

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2023**



**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, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated November 6, 2025.

Our report was qualified with respect to GASB 70 noncompliance related to lack of recognition of a liability associated with a nonexchange financial guarantee for discretely presented component unit debt. 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.

**Saipan Office**

1930 Picarro Lane, I Liyang Village  
P.O. Box 504053, Saipan, MP 96950  
Tel Nos. (670) 235-8722 (670) 233-1837  
Fax Nos. (670) 235-6905 (670) 233-8214

**Guam Office**

333 South Marine Corps Drive  
Tamuning, Guam 96913  
Tel Nos. (671) 646-5044 (671) 472-2680  
Fax Nos. (671) 646-5045 (671) 472-2686

**Palau Office**

PIDC Apartment No. 11  
PO Box 1266 Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

## 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 2023-001, 2023-002, 2023-003, 2023-004, 2023-006, 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 items 2023-005, 2023-007, and 2023-008.

## 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.

A handwritten signature in dark ink that reads "Bryan Comer & Associates". The signature is written in a cursive, flowing style.

November 6, 2025  
Tamuning, Guam



**INDEPENDENT AUDITORS' REPORT 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 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, 2023. 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, 2023. 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***

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

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### *Qualified Opinion on Each Major Federal Program*

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the State of Pohnpei complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2023.

### *Unmodified Opinion on Each of the Other Major Federal Programs*

In our opinion, the State of Pohnpei 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, 2023.

### *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 of Pohnpei 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 legal determination of the State's compliance with the compliance requirements referred to above.

### *Matters Giving Rise to Qualified Opinion on ALN 15.875 Economic, Social, and Political Development of the Territories - Compact of Free Association, As Amended, Sector Grants.*

As described in the accompanying schedule of findings and questioned costs, State of Pohnpei did not comply with requirements regarding the ALN 15.875 Economic, Social, and Political Development of the Territories - Compact of Free Association, As Amended, Sector Grants as described in finding number 2023-002, 2023-003, 2023-004, and 2023-005 for Allowable Cost/Cost Principles, Procurement, Suspension, and Debarment, Special Tests and Provisions, and Equipment and Real Property Management.

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

### *Matters 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, State of Pohnpei did not comply with requirements regarding the ALN 84.027 Special Education – Grants to States (IDEA, Part B) as described in finding number 2023-006 for Allowable Cost/Cost Principles.

Compliance with such requirements is necessary, in our opinion, for the State of Pohnpei 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.

*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.

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.

## **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.

*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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2023-002, 2023-003, 2023-004, 2023-006, to be material weaknesses.

*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 described in the accompanying Schedule of Findings and Questioned Costs as items 2023-005, 2023-007, and 2023-008.

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 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 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, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements.

We issued our report thereon dated November 6, 2025 which contained a qualified opinion on those financial statements with respect to noncompliance with GASB 70 related to a lack of recognition of a liability associated 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 7%, 6%, and 9%, 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.



November 6, 2025  
Tamuning, Guam



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year ended September 30, 2023

<u>Agency/ Prgram</u>	<u>Expenditures</u>
U.S Department of Agriculture	\$ 52,859
U.S Department of the Interior	19,546,611
U.S Department of Education	1,091,202
U.S Department of Health and Human Services	2,067,608
Grand Total	<u>\$ 22,758,280</u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 23,369,995
Less:	
Expenditures pending authorization from FSMNG	(18,060)
Non-U.S Federal Grants Fund expenditures	(86,949)
CFSM Grants Fund expenditures	<u>(506,706)</u>
	<u>\$ 22,758,280</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, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through</u>	
	<u>Federal ALN</u>	<u>Entity Identifying # Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
Urban and Community Forestry Program	10.675	\$ 52,859
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<u>52,859</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
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	8,190,020
Compact II Health Sector	15.875	6,465,322
Compact II Capacity Building Sector	15.875	136,440
Compact II Supplemental Education	15.875	2,952,264
Compact II ERA	15.875	410,233
Compact II Infrastructure Maintenance	15.875	240,760
Compact II Infrastructure Fund	15.875	989,244
Compact II Health COVID 19	15.875	74,817
Technical Assistance:		
ACA - Covid 19	15.875	10,395
Office of the State Auditor	15.875	35,176
ODA Aid Coordinator	15.875	80
Total ALN 15.875		<u>19,504,751</u>
Historic Preservation Fund Grants-In-Aid	15.904	<u>41,860</u>
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>		<u>\$ 19,546,611</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Pass-through From the FSM National Government:		A4
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	\$ 1,091,202
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<u>\$ 1,091,202</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Direct Program:		
Health Center Program Cluster:		
Health Center Program (Consolidated Health Centers)	93.224	\$ 817,160
Health Center Program - COVID 19 funding		<u>386,296</u>
Health Center Program Cluster Total		<u>1,203,456</u>
Subtotal U.S Department of Health and Human Services Direct Programs		<u>1,203,456</u>
Pass-Through From the FSM National Government:		A4
Public Health Emergency Preparedness	93.069	2,104
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	34,945
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	40,306
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	135,907
Family Planning - Services	93.217	23,026
Universal Newborn Hearing and Screening UNHS	93.251	9,669
Immuization Cooperative Agreements	93.268	241,729
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354	14,739
OPIOID STR	93.788	24,093
Tobacco Prevention	93.377	30,078
Com. Cancer Control	93.898	26,685
HIV Care Formula - Ryan White	93.917	8,388
Block Grants for Community Mental Health Services	93.958	9,324
Maternal and Child Health and Human Services Pass-Through Programs	93.994	136,224
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>126,935</u>
Subtotal U.S Department of Health and Human Services Pass-Through Programs		<u>864,152</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		<u>\$ 2,067,608</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u>\$ 22,758,280</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, 2023

