Internal Control and Compliance

Federated States of Micronesia National Government

Year Ended September 30, 2024
With Report of Independent Auditors

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Federated States of Micronesia
National Government

Reports on Internal Control and Compliance

Year Ended September 30, 2024

Contents

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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, 2024, 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 July 31, 2026.

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 2024-001 through 2024-009 and 2024-013 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 item 2024-013.

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.

Ernst + Young LLP

July 31, 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 Wesley Simina
President
Federated States of Micronesia

Report of Independent Auditors on Compliance for Each Major Federal Program

Adverse and Qualified 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 for the year ended September 30, 2024. 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

ALN	Name of Federal Program or Cluster	Type of Opinion
15.875	Economic, Social, and Political Development of the Territories	Adverse
93.323	Epidemiology and Laboratory Capacity for Infectious Disease	Qualified

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, 2024.

Qualified Opinion on ALN 93.323

In our opinion, because of the significance of the matter discussed in the Basis for Qualified 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 93.323 for the year ended September 30, 2024.

Basis for Adverse and Qualified 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 each major federal program. 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 2024-011, 2024-013 and 2024-014, in the accompanying schedule of findings and questioned costs, the FSM National Government did not comply with requirements regarding the following:

Finding #	ALN	Program or Cluster Name	Compliance Requirement
2024-011	15.875	Economic, Social, and Political Development of the Territories	Equipment and Real Property Management
2024-013	15.875	Economic, Social, and Political Development of the Territories	Subrecipient Monitoring
2024-014	15.875	Economic, Social, and Political Development of the Territories	Special Test and Provisions

Matter Giving Rise to Qualified Opinion on ALN 93.323

As described in findings 2024-015 and 2024-016, in the accompanying schedule of findings and questioned costs, the FSM National Government did not comply with requirements regarding the following:

Finding #	ALN	Program or Cluster Name	Compliance Requirement
2024-015	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Equipment and Real Property Management
2024-016	93.323	Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	Procurement, Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for FSM National Government to comply with the requirements applicable to those programs.

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 items 2024-010 and 2024-012. Our opinion on each major federal program is not modified with respect to this matter.

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 significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2024-005, 2024-011, and 2024-013 through 2024-016 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-010 and 2024-012 to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on 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, 2024, 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 July 31, 2026, 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.

Ernst + Young LLP

July 31, 2026

Federated States of Micronesia
National Government

Schedule of Expenditures of Federal Awards, by Grantor

Year Ended September 30, 2024

Agency/Program	Expenditures	Amounts Passed-Through to Subrecipients
U.S. Department of Agriculture	$ 239,940	$ -
U.S. Department of Commerce	2,018,826	-
U.S. Department of the Interior	106,542,180	94,561,732
U.S. Department of Labor	43,064	-
U.S. Department of Transportation	10,485,075	-
Institute of Museum and Library Services	135,599	-
U.S. Department of Education	4,697,650	3,599,306
U.S. Department of Health and Human Services	10,308,755	2,636,341
U.S. Department of Homeland Security	18,767	-
GRAND TOTAL	$ 134,489,856	$ 100,797,379

Note: All grant awards are received from the respective grantor agencies in a direct capacity.

Reconciliation to the basic financial statements:		
Expenditures of the Grants Assistance Fund	$ 162,094,686	$ 100,797,379
Less:		
Expenditures of the Non U.S. Grants Fund	(27,604,830)	-
Total expenditures per financial statements	$ 134,489,856	$ 100,797,379

Federated States of Micronesia
National Government

Schedule of Expenditures of Federal Awards

Agency/Program	Assistance Listing Number	Expenditures	Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
Cooperative Forestry Assistance	10.664	$ 103,437	$ -
Urban and Community Forestry Program	10.675	136,503	-
U.S. DEPARTMENT OF AGRICULTURE TOTAL		$ 239,940	$ -
U.S. DEPARTMENT OF COMMERCE			
Economic Adjustment Assistance	11.307	$ 256,869	$ -
Special Oceanic and Atmospheric Projects	11.460	1,761,957	-
U.S. DEPARTMENT OF COMMERCE		$ 2,018,826	$ -
U.S. DEPARTMENT OF THE INTERIOR			
Economic, Social and Political Development of the Territories	15.875		
Compact Sector Funds:			
Infrastructure and Infrastructure maintenance		$ 30,335,565	$ 23,258,572
Education		28,427,358	28,005,629
Health		24,421,461	23,988,556
Capacity Building		3,075,817	1,504,529
Environment		587,073	259,320
Private Sector		749,238	251,932
Compact Supplemental Education		15,943,843	15,260,318
IMF		374,693	80,596
Compact ERA		1,941,444	1,893,298
Subtotal Compact Sector Funds		105,856,492	94,502,750
Technical Assistance:			
COVID-19 – ACA		440,347	-
Total ALN 15.875		106,296,839	94,502,750
Historic Preservation Fund Grants-In-Aid	15.904	245,341	58,982
U.S. DEPARTMENT OF THE INTERIOR TOTAL		$ 106,542,180	94,561,732
U.S DEPARTMENT OF LABOR			
Unemployment Insurance	17.225	$ 43,064	$ -
U.S. DEPARTMENT OF LABOR TOTAL		$ 43,064	$ -
U.S. DEPARTMENT OF TRANSPORTATION			
Airport Improvement Program	20.106	$ 10,485,075	$ -
U.S. DEPARTMENT OF TRANSPORTATION TOTAL		$ 10,485,075	$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
Grants to States	45.310	$ 135,599	$ -
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		$ 135,599	$ -

Federated States of Micronesia
National Government

Schedule of Expenditures of Federal Awards, continued

Agency/Program	Assistance Listing Number		Expenditures		Amounts Passed-Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION					
Special Education - Grants to States	84.027A	$	4,323,517	$	3,599,306
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325L		374,133		-
U.S. DEPARTMENT OF EDUCATION TOTAL		$	4,697,650	$	3,599,306
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Public Health Emergency Preparedness	93.069	$	499,605	$	4,288
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		175,874		137,102
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		2,273		2,273
Maternal and Child Health Federal Consolidated Programs - SSDI Program	93.110		188,904		76,359
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		785,177		351,983
Emergency Medical Services for Children	93.127		35,838		-
Family Planning-Services	93.217		265,142		115,045
Affordable Care Act (ACA) Abstinence Education Program	93.235		34,846		-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		30,025		-
Universal Newborn Hearing Screening	93.251		211,363		16,504
Immunization Cooperative Agreements	93.268		1,845,196		707,218
Epidemiology and Laboratory Capacity for Infectious Disease (ELC)	93.323		2,356,156		-
Behavioral Risk Factor Surveillance System	93.336		45,515		-
Publice Health Crisis Response	93.354		50,824		28,887
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S Affiliated Pacifice Islands, U.S Virgin Islands and P.R	93.377		373,533		80,631
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Publice Health or Healthcare Crisis	93.391		168,368		-
Strengthening Public Health Systems and Sevices Through National Partnership to Improve and Protect the Nation's Health	93.421		8,854		-
Opioid STR	93.788		105,553		61,695
National Bioterrorism Hospital Preparedness Program	93.889		391,794		-
Cancer Prevention and Control Program for State, Territorial, and Tribal Organizations	93.898		301,021		189,162
HIV Care Formula Grants	93.917		33,732		6,591
Block Grants for Community Mental Health Services	93.958		238,123		84,328
Block Grants for Prevention and Treatment of Substance Abuse	93.959		841,860		467,573
Centers for Disease Control and Prevention Collaboration with Academia to Strengthen Public Health	93.967		693,063		-
Preventive Health and Health Services Block Grant	93.991		78,929		-
Maternal and Child Health Services Block Grant to the States	93.994		547,187		306,702
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL		$	10,308,755	$	2,636,341
U.S. DEPARTMENT OF HOMELAND SECURITY					
Emergency Management Performance Grants	97.042	$	18,767	$	-
U.S. DEPARTMENT OF HOMELAND SECURITY TOTAL		$	18,767	$	-
GRAND TOTAL		$	134,489,856	$	100,797,379

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, 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* (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, 2024 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, 2024.

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 2024 reporting responsibilities under the Single Audit Act. Total federal awards for COM-FSM are $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, 2024

Section I - Summary of Auditor's 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?	X	**Yes**		**None reported**
Type of auditor's report issued on compliance for major federal programs:				
ALN 15.875	Adverse			
ALN 93.323	Qualified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	**Yes**		**No**

Identification of major federal programs:

AL Numbers	Name of Federal Program or Cluster
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)

Federated States of Micronesia
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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: $3,000,000

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

Section II - Financial Statement Findings

Reference Number		Findings
2024-001		Timely and Accurate Reconciliations
2024-002		General ledger, Subsidiary Ledger and Financial Statement Close Process
2024-003		Unearned revenue-Grants Assistance Fund
2024-004		Travel Advances
2024-005		External Investment Pool (Trust Fund for the People of the FSM)
2024-006		Capital assets
2024-007		Preparation of Trial Balance
2024-008		Determining Fund Types for Reporting Pass-through Grants
2024-009		Amounts Passed through to Subrecipients
2024-013		Subrecipient Monitoring

Section III - Federal Award Findings and Questioned Costs

Reference Number	ALN	Findings	Questioned Costs
2024-010	15.875	Cash Management	$1,643,137
2024-011	15.875	Equipment and Real Property Management	-0-
2024-012	15.875	Reporting	-0-
2024-013	15.875	Subrecipient Monitoring	94,422,154
2024-014	15.875	Special Test and Provisions	-0-
2024-015	93.323	Equipment and Real Property Management	19,824
2024-016	93.323	Procurement, Suspension and Debarment	509,463

Finding No.: **2024-001**
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 2024 trial balance as additional client post-closing adjustments were proposed subsequent to the receipt of the final trial balance.

