

Internal Control and Compliance

**State of Chuuk
Federated States of Micronesia**

*Year Ended September 30, 2024
with Report of Independent Auditors*



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State of Chuuk
Federated States of Micronesia

Reports on Internal Control and Compliance

Year Ended September 30, 2024

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, the general fund, the grants assistance fund, the compact trust fund, and the aggregate remaining fund information of the State of Chuuk (the State), as of September 30, 2024, and for the year then ended, and the related notes to the financial statements. These financial statements collectively comprise the State's basic financial statements, and have issued our report thereon dated June 30, 2026. Our report contains qualified opinions due to the financial statements of the governmental activities and the general fund includes \$7,026,251 land acquisition payable which we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account, and because the State has not recorded right-to-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases. The possible effects on the financial statements of the governmental activities and the general fund of undetected misstatements, if any, could be material but not pervasive.

Our report includes a reference to other auditors who audited the financial statements of the Chuuk State Health Care Plan and the Chuuk Public Utility Corporation, as described in our report of the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2024-002 through 2024-004 and 2024-007 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2024-001 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2024-004 and 2024-007.

The State's Response to Findings

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

Purpose of This Report

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

Ernst + Young LLP

June 30, 2026



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

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

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

Qualified Opinion on the Sole Major Federal Program

We have audited the State of Chuuk (the State's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State's sole major federal program for the year ended September 30, 2024. The State's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its sole major federal program for the year ended September 30, 2024.

Basis for Qualified Opinion on the Sole Major Federal Program

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

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

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

As described in Finding 2024-004 and 2024-007 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding the following.

Finding No.	Compliance Requirement
2024-004	Cash Management
2024-007	Procurement and Suspension and Debarment

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

Responsibilities of Management for Compliance

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

Auditor’s Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the State’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the State’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as items 2024-005 and 2024-006 regarding ALN 15.875 Economic, Social and Political Development of the Territories and compliance requirement Equipment and Real Property Management, and Period of Performance, respectively. Our opinion on the sole major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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 2024-004 through 2024-007 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 the State's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Chuuk (the State), as of September 30, 2024, and for the year then ended, and the related notes to the financial statements. These financial statements collectively comprise the State's basic financial statements.

We issued our report thereon dated June 30, 2026, which contained qualified opinions due to the financial statements of the governmental activities and the general fund includes \$7,026,251 land acquisition payable which we were unable to obtain sufficient appropriate audit evidence to substantiate the reasonableness of this account, and because the State has not recorded right-to-use assets and lease liabilities, as required by generally accepted accounting principles, for land leases. The possible effects on the financial statements of the governmental activities and the general fund of undetected misstatements, if any, could be material but not pervasive. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, except for the effect on the schedule of expenditures of federal awards of the qualified opinions on the financial statements of the governmental activities and the general fund as described above, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

June 30, 2026

State of Chuuk
Federated States of Micronesia

Summary Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2024

Agency/Program	Expenditures
U.S. Department of the Interior	\$ 31,608,797
U.S. Department of Education	913,320
U.S. Department of Health and Human Services	<u>879,314</u>
Grand Total	<u>\$ 33,401,431</u>
Reconciliation to the basic financial statements:	
Grants Assistance Fund expenditures	\$ 33,412,033
Less:	
Foreign Assistance Fund expenditures included in General Government expenditures	(<u>10,602</u>)
	<u>\$ 33,401,431</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Chuuk
Federated States of Micronesia

