

Compliance and Internal Control

**State of Kosrae
Federated States of Micronesia**

*Year Ended September 30, 2023
with Report of Independent Auditors*



State of Kosrae
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 Tulensa W. Palik
Governor, State of Kosrae
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, each major fund, and the aggregate remaining fund information of the State of Kosrae (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 (collectively referred to as the "financial statements"), and have issued our report thereon dated August 6, 2025.

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 grants, and other matters did not include the Kosrae Port Authority, the Kosrae Utilities Authority, and the Kosrae Housing and Rural Development Authority, 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 those entities, except for the Kosrae Housing and Rural Development Authority. 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

August 6, 2025

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

Honorable Tulensa W. Palik
Governor, State of Kosrae
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 Kosrae (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 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.

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 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 audit opinion on compliance for the sole major federal program. Our audit does not provide a legal determination of the State's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion of the Sole Major Program

As described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with the requirements regarding ALN 15.875 Economic, Social, and Political Development of the Territories as described in finding number 2023-002 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 grant.

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 other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-003. Our opinion on the sole major federal program is not modified with respect to these matters.

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

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 and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 (ALN 15.875 Procurement, Suspension and Debarment), to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001 (ALN 15.875 Allowable Costs/Costs Principles) and 2023-003 (ALN 15.875 Reporting) to be significant deficiencies.

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

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 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 the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kosrae (the State) as of and for the year ended September 30, 2023, and have issued our report thereon dated August 6, 2025 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 financial statements as a whole.

Ernst + Young LLP

August 6, 2025

State of Kosrae
Federated States of Micronesia

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2023

<u>Agency/Program</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 54,748
U.S. Department of the Interior	7,700,322
U.S. Department of Education	573,407
U.S. Department of Health and Human Services	<u>442,158</u>
 Grand Total	 \$ <u>8,770,635</u>
 Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 8,821,682
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	(<u>51,047</u>)
	 \$ <u>8,770,635</u>

State of Kosrae
Federated States of Micronesia

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal ALN	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Cooperative Forestry Assistance	10.664		54,516
Forest Legacy Program	10.676		\$ 232
U.S. DEPARTMENT OF AGRICULTURE TOTAL			\$ 54,748
U.S. DEPARTMENT OF THE INTERIOR:			
Pass-Through From the FSM National Government:		A3	
Economic, Social and Political Development of the Territories:			
Compact of Free Association Sector Grants:	15.875		
Compact II Education Sector			\$ 2,987,512
Compact II Health Sector			2,822,126
Compact II Environment			59,320
Compact II Private Sector Development			13,769
Compact II Public Sector Capacity Building			99,540
Supplemental Education Grant			1,106,758
Compact II Enhanced Reporting Accountability			181,457
Compact II Infrastructure Sector			386,005
Total ALN #15.875			7,656,487
Historic Preservation Fund Grants-In Aid	15.904		\$ 43,835
U.S. DEPARTMENT OF THE INTERIOR TOTAL			\$ 7,700,322
U.S. DEPARTMENT OF EDUCATION:			
Pass-Through From the FSM National Government:		A3	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A		\$ 573,407
Total Special Education Cluster (IDEA)			
U.S. DEPARTMENT OF EDUCATION TOTAL			\$ 573,407
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-Through From the FSM National Government:		A3	
Public Health Emergency Preparedness	93.069		\$ 5,101
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		30,410
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		13,835
Maternal and Child Health Federal Consolidated Programs	93.110		24,531
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		16,918
Family Planning Services	93.217		4,746
Immunization Cooperative Agreements	93.268		69,135
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands and P.R.	93.377		44,847
Opioid STR	93.788		15,463
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		28,705
Block Grants for Community Mental Health Service	93.958		18,463
Block Grants for Prevention and Treatment of Substance Abuse	93.959		114,055
Preventive Health and Health Services Block Grant	93.991		-
Maternal and Child Health Services Block Grant to the States	93.994		36,851
Pass-Through From University of Hawaii			
Racial and Ethnic Approaches to Community Health Program financed solely by 2012 Public Prevention and Health Funds	93.738	FAIN: NU58DP006743	19,098
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			\$ 442,158
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,770,635

See accompanying notes to Schedule of Expenditures of Federal Awards.