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: 2023-001

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. The Department of Finance and Administration (DOFA) acknowledges that account reconciliations were not performed routinely throughout the fiscal year, resulting in post-closing adjustments to the FYE 2024 trial balance, and sets out below the context of this year's audit, the operational constraints affecting the timing of reconciliations, and the measures underway to address the matter.

Finding No.: **2024-001, continued**
Area: Timely and Accurate Reconciliations

Views of Responsible Officials:

A significant matter encountered during this year's audit relates to opening balances. Prior to submission of the trial balance, DOFA made adjustments to align all accounts to its subsidiary ledgers. It was only after this work was completed that the auditors flagged misalignments between the opening balances and their audited FY2023 figures. When adjustments were subsequently made to align the FY2023 ending balances, substantial variances arose because the FY2024 adjustments had already been posted. This necessitated extensive re-reconciliation and considerably lengthened the audit process. Although the trial balance was submitted early, resolving these variances — particularly in system-generated accounts such as the interfund accounts, which formed part of the auditors' initial opening balance testing — consumed significant time. Management acknowledges this as the root cause of most of the delays experienced in this year's audit. The matter has since been resolved with the auditors, and the corrections were properly posted and aligned to the subsidiary ledgers.

Operationally, it is important to note that this is a legacy audit. Staff turnover has made it difficult for reconciliations to be completed on a timely basis, and the reconciliation process depends on accurate roll-over figures from the prior years' audits. The majority of subsidiary ledgers are maintained manually and are not system-generated within the legacy Fundware system; these manual schedules must be carried forward after each fiscal period closing and adjusted on an ongoing basis. Given this dependency, it is only practical to complete each year's reconciliations soon after the previous legacy year audit is completed — at which point the audited balances can be rolled forward and the carry-forward schedules updated. DOFA is accordingly undertaking a legacy reconciliation exercise, reconciling accounts progressively as part of the audit process, and Treasury Division has issued guidance to staff on proper recording of transactions in the current system so that the carry-forward schedules can be readily updated for the FY2025 audit period.

From FY2026, the FSM National Government has transitioned to a new integrated Financial Management Information System (FreeBalance), which went live in February 2026. All modules — including budget, bank reconciliation, treasury, and payroll — are fully integrated, and subsidiary ledgers will be system-generated. With the FY2024 audit now concluding, the next step is to undertake and complete the FY2025 audit. Once finalized, the audited FY2025 trial balance will be uploaded into the new FMIS to establish correct opening balances for FY2026, in which all transactions are processed in the new system. Once fully implemented, the integrated system will enable daily reconciliation of all ledgers.

In addition, with the engagement of the new Internal Audit Advisor, all outstanding policies and procedures will be completed and circulated to address remaining control gaps, supported by staff training to ensure awareness of and compliance with the reconciliation requirements.

Finding No.: **2024-001, continued**
Area: Timely and Accurate Reconciliations

Views of Responsible Officials:

Summary Schedule — Remarks (2024-001):

Repeat 2023-001. Finding agreed. Legacy audit — staff turnover and dependency on accurate roll-over figures from prior years mean the manual sub-ledger reconciliations can only practically be completed soon after the previous legacy year audit closes. Legacy reconciliation exercise ongoing; manual sub-ledgers carried forward and adjusted each period. New integrated FMIS (FreeBalance) live from February 2026 will provide system-generated sub-ledgers enabling daily reconciliation; FY2025 audit to be completed and audited TB uploaded for correct FY2026 opening balances. Policies, procedures, and staff training being completed with the Internal Audit Advisor.

Finding No.: **2024-002**
Area: General Ledger, Subsidiary Ledger and Financial Statement Close Process

Criteria:

GASB Codification 1200 emphasizes that adherence to generally accepted accounting principles (GAAP) is essential to assuring a reasonable degree of comparability among the financial reports of state and local government units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in accordance with GAAP.

Condition:

1. The FSM National Government's grant assistance fund subsidiary ledger shows $7,782,759 net of due to FSM State Governments whereas the unadjusted trial balance recorded $3,221,575 which represents a difference of $4,561,184.
2. Investments were understated by approximately $3.1 million
3. Prepaid expenses include approximately $1.1 million in long-outstanding balances for which no explanation was provided regarding its net realizable value.
4. Accounts payable, other liabilities and accruals amounting to approximately $17.4 million were not supported by detailed subsidiary ledger per supplier or vendor.
5. The grants assistance fund had erroneously included approximately $13 million of miscellaneous revenue. The balance resulted from incorrect posting of a journal entry that was recently corrected.

Cause:

The FSM National Government finance personnel (DOFA) lacked sufficient understanding of the necessary adjustments required to reconcile the general ledger with the subsidiary ledger. In addition, DOFA personnel did not adequately monitor investment and prepaid expense accounts to ensure that necessary adjustments were identified and recorded in a timely manner. Adequate procedures were not established and implemented to maintain, reconcile, and periodically review detailed subsidiary records supporting accounts payable, other liabilities, and accrual balances

Effect or Possible Effect:

Material errors to the financial statements may occur without measures to detect or prevent and make corrections for such errors. Condition no. 1 was posted as uncorrected misstatement while conditions no. 2, 3, and 5 were corrected through audit adjustments.

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

Finding No.: **2024-002, continued**
Area: General Ledger, Subsidiary Ledger and Financial Statement Close Process

Recommendation:

FSM National Government finance personnel must record accurate adjustments to the general ledger such that the general ledger agrees with subsidiary ledger balances. Management should improve controls to ensure significant accounts are recorded accurately and supported by sufficient details.

Views of Responsible Officials:

Management disagrees with the finding. The five conditions identified do not reflect deficiencies in DOFA's understanding of the necessary adjustments or in its monitoring of the accounts; they are directly attributable to the opening balance matter described in the response to Finding 2024-001. Prior to submission of the trial balance, DOFA had aligned all accounts to its subsidiary ledgers; when subsequent adjustments were made to realign the FY2023 ending balances to the auditors' audited figures, variances arose across these accounts because the FY2024 adjustments had already been posted. Following the extensive re-reconciliation undertaken with the auditors, all five areas — the grants assistance fund due to FSM State Governments, investments, prepaid expenses, accounts payable and other liabilities and accruals, and the miscellaneous revenue posting in the grant’s assistance fund — have been resolved and realigned to the subsidiary ledgers. The opening balance test adjustment and the re-reconciliation that followed were the major cause of the conditions identified.

With respect to the grant’s assistance fund, these ledger accounts are, by their nature and by design, reconciled at the end of the fiscal year, after the completion of the financial year. The year-end reconciliation determines the final obligated and liquidated amounts, which in turn determine the amount of grant funds to be paid back — payable to the Trust Fund or payable to the FSM State Governments — whereby the amount constitutes a receivable from the U.S. Department of the Interior, Office of Insular Affairs (DOI/OIA). The variance identified was resolved through this year-end process, and the erroneous miscellaneous revenue posting of approximately $13 million was corrected during the audit. The timing of this reconciliation is therefore a feature of the fund's operation, not a control failure.

The subsidiary ledger deficiencies identified — in particular the absence of detailed vendor-level subsidiary ledgers for accounts payable, other liabilities, and accruals — will be definitively resolved with the new integrated FMIS (FreeBalance) from the FY2026 fiscal period. Given the full integration of all modules, transactions are linked end-to-end from purchase requisition and purchase order through to cheque printing, meaning subsidiary ledgers are system-generated at every stage. This will resolve the unavailability of subsidiary ledgers moving forward, and DOFA will establish supporting procedures for the periodic review and reconciliation of these ledgers as part of the routine close process.

Finding No.: **2024-002, continued**
Area: General Ledger, Subsidiary Ledger and Financial Statement Close Process

Views of Responsible Officials:

Summary Schedule — Remarks (2024-002):

Finding disagreed. All five conditions attributable to the opening balance realignment and subsequent re-reconciliation, not deficiencies in understanding or monitoring; resolved and realigned to sub-ledgers with the auditors. Grants assistance fund accounts reconcile at fiscal year-end by design — the year-end reconciliation determines final obligated and liquidated amounts and the payable back to the Trust Fund or states (receivable from DOI/OIA). Vendor-level sub-ledgers to be system-generated in the new FMIS (FreeBalance) from FY2026 with full PR-to-cheque integration.

Auditor's response to Views of Responsible Officials:

While we acknowledge management's views, the conditions cited are based on factual observations. The variances identified in Conditions 1 through 5 were not attributable to the correction of the opening balances. Rather, they were independently identified during the audit process and arose from separate issues affecting the current year's financial reporting.

Further, the results of the opening balance testing were communicated to management as early as February 2026. However, management did not provide the final Trial Balance until May 2026, approximately three months after the identified discrepancies had been communicated. Notably, the discrepancies identified in the opening balances were mostly related to management's own adjusting journal entries. EY provided management with the list of proposed and corrected adjustments through the appendix to the FY23 Management Representation Letter, which management reviewed, approved, and signed.