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	AL#	Entity Identifying #	Other Identifier	Expenditures
U.S. Department of the Interior				
Pass-Through Federated States of Micronesia National Government:		A2		
Economic, Social and Political Development of the Territories:	15.875			
Compact Sector Grants - Education Sector	15.875			\$ 10,666,419
Compact Sector Grants - Health Sector	15.875			9,938,801
Compact Sector Grants - Environment Sector	15.875			49,584
Compact Sector Grants- Private Sector Development	15.875			32,484
Compact Sector Grants - Capacity Building Sector	15.875			709,160
Supplemental Education Grant	15.875			5,142,951
Compact Sector Grants - ERA	15.875			677,466
Compact Sector Grants – Infrastructure	15.875			4,004,520
Compact Sector Grants – Infrastructure Maintenance	15.875			<u>387,412</u>
Total Compact Sector Grants Fund				<u>31,608,797</u>
Total U.S. Department of the Interior				<u>\$ 31,608,797</u>
U.S. Department of Education				
Pass-Through Federated States of Micronesia National Government:		A2		
Special Education Cluster (IDEA):				
Special Education - Grants to States (IDEA, Part B)	84.027			\$ <u>913,320</u>
Special Education Cluster (IDEA) Subtotal				<u>913,320</u>
Total U.S. Department of Education				<u>\$ 913,320</u>
U.S. Department of Health and Human Services				
Pass-Through Federated States of Micronesia National Government:		A2		
Public Health Emergency Preparedness	93.069			\$ 2,788
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			27,190
Special Projects of Regional and National Significance	93.110			11,307
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			131,028
Family Planning Services	93.217			31,560
Immunization Cooperative Agreements	93.268			318,797
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands, and P.R.	93.377			30,592
Opioid STR	93.788			21,054
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898			39,558
Block Grants for Community Mental Health Services	93.958			15,291
Block Grants for Prevention and Treatment of Substance Abuse	93.959			176,859
Maternal and Child Health Services Block Grant to the States	93.994			<u>73,290</u>
Total U.S. Department of Health and Human Services				<u>\$ 879,314</u>
Total Expenditures of Federal Awards				<u>\$ 33,401,431</u>

See accompanying notes to schedule of expenditures of federal awards.

State of Chuuk
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2024

1. Scope of Audit

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Chuuk under programs of the federal government for the year ended September 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Chuuk, it is not intended to and does not present the financial position or changes in financial position of State of Chuuk.

3. Summary of Significant Accounting Policies

Basis of Accounting

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

Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Chuuk's reporting entity is defined in Note 1 to its September 30, 2024 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Chuuk, as defined above, for the year ended September 30, 2024.

Matching Costs

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

State of Chuuk
Federated States of Micronesia

Notes to Schedule of Expenditures of Federal Awards, continued

3. Summary of Significant Accounting Policies, continued

Indirect Cost Allocation

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

Component Units

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

Chuuk Public Utility Corporation

The Chuuk Public Utility Corporation (CPUC), a discretely presented component unit, is the recipient of various pass-through funds. CPUC did not incur federal award expenditures for the year ended September 30, 2024.

Chuuk State Housing Authority

The Chuuk State Housing Authority (CSHA), a discretely presented component unit, is the recipient of various pass-through funds from State of Chuuk in a prior year and certain direct grants. CSHA's total federal award expenditures for the year ending September 30, 2024, is undetermined.

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs

Year ended September 30, 2024

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 and Qualified

Internal control over financial reporting:

Material weakness(es) identified?

X **Yes** **No**

Significant deficiency(ies) identified?

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

Noncompliance material to financial statements noted?

X **Yes** **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

X **Yes** **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

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

15.875	Economic, Social and Political Development of the Territories	Qualified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X **Yes** **No**

Identification of major federal programs:

Assistance Listing Number

Name of Federal Program

15.875

Economic, Social and Political Development of the Territories

State of Chuuk
Federated States of Micronesia

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: \$998,211

Auditee qualified as low-risk auditee? _____ Yes _____ X No

Section II - Financial Statement Findings

Reference Number	Findings
2024-001	Chuuk State Housing Authority
2024-002	Land Leases
2024-003	Reconciliation of Investment and Expenditure Cut-Off
2024-004	Cash Management
2024-007	Procurement and Suspension and Debarment

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2024-004	15.875	Cash Management	\$2,386,924
2024-005	15.875	Equipment and Real Property Management	32,214
2024-006	15.875	Period of Performance	0
2024-007	15.875	Procurement and Suspension and Debarment	4,275,792
		Total	<u>\$6,694,930</u>

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Year Ended September 30, 2024

Finding No.: 2024-001- Chuuk State Housing Authority-reconciliation of subsidiary to general ledger

Criteria:

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

Condition:

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

Cause:

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

Effect or Potential Effect:

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

Identification as a Repeat Finding: Finding No. 2023-001.

