

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REPORT ON COMPLIANCE AND INTERNAL CONTROL
IN ACCORDANCE TO UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2022



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Stevenson A. Joseph
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund, and aggregate remaining fund information of the State of Pohnpei (the State) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated September 12, 2024. Our report was qualified with respect to \$5,168,313 of accounts receivable and \$796,925 unearned revenue in the State's Grants Assistance Fund and Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of these accounts. Our report was qualified with respect to GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* noncompliance related to lack of recognition of a liability associated with a guaranteed debt obligation, and included explanatory paragraph concerning collectability of receivables. Our report includes a reference to other auditors who audited the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the Pohnpei Utilities Corporation, the Pohnpei Port Authority, and the Pohnpei State Housing Authority, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation. The findings, if any, included in those reports are not included herein.

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Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002, 2022-003, 2022-004, 2022-005 and 2022-007 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruce Comer & Associates

September 12, 2024



INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable Stevenson A. Joseph
 Governor, State of Pohnpei
 Federated States of Micronesia

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the State of Pohnpei’s (the State) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the State’s major federal programs for the year ended September 30, 2022. The State’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

As discussed in Notes to the Schedule of Expenditures of Federal Awards (Notes), the State’s basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2022. Our audit, described below, did not include the operations of the entities identified in Notes as these entities conducted separate audits in accordance with Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, if required.

Summary of Opinions

ALN	Major Federal Program	Type of Opinion
15.875	Economic , Social and Political Development of the Territories-Compact of Free Association, As Amended Sector Grants	Unmodified
84.027	Special Education - Grants to States (IDEA, Part B)	Modified
93.224	Health Center Program Cluster: Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)	Unmodified

Qualified Opinion on ALN 84.027 Special Education – Grants to States (IDEA, Part B)

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on regarding ALN 84.027 Special Education – Grants to States (IDEA, Part B) as described in finding number 2022-007 for the year ended September 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the State and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of the State’s compliance with the compliance requirements referred to above.

Matter(s) Giving Rise to Qualified Opinion on ALN 84.027 Special Education – Grants to States (IDEA, Part B)

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding ALN 84.027 Special Education – Grants to States (IDEA, Part B) as described in finding number 2022-007 for Allowable Cost/Cost Principles.

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the State’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the State's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the State's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the State's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the State's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-006 and 2022-008. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the State's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-007 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-006 and 2022-008 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated September 12, 2024 which contained a qualified opinion in respect to \$5,168,313 accounts receivable and \$796,925 unearned revenues in the State's Grants Assistance Fund and the Governmental Activities as we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of these accounts. Our report also included an emphasis of matter for the omission of a certain component unit concerning collectability of receivables and for the State not recording a liability for a nonexchange financial guarantee for discretely presented component unit debt. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 8%, 7%, and 10%, respectively, of the net assets, net position, and operating revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the report of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Government Auditing Standards requires the auditor to perform limited procedures on the State's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Bryan Comer & Associates". The signature is written in a cursive style and is contained within a light gray rectangular box.

September 12, 2024

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year ended September 30, 2022

