lunch Director said that, while most of the employees involved in the theft had been removed, one warehouse employee remains.

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<sup>46</sup>Under the special conditions established by ED, American Samoa must submit to the department a detailed quarterly report of expenditures under each program funded by ED; a certification of accuracy and completeness of the quarterly report, verifying that all expenditures are being made for authorized purposes under the law; and shall consider adopting a transparent budgeting and expenditure reporting system.

<sup>47</sup>DOI reported that it withheld \$2 million of Capital Improvement Program funds from American Samoa but that no substantial reforms were made as a result.

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- In August 2004, the U.S Department of Justice filed charges against the former deputy director of the American Samoa Department of Human and Social Services (the department that operates the WIC and Food Stamp Programs) for conspiring to rig bids for contracts totaling more than \$120,000 in exchange for cash kickbacks.
  - During the September 2003 USDA review of WIC in American Samoa, USDA officials were alerted to vendor fraud. The review found widespread evidence of WIC food checks being exchanged for cash, cigarettes, other nonfood items, and unauthorized foods at WIC-authorized grocery stores instead of for the supplemental foods prescribed by WIC and paid for with federal funds. USDA officials informed the American Samoa WIC Program that it must comply with corrective action or face fiscal sanctions.

As USDA became aware of problems with theft and fraud, it took action to increase oversight of those programs.

Additional accountability problems have been alleged. For example, the local press has published numerous accounts of ongoing federal investigations. The American Samoa *Fono* has conducted hearings and investigations of accountability problems in the territory's government. Finally, the recently hired American Samoa Comptroller, at work since March 2004, resigned as of August 2004 citing concerns over fraudulent and unethical American Samoa government practices.

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## Conclusions

In fiscal years 1999-2003, federal grants from multiple agencies provided critical funds for essential human services and critical infrastructure improvements in American Samoa. However, the American Samoa government faced a range of local challenges to delivering services and completing infrastructure projects funded with federal grants. These challenges included a shortage of adequately trained professionals, such as accountants and teachers, as well as inadequate facilities and limited local funds. In particular, LBJ Hospital, which provides medical care for most of American Samoa's population, received multiple federal grants but struggled to overcome challenges posed by an inadequate facility and limited resources. Specifically, although it receives DOI construction grants for facility upgrades, the hospital struggled to meet HHS fire-safety standards for continued Medicare certification required for Medicaid funding. Nevertheless, in recent years federal departments, principally DOI and HHS, have not formally collaborated on the use of DOI construction

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grants at the hospital. In overseeing the hospital's use of capital improvement grants, DOI could benefit from information that HHS could provide regarding the hospital's ongoing efforts to maintain Medicare certification.

In addition, in fiscal years 1998-2003, the American Samoa government failed to comply with the Single Audit Act, demonstrating a lack of overall accountability for federal grants. Federal agencies are responsible for ensuring that grant recipients subject to the Single Audit Act complete single audits no later than 9 months after the end of each fiscal year, yet when American Samoa failed to complete the audits, the agencies either failed to act or acted slowly to designate the American Samoa government a high-risk grantee. The agencies had no consistent response. Further, incidents of theft and fraud should have heightened federal agencies' concerns about enforcing the requirements of the Single Audit Act and the Grants Management Common Rule. The lack of federal action indicates a need for greater monitoring and reporting and a need for improved coordination among agencies to ensure the accountability of federal grants awarded to American Samoa.

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## Recommendations for Executive Action

We recommend that the Secretary of the Interior take the following four actions:

To ensure resolution of fire-safety deficiencies threatening the continued certification of the Lyndon Baines Johnson Tropical Medical Center in American Samoa and, as warranted, to address the hospital's staffing and resource constraints, we recommend that the Secretary

- coordinate with federal agencies that grant funds to the hospital and the American Samoa government to address these issues.

To improve fiscal accountability of federal grants to American Samoa, we recommend that the Secretary coordinate with other federal awarding agencies to

- designate the American Samoa government as a high-risk grantee, according to the Grants Management Common Rule, at least until it has completed all overdue single audits;

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- take steps designed to ensure that the American Samoa government completes its overdue single audits in compliance with the Single Audit Act; and
  - take steps designed to ensure that current and future single audits are completed in compliance with Single Audit Act requirements.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Departments of the Interior, Agriculture, Education, Transportation, and Health and Human Services as well as to the government of American Samoa. We received oral comments from the Departments of Agriculture and Transportation on October 22 and Education on October 25, 2004. The Departments of Agriculture and Transportation limited their oral comments to technical corrections. The Department of Education agreed with our initial recommendations and provided technical corrections. We received written comments from the Departments of the Interior and Health and Human Services as well as the American Samoa government, which are reprinted in appendixes VIII through X.

The Departments of the Interior, Health and Human Services, and Education, as well as American Samoa, agreed with our first recommendation. DOI stated that it would take appropriate action with other federal agencies to address issues that affect LBJ Hospital's certification. HHS agreed to collaborate with DOI and American Samoa on hospital infrastructure issues. The American Samoa government pointed out that it is making progress in bringing LBJ Hospital into compliance with Medicare standards.

The Departments of the Interior and Health and Human Services and American Samoa disagreed with our second recommendation, and the Department of Education agreed with us. DOI raised serious concerns about declaring American Samoa a high-risk grantee but agreed to consult with the other federal agencies to evaluate whether, or under what conditions, a joint declaration of high-risk status would be prudent. DOI's concerns about imposing high-risk status for American Samoa included the possible loss of access to federal programs for American Samoa and the possible impact of such an action on the American Samoan population and eventually on other insular areas. Losing access to such programs would further limit the funds available to American Samoa to address their staffing and resource problems. Furthermore, DOI argued that many of the measures available with a high-risk declaration are already being taken by



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DOI in American Samoa. HHS stated that American Samoa should not be designated a high-risk grantee with respect to the Medicaid Program. In our view, the findings of the audits of the LBJ Hospital raise concerns about accountability at the hospital. The American Samoa government strongly recommended against its being declared a high-risk grantee unless it fails to meet the terms of its agreement with DOI, because it believed high-risk status would imperil future funding. As we report on pages 28-29, the American Samoa government has already failed to comply fully with the terms of the agreement with DOI.

We recognize DOI's concerns about the population of American Samoa and its dependence upon federal grants for key services. We also recognize the challenges that DOI faces in balancing its activities in any individual insular area with sensitivity to the effect of those activities on other insular areas and on insular area populations. However, a declaration of high-risk status would more accurately reflect the findings of the completed single audits, specifically, the auditors' declining to express an opinion on the financial statement and citing numerous internal control problems. In addition, according to the relevant regulations, high-risk status does not require a suspension of funds. For example, ED declared American Samoa a high-risk grantee while continuing its funding to the territory and significantly improving its oversight of the funded programs. Under a coordinated high-risk designation, the federal agencies could impose a common set of improvement milestones for American Samoa to have the high-risk status removed. Under the current system, several agencies exercise different levels of heightened oversight, and only ED has declared American Samoa a high-risk grantee. We continue to believe that a coordinated, consistent approach to a high-risk grantee across the agencies would be more productive than the agencies' current inconsistent approaches.

The Departments of the Interior, Education, and Health and Human Services agreed to collaborate to ensure completion of outstanding and future single audits, as per the initial wording of our third and fourth recommendations. DOI agreed to consult with other agencies to determine other steps that might be taken to help American Samoa come into compliance more quickly. However, responding to the initial wording of our third and fourth recommendations that the agencies coordinate efforts to ensure compliance with the act, DOI stated that it is unable to ensure that a grantee will comply with the Single Audit Act. In light of DOI's response to our initial recommendations, we are recommending that DOI coordinate with the other awarding agencies to take steps designed to ensure

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American Samoa's compliance with the act. The American Samoa government cited its progress in completing the delinquent single audits.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of this report to interested Congressional Committees and to the Secretaries of the Departments of the Interior, Agriculture, Education, Transportation, and Health and Human Services as well as to the Governor of American Samoa. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at 202-512-4128 or [gootnickd@gao.gov](mailto:gootnickd@gao.gov) or Emil Friberg, Assistant Director, at 202-512-8990 or [friberge@gao.gov](mailto:friberge@gao.gov). Staff acknowledgments are listed in appendix XI.



David Gootnick  
Director  
International Affairs and Trade

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# Objectives, Scope, and Methodology

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To provide information for the Ranking Minority Member of the House Resources Committee and the U.S. Delegate from American Samoa, we (1) examined the uses of key federal grants to American Samoa, (2) identified local conditions that affected the grants, and (3) assessed accountability for the grants.

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## Identifying Key Grants to American Samoa

To address these objectives, we first analyzed available information on total federal expenditures in American Samoa. We reviewed data from the U.S. Census Consolidated Federal Funds report and the American Samoa delegate's Web site, which listed total expenditures to American Samoa in fiscal years 1995-2001 by federal department. We used these data to identify the federal departments that provided the largest grants over the 7-year period. We narrowed our scope to five federal departments—the U.S. Department of the Interior (DOI), the U.S. Department of Agriculture (USDA), the U.S. Department of Education (ED), the U.S. Department of Health and Human Services (HHS), and the U.S. Department of Transportation (DOT)—whose aggregate grant expenditures totaled more than 80 percent of the total grants to American Samoa in fiscal years 1995-2001. To determine that the data were sufficiently reliable for the purpose of sample selection, we corroborated the ranking from the U.S. Census Consolidated Funds Report data with data from the American Samoa delegate's Web site. We found that despite discrepancies in the dollar amounts of the five departments' grants shown by the two sources, the amounts are the same when aggregated for fiscal years 1995-2001.

To obtain current and original data, we met with and requested grant award data from the five federal departments for fiscal years 1999 and 2003. Each department referred us to their agencies with grants or programs to American Samoa, and these agencies provided data for a total of 61 grants. From that data, we identified the largest granting agencies across the five federal departments and selected 12 key federal grants to review that were among the largest total grant awards when aggregated for fiscal years 1999-2003. These grants primarily covered areas of government operation, infrastructure, social programs (such as health and nutrition), and education. DOI's grants for capital improvement projects and technical assistance were selected although they were smaller than some of the other large federal grants, because DOI was the largest federal grantor to American Samoa during the period of our review and because these two grants provided infrastructure assistance that helped meet funding requirements or served as support to help meet the requirements of other grants that we selected. We excluded loan grants that are not provided

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through local agency or government offices in American Samoa. We also excluded grants from the Departments of Justice, Commerce, and Labor and the Environmental Protection Agency because of the grants' small size. Finally, we excluded grants from the Federal Emergency Management Agency because they do not provide ongoing support for government and related operations.

The scope of our report was limited to the information that we collected from the five departments and specific agencies that administer the grant funds; we cannot make statements about grants that we did not review. However, based on our analysis of data for fiscal years 1999-2003, the aggregated grant totals from the departments that we did not review were smaller, in most cases, than the largest single grants we selected. To corroborate the data for federal funds to American Samoa, we compared agency data with data in the single audit reports for fiscal years 1998-2001 and found that of the grants that we had selected, only the general technical assistance grant was not included in the single auditor's reports. However, we used the single audit data only to compare grant data from the federal agencies with total federal grant expenditures in American Samoa. We estimated that the selected grants represented about 70 percent of all federal expenditures in American Samoa in fiscal year 2000.

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## Examining the Uses of Key Federal Grants

To examine the uses of key federal grants to American Samoa, we collected and reviewed grant data from the federal and local agencies responsible for overseeing the selected programs in fiscal years 1999-2003; interviewed federal and American Samoa program officials to obtain knowledge of program activity and operations; conducted site visits to observe programs and projects funded by federal grants; and compared data in single audit reports for fiscal years 1998-2001 with agency data for selected grants and background on total federal grants reported by the American Samoa government. Single audit reports for years after fiscal year 2001 were not available during the time of our review. To report grant awards to American Samoa between fiscal years 1999-2003, we relied on grant data provided by federal agencies. Although we did not audit the grant data from the federal officials and are not expressing an opinion on them, we discussed the sources and limitations of the data with the appropriate officials and addressed discrepancies before reporting grant totals. We determined that the federal agency data were sufficiently reliable for the purposes of reporting grant award totals and the general use of grant funds and, to the extent possible, we corroborated these data with other information sources, including federal department (headquarters) data, single audit

reports, and U.S. Census data. To describe the activities that grant funds supported, we relied on information from federal and American Samoa officials overseeing or administering the grants. We corroborated information from American Samoa officials with the information we received from federal officials. For example, we used participation rates in fiscal years 2000-2003 for the American Samoa Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Food Stamp Program and the total number of children enrolled during the 2000-2003 school years to estimate the percentage of the population for which nutrition assistance was made available during those years. These estimates are approximations. Although the participant populations may occasionally overlap (e.g., a WIC recipient might also have received free school lunches), the distinct target populations in American Samoa would not allow enough overlap to greatly affect our estimates.

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### Identifying Local Conditions That Affected Grants in American Samoa

To identify local conditions that affected the uses of the selected grants, we interviewed federal and American Samoa officials, reviewed program documents, and made observations in American Samoa in March 2004. Specifically, we looked at the availability of professional staff to administer grants services or projects, the adequacy of facilities to deliver services, and the availability of funds to deliver services or complete projects as specified by program officials or supporting documents for the 12 key grants that we reviewed.

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### Assessing Accountability for Federal Funds

To assess accountability for the grants, we identified requirements in the legislation, regulations, or other relevant documents; reviewed monitoring reports and financial audits conducted by federal agencies; reviewed the single audit reports for fiscal years 1998-2001; conducted federal agency interviews and on-site observations; discussed accountability issues with federal and local officials; and reviewed GAO reports on selected grants and programs for reviews relating to accountability issues.

To further assess accountability, we randomly selected transaction data from the American Samoa Department of Treasury, the Lyndon Baines Johnson Tropical Medical Center (LBJ Hospital), and the Territorial Office of Fiscal Reform—the three American Samoa departments responsible for accounting for the 12 grants we selected. We based our selection of transactions on seven “object codes” (e.g., expenditure categories for personnel, supplies, contractual services, travel, other expenses, office equipment, and indirect costs) assigned by the Department of Treasury.

To determine the reliability of the single audit data, we interviewed the external auditors who completed the single audit reports for American Samoa and confirmed that the auditors had received a peer review. We consulted with financial accountants in GAO regarding the single audit reports. We determined that the single audit data were sufficiently reliable for reporting on American Samoa governmentwide accountability and citing specific audit findings for the selected grants.

We relied on federal monitoring reports to assess other accountability issues for our selected programs. We confirmed the opinions or report findings with federal officials. We determined that these data were sufficiently reliable for the purpose of assessing the overall and specific accountability of federal funds.

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## Evaluating Grant Performance

To evaluate the performance of the selected grants, we determined whether the grants had specific program goals or performance standards that federal and American Samoa officials used for evaluation; collected and reviewed agency performance and monitoring reports; reviewed GAO reports; and consulted with GAO experts and methodologists on the selected grants. On basis of the evaluative criteria provided by federal officials overseeing the selected programs, we concluded that most agencies evaluated the grants based on program or service delivery or whether projects funded by grants were completed. We relied, for the most part, on federal agency reviews and found them to be sufficiently reliable for our purposes of describing if and how federal and American Samoa officials evaluated performance of the 12 key grants. Our findings are detailed in appendixes II through VI.

We performed our work from September 2003 through October 2004 in accordance with generally accepted government auditing standards.

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# U.S. Department of the Interior Programs in American Samoa

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## Government Operations Grant

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### Purpose and Legislation

Since fiscal year 1952, the U.S. Department of the Interior (DOI) has provided the government operations grant to American Samoa as directed assistance, earmarked through the federal budget process<sup>1</sup> and appearing in federal appropriations tables as a line item.<sup>2</sup> The grant is divided among the American Samoa government, the Lyndon Baines Johnson Tropical Medical Center (LBJ Hospital), and the High Court of American Samoa. According to DOI, the annual grant to the American Samoa government is the only regular general operating subsidy that DOI provides to an insular area government in the form of a grant and is intended to supplement, but not substitute for, local revenues and is also intended to promote self-sufficiency. The portion of the grant allocated to LBJ Hospital is stated in the grant award documents. The portion of the grant allocated to the High Court of American Samoa is included in the budget justifications.

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### Funding Levels

The government operations grant comprises almost \$23 million each year (see table 2 for details).

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<sup>1</sup>The earmarking of the government operations grant occurs in itemized cost lists in the budget justification documents sent by DOI's Office of Insular Affairs to the appropriations committees.

<sup>2</sup>DOI appropriations for fiscal years 1999-2003 were adopted in the following public laws respectively—Pub. L. No. 105-277, Pub. L. No. 106-113, Pub. L. No. 106-291, Pub. L. No. 107-63, and Pub. L. No. 108-7.

**Table 2: Government Operations Grant to American Samoa, Fiscal Years 1999-2003**

Fiscal year	Grant recipients			Total grant award
	American Samoa government operations	LBJ Hospital	High Court	
1999	\$14,460,000	\$7,772,000	\$586,000	<b>\$22,818,000</b>
2000	14,460,000	7,772,000	563,476	<b>\$22,795,476</b>
2001	14,428,188	7,754,902	545,797	<b>\$22,728,887</b>
2002	14,460,000	7,772,000	568,000	<b>\$22,800,000</b>
2003	14,366,000	7,721,000	603,000	<b>\$22,690,000</b>
<b>5-year total</b>	<b>\$72,174,188</b>	<b>\$38,791,902</b>	<b>\$2,866,273</b>	<b>\$113,832,363</b>

Source: U.S. Department of the Interior.

Note: Grant awards are shown in nominal dollars. Variation in the annual funds results from general U.S. government budget rescissions.

Since 1998, DOI has specified that nearly \$7.8 million of the grant be allotted to the budget of LBJ Hospital. Since 1952, a portion of the grant has been allotted directly to the budget of the High Court. The use of these funds is not restricted to U.S. nationals or citizens by law or regulations.

**Activities Supported, Target Recipients, and Basic Accomplishments**

The government operations grant supports the operations of the American Samoa government, LBJ Hospital, and the High Court. In each instance, the money is deposited directly to the recipient's accounts and becomes part of the recipient's funding stream, losing its separate identity.<sup>3</sup> The grant funds are drawn down from U.S. Treasury accounts in monthly allotments. During fiscal years 1999-2003, once the funds were drawn down, they were deposited in the American Samoa government accounts. The grant is allocated as follows.

- *Basic government operations.* According to the American Samoa government annual budget for 2003, the funds allocated for basic government operations were to be spent as follows: \$7.4 million to the American Samoa Department of Education, \$2.7 million to the Department of Public Works, \$1.4 million each to the Department of Public Safety and the American Samoa Community College, \$866,500 to the Department of Legal Affairs, and \$750,000 to the Port

<sup>3</sup>Recently, the American Samoa Treasury set up a separate account for federal grant funds.



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Administration. In fiscal year 2003, the grant's \$14.5 million provided 6.5 percent of the American Samoa government total budget.

- *LBJ Hospital.* The portion of the grant designated for LBJ Hospital enters the hospital's budget as a revenue source, whereupon its specific uses cannot be traced. In fiscal year 2003, the \$7.7 million represented about 26 percent of LBJ Hospital's \$29.3 million revenue.
- *High Court.* According to DOI and American Samoa budget documents, the grant provides all of the High Court's budget.

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## Performance Goals and Accountability Standards

The primary goal of the government operations grant is to provide financial assistance to help ensure that the American Samoa government is providing adequate government systems and services. DOI's secondary goal for this grant is to promote self-sufficiency for American Samoa. According to DOI, over the years American Samoa has assumed an increasing percentage of the total costs of government operations. According to DOI, since the mid-1990s, the agency's policy has been to maintain the grant at a constant level, requiring American Samoa to absorb costs associated with inflation and population growth<sup>4</sup> and thereby encouraging the territory's self-sufficiency. According to DOI officials, the single audit is a major source of accountability for the portion of the grant provided to the American Samoa government. LBJ Hospital is to conduct its own audit annually. Both the American Samoa government and LBJ Hospital are also supposed to provide financial and cash transaction reports as they use the DOI grant.

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## Performance Evaluation

According to DOI, providing the government operations grant to American Samoa is consistent with the agency's goals of serving communities by providing financial assistance to help ensure that governments provide adequate systems and services and encouraging self-sufficiency. Budget data show and DOI confirms that, generally, over the years, American Samoa has assumed an increasing portion of the total costs of government operations. However, assessing the American Samoa government's progress toward self-sufficiency is difficult because of the lack of verifiable

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<sup>4</sup>In fiscal years 1990-2003, the cumulative U.S. inflation rate was about 30.3 percent. Between 1990 and 2003, American Samoa's population has risen from 46,773 to 57,844—an increase of about 23.7 percent.

expenditure data. Because the grant is a direct subsidy to the American Samoa government, the grant's performance in encouraging self-sufficiency must be evaluated in light of accurate revenue and expenditure information, which single audits should provide. However, because of American Samoa's failure to comply with the Single Audit Act, audited financial statements do not exist for years after fiscal year 2001,<sup>5</sup> and DOI has no verifiable information on American Samoa's actual revenues and expenditures other than the financial and cash transaction reports sent to DOI by the American Samoa government. Therefore, it is difficult to determine the extent to which the American Samoa government is moving toward self-sufficiency.

American Samoa government budget data show that DOI's contribution to the government's budget decreased from about 18 percent in fiscal year 1999 to about 15 percent in fiscal year 2003.<sup>6</sup> According to DOI officials and American Samoa's Department of Treasury, local revenues accounted for about 60 percent of all government revenue for fiscal year 2003, an increase of about 5 percent since fiscal year 1999.<sup>7</sup>

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## Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the government operations grant was limited. DOI officials asserted that the unique nature of the grant—that is, as a subsidy to the American Samoa government—implies limited accountability and that Congress designed the grant as such. Except for standard grant reporting requirements, the government operations grant is entirely dependent on the single audits for assurance of accountability. In the single audits of the American Samoa government for fiscal years 1998-2001, the auditors stated no opinion about the reliability of the financial statements or the allowability of claimed costs. They found significant

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<sup>5</sup>In the single audits for 1998-2000, the auditor expressed no opinion on the accuracy of the financial statements. In the single audit for 2001, the auditor provided a qualified opinion.

<sup>6</sup>The overall federal contribution to the budget decreased from about 47 percent in fiscal year 1999 to about 42 percent in fiscal year 2003—a period when the total contribution of the 12 grants that we reviewed increased by about 18 percent.

<sup>7</sup>This analysis excludes the impact of sporadic federal financial supplements to American Samoa to cover accumulated deficits. One recent such supplement was the 2000 federal loan of \$18.6 million against American Samoa's expected share of the tobacco settlement.

failure in the internal controls structure.<sup>8</sup> The single audits for fiscal years 2002-2003 remain uncompleted.

Accountability for LBJ Hospital is likewise limited. Independent audits of the LBJ Medical Center Authority<sup>9</sup> for fiscal years 1998-2001 found significant problems with the LBJ Hospital accounts.<sup>10</sup> For the relevant years, LBJ Hospital declined to present the auditor a statement of cash flows, summarizing its operating, investing, and financing activities as required by generally accepted accounting principles. Because of this and other matters, the auditor was unable to express an opinion on the financial statements printed in the audit. In reviewing compliance with internal controls, the auditors found instances of noncompliance as well as several reportable conditions and material weaknesses. Audits of later years were not available as of November 2004.

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## Capital Improvement Grants

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### Purpose and Legislation

Capital improvement grants to American Samoa are among the covenant grants authorized by the 1976 Covenant to Establish a Commonwealth of the Northern Mariana Islands.<sup>11</sup> As such, they are mandatory, subject to annual appropriations. Although a specific amount of covenant grants is reserved for the Northern Mariana Islands, capital improvement grants are provided for all other territories, including American Samoa. DOI's budget justifications list the intended recipient territory and the projects to be funded each year.

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<sup>8</sup>Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, including the use of the organization's resources; reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and compliance with applicable laws and regulations.

<sup>9</sup>The LBJ Medical Center Authority manages LBJ Hospital.

<sup>10</sup>LBJ Hospital has its own audit, which is summarized and included in the single audit.

<sup>11</sup>§ 701 of Pub. L. No. 94-241, as amended. The covenant was fully implemented in November 1986.