**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, 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 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, 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 Pohnpei, as defined above, for the year ended September 30, 2023. The federal expenditure totals for the excluded departments and component units as of September 30, 2023, are as follows:

<u>Department or Component Unit</u>	<u>Total Federal Expenditure</u>
Pohnpei Ports Authority	\$ -
Pohnpei State Housing Authority	\$ -
Pohnpei Utilities Corporation	\$ 1,142,491
Small Business Guarantee and Finance Corp.	\$ -
Pohnpei Transportation Authority	\$ -

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2023

**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, 2023

**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<br>and<br>Qualified |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------|

Internal Control Over Financial Reporting:

- |                                                         |     |
|---------------------------------------------------------|-----|
| 2. Material weakness(es) identified?                    | Yes |
| 3. Significant deficiency(ies) identified?              | No  |
| 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:<br>ALN 15.875<br>ALN 84.027<br>ALN 93.224 | Modified<br>Modified<br>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, 2023

**Section II – Financial Statement Findings**

<b>Reference Number</b>	<b>Findings</b>
2023-001	Loan Guarantee Obligation

**Section III – Federal Award Findings and Questioned Costs**

<b>Reference Number</b>	<b>ALN</b>	<b>Findings</b>	<b>Questioned Cost</b>
2023-002	15.875	Allowable Costs/Cost Principles	\$ 7,326
2023-003	15.875	Procurement, Suspension, and Debarment	\$ 223,588
2023-004	15.875	Special Tests and Provisions	\$ 11,790
2023-005	15.875	Equipment and Real Property Management	\$ -
2023-006	84.027	Allowable Costs/Cost Principles	\$ 18,980
2023-007	93.224	Reporting	\$ -
2023-008	93.224	Cash Management	\$ -
		Total Questioned Costs	<b>\$ 261,684</b>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**2023 Financial Statement Findings**

**Finding No.: 2023-001**

**Area: Loan Guarantee Obligation**

**Criteria:** Asia 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 2023, 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 2022-002

**View of Responsible Officials:** The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-002**

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

Area: Allowable Costs/Cost Principles

Questioned Costs: \$7,326

Criteria: In accordance with 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: The noncompliance noted are as follows:

- For 3 or (5%) of 60 non-payroll transactions tested, from a population totaling \$1,187,754 of \$19,504,751 in program expenditures, we noted either: (a) no financial or programmatic records and/or grantor-approved budgets (e.g., vendor invoices, contracts, receiving reports) were available to substantiate allowability; or (b) the available procurement file documentation was insufficient to substantiate allowability, as follows:

Selection														
No.	Test No.	Date	Trans	Jnl	Ref 1	Ref 2	Ref 3	Amount	Fund	Dept	Div	Prgm	Yr	Object
21	26	3/3/2023	496137	OTS	348090	transfer	77251	\$ 120	11	70	70	11100	23	8226
26	10	6/2/2023	504275	OTS	351929	transfer		126	10	60	67	10211	23	8211
12	49	12/2/2022	485731	OTS	338871	split		358	15	60	66	15130	22	8220
								<b>Questioned Costs \$</b>	<b>604</b>					

- For 13 or (20%) of 65 payroll transactions tested, from a population totaling \$36,422 of \$19,504,751 in program expenditures, no departmental timecards or timesheet documentation was provided to support compensation, taxes, and fringe benefits, as follows:

Selection					Department					
Test No.	No.	Fund	Paydate	Dept.	Description	Regular	Hlth Ins	Life Ins	SS Tax	Total
2	IC-2	Fund 10	12/30/2022	10223	Dept. of Education	\$ 592	\$ 30	\$ 10	\$ 36	\$ 668
3	IC-3	Fund 10	12/30/2022	10302	Dept. of Education	480	40	-	28	548
5	IC-5	Fund 15	12/30/2022	10202	Dept. of Education	438	10	-	25	473
12	IC-12	Fund 10	12/30/2022	10101	Dept. of Education	995	-	20	66	1,081
21	IC-21	Fund 10	12/30/2022	10219	Dept. of Education	438	20	8	25	491
24	IC-24	Fund 10	12/30/2022	10229	Dept. of Education	438	-	8	25	471
38	2	Fund 10	10/18/2022	10206	Dept. of Education	438	40	8	25	511
44	8	Fund 10	11/29/2022	10301	Dept. of Education	496	20	11	36	563
57	21	Fund 15	3/7/2023	15100	Dept. of Education	592	-	-	36	628
61	25	Fund 15	2/21/2023	15130	Dept. of Education	290	-	5	14	309
62	26	Fund 15	4/18/2023	15130	Dept. of Education	301	-	5	14	320
63	27	Fund 15	5/25/2023	15130	Dept. of Education	290	30	5	14	339
64	28	Fund 15	6/26/2023	15130	Dept. of Education	301	-	5	14	320
<b>Questioned Costs</b>						<b>\$ 6,089</b>	<b>\$ 190</b>	<b>\$ 85</b>	<b>\$ 358</b>	<b>\$ 6,722</b>



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-002, 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

Area: Allowable Costs/Cost Principles

Questioned Costs: \$7,326

Condition: Continued

3. Of the 49 payroll transactions tested where departmental timecards or timesheet support was provided, we identified the following:
  - a) For 1 employee, the uniform timesheet reported 16 hours of sick leave, while the departmental timesheet reported 80 hours of regular work.
  - b) For 1 employee, the uniform timesheet was not signed by all required authorized signatories.
  - c) For 1 employee, the uniform timesheet reported 56 regular hours, while the departmental timesheet reflected 43 regular hours; however, the employee was paid for 80 regular hours, resulting in an overpayment of approximately \$76 (processed on May 2, 2023).