Recommendation:

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

Views of Responsible Officials:

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

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-002 - Land Leases

Criteria:

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

Condition:

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

Cause:

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

Effect or Potential Effect:

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

Identification as a Repeat Finding: Finding No. 2023-002.

Recommendation:

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

Views of Responsible Officials:

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

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No.: 2024-003 –Reconciliation of Investment and Expenditure Cut-Off

Criteria:

The State should maintain effective internal controls to ensure financial transactions are recorded in the proper accounting period.

Condition:

During the FY2024 audit, differences were identified between the Compact Trust Fund investment balance recorded by Chuuk State Government and the allocation balance reported by FSM National Government. In addition, expenditures related to prior fiscal years were recorded as FY2024 expenditures rather than recognized in the periods in which the underlying obligations were incurred. As a result, the FY2023 investment balance was overstated by approximately \$4.6 million, and prior-period expenditures totaling \$639,706 were not recognized in the appropriate fiscal years.

Cause:

The condition resulted from untimely reconciliation of investment balances with FSM National Government records and delayed review procedures over expenditure transactions.

Effect or Potential Effect:

The errors resulted in a misstatement of investment balances, expenditures, and beginning net position, requiring a restatement of FY2023 beginning balances.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation

The State should strengthen and timely perform reconciliations of investment balances with FSM National Government records and enhance review procedures to ensure expenditures are recorded in the appropriate accounting period. Reconciliation and review controls should be performed regularly and documented to ensure errors are identified and corrected on a timely basis.

Views of Responsible Officials:

The State agrees that there is a need for effective internal controls. However, the State does not believe this finding was within its control. The State does not dictate when The FSM National Government provides needed schedules for timely reconciliation.

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-004

Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: D22AF00329, D23AF00094, D23AF00270, D24AF00047, D24AF00210
 Area: Cash Management
 Questioned Costs: \$2,386,924

Criteria:

Article IV, Section 5(b)(ii) of the Fiscal Procedures Agreement (FPA) Sector Grants states that infrastructure projects shall be paid on the basis of Accrued Expenditures, provided the Government of the Federated States of Micronesia maintains procedures to minimize the time elapsing between the disbursement of funds to the Government of the Federated States of Micronesia and its payment of the Accrued Expenditure.

In accordance with 31 CFR part 205.12(b)(4), a Federal Program Agency transfers the actual amount of Federal funds to a State that will be paid out by the State, in a lump sum, not more than three business days prior to the day the State issues checks.

Condition:

1. CSG did not maintain written procedures to minimize the time elapsing between the transfer of infrastructure project funds and the disbursement of such funds.
2. Nine (or 36%) out of twenty-five drawdowns made during the year, were disbursed in excess of the three business days as required by 31 CFR part 205.12(b)(4).

<u>Check Number</u>	<u>Fund Transfer Date</u>	<u>Disbursement Date</u>	<u>Business Days Elapsed</u>	<u>Amount</u>
148440	9/20/2024	9/26/2024	5	\$ 1,623,368
146252	8/1/2024	8/8/2024	5	520,000
145441	6/4/2024	6/10/2024	5	63,719
146641	8/30/2024	9/11/2024	8	51,214
142506	11/22/2023	11/29/2023	5	48,276
142962	12/1/2023	12/14/2023	9	48,077
146558	8/12/2024	8/16/2024	4	14,026
147865	9/20/2024	9/27/2024	5	9,244
142527	11/22/2023	11/29/2023	5	9,000
				\$ 2,386,924

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-004, continued

Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D22AF00329, D23AF00094, D23AF00270, D24AF00047, D24AF00210
Area: Cash Management
Questioned Costs: \$2,386,924

Cause:

CSG does not have established policies and procedures to minimize the time elapsing between the transfer of infrastructure project funds received from the FSM National Government and CSG's disbursement of such funds to vendors.

Effect or Potential Effect:

CSG is in noncompliance with the applicable cash management requirements and questioned costs totaling \$2,386,924 results. The amount of questioned costs is based on the total amount of drawdowns made during the year.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

CSG should establish written policies and implement procedures to minimize the time elapsing between the transfer of infrastructure project funds and the disbursement of such funds for program purposes. Although not a State as defined in 2 CFR 200.1, management should consider the three-business day rule on cash advance funding stated in 31 CFR part 205.12(b)(4).