Before 1996, American Samoa received an annual discretionary grant for capital improvement needs. These grants averaged approximately \$5 million annually and came from the Assistance to the Territories appropriation. According to DOI officials, during that time period, American Samoa fell further behind the infrastructure needs of its rapidly growing population. As a consequence, according to DOI, the people of the territory faced increasing hardship and risk with regard to basic needs such as drinking water, medical services, and education. In fiscal year 1996, Congress enacted legislation directing that some of the mandatory covenant funds be used to pay for critical infrastructure in American Samoa.<sup>12</sup> The legislation also required the Secretary of the Interior to develop a multiyear capital plan with American Samoa and to update it annually. DOI and the American Samoa government together developed the Capital Improvements Plan, which established the following priorities for capital improvement projects:

- First-order priorities include health, safety, education, and utilities.
- Second-order priorities include ports and roads.
- Third-order priorities include industry, shoreline protection, parks and recreation facilities, and other government facilities.

DOI awards capital improvement grants on the basis of a ranked list of proposed projects submitted by the American Samoa government based on the plan. Independent American Samoa authorities also received capital improvement grants.

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## Funding Levels

In fiscal years 1999-2003, American Samoa was awarded \$50.8 million for capital improvements, an average amount of \$10.2 million annually. According to DOI, the use of these funds is not restricted to U.S. nationals or citizens, and construction projects are not limited to U.S. companies by law or regulation. Table 3 shows the annual grant award.

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<sup>12</sup>§ 118(c) of Pub. L. No. 104-134, April 26, 1996.

**Table 3: Capital Improvement Grants Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$8,240,000
2000	10,140,000
2001	12,140,000
2002	10,140,000
2003	10,140,000
<b>5-year total</b>	<b>\$50,800,000</b>

Source: U.S. Department of the Interior, Office of Insular Affairs.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

In fiscal year 2005, DOI will implement a new competitive allocation system for the \$27.72 million in mandatory covenant grants.<sup>13</sup>

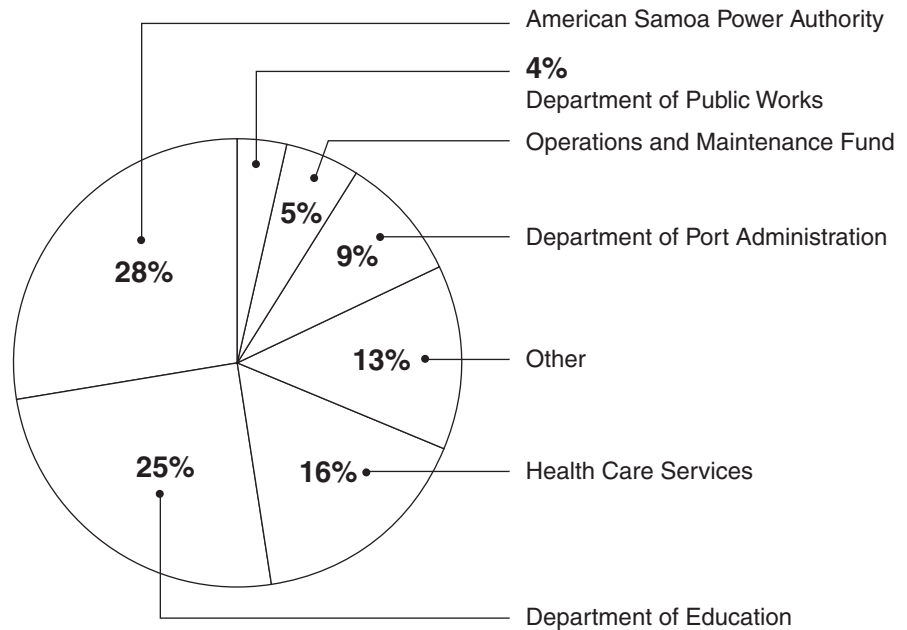
**Activities Supported, Target Recipients, and Basic Accomplishments**

Of the \$50.8 million in capital improvement projects awarded to American Samoa in fiscal years 1999-2003, the American Samoa Power Authority received about \$14 million; the American Samoa Department of Education received about \$12.6 million; health care services, including LBJ Hospital, received about \$8.3 million; the Department of Port Administration received about \$4.6 million; and the Department of Public Works received about \$1.8 million for village road construction. An operations and maintenance fund receives 5 percent of each capital improvement grant, accruing about \$2.7 million in fiscal

<sup>13</sup>The new process offers all territorial governments an opportunity to compete each year for a portion of the guaranteed funding in addition to other assistance or local funding that might be available. DOI has developed a set of threshold criteria to determine eligibility for infrastructure support through covenant capital improvement grants. The annual allocation will be based on a set of competitive criteria that measure governments' demonstrated ability to exercise prudent financial management practices, including compliance with the single audit requirement; to select and administer high-priority projects; and to meet federal grant requirements. In addition, DOI will consider the capacity of the insular government to absorb the allocated capital assistance, any special or extenuating conditions that might require adjustments to the allocation, and the relative merits of the proposed projects. Allocations will vary from year to year depending on how the insular governments meet the competitive criteria; long-term good performance will be rewarded, and poor performance will be penalized.

years 1999-2003.<sup>14</sup> (See fig. 5 for percentages.) Other recipients of capital improvement grants include the American Samoa Community College, the Department of Public Safety, and a fuel storage facility for rehabilitation, among others.

**Figure 5: American Samoan Organizations or Sectors Receiving DOI Capital Improvement Grants, Fiscal Years 1999-2003**



Source: GAO analysis of DOI data.

Although the American Samoa government compiles the list and awards grants with DOI approval, many American Samoa agencies either manage their own projects or arrange for another agency to manage them. Both the American Samoa Power Authority and LBJ Hospital use their own contract

<sup>14</sup>An operations and maintenance fund received 5 percent of each capital improvement grant to be matched by the American Samoan government. Proceeds from the fuel storage facility fund the American Samoa match for the operations and maintenance fund. The fund is administered by the Territorial Office for Fiscal Reform and is used to pay for maintenance of anything built with project funds. According to DOI officials, DOI developed the fund for American Samoa and it served as the model for similar funds established for the amended Compact of Free Association for the Federated States of Micronesia and the Republic of the Marshall Islands.

management to control grant funds and obtain desired services. Also, the American Samoa Departments of Education and Port Administration use the Territorial Office of Fiscal Reform to oversee and manage their capital improvement grants. According to agency officials, the American Samoa agencies have established separate contract management systems because the regular American Samoa Treasury administrative process for project design, contracting, construction, and vendor payment is extremely slow. As a result, several American Samoa agencies have developed parallel payment systems. (See app. VII for a diagram showing this payment process.)

The American Samoa Department of Education received about \$2.5 million per year on average—approximately 25 percent of all capital improvement grants in fiscal years 1999-2003. According to American Samoa officials, the American Samoa Department of Education used its grants to

- construct almost 120 new rooms, including classrooms (see fig. 6), school offices, and science labs;
- purchase 16 new buses for \$1 million;
- construct new toilet facilities at several schools and hire bathroom monitors at 21 schools to clean and guard the new toilets;
- renovate classrooms and office buildings by improving electrical systems with lights and fans, as well as installing new window screens, new doors and locks, and roofs; and
- provide new classroom furniture in many of the new and renovated buildings.

**Figure 6: Tafuna High School Classroom Block Built with Capital Improvement Grant Funds, American Samoa**



Source: GAO.

LBJ Hospital, built in 1968, has used its \$1.5 million average annual capital improvement grants to renovate its aging facility and obtain specific medical devices. Until 1999, few improvements had been made since the building's construction. In fiscal years 1999-2003, the total of \$7.4 million in capital improvement grants allowed the hospital to

- expand the existing hospital laboratory and renovate of the old laboratory space (see fig. 7);
- construct an ear, nose, and throat clinic and public restrooms;
- purchase and install five dialysis machines;
- purchase and install a new medical records filing system; and
- replace hospital core area air-conditioning chillers.



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**Figure 7: LBJ Hospital Laboratory Renovated with Capital Improvement Grant Funds, American Samoa**



Source: GAO.

The Department of Public Works receives \$361,000 annually to build village roads, which are not eligible for funds from the Federal Highway Administration's programs. Village roads run from the main connector road into a population center or to a school.

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## Performance Goals and Accountability Standards

DOI reported that capital improvement projects in American Samoa are consistent with its goal of improving infrastructure in American Samoa. These grants are the only direct financial assistance for infrastructure in DOI's budget. According to DOI officials, project completion is the main criterion for assessing performance of capital improvement grants. The agency does not have a staff engineer to conduct technical reviews of construction projects; instead, it has a standing agreement with the U.S. Army Corps of Engineers in Hawaii to conduct reviews on an "as needed basis." Accountability arises from the inclusion of large projects in the single audits; on-site monitoring by federal officials, including the resident DOI representative; and financial reports.

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Performance Evaluation

We selected and reviewed several completed projects constructed with capital improvement grant funds. According to DOI, the resident DOI representative visits projects as she determines necessary or when requested by DOI. About once each year, DOI officials from headquarters visit American Samoa, review project files, and inspect the projects.

*American Samoa Department of Education.* We toured several recently constructed classroom buildings, which featured handicapped-accessible classrooms for about 30 students, furnished with new desk chairs, electric lights and ceiling fans, and sinks. We also visited renovated classroom buildings. Generally, these buildings had no peeling paint, and no plaster or drywall was falling from the walls. According to a principal at a newly built facility, a number of postconstruction problems remained unaddressed by the contractor or the Departments of Education and Public Works. These problems included failure to clean and restore playground areas to a safe standard for the returning children, office spaces built without provision for telephone lines, and improperly welded stair railings.

We also toured several new and renovated toilet facilities on the school campuses. Generally, these toilets were clean and functional, although we found instances of blocked drains, tiles missing from walls, and disconnected power lines into a new building.

*LBJ Hospital.* We visited the new lab facility, air-conditioned with new equipment and updated workstations, and the new ear, nose, and throat clinic, which also had air-conditioned facilities. We were also shown new wards with private rooms and oxygen piped to bedsides rather than provided in tanks as in the older wards. We saw many pieces of new equipment, including equipment for mammography, magnetic resonance imaging, sonograms, X-ray, and X-ray developing. We visited the new file room for maintaining medical records. In contrast, the older parts of the hospital had no air-conditioning and poor ceiling ventilation. The hospital has had persistent fire-safety problems, including inflammable building materials and lack of sprinkler systems in older wards. During the period of our review, the inflammable materials were being replaced as wards were renovated; however, sprinklers remained inadequate.

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Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the capital improvement grants was

limited. According to DOI officials, the accountability of these grants is no less than for other federally funded construction grants to the states and local governments. However, in American Samoa's single audits for fiscal years 1998-2001, which include the grants, the auditors disclaim any opinion about the reliability of the territory's financial statements, the allowability of claimed costs, and the effectiveness of internal controls. The single audits for fiscal years 2002 and 2003 remained uncompleted as of November 2004.

The audits for LBJ Hospital for fiscal years 1998-2001 found significant problems with the hospital accounts. For fiscal years 1998-2000, LBJ Hospital declined to present a statement of cash flows summarizing the operating, investing, and financing activities as required by generally accepted accounting principles. As a result, the auditor was unable to express an opinion regarding the financial statements printed in the audit. For fiscal year 2001, the auditors found the hospital unable to locate supporting documents for its accounting records. The auditors expressed no opinion on the hospital's financial statements for 2001. The auditors found several instances of noncompliance as well as several reportable conditions and material weaknesses in internal controls. Audits for fiscal years 2002-2003 were not available as of November 2004.

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## General Technical Assistance Grants

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### Purpose and Legislation

Each year, Congress appropriates money for technical assistance grants in the territories. Significant portions of this appropriation have been used for specific projects, such as the Coral Reef Initiative; Brown Tree Snake Control, focused on Guam; Maintenance Assistance, also known as the Operations and Maintenance Improvement Program; and the Insular Management Control Initiative. The annual appropriation also provides for general technical assistance to support short-term, noncapital projects. General technical assistance is not designated for any specific purpose, unlike the other forms of technical assistance, and is not intended to supplant local funding of regular operating expenses. DOI allocates these funds as it deems appropriate through an application process.

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### Funding Levels

The number of grants funded annually varies. For example, in fiscal year 2001, general technical assistance funding of \$665,600 (see table 4) comprised 10 separate grants, the largest of which was \$200,000 for a container tracking system for the Port Administration. General technical assistance grants must be spent in the year that they are obligated; however, DOI sometimes provides another year of funding to a project with the understanding that funding for the following year will depend on the availability of funds.

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**Table 4: General Technical Assistance Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$320,367
2000	82,215
2001	665,600
2002	614,625
2003	63,000
<b>5-year total</b>	<b>\$1,745,807</b>

Source: U.S. Department of the Interior, Office of Insular Affairs.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

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Activities Supported, Target  
Recipients, and Basic  
Accomplishments

All territories and freely associated states may compete for general technical assistance grants. DOI staff assess whether the applications adequately address the problems cited in the applications. According to DOI officials, DOI helps the insular governments structure their grant applications to address applicants' needs and capacity—for example, whether a requested computer system is sufficient and appropriate for the designated purpose.

The 23 general technical assistance grants to American Samoa in fiscal years 1999-2003 totaled \$1.75 million, and included \$7,790 for Medicare Coverage Training and \$350,000 for computers for the American Samoa government. Several technical assistance grants, totaling about \$390,000, were to be used to improve operations at LBJ Hospital.

In April 2001, DOI granted the American Samoa Department of Port Administration \$200,000 to purchase and install a container tracking system for cargo entering and leaving American Samoa's harbor of Pago Pago. The system was designed to maintain complete information about the status of all containers arriving in American Samoa and to improve the accuracy of the billing procedures for the containers. According to the pier superintendent, the system allows ships at sea to radio their container tracking numbers and contents to the port authority, allowing for better revenue collection and more timely handling of the containers.

In May 2002, DOI granted the American Samoa government \$185,000 to purchase and install an immigrant tracking system upgrade (see fig. 8). According to DOI documents, the new system maintains a database of visitors entering the territory and presents a daily list of those whose visitation has expired or is about to expire. The system also keeps a digital photograph of visitors' passports.

**Figure 8: Airport Immigration Tracking System, American Samoa**



Source: GAO.

In 1999, DOI provided \$285,000 and, later in 2001, \$300,000 more to the Pacific Basin Development Council in Honolulu for organizing the American Samoa Economic Advisory Commission. The commission was chartered to make recommendations to the President through the Secretary of the Interior regarding the economic future of American Samoa and to analyze the history of, and prospects for, economic development in American Samoa. The commission was also to recommend policies, actions, and time frames to achieve a secure and self-sustaining economy for American Samoa. Finally, the commission was to comment on the related appropriate role of the federal government. In 2002, the commission issued a four-volume report that targeted four potential growth industries: fisheries, agriculture, and aquaculture; telecommunications and technology

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information; manufacturing; and tourism.<sup>15</sup> The report recommended creating

- a public-private working group in American Samoa to define and set up a process, structure, and timetable and to manage and oversee the implementation of the plan explained in the report; and
- a federal-territorial task force to coordinate activities and resolve pressing and potential problems and conflicts by seeking workable solutions.

An interim report from 2001 by the commission summarized its findings and cited skepticism within the American Samoan population about the federal government's long history of commissioning studies that yielded no tangible or sustainable results. DOI officials told us that no one in the American Samoa government had taken responsibility for pursuing the commission's recommendations. The commission included the then Lieutenant Governor, who became Governor of the territory in March 2003. According to DOI officials, the American Samoa government responded to these recommendations by promoting an e-commerce development corporation for which it had already requested DOI funds.

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Performance Goals and  
Accountability Standards

No performance goals have been established for this program.

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Performance Evaluation

According to the DOI official responsible for administering the program, DOI works to structure the general technical assistance grants according to the American Samoa government's needs. However, according to DOI, once the grant is structured, the funds provided, and the training or project completed, DOI does not follow up to evaluate performance unless prompted by a complaint from the government or recipient.

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<sup>15</sup>American Samoa Economic Advisory Commission, *Transforming the Economy of American Samoa: A Report to the President of the United States of America through the Secretary of the U.S. Department of the Interior* (Honolulu: 2002).

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# U.S. Department of Agriculture Programs in American Samoa

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## School Lunch Program

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### Purpose and Legislation

The U.S. Department of Agriculture (USDA) provides grant funds for the American Samoa School Lunch Program.<sup>1</sup> The purpose of the program in American Samoa is to provide nutrition assistance to residents of American Samoa, with priority given to school-age children. The current program is funded by a special block grant that operates according to a memorandum of understanding (MOU) and provides free breakfast and lunch to all school age children. From 1962 to 1991, the School Lunch Program in American Samoa followed the same regulations, policy, and procedures as the National School Lunch Program in the 50 states.<sup>2</sup> In 1991, USDA converted the amount paid under the original program to the Child Nutrition block grant, which has been adjusted for inflation annually since the transition.<sup>3</sup> According to the MOU, the governor of American Samoa is charged with administering the program in American Samoa. The American Samoa Department of Education has been designated as the grant coordinator. According to federal officials, this transition caused no break in program services to the children in American Samoa.

Officials explained that the change in grant and program structure was intended to provide American Samoa with greater flexibility to serve the needs of its children. In addition, given American Samoa's remoteness and unique needs, funding the program with the block grant allowed American Samoa to better meet those needs than would the national USDA child nutrition programs (National School Lunch Program, School Breakfast Program, State Administrative Expense Funds, and Nutrition Education and Training Program). Another reason cited for the change, according to federal officials, was that the management and oversight responsibilities

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<sup>1</sup>The American Samoa School Lunch Program also provides breakfast.

<sup>2</sup>The National School Lunch Program provides nutritionally balanced, federally subsidized meals for all children in public and nonprofit schools and residential child-care institutions, with the size of the subsidy dependent on the income level of participating households.

<sup>3</sup>American Samoa and USDA's Food and Nutrition Service entered into an MOU to establish purposes and procedures, whereby American Samoa establishes a comprehensive Nutrition Assistance Program for the residents of American Samoa funded by FNS. Pursuant to 48 U.S.C. § 1469d (2004), the MOU delineates the responsibilities and obligations of the parties in the administration of a Nutrition Assistance Program in American Samoa that best meets the needs of the residents of American Samoa.



for the traditional child nutrition programs in American Samoa were costly and severely disproportionate to the overall level of federal assistance provided to American Samoa; in contrast, the block grant reduced USDA's oversight responsibilities and administrative investment.

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## Funding Levels

School Lunch Program grants to the American Samoa government are made on a federal fiscal year basis. Since fiscal year 1991, USDA's Food and Nutrition Service (FNS) has provided grant funds on a quarterly basis, with each year's grant contingent on the availability of funds and FNS's approval of American Samoa's fiscal year Plan of Operations and completion of the Drugfree Workplace Certification and Lobbying Certification.<sup>4</sup> On August 15 of each year, American Samoa is required to submit a Plan of Operations to FNS that describes how funds will be used, the targeted population to be served, and how often food or other services will be made available to program recipients. The plan also must include a budget for program expenditures. Grants are calculated with a fiscal year 1989 grant calculation methodology that was amended in 1992 and includes a yearly inflation adjustment.<sup>5</sup> After adjusting for base year funds, FNS adds funding for the Nutrition Education Training Program, as authorized by Section 19 of the Child Nutrition Act of 1966 (42 U.S.C. §1788). Funds that are obligated by FNS to American Samoa in a given fiscal year are available for obligation and expenditure by the School Lunch Program in the following fiscal year, or 2 years from the date of disbursement. Table 5 shows the grant award amount for fiscal years 1999-2003.

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<sup>4</sup>FNS officials explained that the certification process requires them to submit forms certifying that they meet the requirements for a Drugfree Workplace and Disclosure of Lobbying.

<sup>5</sup>According to the MOU, prior to the fiscal year for which the grant calculation is being made, the base year fund, \$4,079,766, is multiplied by the ratio of the current year's May Consumer Price Index (CPI) series for Food Away from Home for All Urban Consumers and the May 1989 Value of 126.7 for the same CPI series. (This process is identical to the methodology used by USDA to annually calculate increases in National School Lunch and Breakfast Program meal reimbursement rates in the 50 states).

**Table 5: School Lunch Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$8,485,224
2000	9,096,081
2001	9,727,818
2002	10,464,902
2003	11,230,206
<b>5-year total</b>	<b>\$49,004,231</b>

Source: USDA, FNS Western Region.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

### Activities Supported, Target Recipients, and Basic Accomplishments

The American Samoa School Lunch Program uses grant funds to provide free breakfast and lunch to children attending public or private schools and early education centers (see fig. 9). As of July 2004, the program was serving meals at 23 public elementary schools, 6 public high schools, 10 private schools, 55 early childhood education centers, and 37 day care centers.

**Figure 9: School Lunch Program at Leone Midkiff Elementary School, American Samoa**



Source: GAO.

Although the School Lunch Program in American Samoa is not held to the same nutritional requirements as in the 50 states, the MOU requires that meals be nutritious and include a variety of foods. FNS encourages the use of foods native to the Samoan Islands, as well as other nutritious foods acceptable to the groups being served. FNS also encourages menu planning to keep fat, sugar, and salt at moderate levels and to keep the menu consistent with dietary guidelines published by USDA and the U.S. Department of Health and Human Services. According to FNS officials, the American Samoa School Lunch Program develops its own menu, and the nutritionist works with the schools' cooks to ensure that the menu is being followed. FNS provides as much advice as possible on the development and nutrition quality of the meals.

In addition to funding the delivery of meal services and program administration, the block grant includes funds earmarked specifically for nutrition education. The National School Lunch Program is not legislatively required to provide, and does not receive funding specifically for, nutrition education. However, training funds are included in the grant portion for

nutrition education. The American Samoa School Lunch Program Director told us that he is committed to seeking training for his employees and that, following our fieldwork, several of his staff attended training in the continental United States. He reported that, in April 2004, he sent four employees to attend the USDA School Meals Initiative conference held in Phoenix, Arizona. This conference addressed areas of concern for school meals initiatives, with particular focus on the advancement of research and technology to improve services. The Director explained that his staff acquired updated knowledge of school food services techniques and methods for improving the American Samoa program. Three other employees received training in Sacramento, California, and visited the FNS offices in San Francisco. The Director reported that the staff returned with fresh enthusiasm about improving menu planning for nutritious student meals and assisting the field school food coordinators in improving their job performance.

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## Performance Goals and Accountability Standards

The American Samoa School Lunch Program does not have specific program goals, but language in the MOU states that in developing its Plan of Operations, the program should give priority consideration to the needs of its preschool and school-age children; meals should be appealing and nutritious; and the program should work toward serving meals that meet the current dietary guidelines for Americans, contain nutrients at Recommended Dietary Allowances, and conform to the Food Guide Pyramid.

To assess accountability, the annual Plan of Operations requires the American Samoa government to identify program activities and administrative areas that it funds with the grant. The plan should identify the number of schools where services will be provided and estimate the number of students who will be served both breakfast and lunch. It should also provide details of administration expenses and nutrition education expenses. According to federal officials, there is no requirement that the American Samoa School Lunch Program “buy America” or that the American Samoa government hire U.S. citizens.

Program and financial information is provided to federal officials annually and quarterly in a series of reports.<sup>6</sup> FNS also relies on annual single audit reports to assess accountability for American Samoa School Lunch Program funds. In addition, according to USDA headquarters officials, FNS program and financial management staff are required to conduct program and financial reviews every 3 years to ensure that American Samoa is complying with the terms and conditions in the MOU. However, FNS program staff reported that although they would like to conduct reviews more frequently, cuts in the travel budget make this difficult. Because the American Samoa School Lunch Program is funded by a special block grant, FNS program officials have discretion in the criteria they use to evaluate and monitor the program. FNS further explained that funds allocated to American Samoa are much smaller than those allocated to mainland programs and that the agency focuses its limited resources where attention is needed most. FNS said that the programs in American Samoa and the Commonwealth of the Northern Mariana Islands were converted to block grants to enable the FNS to save on administrative and oversight costs, among other reasons.<sup>7</sup> FNS conducted program reviews in American Samoa in September 1998, September 2001, and January 2004, and it conducted financial management reviews in September 1997 and January 2004.

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## Performance Evaluation

The American Samoa School Lunch Program is meeting its purpose of delivering breakfast and lunch to schoolchildren. Federal program officials reported that they review meal service based on information that the American Samoa government submits in the FNS required quarterly performance reports, which contain the number of meals served in that period of the grant. Federal officials evaluate the program on the basis of its effectiveness in delivering services, and they identify areas where American Samoa can improve management effectiveness and efficiency to achieve quality management practices.

