

*Compliance and Internal Control*

**Federated States of Micronesia  
National Government**

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



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Federated States of Micronesia  
National Government

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 Wesley Simina  
President  
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 Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2023, and the related notes to the financial statements. These financial statements collectively comprise the FSM National Government's basic financial statements and we have issued our report thereon dated December 22, 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 grant agreements, and other matters did not include the FSM Social Security Administration and the discretely presented component units, 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. 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 FSM National Government'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 FSM National Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the FSM National Government'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 through 2023-005, 2023-007 through 2023-011, 2023-017, 2023-019 and 2023-020 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the FSM National Government'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* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2023-008 and 2023-009.

## **The FSM National Government's Response to Findings**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is fluid and cursive, with "Ernst & Young" on the top line and "LLP" on the bottom line.

December 22, 2025



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

Honorable Wesley Simina  
President  
Federated States of Micronesia

**Report of Independent Auditors on Compliance for Each Major Federal Program**

***Adverse and Disclaimer of Opinions***

We have audited the FSM National Government'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 Assistance Listing Number (ALN) 15.875 Economic, Social, and Political Development of the Territories; and we were engaged to audit FSM National Government's compliance with the types of compliance requirements identified in the OMB *Compliance Supplement* that could have a direct and material effect on ALN 93.323 Epidemiology and Laboratory Capacity for Infectious Disease and ALN 93.959 Block Grants for Prevention and Treatment of Substance Abuse for the year ended September 30, 2023. The FSM National Government's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Summary of Opinions**

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Opinion</u>
15.875	Economic, Social, and Political Development of the Territories	Adverse
93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Disclaimer
93.959	Block Grants for Prevention and Treatment of Substance Abuse.	Disclaimer

***Disclaimer of Opinion on ALN 93.323 and ALN 93.959***

We do not express an opinion on the FSM National Government's 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 ALN 93.323 and ALN 93.959. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on ALN 93.323 and ALN 93.959 section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on ALN 93.323 and ALN 93.959.

## *Adverse Opinion on ALN 15.875*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the FSM National Government did not comply, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ALN 15.875 for the year ended September 30, 2023.

### ***Basis for Disclaimer of Opinions on ALN 93.323 and ALN 93.959***

As described in findings 2023-012 through 2023-020, in the accompanying schedule of findings and questioned costs, we were unable to determine whether the FSM National Government complied with the requirements regarding the following:

<b>Finding #</b>	<b>ALN</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2023-012	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Allowable Costs/Cost Principles
2023-013	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management
2023-014	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Period of Performance
2023-015	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Reporting
2023-016	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Subrecipient Monitoring
2023-017	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Equipment and Real Property Management
2023-018	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Procurement and Suspension and Debarment
2023-019	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Reporting
2023-020	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Cash Management

### ***Basis for Adverse Opinion***

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 FSM National Government 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 ALN 15.875. Our audit does not provide a legal determination of the FSM National Government's compliance with the compliance requirements referred to above.

## *Matter Giving Rise to Adverse Opinion on ALN 15.875*

As described in findings 2023-007 through 2023-011, in the accompanying schedule of findings and questioned costs, the FSM National Government did not comply with requirements regarding the following:

<b>Finding #</b>	<b>ALN</b>	<b>Program or Cluster Name</b>	<b>Compliance Requirement</b>
2023-007	15.875	Economic, Social, and Political Development of the Territories	Equipment and Real Property Management
2023-008	15.875	Economic, Social, and Political Development of the Territories	Procurement
2023-009	15.875	Economic, Social, and Political Development of the Territories	Subrecipient Monitoring
2023-010	15.875	Economic, Social, and Political Development of the Territories	Special Tests and Provisions-Annual Performance Review
2023-011	15.875	Economic, Social, and Political Development of the Territories	Reporting

Compliance with such requirements is necessary, in our opinion, for FSM National Government 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 FSM National Government'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 FSM National Government'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 FSM National Government'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 FSM National Government'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 FSM National Government'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 FSM National Government's internal control over compliance. Accordingly, no such opinion is expressed.

### ***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 item 2023-006. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the FSM National Government's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The FSM National Government 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 FSM National Government is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The FSM National Government'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 a significant deficiency.

*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 2023-006 through 2023-010, 2023-012 through 2023-018 and 2023-020 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.

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 FSM National Government's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. FSM National Government'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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Federated States of Micronesia (FSM) National Government as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the FSM National Government's basic financial statements and have issued our report thereon dated December 22, 2025, which contained unmodified opinions on those financial statements. 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 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 financial statements as a whole.

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December 22, 2025

Federated States of Micronesia  
National Government

Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2023

<u>Agency/Program</u>	<u>Federal Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
U.S. Department of Agriculture	\$ 29,673	\$ -
U.S. Department of Commerce	1,906,369	-
U.S. Department of the Interior	79,941,913	72,201,038
U.S. Department of Labor	71,770	-
U.S. Department of Transportation	7,618,587	-
Institute of Museum and Library Services	85,009	-
U.S. Department of Education	4,014,867	3,185,491
U.S. Department of Health and Human Services	12,514,125	2,874,659
U.S. Department of Homeland Security	<u>34,976</u>	<u>-</u>
<b>GRAND TOTAL</b>	<b>\$ 106,217,289</b>	<b>\$ 78,261,187</b>

**Federated States of Micronesia**  
**National Government**

**Schedule of Expenditures of Federal Awards**

<u>Agency/Program</u>	<u>Federal ALN Number</u>	<u>Federal Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Resident Instruction Grants for Insular Area Activities	10.308	\$ -	\$ -
Rural Self-Help Housing Technical Assistance	10.420	\$ -	\$ -
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	\$ -	\$ -
Cooperative Extension Service	10.500	\$ -	\$ -
Forestry Research	10.652	\$ -	\$ -
Cooperative Forestry Assistance	10.664	\$ -	\$ -
Urban and Community Forestry Program	10.675	\$ 29,673	\$ -
Forest Legacy Program	10.676	\$ -	\$ -
Forest Stewardship Program	10.678	\$ -	\$ -
Community Facilities Loans and Grants	10.766	\$ -	\$ -
Water Quality	10.Unknown	\$ -	\$ -
USDA-OASDFR	10.Unknown	\$ -	\$ -
<b>U.S. DEPARTMENT OF AGRICULTURE TOTAL</b>		<b>\$ 29,673</b>	<b>\$ -</b>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
Anadromous Fish Conservation Act Program	11.405	\$ -	\$ -
Financial Assistance for National Centers for Coastal Ocean Science	11.426	\$ -	\$ -
Climate and Atmosphere Research	11.431	\$ 1,906,369	\$ -
Special Oceanic and Atmospheric Projects	11.460	\$ -	\$ -
<b>U.S. DEPARTMENT OF COMMERCE</b>		<b>\$ 1,906,369</b>	<b>\$ -</b>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance	\$ 10,296,608	\$ 5,568,416	
Education	26,403,145	26,403,145	
Health	25,243,815	25,243,815	
Capacity Building	1,798,529	903,306	
Environment	102,870	102,870	
Private Sector	140,348	140,348	
Compact Supplemental Education	12,317,184	11,526,227	
Disaster Emergency Fund	-	-	
IMF	686,761	686,761	
Compact ERA	1,421,793	1,421,793	
Compact Health Covid-19	74,816	74,816	
Subtotal Compact Sector Funds	<u>78,485,869</u>	<u>72,071,497</u>	
Technical Assistance:			
ACA - Covid 19	-	-	
Single Audit	-	-	
Technical Assistance OIA/DOI Other	943,754	-	
Total CFDA #15.875	<u>79,429,623</u>	<u>72,071,497</u>	
Historic Preservation Fund Grants-In-Aid	15.904	\$ 512,290	\$ 129,541
<b>U.S. DEPARTMENT OF THE INTERIOR TOTAL</b>		<b>\$ 79,941,913</b>	<b>\$ 72,071,497</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
Unemployment Insurance	17.225	\$ 71,770	\$ -
<b>U.S. DEPARTMENT OF LABOR TOTAL</b>		<b>\$ 71,770</b>	<b>\$ -</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Airport Improvement Program	20.106	\$ 7,618,587	\$ -
<b>U.S. DEPARTMENT OF TRANSPORTATION TOTAL</b>		<b>\$ 7,618,587</b>	<b>\$ -</b>

**Federated States of Micronesia**  
**National Government**

**Schedule of Expenditures of Federal Awards, continued**

<u>Agency/Program</u>	<u>Federal ALN Number</u>	<u>Federal Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>			
Grants to States	45.310	\$ 85,009	\$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>\$ 85,009</u>	<u>\$ -</u>
<b>Direct Programs:</b>			
U.S Small Business Administration			
Grants to States	59.006	\$ -	\$ -
Small Buiness Administration		<u>\$ -</u>	<u>\$ -</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Special Education - Grants to States	84.027A	\$ 3,731,120	\$ 3,185,491
Special Education - Grants to States	84.027	\$ -	\$ -
Public Library Services (LSCA - Title I)	84.034	\$ -	\$ -
Career and Technical Education -- Basic Grants to States	84.048B	\$ -	\$ -
Federal Pell Grant Program	84.063	\$ -	\$ -
Byrd Honors Scholarship	84.185A	\$ -	\$ -
Bilingual Education-Professional Development	84.195	\$ -	\$ -
Territories and Freely Associated States Education Grant Program	84.256A	\$ -	\$ -
Goals 2000-State and Local Education Systemic Improvement Grants	84.276A	\$ -	\$ -
School To Work Opportunities	84.278	\$ -	\$ -
Bilingual Education-Program Development and Implementation Grants	84.288	\$ -	\$ -
Bilingual Education-Comprehensive School Grants	84.290	\$ -	\$ -
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325L	\$ 283,747	\$ -
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	\$ -	\$ -
Teacher Quality Partnership Grants	84.336A	\$ -	\$ -
Vocational Education-Occupational and Employment Information State Grants	84.346A	\$ -	\$ -
Pacific Vocational Education Improvement Program	84.994	\$ -	\$ -
U.S. DEPARTMENT OF EDUCATION TOTAL		<u>\$ 4,014,867</u>	<u>\$ 3,185,491</u>

**Federated States of Micronesia**  
**National Government**

**Schedule of Expenditures of Federal Awards, continued**

<u>Agency/Program</u>	<u>Federal ALN Number</u>	<u>Federal Expenditures</u>	<u>Amounts Passed-Through to Subrecipients</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED</b>			
State Sexual Risk Avoidance Education	93.060	\$ 13,930	\$ -
Public Health Emergency Preparedness	93.069	496,380	7,605
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	255,308	162,242
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	74,975	55,257
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110	82,927	59,866
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	857,028	355,029
Emergency Medical Services for Children	93.127	42,555	-
Family Planning-Services	93.217	606,890	60,636
Universal Newborn Hearing Screening	93.251	262,950	9,669
Immunization Cooperative Agreements	93.268	2,004,735	815,977
Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	93.323	3,758,311	-
Behavioral Risk Factor Surveillance System	93.336	54,763	-
Public Health Emergency Response: Cooperative Agreement for Emergency Response:			
Public Health Crisis Response	93.354	540,103	65,449
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S Affiliated Pacific Islands, Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health	93.377	390,383	98,690
Opioid STR	93.391	402,201	-
National Bioterrorism Hospital Preparedness Program	93.788	183,482	84,642
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898	293,369	170,438
HIV Care Formula Grants	93.917	49,133	8,388
Block Grants for Community Mental Health Services	93.958	422,475	44,661
Block Grants for Prevention and Treatment of Substance Abuse	93.959	926,326	568,349
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967	13,341	-
Preventive Health and Health Services Block Grant	93.991	56,709	-
Maternal and Child Health Services Block Grant to the States	93.994	516,493	307,760
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		<u>\$ 12,514,125</u>	<u>\$ 2,874,659</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Public Assistance Grants - Typhoon Fern HMGP/Subgrantee	83.544	\$ -	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (B)	97.038	-	-
Individual and Family Grants - FEMA 1427/IFG Admin. Cost	83.543	-	-
Crisis Counseling	97.032	-	-
Hazard Mitigation Grant	97.039	-	-
Emergency Management Performance Grants	97.042	34,976	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		<u>\$ 34,976</u>	<u>\$ -</u>
GRAND TOTAL		<u>\$ 106,217,289</u>	<u>\$ 78,261,187</u>

Federated States of Micronesia  
National Government

Notes to the Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

**1. Scope**

Federated States of Micronesia (FSM) National Government is a governmental entity governed by its own Constitution. All significant operations of FSM National Government are included in the scope of the audit (the "Single Audit"). The U.S. Department of the Interior has been designated as FSM National Government'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 FSM National Government 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* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of FSM National Government, it is not intended to and does not present the financial positions or changes in financial positions of FSM National Government.

**3. Summary of Significant Accounting Policies**

**Basis of Accounting**

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which FSM National Government and its subrecipients maintain their 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.

**Reporting Entity**

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, FSM National Government'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 of Expenditures of Federal Awards presents the federal award programs administered by the FSM National Government, as defined above, for the year ended September 30, 2023.