Views of Responsible Officials:

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

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-005

Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: D23AF00013, D24AF00341
 Area: Equipment and Real Property Management
 Questioned Costs: \$32,214

Criteria:

In accordance with 2 CFR 200.303(a), a subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Article VI Section I (f)(iv)(c) of the Fiscal Procedures Agreement (FPA) states that a control system shall be developed to ensure adequate safeguards against property loss, damage, or theft. Any loss, damage, or theft shall be investigated.

Additionally, according to article VI Section I (f)(iv)(d) of the FPA states that adequate maintenance procedures shall be developed to keep the property in good condition.

Condition:

For six (or 14%) out of forty-two equipment selected for testing with an aggregate net book value totaling \$589,938 and a total net book value population of \$3,703,666, CSG did not properly safeguard and maintain the federal capital assets to ensure that the property exists and is in proper working condition. Based on the physical inspection, the following capital assets were either not located or found to be in a broken state, with no evidence indicating that they are currently under repair.

<u>Grant Award No.</u>	<u>Tag No.</u>	<u>Asset Description.</u>	<u>Net Book Value</u>
D24AF00341	08302024-01	Procart II Console	\$10,017
D23AF00013	10202023-01	Porti Boy Embalming Machine	9,289
Unknown	00179	Nissan X- Trail	4,770
Unknown	00158	Wanghu ATV (All terrain vehicles)	4,449
Unknown	00099	Nissan Atlas Flatbed Truck	3,689
Unknown	00024	Fiberglass Boat	---
			\$32,214

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-005, continued

Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D23AF00013, D24AF00341
Area: Equipment and Real Property Management
Questioned Costs: \$32,214

Cause:

CSG does not have established policies or procedures to ensure sufficient safeguards against loss, damage, or theft of the property, as well as adequate maintenance procedures to keep property in good condition.

Effect or Potential Effect:

CSG is in noncompliance with applicable equipment and real property management requirements and a total questioned costs \$32,214 result. The amount of questioned cost is based on the net book value of the asset.

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation:

1. CSG should establish a written policy along with comprehensive procedures to ensure effective safeguards against loss, damage, or theft of property, as well as establish robust maintenance protocols to preserve the property in good condition.
2. CSG should strictly enforce their actual safeguarding and maintenance procedures to ensure that federal capital expenditures are kept safe and in good working condition.

Views of Responsible Officials

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

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-006

Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D24AF00334
Area: Period of Performance
Questioned Costs: \$0

Criteria:

In accordance with 2 CFR 200.303(a), the recipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Condition:

For two (8%) of the twenty-five transactions tested, aggregating \$45,413 out of a total population of \$12,334,264, CSG voided expenditures recorded in their SEFA. No questioned cost identified because it was subsequently corrected and it is only an internal control finding.

<u>Grant Award</u>	<u>POP End Date</u>	<u>Ref 1</u>	<u>Amount</u>
D24AF00334	9/30/2024	329584	\$3,000
D24AF00334	9/30/2024	330256	<u>2,500</u>
			<u>\$5,500</u>

Cause:

CSG did not timely reverse voided expenditure during the correct fiscal year.

Effect or Potential Effect:

CSG's current control and procedure for monitoring and correcting voided transactions is not efficiently designed.

Identification as a Repeat Finding: Finding No. 2023-004.

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-006, continued

Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D24AF00334
Area: Period of Performance
Questioned Costs: \$0

Recommendation:

CSG should strengthen controls to ensure that only valid, incurred, and paid costs are recorded and reported within the correct period of performance and that unsupported expenditures are identified and corrected timely.

Views of Responsible Officials:

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

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-007

Pass-Through Entity: Federated States of Micronesia National Government
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award No.: D24AF00340, D24AF0034, D24AF00020, D24AF00334, D24AF00022,
 D23AF00263, D24AF00023 D24AF00089 D22AF00329 D23AF00166
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$4,275,792

Criteria:

Article VI, Section 1(h) of the Fiscal Procedures Agreement (FPA) states that the Government of the Federated States of Micronesia shall not award funds received pursuant to the 2023 Amended Compact to any party which is debarred, suspended, or otherwise excluded from and ineligible for participation in United States assistance programs.