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<sup>6</sup>Federal officials said that they require the following reports: SF-269, a financial status report, including outlays, unliquidated obligations, total federal funds authorized for this funding period, and the unobligated balance of federal funds; FNS-10, a report of school operations; and Quarterly Performance Report, a report that includes data on administration costs (dollars spent and number of staff), Child Nutrition Program costs, such as dollars spent, and number of meals served.

<sup>7</sup>Federal officials told us that they visit state agencies several times per year compared with once every 2 to 3 years in American Samoa.

Following are some of the findings that the officials reported, based on FNS program reviews in September 2001 and January 2004:

In September 2001:

- FNS reported that the American Samoa School Lunch Program was doing a good job of using grant funds to feed children in schools and day care centers; however, FNS expressed concern about the maintenance of refrigeration equipment, health and sanitation, and the availability of fresh fruit and vegetables in the menus.

In January 2004:

- FNS reported that the American Samoa School Lunch Program staff had made significant improvements in program operations and administration under the new School Lunch Program Director. These improvements followed charges and a guilty plea of the former School Lunch Program Director owing to the mishandling and theft of department food supplies and materials.
- Regarding program delivery, FNS reported that the warehouse is the only area where staffing is short and that food collection for distribution to day care centers consumes considerable staff time.
- The American Samoa School Lunch Program includes meal service to day care centers. FNS reported its concern that supporting the day care centers may limit the administrative ability of program staff to provide food to all other schools. Since day care centers already receive \$180 per month per child from the American Samoa Department of Human and Social Services under a grant from HHS,<sup>8</sup> FNS is recommending that the American Samoa School Lunch Program (1) consider charging a small per-pound fee to help cover the administrative costs of delivering food to the centers and (2) develop a contract with each center to explain that the program contribution is only a subsidy for the center's food needs.

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<sup>8</sup>American Samoa Department of Human and Social Services was awarded a Child Care Development Fund grant by HHS. From October 1, 2003, through September 20, 2004, HHS awarded the department \$2,646,159 for child care services and related activities.

- FNS reviewers reported that American Samoa School Lunch Program nutritionists have conducted workshops with the school cooks to help develop their skills and to improve nutritional quality of the meals being served. Nutritionists have been working with the department to expand the use of fresh fruits and vegetables, particularly those that can be purchased locally, and have attended training for the School Meals Initiative for Healthy Children to improve the menus and track nutritional content.

During our visit to American Samoa, we observed meals being served at one school, and inspected the kitchens and cafeterias in seven schools. At one school we visited, pests were evident. When we addressed this with American Samoan officials, the American Samoa School Lunch Program Director said that they have had some problems with rodents and termites and have submitted a request for pest control. In addition, four kitchens had equipment or maintenance problems, such as broken thermometers on refrigerators and freezers, holes in window or door screens, and leaking faucets.

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### Local Conditions Affecting Program Delivery or Project Completion

The American Samoa School Lunch Program has faced barriers to program delivery owing to recent natural disasters and program dependence on imported food supplies. In January 2004, Cyclone Heta struck the island, and for 1 week the program's food service department had to provide food to a number of emergency shelters throughout the island. Although the Federal Emergency Management Agency reimbursed the program for the food costs, both staff and food resources were diverted from the program's routine services, and the cyclone damaged at least one school cafeteria. The American Samoa School Lunch Program Director said that he does not want the program to be the sole source of disaster relief in any future emergencies.

The nutrition education specialist said that the program's reliance on food imports by boat and the lack of local food production also present barriers to the program's delivery of services. Problems with the boat sometimes cause food shortages. Food shortages also occurred in 2004 because of the cyclone. Because the nutrition specialist prepares the menu based on what is available in the warehouse, shortages limit the menu options and the program's ability to meet federal nutrition guidelines.

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## Grant Accountability

Accountability in the American Samoa School Lunch Program was limited at both the federal and the program levels, but changes have recently taken place to improve accountability. The main mechanisms for accountability in the School Lunch Program are the single audit reports and the financial management reviews that FNS conducts, in addition to their monitoring through quarterly and annual reports.

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the School Lunch Program was limited. Further, the single audits for fiscal years 1998-2000, which were completed in August 2003, have questioned costs because of missing documentation and unaccounted-for expenses, for which the audit findings cited lack of internal controls and lack of adherence to the accounting documentation procedures required by the Office of Management and Budget. According to the single audits, the questioned costs during fiscal year 1998-2000 totaled \$168,252. As of July 2004, FNS reported that they had received the single audit report for American Samoa for fiscal year 1999 but not for fiscal years 1998 and 2000.<sup>9</sup>

In addition to being aware of the internal control problems cited in the single audits, federal officials were alerted to procurement fraud and theft that occurred in the program throughout fiscal year 2003. The American Samo School Lunch Program Director and the Chief Procurement Officer were charged with committing offenses against the United States between October 2001 and September 2003. These officials pleaded guilty to the federal charges on July 2004. The School Lunch Program Director pleaded guilty to charges of taking food and goods valued at \$68,000 or more from the American Samoa School Lunch Program Warehouse and converting such goods for his and others' personal use. Although the chief officials involved in theft and fraud have been replaced, the new Director told us that not all staff involved in the theft were terminated from program employment. He said that one person is still working in the warehouse because of his government status and the department's inability to place

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<sup>9</sup>FNS officials explained that the single audits for American Samoa for fiscal years 1998 and 2000 had not been sent to USDA's Office of the Chief Financial Officer (OCFO) because of an annotation error on the data sheets and that entities like American Samoa generally forward these data sheets, along with copies of the reporting package, for each of the agencies identified on the data sheet as having adverse findings. USDA's OCFO contacted the Federal Audit Clearinghouse to obtain copies of the missing reports.



him elsewhere. The Director said that he is trying to put more controls in all areas to prevent repetition of past problems.

FNS program officials said that there are still problems with procurement. For example, the American Samoa School Lunch Program staff asked recently for an orange juice contract, but the Governor and Attorney General rewrote the specifications of the contract to allow a contractor to provide a different and less expensive juice. This change was never communicated to the School Lunch Program staff. To improve oversight and monitoring, FNS officials are now requiring that all milk and juice contracts be sent to the Western Region office for review, with follow-up documentation and justification, to be approved by FNS in accordance with USDA's regulation governing procurement (7 C.F.R. § 3016.36). FNS officials stated that they would not normally be involved with this level of oversight. FNS officials also reported that program funds were used to purchase vehicles for the Director of the Department of Education and the Director of the American Samoa School Lunch Program. FNS officials asked the American Samoa officials to return the vehicles to the warehouse and explained that no government-funded vehicles should be used during nonwork hours.

FNS financial management officials recently issued their Financial Management Review of fiscal year 2000. This is the first review that American Samoa School Lunch Program financial management officials have conducted since September 1997. FNS officials explained that they focused on fiscal year 2000 because they had not conducted a financial management review for a long time and they needed to select a year for which there would be complete transaction records. An official explained that they have experienced budget constraints and staff shortages and that they currently schedule on-site reviews every 5 years.

Their review findings included the following:

- According to the Code of Federal Regulations,<sup>10</sup> “effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and assure that is used solely for authorized purposes.” However, FNS reviewers could not determine whether the American Samoa government Property Management

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<sup>10</sup>7 C.F.R. § 3016.20.

Department consistently performed a physical inventory of the American Samoa School Lunch Program assets.

- Four vehicles were not being used exclusively for program purposes. FNS officials explained that government-funded vehicles should not be used during nonwork hours and that the American Samoa officials probably were not aware of this. FNS has requested that American Samoa officials provide documentation ensuring that the vehicles are used solely for program purposes.
- The financial management review cited internal control problems regarding inventory of food and fixed assets, misuse of food service equipment, and draws from the grant's letter of credit that were not made on an as-needed basis.

In addition to reviewing reports by the FNS officials, we met with American Samoa School Lunch Program staff to better understand the program's operations and controls. The Program Director provided documentation and responded to our questions regarding corrective measures to improve the previous problems in the program. These actions included suspension and removal of staff involved in incidents of theft, identification of personnel resources to carry on continued operations, and tighter controls and monitoring of purchases. The Director has also identified long-range corrective measures, such as the development and implementation of a modern computer system to improve food inventory; development of a network system to improve shipping, receiving, and issuing of inventory; and a more transparent distribution of resources to ensure that services and tasks are not duplicated among employees.

While discussing program budgets with American Samoa School Lunch Program staff, we found that American Samoa had not established a food cost per child and had estimated food program costs based on an arbitrary annual increase from the previous year. Until July 2003, the budget report for the Plan of Operations was completed by staff in the main American Samoa Department of Education and not by the program staff. The Director also reported that the program staff did not receive the grant award letter and that, as a result, the Plan of Operations was not submitted on time, resulting in a delay of the grant obligation. Although FNS does not require a food cost per child for budgets in the Plan of Operations, we found it problematic that program year budget estimates were not based on analyses of student enrollment and number of meals served for the prior school year and were not compared with food costs, food used, and other

inventory expenses and allocations. When we communicated our concern to the American Samoa School Lunch Program and Department of Education staff, they agreed that estimating food costs per child would be an important step in improving the budget process, particularly given the program's purpose to provide meals to all school-age children.

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## Special Supplemental Nutrition Program for Women, Infants, and Children

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### Purpose and Legislation

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) follows the same regulations and requirements in American Samoa as in the 50 states.<sup>11</sup> The purpose of the WIC Program is to provide supplemental food and nutrition education at no cost to eligible low-income pregnant, breast-feeding, and postpartum women and to infants and children up to 5 years of age.<sup>12</sup> According to federal regulations, the program is intended to serve as an adjunct to good health care during critical times of growth and development, in order to prevent the occurrence of health problems, including drug and other harmful substance abuse, and to improve the health status of these persons.<sup>13</sup>

The WIC Program in American Samoa was established in 1996. The grant to American Samoa is awarded by USDA's FNS and is overseen from FNS's

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<sup>11</sup>WIC is not an entitlement program, because Congress does not set aside funds to allow every eligible individual to participate in the program. Congress instead authorizes a specific funding amount each year for the program. In fiscal year 2000, the WIC Program served almost half of all infants and about one-quarter of all children aged 1 to 4 years in the United States. WIC operates through 2,000 local agencies in 10,000 clinic sites, in 50 state health departments, 33 American Indian tribal organizations, American Samoa, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

<sup>12</sup>Authorized under the Child Nutrition Act of 1966, as amended (42 U.S.C. §1786).

<sup>13</sup>WIC provides nutrition education as part of the program's overall nutrition assistance mission, and the cost of nutrition education is part of each local agency's administration expenses.

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Western Region.<sup>14</sup> In American Samoa, the state agency is also the local WIC services provider. Eligibility determinations, nutrition assessments, and distribution of benefits are all provided in one building, administered by the American Samoa Department of Human and Social Services, with a satellite clinic operating on the sparsely populated Manu'a Islands.

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## Funding Levels

Funding for the WIC Program in American Samoa increased steadily in fiscal years 1999-2003 (see table 6). For fiscal year 2004, American Samoa received a grant award of \$6,145,322, with \$4,736,905 dedicated to food benefits and \$1,408,417 for nutrition services and administration.<sup>15</sup> The American Samoa WIC Program also receives a rebate every month from Mead Johnson for cans of infant formula purchased from WIC vendors. FNS officials explained that the fiscal year 2003 rebate was between \$62,000 and \$62,668 monthly; in fiscal year 2004, the average monthly rebate increased to \$70,034. Rebates are deposited into the WIC food account and offset charges to the WIC food grant for food costs.

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<sup>14</sup>FNS's Western Region is located in San Francisco, California, and oversees programs in Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington, Guam, American Samoa, Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, and the Republic of Palau.

<sup>15</sup>Federal grants appropriations for WIC are disbursed to state agencies that are certified for participation in accordance with general procedures that are prescribed by the Secretary of USDA. USDA awards grants to state agencies, which receive grant funding based on two components that are determined by funding formulas: (1) Food and (2) Nutrition Services and Administration.

**Table 6: WIC Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

Fiscal year	Grant award
1999	\$4,882,544
2000	5,030,025
2001	5,167,447
2002	5,536,391
2003	6,054,942
<b>5-year total</b>	<b>\$26,671,349</b>

Source: USDA, FNS, Western Region.

Note: Amounts shown were awarded for food and for nutrition services and administration. Grant awards are shown in nominal dollars and exclude grant amendments.

**Activities Supported, Target Recipients, and Basic Accomplishments**

Pregnant, breast-feeding, and postpartum women; infants; and children up to 5 years of age become eligible if they (1) are individually determined by a competent professional authority to be in need of the special supplemental foods supplied by the program because of nutritional risk;<sup>16</sup> (2) meet the WIC income criterion or receive, or have certain family members that receive, benefits under the Food Stamp, Medicaid, or Temporary Assistance for Needy Families Program; and (3) reside in the state in which the benefits are received. FNS program officials explained that nutrition risk is based on blood work, height, weight, health history, and dietary assessment and that participants must qualify on at least one of these factors. The current income requirement is 185 percent of the poverty level. FNS officials told us that because incomes in American Samoa are so low, nearly everyone in American Samoa is eligible for WIC benefits if they also meet the gender, age, and residency requirements. Additionally, FNS officials explained that, similar to WIC recipients in the 50 states, most

<sup>16</sup>With regard to determining nutritional risk, the regulations specify that a competent professional authority on the staff of the local agency shall determine if a person is at nutritional risk through a medical, nutrition assessment. This determination may be based on referral data submitted by a competent professional authority not on the staff of the local agency. Nutritional risk data is documented in the participant's file and shall be used to assess an applicant's nutritional status and risk, tailor the food package to address nutritional needs, design appropriate nutrition education, and make referrals to health and social services for follow-up, as necessary and appropriate.

American Samoans who meet the income requirement also meet the nutritional risk criteria.<sup>17</sup>

The WIC Program in American Samoa has 30 full-time staff, including five eligibility workers, an eligibility manager, a registered nurse, three licensed nurses, three community health assistants, and one clerk. As of March 2004, the program had 6,300 WIC recipients, and the WIC offices were serving about 350 clients per day, with services ranging from nutrition risk assessments to issuance of WIC “food instruments,” or checks. Eligible WIC recipients receive (1) a food package, which is a prescription for food specific to each client;<sup>18</sup> (2) nutrition education; and (3) referrals for health care. American Samoa officials explained that all WIC applicants are given a health assessment when they first visit the clinic. Applicants are asked to present immunization cards for the children; if the immunizations are not current, children are referred to the Lyndon Baines Johnson Tropical Medical Center, where shots can be obtained. After applicants are certified to receive WIC benefits, the public health staff conduct follow-up assessments for infants every 6 months, from birth to 1 year.

WIC recipients are offered at least two nutrition classes within a 6-month period. Classes are generally 10 to 15 minutes long and focus on issues such as breast-feeding tips and other nutrition topics that emphasize the use of the WIC foods. American Samoa WIC Program staff reported that the nutrition unit of the WIC Program holds classes regularly. In addition to nutrition classes, the WIC Program implemented a Reading Readiness Class in 2002 for children. The class is intended to support education delivered through the Early Childhood Education Program and is targeted to children aged 1 to 5 years.

WIC recipients are issued WIC checks that they can use to obtain food at authorized vendor locations. Currently, there are about 80 authorized WIC vendors in American Samoa among the three islands. According to FNS officials, most of the goods on American Samoa are imported and,

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<sup>17</sup>Pregnant women who are income and residency eligible may be presumed eligible and immediately certified without assessing nutritional risk for up to 60 days (7 CFR § 246.7(d)(vii) and (e)(v)). However, the local agency must complete the medical and/or nutrition assessment and identify (and document) one or more nutritional risks for the woman to continue receiving benefits beyond the 60 days. All infants must have an identified nutritional risk to be eligible for the program.

<sup>18</sup>A food package might contain a specification for milk, juice, and eggs for a child or the type and quantity of infant formula for infants.

consequently, the WIC vendors have high food costs. As a result, the average cost of WIC food packages is higher in American Samoa than in the 50 states. WIC recipients give vendors WIC checks for specific foods, and the vendors fill in the dollar amount on the checks and submit them to their bank. FNS officials reported that the high costs for WIC food packages in American Samoa also result, in part, from vendor fraud (See Grant Accountability).

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## Performance Goals and Accountability Standards

To gauge the performance of the nutritional services that WIC offers, FNS has established multiple program output measures. Generally, these measures are used to assess the types and quantities of services the state agencies provide and the agencies' compliance with grant expenditure and other program requirements.<sup>19</sup> The state agencies develop guidelines intended (1) to ensure that local agencies effectively deliver WIC benefits to eligible participants and (2) to monitor local agencies' compliance with these guidelines. In addition to using output measures to measure performance of WIC state agencies, FNS has established breast-feeding initiation rate as an outcome-based measure for the WIC Program's breast-feeding promotion and support activities. However, FNS has no outcome measures for its nutrition education or health referral services.<sup>20</sup>

To monitor the delivery of WIC services in American Samoa, FNS program officials conduct an on-site management evaluation known as a State Technical Assistance Review, usually on a 3-year cycle as funds allow. According to FNS officials, these reviews were conducted in 2000 and 2003. FNS financial management officials conduct on-site financial management reviews, and FNS officials told us that they follow a schedule similar to that of the program staff's on-site reviews. However, FNS officials later reported

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<sup>19</sup>Output measures include but are not limited to the following categories and measures: (1) Nutrition Education: Amount of Nutrition Services and Administration funds spent for nutrition education by state agency; extent to which participant actually receives nutrition education; number of local agencies offering nutrition education in foreign languages; (2) Breast-feeding Promotion and Support: number of state and local agencies with a breast-feeding coordinator; number of local agencies offering education devoted to breast-feeding; (3) Health Referrals: number of participants provided information on health care providers; number of WIC agencies offering well-baby care and immunizations.

<sup>20</sup>While the breast-feeding outcome measure allows FNS to examine one aspect of the impact of its services on WIC clients, it does not measure the important aspects of this service's impact, such as the length of time that WIC mothers breast-feed their infants and the percentage of daily nutrition an infant obtains from breast-feeding.

that only one financial management review of American Samoa WIC had been conducted, in June 2004. FNS Regional financial management reviews are now performed on a 5-year cycle.

To ensure the accountability of WIC funds in American Samoa, FNS relies on state technical assistance reviews, financial management reviews, and A-133 audits (single audit reports). FNS requires American Samoa grantees to submit monthly financial and participation reports (FNS-798), which provide information on projected and actual food expenditures, infant formula rebates, cumulative nutrition services and administration expenditures and obligations, and revenues from food vendor and participant collections and from program income. If the WIC Program receives separate infrastructure grant funds, American Samoa reports these expenditures annually to FNS on the SF-269A report.

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## Performance Evaluation

WIC services and nutrition education were being delivered in American Samoa, but data to evaluate the performance of the WIC Program, beyond general program delivery, was limited. Furthermore, incidents of fraud and theft have jeopardized the integrity and, possibly, the quality of services to recipients. Under the FNS criteria for the state technical assistance review, program reviewers assess 11 functional areas of the WIC Program; however, FNS officials told us that it is difficult to cover all 11 areas during on-site reviews because they spend only about 4.5 days on island. Consequently, they identify and focus on the functional areas they see as critical. During an FNS program review in June 2000, FNS reviewers found that program services were hampered by inefficient clinic operations and recipient certifications. FNS officials reported a number of errors in the determination of nutritional risk and the capture of related participant data in the automated system. For example, one file recorded a child's height as 32 inches and, 6 months later, as 31 inches.

FNS recommended that the staff be unified under a single supervisor to improve communication and clinic operations. FNS also recommended that staff conducting eligibility assessments be retrained in the certification requirements. In the 2003 FNS state technical assistance review, officials reported that, although not all clinic operations recommendations from the 2000 report had been implemented, the designation of a single supervisor for the certification process had improved communication and the certification procedures had dramatically improved, including the documentation, assessing, and processing of WIC recipients. However, the review cited serious concerns and program violations, including food



vendor overcharging and fraud, and the program is now being monitored by FNS until American Samoa officials respond to and implement corrective actions necessary to avoid fiscal sanction.

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### Local Conditions Affecting Program Delivery or Project Completion

The American Samoa WIC officials reported technology barriers to program delivery. Until June 2004, the WIC nutrition education official lacked an Internet connection that would allow her access to important nutrition information available on the USDA Web site, despite a request by the WIC staff in 2003 in response to a recommendation in the FNS on-site review in September 2003. The WIC Program Director said that the computer programs were out-of-date and needed to be redesigned. The Director also reported that the information specialist needed technical assistance and that the program needed a computer system that connects all WIC units, including finance, nutrition education, and public health.

FNS officials cited distance to American Samoa and limited travel budgets as a barrier to effective oversight.

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### Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the WIC Program was limited. All USDA grantees are required to comply with the Single Audit Act Amendments of 1996 and OMB Circular A-133. In the single audit reports for fiscal years 1998-2001, auditors found questionable costs in the WIC Program for all 4 years, totaling \$46,799. The reports also identified various internal control weaknesses, including missing files and support documentation for purchases, payments, and contracts, and payroll as well financial records. They further stated that the auditors could not test for eligibility of participants in all 4 years because sufficient data systems and documentation were not available. FNS officials told us that as of February 2004, they had not received copies of the 1998-2001 single audit reports that list the questioned costs. They also said that they had not been made aware of any findings that required them to follow up on corrective actions for at least 5 years. In July 2004, Western Region FNS officials reported that they had received only the fiscal year 1999 single audit report, on May 5, 2004.

In addition, FNS identified various accountability problems in the American Samoa WIC Program, including incidents of vendor fraud and abuse and misuse of grant funds. The single audit reports for fiscal years 1998-2001 also identified a lack of internal controls, including missing

documentation for expenditures and case files to test for recipient eligibility.

During the September 2003 FNS review of the American Samoa WIC Program, FNS officials were alerted to vendor fraud and abuse occurring in the program. The review found widespread evidence of WIC checks being exchanged for cash, cigarettes, other nonfood items, and unauthorized foods at WIC-authorized grocery stores and redeemed by the stores at local banks. In addition, the reviewer found frequent instances of vendors overcharging for WIC foods. The 2003 review requires corrective action to disqualify eight vendors. FNS reported that American Samoa's food package cost was the highest among 88 WIC state agencies and almost double the national average for food package costs (American Samoa's average food package cost per person was \$62.15, compared with the national average of \$35.22 and Guam's average of \$52.05). The June 2000 FNS program review stated that the American Samoa vendor manager had done a "very good job" in establishing a strong WIC presence at all 36 authorized stores through frequent visits and policy clarifications. However, by September 2003, when FNS conducted another on-site review, the FNS reviewer found that the number of authorized vendors had increased from 36 to 83 and that the "authorization process appeared to be little more than an annual 'rubber stamp,' with no evidence of applications being denied or assessed for competitive pricing against other stores as required by WIC regulations." FNS responded by recommending that all new vendor applications be frozen until further notice, preferably for 2 fiscal years. American Samoa officials told us that no new vendor applications had been approved since 2003. Although no new vendors have been authorized, FNS reported that the previous number, 36, was more than adequate for an island of slightly more than 100 square miles, with an excellent transportation system connecting all villages. FNS reported that the Guam WIC Program has only 16 stores for about the same number of WIC participants and on an island twice the size of Tutuila, the main island of American Samoa. WIC regulations require the state agency to "authorize an appropriate number and distribution of vendors of order to ensure adequate participant access to supplemental foods and to ensure effective State agency management, oversight, and review of its authorized vendors." FNS officials reported that they do not see the justification for having more than 40 well-distributed WIC-authorized vendors in American Samoa.

FNS officials said that American Samoa WIC staff are responsible for authorizing vendors and training them on WIC check transaction and

redemption procedures. FNS officials also reported that the state agencies administering WIC are required to perform compliance investigations and/or inventory audits for the WIC Program. The American Samoa Department of Human and Social Services established a Grants Management and Evaluation Division to conduct programmatic reviews of grant-funded programs and monitor programs' compliance with regulations. The division found various noncompliance issues, which it reported along with recommendations for corrective action to the department director and WIC staff. However, according to division staff, program officials did not report back to them whether actions were taken based on their findings and recommendations.

While visiting several authorized WIC stores with American Samoa WIC officials, we found two violations, based on the guidelines in the American Samoa WIC Vendor Handbook. In one instance, WIC-authorized food had no price displayed, and in another instance, a WIC-authorized food item had expired.