Moreover, correcting journal entries to adjust opening balance discrepancies posted by Management for FY24 were incorrect resulting in multiple reversals and unusual balances and were only corrected through audit and client adjustments. The errors in posting correcting journal entries were attributable to management's limited understanding of their own accounting system and its functionality.

Furthermore, it is management's responsibility, as part of the financial statement close process, to ensure the accuracy and completeness of the Trial Balance and supporting subledgers, including verifying that they reconcile to the audited prior-year balances. Accordingly, management had the opportunity and responsibility to identify and address these discrepancies even before the commencement of the audit.

Finding No.: **2024-003**
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 2024 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 $9,513,238 balance.

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 or Possible 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: 2023-003

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.

Finding No.: **2024-003, continued**
Area: Unearned Revenue-Grants Assistance Fund

Recommendation:

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 disagrees with the finding. The multiple revisions to the FYE 2024 schedule of unearned revenue do not indicate unreliability of the schedule or a lack of monitoring; they arose from two factors external to the schedule's preparation. First, as described in the responses to Findings 2024-001 and 2024-002, the opening balance test adjustments — the realignment of opening balances to the auditors' audited FY2023 figures, undertaken after the FY2024 adjustments had already been posted — required re-adjustments thereafter, and the schedule had to be revised as the underlying balances were re-reconciled. Second, a new template for recording was requested by the auditors during the course of the audit, which necessitated further changes to the structure of the subsidiary ledger schedule. Each revision therefore reflected the progressive realignment and reformatting required by these factors, rather than instability in the underlying records, and the recorded balance is supported by the year-end reconciliation process described below.

The unearned revenue schedule for the Grants Assistance Fund is a manual subsidiary ledger. By its nature, the final reconciliation can only be performed at the end of the fiscal year, by running the expenditure reports to determine how much of the advance grant has been realized, verifying that the corresponding revenues have been recognized, and confirming that the deferred revenue account has been reduced accordingly. The only means of accounting for transactions within these programs is through journal vouchers (JVs).

To strengthen monitoring of this account, guidance has been provided to staff on the correct JV sequence — from the receipt of the advance grant, through utilization and the recognition of expenditures and revenues, to the corresponding reduction of deferred revenue. While this remains a manual process requiring JVs to be raised on an ongoing basis, ensuring the sequence is applied correctly means the deferred revenue schedule will be maintained throughout the year and readily available before the audit commences, rather than being compiled during the audit process.

Finding No.: **2024-003, continued**
Area: Unearned Revenue-Grants Assistance Fund

Views of Responsible Official:

Summary Schedule — Remarks (2024-003):

Repeat 2023-003. Finding disagreed. Schedule revisions arose from the opening balance test adjustments — requiring re-adjustment after FY2024 postings — and a new recording template requested by the auditors, not from unreliability of the schedule. Manual sub-ledger reconciled finally at fiscal year-end via expenditure reports, revenue recognition, and deferred revenue reduction — accounted for solely by JV. Staff guidance issued on the correct JV sequence from advance grant receipt through utilization; deferred revenue schedule to be maintained year-round and readily available before the audit commences.

Auditor's response to Views of Responsible Officials:

While we acknowledge management's views, the condition cited is based on factual observations. EY did not request a new template. EY requested Management to update the existing schedule to reflect the correct beginning balances based on the schedule submitted by Management in FY23. However, Management continued to provide the schedule containing unreconciled beginning balances as well as incomplete information, including missing third-party contact details, performance periods, and year-over-year expenditure data. As a result, additional follow-up and reconciliation procedures were necessary to obtain accurate and complete information for audit purposes.

In addition, the results of the opening balance testing were communicated to management as early as February 2026. However, management did not provide the final Trial Balance until May 2026, approximately three months after the identified discrepancies had been communicated. Notably, the discrepancies identified in the opening balances were mostly related to management's own adjusting journal entries. EY provided management with the list of EY's proposed and corrected adjustments through the appendix to the FY23 Management Representation Letter, which management reviewed, approved, and signed.

Moreover, correcting journal entries to adjust opening balance discrepancies posted by Management for FY24 were incorrect resulting in multiple reversals and unusual balances and were only corrected through audit and client adjustments. The errors in posting correcting journal entries were attributable to management's limited understanding of their own accounting system and its functionality.

Finding No.: **2024-003, continued**
Area: Unearned Revenue-Grants Assistance Fund

Auditor's response to Views of Responsible Officials:

Furthermore, it is management's responsibility, as part of the financial statement close process, to ensure the accuracy and completeness of the Trial Balance and supporting subledgers, including verifying that they reconcile to the audited prior-year balances. Accordingly, management had the opportunity and responsibility to identify and address these discrepancies even before the commencement of the audit.

Finding No.: **2024-004**
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:

1. The FSM National Government was unable to provide a list of the names of those who received travel advances. The list provided includes numerous journal entry identifying numbers rather than names of travelers.
2. The list shows $1.7 million travel advance receivables net of $3.8 million allowance for doubtful accounts.

Cause:

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

Effect or Possible Effect:

We could not determine:

- the reasonableness of the allowance for doubtful accounts for 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: 2023-005

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

Long outstanding travel advances, for which the traveler has not submitted proof of travel within the prescribed time frame, should be offset against the traveler's payroll as allowed per section 5.6.11 of the Financial Management Regulations.

Finding No.: **2024-004, continued**
Area: Travel Advances

Views of Responsible Officials:

Management agrees with the finding. Travel advances have historically been a problematic area for the FSM National Government, and the current condition is largely an inherited issue. As with other areas identified in this year's audit, no subsidiary ledger is properly generated from the legacy Fundware system for travel advances, which is why the available listing reflects journal entry identifying numbers rather than the names of individual travelers.

The majority of the current travel advance receivables balance is historical in nature. A decision will need to be made to write off these long-outstanding historical balances so that the FSM National Government carries a clean record into FY2026 onwards. From that period, the new integrated FMIS (FreeBalance) will maintain system-generated subsidiary ledgers and aging schedules for all accounts payable and accounts receivable, including travel advances — enabling advances to be tracked by traveler, monitored against expense report submission, and aged appropriately.

The auditors' recommendation is acknowledged, and a directive to this effect has now been given to the Travel Section. The directive covers each element of the recommendation: strengthening internal controls over the administration of travel policies, preparing and maintaining an aged listing of travel advances, and seeking reimbursement from travelers who do not adhere to the travel policy. In particular, for long-outstanding travel advances where the traveler has not submitted proof of travel within the prescribed time frame, the advances are to be offset against the traveler's payroll, as allowed under Section 5.6.11 of the Financial Management Regulations.

Summary Schedule — Remarks (2024-004):

Repeat 2023-005. Finding agreed. Longstanding inherited issue; no system-generated sub-ledger in legacy Fundware. Majority of receivables are historical — write-off decision to be made for a clean record from FY2026, when the new FMIS (FreeBalance) will carry system-generated sub-ledgers and aging schedules for all AP and AR. Directive issued to the Travel Section covering all recommendation elements, including payroll offset of long-outstanding advances per FMR Section 5.6.11.

Finding No: **2024-005**
Area: External Investment Pool (Trust Fund for the People of the FSM)

Criteria:

The FSM National Government's Fiscal and Management Regulations and principles of internal control dictate that there should be control activities to ensure accounting information entered into the accounting system be reviewed and approved. In addition, internal controls should exist to detect and prevent material errors. Such controls align with the guidance found in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition:

The FSM National Government is a pool participant in an external investment pool known as the Trust Fund for the People of the FSM. Other pool participants include the FSM State Governments and the U.S. government. Total investment is allocated between the U.S. Government with the remaining amount allocated to the FSM National Government and the FSM State Governments.

The FSM National Government finance personnel did not communicate with the trust Fund Administrator to ensure amounts to be allocated are correct. As a result, it was determined that approximately $26 million investments should not have been allocated to the FSM National Government and FSM State Governments with approximately $7.5 overstatement identified to FSM National Government.

Cause:

The FSM National Government has not established adequate internal controls and monitoring procedures to ensure that investment allocations are accurately recorded, reviewed, and reconciled on a timely basis.

Effect:

A prior period adjustment was recorded to the financial statements of the FSM National Government.

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

Finding No: **2024-005, continued**
Area: External Investment Pool (Trust Fund for the People of the FSM)

Recommendation:

The FSM National Government should implement formal monitoring and reconciliation procedures over investment allocations. Management should communicate regularly, at least monthly, with the Trust Administrator to review and verify investment allocations and ensure that investment balances are accurately recorded and reported in the financial records.

Views of Responsible Official:

Management agrees with the finding. This was a major item discovered during the course of the audit, arising from a difference in the method of reporting applied on each end — between the FSM National Government and the Trust Fund Administrator — with respect to the allocation of investments among pool participants. It should be noted that this schedule and method of reporting has been used in all past years and was flagged for the first time in this year's 2024 audit. Notwithstanding this, the team has successfully reconciled the FSM National Government's trial balance to the Trust Fund Administrator's figures, and the necessary adjustment has been reflected in the financial statements.

A related matter warrants a pending discussion with the Trust Fund Administrator. Returned Compact funds are currently recorded as part of the U.S. share in the trust pool, and this allocation determines both the interest sharing and the ownership sharing among pool participants. The question of who owns that returned share remains to be settled, and this will be taken up as a management-level discussion with the Trust Fund Administrator.
The auditors' recommendation is acknowledged. DOFA will implement formal monitoring and reconciliation procedures over investment allocations and will communicate regularly with the Trust Fund Administrator to review and verify the allocations, ensuring investment balances are accurately recorded and reported in the financial records on an ongoing basis rather than at year-end only.