Additionally, according to 2 CFR 180.220(b)(1), a procurement transaction is considered a cover transaction if the contract amount is expected or to equal or exceed \$25,000.

Condition:

CSG does not perform suspension and debarment monitoring for covered transactions with a total population of \$4,275,792 that is in accordance with Article VI, Section 1(h) of the FPA.

<u>Purchase Order/Contract No.</u>	<u>Questioned Cost</u>
331022	\$1,623,367
327172	520,000
331911	304,500
313342	150,000
329612	130,601
313414	87,133
314303	83,367
331024	81,168
322519	77,291
305682	72,640
332955	60,259
325219	55,000
317095	48,000
330621	46,804
328288	43,888
327787	43,552
309362	43,090
304167	39,150
330343	38,600

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-007, continued

Pass-Through Entity: Federated States of Micronesia National Government

Federal Agency: U.S. Department of the Interior

AL Program: 15.875 Economic, Social, and Political Development of the Territories

Federal Award No.: D24AF00340, D24AF0034, D24AF00020, D24AF00334, D24AF00022,
D23AF00263, D24AF00023 D24AF00089 D22AF00329 D23AF00166

Area: Procurement and Suspension and Debarment

Questioned Costs: \$4,275,792

Condition, continued:

<u>Grant Award No.</u>	<u>Purchase Order/Contract No.</u>	<u>Questioned Cost</u>
D24AF00340	317904	38,000
D24AF00340	314840	37,925
D24AF00340	318750	37,000
D24AF00341	330038	35,000
D24AF00341	333040	34,425
D24AF00341	315158	34,421
D24AF00341	317938	32,195
D24AF00341	328368	32,000
D23AF00263	314845	32,000
D24AF00341	328370	30,000
D23AF00263	324519	30,000
D23AF00263	328448	30,000
D23AF00263	322513	29,082
D23AF00013	313769	29,064
D23AF00263	315490	28,662
D23AF00263	315491	28,662
D24AF00341	330658	27,300
D24AF00341	314316	27,000
D24AF00341	314808	27,000
D24AF00341	319676	26,646
D24AF00210	325527	26,000
D24AF00341	314510	25,000
D24AF00341	317145	25,000
D24AF00341	328362	<u>25,000</u>
		<u>\$4,275,792</u>

State of Chuuk
Federated States of Micronesia

Schedule of Findings and Questioned Costs, continued

Finding No. 2024-007, continued

Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: D24AF00340, D24AF0034, D24AF00020, D24AF00334, D24AF00022,
D23AF00263, D24AF00023 D24AF00089 D22AF00329 D23AF00166
Area: Procurement and Suspension and Debarment
Questioned Costs: \$4,275,792

Cause:

CSG does not have an established policy and procedure for verification of the suspension and debarment status 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 or Potential Effect:

CSG is in noncompliance with applicable suspension and debarment requirements and questioned costs of \$4,275,792 result.

Identification as a Repeat Finding: Finding No. 2023-003.

Recommendation:

1. CSG should establish a policy and implement formal procedures to document written evidence that, prior to entering into a covered transaction, an assessment has been carried out that is in accordance with Article VI, Section 1(h) of the FPA.
2. CSG could consider designing their policies and procedures for monitoring suspension and debarment status of persons or contractors under a covered transaction in accordance with the provisions of 2 CFR 180.300.