Federated States of Micronesia  
National Government

Schedule of Expenditures of Federal Awards, continued

**3. Summary of Significant Accounting Policies, continued**

**Reporting Entity, continued**

The FSM National Government's component units are to separately satisfy the requirements of the Uniform Guidance, and information concerning component units is, as follows:

*College of Micronesia-FSM*

The College of Micronesia-FSM (COM-FSM), a discretely presented component unit, is the recipient of various pass-through funds from FSM National Government and direct grants from the U.S. Department of Agriculture, U.S. Department of the Interior, U.S. Department of Education, and the U.S. Department of Health and Human Services. COM-FSM is to separately satisfy its 2023 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM is \$19,151,710.

**Subrecipients**

Certain program funds are passed through the FSM National Government to subrecipient organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipient outside of the FSM National Government's control utilizes these funds.

**Indirect Cost Allocation**

FSM National Government did not receive any indirect cost allocation. FSM National Government 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.

**ALN 15.875 Economic, Social, and Political Development of the Territories**

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.

Federated States of Micronesia  
National Government

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?

X Yes        No

Significant deficiency(ies) identified?

       Yes X **None reported**

Noncompliance material to financial statements noted?

X Yes        No

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

X Yes        No

Significant deficiency(ies) identified?

       Yes X **None reported**

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

ALN 15.875

Adverse

ALN 93.323

Disclaimer

ALN 93.959

Disclaimer

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:**

<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 Compact Sector Grants
93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Section I - Summary of Auditor's Results, continued**

Dollar threshold used to distinguish between Type A and Type B Programs: \$3,186,519

Auditee qualified as low-risk auditee?  Yes  X  No

**Section II - Financial Statement Findings**

Reference Number	Findings
2023-001	Timely and Accurate Reconciliations
2023-002	Non-cash transactions Construction-in-Progress
2023-003	Unearned revenue-Grants Assistance Fund
2023-004	Determining Fund Types for Reporting Pass-through Grants
2023-005	Travel Advances

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

Reference Number	ALN	Findings	Questioned Costs
2023-006	15.875	Allowable Costs/Costs Principles	\$ 64,062
2023-007	15.875	Equipment and Real Property Management	Unable to determine
2023-008	15.875	Procurement and Suspension and Debarment	6,767,555
2023-009	15.875	Subrecipient Monitoring	72,071,497
2023-010	15.875	Special Tests and Provisions-Annual Performance Reviews	0
2023-011	15.875	Reporting	0
2023-012	93.959	Allowable Costs/Costs Principles	56,808
2023-013	93.959	Cash Management	56,464
2023-014	93.959	Period of Performance	147,206
2023-015	93.959	Reporting	0
2023-016	93.959	Subrecipient Monitoring	639,897
2023-017	93.323	Equipment and Real Property Management	Unable to determine
2023-018	93.323	Procurement and Suspension and Debarment	394,309
2023-019	93.323	Reporting	0
2023-020	93.323	Cash Management	236,426

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-001**  
**Area:** Timely and Accurate Reconciliations

Criteria:

The general ledger should periodically be reconciled with subsidiary ledgers. The reconciliation process is critical in order to maintain accurate financial records and minimize the opportunity for misappropriation of funds or fraudulent activity.

Condition:

Several revisions were made to the FYE 2023 trial balance as additional client post-closing adjustments were proposed subsequent to the receipt of the final trial balance. The post-closing adjustments primarily relate to amounts recorded in the grant's assistance fund as due from/to FSM state governments.

Cause:

The FSM National Government does not perform routine account reconciliations throughout the year and appears to perform such account reconciliations after the end of the fiscal year.

Effect:

Lack of timely reconciliation resulted in the submission of several trial balances throughout the course of the audit. Financial records may not have been accurate and potential misappropriation of funds or fraudulent activities may have occurred and not have been detected by management.

Identification as a Repeat Finding: 2022-001

Recommendation:

The FSM National Government should periodically reconcile the general ledger with the subsidiary records to assist in maintaining accurate records and such reconciliations should be documented. In addition, the FSM National Government should periodically send confirmations to the various FSM state governments to confirm amounts recorded as due from/to state governments.

Views of Responsible Officials:

Management agrees with the finding. Refer to corrective action plan and management's detailed views.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-002**

Area: Non cash transactions-Construction-in-Progress

Criteria:

GASB Codification 1400, *Reporting Capital Assets*, requires that capital assets should be reported at historical cost.

Condition:

The FSM National Government's trial balance did not include a \$1.7 million payment made by Asia Development Bank that was remitted directly to the vendor. Management recorded a post-closing adjustment to account for this transaction.

Cause:

There are inadequate internal controls to account for non-cash transactions.

Effect:

There is risk that assets are understated as a result of non-cash transactions.

Recommendation:

Documents to support transactions entered into the accounting system should be maintained.

Views of Responsible Officials:

Management agrees with the finding. Refer to corrective action plan and management's detailed views.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-003**  
**Area:** Unearned revenue-Grants Assistance Fund

Criteria:

GASB Codification N50, *Non-Exchange Transactions*, provides guidance over the accounting of nonexchange transactions including time requirements and purpose restrictions.

Condition:

There were multiple revisions to the FYE 2023 schedule of unearned revenue with each revision made within a matter of days. Each revision resulted in varying amounts of ending balances. This raises questions about the reliability of the schedule and recorded \$9,507,363 balance.

The revisions were made in October 2025, which is 26 months after the September 30, 2023 fiscal year end. This indicates there was no monitoring of this account balance over the past several years.

Cause:

There is a lack of monitoring on this account. Periodic reconciliations of amounts recorded as unearned revenue were not performed by project administrators.

Effect:

Closing balances of amounts recorded as unearned revenue could be misstated. The effects of these conditions are potential misstatements of recorded financial statement amounts and notes thereto.

The current monitoring practices for unearned revenue are inadequate, increasing the risk of misstatements in reporting grant revenues, expenses, and liabilities, as well as potential non-compliance with the terms, covenants, provisions, and conditions of the respective grants. Information such as third-party contact details, performance periods and extensions (if any), and year-on-year expenditures was found to be not readily available.

Identification as a Repeat Finding: 2022-004

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-003, continued**  
**Area:** Unearned Revenue-Grants Assistance Fund

Recommendation:

Management should establish a standardized process for recognizing and reporting unearned revenue. This should include implementing a review mechanism that requires the relevant departments receiving and utilizing grant awards to properly identify their grantors upon award, regularly reconcile associated expenses, and accurately report this information to the grantors. This approach will enhance transparency regarding fund usage and support compliance with the terms, covenants, provisions, and conditions of the respective grants. Additionally, this information should be provided to the DOFA team in a timely manner to ensure accurate recognition of grant revenue, expenses and liabilities in FSMNG's books as a whole.

Management should periodically send status reports to grantor agencies showing cash received from the grantors and expenditure (use of the cash) with the remaining unspent cash recorded as unearned revenue.

Such reports may be helpful to support prompt replies of the audit confirmation process. Documentation of periodic reconciliations should be performed. Differences resulting from the reconciliation should be immediately resolved.

Views of Responsible Official:

Management agrees with the finding. Refer to corrective action plan and management's detailed views.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No:** **2023-004**

Area: Determining Fund Types for Reporting Pass-through Grants

Criteria:

GASB Codification N50.128 requires pass-through grants received by a government entity to be recorded as revenues and expenditures or expenses in the funds of the primary government and in the government-wide financial statements.

Condition:

The FSM National Government received approximately \$78 million from the US government and passed it down to various FSM State Governments. The \$78 million was recorded in the FSM National Government's SEFA but was not recorded as revenues and expenditures/expenses in the funds of the primary government and in the government-wide financial statements.

Cause:

The FSM National Government did not understand the requirements of GASB Codification N50.128.

Effect:

Revenues and expenditures of the Grants Assistance Fund and program revenues and expenses in the governmental activities, are understated by approximately \$78 million. An audit adjusting journal entry was recorded to the Grants Assistance Fund to correct this error.

Identification as a Repeat Finding: 2022-008

Recommendation:

FSM National Government's accounting personnel should have a better understanding of the requirements called for by GASB Codification N50.128.

Views of Responsible Official:

Management agrees with the finding. Refer to corrective action plan and management's detailed views.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-005**  
Area: Travel Advances

Criteria:

The FSM National Government's Fiscal Management Regulations allow for a traveler to receive, in advance, up to 80% of the approved travel cost. Such advances are to be recorded as a receivable until the traveler submits their expense report. Furthermore, a detailed record of all such advances made should be kept by the finance department.

Condition:

The FSM National Government was unable to provide a detailed listing of travel advances totaling \$2,080,421 (net of \$3,798,599 allowance for doubtful collection).

Cause:

The FSM National Government lacks proper file maintenance system and lacks monitoring controls over travel expenditures.

Effect:

We could not determine:

- the aging of \$2,080,421 travel advances
- whether the traveler submitted expense reports
- in what period the travel advance should have been recorded as an expenditure

Identification as a Repeat Finding: 2022-007

Recommendation:

The FSM National Government should:

- improve internal controls over its travel policies
- prepare an aged listing of travel advances
- seek reimbursement from travelers who do not adhere to the travel policy

Views of Responsible Officials:

Management agrees with the finding. Refer to corrective action plan and management's detailed views.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-006**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D19AP00124, D22AF00326, D20AP00054  
Area: Allowable Costs/Costs Principles  
Questioned Costs: \$64,062

Criteria:

Article I of the Fiscal Procedures Agreement (FPA) says allowable costs means those necessary and reasonable costs allocable to a Grant that comply with the limitations of any agreement relating to such Grant as well as to applicable laws and regulations, are allocated to the Grant on a basis consistent with policies that apply to all activities of the Grant, are accounted for consistently and in accordance with generally accepted accounting principles, are adequately documented, and are net of all applicable credits. Article VI, Section 1(a)(2)(v) of the FPA says applicable costs principles and Grant terms shall be followed in determining the reasonableness and allowability of costs.

Condition:

For eight (or 20%) out of forty nonpayroll expenditures tested, aggregating to \$64,064 of a total population of \$79,211,846, supporting documents such as invoices and contracts were not provided.

<u>Account Name</u>	<u>Date</u>	<u>Transaction No.</u>	<u>Ref 1</u>	<u>Questioned Cost</u>
Gen Contractual Svcs	11/21/22	406292	C220237	\$ 24,032
Gen Contractual Svcs	12/30/22	409669	C220237	23,233
Travel & Transportation	07/31/23	433420	T232030	5,654
Travel & Transportation	05/11/23	424212	T231549	3,980
Travel & Transportation	09/29/23	440665	T232546	1,895
Travel & Transportation	09/20/23	439202	T232916	1,891
Travel & Transportation	09/20/23	439202	T232917	1,891
Travel & Transportation	09/20/23	439202	T232930	<u>1,486</u>

\$64,062

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-006, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D19AP00124, D22AF00326, D20AP00054  
Area: Allowable Costs/Costs Principles  
Questioned Costs: \$64,062

Cause:

FSMNG lacks monitoring controls over adequate documentation and systematic filing of relevant documents to support program costs.

Effect:

FSMNG is in noncompliance with the applicable allowable costs/cost principles requirement and total question costs of \$64,062 result.

Recommendation:

FSMNG should establish and maintain effective systematic filing of relevant documentation to support program costs and for easier retrieval of responsible personnel.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

The audit procedures were designed based on the suggested methodologies identified on Part 3 of the 2023 OMB Compliance Supplement. These procedures were provided to assist auditors in planning and performing tests of non-federal entity compliance with the requirements of each federal program.

The basis of the auditor's identification of direct and material requirements for ALN 15.875 for the audit is Part 7 of the 2023 OMB Compliance Supplement which the purpose section states that *“for federal programs not covered in the compliance supplement, the auditor must use the types of compliance requirements contained in the compliance supplement.”*

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No. 2023-006, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D19AP00124, D22AF00326, D20AP00054  
Area: Allowable Costs/Costs Principles  
Questioned Costs: \$64,062

Auditor's Response, continued:

Additionally, based on communication with the Office of Insular Affairs on December 4, 2025, if the Fiscal Procedures Agreement (FPA) is more lenient than the required federal guidelines, it is expected that the auditor follow the requirements of the CFR. Part of our procedures was also providing assessment on each applicable section of the FPA for each compliance requirement and identifying whether it mirrors the CFR to ensure that the minimum federal requirements were tested.

As mentioned in our criteria, the FPA was used as a guideline for our compliance testing. The FPA describes allowable costs as necessary and reasonable costs that are allocable to the Grant and agreements and that they be adequately documented. This requirement mirrors the requirement set forth in 2 CFR Part 200, Subpart E, where costs must be necessary and reasonable for the performance of the federal award and be allocable thereto. Furthermore, costs must conform to any limitations or exclusions and be adequately documented.

Noncompliance found in our Allowable Costs/ Cost Principles testing was due to lack of supporting documentation such as, but not limited to, contracts and vendor's invoices made available to the auditors during the time of audit.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-007**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award Nos.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D21AF10013, D19AF00046, D21AF10018, D20AP00054, D19AP00124  
Area: Equipment and Real Property Management  
Questioned Costs: Unable to be determined

Criteria:

1. Article VI Section 1(f)(4)(i) of the Fiscal Procedures Agreement (FPA) says “Property records shall be maintained which include: (1) a description of the property, (2) a serial number or other identification number, (3) the source of property, (4) who holds title, (5) the acquisition date and cost of the property, (6) the percentage of the United States funding used in the purchase, (7) the location use and condition of the property, and (8) any ultimate disposition data including the date of disposal and sale price
2. Additionally, in accordance with Article VI Section 1(f)(4)(ii) of the Fiscal Procedures Agreement (FPA) says “A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years”.