<u>Agency/ Program</u>	<u>Expenditures</u>
U.S Department of Agriculture	\$ 26,528
U.S Department of the Interior	19,134,105
U.S Department of Education	1,109,904
U.S Department of Health and Human Services	2,115,116
Grand Total	<u>\$ 22,385,653</u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 23,025,622
Less:	
Expenditures pending authorization from FSMNG	(11,290)
Non-U.S Federal Grants Fund expenditures	(387,106)
CFSM Grants Fund expenditures	(241,573)
	<u>\$ 22,385,653</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year ended September 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal ALN</u>	<u>Pass-Through Entity Identifying #</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Urban and Community Forestry Program	10.675		\$ 26,528
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>26,528</u>
U.S. DEPARTMENT OF INTERIOR			
Pass-Through From the FSM National Government:		A4	
Economic, Social and Political Development of the Territories:			
Compact of Free Association, As Amended, Sector Grants:			
Compact II Education Sector	15.875		7,713,504
Compact II Health Sector	15.875		5,347,890
Compact II Capacity Building Sector	15.875		184,723
Compact II Supplemental Education	15.875		2,582,818
Compact II ERA	15.875		404,681
Compact II Infrastructure Maintenance	15.875		447,354
Compact II Infrastructure Fund	15.875		1,052,538
Compact II Health COVID 19	15.875		563,712
Technical Assistance:			
ACA - Covid 19	15.875		724,112
Office of the State Auditor	15.875		10,421
ODA Aid Coordinator	15.875		20,018
Total ALN 15.875			<u>19,051,771</u>
Historic Preservation Fund Grants-In-Aid	15.904		82,334
TOTAL U.S. DEPARTMENT OF INTERIOR			<u>19,134,105</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-through From the FSM National Government:		A4	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027		1,109,904
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,109,904</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Health Center Program Cluster:			
Health Center Program (Consolidated Health Centers)	93.224		821,377
Health Center Program - COVID 19 funding			190,694
Health Center Program Cluster Total			<u>1,012,071</u>
Subtotal U.S Department of Health and Human Services Direct Programs			<u>1,012,071</u>
Pass-Through From the FSM National Government:		A4	
Public Health Emergency Preparedness	93.069		17,521
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		34,258
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		145,620
Family Planning - Services	93.217		82,687
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		74,571
Immuization Cooperative Agreements	93.268		136,796
PH&HCEP Hospital Preparedness Program	93.889		29,578
OPIOID STR	93.788		32,520
Tobacco Prevention	93.377		36,885
Com. Cancer Control	93.898		35,415
HIV Care Formula - Ryan White	93.917		5,142
Block Grants for Community Mental Health Services	93.958		8,320
Block Grants for Preventive Health and Health Services Block Grant	93.991		243,796
Maternal and Child Health and Human Services Pass-Through Programs	93.994		86,559
Block Grants for Prevention and Treatment of Substance Abuse	93.959		133,377
Subtotal U.S Department of Health and Human Services Pass-Through Programs			<u>1,103,045</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>2,115,116</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 22,385,653</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022

1. Scope

State of Pohnpei is one of the four states of the Federated States of Micronesia. All significant operations of State of Pohnpei are included in the scope of the Single Audit. The U.S Department of the Interior has been designated as State of Pohnpei’s cognizant agency for the Single Audit.

2. Basis of Preparation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of State of Pohnpei under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Pohnpei, it is not intended to and does not present the financial positions or changes in financial positions of State of Pohnpei.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Pohnpei maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Pohnpei’s reporting entity is defined in Note 1A to its September 30, 2022 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Pohnpei, as defined above, for the year ended September 30, 2022. The federal expenditure totals for the excluded departments and component units as of September 30, 2022, are as follows:

<u>Department or Component Unit</u>	<u>Total Federal Expenditures</u>
Pohnpei Ports Authority	\$ -
Pohnpei State Housing Authority	\$ -
Pohnpei Utilities Corporation	\$ -
Small Business Guarantee and Finance Corp.	\$ 1,003,284
Pohnpei Transportation Authority	\$ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2022

3. Summary of Significant Accounting Policies, Continued

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

D. Indirect Cost Allocation

State of Pohnpei did not receive any indirect cost allocation and did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Pohnpei did not charge indirect costs against federal programs.

E. ALN 15.875

ALN 15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under ALN 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Section I—Summary of Auditors’ Results

Financial Statements

- | | |
|--|--------------------------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified
and
Qualified |
|--|--------------------------------|

Internal Control Over Financial Reporting:

- | | |
|---|-----|
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statement noted? | Yes |

Federal Awards

Internal control over major program programs:

- | | |
|--|-----|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |

7. Type of auditors’ report issued on compliance for major federal programs:

- | | |
|--------------------------|------------|
| ALN 84.027 | Modified |
| All other major programs | Unmodified |

- | | |
|---|-----|
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
|---|-----|

9. Identification of major federal programs:

<u>AL Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories—Compact of Free Association, As Amended, Sector Grants
84.027	Special Education – Grants to States (IDEA, Part B)
93.224	Health Center Program Cluster: Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Section II – Financial Statement Findings

Reference Number	Findings
2022-001	Fund Balance Reconciliation
2022-002	Loan Guarantee Obligation
2022-003	Accounts Receivable/Unearned Revenues
2022-004	Stock Investment
2022-005	Unrecorded Liability

Section III – Federal Award Findings and Questioned Costs

Reference Number	Findings	Questioned Costs
2022-006	Period of Performance	\$ -
2022-007	Allowable Costs/Cost Principles	\$ 8,165
2022-008	Reporting	\$ -
	Total Questioned Costs	\$ 8,165

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: 2022-001

Fund balance reconciliation

Criteria: Beginning fund balances should reconcile to ending fund balances from the prior fiscal year.