Summary Schedule — Remarks (2024-005):

Finding agreed. Arose from differing reporting methods between DOFA and the Trust Fund Administrator on investment allocations — a schedule and method used in all past years, flagged for the first time in the 2024 audit; TB now reconciled to the Trust Administrator's figures. Pending management-level discussion with the Trust Administrator on the treatment of returned Compact funds recorded as U.S. share (determines interest and ownership sharing). Formal monitoring and regular communication with the Trust Administrator to be instituted per the recommendation.

Finding No: **2024-006**
Area: Capital Assets

Criteria:

Government Accounting Standards Codification 1400 requires capital assets be recorded at their correct costs and in the correct period.

Condition:

The capital asset register initially provided had a beginning balance variance of approximately $2 million as compared to the prior year 2023 ending audited balance.

Cause:

The FSM National Government’s internal controls over the recording, monitoring, and reconciliation of capital assets were not operating effectively, resulting in deficiencies in the completeness and accuracy of capital asset records.

Effect or Possible Effect:

A revised capital asset register was only provided upon notification of the error to FSM National Government finance personnel.

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

Recommendation:

FSM National Government accounting personnel should enhance their understanding of accounting for capital assets and strengthen controls over the recording, tracking, and reconciliation of capital assets to ensure accurate financial reporting and compliance with applicable accounting standards.

Views of Responsible Official:

Management agrees with the finding. The beginning balance variance of approximately $2 million against the prior year 2023 ending audited balance is connected to the FY2023 opening balance test adjustments described in the responses to the preceding findings — where the realignment of opening balances to the auditors' audited figures gave rise to variances across accounts, including the capital asset register. The register was revised and resubmitted once the variance was identified and reconciled.

Schedule of Findings and Questioned Costs, continued

Finding No: **2024-006, continued**
Area: Capital Assets

Views of Responsible Official:

Management recognizes that the current Fixed Asset Register (FAR) needs to be rebuilt, with proper recording aligned to the Fiscal Management Regulations. This rebuild must be completed well ahead of the FY2025 audit, as the FAR will then be migrated into the new integrated FMIS (FreeBalance), which maintains a fixed asset register module of its own within the system. Establishing a clean, accurate register prior to migration is essential so that the system-based FAR carries correct balances from the outset.

Proper advice and guidance has now been provided to the Supply Team on the recording, tracking, and reconciliation of capital assets. In addition, once the rebuild of the FAR is completed, the Supply Team will conduct physical checks and counts of assets so that adjustments — including deletions and other corrections — can be made for FY2025, ensuring that the right schedule is carried and used moving forward.

Summary Schedule — Remarks (2024-006):

Finding agreed. Beginning balance variance connected to the FY2023 opening balance test adjustments; register revised and reconciled. FAR to be rebuilt with recording aligned to the regulations ahead of the FY2025 audit and migration into the new FMIS (FreeBalance), which has its own FAR module. Guidance provided to the Supply Team; physical checks and counts to follow the rebuild so deletions and other adjustments are made for FY2025 and the correct schedule is used going forward.

Finding No: **2024-007**
Area: Preparation of Trial Balance

Criteria:

The Fiscal and Management Regulations and principles of internal control dictate that there should be control activities to ensure accounting information entered into the accounting system is reviewed and approved.

Condition:

Initial trial balance submitted contained unusual account balances which we brought to the attention of management. Subsequent revisions of the trial balance were provided but errors were still identified. Errors identified included:

- Beginning fund balances for several governmental funds did not match with the ending audited balances from prior year. Management had reversed allowance for doubtful accounts amounting to $18.7 million by recording the reversal to beginning fund balance. However, as the allowance is an estimate, then accounting principles (GASB Statement No. 62) require changes in estimate should not be accounted for by restating amounts reported in the financial statements.
- Amounts due from other funds and amounts due to other funds did not net to zero by approximately $4.3 million.

Cause:

Department of Finance personnel did not exercise sufficient due care in the preparation and review of the trial balance and were not adequately familiar with the requirements of GASB Statement No. 62.

Effect or Possible Effect:

Submission of multiple versions of a trial balance raises doubt on the overall reliability of accounting information. Errors identified were corrected through audit and client adjustments.

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

Finding No: **2024-007, continued**
Area: Preparation of Trial Balance

Recommendation:

Management should strengthen the review process over the preparation of the trial balance to ensure that unusual balances, accounting errors, and inconsistencies are identified, appropriately resolved, and communicated on a timely basis. In addition, the Department of Finance should provide ongoing professional development and technical training on generally accepted accounting principles (GAAP) and applicable GASB standards to enhance staff competency and promote compliance with financial reporting requirements.

Views of Responsible Official:

Management disagrees with the finding. The unusual account balances identified do not reflect a lack of due care in the preparation and review of the trial balance; they were a direct impact of the FY2023 opening balance test described in the responses to the preceding findings. That exercise also included the adjustment of system-generated accounts — such as the interfund due from and due to other funds accounts — which had never been touched in the past and which were included within the opening balance test to be adjusted. These matters were all rectified; however, the re-reconciliation took a longer time because the FY2024 adjustments had already been posted, and further re-adjustments were then required so that the accounts remained aligned to their manual subsidiary ledgers. The submission of multiple versions of the trial balance was therefore a consequence of this progressive realignment rather than a lack of due care in preparation.

To prevent a recurrence of this issue, the team and EY have already agreed to conduct a walkthrough of the FY2024 ending balances so that the same opening balance issues do not arise before the commencement of the FY2025 audit. This walkthrough was a process not performed at the FY2023 closing — which is what gave rise to the misalignments encountered this year — and it will now be performed upon closing so that the FSM National Government carries a clean rollover into the FY2025 opening balances.

The auditors' recommendation is acknowledged. The agreed closing walkthrough will strengthen the review process over the preparation of the trial balance, ensuring unusual balances, accounting errors, and inconsistencies are identified and resolved on a timely basis. In parallel, ongoing guidance and training for finance staff — including on GAAP and applicable GASB standards — will continue to be provided, supported by the Internal Audit Advisor, to enhance staff competency and compliance with financial reporting requirements.

Finding No: **2024-007, continued**
Area: Preparation of Trial Balance

Views of Responsible Official:

Summary Schedule — Remarks (2024-007):

Finding disagreed. Unusual balances were a direct impact of the FY2023 opening balance test — not a lack of due care — which included adjusting system-generated accounts never previously touched; all rectified, with re-reconciliation extended by FY2024 adjustments already posted. Team and EY have agreed a walkthrough of FY2024 ending balances — a process not done at the 2023 closing — to ensure a clean rollover into the FY2025 opening. Staff training on GAAP/GASB continuing with the Internal Audit Advisor.

Auditor's response to Views of Responsible Officials:

While we acknowledge management's views, the condition is based on factual observations. The results of the opening balance testing were communicated to management as early as February 2026. However, management did not provide the final Trial Balance until May 2026, approximately three months after the identified discrepancies had been communicated. Notably, the discrepancies identified in the opening balances were mostly related to management's own adjusting journal entries. EY provided management with the list of proposed and corrected adjustments through the appendix to the FY23 Management Representation Letter, which management reviewed, approved, and signed.

Moreover, correcting journal entries to adjust opening balance discrepancies posted by Management for FY24 were incorrect resulting in multiple reversals and unusual balances and were only corrected through audit and client adjustments. The errors in posting correcting journal entries were attributable to management's limited understanding of their own accounting system and its functionality.

Furthermore, it is management's responsibility, as part of the financial statement close process, to ensure the accuracy and completeness of the Trial Balance and supporting subledgers, including verifying that they reconcile to the audited prior-year balances. Accordingly, management had the opportunity and responsibility to identify and address these discrepancies even before the commencement of the audit.

Finding No: **2024-008**
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 $101 million from the US government and passed it down to various FSM State Governments. The $101 million was recorded in the FSM National Government's SEFA but was not initially 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 adequately apply 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 $101 million. An audit adjusting journal entry was recorded to the Grants Assistance Fund to correct this error.

Identification as a Repeat Finding: 2023-004

Recommendation:

FSM National Government accounting personnel should obtain sufficient training and guidance on the requirements of GASB Codification Section N50.128 to ensure accurate and compliant financial reporting.

Views of Responsible Official:

Management disagrees with the finding. The delay in recording the pass-through amounts as revenues and expenditures in the funds of the primary government did not arise from a failure to adequately apply GASB Codification N50.128; it is due to the new accounting treatment of Compact funds as proposed by the U.S. Department of the Interior (DOI). The recording of pass-through Compact funds in the FSM National Government's books represents a new treatment of Compact funds, and major discussions have been ongoing with DOI, which proposed this new approach of booking all Compact funds in the National Government's books.

Finding No: **2024-008, continued**
Area: Determining Fund Types for Reporting Pass-through Grants

Views of Responsible Official:

This is a significant change in accounting treatment with nation-wide implications, affecting the FSM National Government and all four FSM State Governments — and pending the outcome of those discussions and the settlement of the legal basis described below, the amounts were recorded in the FSM National Government's SEFA and were not initially posted as revenues and expenditures in the funds of the primary government.