Cause: The cause of the above-mentioned conditions cited are as follows:

- For Condition 1, ineffective documentation filing and retention controls were exacerbated by the relocation of the State Treasury office during the audit period.
- For Condition 2, ineffective documentation filing and retention controls existed at the departmental agency level, where timesheets or other timekeeping records were retained.
- For Condition 3(a), insufficient internal controls at the departmental level failed to ensure reconciliation of departmental timesheets with uniform timesheets submitted to the State Treasury. The Treasury does not consistently receive departmental support and therefore relies on agency review and certification.
- For Condition 3(b), required signatory authorization controls failed at both the departmental and treasury levels.
- For Condition 3(c), existing controls failed to detect and prevent the overpayment.

Effect: The State is not compliance with applicable allowable costs/cost principles requirements. Projected questioned costs exceed \$25,000; therefore, the known questioned costs of \$7,326 are reported.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-002, 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

Area: Allowable Costs/Cost Principles

Questioned Costs: \$7,326

Recommendation: The State should consider the following:

- a. For Condition 1, the State should continue efforts to strengthen documentation filing and retention controls.
- b. For Conditions 2 and 3, because the State Treasury relies on departmental monitoring, the State should consider:
  1. Enhancing monitoring controls at the departmental level or implementing a uniform timekeeping system to reduce reconciliation burdens.
  2. Establishing policies requiring submission of departmental timekeeping reports to the State treasury to allow for secondary reconciliation.
  3. Reinforcing the requirement that when changes are made affecting uniform timesheets but not departmental records, appropriate explanatory documentation be retained.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 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  
Area: Procurement, Suspension, and Debarment  
Questioned Costs: \$223,588

Criteria: The following must be adhered to comply with federal and the State's procurement regulations:

- 2 CFR 200.318 requires documentation sufficient to detail the history of each procurement transaction, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for contract price.
- 2 CFR 200.319 requires all procurement transactions under a federal award to be conducted in a manner providing full and open competition.
- 2 CFR 200.320 permits small purchases without soliciting competitive quotations if the price is deemed reasonable based on research, experience, or purchase history, provided supporting documentation is maintained.
- The State's procurement regulations require that small purchases exceeding \$1,000 be supported by three quotations, with the lowest quotation selected unless a waiver is documented and approved. Waiver justifications must be submitted to the State treasury for inclusion in the procurement file.

Condition: For 5 (or 8%) of 60 transactions tested, test population aggregating \$1,187,753 out of \$19,504,751 in program expenditures, we noted based on our review of procurement files:

- For test no. 15, obligation 361854 – Of 3 quotations obtained for a small purchase transaction, the highest quotation was selected, there was no documented justification to support the procurement selection.
- For test no. 16, obligation 372216 – The procurement was sourced from one vendor and lacks additional quotations. There was no documented justification to support the sole-source procurement.
- For test no. 17, obligation 372215 – The procurement was sourced from one vendor and lacks additional quotations. There was no documented justification to support the sole-source procurement.
- For test no. 22, obligation 334914 – The procurement file included 2 quotations and a justification form that did not relate to the transaction as it cites an explanation for purchasing goods from other vendors unrelated to the actual transaction. Of the 2 vendors included, there did not appear to be a notable difference in goods/services offered, however the higher of the 2 was selected. Consequently, we could not determine the ultimate basis for vendor selection.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 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

Area: Procurement, Suspension, and Debarment

Questioned Costs: \$223,588

Condition: (continued)

- For test no. 30, obligation 358537 – The procurement as sourced from one vendor and lacks additional quotations. There was no documented justification for the sole-source procurement.

Total questioned costs are summarized as follows:

Selection No.	Test No.	Date	Trans	Jnl	Ref 1	Ref 2	Ref 3	Amount	Fund	Dept	Div	Prgm	Yr	Object
45	15	9/30/2023	527597	OTS	361854	transfer	80379	\$ 4,890	10	60	60	10101	23	8610
IC-11-16	16	9/30/2023	528709	OTS	372216	transfer	80697	106,821	11	70	75	11500	23	8610
IC-11-17	17	9/30/2023	528709	OTS	372215	transfer	80697	80,057	11	70	75	11500	23	8610
3	22	10/25/2022	481667	OTS	334914	transfer	75343	20,000	11	70	75	11500	22	8230
32	30	8/9/2023	511747	OTS	358537	split	78728	11,790	11	70	70	11112	23	8610
<b>Questioned Costs</b>								<b>\$ 223,558</b>						

Cause: Ineffective documentation filing and retention controls, further impacted by the relocation of the State Treasury office.

Effect: The State is not in compliance with federal and State procurement requirements. Known questioned costs of \$223,588 are reported, with projected questioned costs exceeding \$25,000.

Recommendation: The State should strengthen procurement documentation controls and ensure rationales and justifications for vendor selection are retained in procurement files.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-004**

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: D23AF00012-01 (Education)  
D23AF00013-01 (Health)  
D22AF00326-01 (Supplemental Education)  
Area: Special Tests and Provisions  
Questioned Costs: \$11,790

Criteria:

1. Pursuant to Compact Sector Health grants, assistance provided through the grant may not be used for advanced payments, except in limited circumstances and such payments must receive prior written concurrence by the office of insular affairs (OIA).
2. Pursuant to Compact Sector grants for the Education and Supplemental Education Grant (SEG) programs, all personnel funded under these grants are required annual performance evaluations for all funded personnel, with evaluations retained personnel files.

Condition:

1. For 1 (or 1%) of 60 transactions tested, aggregating \$1,187,753 out of \$19,504,751 in program expenditures, the State made an advance payment using sector grant funds. No documentation was provided to evidence prior grantor agency concurrence to waive the specific special provision.