Condition: For the fiscal year ended September 30, 2022, beginning fund balance was not timely reconciled to the prior year. Final adjustments to reconcile fund balance were determined on various dates but not ultimately resolved until April 04, 2024.

Cause: The State did not perform an opening reconciliation of fund balance for fiscal year 2022.

Effect: The State's FY 2022 opening fund balances and financial statements were materially misstated until corrected by management of the State.

Recommendation: The State should establish internal control procedures to ensure that fund balance accounts are reconciled and beginning fund balances are properly rolled-forward from the prior year ending balance.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State describes its response to the finding and related corrective action in its Corrective Action Plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: 2022-002

Area: Loan Guarantee Obligation

Criteria: Asian Development Bank (ADB) loans payable guaranteed by the State should be recorded in the financial statements to comply with GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Condition: ADB loans guaranteed by the State on behalf of a component unit, which for the fiscal year 2022, does not evidence the ability to repay the debt were not recorded in the accounting system to conform with GASB Statement No. 70.

Cause: The State historically has been of the opinion that such loans are not a State liability, as drastic measures have been put in place or are being proposed at the component unit to allow it to return to profitable operations.

Effect: The departure from GASB Statement No. 70 requirements resulted in a report modification.

Recommendation: We are cognizant that draft legislation is in progress to allow the State to take the necessary measures to comply with GASB Statement No. 70. The State should comply with the requirements of GASB Statement No. 70 and record the debt until such time when legislation is passed and when the component unit evidences the ability to make required debt payments.

Identification as a Repeat Finding: Finding 2021-005

View of Responsible Officials: The State describes its response to the finding and related corrective action in its Corrective Action Plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: 2022-003

Area: Sector Accounts Receivable and Unearned Revenue

Criteria: Following the application of changes for timing differences, if any, the State's Sector receivables and deferred revenue should reconcile to the FSM National Government, who is the primary recipient of the grants underlying these funds.

Condition: We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves to the accuracy and reasonableness of historical sector receivable and unearned revenue balances through confirmation or other procedures for funds 10, 11, 14, 15, 16, 17, and 19. We are aware that the collectability/liability between the State and the FSM National Government is subject to discussions planned during FY 2023 which must be concluded between both parties and consultation with each applicable grantor agency.

Cause: With respect to balances applicable for fiscal year 2022, it appears that there was no communication between the State and the FSM National Government regarding the overall reconciliation of these balances. Such is noted as planned for FY 2023.

Effect: The effect of this condition is a potential misstatement in the financial statements that we are not able to quantify. Accordingly, our report is modified with respect to this matter.

Recommendation: When discussions between the State, the FSM National Government, and applicable grantor agencies have concluded, the State should reconcile and adjust the account balances as necessary. Going forward, the State should consider developing aging schedules for each sector receivable fund to track changes in running balances. Additional details should be included as necessary to help the State distinguish increases or decreases by program years or grant award.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State describes its response to the finding and related corrective action in its Corrective Action Plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: 2022-004

Area: Stock Investment

Criteria: Pursuant to paragraph .77 of GASB Statement No. 72 – *Fair Value Measurement and Application*, a governmental entity should account for equity interests in common stock using either the fair value or the equity method when the applicable conditions of GASB Statement No. 62, paragraph 205-207, apply.

Condition: In prior years a now defunct component unit (CU) of the State acquired an investment in Caroline Fishing Corporation (Investee). The investment was accounted for under the equity method due to the State’s ability to significantly influence significant control over the operations of the investee. Up until 2005, the investment was recorded and disclosed at a net value of \$0 as a result of negative investee equity. During FY 2005, the State’s interest in the investee was reduced from 100% to 41%. The reduction of ownership interest coupled with continuing negative investee equity resulted in nondisclosure for an extended period of time until the extinguishment of the CU effective in 2009. Thereafter, the investment was transferred to the State’s general fund. The State still maintains its 41% equity interest. No disclosure was made for this investment in Fiscal year 2021. During the course of the audit, the State proposed an adjustment approximating \$16.8 million to recognize the investment using the Net Asset Value (NAV) per share methodology in fiscal year 2022. That adjustment was further corrected through audit adjustment for revaluation based on updated 2022 investee financial information.