Condition:

1. FSM National Government was not able to provide a complete listing of its capital assets for the program and the schedule of disposals during the year. No questioned costs are presented as we are not able to quantify the extent of noncompliance.
2. FSM National Government did not perform the required property and equipment inventory count for the past two fiscal years.

Cause:

- 1) The FSM National Government did not provide sufficient and appropriate audit evidence to assist the auditors during the testing procedures for the equipment and real property management compliance requirement.
- 2) FSM National Government lacks monitoring procedures to ensure physical inventory counts are conducted at least once every two fiscal years

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-007, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award Nos.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D21AF10013, D19AF00046, D21AF10018, D20AP00054, D19AP00124  
Area: Equipment and Real Property Management  
Questioned Costs: Unable to determine

Effect:

The FSMNG is in noncompliance with applicable equipment and real property management requirements. Questioned costs are unknown as the FSMNG could not provide the program's capital assets listing. See below for the cumulative dollar amount of property equipment acquired with program grant funds over the past five years.

<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>Grand Total</u>
\$ 1,408,331	\$ 1,394,267	\$ 1,383,687	\$ 1,383,687	\$ 678,054	\$ 6,245,177

Identification as a Repeat Finding: Finding No. 2022-012

Recommendation:

- 1) Management should adhere to the requirement of Article VI Section 1(f)(4)(i) to comply with the requirements for Equipment and Real Property Management; and
- 2) Management should establish and implement effective monitoring controls to ensure property records are accurately maintained.
- 3) Management should establish and implement effective monitoring controls to ensure that the required physical inventory of equipment has been conducted.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Noncompliance was due to incomplete listing of its capital assets and failure to conduct required physical inventory count as required by the FPA.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-008**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D19AF00046, D21AF10018, D20AP00054, D21AF10013  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$6,767,555

Criteria:

Article VI, Section 1(j)(5) of the Fiscal Procedures Agreement requires that records shall be maintained with sufficient detail to document the history of procurement, including but not limited to the rationale for and method of procurement, the selection of contract type, contractor selection or rejection, and the basis for the contract price.

Additionally, in accordance with Article VI, Section 1(h) of the FPA says the Government of the Federated States of Micronesia shall not award funds received pursuant to the Compact, as amended, to any party which is debarred, suspended or otherwise excluded from and ineligible for participation in United States assistance programs.

Condition:

Of 8 procurement transactions, aggregating \$3,350,341 of a total population of \$3,691,776 in procurement performed in fiscal year 2023, the following were noted:

1. For four (or 50%), procurement related documentation such as quotations, bid submissions, invitation-to-bid publications were not provided.

<u>GL Code</u>	<u>Grant Award</u>	<u>Ref 1</u>	<u>Questioned Cost</u>
19-8310-80-89-19024-21	D21AF10018	C230350	\$ 499,659
15-8310-97-97-27213-23	D22AF00326	C230784	6,930
20-8310-70-71-80140-20	D20AP00054	JIMP23-3DO	3,124
15-8226-97-97-27213-23	D22AF00326	10120-MS23	<u>120</u>
		Total	\$ <u>509,833</u>

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No. 2023-008, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D19AF00046, D21AF10018, D20AP00054, D21AF10013  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$6,767,555

Condition, continued:

2. FSM National Government does not perform suspension and debarment monitoring for covered transactions with a total population of \$6,757,381, which includes both the current and prior period procurements, that is in accordance with Article VI, Section 1(h) of the FPA.

<u>Ref 1</u>	<u>Grant Award</u>	<u>Questioned Cost</u>
C230684	D23AF00061	\$ 2,703,004
C210548	D21AF10013	1,170,573
C220401	D22AF00017	500,000
C230350	D21AF10018	499,659
C191043	D19AF00046	354,955
C230384	D23AF00019	336,407
C220456	D20AP00054	292,914
C220089	D20AP00054	190,348
DHSANCOVWA	D20AP00054	134,414
C220237	D20AP00054	129,696
C230587	D22AF00327	125,900
C220796	D20AP00054	64,050
C210703	D20AP00054	55,538
DHSA-N-LSC	D20AP00054	53,846
C220729	D21AF10232	49,050
L220969	D21AF10232	38,560
N210580	D20AP00054	30,384
BF-C210703	D20AP00054	28,083
Less amount questioned in condition 1, ref C230350		<u>(499,659)</u>
Total		\$ <u>6,257,722</u>

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-008, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D21AF10013, D19AF00046, D21AF10018, D20AP00054, D19AP00124  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$6,767,555

Cause:

1. FSM National Government did not provide procurement related evidence such as quotations, bid evaluations, or rationale for vendor selection.
2. FSM National Government does not have a policy and procedure in place for verification of persons or contractors prior to entering into a covered transaction that is in accordance with Article VI, Section 1(h) of the FPA.

Effect:

FSMNG is in noncompliance with applicable procurement and suspension and debarment requirements and questioned costs of \$6,767,555 results.

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 509,833
2	<u>6,257,722</u>
Total	<u>\$ 6,767,555</u>

Identification as a Repeat Finding: 2022-010

Recommendation:

1. FSM National Government should improve its file maintenance system to help ensure documents over compliance requirements can be easily retrieved.
2. FSM National Government should establish a policy and implement formal procedures to document written evidence that, prior to entering into a covered transaction, an assessment has been performed that is in accordance with Article VI, Section 1(h) of the FPA.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-008, continued**  
Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00327, D23AF00019, D21AF10232, D22AF00017, D22AF00326, D23AF00061, D21AF10013, D19AF00046, D21AF10018, D20AP00054, D19AP00124  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$6,767,555

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

As referenced in the criteria, Fiscal Procedures Agreement was used as a guideline for compliance testing. Noncompliance was due to lack of procurement related documentation such as, but not limited to, quotes and bidding evaluations, made available to auditors during the time of audit. Additionally, FSM National Government does not perform suspension and debarment verification for covered transactions as required by the FPA.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-009**

Federal Agency: U.S. Department of Interior  
ALN Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D23AF00012, D23AF00013, D23AF00014, D23AF00015, D23AF00016, D23AF00017, D23AF00020, D23AF0002, D23AF00022, D22AF00155  
Requirement: Subrecipient Monitoring  
Questioned Costs: \$72,071,497

Criteria:

In accordance with Article VI, Section 1(k)(1) of the Fiscal Procedures Agreement (FPA) The Government of the Federated States of Micronesia will follow its laws and procedures when awarding and administering Sub-Grants. The Governments shall ensure that: (i) Every Sub-Grant includes any clauses required by the Compact, as amended, the sector Grant awards and this Agreement; (ii) Sub Grantees are aware of requirements imposed upon them by the Compact, as amended, the sector Grant awards and this agreement; and (iii) The Sub-Grantee can meet the financial management standards of this Agreement.

Additionally, Article VI, Section 1(h) requires that The Government of the Federated States of Micronesia shall not award funds received pursuant to the Compact, as amended, to any party which is debarred, suspended or otherwise excluded from and ineligible for participation in United States assistance programs under Executive Order 12549, 'Debarment and suspension.' issued by the President of the United States on February 18, 1986.

Furthermore, Article IV, Section 5(b)(3) says the Government of the Federated States of Micronesia maintains procedures to minimize the time elapsing between transfer of funds and their disbursements.

Condition:

- 1) The FSM National Government does not have subrecipient monitoring procedures as required by the FPA. Thus, the FSM National Government did not perform the minimum subrecipient monitoring requirements over the \$72,071,497 amounts passed to subrecipients.
  - a. Ensure that every sub-grant includes any clauses required by the Compact, as amended, the sector Grant awards and the FPA.
  - b. Ensure Sub Grantees are aware of requirements imposed upon them by the Compact, as amended, the sector Grant awards and the FPA.
  - c. The Sub-Grantee can meet the financial management standards of the FPA.

The FSM National Government does not perform suspension and debarment monitoring for covered transactions that is in accordance with Article VI, Section 1(h) of the FPA.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-009, continued**  
**Federal Agency:** U.S. Department of Interior  
**ALN Program:** 15.875 Economic, Social, and Political Development of the Territories  
**Federal Award No.:** D23AF00012, D23AF00013, D23AF00014, D23AF00015, D23AF00016, D23AF00017, D23AF00020, D23AF0002, D23AF00022, D22AF00155  
**Requirement:** Subrecipient Monitoring  
**Questioned Costs:** \$72,071,497

2) **Condition:** Payments to subrecipients, with a total population of \$6,197,594, were not monitored whether procedures to minimize the time elapsing between the payment to the subrecipient and the subrecipient disbursements were followed. No questioned costs are presented as amounts are questioned at Condition 1.

**Cause:**

- 1) The FSM National Government does not consider amounts passed through to the State Governments as a subaward/sub-grant.
- 2) FSM National Government does not have policies and procedures that comply with Article VI, Section 1(h) and Section 1(k)(1) of the Fiscal Procedures Agreement.
- 3) The FSM National Government does not have established policies and procedures to minimize time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds by the subrecipient.

**Effect:**

- 1) FSM National Government is in noncompliance with applicable subrecipient monitoring requirements and questioned costs of \$72,071,497, which is the total subrecipient disbursements made during the year, result. The \$72,071,497 is not necessarily unallowable costs but rather funds passed through that have no monitoring.
- 2) The FSM National Government is in noncompliance with the applicable subrecipient cash management monitoring requirements.

**Identification as a Repeat Finding:** 2022-014

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Schedule of Findings and Questioned Costs, continued

**Finding No.:** **2023-009, continued**  
Federal Agency: U.S. Department of Interior  
ALN Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D23AF00012, D23AF00013, D23AF00014, D23AF00015, D23AF00016,  
D23AF00017, D23AF00020, D23AF0002, D23AF00022,  
D22AF00155  
Requirement: Subrecipient Monitoring  
Questioned Costs: \$72,071,497

Recommendation:

- 1) FSM National Government should update their established policies and procedures to be in accordance with Article VI, Section 1(k) and Section 1(h) of the FPA to comply with the requirements for pass-through-entities.
- 2) The FSM National Government should establish a policy and implement formal monitoring procedures to ensure that the subrecipient complies with the requirement to minimize the time elapsing between the transfer of federal funds to the subrecipient and the disbursement of such funds for program purposes.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Noncompliance was due to FSM National Government not having subrecipient monitoring procedures in place as required by the FPA.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-010**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00326  
Area: Special Tests and Provisions – Annual Performance Reviews  
Questioned Costs: -\$0-

Criteria:

In accordance with grant award terms and conditions, all personnel funded under Education Sector and Supplemental Education Grant (SEG) are required to undergo an annual performance evaluation which shall be maintained as part of the personnel files and made available when requested for purposes of grant oversight or audits.

Condition:

For eight (or 100%) employees tested, the annual performance evaluation for fiscal year 2023 was not completed.

<u>Employee Number</u>	<u>Account Number</u>
77193	15-60-61-15120-8010
606924	15-60-61-15120-8010
702518	15-60-61-15120-8010
704816	15-60-61-15120-8010
906654	15-60-61-15120-8010
908379	15-60-61-15120-8010
909982	15-60-61-15120-8010
911763	15-60-61-15120-8010

Cause:

FSM National Government does not have any established policy and monitoring procedure in place over compliance with annual performance evaluations as stipulated in the grant award terms and conditions.

Effect:

FSM National Government is in noncompliance with the requirement. No questioned cost is identifiable as the nature of noncompliance is nonmonetary.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-010, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D22AF00326  
Area: Special Tests and Provisions – Annual Performance Reviews  
Questioned Costs: -\$0-

Recommendation:

Management should establish policies and implement procedures to perform the required annual evaluations of personnel who are funded under SEG and maintain the reports in each personnel's file.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Finding criteria was directly from Grant Award D22AF00326 special terms, requiring all personnel funded under Education Sector and Supplemental Education Grant (SEG) to undergo an annual performance evaluation. Noncompliance is due to FSM National Government not performing annual performance evaluations as required by Grant award and JEMCO Resolution 2014-6.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-011**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D23AF00017, D22AF00010, D23AF00010, D22AF00011, D22AF00014, D23AF00016, D22AF00012, D23AF00015  
Area: Reporting  
Questioned Costs: \$0

Criteria:

In accordance with applicable reporting requirements, and Article VI, Section 1(b)(1) of the Fiscal Procedures Agreement, the FSM National Government is required to submit quarterly Federal Financial Reports (SF-425) that are accurately presented, comparable and reconcilable.

Condition:

Of eight SF-425 reports tested, the following were noted:

1. For two (or 25%), the total federal share of expenditure on the underlying accounting records had variances to the total reported in the SF-425 reports.