Selection No.	Test No.	Date	Trans	Jnl	Ref 1	Ref 2	Ref 3	Amount	Fund	Dept	Div	Prgm	Yr	Object
32	30	8/9/2023	511747	OTS	358537	Split	78728	\$ 11,790	11	70	70	11112	23	8610
Questioned Cost								\$ 11,790						

2. For 11 (or 23%) of 49 personnel records tested under the Compact Sector Education and Supplemental Education grants, no documentation was available to show that the annual performance evaluation had been performed.

Cause: For advance payments, either concurrence was not obtained, or documentation was not retained; and a lack of familiarity with specific grant conditions may have contributed to the noncompliance. For evaluations, documentation retention controls over personnel files were inadequate.

Effect: The State is not in compliance with the Compact Sector health grant program requirements; known questioned costs of \$11,790 are being reported, with projected questioned costs exceeding \$25,000.

The State is not in compliance with the Education and Supplemental Education grant requirements for the education and supplemental education programs regarding personnel evaluation; no questioned cost were identified associated with above condition.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-004, 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: D23AF00012-01 (Education)

D23AF00013-01 (Health)

D22AF00326-01 (Supplemental Education)

Area: Special Tests and Provisions

Questioned Costs: \$11,790

Recommendation: The State should consider the following:

1. For the health grants, if advance payments are necessary, the State should (a) use general fund advances with later reimbursement; (b) establish a letter of credit; or (c) obtain prior OIA concurrence.
2. For the Education and Supplemental Education grants, the State should strengthen controls to ensure annual evaluations are completed and retained in personnel files.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-005**

Pass-Through Entity: Federated States of Micronesia National Government  
Federal Agency: U.S Department of the Interior  
AL Program: 15.875  
Federal Award No: Various  
Area: Equipment and Real Property Management  
Questioned Costs: None

Criteria: 2 CFR §200.313(d)(1) requires property records to include a description, serial number or ID number, source of funding (including FAIN), title holder, acquisition date, cost, federal participation percentage, location, use and condition, and disposition data including disposal date and sale price.

Condition: The following were noted:

1. The State's capital asset register reflected no Compact Sector-funded capitalized infrastructure additions since FY 2016, despite completed contracts during 2016 through 2021. The State was unable to provide supporting documentation evidencing capitalizable values, project ownership, or other required details.
2. Four (4) assets or batches of assets that met the State's capitalization requirements were not capitalized until corrected through audit adjustments.

Cause:

For both conditions there is a lack of internal control monitoring over fixed asset capitalization.

Effect:

The State is not in compliance with applicable equipment and real property management requirements. The impact could not be quantified: therefore, no question costs are reported.

Recommendation: The State should consider the following:

1. For Condition 1, the State should obtain documentation to support capitalizable values and confirm ownership.
2. For Condition 2, all assets related to health-sector acquisitions, the State should improve coordination between the Department of Health and Human Services and the State Treasury to ensure eligible items are capitalized at requisition or purchase order stage.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

**Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023**

**Finding 2023-006**

Pass-Through Entity: Federated States 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: H027A220005  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$18,980

Criteria: Expenditures must be necessary and reasonable for program purposes and supported by adequate financial and programmatic documentation in accordance with federal allowable cost/cost principles requirements.

Condition:

1. For 4 (7%) of 60 non-payroll transactions tested, totaling \$57,356 of \$1,091,202 in program expenditures, no supporting financial or programmatic records (e.g., vendor invoices, contracts, receiving reports, or grantor-approved budgets) were provided for the following:

Selection No.	Test No.	Date	Trans	Jnl	Ref 1	Ref 2	Ref 3	Obligation	Fund	Dept	Div	Prgm	Yr	Object
18	31	4/27/2023	502305	OTS	348601	transfer		\$ 141	20	60	60	20010	23	8225
19	32	4/27/2023	502305	OTS	348605	transfer		22	20	60	60	20010	23	8226
34	50	9/16/2023	516870	OTS	358953	transfer		299	20	60	60	20010	23	8225
43	59	9/30/2023	519320	OTS	349721	transfer		50	20	60	60	20010	22	8110
Questioned Costs								\$ 512						

2. For 39 (65%) of 60 payroll transactions tested, totaling \$28,582, no departmental timecards or timesheets were provided to support compensation, taxes, and fringe benefits for the following:



**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-006, Continued**

Pass-Through Entity: Federated States 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: H027A220005

Area: Allowable Costs/Cost Principles

Questioned Costs: \$18,980

Condition: (continued)