Owing to the seriousness of the problems in the WIC Program, FNS officials have involved the Governor of American Samoa. The Governor responded to FNS with a corrective action plan in January 2004; however, the State agency had delayed implementation of critical actions in the plan, including mandatory disqualification of the eight stores found to have committed the most serious WIC violations, cited in the September 2003 FNS review. The FNS Regional Administrator conveyed his concern to the American Samoa Governor during their July 2004 meeting. During his visit to American Samoa, the Regional Administrator also found that the Governor's concerns about participant access and cheaper prices at the affected vendors were not warranted.

The Governor reported that actions had been taken against 12 other vendors who were found to have overcharged for food packages and that 9 of these vendors had reimbursed the program as of June 3, 2004. We requested documentation from American Samoa's Treasury department and found that 8 out of 12 vendors had paid the program for the overcharges in April 2004. FNS has yet to determine whether the American Samoa government's actions met WIC regulatory requirements and is following up with the state agency regarding the individual cases. As of August 2004, FNS officials were deciding what actions to take against the American Samoa WIC Program.

In October 2004 the Governor wrote to FNS stating that the eight disqualifications, required in the September 2003 FNS review, had been carried out; FNS is requesting additional documentation to assure this and other corrective actions had taken place. FNS officials have threatened fiscal sanctions if the program does not come into compliance.

In addition to failing to take corrective action on the cases of vendor fraud and abuse, the WIC Program staff did not meet deadlines for submitting monthly status reports to FNS. Grant data that we requested from FNS officials revealed that in fiscal years 1998-2003, FNS staff had to communicate with American Samoa officials because reports were submitted late, or information was missing. Furthermore, in August 2004, charges were filed against the Deputy Director of the Department of Human and Social Services, the grantee of the WIC and Food Stamp Programs in American Samoa. The Deputy Director was charged with defrauding the government by conspiring to rig contracts totaling more than \$120,000 in exchange for cash kickbacks.

With regard to internal controls, FNS officials said that the American Samoa WIC staff were encouraged to adopt an automated system for financial management and that FNS provided some technical assistance but that WIC staff turnover had hampered the system's implementation. In addition, in a May 2004 review, FNS Financial Management staff found that the American Samoa Department of Human and Social Services had overcharged the WIC Program \$128,400 for WIC building renovations; FNS has since demanded a repayment.

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## Food Stamp Program

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### Purpose and Legislation

The American Samoa Food Stamp Program is a nutrition assistance program that provides food coupons to American Samoa's eligible low-income elderly residents and blind or disabled residents.<sup>21</sup> The program is administered by the American Samoa Department of Human and Social

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<sup>21</sup>USDA's FNS is the federal agency that awards the grant and oversees the program, called the American Samoa Nutrition Assistance Program. However, in this report, the program is referred to as the American Samoa Food Stamp Program, because we found that federal and American Samoa officials referred to the program using both terms interchangeably.

Services. The Food Stamp Program in American Samoa was authorized by the act of December 24, 1980,<sup>22</sup> which allowed USDA to extend programs administered by the department to American Samoa and other territories.<sup>23</sup> The program became effective in April 1994, and the first month's benefits of the Food Stamp Program were issued in July 1994. The current program is funded through a capped block grant and operates under an MOU between the American Samoa government and FNS. The MOU is effective for a 1-year period and is negotiated annually prior to the beginning of each fiscal year.

Unlike the Food Stamp Program in the 50 states, the American Samoa Food Stamp Program is not an entitlement program; further, the MOU under which it operates allows American Samoa to set its own eligibility standards as long as they are within the capped block grant. FNS officials explained that American Samoa decided to target the program to the elderly and disabled in part because they do not receive Supplemental Security Income<sup>24</sup> and because offering benefits on the basis of income would have caused the program to be too broad given the limited resources of the capped grant. The American Samoa program requirements are outlined in the MOU and not in the laws and regulations that apply to the Food Stamp Program in the 50 states. Prior to the negotiation of the MOU, no Food Stamp Program existed in American Samoa. Over the years, certain aspects of the MOU have changed, such as the American Samoa Food Stamp Program's definition of "disabled"; however, the basic concept and design of the program have remained the same.

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## Funding Levels

The block grant for the American Samoa Food Stamp Program covers the administration costs of operating the program (e.g., staff salaries, facility

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<sup>22</sup>Pub. L. No. 96-597 § 601, 94 Stat. 3477, 3479 (1980).

<sup>23</sup>In the 50 states, the Food Stamp Program operates under the Food Stamp Act of 1977, as amended. FNS staff write rules for implementing the act and its amendments and publish those rules in the Federal Register. On occasion, FNS grants waivers of sections of the rules to state food stamp agencies to permit deviations from standard procedures to allow for temporary conditions, to facilitate more effective and efficient administration, or to accommodate unique local conditions.

<sup>24</sup>Supplemental Security Income is a federal income supplement program funded by general tax revenues (not Social Security taxes). It is designed to help aged, blind, and disabled people, who have little or no income, and it provides cash to meet basic needs for food, clothing, and shelter.

charges) and delivering nutrition assistance benefits to the recipients. The initial grant amount was \$2.7 million; however, in fiscal year 1996, the annual grant was capped by statute at \$5.3 million<sup>25</sup> with adjustments for annual inflation. When the Food Stamp Program reauthorized in fiscal year 2002, the cap for fiscal year 2004 increased to \$5.6 million, as a result of the Farm Bill, and tied American Samoa funding to Puerto Rico’s grant amount.<sup>26</sup> American Samoa may not carry over more than 2 percent of its funding from one fiscal year to the next. Table 7 shows the grant awards for fiscal years 1999-2003.

**Table 7: Food Stamp Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$5,300,000
2000	5,300,000
2001	5,300,000
2002	5,300,000
2003	5,422,939
<b>5-year total</b>	<b>\$26,622,939</b>

Source: USDA, FNS.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

**Activities Supported, Target Recipients, and Basic Accomplishments**

The American Samoa Food Stamp Program provides nutrition assistance to low-income elderly, blind, or disabled American Samoa residents. American Samoa is allowed to set its own eligibility standards to stay within the capped block grant. Food Stamp recipients in American Samoa

<sup>25</sup>The Food Stamp Act of 1977 stated “that effective October 1, 1995 [...] the Secretary shall pay to the Territory of American Samoa not more than \$5,300,000 for each of fiscal years 1996 through 2002 to finance 100 percent of the expenditures for the fiscal year for a nutrition assistance program extended under section 601 (c) of Pub. L. No. 96-597 (48 U.S.C. § 1469d (c)).”

<sup>26</sup>Farm Security and Rural Investment Act of 2002 (Farm Bill 2002), Pub. L. No. 107-171, § 4124, states that “this provision consolidates the block grant for Puerto Rico and American Samoa beginning fiscal year 2003 and provides \$1.401 billion in consolidated funding for fiscal year 2003 with annual adjustments through fiscal year 2007.” The act also states that “0.4 percent [of the funding] is available for American Samoa to pay 100 percent of costs for its nutrition assistance program.”

must meet the following financial and nonfinancial eligibility criteria, as specified in the MOU:

- *Nonfinancial eligibility criteria (residency, citizenship, and age or mental or physical disability).* To be eligible, a recipient must be either a U.S. national; a citizen; an alien lawfully admitted to the United States as an immigrant as defined in Section 101 (a) (15) of the Immigration and Nationality Act; an alien admitted to the Territory of American Samoa as a permanent resident pursuant to sections 41.0202 (c)ii, 41.0402 and 41.0403 of the American Samoa Code; an alien legally married to a U.S. citizen or U.S. national; or an alien who has legally resided in American Samoa for at least 5 consecutive years.
- *Resource eligibility standards.* A recipient aged 60 and older, disabled, or blind is subject to the maximum resource standards of \$3000.
- *Gross income eligibility standards.* Income is based on the applicant's (not household's) monthly gross income. The current standard is a gross monthly income of \$712 or less.

The fiscal year 2004 MOU defines maximum monthly benefits as \$132 per person. By comparison, the Food Stamp Program in the 50 states provides maximum monthly benefits of \$141 per person. The American Samoa Food Stamp Program Director told us that potential recipients must attend an orientation offered weekly explaining the program benefits and qualification requirements. After attending an orientation, a potential recipient must apply for certification. The Director of the American Samoa Food Stamp Program described the program's efforts to encourage healthier eating through nutrition classes that recipients can take while waiting to receive their monthly benefits. Although classes are not mandatory, the Food Stamp Program staff budget approximately \$6,000 for nutrition education classes per year. At the time of our visit, the American Samoa Community College was holding nutrition classes at the Food Stamp clinic to show recipients how to prepare healthier meals at home. The Director explained that classes are conducted once per month to coincide with the issuance of the food stamps.

Food Stamp recipients must come to the Food Stamp offices monthly to receive their food coupons. In fiscal year 2003, the program served an average of 2,830 persons and issued \$292,061 in benefits per month. The average monthly benefit per person during this period was about \$103. The program is one of the few remaining U.S. Food Stamp Programs that still

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uses paper food coupons since the program in the 50 states has implemented an electronic benefits transfer system to provide food assistance to eligible recipients.

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## Performance Goals and Accountability Standards

The American Samoa Food Stamp Program does not have federally prescribed program goals or performance standards. FNS officials told us that they evaluate the American Samoa program according to (1) the number of people served, (2) whether recipients received the right number of coupons, (3) whether benefits were awarded correctly, and (4) whether the coupons were used appropriately. According to FNS officials, the Department of Human and Social Services, the American Samoa grantee, is required to monitor and coordinate all program activities and ensure that the activities conform to the guidelines established in the MOU. The MOU outlines procedures for operating the program, such as determining eligibility and processing applications. Program monitoring includes reviews to evaluate program operations, eligibility certification, and retail compliance. To monitor the program for accountability, the Department of Human and Social Services is required to keep necessary records indicating whether the program is being conducted in compliance with the MOU. To monitor this, FNS requires Human and Social Services to submit monthly reports on participation and issuance data and financial information. FNS has also established procedures for recipients and retailers, penalties and disqualifications for fraud, and procedures for clients and retailers who do not adhere to the procedures.

To ensure that the program is in compliance and the services are being delivered appropriately, FNS conducts on-site reviews. These reviews are scheduled annually but may occur less often. Program reviews were conducted in 1995, 2001, and 2004. The last financial management review was conducted in 2003.



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## Performance Evaluation

FNS officials reported that they generally find that the American Samoa Food Stamp Program delivers assistance to the appropriate recipients. FNS officials reported that the program operations have improved since the implementation of an automated system<sup>27</sup> in August 2001. However, during an on-site review of the Food Stamp Program in April 2004, the FNS Program Manager found some instances in which file certification procedures for granting eligibility were not adequately documented. The FNS reviewer reported that FNS made recommendations to the American Samoa Food Stamp Program staff to improve documentations and adhere to the guidelines set forth in the MOU.

The Food Stamp Program Director in American Samoa believes that the grant is adequate to serve the number of eligible recipients and that recipients are happy with the program. During our interview with the American Samoa Department of Human and Social Services Director and Deputy Director, officials reported that no long-term assessment of the program's effectiveness had been conducted but that they are seeing a change of diet as a result of the nutritional training that the Food Stamp Program provides. However, the officials could not document dietary changes. Moreover, they reported that when they recently surveyed recipients regarding where they would like to use their coupons, recipients responded that they would like a chain fast-food restaurant to be added as one of the program's authorized vendors. FNS officials responded that under the current MOU, the American Samoa program staff cannot authorize the fast-food chain to be a program vendor.

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## Local Conditions Affecting Program Delivery or Project Completion

Several local conditions affected the delivery of the American Samoa Food Stamp Program services. Our interviews with federal and program officials indicated that the program had an inadequate number of professional staff to maintain and operate the program's technology infrastructure, including databases to manage program services and account for the use of funds. We also found that other technology barriers affected the delivery of program services. In addition, because the American Samoa Food Stamp Program staff consider the local postal system unreliable, they require applicants and recipients to come to the program offices for all

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<sup>27</sup>The system automates the application process; collects, stores, and reports client program data; generates program management reports; provides controls for coupon inventory and issuance accounting; and provides system controls and checks to reduce opportunities for fraud and abuse.

correspondence regarding their benefits. According to the FNS review in April 2004, the automated system that processes eligibility and administers benefits automatically closes cases that are not certified within 30 days of the initial application but does not generate a letter to inform the applicant. The FNS review also found that although the System Administrator in American Samoa is very knowledgeable of the automated system, the staff has limited programming knowledge essential to designing and programming detailed reports or enhancing the system to meet all of the Food Stamp Program's automation needs. FNS officials reported that American Samoa program officials are in the process of recruiting a computer programmer.

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## Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the Food Stamp Program was limited. The program is subject to OMB Circulars A-87, A-102, and A-133, which contains standards required by the Single Audit Act. The recently released American Samoa single audit reports for fiscal years 1998-2000 showed questionable costs of \$26,033 for the American Samoa Food Stamp Program. For example, in fiscal years 1998, 1999, and 2000, the questioned costs resulted from missing reports and missing support documentation that auditors cited as a lack of adherence to accountability documentation procedures. Also, in all 3 fiscal years, because of incomplete or missing participant files auditors were unable to verify that participants were eligible to receive benefits or that they did not receive benefits prior to their approval through the certification process.

Although the March 2003 financial management review by FNS officials did not find significant problems with internal controls in the American Samoa Food Stamp Program, the findings in the single audit reports point to accountability weaknesses in financial management. The financial management review noted that the program was not in compliance with 7 C.F.R. § 3052, which requires submission of an agency's single audits; however, FNS reported only that it would follow up on the completion status of the missing audits. Additionally, FNS officials reported that as of July 2004, they had received only one of the three single audit reports for fiscal years 1998-2000, despite the fact that all three were completed in August 2003. Federal officials explained that since 1997, when the Federal Audit Clearinghouse was established, a management decision documents the agreement between FNS and American Samoa on the proposed

corrective action for single audit findings and the date that the actions will be completed.<sup>28</sup>

The American Samoa Food Stamp MOU states that any firm or local food producer that has been disqualified by the American Samoa WIC Program will automatically be disqualified from the American Samoa Food Stamp Program for the same period of time. FNS officials said it is difficult to uncover fraud in retail purchases through the type of management evaluation reviews conducted by federal Food Stamp Program staff. Federal program reviewers examine American Samoa Food Stamp retailer authorization and redemption processes, and adherence to retailer requirements, and retailer training and monitoring. While these reviews would not reveal food stamp retailer fraud, since the WIC vendors are also food stamp vendors, and there have been problems with WIC transactions, FNS is monitoring food stamp retailers closely. FNS officials told us in February 2004 that the Food Stamp Program in American Samoa has a compliance program but that compliance reports are not required by FNS. They are considering amending the fiscal year 2005 MOU to include a requirement for compliance reports to be submitted to FNS in addition to the already required reports. In its April 2004 review, FNS found that Food Stamp Program staff were diligent in ensuring timely authorizations for vendors participating in the program. FNS also found that program staff in American Samoa conducted periodic site visits to vendors and ensured that vendors that redeemed large numbers of food stamps were monitored and reported violators were investigated. FNS Food Stamp officials discussed the problems in the American Samoa WIC Program with Food Stamp Program staff and found that vendor case files contained copies of disqualification letters; however, these disqualification letters had not been enforced by the WIC program officials as of August 2004. Staff acknowledged that they were aware of the MOU requirement to disqualify the vendors from the Food Stamp Program once decisions have been made in the WIC Program.

We visited three stores that were authorized vendors for the Food Stamp Program, WIC, or both. In our Food Stamp review, we found that one vendor had not posted the Official Food List (see fig. 10 for an example of the posted list). We did not conduct a full-scale review of all compliance

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<sup>28</sup>FNS stated that there is a 180-day standard for the issuance of management decisions, beginning with FNS National Office's issuance of the single audit report to its Regional Office.

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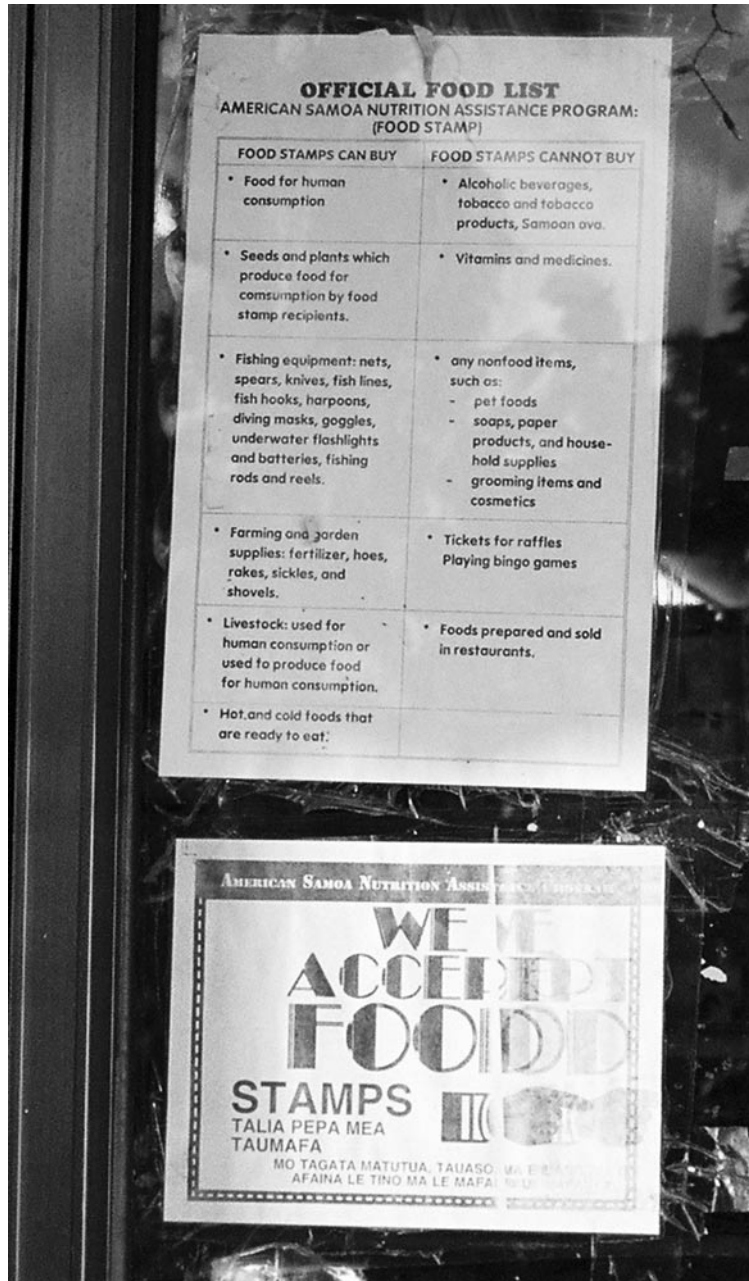
**Appendix III**  
**U.S. Department of Agriculture Programs in**  
**American Samoa**

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requirements, but when we asked store staff about the Food Stamp procedures, one staff member had difficulty understanding Samoan and English. Other staff members could name only a few of the procedures on the checklist in the Food Stamp Program retailer guide, which program staff had provided us before our visit.

Appendix III  
 U.S. Department of Agriculture Programs in  
 American Samoa

Figure 10: Vendor Posting of Official Food List for American Samoa Food Stamp Program



Source: GAO.

The Food Stamp Programs in the 50 states implemented an electronic benefit transfer (EBT) system, a point-of-sale system that helps ensure program compliance.<sup>29</sup> FNS had discussions with American Samoa officials about the territory's implementing the system. However, FNS cautioned that many factors should be considered in determining the feasibility of implementing an EBT system in American Samoa, including the costs of the system relative to American Samoa's resources under the capped grant award; the state of American Samoa's automation technology and resources; the financial and technology limitations of vendors; and the potential impact of such a system on elderly and disabled recipients.

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<sup>29</sup>The system allows recipients to authorize transfer of their government benefits from a federal account to a retailer account to pay for products received. EBT is currently being used in many states to issue food stamp and other benefits. Over 95 percent of food stamp benefits are currently being issued by EBT. State food stamp agencies work with contractors to procure their own EBT systems for delivery of Food Stamp and other state-administered benefit programs.

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# U.S. Department of Education Programs in American Samoa

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## Innovative Programs Grants

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### Purpose and Legislation

State and local education agencies are eligible for federal grants and funds to implement numerous federal education programs. In fiscal years 1999-2003, under a consolidated grant application, American Samoa applied for, and received, Innovative Programs grants to support its education programs.<sup>1</sup> The Innovative Programs grant is designed to assist state and local education agencies in implementing education reform programs and improving student achievement. Innovative Programs grant funding provided by a state education agency to local education agencies can be used to carry out local innovative assistance programs that may include at least 27 “activities,” which are identified in the No Child Left Behind Act (NCLBA).<sup>2</sup> The American Samoa Department of Education reported that it is both a state education agency and a local education agency because it acts as a state education agency when performing its federal grant administration functions but as a local education agency when implementing and assessing local assistance programs.

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### Funding Levels

Table 8 identifies the Innovative Programs grant award amounts to American Samoa for fiscal years 1999-2003. In fiscal year 2003, the Innovative Programs grant accounted for about 40 percent of the American Samoa Department of Education’s total budget (about \$40 million). Annual awards to American Samoa and the other insular areas are based on a statutory formula for set-asides that allocates up to 1 percent of the total federal education funds available each year to the 50 states for distribution to the insular areas, according to their respective need. The American

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<sup>1</sup>Title V, Part A, of the No Child Left Behind Act reauthorized former Title VI of the Elementary and Secondary Education Act of 1965 to provide funding to enable state educational agencies and local educational agencies to implement education programs. Title V also permits the consolidation of two or more authorized programs under one application to provide for simplified reporting procedures and flexibility in allocating funds to meet educational needs.

<sup>2</sup>For a full listing of the 27 authorized Innovative Programs assistance areas, see <http://www.ed.gov/programs/innovative/legislation.html>. Funding can also be used by states for activities in eight education categories outlined in the NCLBA, which include establishing charter schools or implementing statewide reform.

Samoa Department of Education can draw down awarded grant funds throughout the year and spend any remaining grant funds during the following fiscal year. The increase in the Innovative Programs grant award to American Samoa for fiscal years 2002 and 2003 resulted from the enactment of the NCLBA. The act authorized a \$65 million increase in total federal appropriations for Innovative Programs grants and parental choice provisions from fiscal year 2001 to 2002 and a \$25 million increase from fiscal year 2002 to 2003. The NCLBA also permitted consolidated grant applicants such as American Samoa to transfer up to 50 percent of certain nonadministrative federal funds to the Innovative Programs grant.

**Table 8: Innovative Programs Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$6,783,601
2000	7,040,347
2001	7,727,525
2002	15,334,085
2003	16,763,115
<b>5-year total</b>	<b>\$53,648,673</b>

Source: U.S. Department of Education, Office of Elementary and Secondary Education.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

**Activities Supported, Target Recipients, and Basic Accomplishments**

For fiscal years 1999-2001, the American Samoa Department of Education reported that it implemented programs for training instructional staff, acquiring student materials, implementing technology, meeting the needs of students with limited English proficiency, and enhancing the learning ability of students who are low achievers. Similar initiatives were proposed in American Samoa’s fiscal year 2002 and 2003 consolidated grant applications, in addition to others (see table 9 for a full list). Under the Innovative Programs grant rules, American Samoa must spend at least 85 percent of the funds on local innovative assistance programs, whereas up to 15 percent of the funds may be spent on state education agency programs and the administration of the Innovative Programs grant. Table 9 shows how the American Samoa Department of Education allocated Innovative Programs grant funds among its various programs in fiscal year 2003.



**Appendix IV**  
**U.S. Department of Education Programs in**  
**American Samoa**

**Table 9: Budget Allocation of Innovative Programs Grant Funds to American Samoa, Fiscal Year 2003**

Program name		Amount	Allowable allocation	
State education agency activities	State technical assistance	\$2,137,297	15%	
	• Project Safe School Environment	1,000,000		
	• Project Assessment	619,016		
	• Project Leadership	443,047		
	• Project Evaluation	75,234		
	State administration	377,170		
<b>Subtotal</b>		<b>\$2,514,467</b>		
Local education agency activities	Public schools	Teacher quality	5,938,187	85%
		Supplemental instructional materials	2,829,273	
		Acquisition of technology	1,341,600	
		Library services	600,577	
		Community learning centers	567,419	
		Technology training	300,000	
		At-risk schools	300,000	
		Alternative education program	298,255	
	Private schools	Private school programs <sup>a</sup>	2,073,337	
	<b>Subtotal</b>		<b>\$14,248,648</b>	
<b>Total</b>		<b>\$16,763,115</b>	<b>100%</b>	

Sources: American Samoa Department of Education data and GAO calculation.