Grant Award #	Per SF-425 Report	Accounting Records	Variance
D22AF00010-00	\$21,652,278	\$24,619,422	(\$2,967,144)
D22AF00018-00	\$985,731	\$1,158,396	(\$172,665)

2. For 6 (or 75%), FSM National Government did not provide an SF-425 Report.

<u>Grant Award No.</u>	<u>Sector</u>	<u>Quarter</u>	<u>Fiscal Year</u>
D22AF00010	Education	1 <sup>st</sup>	2023
D23AF00010	Education	1 <sup>st</sup>	2023
D22AF00011	Health	4 <sup>th</sup>	2022
D22AF00014	Capacity Building	4 <sup>th</sup>	2022
D22AF00014	Capacity Building	2 <sup>nd</sup>	2023
D23AF00016	Capacity Building	2 <sup>nd</sup>	2023
D22AF00012	Private Sector Development	1 <sup>st</sup>	2023
D23AF00015	Private Sector Development	1 <sup>st</sup>	2023
D22AF00015	Enhanced Reporting & Accountability	2 <sup>nd</sup>	2023
D23AF00017	Enhanced Reporting & Accountability	2 <sup>nd</sup>	2023

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-011, continued**

Federal Agency: U.S. Department of the Interior  
AL Program: 15.875 Economic, Social, and Political Development of the Territories  
Federal Award No.: D23AF00017, D22AF00010, D23AF00010, D22AF00011, D22AF00014, D23AF00016, D22AF00012, D23AF00015  
Area: Reporting  
Questioned Costs: \$0

Cause:

1. FSM National Government did not effectively monitor compliance with applicable reporting requirements to ensure reports are accurate and reconciled to underlying accounting records.
2. FSM National Government lacks adequate documentation and systematic filing of relevant documentation for reporting requirements.

Effect:

The State is in noncompliance with applicable reporting requirements.

Identification as a Repeat Finding: 2022-011

Recommendation:

1. FSM National Government should strengthen and enforce compliance over the implementation of more stringent monitoring mechanisms to ensure reports are accurately presented and reconciled to the underlying accounting records.
2. FSM National Government should improve its file maintenance system to help ensure documents over compliance requirements can be easily retrieved.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Fiscal Procedures Agreement was used from the start as a guideline for compliance testing. Noncompliance is due to lack of supporting documentation such as SF-425 reports and Fundware Reports, made available to the auditors during the time of audit.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-012**  
 Federal Agency: U.S. Department of Health and Human Services  
 AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
 Federal Award No.: 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, COVID-19 1B08TI083948-01, COVID-19 6B08TI083948-01M001, and COVID-19 1B08TI084588-01  
 Area: Allowable Costs/Costs Principles  
 Questioned Costs: \$56,808

Criteria:

In accordance with 2 CFR Part 200. Subpart E, cost must be necessary and reasonable for the performance of the federal award and be allocable thereto. Furthermore, costs must conform to any limitations or exclusions and be adequately documented.

Condition:

Of sixty expenditures tested, aggregating \$84,703 of a total population of \$997,874, for twenty-four (or 40%), the FSM National Government was unable to provide supporting documents, such as purchase requisition, contracts, invoices, receiving report or equivalent documentation and cancelled checks, to support that expenditures were for allowable costs and that payments were made to eligible parties or for eligible good or services. In addition, the purchase orders for TR Numbers 422031, 421187 and 413829 were also not provided.

<u>Date</u>	<u>TR Number</u>	Amount and <u>Question Costs</u>
11/30/22	407178	\$ 45
05/31/23	426535	700
12/08/22	408006	381
12/09/22	408138	730
02/20/23	415103	24
09/29/23	440701	200
09/29/23	440701	200
09/29/23	440701	200
06/07/23	427311	340
06/16/23	428446	1,016
09/20/23	439290	89
04/28/23	422883	1,188
04/19/23	422031	35,000

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-012, continued**  
**Federal Agency:** U.S. Department of Health and Human Services  
**AL Program:** 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
**Federal Award No.:** 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, COVID-19 1B08TI083948-01, COVID-19 6B08TI083948-01M001, and COVID-19 1B08TI084588-01  
**Area:** Allowable Costs/Costs Principles  
**Questioned Costs:** \$56,808

Condition, continued:

<u>Date</u>	<u>TR Number</u>	Amount and <u>Question Costs</u>
07/28/23	433307	52
08/23/23	436204	600
09/20/23	439290	900
11/22/22	406493	1,010
02/27/23	416022	1,980
09/04/23	437560	1,396
08/10/23	434721	2,636
04/27/23	422723	991
09/29/23	440701	200
04/12/23	421187	3,554
02/08/23	413829	<u>3,376</u>
		<u>\$56,808</u>

Cause:

The FSM National Government did not provide sufficient and appropriate audit evidence to substantiate the expenditures over compliance with applicable allowable costs/cost principles requirement and lacks monitoring control over adequate documentation and systematic filing of relevant documentations supporting program costs.

Effect:

The FSM National Government is in noncompliance with applicable allowable costs/cost principles requirements and questioned cost of \$56,808 result.

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Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-012, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.:	1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, COVID-19 1B08TI083948-01, COVID-19 6B08TI083948-01M001, and COVID-19 1B08TI084588-01
Area:	Allowable Costs/Costs Principles
Questioned Costs:	\$56,808

Recommendation:

The FSM National Government should strengthen and enforce compliance with the applicable allowable costs/cost principles requirements and establish and implement systematic filing of relevant documentation supporting program costs for easy retrieval.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Our request for tagging documents was for those underlying accounting records that are part of the bulk files provided. Our engagement letter included a paragraph saying our scheduled performance is dependent on client providing a reasonable level of assistance. It is not the auditor's responsibility to go through bulk files and search for underlying accounting records, but rather, it is the responsibility of the FSMNG to provide the specific underlying accounting records supporting program costs. It is also the responsibility of the FSMNG to coordinate audit requests within its department agencies. Further, during our audit finding resolution meeting on 12/09/25, the FSMNG management acknowledged that the cited missing documents were in fact not made available during our audit fieldwork.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-013**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003; 6B08TI083457-01M004; 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; COVID-19 1B08TI083536-01; COVID-19 6B08TI083536-01M001; COVID-19 6B08TI083536-01M002; COVID-19 6B08TI083536-01M003; COVID-19 1B08TI083948-01; COVID-19 6B08TI083948-01M001; and COVID-19 1B08TI084588-01  
Area: Cash Management  
Questioned Costs: \$56,464

Criteria:

FSM National Government is on a cash management reimbursement basis. Accordingly, in accordance with 31 CFR Part 205.12(b)(5), reimbursable funding means that a Federal Program Agency transfers Federal funds to a nonfederal entity after the nonfederal entity has already paid out the funds for Federal assistance program purposes.

Condition:

Of forty drawdowns tested, aggregating \$56,464 of a total population of \$357,977, the following were noted:

1. For forty (or 100%), drawdown reports were not provided to substantiate that drawdowns were made subsequent to when the expenditures were incurred and paid.

<u>Date</u>	<u>TR Number</u>	Amount and <u>Questioned Costs</u>
02/13/23	414361	\$ 150
08/02/23	433918	250
09/27/23	440023	100
08/10/23	434816	1,636
02/13/23	414361	250
08/10/23	434814	200
04/17/23	421614	2,757
01/31/23	412742	2,748
05/18/23	425170	47
06/21/23	428791	3,000
09/20/23	439290	2,094
09/29/23	440701	200
09/29/23	440701	200
02/13/23	414361	150
02/13/23	414361	250

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-013, continued**  
**Federal Agency:** U.S. Department of Health and Human Services  
**AL Program:** 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
**Federal Award No.:** 1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003, 6B08TI083457-01M004; 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; COVID-19 1B08TI083536-01; COVID-19 6B08TI083536-01M001; COVID-19 6B08TI083536-01M002; COVID-19 6B08TI083536-01M003; COVID-19 1B08TI083948-01; COVID-19 6B08TI083948-01M001; and COVID-19 1B08TI084588-01  
**Area:** Cash Management  
**Questioned Costs:** \$56,464

Condition, continued:

<u>Date</u>	<u>TR Number</u>	Amount and <u>Question Costs</u>
02/13/23	414361	250
02/13/23	414361	250
08/10/23	434814	200
09/27/23	440023	100
08/10/23	434814	200
09/27/23	440023	100
11/30/22	407178	45
05/31/23	426535	700
12/08/22	408006	381
12/09/22	408138	730
08/01/23	433644	20
09/27/23	440023	200
09/27/23	440023	100
02/20/23	415103	23
09/27/23	440023	200
09/29/23	440701	200
12/09/22	408138	2,168
09/27/23	440023	200
09/29/23	440701	200
09/27/23	440023	200
04/19/23	422031	35,000
02/27/23	416083	174
09/29/23	440701	200
08/10/23	434814	200
02/13/23	415605	<u>391</u>

\$56,464

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-013, continued**  
**Federal Agency:** U.S. Department of Health and Human Services  
**AL Program:** 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
**Federal Award No.:** 1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003, 6B08TI083457-01M004; 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; COVID-19 1B08TI083536-01; COVID-19 6B08TI083536-01M001; COVID-19 6B08TI083536-01M002; COVID-19 6B08TI083536-01M003; COVID-19 1B08TI083948-01; COVID-19 6B08TI083948-01M001; and COVID-19 1B08TI084588-01  
**Area:** Cash Management  
**Questioned Costs:** \$56,464

Condition, continued:

2. For eight (or 20%), invoices and related payments were not provided to substantiate the drawdowns made for these expenditures. No questioned costs are presented as the amounts are questioned at Condition 1.

<u>Date</u>	<u>TR Number</u>	<u>Amount and Question Costs</u>
11/30/22	407178	\$ 45
05/31/23	426535	700
12/08/22	408006	381
12/09/22	408138	730
02/20/23	415103	23
09/29/23	440701	200
04/19/23	422031	35,000
09/29/23	440701	<u>200</u>
		<u>\$37,279</u>

Cause:

The FSM National Government did not provide sufficient and appropriate audit evidence to substantiate that drawdowns were made subsequent to when the expenditures were incurred and lacked monitoring controls over adequate documentation and systematic filing of relevant documents supporting program costs.

Effect:

The FSM National Government is in noncompliance with applicable cash management requirements and questioned cost of \$56,464 result for Condition 1.

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Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-013, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.:	1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003, 6B08TI083457-01M004; 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; COVID-19 1B08TI083536-01; COVID-19 6B08TI083536-01M001; COVID-19 6B08TI083536-01M002; COVID-19 6B08TI083536-01M003; COVID-19 1B08TI083948-01; COVID-19 6B08TI083948-01M001; and COVID-19 1B08TI084588-01
Area:	Cash Management
Questioned Costs:	\$56,464

Recommendation:

The FSM National Government should strengthen and enforce compliance with the applicable cash management requirements and establish and implement systematic filing of relevant documentation supporting program costs for easy retrieval.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Our request for tagging documents was for those underlying accounting records that are part of the bulk files provided. Our engagement letter included a paragraph saying our scheduled performance is dependent on client providing a reasonable level of assistance. It is not the auditor's responsibility to go through bulk files and search for underlying accounting records, but rather, it is the responsibility of the FSMNG to provide the specific underlying accounting records supporting program costs. Further, during our audit finding resolution meeting on 12/09/25, the FSMNG management acknowledged that the cited missing documents were in fact not made available during our audit fieldwork.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-014**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002,  
1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002,  
6B08TI083457-01M003 and 6B08TI083457-01M004  
Area: Period of Performance  
Questioned Costs: \$147,206

Criteria:

In accordance with the grant terms and conditions, funds awarded under the grant must be obligated and expended within the project period of performance. In addition, recipients must liquidate all obligations incurred under an award not later than ninety (90) days after the end of the award obligation and expenditure project period.

Condition:

1. Of twenty-four expenditures tested for grant awards 1B08TI084652-01, 6B08TI084652-01M001 and 6B08TI084652-01M002, aggregating \$15,426 of a total population of \$61,833, for eighteen (or 75%), the FSM National Government was unable to provide supporting documents, such as purchase orders, contracts and/or cancelled checks, to support that expenditures were obligated/incurred within the period of performance end date of 09/30/23 and that were liquidated within the 90 days liquidation period.

<u>Date</u>	<u>TR Number</u>	<u>Amount and Question Costs</u>
08/02/23	433888	\$ 120
08/02/23	433918	250
08/02/23	433918	250
08/03/23	434136	450
08/10/23	434721	2,636
08/10/23	434811	200
08/10/23	434814	200
08/14/23	435035	705
08/23/23	436204	600
08/23/23	436360	1,109
08/30/23	437073	100
09/04/23	437628	1,430
09/13/23	438528	416
09/22/23	439426	2,440
09/27/23	440023	100

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-014, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002,  
1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002,  
6B08TI083457-01M003 and 6B08TI083457-01M004  
Area: Period of Performance  
Questioned Costs: \$147,206

Condition, continued:

<u>Date</u>	<u>TR Number</u>	<u>Amount and Question Costs</u>
09/27/23	440023	\$ 100
08/07/23	434430	2,252
08/22/23	436100	<u>1,090</u>
		<u>\$14,448</u>

2. Costs amounting to \$132,758 were charged to grant awards 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003 and 6B08TI083457-01M004 with period of performance end date of 09/30/22. Grant extension documentation was not provided, for which the amount is questioned.

Cause:

1. The FSM National Government did not provide sufficient and appropriate audit evidence to substantiate the expenditures over compliance with applicable period of performance requirement;
2. Inadequate monitoring controls in place to ensure that expenditures are obligated/incurred within the period of performance and liquidated within the liquidation period; and
3. Lacks monitoring control over adequate documentation and systematic filing of relevant documentations supporting program costs.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-014, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002,  
1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002,  
6B08TI083457-01M003 and 6B08TI083457-01M004  
Area: Period of Performance  
Questioned Costs: \$147,206

Effect:

The FSM National Government is in noncompliance with applicable period of performance requirements and questioned cost of \$147,206 result.