Cause: There is a lack internal control monitoring on the annual revaluation of the investment.

Effect: The State’s financial statements were materially misstated due to (1) investment values not being updated in accordance with updated investee financial information and (2) the investment recognition was considered current and charged to current year investment income rather than recognizing a portion allocable to fund balance.

Recommendation: The State should establish internal control policies procedures to monitor fluctuations in investee financial statements and update its investment using NAV calculation annually.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State describes its response to the finding and related corrective action in its corrective action plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding 2022-005

Unrecorded Liabilities

Criteria: GASB 1600.116 requires that a government accrue a governmental fund liability and expenditure for most expenditures and transfers in the period in which the government incurs the liability. Furthermore, section .119 states that governmental fund liabilities and expenditures that should be accrued include liabilities that once incurred, are normally paid in a timely manner and in full from current financial resources. To the extent not paid, such liabilities generally represent claims against current financial resources and should be reported as governmental fund liabilities.

Condition: Based on our review of subsequent disbursements, for 4 of 37 or 11% of the sample selections tested, the invoices service dates within FY 2022 period; however, they were not accrued and recognized in the accounts payable. Such resulted in an initial understatement of FY 2022 federal expenditures and payables in the amount of \$410,193 and an understatement of non-federal expenditures and payables in the amount of \$54,666. The aggregate total of these unrecorded liabilities was \$464,859 and was subsequently corrected through audit adjustment.

Cause: The State lacked adequate internal controls procedures over year-end cut-off procedures.

Effect: The fund financial statements and the schedule of federal expenditures and awards were understated. This condition was corrected through an audit adjustment and accordingly there are no questioned cost but the reportable condition remains.

Recommendation: The State should strengthen its internal controls over year-end accounts payable and expenditure accrual to ensure proper cut-off. The State may consider revising its standard operating procedures to enhance its internal controls over year end cut-off to properly record accounts payable and expenditures.

View of Responsible Officials: The State describes its response to the finding and related corrective action in its corrective action plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: **2022-006**
Pass-Through Entity: Federated State of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875
Federal Award No: D19AF00047
Area: Period of Performance
Questions Costs: \$0

Criteria: The applicable period of performance requirements for the above cited grant specify that the funding for the grant will be available for obligation in the time period described in the underlying grant agreement and that obligations incurred under the grant shall be liquidated not later than 90 days after the end of the funding period or as otherwise mutually agreed.

Condition: The term of the subject grant agreement was extended up to 09/30/2021 by the awarding agency. An expenditure obligated under the award in the amount of \$71,464 obligated was liquidated during FY2022 on 02/11/2022. 135 days after the expiration of the grant award.

Cause: The States lacks insufficient monitoring and internal control procedures over obligation liquidation.

Effect: The State is in noncompliance with applicable period of performance requirements. No questioned costs are raised but the reportable condition remains.

Recommendation: The State should strengthen controls over monitoring obligation liquidation and enforce such adequately to maintain compliance with period of performance requirements.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State describes its response to the finding and related corrective action in its corrective action plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: 2022-007

Pass-Through Entity: Federated Stated of Micronesia National Government
Federal Agency: U.S. Department of Education
AL Program: 84.027 Special Education – Grants to States (IDEA, Part B)
Federal Award No: H027A21005
Area: Allowable Costs/Cost Principles
Questions Costs: \$8,165

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs, and the related financial and programmatic records supporting such should be adequately documented.

Condition: For 8 (or 20%) of 40 transactions tested, test population aggregating \$49,664 out of \$1,109,904 in program expenditures, we noted no financial, programmatic records and/or grantor approved budgets (e.g., vendor invoices, contracts, receiving reports, etc.) on file to substantiate allowability of the cost(s).

