Compliance and Internal Control

State of Chuuk
Federated States of Micronesia

Year Ended September 30, 2023
with Report of Independent Auditors

Shape the future
with confidence

State of Chuuk
Federated States of Micronesia

Reports on Compliance and Internal Control

Year Ended September 30, 2023

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Report of Independent Auditors 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 Alexander R. Narruhn
Governor, State of Chuuk
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 (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, the grants assistance fund, the compact trust fund, and the aggregate remaining fund information of the State of Chuuk (the State), as of September 30, 2023, and for the year then ended, and the related notes to the financial statements. We were also engaged to audit the financial statements of the general fund. These financial statements collectively comprise the State's basic financial statements, and have issued our report thereon dated October 1, 2025. Our report stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of the general fund, due to the inability to obtain sufficient appropriate audit evidence for $8,543,745 recorded as land acquisition payable and because the State has not recorded right-to-use assets and lease liabilities as required by generally accepted accounting principles. The possible effects on the general fund's financial statements of undetected misstatements, if any, could be both material and pervasive. Our report also contains qualified opinion due to the financial statements of the governmental activities includes $8,543,745 land acquisition payable which we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account, and because the State has not recorded right-to- use assets and lease liabilities, as required by generally accepted accounting principles, for land leases. The possible effects on the financial statements of the governmental activities of undetected misstatements, if any, could be material but not pervasive.

For purposes of this report, our conclusion of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Chuuk State Health Care Plan and Chuuk Public Utility Corporation, which were 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. The findings, if any, included in those reports are not included herein.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Cost*s* as items 2023-002 and 2023-003 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 2023-001 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2023-003.

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 the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Ernst + Young LLP

October 1, 2025

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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Alexander R. Narruhn
Governor, State of Chuuk
Federated States of Micronesia

Report of Independent Auditors on Compliance for the Sole Major Federal Program

Qualified Opinion on the Sole Major Federal Program

We have audited the State of Chuuk (the State's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's sole major federal program for the year ended September 30, 2023. The State's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion of ALN 15.875 Economic, Social and Political Development of the Territories

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion 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 each of its sole major federal program for the year ended September 30, 2023.

Basis for Qualified Opinion on the Sole Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 the 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 opinion 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.

Matters Giving Rise to Qualified Opinion ALN 15.875 Economic, Social and Political Development of the Territories

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding ALN 15.875 Economic, Social and Political Development of the Territories as described in finding number 2023-003 for Procurement, Suspension and Debarment.

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 GAAS, *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 GAAS, *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 an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-004 regarding ALN 15.875 Economic, Social and Political Development of the Territories for compliance requirements Period of Performance. Our opinion on the sole major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the State' response to the noncompliance finding identified in our 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 items 2023-003 and 2023-004 to be material weaknesses.

Finding No.	Assistance Listing No.	Program Name	Compliance Requirement
2023-003	15.875	Economic, Social and Political Development of the Territories	Procurement, Suspension and Debarment
2023-004	15.875	Economic, Social and Political Development of the Territories	Period of Performance

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.

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.

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 State is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.

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

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 (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, the grants assistance fund, the compact trust fund, and the aggregate remaining fund information of the State of Chuuk (the State), as of September 30, 2023, and for the year then ended, and the related notes to the financial statements. We were also engaged to audit the financial statements of the general fund. These financial statements collectively comprise the State's basic financial statements.

We issued our report thereon dated October 1, 2025, which contained explanatory paragraphs describing that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements of the general fund due to inability to obtain sufficient appropriate audit evidence for $8,543,745 recorded as land acquisition payable and because the State has not recorded right-to-use assets and lease liabilities as required by generally accepted accounting principles and that the possible effects on the general fund's financial statements of undetected misstatements, if any, could be both material and pervasive. Our report also contains qualified opinion due to the financial statements of the governmental activities includes $8,543,745 land acquisition payable which we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account, and because the State has not recorded right-to- use assets and lease liabilities, as required by generally accepted accounting principles, for land leases. The possible effects on the financial statements of the governmental activities of undetected misstatements, if any, could be material but not pervasive.

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 basic 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, except for the effect on the schedule of expenditures of federal awards of the qualified opinion on the financial statements of the Governmental Activities as described above, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

October 1, 2025

State of Chuuk
Federated States of Micronesia

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2023

Agency/Program	**Expenditures**
U.S. Department of the Interior	$ 31,854,561
U.S. Department of Education	985,656
U.S. Department of Health and Human Services	1,112,493
Grand Total	$ 33,952,710

Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	$ 34,077,398
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	(124,688)
	$ 33,952,710

See accompanying notes to schedule of expenditures of federal awards.