Test No.	Selection No.	Fund	Paydate	Department	Dept. Description	Regular	Hlth Ins	Life Ins	SS Tax	Total
2	2	Fund 20	11/1/2022	20010	Spcl Ed Ops	\$ 480	\$ 40	\$ 8	\$ 28	\$ 556
3	3	Fund 20	2/21/2023	20010	Spcl Ed Ops	521	-	11	31	563
8	8	Fund 20	6/26/2023	20010	Spcl Ed Ops	383	10	7	20	420
9	9	Fund 20	9/5/2023	20010	Spcl Ed Ops	603	30	11	37	681
10	10	Fund 20	10/18/2022	20010	Spcl Ed Ops	313	-	5	15	333
11	11	Fund 20	10/18/2022	20010	Spcl Ed Ops	567	30	10	34	641
12	12	Fund 20	10/18/2022	20010	Spcl Ed Ops	459	-	8	26	493
13	13	Fund 20	10/18/2022	20010	Spcl Ed Ops	301	-	4	14	319
14	14	Fund 20	11/1/2022	20010	Spcl Ed Ops	301	-	4	14	319
15	15	Fund 20	11/1/2022	20010	Spcl Ed Ops	521	30	10	31	592
16	16	Fund 20	11/15/2022	20010	Spcl Ed Ops	521	-	10	31	562
17	17	Fund 20	11/29/2022	20010	Spcl Ed Ops	567	30	10	34	641
18	18	Fund 20	11/29/2022	20010	Spcl Ed Ops	438	40	8	25	511
19	19	Fund 20	12/30/2022	20010	Spcl Ed Ops	438	30	8	25	501
20	20	Fund 20	12/30/2022	20010	Spcl Ed Ops	521	-	10	31	562
22	22	Fund 20	2/7/2023	20010	Spcl Ed Ops	301	30	5	14	350
23	23	Fund 20	2/21/2023	20010	Spcl Ed Ops	459	-	9	26	494
28	28	Fund 20	3/21/2023	20010	Spcl Ed Ops	439	-	9	25	473
29	29	Fund 20	4/4/2023	20010	Spcl Ed Ops	439	40	9	25	513
30	30	Fund 20	4/4/2023	20010	Spcl Ed Ops	370	-	7	20	397
31	31	Fund 20	4/18/2023	20010	Spcl Ed Ops	438	30	9	25	502
32	32	Fund 20	4/18/2023	20010	Spcl Ed Ops	480	-	10	28	518
34	34	Fund 20	5/2/2023	20010	Spcl Ed Ops	313	-	5	15	333
35	35	Fund 20	5/2/2023	20010	Spcl Ed Ops	438	66	9	25	538
36	36	Fund 20	5/2/2023	20010	Spcl Ed Ops	370	42	7	20	439
37	37	Fund 20	5/2/2023	20010	Spcl Ed Ops	438	-	-	25	463
38	38	Fund 20	5/2/2023	20010	Spcl Ed Ops	301	-	5	14	320
42	42	Fund 20	5/30/2023	20010	Spcl Ed Ops	439	30	9	25	503
43	43	Fund 20	6/13/2023	20010	Spcl Ed Ops	301	-	5	20	326
44	44	Fund 20	6/13/2023	20010	Spcl Ed Ops	438	-	9	31	478
45	45	Fund 20	6/26/2023	20010	Spcl Ed Ops	383	30	7	20	440
46	46	Fund 20	7/11/2023	20010	Spcl Ed Ops	370	30	7	20	427
48	48	Fund 20	7/11/2023	20010	Spcl Ed Ops	402	20	8	22	452
49	49	Fund 20	7/11/2023	20010	Spcl Ed Ops	370	20	7	20	417
50	50	Fund 20	7/25/2023	20010	Spcl Ed Ops	370	10	7	20	407
51	51	Fund 20	8/8/2023	20010	Spcl Ed Ops	521	-	11	31	563
52	52	Fund 20	8/8/2023	20010	Spcl Ed Ops	356	16	7	18	397
53	53	Fund 20	8/22/2023	20010	Spcl Ed Ops	435	20	9	25	489
54	54	Fund 20	9/19/2023	20010	Spcl Ed Ops	435	66	9	25	535
<b>Questioned Costs</b>						<b>\$ 16,540</b>	<b>\$ 690</b>	<b>\$ 303</b>	<b>\$ 935</b>	<b>\$ 18,468</b>

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-006, Continued**

Pass-Through Entity: Federated States 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: H027A220005

Area: Allowable Costs/Cost Principles

Questioned Costs: \$18,980

Condition: (continued)

3. Of the 21 payroll transactions with timecards or timesheets:
  - a. Two (2) cases reported fewer hours on departmental records than on the uniform timesheet.
  - b. Three (3) cases had irreconcilable time entries due to missing or inconsistent daily records.
  - c. Five (5) cases logged 80 regular hours on the uniform timesheet, while departmental timesheets reflected sick leave or missing hours.

Cause: The causes of the above conditions are as follows;

- a. Condition 1: Ineffective documentation retention at treasury, exacerbated by office relocation.
- b. Condition 2: Ineffective retention at departmental agencies where timesheets are held.
- c. Conditions 3(a) and 3(c): Weak internal controls over reconciliation between departmental timesheets and treasury uniform timesheets. Treasury does not regularly obtain departmental timesheets.
- d. Condition 3(b): Manual timecard errors from daily stamp-based systems.

Effect:

The State is not in compliance with applicable allowable costs/cost principles requirements. Projected questioned costs exceed \$25,000 and therefore the known amount of \$18,980 is questioned.

Recommendation: The State should consider the following:

1. Strengthen documentation retention controls.
2. Enhance monitoring at the departmental level or implement a uniform timekeeping system to reduce reconciliation issues.
3. Require submission of departmental timekeeping reports to treasury for secondary reconciliation.
4. Ensure explanatory documentation is retained when uniform timesheets differ from departmental records.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-007**

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 H80CS04302-19-00 and 4 H8FCS41736-01-02  
Area: Reporting  
Questioned Costs: None

Criteria: For the federal awards cited above, 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. For award(s):

- 5 H80CS04302-19-00 the subject FFR was due by 03/30/2024.
- 4 H8FCS41736-01-02 the subject FFR was due by 07/30/2023.

Condition: For both awards, the FFR was submitted after the due date.

Cause: The State's monitoring controls over FFR reporting deadlines were ineffective.

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

Recommendation: The State should establish a tracking schedule for grant reporting deadlines upon award or extension and retain copies of all submissions and supporting expenditure reports for audit purposes.

Identification as a Repeat Finding: 2022-08

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

**STATE OF POHNPEI  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-008**

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: Various  
Area: Cash Management  
Questioned Costs: None

Criteria: Federal cash management requirements require that drawdowns be based on actual, documented program expenditures and that entities maintain policies and procedures to ensure cash needs are properly monitored and scheduled.