In response, a taskforce was established through an Executive Order and is examining the appropriate legal basis — whether through a bill or an existing provision of law — that would allow the FSM National Government to record the FSM State Governments' shares of Compact drawdown wires in the National Government's books. This is the way forward, and the treatment will be applied moving forward once the legal framework is settled. The audit adjusting journal entry recorded to the Grants Assistance Fund during this year's audit is consistent with this direction.

Management respectfully notes that the condition does not arise from accounting personnel lacking familiarity with GASB Codification N50.128. Rather, it is a matter of national policy currently the subject of nation-wide discussion — hence the establishment of the taskforce by Executive Order — concerning the appropriate treatment and legal authority for recording funds that are passed through to the sovereign FSM State Governments. Once the taskforce's work is concluded, the treatment will be consistently applied in accordance with the agreed framework and the requirements of GASB Codification N50.128.

Summary Schedule — Remarks (2024-008):

Repeat 2023-004. Finding disagreed. The delay in posting reflects the new DOI-proposed accounting treatment of Compact funds (booking all Compact funds in National's books), pending the ongoing discussions and legal basis — not a failure to apply GASB N50.128. Taskforce established by Executive Order is examining the legal basis (bill or existing law provision) for recording states' shares of drawdown wires in National's books — the way forward once settled. A nation-wide policy matter, not a staff GASB competency issue.

Auditor’s response to Views of Responsible Officials:

While we acknowledge management's views, the condition is based on factual observations. In prior years (FY2022 and FY2023), management recorded pass-through grant revenues and expenditures within the primary government funds. Given management's prior application of these requirements, the delayed recognition of pass-through grants in the current year reflects a failure by management to consistently apply the requirements of GASB Codification Section N50.128.

Finding No: **2024-009**
Area: Amounts Passed Through to Subrecipients

Criteria:

The Uniform Guidance requires that amounts provided to subrecipients be recorded as an expenditure in the Schedule of Expenditures and Federal Awards when the disbursement is made to the subrecipient.

Condition:

The FSM National Government recorded expenditures in the period amounts were accrued as liabilities due to FSM State Governments (subrecipients) rather than the period disbursements were made to the FSM State Governments.

Cause:

Management's limited understanding of Uniform Guidance requirements contributed to deficiencies in the design and implementation of controls over compliance with federal award programs.

Effect or Possible Effect:

Amounts recorded as federal award expenditures by the FSM National Government are overstated. Error identified was subsequently corrected through client adjustments.

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

Recommendation:

Management should provide finance personnel with periodic training on Uniform Guidance requirements to ensure they possess the necessary knowledge and competencies to properly account for, monitor, and report federal award activities

Views of Responsible Official:

Management disagrees with the finding. The federal programs concerned operate on a reimbursement basis. The FSM State Governments have already incurred the underlying transactions using their own funds and submit claims for reimbursement; upon receipt of the reimbursed funds, the FSM National Government passes the funds through to the states. In this instance, the FSM National Government is acting as a cash conduit — it simply passes the funds through to the states. This is why, in all past years, these amounts have been recorded through balance sheet accounts: an accounts payable to the states was raised when their reimbursed funds were received, and the payable was closed once the funds were paid out to the states through wires.

Finding No: **2024-009, continued**
Area: Amounts Passed Through to Subrecipients

Views of Responsible Official:

This arrangement is not similar in nature to the new treatment of Compact funds described in the response to Finding 2024-008, since Compact funds are advanced. Here, the federal expenditures have already been incurred by the states; the states are being reimbursed for expenditures already made, and the states book the revenue once they receive the reimbursement. The balance sheet treatment applied by the FSM National Government therefore reflects the substance of its role in these programs — receiving reimbursement funds and transmitting them onward to the states that incurred the expenditures.

Should the classification of the FSM National Government as a pass-through entity for these programs be settled otherwise through the ongoing discussions with DOI described in the responses to Findings 2024-008 and 2024-013, the journal voucher sequences will be aligned to the agreed treatment at that time.

Summary Schedule — Remarks (2024-009):

Finding disagreed. These federal programs operate on a reimbursement basis — the states have already incurred the expenditures using their own funds and are reimbursed, booking revenue on receipt; FSMNG acts as a cash conduit, passing the funds through (hence the historical balance-sheet treatment: AP to states on receipt, closed on wire payment). Not similar in nature to the new Compact treatment, where funds are advanced. JV sequences to be aligned if the pass-through classification is settled otherwise through the ongoing DOI discussions.

Auditor’s response to Views of Responsible Officials:

While we acknowledge management's views, the condition is based on factual observations. The finding specifically relates to amounts passed through to subrecipients, rather than grants received on a reimbursement basis. Accordingly, the condition reflects the untimely recognition of expenditures in accordance with applicable accounting requirements and is not intended to address reimbursement-based grant transactions.

Finding No. **2024-010**

Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	D20AF00054, D21AF00024, D23AF00047, D23AF00061
Area:	Cash Management
Questioned Costs:	$1,643,137

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. FSMNG did not maintain written procedures to minimize the time elapsing between the transfer of infrastructure project funds and the disbursement of such funds.

2. Six (or 50%) out of twelve drawdowns tested, FSMNG disbursed the funds for more than three business days.

Check Number	Fund Transfer Date	Disbursement Date	Business Days Elapsed	Questioned Cost
106600	1/19/2024	1/31/2024	8	$ 623,770.
106599	12/12/2023	1/9/2024	20	461,154
106602	1/30/2024	2/8/2024	7	296,332
106611	6/20/2024	7/2/2024	10	237,968
106605	4/5/2024	4/25/2024	14	19,393
106617	7/19/2024	8/15/2024	19	4,520
				$1,643,137

Finding No. 2024-010, continued

Cause:

FSMNG does not have established policies and procedures to minimize the time elapsing between the transfer of infrastructure project funds received from the federal agency and FSMNG's disbursement of such funds to vendors.

Effect or potential effect:

FSMNG is in noncompliance with the applicable cash management requirements and a questioned cost of $1,643,137 result. The questioned costs is based on the amounts of drawdowns made.

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

Recommendation:

FSMNG 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. 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:

Management agrees with the finding as to the absence of a separate written procedure specifically addressing the time elapsing between the receipt of infrastructure project funds and their disbursement, but disagrees with the application of the three-business-day standard and with the questioned costs. A dedicated cash management procedure will be developed to ensure clarity, setting out the disbursement process and target timeframes consistent with Article IV, Section 5(b)(ii) of the Fiscal Procedures Agreement (FPA).

Management's view is that this condition constitutes an internal control deficiency and does not warrant questioned costs. The FPA — the governing award term for these sector grants — requires only that the FSM National Government maintain procedures to minimize the time elapsing between the receipt of funds and payment of the accrued expenditure; it prescribes no specific day-count standard. All disbursements tested were made through the FSM National Government's internal wire-out approval process, which requires authorized signatories, and all were completed within the month of receipt. The deficiency identified is therefore the absence of a documented procedure — a matter of internal control design — and not a failure in the eligibility or propriety of the payments themselves.

Finding No. 2024-010, continued

Views of Responsible Officials, continued:

With respect to the questioned costs of $1,643,137, management notes that the amounts represent actual payments to vendors for eligible infrastructure accrued expenditures. The costs do not meet the definition of questioned costs under 2 CFR 200.1: they did not result from a violation of the terms and conditions of the Federal award, as the FPA contains no three-business-day requirement; they are fully supported by adequate documentation — management reaffirms that all transactions were vouched as completed during fieldwork, with all samples provided and cleared and no missing items; and they are not unreasonable, reflecting the actions of a prudent administration operating its required payment approval controls. Further, under paragraph (3)(i) of the questioned cost definition in 2 CFR 200.1, questioned costs are not an improper payment until reviewed and confirmed as such — and no such determination applies here, as the funds were disbursed in full for their intended grant purposes. Management accordingly requests that the finding be reported as an internal control deficiency with questioned costs of $0.

Summary Schedule — Remarks (2024-010):

Finding agreed as to the absence of a separate written procedure on time elapsing — dedicated cash management procedure to be developed per FPA Article IV, Section 5(b)(ii); disagreed on the three-business-day standard and the questioned costs. The FPA prescribes no day-count standard, all disbursements were within the month through the required wire approval process, and all transactions were vouched as completed during fieldwork with no missing items — per the 2 CFR 200.1 questioned cost definition, including paragraph (3)(i), questioned costs of $0 are warranted.

Finding No. **2024-011**
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Unknown
Area: Equipment and Real Property Management
Questioned Costs: $0

Criteria:

In accordance with 2 CFR 200.303(a), recipients 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 statues, regulations, and the terms and conditions of the Federal award.

Article VI Section 1(f)(vi)(a) of the Fiscal Procedures Agreement (FPA) states that Property records shall be maintained which include: (1) a description of the property, (2) a serial number or identification number; (3) the source of property; (4) who holds title; (5) the acquisition date and cost of the property; (6) the percentage of Grants 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.

Further, Article VI Section(f)(vi)(c) 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.

Lastly, Article VI Section(f)(vi)(d) states that adequate maintenance procedures shall be developed to keep the property in good condition.

Condition:

1. FSMNG's capital asset listing does not contain all required information identified in Article VI Section 1(f)(vi)(a) of the Fiscal Procedures Agreement. The current listing does not include the source of property, the percentage of Grants used in the purchase, the use and condition of the property.