State of Chuuk
Federated States of Micronesia

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	AL#	Entity Identifying #	Other Identifier	Expenditures
U.S. Department of the Interior				
Pass-Through Federated States of Micronesia National Government:		A2		
Economic, Social and Political Development of the Territories:	15.875			
Compact Sector Grants - Education Sector	15.875			$ 10,980,324
Compact Sector Grants - Health Sector	15.875			12,089,914
Compact Sector Grants - Environment Sector	15.875			43,550
Compact Sector Grants- Private Sector Development	15.875			---
Compact Sector Grants - Capacity Building Sector	15.875			667,326
Supplemental Education Grant	15.875			4,079,100
Compact Sector Grants - ERA	15.875			631,881
Compact Sector Grants – Infrastructure	15.875			2,266,708
Compact Sector Grants – Infrastructure Maintenance	15.875			1,095,758
Total Compact Sector Grants Fund				31,854,561
Total U.S. Department of the Interior				$ 31,854,561
U.S. Department of Education				
Pass-Through Federated States of Micronesia National Government:		A2		
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B)	84.027			$ 985,656
Special Education Cluster (IDEA) Subtotal				
Total U.S. Department of Education				$ 985,656
U.S. Department of Health and Human Services				
Pass-Through Federated States of Micronesia National Government:		A2		
Public Health Emergency Preparedness	93.069			$ ---
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			24,760
Maternal and Child Health Federal Consolidated Program	93.110			13,202
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			175,414
Family Planning Services	93.217			41,741
Substance Abuse and Mental Health Services- Projects of Regional and National Significance	93.243			746
Immunization Cooperative Agreements	93.268			398,734
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.354			50,710
OPIOID STR	93.788			31,972
National Bioterrorism Hospital Preparedness Program	93.889			---
Cancer Prevention and Control Programs for State, Territorial and Tribal Org	93.898			47,445
Block Grants for Community Mental Health Services	93.958			13,836
Block Grants for Prevention and Treatment of Substance Abuse	93.959			239,669
Maternal and Child Health Services Block Grant to the States	93.994			74,263
Total U.S. Department of Health and Human Services				$ 1,112,493
Total Expenditures of Federal Awards				$ 33,952,710

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Chuuk under programs of the federal government for the year ended September 30, 2023. 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 Chuuk, it is not intended to and does not present the financial position or changes in financial position of State of Chuuk.

3. Summary of Significant Accounting Policies

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 Chuuk 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.

Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Chuuk's reporting entity is defined in Note 1 to its September 30, 2023 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 Chuuk, as defined above, for the year ended September 30, 2023.

Matching Costs

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

3. Summary of Significant Accounting Policies, continued

Indirect Cost Allocation

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

Component Units

State of Chuuk's component units are to separately satisfy the requirements of the Uniform Guidance, if applicable. The following presents information concerning State of Chuuk's component units:

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation (CPUC), a discretely presented component unit, is the recipient of various pass-through funds. The CPUC is to separately satisfy its 2022 reporting responsibilities under the Single Audit Act. CPUC's total federal award expenditures for the year ended September 30, 2023 is $206,100.

Chuuk State Housing Authority

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from State of Chuuk in a prior year and certain direct grants. CSHA's total federal award expenditures for the year ended September 30, 2023 is undetermined.

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified, Qualified and Disclaimer

Internal control over financial reporting:				
Material weakness(es) identified?	X	**Yes**		**No**
Significant deficiency(ies) identified?	X	**Yes**		**None reported**
Noncompliance material to financial statements noted?	X	**Yes**		**No**

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?	X	**Yes**		**No**
Significant deficiency(ies) identified?		**Yes**	X	**None reported**

Type of auditor's report issued on compliance for major federal programs:	
All major programs	Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	**Yes**		**No**

Identification of major federal programs:

Assistance Listing Numbers	**Name of Federal Program**
15.875	Economic, Social and Political Development of the Territories

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditor's Results, continued

Dollar threshold used to distinguish between Type A and Type B Programs: $1,018,581

Auditee qualified as low-risk auditee? ______ **Yes** __X__ **No**

Section II - Financial Statement Findings

Reference Number	Findings
2023-001	Chuuk State Housing Authority
2023-002	Land Leases

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2023-003	15.875	Procurement, Suspension and Debarment	$406,330
2023-004	15.875	Period of Performance	$ 2,400

Finding No.: 2023-001- Chuuk State Housing Authority-reconciliation of subsidiary to general ledger

Criteria:

The State's Fiscal and Management Regulations and principles of internal control dictate that there should be control activities to ensure reconciliations of subsidiary ledger to the general ledger are performed on a regular basis to minimize the opportunity for misappropriation of funds or fraudulent activities.