State of Kosrae
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the State 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 the State, it is not intended to and does not present the financial positions or changes in financial positions of the State.

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 the State 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, the State'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 and did not expend federal awards during the year ended September 30, 2023. Accordingly, the accompanying Schedule presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2023.

State of Kosrae
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, continued

Matching Costs

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

Indirect Cost Allocation

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

State of Kosrae
Federated States of Micronesia
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

Internal control over financial reporting:

Material weakness(es) identified?

_____ **Yes** X **No**

Significant deficiency(ies) identified?

_____ **Yes** X **None reported**

Noncompliance material to financial statements noted?

_____ **Yes** X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 X **Yes** _____ **No**

Significant deficiency(ies) identified?

 X **Yes** _____ **None reported**

Type of auditor's report issued on compliance for the sole major federal program:

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 Number

15.875

Name of Federal Program

Economic, Social, and Political Development of the Territories

Dollar threshold used to distinguish between Type A and Type B Programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ **Yes** X **No**

State of Kosrae
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2023-001	15.875	Allowable Costs/Costs Principles	\$ 7,080
2023-002	15.875	Procurement, Suspension and Debarment	40,345
2023-003	15.875	Reporting	-0-

State of Kosrae
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2023-001 – Allowable Costs/Cost Principles

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: Allowable Costs/Costs Principles
Questioned Costs: \$7,080

Criteria:

In accordance with grant award D23AF00012, Compact Sector Grant assistance may not be obligated for international travel during Fiscal Year 2023.

Condition:

For 1 (or 5%) of 21 samples tested, Compact Sector Grant assistance was used for international travel.

Sector Grant	Acct_Num	FY23 Expenditure
D23AF00012	10-90-92-10195-23-8331	\$7,080

Cause:

The State did not effectively enforce monitoring controls over compliance with allowable costs/cost principles requirements as stipulated in the grant awards.

Effect:

The State is in noncompliance with the applicable allowable costs/cost principles requirements, and total questioned costs of \$7,080 are reported because the projected questioned costs exceed the \$25,000 threshold.

Recommendation:

Responsible personnel should take steps to verify that Compact Sector Grant assistance is used for allowable purposes and in line with grant award D23AF00012.

Views of Responsible Officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

State of Kosrae
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 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 Compact Sector Grants
Area: Procurement, Suspension and Debarment
Questioned Costs: \$40,345

Criteria:

2 CFR section 180.300 requires 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.

Condition:

Out of 25 samples tested (100%), the State did not perform the required verification of individuals as mandated by 2 CFR section 180.300.

<u>PO/Contract Number</u>	<u>Invoice #</u>	<u>Invoice Amount</u>
L149859	5636	\$ 8,988
L154095	5817	48
C146687	RequestDOE	212
L149560	5516	398
C146684	Request DOE	200
L149878	5569A	1,080
P152280	16222-IN	3,159
P150972	16224-IN	3,125
C146623	C146623	16,800
P148940	SV-23001942	274
L 146877	10683/7	14
C146881	Request DOE	660
P 149789	16068-1N	1,532
C146682	RequestDOE	200
P150981	W23-176	1,394
L152043	2428	40
L151939	97205	449
L147237	81487/4	116
L151617	65998/3	230
C146697	Request DOE	212
L149860	65258/3	40
L152105	5740	150
P150739	615	600
C146681	Request DOE	212
C146699	RequestDOE	212
		<u>\$40,345</u>

State of Kosrae
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 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 Compact Sector Grants
Area: Procurement, Suspension and Debarment
Questioned Costs: \$40,345

Cause:

There is no procedure in place for verifying the debarment, suspension, or exclusion status of entities prior to entering into covered transactions.

Effect:

The State is noncompliant with the applicable requirements. Questioned costs of \$40,345 are reported as it exceeds the \$25,000 threshold to report projected questioned costs.

Recommendation:

The State should establish and implement formal procedures to verify the debarment, suspension, or exclusion status of entities before entering into covered transactions. This process should include regular checks against the System for Award Management (SAM) database and other relevant resources.

Views of Responsible Officials:

Management agrees with the finding. Refer to separate Corrective Action Plan.