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 14,448
2	<u>132,758</u>
<u>\$147,206</u>	

Recommendation:

1. The FSM National Government should strengthen and enforce compliance with the applicable period of performance requirements.
2. Establish and implement monitoring controls over the verification of period of performance ending dates prior to incurring and charging costs to a grant award and that such verification be adequately documented.
3. Establish and implement systematic filing of relevant documentation support program costs for easy retrieval.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-014, continued**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002,  
1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002,  
6B08TI083457-01M003 and 6B08TI083457-01M004  
Area: Period of Performance  
Questioned Costs: \$147,206

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

In accordance with the grant terms and conditions for grant awards 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003 and 6B08TI083457-01M004, recipients must liquidate all obligations incurred under an award not later than ninety (90) days after the end of the award obligation and expenditure period. It further states that SAMHSA does not approve extensions to the ninety (90) day post-award, therefore, recipients are expected to complete all work and reporting within the approved project period and the aforementioned 90-day post-award reconciliation/liquidation period. The period of performance end date was on 09/30/22 while the liquidation period end date was on 12/29/22. No approved grantor extension documentation was provided. Further, during our audit finding resolution meeting on 12/09/25, the FSMNG management acknowledged that the grant expired on 09/30/22; however, they continued charging and drawing down from the expired grant as the PMS system still allowed to drawdown funds.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-015**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, 1B08TI085814-01, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083948-01 and COVID-19 1B08TI084588-01  
Area: Reporting  
Questioned Costs: \$-0-

Criteria:

1. The recipient is required to submit a Federal Financial Report (SF-425), ninety (90) days after the close of the statutory grant period (45 CFR § 96.30) that are accurately presented, comparable and reconcilable. The SF-425 shall report total funds obligated and total funds expended by the grantee.
2. In accordance with grant terms and conditions, a grantee must report each action that obligates \$25,000 or more in federal funds that does not include recovery funds (as defined in § 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Public Law 111-5) for a subaward to an entity. A grantee is exempt from Federal Financial Accountability and Transparency (FFATA) reporting requirements if in the previous year the grantee had gross income, from all sources, under \$300,000.

Condition:

1. Of two SF-425 reports tested, for two (or 100%), the underlying accounting records supporting the cash receipts and cash disbursements reported in the SF-425 reports were not provided:

<u>Grant Number</u>	<u>Reporting Period</u> <u>End Date</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>
1B08TI083457-01	09/30/22	\$622,932	\$622,932
1B08TI083536-01	03/14/23	\$357,699	\$357,699

2. FSM National Government had income for the prior fiscal year ended September 30, 2022 in excess of the \$300,000 gross income exemption; however, the FSM National Government did not file the required reports in accordance with FFATA requirements. The following are the obligation actions in the amount of \$25,000 or more in federal funds to subrecipients during FY2023:

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-015, continued**  
**Federal Agency:** U.S. Department of Health and Human Services  
**AL Program:** 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
**Federal Award No.:** 1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, 1B08TI085814-01, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083948-01 and COVID-19 1B08TI084588-01  
**Area:** Reporting  
**Questioned Costs:** \$-0-

Condition, continued:

<u>Date</u>	<u>Ref1</u>	<u>Ref2</u>	<u>Amount and Obligation Action</u>
10/19/22	Yap	7th ds-22	\$44,330
12/14/22	Pohnpei	4th ds-22	\$38,530
01/12/23	Pohnpei	2nd ds-23	\$27,672
04/17/23	Pohnpei	3rd ds-23	\$27,503
08/15/23	Pohnpei	4th ds-23	\$38,548
11/16/22	Chuuk	12th ds-22	\$56,041
01/20/23	Chuuk	3rd ds-23	\$28,646
04/14/23	Chuuk	5th ds-23	\$37,983

Cause:

1. FSM National Government lacks monitoring control in ensuring data included in the SF-425 reports are supported with underlying accounting records; and
2. FSM National Government lacks internal controls over the preparation and submission of the required FFATA reporting requirements as stipulated in the grant terms and conditions.

Effect:

FSM National Government is in noncompliance with the applicable SF-425 and FFATA reporting requirements.

Identification as a Repeat Finding: Finding No. 2022-013.

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Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-015, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.:	1B08TI083457-01, 6B08TI083457-01M001, 6B08TI083457-01M002, 6B08TI083457-01M003, 6B08TI083457-01M004, COVID-19 1B08TI083536-01, COVID-19 6B08TI083536-01M001, COVID-19 6B08TI083536-01M002, COVID-19 6B08TI083536-01M003, 1B08TI085814-01, 1B08TI084652-01, 6B08TI084652-01M001, 6B08TI084652-01M002, COVID-19 1B08TI083948-01 and COVID-19 1B08TI084588-01
Area:	Reporting
Questioned Costs:	\$-0-

Recommendation:

1. FSM National Government should strengthen and enforce compliance over applicable reporting requirements;
2. Establish and implement monitoring controls over the preparation and submission of the required FFATA reports; and
3. Establish and implement systematic filing of relevant documentation for easy retrieval.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Our request for tagging documents was for those underlying accounting records that are part of the bulk files provided. Our engagement letter included a paragraph saying our scheduled performance is dependent on client providing a reasonable level of assistance. It is not the auditor's responsibility to go through bulk files and search for underlying accounting records, but rather, it is the responsibility of the FSMNG to provide the specific underlying accounting records supporting program costs. Further, during our audit finding resolution meeting on 12/09/25, the FSMNG management acknowledged that the cited missing documents were in fact not made available during our audit fieldwork.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-016**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002;  
1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002;  
6B08TI083457-01M003; and 6B08TI083457-01M004  
Area: Subrecipient Monitoring  
Questioned Costs: \$639,897

Criteria:

In accordance with 45 CFR § 75.352, pass-through entity (PTE) must:

- a. Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:
  - (1) Federal Award Identification;
  - (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;
  - (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the U.S. Department of Health and Human Services (HHS) awarding agency including identification of any required financial and performance reports;
  - (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in § 75.414(f);
  - (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part; and
  - (6) Appropriate terms and conditions concerning closeout of the subaward.

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Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-016, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.:	1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; 1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003; and 6B08TI083457-01M004
Area:	Subrecipient Monitoring
Questioned Costs:	\$639,897

Criteria, continued:

- b. Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:
  - (1) The subrecipient's prior experience with the same or similar subawards;
  - (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with subpart F, and the extent to which the same or similar subaward has been audited as a major program;
  - (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
  - (4) The extent and results of HHS awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a HHS awarding agency).
- c. Consider imposing specific subaward conditions upon a subrecipient if appropriate as described in § 75.207.
- d. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
  - (1) Reviewing financial and performance reports required by the pass-through entity.
  - (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-016, continued**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002;  
1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002;  
6B08TI083457-01M003; and 6B08TI083457-01M004  
Area: Subrecipient Monitoring  
Questioned Costs: \$639,897

Criteria, continued:

- (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 75.521.
- e. Depending upon the pass-through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:
  - (1) Providing subrecipients with training and technical assistance on program-related matters; and
  - (2) Performing on-site reviews of the subrecipient's program operations;
  - (3) Arranging for agreed-upon-procedures engagements as described in § 75.425.
- f. Verify that every subrecipient is audited as required by subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 75.501.
- g. Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.
- h. Consider taking enforcement action against noncompliant subrecipients as described in § 75.371 and in program regulations.

Condition:

1. Of four subrecipients tested, aggregating \$639,897 of a total population of \$639,897, the following were noted for the four (or 100%) subawards that were made during FY2023:
  - a. Risk assessments were not performed to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward;

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-016, continued**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002;  
1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002;  
6B08TI083457-01M003; and 6B08TI083457-01M004  
Area: Subrecipient Monitoring  
Questioned Costs: \$639,897

Condition, continued:

- b. Subrecipient agreements were not provided to substantiate that every subaward is clearly identified to the subrecipient as a subaward and includes the required information at the time of the subaward;
- c. Monitoring activities were not performed to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved; and
- d. Verification that subrecipient required to be audited is audited as required by Subpart F were not performed.

Total FY2023 subrecipient expenditures for all four subrecipients amounted to \$639,897, for which the amount is questioned.

- 2. Of twelve (100%) subrecipient expenditures tested, aggregating \$125,061 of a total population of \$639,897, no evidence was provided to substantiate that payments, made by subrecipients to vendors, were done prior to the date FSM National Government made reimbursements to the subrecipient. In addition, reimbursement payments made to the subrecipients were not provided.. No questioned costs are presented as amounts are questioned at Condition 1.

<u>Date</u>	<u>Subrecipients</u>	<u>Ref 2</u>	<u>Amount</u>
12/23/22	Chuuk State	2nd drawdown (ds)-23	\$ 13,447
12/14/22	Pohnpei State	1st ds-23	4,701
07/24/23	Kosrae State	10th ds-23	5,682
08/15/23	Pohnpei State	4th ds-23	38,548
07/17/23	Yap State	8th ds-23	3,396
07/06/23	Kosrae State	8th ds-23	4,259

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-016, continued**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.959 Block Grants for Prevention and Treatment of Substance Abuse  
Federal Award No.: 1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002;  
1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002;  
6B08TI083457-01M003; and 6B08TI083457-01M004  
Area: Subrecipient Monitoring  
Questioned Costs: \$639,897

Condition, continued:

<u>Date</u>	<u>Subrecipients</u>	<u>Ref 2</u>	<u>Amount</u>
06/05/23	Yap State	6th ds-23	\$ 3,962
07/12/23	Chuuk State	8th ds-23	24,755
01/20/23	Yap State	2nd ds-23	8,188
12/02/22	Kosrae State	2nd ds-23	2,873
09/27/23	Kosrae State	15th ds-23	4,186
06/27/23	Chuuk State	7th ds-23	<u>11,064</u>
			<u>\$125,061</u>

Cause:

The FSM National Government does not have approved/adopted written subrecipient monitoring policies and procedures. In addition, the FSM National Government failed to enforce compliance with subrecipient monitoring requirements and lacks monitoring controls over the following:

1. Risk assessments and monitoring activities of a subrecipient to evaluate each subrecipient's risk of noncompliance and to ensure that each subrecipient complies with Federal statutes, regulations, and the terms and conditions of the subaward; and
2. Adequate documentation and systematic filing of relevant documentation supporting program costs.

Effect:

The FSM National Government is in noncompliance with applicable subrecipient monitoring requirements and questioned costs of \$639,897 result for Condition 1.

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Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-016, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.959 Block Grants for Prevention and Treatment of Substance Abuse
Federal Award No.:	1B08TI084652-01; 6B08TI084652-01M001; 6B08TI084652-01M002; 1B08TI083457-01; 6B08TI083457-01M001; 6B08TI083457-01M002; 6B08TI083457-01M003; and 6B08TI083457-01M004
Area:	Subrecipient Monitoring
Questioned Costs:	\$639,897

Recommendation:

We recommend the FSM National Government establish an approved/adopted written subrecipient monitoring policies and procedures. In addition, the FSM National Government should implement monitoring internal control procedures over the following:

1. Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of 45 CFR § 75.352;
2. Monitoring activities of a subrecipient to ensure that the subrecipient complies with Federal statutes, regulations, and the terms and conditions of the subaward;
3. Verification that subrecipients are audited as required by subpart F; and
4. Adequate documentation and systematic filing of relevant documentation to support program costs.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

The audit conducted is at the FSM National Government level and not at the subrecipients level. Accordingly, as the pass-through entity, the FSM National Government must maintain adequate documentation of the required monitoring activities of its subrecipient. Further, in accordance with 2 CFR 200.1, questioned cost means an amount, expended or received from a Federal award, that in the auditor's judgment: (i) is noncompliant or suspected noncompliant with Federal statutes, regulations, or the terms and conditions of the Federal award; (ii) at the time of the audit, lacked adequate documentation to support compliance; or (iii) appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances. Accordingly, as the FSM National Government was in noncompliance with the applicable subrecipient monitoring requirements and lacked adequate documentation to support compliance, questioned costs are retained.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-017**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Equipment and Real Property Management  
Questioned Costs: Unable to determine

Criteria:

In accordance with 2 CFR Section 200.313(d)(1), property records must be maintained that include a description of the property, a serial number or another identification number, the source of funding for the property (including the Federal award identification number), the title holder, the acquisition date, the cost of the property, the percentage of the Federal agency contribution towards the original purchase, the location, use and condition of the property, and any disposition data including the date of disposal and sale price of the property.

Condition:

1. FSMNG was unable to provide a comprehensive listing of its capital assets related to the federal program, nor could it supply the schedule of disposals for the year. As a result, no questioned costs are identified, as we are not able to quantify the extent of noncompliance.
2. FSMNG did not perform the required property and equipment inventory count for the past two fiscal years.

Cause:

FSMNG lacks controls to comply with property and equipment requirements and adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records.

Effect:

The FSM National Government is in noncompliance with applicable equipment and real property management requirements. No questioned cost because we are unable to quantify the extent of noncompliance related to the program's capital assets.

Recommendation:

- 1) Management should adhere to the requirement of 2 CFR Section 200.313(d)(1) to comply with the requirements for Equipment and Real Property Management; and
- 2) Management should establish and implement effective monitoring controls to ensure that property records are accurately maintained. Additionally, it is essential to verify that the required physical inventory of equipment has been conducted.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-017, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Equipment and Real Property Management  
Questioned Costs: Unable to determine

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

In our recent meeting, we clarified that the schedule for additions provided specifically for ALN 93.323 was not reconciled with the total general ledger expenditure, we did not mention the entire Fixed Asset Register (FAR). Additionally, it is important to note that the required physical inventory of equipment was not performed, which is why reconciled schedules are lacking.