Condition:

1. For 2 of 2 items tested. We noted that total expenditures reported in documentary support submitted by the State for drawdown requests do not match the initial amounts requested, approved, and received by the awarding agency. We are aware that the expenditure reports furnished to us are not the originals that would have accompanied the State's initial request for reimbursement from the awarding agency. It does not appear that the original supporting expenditure reports were retained.
2. The State does not appear to have a policy or adopted standard methodology for monitoring 93.224 programmatic cash needs and scheduling regular drawdowns.

Cause:

1. The State's documentary retention controls over programmatic drawdowns need improvement.
2. The State has not established a policy or standard operating procedure for monitoring 93.224 programmatic cash needs and scheduling regular drawdowns.

Effect:

1. The State's internal documentary retention controls for drawdowns are inadequate.
2. The lack of documented monitoring and drawdown policies may contribute to general fund cashflow shortages or in some cases lapsed opportunities for drawdowns.

Recommendation:

1. The State should strengthen its controls over documentary retention for drawdowns. Retain expenditure reports for the basis of drawdowns at the time of filing and ensure there is appropriate explanatory documentation retained for any special reconciling items.
2. The State should also establish clear policies and procedures for monitoring cash needs, performing drawdowns, and retaining documentation of drawdowns.

Identification as a Repeat Finding: N/A

View of Responsible Officials: The State's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.



## POHNPEI STATE GOVERNMENT

### Department of Treasury and Administration

P.O. Box 1567  
Kolonias, Pohnpei FM 96941  
Tel: (691) 320-2243/2323 FAX: (691) 320-5505

#### Office of the Director

October 6, 2025

Mr. Karvin L. Flynn  
Principal Partner  
333 South Marine Corps Drive  
Tamuning, Guam 96913

Dear Principal Auditor in Charge,

I am forwarding the Pohnpei State Government's Corrective Action Plan for the Fiscal Year 2023 Audit. Should you have any questions, please feel free to contact me.

Sincerely,

Sihna N. Lawrence  
Director, Department of Treasury and Administration  
Pohnpei State Government

CC. Governor, Stevenson A. Joshep

*Wahu Pahrekie Sapwekeika*

Pohnpei State Government  
Corrective Action Plan for FY 2023 Audit Findings

**Audit Finding Summary**

**Finding 2023-001:** ADB loans guaranteed by the State on behalf of Pohnpei Utilities Corporation, which for the fiscal year 2023, does not evidence the ability to repay the debt were not recorded in the accounting system to conform with GASB Statement No. 70.

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

**Root Cause Analysis**

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.

**Corrective Actions**

1. The State should comply with the requirements of GASB Statement No. 70 and record the debt of CPUC ADB loan on its books.
2. Notify the Governor and the Legislature of its decision to comply with GASB State No. 70 beginning with the FY 2024 audit.

**Responsible Parties**

For CAP 1, Director of DOTA

For CAP 2, Director of DOTA

**Timeline**

Action	Deadline
Record the liability	10/31/2025
Notify the Governor and the Legislature of its decision	10/31/2025

**Verification of Effectiveness**

This Corrective Action Plan will take effect upon the issuance of the FY 2024 Audit, at which point the Finding will be resolved permanently.

**Finding 2023-002:** This finding is for Education Department

Condition 1. Impact: For 3 or (5%) of 60 non-payroll transactions tested, (a) no financial records were available to substantiate allowability; or (b) the available procurement file documentation was insufficient to substantiate allowability, as follows:

The noncompliance resulted in a total questioned cost of \$604.

Condition 2. For 13 or (20%) of 65 payroll transactions tested, no departmental timecards or timesheet documentation was provided to support compensation, taxes, and fringe benefits.

Condition 3. Of the 49 payroll transactions tested where departmental timecards or timesheet support was provided, we identified the following:

- 1) For 1 employee, the uniform timesheet reported 16 hours of sick leave, while the departmental timesheet reported 80 hours of regular work.
- 2) For 1 employee, the uniform timesheet was not signed by all required authorized signatories.
- 3) For 1 employee, the uniform timesheet reported 56 regular hours, while the departmental timesheet reflected 43 regular hours; however, the employee was paid for 80 regular hours, resulting in an overpayment of approximately \$76 (processed on May 2, 2023).

#### Root Cause Analysis

- For Condition 1, ineffective documentation filing and retention controls were exacerbated by the relocation of the State Treasury office during the audit period.
- For Condition 2, ineffective documentation filing and retention controls existed at the departmental agency level, where timesheets or other timekeeping records were retained.
- For Condition 3(a), insufficient internal controls at the departmental level failed to ensure reconciliation of departmental timesheets with uniform timesheets submitted to the State Treasury. The Treasury does not consistently receive departmental support and therefore relies on agency review and certification.
- For Condition 3(b), required signatory authorization controls failed at both the departmental and treasury levels.
- For Condition 3(c), existing controls failed to detect and prevent the overpayment.

#### Corrective Actions

- 1) For Condition 1. Strengthen documentation filing and retention controls.
- 2) For Condition 2 & 3
  - a) Enhance monitoring controls at the departmental level or implementing a uniform timekeeping system to reduce reconciliation burdens
  - b) Establish policies requiring submission of department timekeeping report to the State treasury to allow for secondary reconciliation
  - c) Reinforcing the requirement that when changes are made affecting uniform timesheets but not departmental records, appropriate explanatory documentation be retained.

## Responsible Parties

### For Condition 1.

- Director of DOTA/Payable Section - Strengthen documentation filing and retention controls.

### For Condition 2 & 3

- Director of Education/Timekeepers - Enhance monitoring controls at the departmental level or implementing a uniform timekeeping system to reduce reconciliation burdens
- Director of DOTA and Payroll Section - Establish policies requiring submission of departmental timekeeping reports to the State treasury to allow for secondary reconciliation.
- Director of DOTA and Payroll Section - Reinforce the requirement that when changes are made affecting uniform timesheets but not departmental records, appropriate explanatory documentation be retained.