2. For twenty-seven (or 93%) of twenty-nine equipment selected for physical inspection testing, FSMNG 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.

Federated States of Micronesia
National Government

Schedule of Findings and Questioned Costs, continued

Finding No. **2024-011, continued**

Condition, continued:

Account Number	Tag No.	Asset Description	Acquisition Cost	Net Book Value /Questioned Cost
15-97-97-27213	NFA-00393	MARINE SIX 26-FOOTER BOAT	$ 22,580	$-
10-0-61-10110	12141	SUV, HYUNDAI-TUCSON	20,000	-
11-70-71-11600	12001	SEDAN, HYUNDAI	15,000	-
19-80-81-70010	12125	RAV4, TOYOTA	6,200	-
14-07-16-14020	12355	VEHICLE, FORD ESCAPE	6,135	-
10-60-61-10120	12355	CPU W/ MONITOR, DELL	3,380	-
10-60-61-10120	12654	CPU W/ MONITOR, DELL	1,690	-
15-60-61-15120	9935	TEMP. RECORDER	1,669	-
15-60-61-15120	9936	TEMP. RECORDER	1,669	-
19-85-52-70020	12396	BACKUP, APC SMART UPS	1,500	-
15-97-97-15122	NFA-00446	18k BTU Inverter 220v/60Hz	1,495	-
15-60-61-15120	12078	LAPTOP, HP PROBOOK	1,495	-
10-60-61-10110	12170	CPU, DELL	1,365	-
10-60-61-10110	12171	CPU, DELL	1,365	-
10-60-61-10110	12174	CPU, DELL	1,365	-
10-60-61-10110	12175	CPU, DELL	1,365	-
11-70-71-11600	12083	PC-ALL-IN-ONE, HP	1,300	-
11-70-71-11600	12084	PC-ALL-IN-ONE, HP	1,300	-
11-70-71-11601	12400	CPU, DELL	1,215	-
10-60-98-10123	13213	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13216	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13220	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13221	ALL IN ONE DESKTOP, LENOVO	1,075	-

Finding No. 2024-011, continued

Condition, continued:

Account Number	Tag No.	Asset Description	Acquisition Cost	Net Book Value /Questioned Cost
10-60-98-10123	13225	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13226	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13230	ALL IN ONE DESKTOP, LENOVO	1,075	-
10-60-98-10123	13233	ALL IN ONE DESKTOP, LENOVO	1,075	-
			$100,688	$---

Cause:

1. FSMNG's current policy and procedure for capital asset listing management and maintenance is not in accordance with the requirements of Article VI Section 1(f)(vi)(a) of the Fiscal Procedures Agreement (FPA).

2. FSMNG does not have established maintenance and security procedures to ensure that all federal capital assets are properly maintained and secured in the assigned premises.

3. There was a lack of proper transitioning of responsibilities to the newly assigned personnel designated to manage, maintain and safeguard the federal capital assets.

Effect or potential effect:

FSMNG is in noncompliance with applicable equipment and real property management requirements and a total questioned costs is $0 which is based on the total net book value of the assets.

Identification as a Repeat Finding: Finding No. 2023-007

Finding No. 2024-011, continued

Recommendation:

1. FSMNG should update the structure and contents of their current capital asset listing to include all the information required by Article VI Section 1(f)(vi)(a) of the FPA. Additionally, the FSMNG should improve their policies and procedures on management and maintenance of their capital asset listing.

2. FSMNG should establish safeguarding and maintenance procedures that ensure performance of periodic inspections, timely repairs, and adequate security in each location of all capital assets of the program.

3. FSMNG could consider training additional personnel for equipment management, safeguarding and maintenance, to ensure that during the period of transitioning of responsibilities, capable individuals can still perform the procedures on behalf of the main responsible individual.

Views of Responsible Officials:

Management agrees with the finding. As set out in the response to Finding 2024-006, management recognizes that the current Fixed Asset Register (FAR) needs to be rebuilt, with proper recording aligned to the Fiscal Management Regulations and to the property record requirements of Article VI, Section 1(f)(vi)(a) of the Fiscal Procedures Agreement (FPA). The rebuilt register will capture the required data elements — including the description, serial or identification number, source of the property, title holder, acquisition date and cost, the percentage of grant funds used in the purchase, and the location, use, and condition of each asset — so that capital assets procured with federal funding under the program can be clearly identified, and a schedule of disposals, including disposal dates and sale prices, can be maintained and produced for audit.

The rebuild must be completed well ahead of the FY2025 audit, as the FAR will then be migrated into the new integrated FMIS (FreeBalance), which maintains a fixed asset register module of its own within the system. Establishing a clean, accurate register prior to migration — with the funding source of each asset identified — will ensure the system-based FAR carries correct and complete records from the outset and can readily support sample selection and audit procedures in future periods.

Proper advice and guidance have now been provided to the Supply Team on the recording, tracking, and reconciliation of capital assets, including the FPA property record requirements. Once the rebuild of the FAR is completed, the Supply Team will conduct physical checks and counts of assets so that adjustments — including deletions and other corrections — can be made for FY2025, ensuring the right schedule is carried and used moving forward.

Summary Schedule — Remarks (2024-011):

Finding No. 2024-011, continued

Views of Responsible Officials, continued:

Repeat 2023-007. Finding agreed. Addressed together with 2024-006 — FAR to be rebuilt aligned to the regulations and FPA Article VI, Section 1(f)(vi)(a) property record elements, identifying assets procured with federal funding and maintaining a disposals schedule. Rebuild ahead of the FY2025 audit and migration into the new FMIS (FreeBalance) FAR module. Guidance provided to the Supply Team; physical checks and counts to follow the rebuild.

Finding No.	**2024-012**
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	D23AF00017, D23AF00019
Area:	Reporting
Questioned Costs:	$0

Criteria:

In accordance with 2 CFR 200.303(a), the recipient and subrecipient 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 the Federal statutes, regulations, and the terms and conditions of the Federal award.

Based on the grant award agreements, FSMNG is required to submit quarterly Federal Financial Reports (SF-425) that are accurately presented, comparable and reconcilable.

Condition:

For two (or 25%) of eight SF-425 reports tested, FSMNG did not provide the copy of SF-425 and the attached accounting records extracted from Fundware reports.

Grant Award	Report Period	Report Due Date
D23AF00017	9/30/2023	10/30/2023
D23AF00019	9/30/2023	10/30/2023

Cause:

FSMNG did not prepare and failed to submit the required quarterly SF-425 reports to OIA for the identified periods.

Effect or potential effect:

FSMNG is in noncompliance with applicable reporting requirements. No questioned cost is identified as the nature of noncompliance is nonmonetary.

Identification as a Repeated Finding: 2023-011

Finding No. 2024-012, continued

Recommendation:

FSMNG should establish controls to ensure that responsible personnel timely monitor the preparation and submission of the required reports to OIA.

Views of Responsible Officials:

Management agrees with the finding. For the quarter ended September 30, 2023, the quarterly report could not be submitted by the due date due to delays in the submission of reports from a few of the FSM State Governments. As the SF-425 for these awards is compiled incorporating the reports of the participating states, the report for that quarter was incomplete and could not be submitted until the outstanding state reports were received. The final report, following the liquidation period, was subsequently completed and submitted to DOI, and was accepted.

Management notes that no questioned costs arise, as the nature of the noncompliance is nonmonetary. Moving forward, DOFA will continue to follow up with the FSM State Governments on the timely submission of their quarterly reports so that the consolidated SF-425 reports can be prepared, reconciled to the accounting records, and submitted to OIA by the applicable due dates.

Summary Schedule — Remarks (2024-012):

Repeat 2023-011. Finding agreed. For the quarter ended 9/30/2023, delays in a few states' reports left the consolidated SF-425 incomplete and unable to be submitted by the due date; the final report following the liquidation period was submitted to DOI and accepted. No questioned costs — nonmonetary. Follow-up with the states on timely quarterly submissions to continue.

Finding No.:	**2024-013**
Federal Agency:	U.S. Department of Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	D23AF00263, D24AF003334, D24AF00335, D24AF00336, D24AF00340, D24AF00341, D24AF00344, D24AF00350, D24AF00378
Area:	Subrecipient Monitoring
Questioned Costs:	$94,422,154

Criteria:

Article VI, Section 1(n) of the Fiscal Procedures Agreement (FPA) states that 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 2023 Amended Compact, the Grant terms and conditions, and this Agreement; (ii) Sub-Grantees are aware of requirements imposed upon them by the 2023 Amended Compact, the Grant terms and conditions, and this agreement; and (iii) The Sub-Grantee can meet the financial management standards of this Agreement.

Article VI, Section 2(a)(i) also states that the Government of the Federated States of Micronesia shall be responsible for the management and monitoring of the day-today operations of all Sector Grants and their activities, to assure compliance with all applicable Sector Grant terms and conditions.

Additionally, Article VI, Section 1(h) requires 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. The Government of the Federated States of Micronesia shall ensure that Grants shall not go to those parties identified in the SAM Exclusions List.

Furthermore, Article IV, Section 5(b)(ii) says 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.

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 $94,422,154 amounts passed to subrecipients.

Finding No.: **2024-013, continued**

Condition, continued:

a. Ensure that every sub-grant includes any clauses required by the 2023 Amended Compact, the Grant terms and conditions, 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.
d. Suspension and debarment verification procedures prior to approving of the subaward.