To address these issues, management should establish and implement effective monitoring controls to ensure that property records are accurately maintained. This will help enhance compliance and improve asset management practices moving forward.

We appreciate FSM NG's commitment to strengthening internal controls and look forward to continued collaboration to resolve these matters.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-018**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$394,309

Criteria:

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

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

Condition:

For eight (or 100%) of eight purchase orders or contracts tested, totaling \$394,309 of a total population of \$2,012,233, FSMNG did not perform verification whether the individual or contractor was suspended or debarred prior to entering into a covered transaction.

Ref 1	Amount
C230153	\$ 76,500
N220486	42,697
N230027	37,068
L230034	48,290
L230163	48,000
N230220	77,956
N230241	35,008
L230383	<u>28,790</u>
Total	\$ <u>394,309</u>

Cause:

FSMNG lacks policies and procedures for verification of persons or contractors not suspended, debarred, or otherwise excluded prior to entering into a covered transaction.

Effect:

FSMNG is in noncompliance with applicable procurement and suspension and debarment requirements. Questioned costs of \$394,309 is reported.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-018, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$394,309

Recommendation:

FSMNG should implement formal procedures to document written evidence that, prior to entering into a covered transaction, a search had been performed to ensure the potential individual or contractor is not suspended, debarred, or otherwise excluded.

Views of Responsible Officials:

Management agrees with the finding but does not agree with the associated questioned costs. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

Questioned costs remain as the FSM National Government did not perform suspension and debarment procedures prior to entering into a covered transaction with a person or company.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-019**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Reporting  
Questioned Costs: \$-0-

Criteria:

In accordance with applicable reporting requirements, FSM National Government is required to submit an annual Federal Financial Report (SF-425) that are accurately presented, comparable and reconcilable.

Condition:

Of ten SF-425 reports tested, the following were noted:

1. For two (or 20%), the SF-425 reports were not provided.

<u>Document Number</u>	Reporting Period <u>End Date</u>
19NU50CK000513	7/31/2023
19NU50CK000513AMD2C6	7/31/2023

2. Of ten SF-425 reports tested, for ten (or 100%), the underlying accounting records supporting the expenditure reported in the SF-425 reports were not provided:

<u>Document Number</u>	Reporting Period <u>End Date</u>	<u>Federal Share of Expenditures</u>
19NU50CK000513	7/31/2023	Unknown
19NU50CK000513AMD2C6	7/31/2023	Unknown
19NU50CK000513C3	7/31/2023	\$ 352,438
19NU50CK000513C4	7/31/2023	4,162
19NU50CK000513DOJC6	7/31/2023	19,413
19NU50CK000513PHL2C6	7/31/2023	24,844

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Schedule of Findings and Questioned Costs, continued

**Finding No. 2023-019, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Reporting  
Questioned Costs: \$-0-

Condition, continued:

19NU50CK000513SCHLC6	7/31/2023	2,362,250
6NU50CK000513SHRPC6	7/31/2023	3,690
19NU50CK000513EDEXC5	7/31/2023	1,612,275
19NU50CK000513NLTCC6	7/31/2023	30,000

Cause:

FSM National Government did not effectively monitor compliance with applicable reporting requirements to ensure all required reports are prepared.

In addition, FSM National Government lacks adequate documentation and systematic filing of underlying accounting documents for reporting requirements.

Effect:

FSM National Government is in noncompliance with the applicable SF-425 reporting requirements. No questioned cost because we are unable to quantify the extent of noncompliance related to the submission of form SF-425.

Recommendation:

FSM National Government should improve its file maintenance system to help ensure documents over compliance requirements can be easily retrieved.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

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Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-019, continued**

Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Diseases  
Federal Award No.: NU50CK000513  
Area: Reporting  
Questioned Costs: \$-0-

Auditor Response:

Our request for tagging the documents is for those underlying accounting records that are part of the bulk files provided. Our engagement letter included a paragraph saying our scheduled performance is dependent on client providing a reasonable level of assistance. It is not the auditor's responsibility to go through bulk files and search for underlying accounting records, but rather, it is the responsibility of the FSMNG to provide the specific underlying accounting records supporting program costs. Further, during our audit finding resolution meeting on 12/09/25, the FSMNG management acknowledged that the cited missing documents were in fact not made available during our audit fieldwork.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-020**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Disease  
Federal Award No.: NU50CK000513  
Area: Cash Management  
Questioned Costs: \$236,426

Criteria:

In accordance with 2 CFR section 200.305(b)(3), reimbursement is preferred when the requirements in paragraph (b) cannot be met, when the Federal agency sets a specific condition per section 200.208. When the reimbursement method is used, the Federal agency or pass-through entity must make payment within 30 calendar days after receipt of the payment request unless the Federal agency or pass-through entity reasonably believes the request to be improper.

Condition:

Of forty transactions tested, aggregating \$236,426 of a total population of \$3,758,311, the following were noted:

For forty (or 100%) samples tested, drawdown reports were not provided to substantiate that expenditures were incurred prior to the date of the reimbursement request.

<u>Date</u>	<u>TR Number</u>	<u>Amount and Questioned Costs</u>
03/24/2023	419089	\$ 57
07/11/2023	431210	40
07/28/2023	433354	280
10/24/2022	403143	1,526
10/05/2022	401267	87
09/20/2023	439218	1,443
01/06/2023	410382	480
11/02/2022	404263	70
08/09/2023	434791	76,325
01/20/2023	411964	630
02/21/2023	415317	18,849
12/27/2022	409580	2,199
02/09/2023	414067	585
04/13/2023	421315	656
05/31/2023	426489	3,198

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

**Finding No.** **2023-020, continued**  
Federal Agency: U.S. Department of Health and Human Services  
AL Program: 93.323 Epidemiology and Laboratory Capacity for Infectious Disease  
Federal Award No.: NU50CK000513  
Area: Cash Management  
Questioned Costs: \$236,426

Condition, continued:

<u>Date</u>	<u>TR Number</u>	<u>Amount and Questioned Costs</u>
06/28/2023	429595	2,325
04/21/2023	422320	396
05/31/2023	426489	3,198
06/28/2023	429595	2,325
04/21/2023	422320	396
06/15/2023	428283	117,146
10/10/2022	401692	107
10/10/2022	401692	18
10/10/2022	401692	43
10/11/2022	401852	40
10/11/2022	401852	21
10/11/2022	401856	960
10/24/2022	403142	98
10/25/2022	403265	729
10/25/2022	403268	633
11/08/2022	404871	40
11/08/2022	404853	22
11/08/2022	404853	98
11/21/2022	406198	427
11/22/2022	406305	35
11/22/2022	406302	587
11/22/2022	406305	52
12/05/2022	407460	58
12/06/2022	407635	58
01/03/2023	409820	<u>189</u> <u>\$ 236,426</u>

Cause:

The FSM National Government lacked monitoring controls over adequate documentation and systematic filing of relevant documents supporting program costs.

Federated States of Micronesia  
National Government

Schedule of Findings and Questioned Costs, continued

<b>Finding No.</b>	<b>2023-020, continued</b>
Federal Agency:	U.S. Department of Health and Human Services
AL Program:	93.323 Epidemiology and Laboratory Capacity for Infectious Disease
Federal Award No.:	NU50CK000513
Area:	Cash Management
Questioned Costs:	\$236,426

Effect:

The FSM National Government appears to be in noncompliance with applicable cash management requirements and questioned cost of \$236,426 is reported.

Recommendation:

The FSM National Government should strengthen and enforce compliance with the applicable cash management requirements and establish and implement systematic filing of relevant documentation supporting program costs for easy retrieval.

Views of Responsible Officials:

Management disagrees with the finding. Refer to FSM NG's Views of Responsible Officials for their detailed response.

Auditor Response:

The finding remains as we could not locate nor find the required documentation within the files provided.



Secretary of Finance  
&  
Administration

**GOVERNMENT OF THE  
FEDERATED STATES OF MICRONESIA**  
**Department of Finance and Administration**

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

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2023-001	<ul style="list-style-type: none"><li>Perform and review monthly reconciliations of subsidiary ledgers to the general ledger for all cash accounts and key ledger accounts.</li><li>Conduct annual reconciliations for other accounts to ensure accuracy and completeness of recorded balances.</li><li>Systematically resolve historical discrepancies through phased approach.</li></ul>	9/30/2026	<a href="#">Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm</a>
2023-002	<ul style="list-style-type: none"><li>Formally instruct Foreign Grants Management staff and implementing departments to promptly notify the Department of Finance and Administration (DOFA) of any direct payments by grantors to vendors.</li><li>Require timely recording of such transactions in the National Government ledgers.</li><li>Maintain centralized copies of supporting documentation for direct payments to ensure complete and accurate financial reporting.</li></ul>	9/30/2026	<a href="#">Ms. Senny Phillip, Asst. Secretary of Investment &amp; International Financing Email: senny.phillip@gov.fm</a>
2023-003	<ul style="list-style-type: none"><li>Brief staff in Budget &amp; Economic Management and Foreign Grants Management on accurate recording, classification, journaling, and recognition of non-US grants (reimbursement, advance, or other bases).</li><li>Finalize and disseminate comprehensive workflow across Budget, Treasury, and Investment divisions for standardized capture, recording, and reconciliation.</li><li>Establish and maintain dedicated schedule for deferred revenue ledger, updated with ledger movements, drawdowns, and reimbursements.</li></ul>	9/30/2026	<a href="#">Ms. Molina Seneres, FSMNG Chief of Budget &amp; Ms. Senny Phillip, Asst. Secretary of Investment &amp; International Financing Email: molina.seneres@dofa.gov.fm</a>

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2023-004	<ul style="list-style-type: none"> <li>Process EY's proposed reclassification journal entry for FY2023 adjustments.</li> <li>Obtain formal guidance from legal counsel and U.S. Department of the Interior (OIA) on applicability of GASB Codification Section N50.118 to Compact-funded pass-through grants, given their governance under the Compact of Free Association and Fiscal Procedures Agreement rather than standard U.S. domestic grant requirements.</li> <li>Implement guidance received for accurate classification and reporting starting in FY2024.</li> </ul>	9/30/2026	<a href="#">Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm</a>
2023-005	<ul style="list-style-type: none"> <li>Hire additional staff dedicated to monthly monitoring and follow-up on open travel advance and receivable accounts.</li> <li>Conduct monthly reviews of outstanding travel advances (per diem portion) to ensure timely submission of vouchers and liquidation.</li> <li>Review and update travel regulations to impose stricter penalties for non-compliance, including potential restrictions on future travel.</li> </ul>	9/30/2026	<a href="#">Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm</a>
2023-006 to 2023-011	<ul style="list-style-type: none"> <li>Disagree with adverse compliance opinion and findings, as auditors applied Uniform Guidance (2 CFR Part 200) requirements, which are inapplicable to Compact sector grants (ALN 15.875) governed exclusively by the Compact of Free Association, as amended, and the Fiscal Procedures Agreement (FPA).</li> <li>Request U.S. Department of the Interior, Office of Insular Affairs, to disregard these findings for grant administration and questioned costs resolution, as they do not reflect noncompliance with Compact/FPA standards.</li> <li>Maintain commitment to accountability under Compact/FPA standards.</li> </ul>	9/30/2026	<a href="#">Ms. Christina Elnei, Asst. Secretary of National Treasury (primary contact) Email: christina.elnei@dofa.gov.fm</a>
2023-012	<ul style="list-style-type: none"> <li>Enhance documentation management and quarterly monitoring of performance/reporting requirements through staff coordination.</li> <li>Note: Re-review of files located nearly 100% of cited documents; underlying support was available. Tagging is not mandatory; future audits to apply professional skepticism through deeper file reviews.</li> </ul>	9/30/2026	Mr. Kemsky Sigrah, Manager, Office of Compact Management Email: Kemskys22@gmail.com & Ms. Senny Phillip, Asst. Secretary Email: senny.phillip@gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2023-013	<ul style="list-style-type: none"> <li>Review all files for completeness before submission to auditors starting FY2024 audit onward.</li> <li>Enhance file organization for deeper reviews and systematic access to drawdown reports, invoices, and payments.</li> <li>Note: Re-review located &gt;90% of cited "missing" documents; underlying support was available. Management believed all requested files were provided.</li> </ul>	9/30/2026	<a href="#">Ms. Christina Elnei, Asst. Secretary of National Treasury Email: christina.elnei@dofa.gov.fm</a>
2023-014	<ul style="list-style-type: none"> <li>Strengthen monitoring controls to verify period of performance, including obligation/incurgence and liquidation timelines.</li> <li>Collaborate with grantors to clarify and document allowable liquidation periods for drawdowns.</li> <li>Implement systematic filing of supporting documents for easy retrieval.</li> <li>Note: Drawdowns conducted in close collaboration with grantors, confirming compliance with agreed terms.</li> </ul>	9/30/2026	<a href="#">Ms. Senny Phillip, Asst. Secretary of Investment &amp; International Financing Email: senny.phillip@gov.fm</a>
2023-015	<ul style="list-style-type: none"> <li>Monitor submission of SF-425 reports quarterly via staff meetings to ensure timely and accurate filing.</li> <li>Enhance file maintenance for deeper reviews and accessibility.</li> <li>Note: Re-review located 100% of cited "missing" reports; underlying support was available. Tagging is not mandatory.</li> </ul>	9/30/2026	<a href="#">Ms. Senny Phillip, Asst. Secretary of Investment &amp; International Financing Email: senny.phillip@gov.fm</a>
2023-016	<ul style="list-style-type: none"> <li>Implement procedural reviews and standardized templates to enhance subrecipient oversight, monitoring, and documentation.</li> <li>Note: Questioned costs unwarranted as no tests conducted on state-level expenditures.</li> </ul>	9/30/2026	<a href="#">Mr. Marcus Samo, Secretary of FSMNG Health Email: marcus.samu@fsmhealth.gov.fm</a>
2023-017	<ul style="list-style-type: none"> <li>Maintain tailored Fixed Asset Register (FAR) for applicable programs.</li> <li>Deploy staff to conduct physical asset counts and quarterly monitoring for compliance.</li> <li>Note: Tailored FAR was provided during audit; full national FAR outside scope.</li> </ul>	9/30/2026	<a href="#">Mr. Marcus Samo, Secretary of FSMNG Health Email: marcus.samu@fsmhealth.gov.fm</a>
2023-018	<ul style="list-style-type: none"> <li>Review procurement processes and require implementing agencies to verify suspension and debarment status via SAM.gov, with documentation for all transactions.</li> <li>Implement formal procedures (e.g., printed checks, certifications) prior to covered transactions. · Note: Questioned costs</li> </ul>	9/30/2026	<a href="#">Mr. Marcus Samo, Secretary of FSMNG Health Email: marcus.samu@fsmhealth.gov.fm</a>