State of Kosrae
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2023-003 – Reporting

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: Reporting
Questioned Costs: \$0

Criteria:

In accordance with Compact Sector Grants, a SF-425 Federal Financial Report and a narrative project status report will be submitted quarterly for the periods beginning October 1, January 1, April 1, July 1 and ending September 30.

Condition:

For 1 (or 13%) of 8 samples tested, a SF-425 Federal Financial Report was not submitted.

Cause:

The State did not effectively monitor the submission of all required reports.

Effect:

The State is not compliant with the applicable reporting requirement.

Recommendation:

Responsible personnel should take steps to verify that all required reports are submitted in accordance with the grant agreement.

Views of Responsible Officials:

Management agrees with the finding. Refer to the Corrective Action Plan.



KOSRAE STATE GOVERNMENT
DEPARTMENT OF ADMINISTRATION
DIVISION OF FINANCE & BUDGET
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CORRECTIVE ACTION PLAN

Finding No. 2023-001

Area: Allowable Costs/Cost Principles

Views of Auditee and Planned Corrective Action:

We agree with this finding and the department will have to seek available funds from our State General Funds to settle this. Unfortunately, this was an expenditure passed two fiscal years, I can only admit that the payment process sounded acceptable due to the urgency of the situation at that time; however, now that we have realized that Sector money used to bring the students back was inappropriate and should not have been allowed, we regretfully have to admit our failure and seek solutions to settle this appropriately.

In line with the findings, the department of education management is looking into this with the Kosrae State Scholarship Board and agree to formulate a new disbursement policy with Sector student scholarship awards. This new disbursement policy with sector student scholarship will have all student scholarship routed thru Kosrae Department of Education Director's office for his or his designee for compliance. The department will also strengthen its internal control by verifying terms and conditions specified in the Compact grant awards before we proceed with the fund disbursement.

Anticipated Completion Date: Ongoing

Name of Contact Person: Mr. Tulensru Waguk
Director
Department of Education
Email: twaguk@kosrae.doe.fm

CORRECTIVE ACTION PLAN, CONTINUED

Finding No. 2023-002

Area: Procurement, Suspension and Debarment

Views of Auditee and Planned Corrective Action: We agree with this finding. The administering departments will strengthen their procedures for verifying the suspension and debarment status of vendors by (1) checking ‘SAM.gov exclusions’ and (2) attaching to the purchase requisition a printout of the appropriate page from the SAM Exclusion website.

Anticipated Completion Date: Ongoing

Name of Contact Person: Ms. Lona Lyndon Esau
Administrator, Office of Finance
Department of Administration and Finance
Email: alomalya.dofa@gmail.com

Finding No. 2023-003

Area: Reporting

Views of Auditee and Planned Corrective Action: We agree with this finding. Kosrae Project Management Office hired a Finance Officer in FY2024 and started preparing SF-425 reports for its infrastructure projects. The Office of Finance consolidates all SF-425 forms for all Compact sector grants and sends them to the FSM National Government on a quarterly basis.

Anticipated Completion Date: Ongoing

Name of Contact Person: Mr. Palokoa George
Finance Officer
Kosrae Project Management Office
Email: psgeorge@kosrae.gov.fm



KOSRAE STATE GOVERNMENT

DEPARTMENT OF ADMINISTRATION
DIVISION OF FINANCE & BUDGET

P.O. BOX 549

TOFOL, KOSRAE STATE, FM 96944

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

Finding No.	CFDA No.	Requirement	Questioned Cost	Status
2021-001	-	-	\$0	Corrected.
2021-002	15.875	Allowable Costs/Cost Principles	\$219,936	Corrected.
2021-003	15.875	Equipment and Real Property Management	\$0	Corrected.
2022-001	-	Capital assets	\$0	Corrected.
2022-002	-	Accounts receivable / unearned revenue	\$0	Corrected.
2022-003	-	Authorization of journal voucher	\$0	Corrected.
2022-004	15.875	Equipment and Real Property Management	\$0	Resolved with the cognizant grantor agency per its decision memo dated March 04, 2025, which states it is not following up with us on this finding.
2022-005	15.875	Special tests and provisions	\$16,887	Resolved with the cognizant grantor agency per its decision memo dated March 04, 2025, which states it is not following up with us on this finding.