## Timeline

Action	Deadline
Strengthen documentation filing and retention controls.	ASAP – 10/1/2025
Enhance monitoring controls at the departmental level or implementing a uniform timekeeping system to reduce reconciliation burdens	ASAP – 10/1/2025
Establish policies requiring submission of departmental timekeeping reports to the State treasury to allow for secondary reconciliation.	ASAP – 10/1/2025
Reinforce the requirement that when changes are made affecting uniform timesheets but not departmental records, appropriate explanatory documentation be retained.	ASAP – 10/1/2025
Quarterly update on Compliance	Every quarter



### Verification of Effectiveness

For condition 1, the State Treasury will perform routine inspections of the filing systems to verify compliance and address individuals who resist necessary changes.

For Conditions 2 and 3, payroll will not be disbursed to any department that fails to adhere to the new action plan. Departments that do not attach a timecard to the master timesheet will not receive payment.

**Finding 2023-003:** Test no 15. Is for Department of Education and the rest are for Department of Health.

- For test no. 15, obligation 361854 – Of 3 quotations obtained for a small purchase transaction, the highest quotation was selected, there was no documented justification to support the procurement selection.
- For test no. 16, obligation 372216 – The procurement was sourced from one vendor and lacks additional quotations. There was no documented justification to support the sole-source procurement.
- For test no. 17, obligation 372215 – The procurement was sourced from one vendor and lacks additional quotations. There was no documented justification to support the sole-source procurement.
- For test no. 22, obligation 334914 – The procurement file included 2 quotations and a justification form that did not relate to the transaction as it cites an explanation for purchasing goods from other vendors unrelated to the actual transaction. Of the 2 vendors included, there did not appear to be a notable difference in goods/services offered, however the higher of the 2 was selected. Consequently, we could not determine the ultimate basis for vendor selection.
- For test no. 30, obligation 358537 – The procurement as sourced from one vendor and lacks additional quotations. There was no documented justification for the sole-source procurement.

### Root Cause Analysis

Ineffective documentation filing and retention controls, further impacted by the relocation of the State Treasury office.

### Corrective Actions

- Strengthen procurement documentation controls and ensure rationales and justifications for vendor selection are retained in procurement files.

## Responsible Parties

Director of Education and its administrative officers

Director of Health and administrative officers

Director of DOTA, certification and payable section

## Timeline

Action	Deadline
Strengthen procurement documentation controls and ensure rationales and justifications for vendor selection are retained in procurement files.	ASAP – 10/1/2025
Quarterly update on Compliance	Every quarter

## Verification of Effectiveness

Periodically verify the department's purchases to ensure that no instances of noncompliance are still taking place.

**Finding 2023-004:** For 1 (or 1%) of 60 transactions tested, aggregating \$1,187,753 out of \$19,516,462 in program expenditures, the State made an advance payment using sector grant funds. No documentation was provided to evidence prior grantor agency concurrence to waive the specific special provision.

For 11 (or 23%) of 49 personnel records tested under the Compact Sector Education and Supplemental Education grants, no documentation was available to show that the annual performance evaluation had been performed.

## Root Cause Analysis

- For advance payments, either concurrence was not obtained, or documentation was not retained; and a lack of familiarity with specific grant conditions may have contributed to the noncompliance.
- For evaluations, documentation retention controls over personnel files were inadequate.

## Corrective Actions

- For the health grants, if advance payments are necessary, the State should (a) use general fund advances with later reimbursement; (b) establish a letter of credit; or (c) obtain prior OIA concurrence.

- For the Education and Supplemental Education grants, the State should strengthen controls to ensure annual evaluations are completed and retained in personnel files.

#### Responsible Parties

##### For bullet point one:

Director of Health and his administrative officers

Director of DOTA, certification and payable section

##### For bullet point two:

Director of Education and Personnel Managers

#### Timeline

Action	Deadline
For the health grants, if advance payments are necessary, the State should (a) use general fund advances with later reimbursement; (b) establish a letter of credit; or (c) obtain prior OIA concurrence. Notify all accountants that effective 10/01/2025 all supply advance shall be charged to general fund only.	ASAP – 10/1/2025
For the Education and Supplemental Education grants, the State should strengthen controls to ensure annual evaluations are completed and retained in personnel files	ASAP – 10/1/2025
Quarterly update on Compliance	Every quarter

#### Verification of Effectiveness

Conduct regular assessments to ensure the effective implementation of the aforementioned action plans.

**Finding 2023-005:** Condition 1: The State’s capital asset register reflected no Compact Sector–funded capitalized infrastructure additions since FY 2016, despite completed contracts during 2016 through 2021. The State was unable to provide supporting documentation evidencing capitalizable values, project ownership, or other required details.

Conditional 2: Four (4) assets or batches of assets that met the State’s capitalization requirements were not capitalized until corrected through audit adjustments

## Root Cause Analysis

For both conditions there is a lack of internal control monitoring over fixed asset capitalization.

## Corrective Actions

1. For Condition 1, the State should obtain documentation to support capitalizable values and confirm ownership.
2. For Condition 2, all assets related to health-sector acquisitions, the State should improve coordination between the Department of Health and Human Services and the State Treasury to ensure eligible items are capitalized at requisition or purchase order stage.

## Responsible Parties

### For Corrective Action Plan 1:

Director of DOTA and Procurement Officer

### For Corrective Action Plan 2:

Director of Health and his administrative officers

Director of DOTA, Certification and Procurement officer

## Timeline

Action	Deadline
For Condition 1, the State should obtain documentation to support capitalizable values and confirm ownership.	6/30/2025
For Condition 2, all assets related to health-sector acquisitions, the State should improve coordination between the Department of Health and Human Services and the State Treasury to ensure eligible items are capitalized at requisition or purchase order stage.	ASAP – 10/1/2025
Quarterly update on Compliance	Every quarter

### Verification of Effectiveness

Conduct regular assessments to ensure the implementation of the aforementioned action plans.