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	unwarranted as no evidence of suspended/debarred vendors or noncompliance established.		
<b>2023-019</b>	<ul style="list-style-type: none"> <li>Train compliance officers on reporting processes and monitor submissions quarterly.</li> <li>Improve file maintenance system with deeper reviews for easy retrieval.</li> <li>Note: Re-review located all cited "missing" reports; underlying support was available. Tagging is not mandatory.</li> </ul>	9/30/2026	<a href="#"><u>Ms. Christina Elnei, Asst.</u></a> <a href="#"><u>Secretary of National Treasury Email:</u></a> <a href="mailto:christina.elnei@dofa.gov.fm"><u>christina.elnei@dofa.gov.fm</u></a>
<b>2023-020</b>	<ul style="list-style-type: none"> <li>Review all files for completeness before submission to auditors starting FY2024 onward.</li> <li>Enhance systematic filing and accessibility of drawdown reports and supporting documentation.</li> <li>Note: Re-review located &gt;90% of cited "missing" documents; underlying support was available. Tagging is not mandatory.</li> </ul>	12/15/25 (SPAF submitted) / Ongoing 09/30/26	<a href="#"><u>Ms. Christina Elnei, Asst.</u></a> <a href="#"><u>Secretary of National Treasury Email:</u></a> <a href="mailto:christina.elnei@dofa.gov.fm"><u>christina.elnei@dofa.gov.fm</u></a>



Secretary of Finance  
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**GOVERNMENT OF THE  
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**Views of Responsible Officials**

**Finding No.: 2023-001- TIMELY AND ACCURATE RECONCILIATIONS**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-001 regarding timely and accurate reconciliations, as identified in the Report of Independent Auditors on Internal Control Over Financial Reporting.

This finding relates to a legacy audit issue from prior years, where reconciliations were not performed on a timely basis. FSM NG has addressed this by implementing monthly reconciliation procedures since the completion of the FY2022 audit in FY2024. These reconciliations are now conducted monthly for all cash accounts and ledger accounts, ensuring ongoing accuracy and completeness of recorded balances.

Our current reconciliation team is actively working to catch up on prior periods, taking each year at a time to systematically resolve historical discrepancies. This phased approach ensures that data is prepared and ready for the next audit cycle, allowing for effective collaboration with auditors.

FSM NG notes that this finding was expected given the legacy nature of the audit, as the FY2022 audit concluded in FY2024 and the FY2023 audit is finalizing in FY2025. However, measures are already in place to ensure timely monthly reconciliations for key accounts, with overall yearly reconciliations for other accounts to maintain correct balances. These processes will continue throughout the current financial year to further strengthen internal controls.

FSM NG remains committed to enhancing financial management practices and will continue to work closely with the auditors and the Department of Finance and Administration to support compliance and accurate reporting.

**Finding No.: 2023-002- NON-CASH TRANSACTIONS-CONSTRUCTION IN PROGRESS**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-002 regarding the untimely booking of direct payments, as identified in the Report of Independent Auditors on Internal Control Over Financial Reporting.

This finding relates to an Asian Development Bank (ADB) project operated on a reimbursement basis. Given the significant volume of payments involved, it was practical and sensible to make direct payments to suppliers without drawing from the General operational funds in the Department of Finance and Administration (DOFA). This approach preserved operational liquidity while ensuring project efficiency.

Given the nature of these direct payments, which are handled by the implementing department directly with the donor and out to the supplier, the Finance department was left unaware and was not informed of the transactions in a timely manner. The specific project was audited by Ernst &

Young LLP (EY), and FSM NG was surprised that, despite EY's review of the ledgers, the booking in the National Government (NG) ledgers was not confirmed until the very last minute. This issue arose when the Accounts officer submitted the information late in 2025 for recording.

FSM NG has noted this matter and has issued communications to all relevant departments to ensure that direct payments are booked in a timely manner going forward. These communications also emphasize that all direct payment notifications must be provided to Finance, as they involve the Budget section in updating drawdowns and disbursements. This finding for FY2023 has been addressed internally as part of this legacy audit process.

FSM NG remains committed to strengthening internal controls and financial reporting practices and will continue to collaborate with auditors to prevent similar issues in future periods.

#### **Finding No.:2023-003- UNEARNED REVENUE – GRANT ASSISTANCE FUND**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-003 regarding the correct journaling and booking of non-US grants that were initially recorded as deferred revenue, as identified in the Report of Independent Auditors on Internal Control Over Financial Reporting.

The main issue here is the complexity involved in tracking and properly accounting for these non-US grants, which require careful consideration of factors such as reimbursement versus advance basis and other technical aspects to ensure accurate recognition in the financial statements.

This finding has been addressed through collaboration with the Department of Finance and Administration (DOFA), involving multiple divisions including Budget, Treasury, and Investment. We have finalized a comprehensive process workflow designed to effectively capture and record these transactions, regardless of whether the non-US grant is on a reimbursement basis, advanced, or involves other technical factors.

Additionally, a proper schedule has been established for the deferred revenue ledger. This schedule will be updated during any movements in the ledger to ensure ongoing reconciliation with drawdowns and reimbursements, thereby maintaining accurate balances and supporting timely financial reporting.

FSM NG remains committed to strengthening internal controls and financial management practices and will continue to monitor and refine these processes in collaboration with auditors to prevent similar issues in future periods.

#### **Finding No: 2023-004- DETERMINING FUND TYPES FOR REPORTING PASS-THROUGH GRANTS**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-004 regarding the treatment of pass-through grants, as identified in the Report of Independent Auditors on Internal Control Over Financial Reporting.

In FY2023, FSM NG is adhering to the recommendations suggested by Ernst & Young LLP (EY) and is awaiting the reclassification journal from EY to process the necessary adjustments. At the same time, we are seeking proper guidance from our legal counsel in Washington, D.C., and the U.S. Department of the Interior, Office of Insular Affairs (OIA), on the appropriate accounting

treatment of these pass-through grants in the books of FSM NG. We anticipate receiving a response in time for the FY2024 audits.

FSM NG remains committed to enhancing financial reporting accuracy and internal controls and will continue to collaborate with auditors and relevant stakeholders to resolve this matter effectively.

### **Finding No.: 2023-005-TRAVEL ADVANCES**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-005 regarding open travel advances, as identified in the Report of Independent Auditors on Internal Control Over Financial Reporting.

To clarify, the advances in question pertain only to the per diem portion and not to the travel costs themselves.

FSM NG is facing challenges in ensuring travelers submit vouchers upon their return, as the current regulations do not impose strict enough penalties to enforce compliance. A review of the regulations is underway, including discussions on implementing stricter consequences such as blacklisting individuals from future travel, though these measures have not yet been finalized. Once in place, these enhancements will surely make a significant impact in clearing open travel advances in the future.

FSM NG remains committed to improving internal controls and financial management practices and will continue to collaborate with auditors to address and prevent such issues.

### **Finding Nos. 2023-006 through 2023-011 (ALN 15.875 - Economic, Social, and Political Development of the Territories)**

The Federated States of Micronesia respectfully disagrees with the adverse opinion on compliance for ALN 15.875 and with the associated findings 2023-007 through 2023-011.

We have carefully reviewed the transactions and programs selected and cited by the auditors in these findings. All expenditures tested and reported under ALN 15.875 for the fiscal year ended September 30, 2023, are Compact sector grants funded pursuant to the Compact of Free Association, as amended, and administered under the Fiscal Procedures Agreement (FPA) in effect during the audit period (the 2004 FPA, as the 2023 Amended FPA became effective after the fiscal year).

These grants are not ordinary domestic U.S. federal awards subject to 2 CFR Part 200 (Uniform Guidance). Rather, they are international assistance governed exclusively by the Compact of Free Association and the FPA. The Compact (Section 221) and the FPA establish the specific requirements for allowable uses, procurement, equipment management, subrecipient oversight, reporting, and performance reviews. The FPA does not incorporate or reference 2 CFR Part 200 as the governing compliance standard for these grants.

Accordingly, applying the full requirements of 2 CFR Part 200 and the OMB Compliance Supplement was not appropriate for the Compact sector grants that comprise the entirety of ALN 15.875 expenditures in FY2023. The resulting findings therefore do not reflect actual noncompliance with the governing law of the grant.

The FSM also notes the significant challenge created by the audit's use of the incorrect legal framework. The auditors evaluated Compact-funded programs against Uniform Guidance requirements that do not legally apply, resulting in conclusions that cannot meaningfully be addressed or remediated within the Compact/FPA compliance model. As such, several findings are inherently unresolvable as written because they stem from standards that are not part of the Compact's governing authority.

Given the agreement that no additional audit testing will be conducted on ALN 15.875, the FSM submits this consolidated response to findings 2023-007 through 2023-011. Because the compliance testing was performed under a non-applicable legal framework, the FSM cannot provide substantive, corrective responses to findings based on standards that do not govern Compact sector grants. The conclusions reached do not represent noncompliance with the Compact or the FPA and therefore cannot be addressed in a manner that would satisfy Uniform Guidance criteria.

This position is consistent with the treatment of ALN 15.875 in few of the other North Pacific Government.

Accordingly, the FSM respectfully requests that the U.S. Department of the Interior, Office of Insular Affairs, disregard these findings in their entirety for purposes of grant administration and the resolution of questioned costs, as they do not indicate violations of Compact or FPA requirements.

The FSM remains fully committed to the accountability and transparency obligations set forth in the Compact and the FPA and will continue to work closely with the grantor to ensure proper stewardship of Compact funds.

#### **Finding No. 2023-012-ALLOWABLE COSTS/COSTS PRINCIPLES**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-012 regarding missing supporting documentation for certain expenditures, as detailed in the Schedule of Findings and Questioned Costs.

Upon notification of this finding, FSM NG promptly re-examined the provided files. Through a thorough review, our staff successfully located more than 90% of the cited missing documents. This process continued until it was mutually agreed with Ernst & Young LLP (EY) that no further testing was required, at which point our staff were instructed to discontinue the effort.

This outcome demonstrates that the vast majority of the cited documents were available within the files originally provided to the auditors. Had the review been permitted to continue, we are confident that the remaining documents would also have been identified. Consequently, we question the validity of the finding that these documents were missing, as the issue appears to have arisen primarily from the auditors' reliance on electronic tagging rather than a comprehensive manual examination of the file contents.

During discussions with EY, we expressed concern regarding their expectation that all sampled items must be tagged by FSM NG. While we tagged the majority of items, resource constraints within the Treasury Division—coupled with ongoing operational responsibilities—prevented tagging of every sample. We emphasize that the absence of tagging does not indicate that

documents are missing or unavailable. Tagging is an administrative convenience, not a regulatory or compliance requirement under applicable standards. Professional judgment and skepticism should account for these practical limitations, particularly when citing minor amounts (e.g., \$45) as unsupported solely on the basis of missing tags.

With respect to the contracts referenced in the finding, we clarified to EY that original contracts are, by law, maintained in the custody of the respective implementing agencies. Copies were provided to the auditors, yet field work preference is for original documents. Given that the audit scope covers FSM NG as a whole (encompassing all departments and agencies), a complete examination would necessitate visits to those implementing agencies to review original records. However, audit procedures were largely centralized at the Department of Finance and Administration (DOFA), without extending fieldwork to other locations. This limitation in audit approach should be considered when assessing the comprehensiveness of the finding. A large, questioned cost item in the FY2022 audit was resolved when we were able to provide the pertinent original documentations relating to bidding from another department to the grantor.

FSM NG remains fully committed to strengthening documentation practices and internal controls. We do not agree with the finding per the justification above. We will continue to allocate resources as feasible, enhance inter-departmental coordination, and work collaboratively with auditors to prevent recurrence of similar issues in future audits.