<sup>a</sup>Federal law permits some “secular, neutral, non-ideological services” to be provided by a local education agency to private school students using Innovative Programs grant funds; however, the program funds must be controlled and administered by a public agency, and all services must be provided independently of any private school or religious organization.

In fiscal year 2003, the largest dollar share of local education agency funds supported local activities such as teacher quality improvement programs, class size reduction efforts, and the purchase of supplemental instructional materials. According to the American Samoa Department of Education, every classroom for kindergarten through eighth grade currently has an average of about 27 students per teacher. However, the department would like to reduce the average class size to 15 students per teacher for kindergarten through third grade and to 20 students per teacher for grades four through eight, by hiring more fully certified teachers. Teachers may obtain teaching degrees locally from the American Samoa Community College or from a University of Hawaii cohort program. The American Samoa Department of Education reported that the community college enrolled 600 to 900 students per year from 1999-2002 in its teacher

certification program and that 142 teachers graduated from the Hawaii cohort program in 1999-2002. However, according to department officials, teachers are difficult to retain owing to the island's inability to pay salaries that are commensurate with the cost of living.

For all fiscal years included in our review, American Samoa used the Innovative Programs grant to budget for local education agency innovative assistance programs and costs associated with those programs, such as payroll, supplies, contractual services, travel, equipment, and indirect costs. According to the American Samoa Department of Education, various programs receive local education agency program funds on a per child basis, with equal allocations for each 5- to 12-year-old child. American Samoa's fiscal year 2004 consolidated grant application reported that about 17,000 children aged 5 to 17 years were attending 23 elementary, 6 secondary, and 13 private schools.

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## Performance Goals and Accountability Standards

The consolidated grant application form developed by the U.S. Department of Education (ED) identifies five performance goals,<sup>3</sup> with corresponding indicators, that apply to all proposed education programs. The form requires applicants to provide certain minimum information, including performance "targets" to confirm the state or local education agency's program compliance with these five goals. The American Samoa Department of Education is not specifically required to comply with NCBLA, but it reported in its fiscal year 2003 grant application that "it has made the commitment to utilize" some of the performance goals as a framework for improving education in the territory.<sup>4</sup> In addition, local assistance programs funded under the Innovative Programs grant must be (1) tied to promoting challenging academic achievement standards, (2) used to improve academic achievement, and (3) part of an overall

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<sup>3</sup>The five performance goals are as follows: (1) By 2013-14, all students will reach high standards, at a minimum attaining proficiency or better, in reading/language arts and mathematics. (2) All limited English proficient students will become proficient in English and reach high academic standards, at a minimum attaining proficiency or better in reading or language arts and mathematics. (3) By academic year 2005-2006, all students will be taught by highly qualified teachers. (4) All students will be educated in a learning environment that is safe, drug free, and conducive to learning. (5) All students will graduate from high school.

<sup>4</sup>The American Samoa Department of Education's fiscal year 2003 grant application indicated that the English proficiency goal was replaced by a goal for parents in the community to become equal partners in their children's educational program.

education reform strategy. According to an American Samoa Department of Education official, implementing certain aspects of the NCLBA could begin to tie federal dollars to progress and measurable results for students in American Samoa.

In 2002, ED began requiring the American Samoa Department of Education (and state education agencies in the 50 states) to submit reports that describe how programs implemented under the Innovative Programs grant have affected student achievement and education quality. State and local education agencies have the authority to develop the content and format of their own summaries and evaluations, but each agency must meet certain reporting requirements. According to ED guidance, local education agencies must submit annual “evaluations” that include, at a minimum, information and data on the funds used, the types of services furnished, and the students served by the programs. State education agencies must submit an annual statewide “summary” based on the evaluation information received from the local education agencies.

ED reported that it relies primarily on single audit reports, in addition to its own financial monitoring, to assess the fiscal accountability of American Samoa’s Innovative Programs grant. ED’s annual performance report requires grantees to include information about how grant funds were spent. Since September 2003, ED has designated American Samoa as a high-risk grantee and has begun requiring the American Samoa Department of Education to submit quarterly financial reports.

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## Performance Evaluation

We found that local program performance was difficult to evaluate, owing to yearly variations in the types of programs implemented, variations in funding levels for the programs that did not change, and variations in the types of data provided in annual performance reports. The Western Association of Schools and Colleges (an accrediting commission for schools in the United States) reported that one of American Samoa’s six high schools continued to be denied accreditation because of long-standing issues, including poor teacher qualifications, failure to make certain improvements in student education programs, and failure to procure education materials and equipment in a timely manner.

In spite of our inability to determine local program performance, ED’s Office of Elementary and Secondary Education indicated that the American Samoa Department of Education generally submitted the annual reports on a timely basis for fiscal years 1999-2002 and that the reports provided some

information about American Samoa's education programs. In addition, ED's program managers reported that they have frequent communication with American Samoa Department of Education officials throughout the application and reporting process but that on-site reviews of the program are infrequent: the last ED program review in American Samoa was conducted in 1991. Officials from ED's Office of Inspector General (OIG) visited American Samoa in August 2002 to determine whether allegations of fraud in its programs warranted additional investigation and audit. The OIG's report did not include specific findings on the Innovative Programs grants. ED officials told us that they visited American Samoa in September 2004.

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**Local Conditions Affecting  
Program Delivery or Project  
Completion**

According to the American Samoa Department of Education, American Samoa's remoteness presents challenges in all aspects of implementing the Innovative Programs grant in American Samoa. For example, transporting personnel, materials, and supplies to and from the territory is costly and logistically difficult. Attracting and retaining qualified teachers is also a problem, given that the average teacher salary in American Samoa is about \$13,000 per year while the cost of living is comparable to that in Hawaii. Although the American Samoa Community College offers an associate degree in education, the territory has no institutions of higher education. Most teachers hired in American Samoa have an associate degree from the community college.

Another factor affecting education in American Samoa is limited English proficiency. Most students are formally introduced to English in kindergarten but are raised speaking Samoan, which has fewer letters in its alphabet and many fewer words than English. According to the American Samoa Department of Education's annual grant application for 2003, at least 70 percent of all students in kindergarten through twelfth grades have limited English proficiency.

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**Grant Accountability**

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the Innovative Programs was limited and ED was unable to ensure fiscal accountability for the grant funds. ED

designated the American Samoa government a high-risk grantee<sup>5</sup> in September 2003, primarily because of its failure to provide timely single audit reports. Although the American Samoa Department of Education submitted annual Innovative Programs grant applications and reports in fiscal years 1999-2003, we determined that the annual reports did not contain sufficient detail on program expenditures to demonstrate accountability for the use of all the grant funds. ED officials report that the agency is now working closely with the American Samoa Department of Education to submit quarterly financial reports that describe in more detail how funds are being used.

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## Special Education Grants

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### Purpose and Legislation

The Individuals with Disabilities Education Act (IDEA) is the primary federal law that addresses the unique needs of children with disabilities, including, among others, children with specific learning disabilities, speech and language impairments, mental retardation, and serious emotional disturbance. Under IDEA, Part B,<sup>6</sup> ED provides grants to states and outlying areas, including American Samoa, to provide eligible children with disabilities who are aged 3 through 21 years with a free appropriate public education in the least restrictive environment<sup>7</sup> to the maximum extent appropriate.

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<sup>5</sup>Under 34 C.F.R. § 80.12, a grantee may be considered “high risk” if an awarding agency determines that a grantee: (1) has a history of unsatisfactory performance, (2) is not financially stable, (3) has a management system that does not meet certain standards, (4) has not conformed to terms and conditions of previous awards, or (5) is otherwise not responsible.

<sup>6</sup>Another part of IDEA, Part C, provides eligible children with disabilities, from birth to 3 years of age, with special education services. Part C was not covered in our review.

<sup>7</sup>Providing the least restrictive environment means that children with disabilities are educated alongside children who are not disabled, unless the nature or severity of the disability is such that education in regular classes with the use of supplementary aids cannot be achieved satisfactorily. See 34 C.F.R. § 300.550.

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## Funding Levels

American Samoa relies almost entirely on its IDEA grants to fund its Special Education Program. Special Education grants to American Samoa and other outlying areas are allotted proportionately among them on the basis of their respective need, not to exceed 1 percent of the aggregate amounts available to the states in a fiscal year, as determined by the Secretary of Education.<sup>8</sup>

IDEA funds have historically been appropriated every July 1 and remain available for obligation for 15 months. Under the law, if a state education agency does not obligate all of its grant funds by the end of the fiscal year for which the funds were appropriated, it may obligate the remaining funds during a carryover period of one additional fiscal year.<sup>9</sup> The per student federal amount includes special education services such as regular and special education classes, resource specialists, and other related services. Table 10 shows Special Education Program funds awarded to American Samoa for fiscal years 1999-2003. Amounts do not reflect carryovers from prior years.

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<sup>8</sup>Section 611 of IDEA states that for funds to the outlying areas that are appropriated for any fiscal year, ED shall reserve not more than 1 percent, which shall be used to provide assistance to the outlying areas in accordance with their respective populations of individuals aged 3 through 21 years.

<sup>9</sup>Any carryover funds that are not obligated by the end of the carryover period must be returned to the federal government.

**Table 10: Special Education Grant Awards to American Samoa, Fiscal Years 1999-2003**

Fiscal year	Grant award
1999	\$4,832,745
2000	4,956,510
2001	5,127,424
2002	5,705,650
2003	5,816,515
<b>5-year total</b>	<b>\$26,438,844</b>

Source: U.S. Department of Education, Office of Special Education Programs.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

**Activities Supported, Target Recipients, and Basic Accomplishments**

As of January 2004, the American Samoa Department of Education reported that its Special Education Program was using the IDEA grant to provide services to slightly more than 1,100 eligible 3- to 21-year-old students with disabilities and that it was providing the requisite services<sup>10</sup> to eligible children in the territory.

Under IDEA, federal funds may be used for salaries of teachers and other personnel, education materials, and related services such as special transportation or occupational therapy. According to the American Samoa Department of Education, IDEA funds support all but 1 of the Special Education Program’s approximately 200 positions. According to ED officials, IDEA does not prohibit the provision of services to non-U.S. nationals.

**Performance Goals and Accountability Standards**

The Special Education Program in American Samoa is required to demonstrate that it meets all of the conditions that apply to the 50 states under IDEA. The main objective of IDEA is to identify each child with a disability, determine his or her eligibility for special education services, and provide each eligible student an individualized education program designed

<sup>10</sup>Requisite services include, but are not limited to, the identification, assessment, and evaluation of students and the provision of specially designed instruction and related services (e.g., physical therapy, occupational therapy) to meet the students’ unique needs at no cost to the parents.

to meet his or her needs.<sup>11</sup> To monitor performance of special education programs nationwide, ED required two biennial reports for the program covering school years 1998-1999 and 2000-2001. For 2002 and 2003, American Samoa was required to submit an annual report that included (1) a comparison of actual accomplishments to the objectives established for the reporting period, (2) reasons for any failure to meet the established objectives, and (3) additional pertinent information including a description of planned future educational activities. In response to ED's request, American Samoa submitted a self-assessment in May 2003 based on ED's special education monitoring process (Continuous Improvement Monitoring Process), which was being implemented in 2003.

Federal officials said that they rely primarily on the single audit reports to determine accountability for IDEA program funds. ED also reported that although the agency is not currently required to perform on-site reviews of the Special Education Program in American Samoa or any other insular area or state, members of ED's Office of Special Education Programs conducted an on-site review in September 2004.

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## Performance Evaluation

The American Samoa Special Education Division Office submitted the required biennial and annual performance reports between 1999 and 2003. The Division Office also submitted the required self-assessment report for 2003. In these reports, American Samoa reported to ED that it was difficult to measure the progress of its Special Education Program because of data limitations and because its limited review indicated both progress and "slippage" in several core IDEA areas, such as general supervision of the program, provision of transition services, parent involvement, and provision of a free appropriate public education in the least restrictive environment.

In 1999, a consultant from the Western Regional Resource Center (a grantee of ED's Office of Special Education Programs) was contracted by the American Samoa Department of Education to conduct a compliance review of IDEA, as part of its general supervisory authority, by reviewing eight elementary and secondary schools. The consultant reported that all of the schools had various problems in preparing, updating, and retaining

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<sup>11</sup>An individualized education program is a written statement that is developed for each student with a disability and is required to be developed, reviewed, and revised in accordance with IDEA.



students' individualized education programs. Seven of the eight schools did not provide a free appropriate public education to all eligible disabled students in accordance with requirements under IDEA. Four schools failed to place their special education students in the least restrictive environment; four schools were out of compliance with procedural safeguards of the act; and four schools had no mechanisms in place for identifying children and referring them for an evaluation, conducting an evaluation for those referred to the program, and determining whether those evaluated were eligible for services.

In May 2003, an American Samoa special education program steering committee submitted a self-assessment report of the Special Education Program to ED. The report indicated that certain aspects of the program needed improvement in areas such as general supervision, public awareness and child find, early childhood and secondary transition, and providing a free appropriate public education in the least restrictive environment. The steering committee also reported that some aspects of American Samoa's Special Education Program complied with IDEA requirements.

After reviewing American Samoa's self-assessment, ED's Office of Special Education Programs identified program areas that were noncompliant or in danger of failing to comply with IDEA. For example, American Samoa's self-assessment indicated that its Special Education Program had a limited pool of trained personnel and no physical therapists, occupational therapists, or social psychologists, chiefly because of a reported freeze on new hires and new positions in the program.<sup>12</sup> ED also identified inconsistencies in the program's stated ability to meet the requirement for special education students to participate in territory-wide assessments. In addition, ED found that the program failed to comply with IDEA requirements for parent participation and interagency coordination in transition planning and provision of services.

During our visit to American Samoa, we selected 17 individualized education program files from six elementary and secondary schools that provide special education services in American Samoa, and we reviewed

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<sup>12</sup>IDEA requires a comprehensive system of personnel development to be in effect that is designed to ensure an adequate supply of qualified special education, regular education, and related services personnel. An official from the American Samoa Department of Education indicated that there was no departmental freeze on new hires and on opening new positions in the Special Education Program.

them for the requisite content.<sup>13</sup> All requested files were provided, and they generally included the requisite content. We did not evaluate the quality of the written content in each individualized education program, although some student files appeared more comprehensive than others.

IDEA also requires each public education agency to identify all children with possible disabilities residing in its jurisdiction. For each child identified, the agency must provide a full and individual evaluation to determine whether the child has a disability and the nature of the child's educational needs, so that an individualized education program can be developed. IDEA requires the public education agency to initiate a collaborative planning effort between parents and school officials to develop this education program and calls for implementing the program as soon as possible. However, parents, teachers and education officials in American Samoa reported that the Special Education Division Office was often slow in responding to requests for services and other resources.

For example, we met one student who was completely deaf in both ears but had been passed from kindergarten to third grade without being identified and referred to the Special Education Program for an assessment or evaluation. In third grade, the student was tested by an audiologist and confirmed to be deaf, and her principal requested the purchase of hearing aids to enhance the child's ability to hear. According to the American Samoa Special Education Division Office, it did not submit a purchase order for hearing aids until April 2003, 4 months after the request was made; as of our visit in March 2004, the hearing aids had not arrived.<sup>14</sup> Officials from the American Samoa Department of Education's Special Education Division Office explained that the hearing aids had not yet arrived because of a miscommunication with the off-island company from which the devices were ordered. American Samoa Special Education officials said that the off-island company did not process the hearing aids

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<sup>13</sup>Individualized education programs should include statements of (1) the child's present levels of educational performance; (2) measurable annual goals; (3) special education and related services to be provided; (4) an explanation of the extent, if any, to which the child will not participate with nondisabled children in the regular class and in certain activities; (5) individual modification in the administration of assessments; (6) the projected date for the beginning of services to be provided; (7) transition service needs beginning at age 14 and updated annually; and (8) how the child's progress toward the annual goals will be measured.

<sup>14</sup>An ED official recently informed us that the student received the hearing aids in April 2004. ED officials confirmed this during their site visit in September 2004.

order because it required advance payment, but that the company did not notify the American Samoan Special Education Division Office officials of this requirement. As a result, payment was not sent to the vendor and the hearing aids were not ordered.

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### Local Conditions Affecting Program Delivery or Project Completion

One barrier to effective implementation of the Special Education Program in American Samoa is the limited number of licensed or certified professionals. At the time of our review, American Samoa's Special Education Program had about 200 staff, including program administrators, teachers, social workers, bus drivers, and other personnel. However, American Samoa Department of Education officials noted that the program needs more certified professionals. For example, according to the American Samoa Special Education Division Office, the program has only one physical therapist (hired in October 2003) and needs speech pathologists, occupational therapists, audiologists, psychologists, and other professionals certified or trained in teaching special education. In addition, the program had no certified psychologist at the time of our review.<sup>15</sup> American Samoa reported that because its education program is supported almost entirely by federal funds, its average dollar allocation per child is more limited than are allocations in states that subsidize their IDEA grants with state or local contributions.

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### Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the American Samoa Special Education Program was limited. The single audit reports for fiscal years 1999 and 2000, which were completed in August 2003 stated that the program did not adequately maintain supporting documents for certain financial transactions and had questioned costs of more than \$18,000 in 1999 and more than \$170,000 in 2000. In addition, we found that the Special Education Program Director and staff had limited awareness of the program's fiscal position for at least 2 years. Program funds are controlled almost entirely by the American Samoa Department of Education.

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<sup>15</sup>We did not verify the extent to which all of these positions were actually filled.

# U.S. Department of Transportation Programs in American Samoa

## Airport Improvement Program

### Purpose and Legislation

The Department of Transportation's (DOT) Airport Improvement Program<sup>1</sup> provides federal grants for airport planning and infrastructure development involving safety, security, environmental mitigation, airfield infrastructure, airport capacity projects, landside access, and terminal buildings. The Federal Aviation Administration (FAA), which administers the program, has identified more than 3,000 airports that are significant to the national air transportation system and thus eligible to receive Airport Improvement Program grants. Total funding authorization for the Airport Improvement Program was \$3.4 billion in fiscal year 2003.<sup>2</sup> American Samoa has participated in the Airport Improvement Program since it began in 1982.

### Funding Levels

Table 11 provides a summary of total FAA Airport Improvement grant awards to American Samoa during the period of our review.

**Table 11: Airport Improvement Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal year</b>	<b>Grant award</b>
1999	\$9,554,090
2000	8,909,629
2001	7,482,113
2002	8,936,051
2003	4,409,997
<b>5-year total</b>	<b>\$39,291,880</b>

Source: FAA Honolulu Airport District Office.

Note: Total combined annual grants for all three American Samoa airports. Figures do not include grant amendments. Grant awards are shown in nominal dollars.

<sup>1</sup>The Airport Improvement Program is established under Title 49 U.S.C., chapter 471.

<sup>2</sup>See 49 U.S.C. §§ 47114 and 47115.

Distribution of Airport Improvement Program grants is based on a combination of formula grants and discretionary funds. The amounts of formula grants for primary airports,<sup>3</sup> which include the main airport in American Samoa, are based on the number of passenger boardings or a minimum of \$1,000,000 per year in grant funds. For nonhub primary airports like Pago Pago International, these funds are available in the year they are apportioned and remain available for 3 fiscal years. Larger airports have only 2 additional fiscal years to use these funds. Airports compete with other airports in their region for available discretionary funds.<sup>4</sup> The American Samoa Department of Port Administration, which operates the airports, is the grant recipient. Before fiscal year 2004, the department was not required to provide any matching funds for the first \$2 million of the grant award; above \$2 million, the local contribution was 10 percent. For fiscal years 2004-2007, the department is not required to provide matching funds for the first \$4 million; above \$4 million, the required local contribution will be 5 percent. The department fulfills its matching requirement with credit for in-kind contributions, such as land or staff time, because it has no funds to contribute to the projects.

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Activities Supported, Target  
Recipients, and Basic  
Accomplishments

American Samoa has three airports, all of which receive Airport Improvement Program grants. The main airport, Pago Pago International, is classified by FAA as a commercial service–primary airport and has two runways, one of which can accommodate large commercial jets. Typically, eight commercial passenger flights depart Pago Pago International per week. The other two airports, Fitiuta and Ofu, are very small commercial service–nonprimary airports that cannot accommodate large commercial carriers.

Since 1998, Airport Improvement Program grants have been used for constructing taxiways, extending runways, and rehabilitating existing runways, taxiways, and shoulders. Maintaining the quality of runways, taxiways, and shoulders is critical to airport safety; according to airport officials in American Samoa, the jet engines can suck in debris such as loose asphalt as if they were “huge vacuum cleaners.” Projects also

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<sup>3</sup>Primary airports have 10,000 or more annual passenger enplanements from scheduled commercial service.

<sup>4</sup>According to an airport official in American Samoa, Pago Pago International Airport has too few passenger boardings to receive more than the \$1,000,000 minimum from the formula portion of the grant funds, in addition to whatever discretionary grant funds it receives.

included the construction of an “aircraft, rescue and firefighting” training facility, the purchase of new fire and rescue vehicles (see fig. 11), new shelters for rescue vehicles, and the installation of perimeter fencing to improve airport security. Runway safety areas at the airport in Pago Pago were upgraded to meet FAA standards, providing additional margins of safety. Construction projects are completed through competitive contracts with engineering and construction firms.

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**Figure 11: New Fire Suppression Vehicle for American Samoa Airports**



Source: GAO.

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## Performance Goals and Accountability Standards

The same federal regulations apply to Airport Improvement Program grants in American Samoa as in the 50 states. Airports must have a 3- to 5-year capital improvement plan, which identifies the airport’s development priorities and forms the basis for the grants they request and are awarded by FAA. FAA works with the airports to develop this plan. FAA views project completion as the primary performance goal and monitors the performance of projects primarily through weekly construction progress reports. An FAA engineer also conducts an on-site inspection of every

project, ideally at the project's completion.<sup>5</sup> However, according to an FAA official, such inspections are not always possible because of the cost of travel from the FAA Airport District Office in Honolulu to American Samoa.

According to the FAA official overseeing Airport Improvement Program grants in American Samoa, contractors' monthly claims for reimbursement represent a key means of assuring project accountability. Additionally, FAA must approve all contract change orders. Grantees must conform to a broad range of requirements governing the implementation of project grants, detailed in the FAA Airport Improvement Program Handbook.<sup>6</sup> The handbook outlines project eligibility requirements, planning process guidelines, procurement and contract requirements, project accomplishment requirements, grant closeout procedures, and audit requirements. The Airport Improvement Program also relies on single audit reports to assess accountability for its funds to American Samoa.

Procurements made under the Airport Improvement Program must comply with required federal contract provisions established by various laws and statutes. For example, the grantee must ensure that contractors comply with minimum wage requirements under the Davis-Bacon Act. The FAA official responsible for American Samoa stated that "Buy America" preferences<sup>7</sup> apply to the purchase of steel and manufactured products but not to services, such as engineering, consulting, and construction, that comprise the bulk of grant expenditures. The official also stated that American construction firms do not bid on runway pavement projects in American Samoa, most likely because of costs associated with American Samoa's remote location and the relatively small size of the projects involved. In addition, the official stated that the program does not require contractors to hire workers from the local labor force, according to the FAA official.

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## Performance Evaluation

According to the FAA official responsible for American Samoa, in fiscal years 1999-2003, the airports successfully completed projects, paid for with

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<sup>5</sup>The FAA official responsible for these inspections stated that it is not always possible to conduct on-site inspections at the end of projects because he cannot visit American Samoa as often as he normally would visit airports nearby.

<sup>6</sup>FAA Order 5100.38B.

<sup>7</sup>49 U.S.C. §§ 50101-50105.

Airport Improvement Program grants, to improve safety and capacity. The main runway at Pago Pago International is free of areas with the potential for foreign object debris, and the taxiway's repavement is almost completed. The airport now has the ability to respond to a land accident with its new aircraft rescue and firefighting vehicles, although maritime rescue capability does not currently exist.