**Finding 2023-006:** This is for Special Education Condition 1: For 4 of the transactions total question costs \$512. The supporting documentations were not provided.

Conditional 2: No departmental timecards or timesheets were provided to support compensation.

Condition 3. Payroll with timecards, there were no verification performed at the departments to ensure that what is being paid are correct.

### Root Cause Analysis

- a. Condition 1: Ineffective documentation retention at treasury, exacerbated by office relocation.
- b. Condition 2: Ineffective retention at departmental agencies where timesheets are held.
- c. Conditions 3(a) and 3(c): Weak internal controls over reconciliation between departmental timesheets and treasury uniform timesheets. Treasury does not regularly obtain departmental timesheets.
- d. Condition 3(b): Manual timecard errors from daily stamp-based systems.

### Corrective Actions

1. Strengthen documentation retention controls.
2. Enhance monitoring at the departmental level or implement a uniform timekeeping system to reduce reconciliation issues.
3. Require submission of departmental timekeeping reports to treasury for secondary reconciliation.
4. Ensure explanatory documentation is retained when uniform timesheets differ from departmental records.

### Responsible Parties

For CAP 1. Director of DOTA and Payroll division

For CAP 2. Special Education Administrator and his timekeepers

For CAP 3. Director of DOTA and Payroll division

For CAP 4. Both Department of DOTA and Special Ed

### Timeline

Action	Deadline
Strengthen documentation retention controls	ASAP - 10/1/2025

Enhance monitoring at the departmental level or implement a uniform timekeeping system to reduce reconciliation issues.	ASAP – 10/1/2025
Require submission of departmental timekeeping reports to treasury for secondary reconciliation.	ASAP – 10/1/2025
Ensure explanatory documentation is retained when uniform timesheets differ from departmental records.	
Quarterly update on Compliance	Every quarter

#### Verification of Effectiveness

Conduct regular assessments to ensure the implementation of the aforementioned action plans.

**Finding 2023-007:** This is for Pohnpei Community Health Centers. The FFR (SF425's) were submitted after the due dates.

#### Root Cause Analysis

The State's monitoring controls over FFR reporting deadlines were ineffective

#### Corrective Actions

- 1) Establish a tracking schedule for grant reporting deadlines upon award or extension and
- 2) Retain copies of all submissions and supporting expenditure reports for audit purposes

#### Responsible Parties

For CAP 1, Executive Director of CHC and the Administrative officers

For CAP 2, Director of DOTA and the Chief of Finance

#### Timeline

Action	Deadline
Establish a tracking schedule for grant reporting deadlines upon award or extension and	12/31/2025
Retain copies of all submissions and supporting expenditure reports for audit purposes.	ASAP – 10/1/2025
Quarterly update on Compliance	Every quarter

#### Verification of Effectiveness

Conduct regular assessments to ensure the implementation of the aforementioned action plans.

**Finding 2023-008:** This is for Pohnpei Community Health Centers.

- 1) For 2 of 2 items tested. We noted that total expenditures reported in documentary support submitted by the State for drawdown requests do not match the initial amounts requested, approved, and received by the awarding agency. We are aware that the expenditure reports furnished to us are not the originals that would have accompanied the State's initial request for reimbursement from the awarding agency. It does not appear that the original supporting expenditure reports were retained.
- 2) The State does not appear to have a policy or adopted standard methodology for monitoring 93.224 programmatic cash needs and scheduling regular drawdowns.

#### Root Cause Analysis

- 1) The State's documentary retention controls over programmatic drawdowns need improvement
- 2) The State has not established a policy or standard operating procedure for monitoring 93.224 programmatic cash needs and scheduling regular drawdowns.

#### Corrective Actions

- 1) Strengthen its controls over documentary retention for drawdowns. Retain expenditure reports for the basis of drawdowns at the time of filing and ensure there is appropriate explanatory documentation retained for any special reconciling items.
- 2) Establish clear policies and procedures for monitoring cash needs, performing drawdowns, and retaining documentation of drawdowns.

#### Responsible Parties

For CAP 1, Director of DOTA and the Chief of Finance

For CAP 2, Director of DOTA and the Chief of Finance

#### Timeline

Action	Deadline
Strengthen its controls over documentary retention for drawdowns. Retain expenditure reports for the basis of drawdowns at the time of filing and ensure there is appropriate explanatory documentation retained for any special reconciling items.	ASAP – 10/1/2025
Establish clear policies and procedures for monitoring cash needs, performing drawdowns, and retaining documentation of drawdowns	12/31/2025
Quarterly update on Compliance	Every quarter

### Verification of Effectiveness

Conduct regular assessments to ensure the implementation of the aforementioned action plans.





# POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

P.O. Box 1567

Kolonia, Pohnpei FM 96941

Tel: (691) 320-2243/2323 FAX: (691) 320-5505

Email: elnei1221@gmail.com

## Office of the Director

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

Summary Schedule of Prior Year Audit Findings and Question Costs  
Year End September 30, 2023

Finding Number	CFDA Number	Questioned Cost	Status
2020-001	15.875	103,552	Resolved by OIA Decision Issued March 4, 2025
2020-002	15.875	668,888	Resolved by OIA Decision Issued March 4, 2025
2021-001	15.875	120,220	Resolved by OIA Decision Issued March 4, 2025
2021-003	15.875	286,910	Resolved by OIA Decision Issued March 4, 2025
2022-007	84.027	8,165	In Progress
		\$1,187,735	