#### **Finding No. 2023-013-CASH MANAGEMENT**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-013 regarding cash management, as detailed in the Schedule of Findings and Questioned Costs.

Similar to Finding 2023-012—where the Treasury team conducted a thorough review of the provided files and successfully located more than 90% of the cited missing documents before further efforts were halted—we are confident that, had a similar comprehensive review been permitted for this cash management finding, all of the cited missing documents would have been identified, as they are surely available within the files originally provided to the auditors.

This consistent experience strongly calls into question the validity of the cited list of missing documents, as the issues appear to stem primarily from the auditors' reliance on electronic tagging methods rather than a full manual examination of the file contents.

These matters involve legacy processes with multiple layers of internal checks and approvals. As a government entity, FSM NG is unable to process any transaction without proper supporting documentation, which remains a fundamental compliance requirement.

During discussions with Ernst & Young LLP (EY), we expressed concerns about their heavy reliance on tagging, including the apparent assumption that complete tagging by FSM NG is mandatory. While the majority of items were tagged, resource limitations and ongoing operational demands prevented tagging of every sample. We emphasize that the absence of a tag does not indicate that supporting documentation is missing or unavailable—tagging is an administrative tool for convenience, not a regulatory or compliance requirement under applicable standards. Professional skepticism should take into account these practical constraints and the broader control environment when assessing documentation availability.

FSM NG disagrees with the characterization that supporting documentation is missing and, accordingly, believes the associated questioned costs should be withdrawn, as the documentation is available within the files provided. FSM NG remains committed to strengthening documentation practices and internal controls and will continue to allocate resources as feasible, enhance filing and retrieval processes, improve inter-departmental coordination, and work collaboratively with auditors to prevent recurrence of similar issues in future audits.

#### **Finding No.-2023-014-PERIOD OF PERFORMANCE**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-014 related to the period of performance for grant drawdowns, as reported in the Schedule of Findings and Questioned Costs.

In the instances cited, drawdowns occurring after the stated grant end date were made based on a mutual understanding with the respective grantors that, where funds remain available, such drawdowns are allowable during the applicable liquidation period. These drawdowns are executed in close coordination with grantors to ensure alignment with the agreed grant terms and conditions.

FSM NG is of the view that the auditors did not fully consider or apply the liquidation period provisions applicable to these grants. All drawdowns were undertaken in collaboration with the grantors and with the intent to remain compliant with established agreements.

FSM NG remains fully committed to compliance with all grant requirements and to strengthening internal controls and documentation practices. While a limited number of grants continue to incur expenditures beyond the award period, such expenditures are typically undertaken with the knowledge and concurrence of the respective grantors. Going forward, FSM NG will enhance coordination with grantors to obtain and formally document explicit approvals in these circumstances. FSM NG will also continue to work collaboratively with auditors and grantors to clarify requirements and reduce the risk of similar issues arising in future periods.

#### **Finding No. 2023-015-REPORTING**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-015 regarding missing SF-425 reports, as identified in the Schedule of Findings and Questioned Costs.

Similar to Findings 2023-012 and 2023-013—where the Treasury team conducted a thorough review of the provided files and successfully located more than 90% of the cited missing documents before further efforts were halted—we are confident that, had a similar comprehensive review been permitted for this finding on SF-425 reports, all of the cited missing reports would have been identified, as they are surely available within the files originally provided to the auditors. This consistent experience strongly calls into question the validity of the cited list of missing SF-425 reports, as the issues appear to stem primarily from the auditors' reliance on electronic tagging methods rather than a full manual examination of the file contents.

These are legacy processes and procedures involving multiple layers of checks along the way. As a government entity, FSM NG cannot process any transactions without proper supporting documentation, which is a fundamental requirement.

During our meeting with Ernst & Young LLP (EY), we raised concerns about their reliance on tagging, assuming it is mandatory for FSM NG. While we tagged most items, tagging is not a legal or mandatory requirement under applicable standards. EY, as auditors, should apply professional skepticism in making such judgments, considering the overall process and context rather than over-relying on tagging.

FSM NG disagrees with the finding that SF-425 reports are missing, as our prior reviews of similar documentation issues consistently demonstrate that such items are available within the provided files when thoroughly examined.

#### **Finding No. 2023-016-SUBRECIPIENT MONITORING**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-016 regarding subrecipient monitoring as identified in the Schedule of Findings and Questioned Costs. We agree with the finding in relation to the need for improved monitoring procedures and agreements.

FSM NG is committed to addressing these deficiencies and has already implemented enhanced review procedures to strengthen oversight and compliance. We will develop and implement standardized templates for subrecipient monitoring, risk assessments, and documentation to ensure consistency and completeness going forward.

FSM NG is committed to improving these findings and has already implemented reviews in our procedures to enhance oversight and compliance. We will establish standardized templates to address the identified issues, ensuring consistent monitoring and documentation going forward.

In regards to the questioned costs, we feel that since no tests were made by Ernst & Young LLP (EY) on the costs incurred at the state level, it does not warrant the costs to be questionable.

FSM NG disagrees with the questioned costs, as no substantive testing was performed by Ernst & Young LLP (EY) on state (subrecipient) expenditures, and the finding relates solely to procedural documentation at the national level rather than to any unallowable or unsupported costs. FSM NG remains committed to strengthening internal controls, improving coordination, and working collaboratively with auditors to prevent recurrence in future audits.

#### **Finding No. 2023-017-EQUIPMENT & REAL PROPERTY MANAGEMENT**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-017 regarding equipment and real property management, as identified in the Schedule of Findings and Questioned Costs.

During the audits, FSM NG established a tailored Fixed Asset Register (FAR) specifically for the program to address the relevant requirements. However, the auditors insisted on obtaining the full FAR, including assets not related to the program, which we advised was outside of their scope. Despite this, they continued to insist and did not accept the tailored FAR we provided.

In our recent meeting, the auditors claimed the list was incomplete. However, we have revisited the emails sent to them and confirmed that the provided list is complete based on the program's scope. We assume they were referring to the full FAR for the Federated States rather than the tailored one we specifically prepared for their program.

FSM NG acknowledges the need for an updated asset count and has initiated plans to deploy staff to conduct physical asset counts. As this relates to a legacy audit period, this initiative represents a recent effort to strengthen asset management practices. However, FSM NG disagrees with the assertion that a Fixed Asset Register (FAR) was not provided. FSM NG remains committed to enhancing internal controls and compliance practices and will continue to work collaboratively with auditors to prevent similar issues in future periods.

### **Finding No. 2023-018-PROCUREENT & SUSPENSION & DEBARMENT**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-018 regarding gaps in ensuring checks for suspension and debarment, as identified in the Schedule of Findings and Questioned Costs.

FSM NG recognizes gaps in verifying the suspension and debarment status via the relevant website (sam.gov). We have reviewed our current processes and have advised implementing agencies to take note of this requirement and ensure that related documentation accompanies all transactions. Our compliance in Treasury is also been briefed on this to keep note and check that it is done.

Regarding the questioned costs, FSM NG argues that there is no confirmation by Ernst & Young LLP (EY) in their report to establish that those transactions really meet the meaning of questioned costs.

FSM NG agrees with the finding related to procurement practices but does not concur with the associated questioned costs. FSM NG remains fully committed to strengthening procurement practices and internal controls and will continue to work collaboratively with auditors to address the issues identified, clarify processes where necessary, and prevent recurrence in future periods.

### **Finding No. -2023-019-REPORTING**

The Federated States of Micronesia National Government (FSM NG) acknowledges Finding 2023-019 regarding reporting, as identified in the Schedule of Findings and Questioned Costs.

Similar to Findings 2023-012 and 2023-013—where the Treasury team conducted a thorough review of the provided files and successfully located more than 90% of the cited missing documents before further efforts were halted—we are confident that, had a similar comprehensive review been permitted for this finding on SF-425 reports, all of the cited missing reports would have been identified, as they are surely available within the files originally provided to the auditors. This consistent experience strongly calls into question the validity of the cited list of missing SF-425 reports, as the issues appear to stem primarily from the auditors' reliance on electronic tagging methods rather than a full manual examination of the file contents.

These are legacy processes and procedures involving multiple layers of checks along the way. As a government entity, FSM NG cannot process any transactions without proper supporting documentation, which is a fundamental requirement.

During our meeting with Ernst & Young LLP (EY), we raised concerns about their reliance on tagging, assuming it is mandatory for FSM NG. While we tagged most items, tagging is not a legal or mandatory requirement under applicable standards. EY, as auditors, should apply professional skepticism in making such judgments, considering the overall process and context rather than over-relying on tagging.

FSM NG disagrees with the finding that SF-425 reports are missing, as our prior reviews of similar documentation issues consistently demonstrate that such items are available within the provided files when thoroughly examined.

### **Finding No. -2023-020-CASH MANAGEMENT**

The Federated States of Micronesia National Government (FSM NG) acknowledges the finding regarding cash management as detailed in the Schedule of Findings and Questioned Costs, but disagrees with the characterization that required supporting documents are missing.

Similar to Finding 2023-012—where the Treasury team conducted a thorough review of the provided files and successfully located more than 90% of the cited missing documents before further efforts were halted—we are confident that, had a similar comprehensive review been permitted for this cash management finding, all of the cited supporting documents (including drawdown reports and related expenditure records) would have been identified, as they are surely available within the files originally provided to the auditors.

This consistent experience strongly calls into question the validity of the cited list of missing documents, as the issues appear to stem primarily from the auditors' reliance on electronic tagging methods rather than a full manual examination of the file contents.

These matters involve legacy processes with multiple layers of internal checks and approvals. As a government entity, FSM NG is unable to process or reimburse any transaction without proper supporting documentation, which remains a fundamental compliance requirement. No funds were drawn in advance of need.

During discussions with Ernst & Young LLP (EY), we expressed concerns about their heavy reliance on tagging, including the apparent assumption that complete tagging by FSM NG is mandatory. While the majority of items were tagged, resource limitations and ongoing operational demands prevented tagging of every sample. We emphasize that the absence of a tag does not indicate that supporting documentation is missing or unavailable—tagging is an administrative tool for convenience, not a regulatory or compliance requirement under applicable standards. Professional skepticism should take into account these practical constraints and the broader control environment when assessing documentation availability.

FSM NG disagrees with the characterization that supporting documentation is missing and, accordingly, believes the associated questioned costs should be withdrawn, as the documentation is available within the files provided. FSM NG remains committed to strengthening documentation practices and internal controls and will continue to allocate resources as feasible, enhance filing and retrieval processes, improve inter-departmental coordination, and work collaboratively with auditors to prevent recurrence of similar issues in future audits.



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Finding Number	ALN Number	Requirement	Questioned Cost	Questioned Cost Resolved	Status	Remarks
2021-001 2022-001	N/A	Timely and Accurate Reconciliations	0	0	Partially Corrected	Repeat 2023-001, Bank reconciliations okay now. A training was conducted by Treasury Division in November to all AOs on subsidiary ledger reconciliations
2021-002	N/A	Accounts Receivable	0	0	Fully Corrected	Corrective Action Taken
2021-003	93.323	Procurement, Suspension & Debarment	145,945	145,945	No longer valid	Applying 2-year Rule. Repeat 2023-018 - Ready to implement the Federal Debarment verification daily
2021-004	N/A	Independent Appraisal of Real Property	0	0	Fully Corrected	Corrective Action Taken
2021-005	N/A	Accounts Payable	0	0	Fully Corrected	Corrective Action Taken
2022-002	N/A	Construction in Progress	0	0	Fully Corrected	Corrective Action Taken
2022-003	N/A	Adoption of GASB 87	0	0	Fully Corrected	Corrective Action Taken

2022-004	N/A	Accounts Receivable /Accounts Payable – Compact and Federal Funds Due to grantor agencies – Grants Assistance Fund	0	0	Partially Corrected	Repeat 2023-003 - Reconciliation of Compact & Federal grants was addressed at the Finance Conference held in Chuuk 2024
2022-005	N/A	CIB Embassy Tokyo Cash in Bank	0	0	Fully Corrected	Corrective Action Taken
2022-006	N/A	Asian Development Bank Investment	0	0	Fully Corrected	Corrective Action Taken
2022-007	N/A	Travel Advances	0	0	Partially Corrected	Repeat 2023-005 Additional staff was hired in FY2025
2022-008	N/A	Determining Fund Types for Reporting Pass-through Grants	0	0	Partially Corrected	Repeat 2023-004, Will continue to seek clarifications from the cognizant agencies
2022-009	N/A	Audit Findings Follow Up	0	0	Fully Corrected	Corrective Action Taken. SPAF was provided.
2022-010	15.875	Procurement, Suspension & Debarment	682,640	682,640	Fully Corrected	Repeat 2023-008 Missing documents were provided to the grantor to resolve.
2022-011	15.875	Reporting	0	0	Fully Corrected	Repeat 2023-011 Investment Division will ensure the SF-425 reports from the States are collected earlier than the due dates.

2022-012	15.875	Equipment and Real Property Management	0	0	Partially Corrected	Repeat 2023-007 Physical inventory was performed in FY2024 and is scheduled for FY2026
2022-013	93.959	Reporting	0	0	Partially Corrected	Repeat 2023-015 Files were in place but not provided on time by the new employee in Investment)
2022-014	15.875	Subrecipient Monitoring	0	0	Partially Corrected	Repeat 2023-009 OCM and the 3rd party will perform monitoring