Views of Responsible Officials:

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



DEPARTMENT OF ADMINISTRATIVE SERVICES
CHUUK STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA

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Jonas M. Paul
Director

Restmena S. Nonumwar
Deputy Director

CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2024

Finding Number	Corrective Action Plan (CAP)	Anticipated Completion Date	Responsible Person (Contact Details)
2024-001	CSG is in the process of hiring a Financial Advisor. The scope of work in this Advisor's contract will include working with Chuuk Housing Authority to ensure reconciliations of subsidiary ledger to the general ledger are performed on a regular basis.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com
2024-002	CSG will work on updating the current liability to match the reconstructed subsidiary ledgers of the lessors and other individuals who have a claim against Chuuk State. DAS will meet with individual landowners to update the balance of each lease and book these liabilities to the General Ledger.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com
2024-003	CSG is in the process of hiring a Financial Advisor. The scope of work in this Advisor's contract will include working with FSM National Government to ensure investment reconciliations are performed on a regular basis. In addition, cut-off procedures to ensure expenditures are recorded in the proper accounting period will be scrutinized.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com
2024-004	CSG will draft and implement a policy on Cash Management specifically regarding cash disbursement to vendors for infrastructure projects. <ul style="list-style-type: none">• CSG will assign a designated person to request drawdowns for Infrastructure projects. This same individual will keep track of this request and will notify the appropriate individuals at Chuuk State Finance who will authorize the disbursement of the check/s to the vendor.• A specific timeframe in which CSG will minimize the time between cash drawdown received from FSM National Government and disbursement to vendors will be established upon consultation with grantor agency.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com



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Director

Restmena S. Nonumwar
Deputy Director

CORRECTIVE ACTION PLAN
2 CFR § 200.511 (c)
Year Ended September 30, 2024

Finding Number	Corrective Action Plan (CAP)	Anticipated Completion Date	Responsible Person (Contact Details)
2024-005	CSG will draft and implement a policy on Equipment and Real Property Management, specifically regarding safe-guarding equipment and reporting. Policy will include: <ul style="list-style-type: none">• A requirement for each department to assign a custodian to manage all capitalized equipment.• A requirement for each department to report all incidents via an Equipment Incident Report form.• Each department will be required to update DAS on the status of all capitalized equipment on a quarterly basis.• A Physical Inventory Count will be done annually to ensure proper reporting of existing equipment.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com
2024-006	CSG will draft and implement a policy on Period of Performance, specifically regarding the timely reversals of voided expenditures during the fiscal year. This policy will include: <ul style="list-style-type: none">• The appropriate departments and/or persons responsible for voiding transactions must do so within a timely manner.• All recognized transactions to be cancelled must be voided and removed from expenditures by the closing of the fiscal period.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com
2024-007	CSG has implemented a CAP following the previous finding in the FY 2023 Audit. The Department of Administrative Services requires a printed verification search on Sams.gov for all transactions in the amount of \$25,000 and above. This verification is provided at the department level and reviewed by the Funds Department and Compact Funds Control Commission (CFCC). A memorandum was provided to the Funds Department requiring them to return payment requests of \$25,000 and above that do not have this search verification. CSG will draft an official policy on Procurement Suspension and Debarment specifically regarding verification search on Sams.gov.	December 31, 2026	Jonas Paul, Director (DAS) jpaulckdas@gmail.com Kayviann Hallers Umwech, Internal Control (DAS) kayviannahallers@gmail.com Roxalyn Kaminanga, Chief (DAS) roxalynkaminanga@gmail.com



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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2024

Finding Number	Assistance Listing Number	Requirement	Status
2021-001 and 2022-001	N/A	Chuuk State Housing Authority-reconciliation of subsidiary to general ledger	Not Corrected or Resolved. Corrective Action Plan ongoing
2021-002 and 2022-002	N/A	Supporting information for land leases	Not Corrected or Resolved. Corrective Action Plan ongoing
2022-004	15.875	Period of Performance	Resolved - These findings became no longer valid in accordance with 2 CFR 200.511 Audit findings follow- up because the following three factors have been met: (i) Two years have passed since the audit report in which the finding occurred was submitted to the FAC; (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and (iii) A management decision was not issued. Please see attached Management Decision Letter.
2023-001	15.875	Chuuk State Housing Authority	Not Corrected or Resolved. Corrective Action Plan ongoing
2023-002	15.875	Land Leases	Not Corrected or Resolved. Corrective Action Plan ongoing
2023-003	15.875	Procurement, Suspension and Debarment	Not Corrected or Resolved. Corrective Action Plan ongoing
2023-004	15.875	Period of Performance	Not Corrected or Resolved. Corrective Action Plan ongoing