2. FSMNG did not properly monitor payments to subrecipients, with a total population of $23,177,976, to ensure that the subrecipients timely disbursed the funds upon receipt from FSMNG. No questioned costs are presented as amounts are already questioned at Condition 1.

Cause:

1. FSMNG does not have policies and procedures that comply with Article VI, Section 1 of the Fiscal Procedures Agreement.

2. FSMNG 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 or potential effect:

1. FSM National Government is in noncompliance with applicable subrecipient monitoring requirements and questioned costs of $94,422,154, which is the total subrecipient disbursements made during the year, result.

2. The FSM National Government is in noncompliance with the applicable subrecipient cash management monitoring requirements.

Identification as a Repeat Finding: 2023-009

Recommendation:

1. FSMNG should update their established policies and procedures to be in accordance with Article VI, Section 1(n) and Section 2(a)(i) of the Fiscal Procedures Agreement to comply with the requirements for pass-through-entities. FSMNG should consider adopting the provisions identified in 2 CFR 200.322 when designing the policies in procedures, which provide details regarding the requirements for Pass-Through Entities for subrecipient monitoring.

Finding No.: 2024-013, continued

Recommendation, continued:

2. FSMNG 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. 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:

Management disagrees with condition 1. The FSM National Government does have a subrecipient agreement in place. All Compact sector grants are properly allocated through JEMCO for all sub-grantees, and a subrecipient agreement is transmitted to the FSM State Governments for their concurrence each year, under which the states are obliged to the grant terms and conditions. This agreement is signed by both parties — the President and the Governors, as the allottees of the funds — and the process is facilitated by the Office of Compact Management. The matters listed at conditions 1(a) through 1(d) — the inclusion of clauses required by the 2023 Amended Compact, the sub-grantees' awareness of the requirements imposed upon them, their ability to meet the financial management standards of the FPA, and verification prior to approval of the subaward — are all part of this signed subrecipient agreement.

Management further notes that condition 1's statement that subrecipient monitoring procedures are 'required by the FPA' is not accurate: nowhere in the FPA is such a requirement prescribed. Throughout the FPA, the obligations rest with the 'Government of the Federated States of Micronesia,' which the FPA itself defines as the Government established and organized by the Constitution of the Federated States of Micronesia, including all the political subdivisions and entities comprising that Government.

Under the FSM's longstanding interpretation of that definition, each FSM State Government is itself a grantee within the Government of the FSM and is entitled to its own management and monitoring of the day-to-day operations of its sector grants, consistent with Article VI, Section 2(a)(i). Under the recent interpretation advanced by DOI, however, these responsibilities rest with the FSM National Government, which is now to be classed as a pass-through entity in respect of the states' shares of Compact funds. This classification is a new proposed treatment arising from the ongoing Compact discussions with DOI, consistent with the matters described in the responses to Findings 2024-008 and 2024-009. The FSM National Government is now working on establishing the subrecipient agreement framework and the associated policies and procedures to align with DOI's requirements, taking into account the Uniform Guidance provisions on pass-through entity requirements referred to in the recommendation.

Finding No.: 2024-013, continued

Views of Responsible Officials, continued:

Management also disagrees with condition 2. The Compact sector grants concerned are paid on an advance basis: under Article IV, Section 5(b)(i) of the FPA, periodic payments for operational grants are made as soon as practicable after the first business day of each fiscal quarter to fund the financial requirements of that quarter. The time-elapsing provision relied upon in the criteria — Article IV, Section 5(b)(ii) — applies only to sector grants for infrastructure projects, which are paid on the basis of accrued expenditures. The requirement to minimize the time elapsing therefore does not apply to these disbursements to the states, unless they relate to infrastructure. In any event, as demonstrated by the samples tested, funds are disbursed to the states within the month of receipt, through the FSM National Government's required wire-out approval process as described in the response to Finding 2024-010.

With respect to the questioned costs of $94,422,154 — the total of subrecipient disbursements made during the year — management's position is that the matters identified constitute, at most, internal control deficiencies relating to the formal documentation of subrecipient monitoring policies and procedures. That framework is now being established, and in accordance with the agreement with DOI, it is to be implemented by 1 October 2026. The conditions do not warrant questioned costs. All samples requested were provided to the auditors, vouched, and cleared, meaning the underlying disbursements are fully supported by adequate documentation.

The costs did not result from a violation of the terms and conditions of the Federal award, given that the FPA prescribes no subrecipient monitoring procedures and the pass-through classification is a newly proposed treatment still being settled with DOI; and the costs are not unreasonable, representing the allocation of Compact sector grant funds to the FSM State Governments as approved through JEMCO. Under the definition of questioned costs in 2 CFR 200.1, including paragraph (3)(i), questioning the entire population of subrecipient disbursements on account of an internal control deficiency is not warranted. Management accordingly requests that the finding be reported as an internal control deficiency with questioned costs of $0.

Summary Schedule — Remarks (2024-013):

Finding No.: **2024-013, continued**

Views of Responsible Officials, continued:

Repeat 2023-009. Condition 1 disagreed — a subrecipient agreement exists, signed annually by the President and Governors as allottees, facilitated by the Office of Compact Management, covering conditions 1(a)–(d), with allocations approved through JEMCO; the FPA prescribes no subrecipient monitoring procedures, and the pass-through classification for National is a new treatment per DOI discussions. Condition 2 disagreed — Compact sector grants are paid on an advance basis under FPA Article IV, Section 5(b)(i); the time-elapsing proviso in Section 5(b)(ii) applies only to infrastructure, and in any event disbursements to states are made within the month of receipt. At most internal control deficiencies — the monitoring framework is being established and, per the DOI agreement, is to be implemented by 1 October 2026. Questioned costs contested — all samples provided, vouched, and cleared; per 2 CFR 200.1, including paragraph (3)(i), questioned costs of $0 are warranted.

Auditor Response:

Condition 1 – Based on February 11, 2026 communication provided by the Department of Interior, the interpretation that the FPA aligns with the provisions of 2 CFR 200.332 is correct and consistent with expectation that FSMNG should conduct subrecipient monitoring procedures over funds passed down to the different FSM states.

Condition 2 – The amount of questioned cost identified pertains to fund 19 infrastructure projects passed-through to each state, therefore subject to be monitored for timeliness of disbursement as required by the FPA.

Finding No.:	**2024-014**
Federal Agency:	U.S. Department of the Interior
AL Program:	15.875 Economic, Social, and Political Development of the Territories
Federal Award No.:	D22AF00326 and D23AF000263
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 should be maintained as part of the personnel files and made available when requested for purposes of grant oversight or audits.

Condition:

For nine (or 100%) out of nine employees, FSMNG did not perform the annual performance evaluation for fiscal year 2024.

Employee Number	Account Number	Account Description
69860	15-60-61-15120-8010	Supplemental Education Grant
77193	15-60-61-15120-8010	Supplemental Education Grant
606924	15-60-61-15120-8010	Supplemental Education Grant
702518	15-60-61-15120-8010	Supplemental Education Grant
704816	15-60-61-15120-8010	Supplemental Education Grant
906654	15-60-61-15120-8010	Supplemental Education Grant
908379	15-60-61-15120-8010	Supplemental Education Grant
909982	15-60-61-15120-8010	Supplemental Education Grant
911763	15-60-61-15120-8010	Supplemental Education Grant

Cause:

FSMNG does not have any established policy and monitoring procedure to ensure that the annual evaluation of Education Sector and SEG funded employees are performed.

Effect or potential effect:

FSMNG is in noncompliance with the requirement. No questioned cost is identified as the nature of noncompliance is nonmonetary.

Identification as a Repeat Finding: Finding No. 2023-010

Finding No.: **2024-014, continued**

Recommendation:

FSMNG should establish monitoring procedures to ensure that the funded personnels under the Education Sector and the SEG are evaluated on an annual basis. FSMNG could consider assigning a dedicated employee that would monitor compliance and perform the required procedures.

Views of Responsible Officials:

Management agrees with the finding. The department concerned was not aware of the requirement for annual performance evaluations of personnel funded under the Education Sector and Supplemental Education Grant (SEG) during the fiscal year under audit. The requirement has been implemented from FY2025 onwards, with the annual performance evaluations having commenced in 2025.

It should be noted that this is a legacy audit, and matters identified in this fiscal year audits are being addressed in the current year moving forward. The department is now well aware of the requirement and will ensure compliance, with annual performance evaluations performed for all Education Sector and SEG-funded personnel and maintained as part of the personnel files, available for grant oversight and audit purposes. In line with the auditors' recommendation, monitoring procedures will be established to ensure the funded personnel are evaluated on an annual basis, and consideration will be given to assigning a dedicated employee to monitor compliance and perform the required procedures. No questioned costs arise, as the nature of the noncompliance is nonmonetary.

Summary Schedule — Remarks (2024-014):

Repeat 2023-010. Finding agreed. The department was not aware of the annual performance evaluation requirement for SEG/Education Sector funded personnel; the requirement has been implemented from FY2025 onwards, with evaluations commenced in 2025. As a legacy audit, matters identified are addressed in the current year moving forward — the department is now well aware and will ensure compliance, with evaluations maintained in personnel files, monitoring procedures to be established, and consideration of a dedicated compliance employee per the recommendation. No questioned costs — nonmonetary.

Finding No.	**2024-015**
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:	$19,824

Criteria:

In accordance with 2 CFR 200.303(a), recipients 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.

Additionally, in accordance with 2 CFR 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.