Transaction Detail													
No.	Date	Trans	Jnl	Ref 1	Ref 2	Amount	St	Fund	Dept	Div	Prgm	Yr	GL Acct
11	2/28/2022	455296	APJ	305901	transfer	\$ 1,240	4	20	60	60	20010	21	8110
12	2/28/2022	455296	APJ	305899	transfer	1,060	4	20	60	60	20010	21	8110
13	2/28/2022	455296	APJ	305898	transfer	920	4	20	60	60	20010	21	8110
23	7/5/2022	469245	APJ	317274	transfer	1,032	4	20	60	60	20010	22	8226
24	7/5/2022	469245	APJ	320377	transfer	552	4	20	60	60	20010	22	8226
26	8/9/2022	472574	APJ	310395	transfer	820	4	20	60	60	20010	21	8110
32	9/30/2022	489210	APJ	333630	transfer	1,870	4	20	60	60	20010	22	8225
36	9/30/2022	480693	APJ	332535	transfer	671	4	20	60	60	20010	22	8225

\$ 8,165

Cause: The State lacks internal control procedures over compliance with maintaining underlying financial and programmatic records.

Effect: The State is in noncompliance with applicable allowable costs/cost principles requirements. Projected questioned costs exceed \$25,000 and therefore the known amount of \$8,165 is questioned.

Recommendation: The State should strengthen monitoring controls over applicable costs/cost principles requirements. The State should consider compliance oversight to support personnel understanding of the Uniform Guidance and more closely monitor the maintenance of financial and programmatic records supporting allowability to ensure such are adequately documented.

Identification as a Repeat Finding: 2021-004 cleared by awarding agency on 04/02/2024.

View of Responsible Officials: The State describes its response to the finding and related corrective action in its Corrective Action Plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Finding No.: **2022-008**
Federal Agency: U.S. Department of Health and Human Services
AL Program: 93.224 – Health Center Program (Community Health Centers, Migrant Health Center Health Care for the Homeless, and Public Housing Primary Care)
Federal Award No: 5 H80CS04302-18-00
Area: Reporting
Questions Costs: \$0

Criteria: The recipient of the federal award must submit an annual Federal Financial Report (FFR). The report should reflect cumulative reporting within the project period of the document number. The subject FFR for the budget period ending 12/31/2022 was due by 04/30/2023.

Condition: The subject report was submitted to the awarding agency late on 07/18/2023.

Cause: The State’s monitoring procedures over FFR reporting deadlines were inadequate.

Effect: The State is in noncompliance with the applicable reporting requirement. No questioned costs are applicable to this condition. No negative awarding agency comments were noted.

Recommendation: The State should consider strengthening its internal controls over the monitoring of reporting deadlines.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State describes its response to the finding and related corrective action in its corrective action plan.



POHNPEI STATE GOVERNMENT

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Office of the Director

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2022

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2022-001	PSG agrees and will confirm that the ending balance from the FY 2022 audit is integrated into the beginning balance for FY 2023 prior to the delivery of the Final Trial Balance to the auditor.	October 30, 2024	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-002	The Executive is collaborating with the Legislature to address the matter concerning the PUC ADB loan.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-003	The Pohnpei State Government accounts for both the sector and federal grants on an accrual basis, whereas the FSM National Government uses a cash basis for revenue recognition. The two governments will convene to harmonize their approaches, aiming to establish confirmation for the accounts receivable.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-004	The State agrees and will ensure that the changes in the financials of the CFC is updated annually in its NAV calculation.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-005	Pohnpei State concurs and is committed to ensuring that the year-end payables are thoroughly reviewed and accurately accrued.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-006	Pohnpei State agrees and will commit to strict adherence to the performance period at all times.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-007	The State agrees and assures that it will enhance its file management practices, having informed the federal agency that certain files related to the special head programs were misplaced during the office relocation.	March 31, 2025	Director of Treasury and Administration Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm
2022-008	There has been some confusion regarding which office is tasked	March 31, 2025	Director of Treasury and Administration

	with submitting the FFR to the federal agency. The Director of DOTA will meet with CHC to definitively establish who is responsible for reporting the FFR to the US Department of Health and Human Services.		Sihna N. Lawrence sihna.lawrence@pohnpeidota.fm & Executive Director, Josephine Saimon, CHC.
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POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

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Office of the Director

Summary Schedule of Prior Year Audit Findings and Question Costs Year End September 30, 2022

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2019-001	15.875	\$21,500	Resolved
2019-002	15.875	86,943	Resolved
2020-001	15.875	103,552	In progress
2020-002	15.875	668,888	In progress
2021-001	15.875	120,220	In progress
2021-002	93.244	454,221	Resolved
2021-003	15.875	286,910	In progress
2021-004	84.027	1,489	Resolved
		\$1,743,723	