Condition:

We determined subsidiary records, particularly the loan ledger, contained variances that are not timely reconciled.

Cause:

The cause of this condition is an absence of timely or accurate loan ledger and subsidiary ledger reconciliations.

Effect:

The effect of this condition is a potential misstatement of the financial statements.

Recommendation:

The State of Chuuk should perform monthly reconciliations of loans and subsidiary ledgers.

Identification as a Repeat Finding: Finding No. 2022-001.

Views of Responsible Officials:

The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.

Finding No.: 2023-002 - Land Leases

Criteria:

Government Accounting Standards Codification L20 establishes standards of accounting and financial reporting for leases by lessees and lessors. For purposes of applying this section, a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

Condition:

The State of Chuuk lost many of its lease agreements in a fire some years ago and has been working to compile its land and building leases and to determine if liabilities should be recorded for delinquent lease payments. Due to the state of this project, we were not able to obtain documentation to determine if an associated liability should be recorded in the financial statements and if all requisite lease disclosures have been made.

Cause:

The cause of this condition is that management is still researching and reconstructing the underlying lease data.

Effect:

The effect of this condition is a potential misstatement of the financial statements and the notes thereto resulting in a report modification.

Recommendation:

The State of Chuuk should set a timetable and obtain technical assistance to assist in resolution of this matter.

Identification as a Repeat Finding: Finding No. 2022-002.

Views of Responsible Officials:

The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.

Finding No.: 2023-003
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Compact Sector Grants
Area: Procurement, Suspension and Debarment
Questioned Costs: $406,330

Criteria:

In accordance with 2 CFR section 180.300, entities that enter into covered transactions must verify that the person with whom they intend to do business, is not excluded or disqualified by:

(a.) Checking SAM.gov Exclusions; or
(b.) Collecting a certification from that person; or
(c.) Adding a clause or condition to the covered transaction with that person.

Further, in accordance with applicable procurement requirements, procurement transactions shall provide full and open competition.

Condition:

Of 25 nonpayroll expenditures tested, aggregating $1,138,754 of a total population of $7,242,884, the following was noted:

1. For 8 (or 32%), the State did not perform verification whether the individual or contractor was suspended or debarred prior to entering into a covered transaction.

Program No.	PO No.	Date	Transaction No.	Amount
10101	C303263	08/04/2023	475816	$ 37,000
10169	C311709	09/28/2023	481843	65,350
11100	303647	05/22/2023	468656	28,177
10169	299019	02/23/2023	461430	116,219
10101	C299273	05/12/2023	467771	32,000
10101	C308145	09/21/2023	480959	36,000
11100	P302247	09/15/2023	480038	36,202
11100	300771	03/23/2023	464107	25,000
				$375,948

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2023-003, continued
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Various Compact Sector Grants
Area: Procurement, Suspension and Debarment
Questioned Costs: $406,330

2. For 15 transactions tested, we observed that 5 transactions (or 33%), documents were not provided to demonstrate that competitive procurement was used.

No.	PO No.	Program No.	Date	Amount	
1	XXX	10169	03/08/2023	$24,732	
2	30240	11700	04/27/2023	4,000	
3	P302247	11100	09/15/2023	36,202	*
4	300771	11100	03/23/2023	25,000	*
5	C295794	11200	01/12/2023	1,650	
				$91,584	
	Less amounts included in condition 1			(61,202)	*
				$30,382	

Cause:

The State of Chuuk lacks policies and procedures for verification of persons or contractors prior to entering into a covered transaction. Furthermore, the State did not provide documentation to the audit team by the requested cut-off date.

Effect:

The Chuuk State is in noncompliance with applicable procurement and suspension and debarment requirements and questioned costs of $406,330 is reported.

Condition	Questioned Costs
1	$ 375,948
2	30,382
	$ 406,330

Finding No.:	2023-003, continued
Pass-Through Entity:	Federated States of Micronesia National Government
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	Various Compact Sector Grants
Area:	Procurement, Suspension and Debarment
Questioned Costs:	$406,330

Recommendation:

The Chuuk State should implement formal procedures to document written evidence that, prior to entering into a covered transaction, a search had been performed to ensure the potential individual or contractor is not suspended or debarred. In addition, Chuuk State should improve its file maintenance system to help ensure documents over compliance requirements can be easily retrieved.

Views of Responsible Officials:

The State Corrective Action Plan provides explanation for disagreement with Condition 1. The State agrees with Condition 2.

Auditor Response:

The State concludes that vendors they transacted with are not debarred or suspended based on a search of SAM.gov that was performed subsequent to the transaction date. However, the search should have been performed prior to entering into the transactions.