According to an FAA official, the use of separate DOI Operations and Maintenance Improvement grants to hire an experienced airport engineer in 2001 to manage the infrastructure projects contributed significantly to the effective use of the Airport Improvement Program grants in American Samoa.<sup>8</sup> Prior to the engineer's arrival, the airports had difficulty prioritizing and implementing projects funded with FAA's Airport Improvement grants. Because of the engineer's presence, projects were completed and contractors were paid on time, according to the FAA official. These DOI funds, which required a 50 percent local match, were sufficient to cover the engineer's salary for 3 years. The engineer's contract with the American Samoa Department of Port Administration expired at the end of June 2004.

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### Local Conditions Affecting Program Delivery or Project Completion

American Samoa airport officials reported that because the airports operate at a loss annually, they have been unable to complement Airport Improvement Program grant funds, which has slowed the completion of critical projects.<sup>9</sup> For example, as of July 2004, the airports had not acquired all needed rescue vehicles, and upgrades of the main runway at Pago International had to be phased in over several years. Despite significant progress in upgrading the airport's infrastructure and rescue response capability, an American Samoa airport official estimated that the airport would probably not reach an acceptable standard until 2007, based on the amount of federal funding available.

An incident at Pago Pago International in August 2003 illustrates the impact of delays in upgrading the airport runway surface. The main runway had to close for 2 weeks because of the presence of foreign object debris on the

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<sup>8</sup>The Department of Port Administration received DOI Operations and Maintenance grants of \$30,000 in fiscal years 2000 and 2001 and \$15,000 in 2002.

<sup>9</sup>FAA stated that it is aware of American Samoa's difficulties in matching federal funds and, using approved FAA procedures, has recognized American Samoa's in-kind contributions as the required match.



runway. Hawaiian Air, which provides the only service between Pago Pago and Honolulu, suspended service after one of its jets took in debris after landing at Pago Pago, sustaining damage to one of its engines. Service did not resume until after emergency repairs to the runway, stranding travelers in American Samoa for 2 weeks.

The airports recently acquired two aircraft rescue and firefighting vehicles, which are now available for use at Pago Pago International. However, two additional rescue vehicles are still needed, one each for Fitiuta and Ofu airports, according to an airport official in American Samoa. At Pago Pago International, crowded commercial jets arrive and depart despite a lack of maritime rescue capability. The airports have had to delay acquisition of this essential rescue equipment because of other priorities for the use of available grant funds. Future grant funds are to be used to purchase additional aircraft rescue and firefighting vehicles and a maritime rescue craft.

According to an American Samoa official, the airport generates relatively little revenue from passenger facility charges of up to \$4.50 per boarding passenger—a key revenue source for airports in the United States. Because only eight flights per week depart from Pago Pago International, passenger facility charges at that airport generate about \$300,000 per year, which is insufficient to support any significant infrastructure upgrades or matching contributions, the official stated. American Samoa officials pointed out that foreign airports in the Pacific islands charge as much as \$25 per departing passenger. They roughly estimated that if Pago Pago International were to charge \$20 per departing passenger, it would generate more than \$1 million per year. However, the \$4.50 cap is statutory; Congress raised the cap from \$3.00 to \$4.50 in FAA's 2000 reauthorization legislation<sup>10</sup> and elected not to raise it again in FAA's 2004-2007 legislation.<sup>11</sup>

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## Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the timeframe specified in the Single Audit Act, overall accountability for the Airport Improvement Program in

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<sup>10</sup>AIR 21—The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century of 2000 (Pub. L. No. 106-181) reauthorizing FAA for fiscal years 2001-2003.

<sup>11</sup>Vision 100—Century of Aviation Reauthorization Act (Pub. L. No. 108-176) reauthorizing FAA through 2007.

American Samoa was limited. The single audits for fiscal years 1998-2000 did not test Airport Improvement Program expenditures. The 2001 single audit report tested several of the program's expenditures and found that the American Samoa government received federal funds in excess of allowable federal expenditures and did not meet the matching requirements of FAA grants. In addition, the auditors found that the American Samoa government is not in compliance with drawdown requirements of FAA funds, because the funds requested were not supported by proper documentation. According to prescribed procedures, these findings were forwarded to the U.S. Department of Transportation Inspector General, who would determine whether FAA needed to take remedial measures to improve the American Samoa Department of Port Administration's financial accountability.

The FAA official responsible for American Samoa stated that the Airport Improvement Program grantee had complied with accountability requirements. The official reported that, throughout projects, he received on a timely basis contractors' monthly requests for reimbursement, as well as weekly construction progress reports from American Samoa airport officials. We asked airport officials in American Samoa to document that the contract for the major runway extension project was bid on competitively and that FAA reviewed and approved the contract award and contract change orders. The airport officials complied with this request, and FAA officials confirmed that they reviewed the bid process and all change orders. FAA officials also stated that there were no unresolved bid protests for any projects in American Samoa.

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## Federal-Aid Highway Program

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### Purpose and Legislation

DOT's Federal-aid Highway Program<sup>12</sup> provides funding to state transportation agencies in the planning and development of an integrated,

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<sup>12</sup>For the purposes of this report, we refer collectively to the highway projects in American Samoa as the Federal-aid Highway Program.

interconnected highway system important to nationwide commerce and travel.<sup>13</sup> The primary focus of the program is funding construction and rehabilitation of the National Highway System (NHS)—including the Interstate System—and improvements to public roads, with some exceptions, such as local roads. In 1970, the Federal-Aid Highway Act<sup>14</sup> established, among other programs, the Territorial Highway subprogram; since then, the Federal-aid Highway Program has provided for the improvement of roads in American Samoa. Although Federal-aid Highway Program projects in American Samoa are funded under a different statute than projects in the 50 states,<sup>15</sup> the territory’s projects are administered in the same manner as those in the states, with the territorial transportation agency functioning as the state agency. The Department of Transportation’s Federal Highway Administration (FHWA) Hawaii Division Office administers three main subprograms in American Samoa under the Federal-aid Highway Program.<sup>16</sup>

- *Territorial Highway subprogram.* The subprogram’s purpose is to assist American Samoa and other U.S. territories in constructing and improving its arterial highways and necessary interisland connectors.<sup>17</sup> Territorial Highway funds can be used for improvements on all routes designated as part of the Territorial Highway System.
- *High Priority Projects subprogram.* The subprogram provides designated funding for specific projects described in law and determined by Congress to be high priority.<sup>18</sup>

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<sup>13</sup>The Federal-aid Highway Program is authorized under 23, U.S.C. 101, §§ 101-189 (2002).

<sup>14</sup>Federal-aid Highway Act of 1970, Pub. L. No. 91-605, § 112(a), 84 Stat. 1713, 1720-1721 (1970) Current version at 23 U.S.C. § 215 (2002)).

<sup>15</sup>23 U.S.C. § 215.

<sup>16</sup>According to DOT officials, American Samoa received an additional \$500,000 in fiscal year 2003 for the Route 1 Corridor Program.

<sup>17</sup>The Territorial Highway System is a system of arterial and collector highways and interisland connectors that have been approved by the Federal Highway Administration. The territorial highway system is considered to be the Federal-aid highways of each territory.

<sup>18</sup>The Transportation Equity Act for the 21st Century (TEA-21), Pub. L. No. 105-178, as amended, authorized 1,850 High Priority Projects nationwide over 6 years.

- *Emergency Relief subprogram.* Subprogram funds are intended for the repair and reconstruction of federal-aid highways and roads on federal lands that have suffered serious damage as a result of natural disasters or catastrophic failures from an external cause. The funds may be used for repair work to restore essential travel, minimize the extent of damage, or protect the remaining facilities.

## Funding Levels

Table 12 shows total annual funding for federal highway planning and construction in American Samoa for fiscal years 1999-2003. The table also shows funding for the Territorial Highway, High Priority Projects, and Emergency Relief subprograms.

**Table 12: Federal-Aid Highway Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

Fiscal year	Subprograms			Total grant award
	Territorial Highway	High Priority Projects	Emergency Relief	
1999	\$3,214,120	\$1,800,000	\$0	\$5,014,120
2000	3,170,440	2,275,386	70,000	5,515,826
2001	3,199,560	2,360,627	260,000	5,820,187
2002	3,297,599	2,280,000	1,928,000	7,505,599
2003	3,609,301	2,265,180	685,000	6,559,481
<b>5-year total</b>	<b>\$16,491,020</b>	<b>\$10,981,193</b>	<b>\$2,943,000</b>	<b>\$30,415,213</b>

Source: FHWA-Hawaii Division Office Fiscal Management Information System.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

Federal funds account for 100 percent of all federal highway construction projects in American Samoa. The Territorial Highway subprogram provides a set amount of \$36.4 million each fiscal year for the U.S. territories.<sup>19</sup> Of this amount, American Samoa and the Commonwealth of the Northern Mariana Islands each receive 10 percent, while Guam and the Virgin Islands

<sup>19</sup>The Intermodal Surface Transportation Efficiency Act of 1991, ISTEA, established the National Highway System (NHS) and provided continued funding of the territorial highway program as a 1 percent set-aside from the NHS funds. In 1998, TEA-21 changed the 1 percent set-aside of the NHS funds for the territories to provide a set amount of \$36.4 million each fiscal year.

each receive 40 percent, according to a 1993 allocation formula.<sup>20</sup> Territorial Highway funds are available for expenditure in the fiscal year in which they are awarded and up to an additional 3 years. High Priority Projects and Emergency Relief funds are available for an unlimited period until they are expended and are subject to an annual obligation limit. The obligation limit for Emergency Relief funding in the territories as a group is \$20 million.

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**Activities Supported, Target Recipients, and Basic Accomplishments**

The Federal Highway Administration's (FHWA) Hawaii Division Office is responsible for administering the Federal-aid Highway Programs in American Samoa, while the American Samoa Department of Public Works typically handles the actual work, including planning and construction supervision. The FHWA-Hawaii Division Office estimated that it approved, funded, and initiated a total of 43 projects for the Territorial Highway, High Priority Projects, and Emergency Relief subprograms in American Samoa in fiscal years 1999–2003. Officials said that about 19 projects showed signs of being completed or near completion in March 2004.<sup>21</sup> Many of these projects were to construct and rehabilitate different segments of the island's main road—Route 1—and other village roads. One of the completed projects we viewed restored a segment of Route 1 with new pavement, curb and gutter, a new concrete revetment on one side, and an embankment to protect the road from falling rock on the other side.

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**Performance Goals and Accountability Standards**

FHWA officials characterized the goal of the Federal-aid Highway Program in terms of project completion more than performance. The main goal for federal highway projects in American Samoa is to complete funded projects listed in American Samoa's Five-Year Highway Division Master Plan. The master plan serves as a guidebook for highway development goals in American Samoa and sets forth sequenced budgets and time

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<sup>20</sup>TEA-21 provides that the territories are allocated only the amount of funds for which obligation authority is provided.

<sup>21</sup>Officials at the FHWA-Hawaii Division Office said that they were unable to determine the exact number of completed projects during the period of review because the fiscal management information system used to track projects does not maintain completion dates for each project. Nonetheless, officials provided an estimate of completed projects based on their assessment of the low amount of unexpended award dollars for each project; if the award funds for a particular project were nearly drawn down completely, the project "had characteristics of being complete."

frames for the program's main priority—to rebuild the heavily trafficked corridor stretching from American Samoa's main airport to Breakers Point.

According to a U.S. Department of Transportation (DOT) official, American Samoa, as a Federal-aid Highway Program grantee, is generally subject to the same construction and program regulations as a state grantee. The program's financial accountability is determined in part by the results of single audit reports. Officials from the Federal Highway Administration's Hawaii Division Office said that it relies on the American Association of State Highway and Transportation Officials' greenbook, *A Policy on Geometric Design of Highways and Streets*, for technical (construction) accountability standards. The greenbook contains specific nationwide design controls and criteria for the optimization and improvement of highways and streets.

According to DOT officials, the Buy America Act applies to the procurement of materials such as steel, iron, and other manufactured goods that are used in all Federal-aid Highway Program construction projects.<sup>22</sup> The act does not apply to procurement of engineering or other services. The act requires competitive bidding for contracting, equipment, and other services. The act also requires that federal-aid highway projects follow other general provisions for awarding contracts, construction, prevailing wage rates, nondiscrimination in hiring practices, and other requirements. In addition, the act stipulates that the Federal Highway Administration's Hawaii Division Office comply with general project approval and oversight requirements, but it defines no specific level of federal oversight for projects in American Samoa.

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## Performance Evaluation

According to DOT officials, projects in fiscal years 1999-2003 were completed in a timely manner, within federal regulations, and in accordance federal highway greenbook standards. Officials said that the level of oversight and control of highway funds to American Samoa is uniquely determined by the FHWA Hawaii Division Office. Officials stated that they visit American Samoa frequently (at least once per quarter, not including emergency events) to ensure that projects continue to meet these

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<sup>22</sup>The Surface Transportation Assistance Act of 1982, Pub. L. No. 97-424 § 165, applies Buy America restrictions, which stipulate that funds generally may not be obligated for a project unless steel and manufactured products used in such projects are produced in the United States.

goals. FHWA officials said that federal-aid highway programs in American Samoa have vastly improved significantly in the past several years. Nonetheless, officials acknowledged that documentation and certain organizational capability issues in the American Samoa Department Public Works have been a problem in the past, although they stated that this problem has improved as well.

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**Local Conditions Affecting  
Program Delivery or Project  
Completion**

The weather and topography in American Samoa present significant barriers to highway construction and maintenance. Tropical storms cause major problems, particularly on Route 1, which runs along the shoreline. Because some roads throughout the island are built into narrow terraces on hillsides, storms often wash out roadbeds or cause landslides.

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**Grant Accountability**

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the timeframe specified in the Single Audit Act, overall accountability for the Federal-aid Highway Program was limited. Officials from the Federal Highway Administration's Hawaii Division Office indicated that they were confident that federal-aid highway projects initiated in fiscal years 1999-2003 were carried out according to the program's requirements and standards. According to the agency, the American Samoa government submits invoices or other documentation for each current bill submitted to the Hawaii Division Office for reimbursement. However, the delinquent 1998-2001 single audit reports cited noncompliance with the Davis-Bacon Act. The reports also found that the program lacked formal procedures regarding the retention of road sampling results in 1998 and that documentation for expenditures in at least 3 of those years could not be found.

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# U.S. Department of Health and Human Services Programs in American Samoa

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## Medicaid

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### Purpose and Legislation

Medicaid was established in 1965 as a joint federal-state program that finances health care coverage for certain low-income families, children, pregnant women, and individuals who are aged or disabled.<sup>1</sup> Medicaid consists of mandatory health care services, which participating states and territories must offer to certain categories of beneficiaries, and optional services, which states and territories can elect to offer under a federally approved state Medicaid plan. In exchange for their providing Medicaid services, the federal government pays each state and territory a federal medical assistance percentage of its Medicaid expenditures, which is determined through a statutory formula based on states' per capita income. Under this formula, states and the District of Columbia are generally eligible to receive reimbursement for 50 to 83 percent of their Medicaid expenses with no cap on the federal share.<sup>2</sup> However, under federal law, American Samoa can receive federal funding for only 50 percent of its Medicaid expenses up to a maximum dollar ceiling, or cap.<sup>3</sup>

In fiscal year 2001,<sup>4</sup> Medicaid had more than 46 million enrollees nationwide, and federal and state Medicaid expenditures totaled \$228 billion. Medicaid is administered by the HHS Centers for Medicare & Medicaid Services.

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<sup>1</sup>Social Security Amendments of 1965, Pub. L. No. 89-97, 79 Stat. 286.

<sup>2</sup>42 U.S.C. § 1396d(b).

<sup>3</sup>A 1984 amendment to the Social Security Act set the initial cap for American Samoa at \$750,000, and amendments in subsequent years have raised the cap. The act provides that the federal Medicaid funding received by American Samoa cannot exceed the amount provided for the preceding fiscal year, increased by the percentage increase in the medical care component of the Bureau of Labor Statistics' consumer price index for all urban consumers, rounded to the nearest \$10,000. See 42 U.S.C. § 1308(g)(2)(E). The Jobs and Growth Tax Relief Reconciliation Act of 2003 temporarily raised the federal medical assistance percentage by 2.95 percent and also temporarily raised the statutory cap for the territories, including American Samoa, by 5.9 percent for the third and fourth quarters of fiscal year 2003 and the first three quarters of 2004. See Pub. L. No. 108-27, 117 Stat. 752, 765.

<sup>4</sup>Fiscal year 2001 is the most recent for which data is available on nationwide enrollment and expenditures.



Funding Levels

Table 13 reflects the federal funding received by American Samoa for its Medicaid Program since fiscal year 1999.

**Table 13: Federal Medicaid Funds to American Samoa, Fiscal Years 1999-2003**

Fiscal years	Grant award
1999	\$3,090,000
2000	3,200,000
2001	3,320,000
2002	3,470,000
2003	3,727,000
<b>5-year total<sup>a</sup></b>	<b>\$16,807,000</b>

Source: Department of Health and Human Services.

Note: Grant awards are shown in nominal dollars and exclude grant amendments.

Activities Supported, Target  
Recipients, and Basic  
Accomplishments

American Samoa operates its Medicaid program under a statutory waiver, which exempts it from most Medicaid laws and regulations but not the statutory 50 percent federal match or cap.<sup>5</sup> As a result, American Samoa's "Plan of Operations" approved by the U.S. Department of Health and Human Services (HHS) has only three requirements: federal payments may not exceed the cap, the federal matching rate may not exceed 50 percent, and American Samoa must provide all mandatory Medicaid services. All in-patient care and virtually all outpatient care are provided by the territory's only hospital, the Lyndon Baines Johnson Tropical Medical Center (LBJ Hospital).<sup>6</sup>

Unlike the 50 states, American Samoa does not enroll individuals in a separate Medicaid program based on eligibility determinations. Instead, Medicaid funds in American Samoa are combined with LBJ Hospital's other

<sup>5</sup>The waiver under which American Samoa operates is set forth at § 1902(j) of the Social Security Act (42 U.S.C. § 1396a(j)).

<sup>6</sup>Since 1998, the hospital has been managed by the LBJ Medical Center Authority, which receives all federal funds directly, including Medicaid funds.

sources or revenue<sup>7</sup> to support a system of free universal health care.<sup>8</sup> In lieu of federal Medicaid reimbursements for specific services to enrolled Medicaid beneficiaries, HHS requires that American Samoa submit an annual estimate of the number of people “presumed eligible” for Medicaid.<sup>9</sup> According to its Medicaid plan, American Samoa defines its presumed eligible population as the share of its population living below the U.S. poverty level, which in American Samoa is 61 percent, according to the 2000 Census.<sup>10</sup> It is not known what the federal Medicaid expenditure for American Samoa would be if the Medicaid Program were administered there in the same manner as in the 50 states. However, according to HHS officials in Region IX, Centers for Medicare & Medicaid Services headquarters, and Honolulu, the federal Medicaid expenditure in American Samoa would probably be greater if there were no statutory funding cap.

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## Performance Goals and Accountability Standards

According to its approved Medicaid plan, American Samoa is required to provide standard Medicaid mandatory services, which include physician services; laboratory and X-ray services; inpatient and outpatient hospital services; medical screening of minors; family planning; nurse-midwife and certified nurse-practitioner services; nursing facilities for individuals 21 years or older; and home health care for individuals entitled to nursing

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<sup>7</sup>Other key sources of revenue for the hospital include an annual grant from the Department of Interior of about \$7.8 million an annual subsidy from the American Samoa government, which was about \$5.3 million in fiscal year 2003, and net patient revenues estimated by the hospital to be about \$7.5 million for fiscal year 2003. Total “revenues gains and other support” in fiscal year 2003 was over \$29 million. This figure is unaudited.

<sup>8</sup>See Title 13, *American Samoa Code Annotated, Health and Economic Welfare Services*, § 13.0602(a), which states that American Samoans, legal residents of at least 10 years, and certain U.S. civil service employees are entitled to free medical assistance and dental attention. However, the American Samoa Department of Health “may make a reasonable charge” for the use of health care facilities. In practice, LBJ Hospital reports that it has no citizenship or residency requirements for receiving medical care other than charging nonresidents higher facility fees than residents.

<sup>9</sup>According to HHS officials, this estimate of “presumed eligibility” is intended only to ensure that the annual cap on federal Medicaid reimbursements to American Samoa is not higher than the federal share of American Samoa’s annual expenditures for services to presumed Medicaid-eligible population.

<sup>10</sup>American Samoa’s estimate of the presumed eligible population defines the Medicaid population more broadly than in the 50 states, where many individuals with incomes below the U.S. poverty level are not eligible for enrollment in Medicaid. For example, in the states, childless adults who are not disabled, pregnant, or elderly generally are not categorically eligible for Medicaid regardless of their degree of impoverishment.

facilities. If these services are not available on-island, American Samoa is required to make arrangements for them to be provided off-island.

In addition to meeting approved Medicaid plan requirements, American Samoa must also ensure that LBJ Hospital, American Samoa's only hospital facility and a provider of the territory's Medicaid services, complies with certain Medicare hospital requirements. Specifically, HHS requires hospitals receiving payment under Medicaid to meet hospital conditions of participation established under the Medicare Program.<sup>11</sup> These conditions are required by the Social Security Act and are intended to protect patient health and safety and ensure that high-quality care is provided.<sup>12</sup> To assess LBJ Hospital's compliance with these conditions, HHS conducts an on-site survey about every 3 years.

Further, HHS requires the American Samoa Medicaid Program to submit both an annual budget request and quarterly expenditures reports. In addition, American Samoa must submit its annual estimate of the presumed eligible Medicaid population, which HHS must approve before awarding Medicaid funds. HHS also relies on single audit reports to assess accountability for the federal Medicaid funds provided to American Samoa.

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## Performance Evaluation

No data showing whether all required Medicaid services were being provided to the eligible population, on- or off-island, or indicating the quality of care were available for the period of our review. HHS officials stated that they had some assurance that a minimum standard of care was provided, because, as a participant in the Medicaid Program, LBJ Hospital must meet Medicare certification standards to participate in Medicare and Medicaid. However, federal and American Samoan officials also acknowledged that the hospital, which was built in the late 1960s, has struggled to meet the conditions of participation and to provide adequate health care.

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<sup>11</sup>See 42 C.F.R. § 482.1(a)(5) (2003).

<sup>12</sup> Medicare is a federal program that was enacted in 1965 and provides insurance for the elderly and disabled. The Social Security Act requires hospitals participating in Medicare to meet certain specified requirements and authorizes HHS to impose additional requirements if they are found necessary in the interest of the health and safety of patients who are furnished services in hospitals. See § 1395x(e) and 42 C.F.R. § 482.1(a).

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## Local Conditions Affecting Program Delivery or Project Completion

The quality of health care in American Samoa, supported partially by Medicaid funds, depends largely on the standards of care at LBJ Hospital. However, the hospital must contend with an inadequate facility, a lack of qualified medical staff, budget constraints, and American Samoa's remote location.

### Inadequate Facility

LBJ Hospital persistently suffers from serious fire-safety code deficiencies, which threaten its ability to maintain its Medicare certification.<sup>13</sup> HHS has conducted on-site Medicare certification surveys of the hospital every few years, most recently in November 2003. The hospital has failed to correct its fire-safety problems despite formal threats by HHS, beginning in 1993, to terminate its certification. The 2003 survey cited many of the same deficiencies identified in earlier surveys conducted in 1997 and 2000, including a lack of "basic features of fire protection, which are fundamental to all health care facilities." The hospital's primary fire safety code violations were due to noncompliant smoke and fire detection and alarm systems, the failure to install automatic sprinklers, and inadequate water pressure.<sup>14</sup>

In April 2004, the hospital submitted a "plan of corrections," as required, in response to the deficiencies cited in the hospital certification survey. The plan of corrections, which has been approved by HHS, indicated that the hospital was dependent on annual U.S. Department of the Interior (DOI) capital improvement grant funds of about \$1.5 million annually to address infrastructure deficiencies cited in Medicare certification surveys. In fiscal year 2004, the hospital reprogrammed \$650,000 of these funds to install a facility-wide sprinkler system; however, the hospital reported that this project will not be completed until December 2005. The hospital also cautioned, "LBJ will continue to face a fixed barrier of time, money and space in [its] efforts to renovate the entire campus facility to fire safety code requirements."