Finding No.	2023-004 – Period of Performance
Pass-Through Entity:	Federated States of Micronesia National Government
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	Various Compact Sector Grants
Area:	Period of Performance
Questioned Costs:	$2,400

Criteria:

In accordance with the FSM-US Fiscal Procedures Agreement under Article VI Post-Award Requirements 1(c), the Government of the Federated States of Micronesia shall liquidate all Obligations incurred under a Grant not later than 90 days after the end of the funding period.

Condition:

For 1 (or 4 %), out of 25 transactions tested, purchase orders were not provided. Accordingly, the State was not able to substantiate that the cost was incurred/obligated within the period of performance.

#	Date	Ref 1	Question Cost
1	11/14/2022	293068	$2,400

Cause:

The State lacks internal controls over maintaining adequate records documenting the period of performance procedures performed.

Effect:

The State may be in noncompliance with the applicable period of performance requirements. Total question costs identified are $2,400.

Recommendation:

Responsible personnel should maintain records that document the period of performance procedures performed.

Views of Responsible Officials:

The State agrees with the finding and Corrective Action is described in the Corrective Action Plan.

Tel. No. (691) 330-2230 Fax No. (691) 330-2233

Jonas M. Paul
Director

Restmena S. Nonumwar
Deputy Director

CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2023

Finding Number	Corrective Action Plan (CAP)	Anticipated Completion Date	Responsible Person (Contact Details)
2023-001 Chuuk State Housing Authority	The State of Chuuk, Department of Administrative Services (DAS) will appoint an accountant to assist with Chuuk State Housing Authority in implementing control activities to ensure reconciliations of subsidiary ledger to the general ledger are performed on a regular basis.	September 30, 2026	Jonas M. Paul- Director (DAS) jpaulckdas@gmail.com Kayviann Hallers – Internal Control kayviannhallers@gmail.com
2023-002 Land Leases	As mentioned in previous CAP under finding 2022-002, DAS has reconstructed subsidiary ledgers of the lessors and other individuals who have claims against Chuuk State Government. Such ledgers were submitted to the office of the governor for appropriate action and booking. DAS will provide available records of land and building leases.	September 30, 2026	Jonas M. Paul- Director (DAS) jpaulckdas@gmail.com Kayviann Hallers – Internal Control kayviannhallers@gmail.com
2023-003 Procurement, Suspension and Debarment	A search on sams.gov for the selected vendors under this finding revealed each of them were not suspended or debarred. A memorandum has been drafted and will be issued to all departments and offices involved in procurement within Chuuk State Government. The memorandum outlines the requirement that all departments and offices must verify that any individual or business participating in procurement transactions is not listed on the SAMS.gov Exclusion list. A written work instruction on how to perform this verification will also be distributed to ensure a clear understanding of this procedure. <u>A print out of this search will be included with each transaction file and saved among transaction files as proof of compliance.</u> DAS has hired an Internal Auditor to assist with the timely completion of audits. Internal Auditor and team are in the process of converting their records system into a digital filing system to improve records management which will be easily available for audit and other subsequent requests.	September 30, 2026	Jonas M. Paul- Director (DAS) jpaulckdas@gmail.com Kayviann Hallers – Internal Control kayviannhallers@gmail.com

DEPARTMENT OF ADMINISTRATIVE SERVICES
CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
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Director

Restmena S. Nonumwar
Deputy Director

CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2023

Finding Number	Corrective Action Plan (CAP)	Anticipated Completion Date	Responsible Person (Contact Details)
2023-004 Period of Performance	The State (DAS) will issue a memo requiring all departments to document the period of performance procedures performed. Additional training will be provided to ensure departments are complying.	September 30, 2026	Jonas M. Paul- Director (DAS) jpaulckdas@gmail.com Kayviann Hallers – Internal Control kayviannhallers@gmail.com

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Director

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Deputy Director

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2023

Finding Number	Assistance Listings Number	Requirement	Status
2021-001 and 2022-001	N/A	Chuuk State Housing Authority- reconciliation of subsidiary to general ledger	Not corrected or resolved. Similar to Finding No. 2023-001. See corrective action plan – Finding no. 2023-001
2021-002 and 2022-002	N/A	Supporting information for land leases	Not corrected or resolved. Similar to Finding No. 2023-002. See corrective action plan – Finding no. 2023-002
2021-003	15.875	Special tests and provisions - annual performance evaluation	Resolved
2022-003	N/A	Accounts receivable/unearned revenues	Resolved
2022-004	15.875	Period of performance	Not corrected or resolved. Similar to Finding No. 2023-004. See corrective action plan – Finding no. 2023-004