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<sup>13</sup>The "physical environment" condition of participation requires hospitals to comply with all provisions of the National Fire Protection Association's Life Safety Code that HHS determines applicable. See 42 C.F.R. § 482.41.

<sup>14</sup>The survey also found many other deficiencies including those related to standards for nursing care, administration and preparation of drugs, retention of medical records, pharmaceutical services, safety precautions for patients and personnel, and infection control. The Medicare hospital conditions of participation are set forth at 42 C.F.R. § 482.

Although funds from DOI are essential to LBJ Hospital's ability to address critical infrastructure deficiencies cited by HHS, the two federal departments have not formally collaborated on the hospital's priorities for using DOI's capital improvement grants. According to hospital officials, the DOI capital improvement grants are sufficient to support only one or two new construction projects per year. The hospital also reported that it uses these grants for many other hospital facility upgrades beyond those needed to address deficiencies cited in Medicare certification surveys.<sup>15</sup> During our visit to the hospital, we found that although the newly renovated areas had been fitted with automatic sprinklers, the sprinklers were not yet hooked up or functional. LBJ Hospital officials attributed this situation to inadequate water pressure.

#### Lack of Qualified Staff

LBJ Hospital's ability to deliver adequate health care was also hampered by a lack of qualified staff.<sup>16</sup> According to LBJ officials, the hospital has difficulty attracting U.S.-certified medical doctors and relies mostly on medical staff that attended medical school in Fiji.<sup>17</sup> The hospital also suffers from a shortage of nurses. Recent Medicare certification surveys found that the hospital did not meet minimum standards for 24-hour nursing services. With only 22 registered nurses available, the hospital acknowledged that it does not have a large enough nursing staff to cover every shift on every unit, 24 hours per day, 7 days per week, as the standard requires. LBJ Medical Center Authority<sup>18</sup> officials stated that they have installed incentive programs to try to attract medical doctors and registered nurses but that the relatively low salaries and the territory's remote location make it difficult to attract qualified staff. The hospital also had unmet needs for medical technicians such as radiology and operating room technicians.

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<sup>15</sup>Completed projects include a renovated laboratory; dialysis and mental health facilities; ear, nose and throat and eye-care clinics; the surgical ward; and the morgue. The hospital also used a grant from the Department of Housing and Urban Development for some of its renovations, but this grant was not included in our analysis.

<sup>16</sup>The Medicare conditions of participation require hospitals to have qualified medical staff (42 C.F.R. § 488.22).

<sup>17</sup>Those who received medical training in Fiji are classified as medical officers rather than U.S.-certified medical doctors, who are qualified to bill the Medicare Program for reimbursement.

<sup>18</sup>The LBJ Medical Center Authority manages LBJ Hospital.

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Budget Constraints

LBJ Hospital's ability to upgrade its facility and hire needed staff is severely hampered by chronic budget deficits and outstanding debt, according to hospital officials. Key local and federal financial support for the hospital has either decreased or remained constant. The hospital's annual subsidy from the government of American Samoa has dropped from about \$8.1 million in fiscal year 1998 to about \$5.3 million in fiscal year 2003. Since 1998, the DOI has directly provided LBJ Hospital with about \$7.8 million annually from its government operations grant. This amount has not been adjusted for inflation. Although its federal Medicaid funding has increased over time to cover the cost of inflation, HHS and American Samoa Medical Center Authority officials reported that the cap on the funding probably results in a smaller federal contribution than American Samoa would receive if it were funded in the same way as the 50 states.

According to a hospital official, patient revenues increased during fiscal years 1998-2003; however, much greater increases are needed if the hospital cannot identify other sources of revenue. The Medical Center Authority has proposed a plan to charge patients higher fees to cover about 20 percent of the cost of their medical care. However, hospital officials believe that passing local legislation to authorize the increases would be difficult, since the public views free medical care as a free service or entitlement. Currently, the hospital charges a nominal facility fee of \$5 per outpatient visit and \$20 per day for inpatient stays. The hospital charges nonresidents \$10 for outpatient visits and \$100 per day for inpatient stays.

Remote Location

American Samoa's remote location also hampers the delivery of medical care. Costs of importing supplies are high and, as stated, attracting qualified medical and other personnel is difficult. Medical care not available in the territory must be provided off-island at a much higher cost. For example, patients in need of long-term care must be moved to nursing homes off the island, usually in Hawaii or California. In fiscal years 2001-2003, the hospital reported that the average cost of care referred off-island averaged over \$2 million per year—about 8 percent of the hospital's total expenses.<sup>19</sup>

Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for Medicaid funding was limited.

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<sup>19</sup>For fiscal years 2001-2003, the hospital's total expenses averaged almost \$30 million. The expense figures for fiscal years 2002 and 2003 have not yet been audited.

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Medicaid expenditures were not included in the American Samoa's single audits for fiscal years 1998-2001, because they were included in LBJ Hospital's financial statements; however, an independent audit of the hospital's financial statements for fiscal year 2001 found significant problems. The hospital had difficulty locating documentation to support its accounting records and lacked adequate evidential matter to support a number of recorded transactions. Because of this and other problems, the auditor was unable to express an opinion on the financial statements printed in the audit. In addition, in reviewing compliance with internal controls, the auditors found several instances of noncompliance that they considered to be reportable conditions and material weaknesses. An independent audit of LBJ Hospital for fiscal years 1998-2000 found similar problems, which also resulted in the auditor's inability to express an opinion on the financial statements for those years.<sup>20</sup>

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## Head Start

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### Purpose and Legislation

The purpose of the Head Start Program is to promote school readiness by providing comprehensive services designed to foster healthy development in 3- to 5-year-old children from low-income households.<sup>21</sup> The program,<sup>22</sup> created in 1965, is administered by the HHS Head Start Bureau, Administration on Children, Youth and Families, Administration for Children and Families. Grants are awarded by the HHS regional offices.

Federal appropriations for the Head Start Program nationwide have grown substantially in recent years, from \$1.552 billion in fiscal year 1990 to \$6.668 billion in fiscal year 2003. The expansions have been used to increase the number of children served and provide "quality improvement" activities. Funds to grantees are awarded at the discretion of HHS from

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<sup>20</sup>The audit for fiscal year 2001 was not completed until June 2004. The audit for fiscal years 1998-2000 was completed in 2002.

<sup>21</sup>Head Start was originally aimed at 3- to 5-year-olds. A companion program begun in 1994, Early Head Start, made these services available to children from birth to 3 years of age as well as to pregnant women. American Samoa currently does not have an Early Head Start Program.

<sup>22</sup>The Head Start Program is authorized under 42 U.S.C. § 9831-9852.

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state allocations determined by a formula set forth in law after set-aside provisions have been applied. Payments to the U.S. territories of Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Virgin Islands are not to exceed one-half of 1 percent of the total annual appropriation.<sup>23</sup>

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Funding Levels

Table 14 shows annual grants to the Head Start Program in American Samoa during the period of our review.

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**Table 14: Head Start Program Grant Awards to American Samoa, Fiscal Years 1999-2003**

<b>Fiscal years</b>	<b>Grant award</b>
1999	\$1,669,246
2000	2,674,555
2001	3,159,180
2002	3,724,689
2003	2,287,466
<b>5-year total<sup>a</sup></b>	<b>\$13,515,136</b>

Source: HHS Head Start Bureau, Region IX.

Note: Amounts do not include unexpended funds carried over from the previous year, which are shown in nominal dollars, and exclude grant amendments. These amounts include about \$3.8 million in additional "program improvement" grant awards for the construction new facilities.

During the annual grant award process, HHS regional offices communicate to Head Start grantees their level of funded enrollment. For American Samoa's Head Start Program, known as Early Childhood Education, HHS set the enrollment level for fiscal year 2003 at 1,532 funded slots. The annual grant award includes a base amount to cover basic operating expenses, plus additional funds such as cost of living adjustments and quality improvements, which are included in the base amount for the next fiscal year. A grant award may also include nonrecurring funds for training and technical assistance and for program improvements such as new facilities. According to an HHS official, funds may be carried over for 1 year. The Head Start Program in American Samoa typically does not carry

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<sup>23</sup>See 42 U.S.C. § 9835.



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over any funds, with the recent exception of some supplemental grant funds used for construction of new facilities.

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Activities Supported, Target  
Recipients, and Basic  
Accomplishments

Head Start grantees provide a range of individualized services in the areas of education and early childhood development; medical, dental, and mental health; nutrition; and parent involvement. The targeted population is 3- to 5-year old children from low-income families.<sup>24</sup> American Samoa has had a Head Start Program for more than 30 years. Early Childhood Education, the territory's only Head Start grantee, is part of the American Samoa Department of Education. Program officials report that they had 54 classrooms and 111 classroom instructors as of March 2004. (Fig. 12 shows a Head Start classroom.) According to Early Childhood Education officials, there are more eligible children in American Samoa than available slots; however, the program serves virtually all of the children who apply for it. Not all eligible children apply or remain enrolled throughout the year. Some children start each year on a waiting list but are eventually able to participate because of attrition.

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<sup>24</sup>42 U.S.C. § 9840 states that children from low-income families shall be eligible for participation if their families' incomes are below the poverty line, or if their families are eligible or, in the absence of child care, would potentially be eligible for public assistance. Federal regulations (45 C.F.R. § 1305) require that at least 90 percent of children enrolled in each Head Start Program must meet income eligibility requirements.

Figure 12: Head Start Classroom at Tafuna Early Childhood Education Center, American Samoa



Source: GAO.

## Performance Goals and Accountability Standards

The Head Start Program in American Samoa is subject to the same goals, standards, and oversight requirements as Head Start Programs in the 50 states, according to HHS officials. Head Start grantees must adhere to a set of performance standards required in federal regulations.<sup>25</sup> The performance standards define the services that grantees are to provide to the children and the families they serve and constitute the Head Start Program's expectations and requirements that grantees must meet. The performance standards cover five service areas including services for children with disabilities; education (i.e., classroom instruction); building family and community partnerships; health, including medical, dental, and

<sup>25</sup>See 45 C.F.R. §§ 1304 and 1308.

mental health screening as well as nutrition and safety; and program management and operation.

The Head Start Act and accompanying regulations require the HHS Head Start Bureau to conduct an on-site review every 3 years to ensure that performance standards are met. The grantee must respond in writing with a plan for correcting any findings of noncompliance with federal standards. In addition to undergoing the on-site reviews, grantees are required to submit an annual “Program Information Report” that tracks program characteristics and performance data.

Several processes exist to ensure the financial accountability of the national Head Start Program. First, an HHS fiscal analyst completes an annual checklist for assessing a grantee’s financial accountability and makes a recommendation for approving funding to the grantee. Second, the grantee’s budget figures are included in the annual application, which the fiscal analyst reviews to make sure that they are allowable. The grantee must have an approved indirect cost rate and must certify that administrative costs do not represent more than 15 percent of the total approved costs of the program. Third, the single audit reports test for accountability of the program. Fourth, quarterly financial status reports must be sent by the grantee to the HHS in Region IX. Finally, during HHS’s triennial, on-site monitoring review, a fiscal analyst reviews the program to ensure that annual audits are up to date and that financial management systems, inventory, and procurement processes include required elements.

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## Performance Evaluation

Data were not available to assess whether the goal of improving low-income children’s readiness for school has been achieved.<sup>26</sup> However, in its most recent triennial on-site monitoring review, HHS found that Early Childhood Education “operates a very high quality Head Start program.” Additionally, HHS officials in Region IX highlighted progress made by the grantee in constructing modern, new classroom facilities with the help of supplemental grant funds.

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<sup>26</sup>The Congressional Research Service has reported recently that there continues to be disagreement over the Head Start’s long-term benefits (See *Head Start Issues in the 108<sup>th</sup> Congress*, updated December 17, 2003). Our past work has found that research is inadequate to draw conclusions about the impact of the Head Start Program on a national basis (See *Head Start: Research Provides Little Information on Impact of Current Program*, [HEHS-97-59](#), [Washington, D.C.: April 1997]).

In May 2003, a team of nine participated in a weeklong review to assess the degree to which services were implemented according to Head Start Performance Standards. The review found that the program provided most required services, and it cited strong community partnerships and a high level of parent involvement and support for the program. Additionally, the review highlighted the literacy program, which utilized locally designed curriculum and materials that incorporated native culture, community, and environment as well as family traditions. Part of the success of this literacy program, according to the review, was attributable to the use of a community lending library and a partnership with a community-based organization, called “Read to Me Samoa,” to promote child and family literacy by emphasizing both English and Samoan languages as well as cultural traditions. The review also found that the Early Childhood Education Program implements a model oral health program, in partnership with LBJ Hospital, in which virtually all children receive dental screenings and follow-up treatment.<sup>27</sup>

HHS officials in Region IX also highlighted the tremendous improvements in the quality of the classroom facilities owing to the help of supplemental grant funds. Seven new facilities providing a total of 38 classrooms devoted exclusively to Head Start either have been completed or are in the process of being constructed, according to an American Samoa official. Additional facilities are planned, depending on the future availability of Head Start grant funds. During our visit to American Samoa, we toured several Early Childhood Education classrooms, including those in two of the newer facilities. The classrooms were spacious, well lit, and well ventilated. The addition of these facilities will enable several classes previously held in village homes to move into a modern institutional setting. One of the new facilities has enabled children to be moved from overcrowded classrooms in eight private homes into a modern institutional setting, according to Early Childhood Education officials. Currently, the program relies on 19 village homes and 13 elementary schools to provide classrooms.

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<sup>27</sup>Performance indicator data for program year 2002-2003 provided to HHS by the Early Childhood Education Program reported that 97 percent of children enrolled in the program received dental exams and 100 percent of those children requiring dental treatment received it. HHS does not validate performance indicator data.

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## Local Conditions Affecting Program Delivery or Project Completion

Although HHS officials viewed the Early Childhood Education Program favorably, some challenges remain. Early Childhood Education is unable to meet the performance standards for providing mental health services to children and their families, and adequate playground space with secure perimeter fencing is lacking. Additionally, a language barrier poses additional challenges for assessing children and acquiring curricular materials. Some of these challenges are as follows:

- American Samoa does not have mental health professionals available to enable the Early Childhood Education Program to fulfill the HHS performance standard of providing a “comprehensive mental health program that provides prevention, early identification and intervention.” Because of this lack of access to mental health professionals, the program has only requested supplemental training and technical assistance for a consultant to provide training and awareness to Early Childhood Education staff and parents on mental health.
- Early Childhood Education officials stated that their priority for the use of supplemental grant funds is to continue to build additional classrooms, which leaves no funds for adequate playgrounds or perimeter security fencing.
- Head Start has a new requirement for assessing the educational achievement of children enrolled in the program; however, the assessment tool is not available in Samoan, the primary language in Early Childhood Education classes. Additionally, because very few curricular materials are available in Samoan, the program must devote additional resources to creating curricular materials locally.

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## Grant Accountability

Because the American Samoa government did not complete single audits for fiscal years 1998-2003 within the time frame specified in the Single Audit Act, overall accountability for the Head Start Program was limited. Officials from HHS Region IX stated that the grantee met the region’s financial reporting requirements, but they cited the program for the lack of governmentwide single audits. Although the triennial on-site review team includes a fiscal analyst to review the program’s fiscal management, HHS officials explained that this review does not rise to the level of a detailed audit. When the May 2003 on-site review was conducted, the reviewers pointed out that a single audit for federal grants to American Samoa had not been conducted since 1997. HHS accepted the grantee’s response that

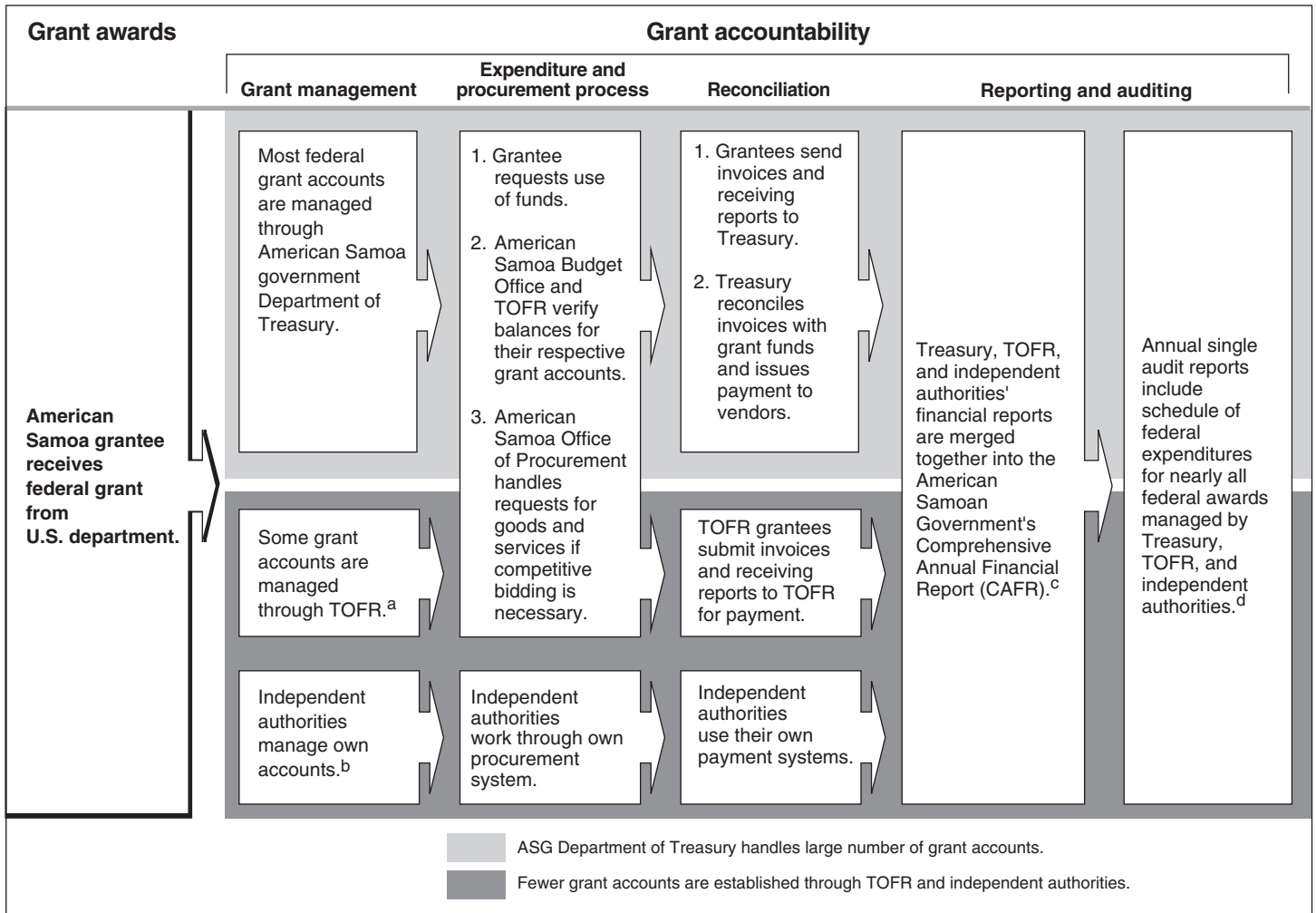
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**Appendix VI**  
**U.S. Department of Health and Human**  
**Services Programs in American Samoa**

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efforts were under way by the American Samoa government to come into compliance with the Single Audit Act. After the May 2003 review, the American Samoa government completed single audits for fiscal years 1998-2000 but did not test expenditures in the Head Start Program, according to HHS officials.

# Federal Grants Process in American Samoa



Source: GAO.

<sup>a</sup>The Territorial Office of Fiscal Reform (TOFR) operates as a parallel procurement entity to the American Samoa Department of Treasury but manages fewer federal grants.

<sup>b</sup>Independent authorities, such as the Lyndon Baines Johnson Tropical Medical Center, the American Samoa Power Authority, and the American Samoa Community College, operate semiautonomously from the American Samoa government.

<sup>c</sup>The CAFR is to be prepared annually to show the financial position and operating results of the territory.

<sup>d</sup>Single audit reports include a schedule of expenditures of federal awards and other financial statements of nonfederal entities (governments or organizations) that expend \$300,000 or more in federal awards.

# Comments from the Department of the Interior

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



## United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY  
POLICY, MANAGEMENT AND BUDGET  
Washington, DC 20240

OCT 27 2004

David Gootnick  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
441 G Street, N. W.  
Washington, D.C. 20548

Dear Mr. Gootnick:

Thank you for the opportunity to comment on your draft report, "American Samoa, Accountability for Key Federal Programs Needs Improvement" (Report). The Report highlights the difficult decisions and judgments that must be made to effectively administer grant programs. This applies not just to American Samoa, but to all of the U.S. affiliated insular areas, that are held to standards designed for States, but which often lack the institutional capacity to meet those standards. Specifically, you make four recommendations to the Department of the Interior (Department): one related to the Lyndon Baines Johnson Tropical Medical Center (Hospital) and the other three related to compliance with the Single Audit Act.

The first recommendation deals with a finding that fire safety deficiencies threaten the continued certification of the Hospital and that the Hospital is experiencing staffing and resource constraints. The recommendation is that the Department "coordinate with federal agencies that grant funds to the Hospital and the American Samoa government to address these issues."

The Department agrees with this finding and recommendation and will take appropriate steps to coordinate with other Federal agencies. In 1997, the Department coordinated closely with the Department of Health and Human Services to force creation of an independent Hospital board with ratemaking authority. The Report points out the cultural biases and political obstacles that must be overcome in order to increase health care fees for services, when free health care is considered an entitlement. We realize that there is no such thing as free health care. It either falls on taxpayers or it falls on users. To the extent health care is funded through grants from the Federal government or by local subsidies, it is a cost to Federal or local taxpayers. For that reason, increases in Federal or local subsidies will be limited, if available at all. Until leadership in American Samoa exerts the political will to increase fees, the Hospital will continue to experience staffing and resource constraints. We have provided technical assistance to the Hospital to support ratemaking efforts and will continue to do so while we discuss with other Federal stakeholders specific incentives that can be applied to improve the financial position of the Hospital.

With respect to physical improvements to correct fire-safety deficiencies that threaten continued certification of the Hospital, your report notes that the Department's Office of

See comment 1.



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Appendix VIII  
Comments from the Department of the  
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See comment 2.

Insular Affairs (OIA) has approved a request from the Hospital authority to reprogram \$650,000 of other construction grants to address these deficiencies. We are pleased that we were able to approve this request and will follow up with the Hospital authority and the Department of Health and Human Services to ensure the repairs are adequate.

The Report's other recommendations deal with a finding "to improve fiscal accountability of federal grants to American Samoa through compliance with the Single Audit Act." Specifically the Report recommends that the Department:

- Designate the American Samoa government a high-risk grantee, at least until it has completed all overdue single audits;
- Ensure that the American Samoa government completes its overdue audits; and
- Ensure that future single audits are completed in a timely manner and in accordance with single audit requirements.

We recognize the compelling importance of having the American Samoa government come into compliance with the Single Audit Act, and have devoted significant resources to help the American Samoa government do so as quickly as is practicable. Much of that effort is reflected in the Memorandum of Agreement discussed in the Report, although we have agreed to extend certain deadlines thereunder as it has become clear that American Samoa lacks the capacity to comply with those deadlines. OIA, with support from the USDA Graduate School and contractor support from CPA firms familiar with the territories, launched, in March 2004, an initiative to bring all territories into compliance with the Single Audit Act and to implement effective audit resolution practices. We have supported this effort with a substantial commitment of technical assistance funds. The Department's Office of the Inspector General is familiar with this initiative and very supportive of its goals.

See comment 3.

OIA has implemented a new policy, effective in fiscal year 2005, that allocates capital improvement funding among the territories based on the quality of their proposed projects and on their history of good financial management and compliance with grant requirements. Compliance with the Single Audit Act is a threshold requirement, meaning grants cannot be awarded until compliance is achieved or there is mutual agreement on a schedule to achieve compliance. The fiscal year 2005 capital improvement grant of \$9,731,000 will not be awarded until an agreement is reached. These criteria have been placed against indefinite mandatory funding, with support from Congress, so it will continue to provide an important incentive into the future, consistent with the final recommendation of the Report.

These steps are part of OIA's broader effort in recent years to improve accountability for the Federal funds that we send to the insular areas. OIA revamped its Financial Assistance Manual in 2003 for the first time in over a decade, instituting comprehensive new accountability criteria that would be taken into account in awarding grants. One of the new criteria was the presence of an independent, properly funded public auditor's office in each insular area. We believe that this requirement motivated the American Samoa government to hire a public auditor in 2003 after having left the post vacant for

**Appendix VIII**  
**Comments from the Department of the**  
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several years. OIA continues to provide substantial technical assistance, through the Financial Management Improvement Program and other programs, to help American Samoa and other insular areas develop the capacity to comply with the Single Audit Act and other requirements. In 2004, OIA hired a former Federal auditor whose full-time responsibility is coordinate OIA's efforts to promote accountability; her duties include monitoring compliance with fiscal reforms in American Samoa.

Notwithstanding OIA's substantial efforts to address Single Audit Act compliance issues and to promote accountability in general, we recognize that the insular areas continue to face significant resource and capacity issues that have prevented them from catching up with their Single Audit Act obligations as quickly as we would have liked. New government accounting standards related to fixed asset accounting (GASB-34) have complicated and delayed the efforts of all insular governments to achieve compliance. OIA has provided additional technical assistance to improve capability. Despite a significant effort by the American Samoa Government to produce auditable financial statements, delays in completing 2002 and 2003 audits are due in large part to the new GASB-34 requirements.

See comment 4.

As detailed above, the fact that we have chosen thus far not to declare the American Samoa government to be a "high-risk" grantee does not mean that we have "failed to act" in response to the American Samoa government's failure to comply with the Single Audit Act. Because of our serious responsibilities in the territories and the degree to which the people of the territories rely on Federal assistance to satisfy their most basic of needs, we constantly have to weigh the remedies that we have at our disposal against the consequences that would result from their exercise. When the negative consequences outweigh the benefits of an exercise of remedies, it is incumbent upon us to find creative alternative means to achieve the desired results. We believe that we are doing that, and indeed believe that we are taking all reasonable steps to ensure, consistent with the Report's recommendations, that (a) the American Samoa government completes its overdue single audits and (b) future single audits are completed in a timely manner and in accordance with single audit requirements. We are not in a position to actually "ensure" compliance by a third party, but are embracing our responsibility to take all appropriate steps to achieve the objective.

See comment 5.

In light of all of our ongoing efforts to help bring American Samoa into compliance with the Single Audit Act, we have thus far not been convinced that a "high-risk" declaration would enable us to achieve our objective any faster. Indeed, such a declaration may have the very negative effect of placing a stigma on the American Samoa government that impacts its ability to apply successfully for discretionary Federal assistance, including assistance you ask that we help coordinate to address "staffing and resource" problems at the Hospital. We note that OIA is already imposing most of the remedies available under regulations governing a high-risk designation. Specifically, a high-risk designation allows the agency to place the grantee on a reimbursement basis—that has been OIA's policy for nearly 15 years. It allows additional project monitoring—we have significantly increased our monitoring in American Samoa, including, as noted above, devoting a full staff position to monitor compliance with fiscal reforms in American

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Samoa and other accountability requirements in the other insular areas. A high-risk designation allows for the grantor agency to require more detailed reporting, and we have already done this through our Memorandum of Agreement. Finally, a high-risk designation allows the agency to require the grantee to obtain technical or management assistance. As noted above, however, we are already very actively providing this type of assistance.

We believe that it is important, however, to constantly re-evaluate the effectiveness of our approach and adjust tactics as necessary. We will therefore consult with the other agencies cited in the Report to evaluate whether, or under what conditions, a joint declaration of high-risk status would be prudent, and to discuss what other steps might be taken to help American Samoa come into compliance more quickly.

Thank you very much for the opportunity to comment and for your demonstrated understanding of the unique problems faced by American Samoa. My office will be happy to follow up with you to ensure the Department's actions are tracked through completion.

If you have any questions concerning this response, please contact David B. Cohen, Deputy Assistant Secretary of the Interior- Insular Affairs or Nikolao Pula, Director of the Office of Insular Affairs, at (202) 208-4736.

Sincerely,



P. Lynn Scarlett,  
Assistant Secretary,  
Policy, Management and Budget

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The following are GAO's comments on the Department of the Interior's letter dated October 28, 2004.

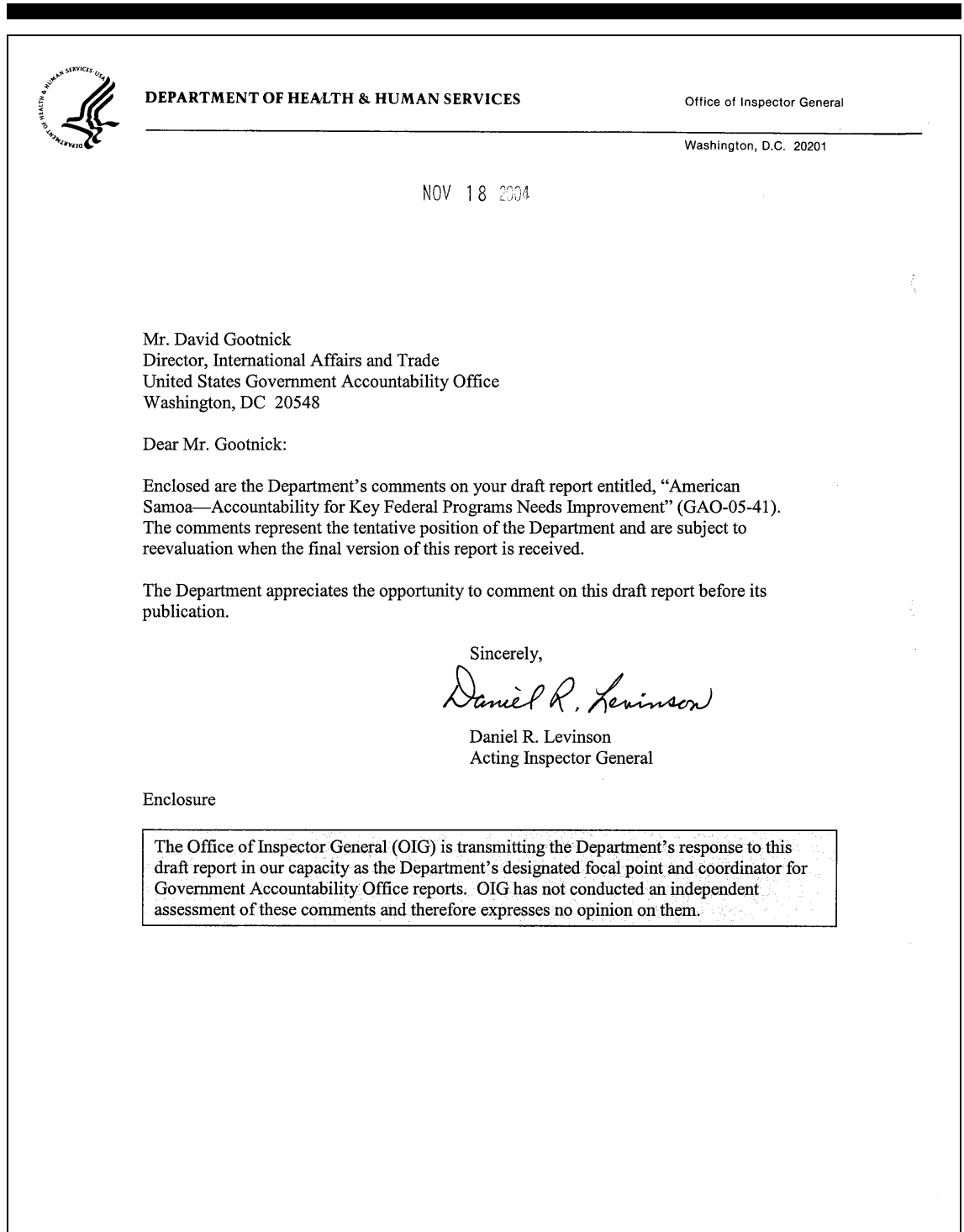
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## GAO Comments

1. We did not refer to any cultural biases in our report. The only use of the word "cultural" is in the context of Head Start's teaching cultural traditions. Neither did we refer to political obstacles. We did note that hospital officials stated that passing local legislation to increase fees would be difficult.
2. See page 21.
3. See footnote 13, page 47, appendix II.
4. DOI implies that we assessed it as having "failed to act" in response to the American Samoa government's noncompliance with the Single Audit Act. In fact, we judged that DOI was "slow to act" (see pp. 28-31). We recognize the department's long-standing struggle for accountability in the insular areas; our report refers to most of the measures that DOI has taken to improve accountability in American Samoa. However, as we note in the report, DOI did not set forth a schedule for American Samoa to comply with the Single Audit Act until 2002—almost 3 years after the due date for the fiscal year 1998 report.
5. DOI asserts that it has taken all available actions short of cutting off funds in a high-risk status declaration. It further argues that a high-risk status declaration would imperil funding from other agencies to American Samoa. However, a high-risk declaration does not mean an immediate suspension of U.S. funding. Our recommendation is not that DOI alone declare American Samoa a high-risk grantee, but rather that the federal agencies coordinate a response to lax accountability in American Samoa. Improving federal oversight and monitoring will improve the efficiency and accountability of programs in American Samoa, to the benefit of most American Samoans.

# Comments from the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES  
(HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO'S)  
DRAFT REPORT "AMERICAN SAMOA—ACCOUNTABILITY FOR KEY  
FEDERAL GRANTS NEEDS IMPROVEMENT" (GAO-05-41)**

**GAO Recommendation 1:**

*To ensure resolution of fire-safety deficiencies threatening the continued certification of the Lyndon Baines Johnson Tropical Medical Center in American Samoa and, as warranted, to address the hospital's staffing and resource constraints, we recommend that the Secretary: coordinate with federal agencies that grant funds to the hospital and the American Samoa government to address these issues.*

**HHS Comment:**

The HHS Center for Medicare and Medicaid Services (CMS) concurs and plans to collaborate with the Department of the Interior and American Samoa to address infrastructure issues affecting the Lyndon Baines Johnson Tropical Medical Center hospital's compliance with Medicare conditions of participation.

**GAO Recommendation 2:**

*To improve fiscal accountability of federal grants to American Samoa through compliance with the Single Audit Act, we recommend that the Secretary coordinate with other federal awarding agencies to: designate the American Samoa government as a high-risk grantee, at least until it has completed all overdue single audits; ensure that the American Samoa government completes its overdue single audits; and ensure that future single audits are completed in a timely manner and in accordance with single audit requirements.*

**HHS Comment:**

The HHS CMS agrees that American Samoa has been delinquent with respect to completion of the annual audits required under the Single Audit Act. Our San Francisco Regional Office financial staff is working with the American Samoa Medicaid finance officer toward this end and will continue to provide all the technical assistance we can. In addition, CMS staff will collaborate with the Department of the Interior to address the overdue single audits and improve performance of future single audits.

However, CMS does not agree with the GAO recommendation that American Samoa be designated a high-risk grantee. CMS works with American Samoa to ensure that Medicaid budget and expenditure reports are completed timely and accurately, and we have experienced no significant problems in this area. Therefore, CMS believes that American Samoa should **not** be considered a high-risk grantee with respect to the Medicaid program.

See comment 1.

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The following is GAO's comment on the Department of Health and Human Service's letter dated November 18, 2004.

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## GAO Comment

1. The Centers for Medicare & Medicaid Services of the Department of Health and Human Services states that it works with American Samoa to ensure that Medicaid budget and expenditure reports are completed timely and accurately and that it has experienced no significant problems. However, our discussion in appendix VI of accountability at LBJ Hospital—the primary provider of medical services in American Samoa and the primary recipient of Medicaid funds to American Samoa—raises questions about internal controls at the hospital. The hospital's auditor for fiscal years 1998-2000 was unable to express an opinion, because the hospital declined to present any statements of cash flow.

# Comments from the American Samoa Government

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



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November 5, 2004

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International Affairs and Trade  
U.S. General Accounting Office  
441 G Street, N.W. Room 4T55A  
Washington D.C. 20548  
Fax (202) 512-9088

Re: Draft Audit for American Samoa  
Accountability for Key Federal Programs Needs Improvement

Dear Mr. Beyc:

Thank you for the opportunity to comment on the draft audit report. The American Samoa Government's (ASG) detailed comments are attached.

I was pleased to find that out of all the programs audited, GAO only identified two major findings. The ASG is in the process of completing remedial action on both of these findings.

1. GAO noted that the Hospital was not compliant with CMS fire and safety code standards. ASG notes that only four years ago, the Hospital was non-compliant with eight condition level standards. Now, only one is left outstanding. Of the 24 projects necessary to comply with the fire and safety codes, eighteen have been completed, three are under construction, one is out to bid and two are in final design. ASG has made major progress over the past four years, and GAO's finding is not a serious issue. CMS has approved the ASG program to reach full compliance with all of its 30 condition level standards.

2. GAO noted that ASG is delinquent in its single audits. ASG has completed four single audits in the past year, and two are still delinquent. One of these is scheduled for completion in December, and the other in June 2005. ASG is working closely with DOI on this catch up program. ASG recommends strongly against being declared a high risk grantee, as this would imperil funding for critical programs and divert scarce resources away from completion of single audits.

Executive Office Building-Third Floor \* P.O. Box 485 \* Pago Pago, American Samoa 96799

See comment 1.



Appendix X  
Comments from the American Samoa  
Government

ASG agrees with the repeated finding in the report that lack of staff, facilities and resources has limited service delivery. American Samoa is the poorest State or Territory of the U.S. Over 56% of American Samoans live below the poverty level, as compared with 23% in Guam, and 12% in the U.S. ASG's Gross Domestic Product per Capita is estimated at \$8,000 as compared with the Virgin Islands' \$19,000, Guam's \$21,000 and the U.S. average of \$37,800. Yet, the DOI and U.S. Congress have held the ASG Operating Grant essentially constant since 1987. In constant dollars per capita, the grant has decreased 54% in the past 16 years.

ASG has raised its own taxes and fees over these years to just about keep pace with inflation and population growth. DOI representatives continue to assert that holding the Operating Grant constant will somehow force ASG to promote economic development or to tax its own people. All that the DOI has accomplished is to force American Samoans to continue to live with inadequate education and health care systems.

The basic reason for delinquent audits is that there are no CPA's working at the Treasury Department, and that audit fees are very high. The Hospital has no U.S. trained doctors or administrators. There are no licensed engineers or architects at the Department of Public Works. Most teachers do not have college degrees.

More monitoring and bureaucracy will not solve the basic problem, which is lack of resources. We thank the DOI and other agencies for the assistance that is given, but we urge the GAO and the DOI to recognize the basic problem and to provide assistance, specifically for health care, education and financial management.

Sincerely,



TUIOTI T.A. TULAFONO  
Governor

cc: David Cohen, DOI-OIA  
Lydia Falcafine-Nomura, OIA Field Representative  
Marina Tinitali, OIA Samoa Specialist  
Francis Icasiolagi  
Jack Kachmarik

See comment 2.

**AMERICAN SAMOA GOVERNMENT  
RESPONSE TO GAO AUDIT  
"Accountability for Key Federal Programs Needs Improvements"**

**Summary:**

In early 2004, the General Accounting Office (GAO) performed an audit of the 12 largest federal grant programs operated by the American Samoa Government (ASG). In October, the GAO issued a draft report to the ASG for comment.

**Major Findings and Recommendations of the GAO Audit:**

The report identified two major findings for action:

1. The Hospital has several fire-safety violations which threaten Medicare and Medicaid funding.
2. The ASG is delinquent in completing its annual financial statements and Single Audit Reports.

**Hospital Fire Safety Violations:**

The LBJ tropical medical hospital must comply with the Center for Medicare and Medicaid Services' (CMS) standards in order to be eligible to receive Medicare and Medicaid funds. CMS has 30 condition level standards.

In unannounced inspections of the hospital, CMS identified eight (8) condition level findings in the year 2000, five (5) condition level findings in November 2003, and zero (0) findings in June 2004. The CMS did not make a condition level finding for the fire-safety violations, because CMS was satisfied that LBJ had an adequate plan to address the issue.

There are twenty four (24) separate projects underway to address the fire-safety deficiencies. In a report to CMS dated October 1, 2004, eighteen (18) projects were completed; three (3) were under construction; one (1) was out to bid; and two (2) were in final design.

The Hospital has made enormous progress towards upgrading its facility, thanks mainly to the federal Capital Improvement Program (CIP) grants. These grants are also being used to renovate the wards and operating room, purchase essential medical equipment, deal with electrical problems such as PCB transformers, correct flooding problems, and other important improvements. These are not CMS violations, but they are also important to patient care.

The recommendation made by the GAO audit is for the Secretary of the Interior to coordinate with other federal granting agencies to resolve ASG's fire-safety issues. From ASG's point of view, these fire-safety issues are resolved. CMS is working closely with ASG to complete all projects, and the funding has been made available by the DOI to complete all projects. All eight condition level findings identified in June 2000, have been

See comment 1.

See comment 1.

resolved, except for finishing up the fire-safety improvements that are underway.

ASG would like to thank the DOI for their continued support in providing the funding for these improvements, which have led to a much improved medical facility.

**Delinquent Annual Financial Audits and Single Audits.**

ASG is required by federal regulations to submit Financial and Single Audits no later than nine months after the end of each fiscal year. The latest completed audits were for fiscal year 2001. The FY 2002 and 2003 reports are currently delinquent.

ASG and DOI are both very aware of this problem. ASG is making prodigious efforts to improve its computer and accounting systems, and to catch up with delinquent audits.

In the last year, the ASG completed the financial statements and audits for the years 1998, 1999, 2000, and 2001. The financial statements and audits for 2002 are scheduled for completion in December 2004. The completed audits for 2003 and 2004 are scheduled for completion in June 2005 and December 2005 respectively. This will bring the ASG up to date.

The Audit recommended that because ASG is delinquent in its financial reports that:

1. ASG should be designated a high risk grantee.
2. DOI should ensure that ASG completes its delinquent single audits.
3. DOI should ensure that future single audits are completed in a timely manner.

DOI has already complied with the second recommendation. The DOI and the ASG signed a Memorandum of Agreement two years ago setting forth the requirements for ASG to have a balanced budget and to complete its audits. ASG has reported unaudited balanced budgets for three years running. It has completed four delinquent audits with two to go. DOI is closely monitoring these activities.

The DOI will certainly monitor future single audits. They have informed the ASG that they will consider withholding the monthly operating grant funds if ASG does not meet its target goals.

The ASG is requesting that it not be designated as a high risk grantee unless it fails to meet the terms of the agreements with DOI. The designation would lead to a significant increase in detail grant reporting and monitoring, impair cash flow to vital functions, and would take valuable resources away from the effort to catch up with the audit requirements.

**Lack of Staff, Facilities and Resources has Limited Service Delivery:**

The Audit repeatedly points out that the ASG lacks adequately trained medical, educational, accounting and other professionals. This is one of the main causes for deficiencies in the programs and inadequate service delivery.

See comment 3.

See comment 4.

**Appendix X**  
**Comments from the American Samoa**  
**Government**

ASG agrees totally with this finding. The lack of an adequate tax base has limited the ASG's ability to deal with the enormous problems it faces in delivering basic services to the American Samoa population.

The per capita income in American Samoa is \$4,357, compared with the United States average of \$30,906. The poorest state is Mississippi with a per capita income of \$22,550 or five times that of American Samoa. Fifty six percent (56%) of American Samoans live below the poverty level.

American Samoa has no significant tax base, including no military bases. The tuna canneries both enjoy large tax exemption contracts that were negotiated to keep them from moving to other low wage nations such as Samoa or the Philippines.

American Samoa has a minimum income tax of 4% on all earned income. About 90% of the taxpayers qualify for this minimum tax. If there was no minimum tax, these taxpayers would pay no income tax at all under the Internal Revenue Code.

American Samoa has mirrored the Internal Revenue Code, and has suffered large drops in tax revenues as the U.S. IRC has allowed higher and higher deductions for dependants, and larger and larger child tax credits. ASG finally froze its version of the IRC in the year 2000.

The military PX opened in the 1990's, and has also cut deeply into American Samoa tax revenues. Almost 20,000 of the population of 60,000 qualify for PX privileges. Even those who do not qualify have friends that do and can purchase from the PX. The PX sells cigarettes, beer and alcohol untaxed by ASG, and at a significantly lower price than available on the local market.

American Samoa has no tax base to tap, yet the costs of providing essential services such as health care and education keep climbing. Teachers in American Samoa are hired to teach in Saipan, where the wages are significantly higher. Young American Samoans that earn college degrees do not return to American Samoa. They get jobs in the U.S. where the salaries are two to three times higher. American Samoa can not even begin to compete for doctors or registered nurses with U.S. facilities.

As a result, audits do not get completed because there are no CPA's working for the ASG. Medical care is deficient because there are no U.S. Doctors on the staff. There are no registered engineers or architects that work for the Department of Public Works. A large percentage of the teachers do not have college degrees.

The only way to correct this is additional funding. The Department of Interior has only increased the ASG grant for operations from \$20,154,000 in 1987 to \$22,274,000 in 2003. At the same time the population has grown from 36,960 to 57,902. Inflation has risen 162%.

See comment 2.

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**Appendix X**  
**Comments from the American Samoa**  
**Government**

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The DOI Operating Grant per capita in constant dollars has gone from \$545 in 1987 to \$238 in 2003, or a reduction of over 54%.

At the same time, local General Fund revenues per capita in constant dollars has gone from \$816 to \$722, or a drop of 12%. This is in spite of many increases in tax rates.

If the DOI Operating Grant were equivalent in constant dollars per capita to the 1987 Operating Grant, the 2003 Grant would be \$51,134,000, or an increase of \$28,860,000. No wonder the ASG is having a rough time with inadequate resources to meet its growing needs.

The DOI states that they have held the operating grant constant in order to promote local economic growth. DOI wants the Hospital to increase fees. This is a dubious position to take. Local economic growth will have a very difficult time without a decent hospital and education system. The Hospital doubled its local fee revenue from \$983,780 in 1999 to \$2,040,579 in 2003.

The ASG recommends that the GAO report should recommend an increase in the operations grant (dedicated to education, health and financial reporting). The grant should keep pace with inflation and population growth.

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The following are GAO's comments on the American Samoa Government's letter dated November 5, 2004.

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## GAO Comments

1. The Centers for Medicare & Medicaid Services (CMS) approved the American Samoa government's program to achieve compliance. However, compliance will not be achieved until all projects are complete. Furthermore, CMS reported that LBJ Hospital had failed to show compliance with fire-safety regulations since 1987. Specifically, the November 2003 survey found immediate jeopardy related to inadequate fire response and lack of adequate pressure in any water system. Follow-up visits to LBJ Hospital in March and August 2004 found improvement, but all actions to correct the findings from the November 2003 survey had not yet been accomplished. CMS gave LBJ Hospital a new date, March 1, 2005, by which to complete corrective actions or face termination of Medicare and Medicaid funds. The issues will be resolved when CMS determines the corrective actions are complete.
2. From March through August 2004, the American Samoa Treasury had a certified public accountant (CPA) employed as Comptroller. As we relate in the report, he resigned, citing concerns over fraudulent and unethical American Samoa government practices. However, the presence or absence of CPAs in the treasury does not preclude a grantee's compliance with the Single Audit Act. Single audits must be conducted by auditors who are independent of the audited entity and not by CPAs or any other professionals who are regularly employed by the American Samoa government.
3. Compliance will not be achieved until all audits are complete. American Samoa signed a memorandum of agreement (MOA) to complete the single audits on a specific schedule. All American Samoa single audits under the MOA have arrived late, including those that have not been completed.
4. The American Samoa government requested that it not be designated a high-risk grantee unless it fails to meet the terms of its agreements with DOI. However, the American Samoa government has already failed to meet the agreements, as figure 4 on page 29 shows. American Samoa asserts that a high-risk designation would lead to significant increases in detail grant reporting and monitoring. Such increases would be appropriate, provided they are coordinated among the federal agencies

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to eliminate duplicate reporting and monitoring. As we note on page 31, ED has already declared American Samoa a high-risk grantee and has implemented increased reporting. ED provides almost 18 percent of the grant dollars we reviewed. ED provides several other grants that were not included in this review.

# GAO Contact and Staff Acknowledgments

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**GAO Contact**

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**Staff  
Acknowledgments**

In addition to the individual named above, Eugene Beye, Howard Cott, Adrienne Spahr, Ann Ulrich, Reid Lowe, Mark Dowling, and Mark Braza made significant contributions to this report.



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