Further, according to 2 CFR Section 200.313(d)(3), a control system must be in place to ensure safeguards for preventing property loss, damage, or theft. Any loss, damage, or theft of equipment must be investigated. The recipient or subrecipient must notify the Federal agency or pass-through entity of any loss, damage, or theft of equipment that will have an impact on the program.

Lastly, according to 2 CFR Section 200.313(d)(4), regular maintenance procedures must be in place to ensure the property is in proper working condition.

Condition:

1. FSMNG's capital asset listing does not contain all required information identified in 2 CFR 200.313. The current listing does not clearly determine which program each asset belongs to. No questioned cost identified as the finding is non-monetary.

2. For four (or 21%) of 19 equipment selected for physical inspection testing, FSMNG did not properly safeguard and maintain the federal capital assets to ensure that the property is existing 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.

Finding No. 2024-15, continued

Condition, continued:

Grant Award No.	Tag No.	Asset Description.	Net Book Value /Questioned Cost
NU50CK000513	CFA00108	2021 Nissan Kicks S SUV	$12,828
NU50CK000513	NFA01027	GXIV-4-D R24 Module	3,778
NU50CK000513	NFA00962	INCUBATOR	2,081
NU50CK000513	NFA00789	INCUBATOR IGS100	1,137
NU50CK000513	13826	CENTRIFUGE, UNICO	-
			$19,824

Cause:

1. FSMNG's current policy and procedure for capital asset listing management and maintenance is not in accordance with 2 CFR 200.313(d)(1).

2. FSMNG does not have established maintenance and security procedures to ensure that all federal capital assets are properly maintained and secured in the assigned premises.

Effect or Potential Effect:

FSMNG is in noncompliance with applicable equipment and real property management requirements and a total questioned costs $19,824 result. The amount of the questioned cost is based on the net book value of the asset.

Identification as a Repeat Finding: Finding No. 2023-017.

Recommendation:

1. FSMNG should update the structure and contents of their current capital asset listing to include all the information required by 2 CFR 200.313(d)(1). Additionally, FSMNG should improve their policies and procedures on management and maintenance of their capital asset listing.

2. FSMNG should establish safeguarding and maintenance procedures that ensure performance of periodic inspections, timely repairs, and adequate security in each location of all federal capital assets.

Finding No. 2024-15, continued

Views of Responsible Officials:

Management agrees with the finding. As set out in the responses to Findings 2024-006 and 2024-011, management recognizes that the current Fixed Asset Register (FAR) needs to be rebuilt, with proper recording aligned to the Fiscal Management Regulations and to the property record requirements of 2 CFR Section 200.313(d)(1). The rebuilt register will capture the required data elements — including the description, serial or identification number, the source of funding for the property including the Federal award identification number, the title holder, acquisition date and cost, the percentage of Federal contribution, and the location, use, and condition of each asset — so that capital assets procured with federal funding under the program can be clearly identified, together with any disposition data.

The rebuild must be completed well ahead of the FY2025 audit, as the FAR will then be migrated into the new integrated FMIS (FreeBalance), which maintains a fixed asset register module of its own within the system. Establishing a clean, accurate register prior to migration — with the funding source of each asset identified — will ensure the system-based FAR carries correct and complete records from the outset.

Proper advice and guidance has now been provided to the Supply Team on the recording, tracking, reconciliation, safeguarding, and maintenance of capital assets. Once the rebuild of the FAR is completed, the Supply Team will conduct physical checks and counts of assets — which will include locating and confirming the status and condition of the assets identified in this finding — so that adjustments, including deletions and other corrections, can be made for FY2025 and the appropriate action taken on assets found to be missing, broken, or requiring repair or disposition, in line with the safeguarding and maintenance requirements of 2 CFR Sections 200.313(d)(3) and (d)(4). In line with the auditors' recommendation, a written policy with comprehensive procedures will be established covering effective safeguards against loss, damage, or theft of property, together with maintenance protocols to preserve the property in good condition, and these procedures will be enforced to ensure federal capital assets are kept safe and in good working condition.

Summary Schedule — Remarks (2024-015):

Repeat 2023-017. Finding agreed. Addressed together with 2024-006 and 2024-011 — FAR to be rebuilt aligned to the regulations and 2 CFR 200.313(d)(1) property record elements, identifying assets procured with federal funding including the award identification number. Rebuild ahead of the FY2025 audit and migration into the new FMIS (FreeBalance) FAR module. Physical checks and counts to follow the rebuild, including confirmation of the status of the assets identified. Per the recommendation, a written safeguarding and maintenance policy with comprehensive procedures to be established and enforced per 2 CFR 200.313(d)(3) and (d)(4).

Finding No. **2024-016**

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, Suspension and Debarment
Questioned Costs: $509,463

Criteria:

In accordance with 2 CFR 200.303(a), the recipient and subrecipient 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 the Federal statutes, regulations, and the terms and conditions of the Federal award.

Additionally, 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.

Lastly, 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:

For nine (or 100%) of eight purchase orders or contracts selected for testing, with a total population of $509,463, FSMNG did not perform verification whether the individual or contractor was suspended or debarred prior to entering into a covered transaction.

Grant Award No.	Contract / PO No.	Questioned Cost
NU50CK000513	C240242	$135,000
NU50CK000513	L240675	85,060
NU50CK000513	N240027	53,835
NU50CK000513	C240466	52,036
NU50CK000513	C240456	45,346
NU50CK000513	L240197	40,761
NU50CK000513	L240519	38,928
NU50CK000513	L240546	32,550
NU50CK000513	N240284	25,947
		$509,463

Finding No. 2024-016, continued

Cause:

FSMNG 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 2 CFR 180.300.

Effect or potential effect:

FSMNG is in noncompliance with the applicable procurement and suspension and debarment requirements, questioned costs of $509,463 result.

Identification of a Repeat Finding: 2023-018

Recommendation:

FSMNG should establish policies and procedures that monitor the suspension and debarment status of vendors prior to entering into a covered transaction that is designed based on any of the suggested methods in 2 CFR 180.300.

Views of Responsible Officials:

Management agrees with the finding as it relates to the absence of an established written policy and procedure for verifying the suspension and debarment status of persons or contractors prior to entering into a covered transaction, but disagrees with the questioned costs. Management's position is that this constitutes an internal control deficiency and does not warrant questioned costs.

With respect to the questioned costs of $509,463, management notes that the entire population from which the questioned costs derive comprises allowable transactions, and verification against the SAM.gov exclusions list confirmed that no vendor or contractor in the population was suspended, debarred, or otherwise excluded. The purpose of the verification requirement in 2 CFR 180.300 — to ensure that covered transactions are not entered into with excluded or disqualified parties — was therefore met in substance: no federal funds went to any excluded party. The costs did not result from a violation of the terms and conditions of the Federal award in substance, are fully supported by adequate documentation, and are not unreasonable. Under the definition of questioned costs in 2 CFR 200.1, including paragraph (3)(i), there should not be a questioned cost for this type of finding, and management accordingly requests that the finding be reported as an internal control deficiency with questioned costs of $0.

Finding No. 2024-016, continued

Views of Responsible Officials, continued:

As corrective action, the compliance team and all departments have now been guided on and made aware of this requirement, and suspension and debarment verification checks are being performed on an ongoing basis as part of the standard checklist of checks prior to entering into covered transactions. In line with the auditors' recommendation, this practice will be formalized into established policies and procedures for monitoring the suspension and debarment status of vendors, designed on the verification methods provided in 2 CFR 180.300.

Summary Schedule — Remarks (2024-016):

Repeat 2023-018. Finding agreed as an internal control deficiency — absence of a written S&D verification policy; questioned costs disagreed: the full population comprises allowable transactions and no vendor was on the SAM.gov exclusions list, so the substantive purpose of 2 CFR 180.300 was met — per 2 CFR 200.1, including paragraph (3)(i), questioned costs of $0 are warranted. Compliance team and all departments guided and aware; S&D checks performed on an ongoing basis as part of the standard checklist, to be formalized into policies and procedures per the recommendation.

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, 2024

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2024-001 (Repeat 2023-001)	**Timely and Accurate Reconciliations** • Complete the legacy reconciliation exercise, progressively reconciling all general ledger accounts to their subsidiary ledgers and resolving historical discrepancies through a phased approach. • Perform and document the closing walkthrough of the FY2024 ending balances jointly with the auditors before commencement of the FY2025 audit, so that a clean rollover into the FY2025 opening balances is achieved and opening balance misalignments are not repeated. • Maintain the manual carry-forward subsidiary ledger schedules each period, updated in accordance with the Treasury Division guidance issued to staff on the proper recording of transactions. • Complete the FY2025 audit and upload the audited FY2025 trial balance into the new integrated FMIS (FreeBalance) to establish correct opening balances for FY2026. • Perform and document monthly reconciliations of general ledger control accounts to their subsidiary ledgers, and daily bank reconciliations through the FMIS bank reconciliation module, each evidenced by preparer and reviewer sign-off. • Finalize, approve and circulate the outstanding reconciliation policies and procedures with the support of the Internal Audit Advisor, and conduct staff training to ensure awareness of and compliance with the reconciliation requirements.	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
2024-002	**General Ledger, Subsidiary Ledger and Financial Statement Close Process** • Maintain complete subsidiary ledgers for all key balance sheet accounts — including the grants assistance fund due to FSM State Governments, investments, prepaid expenses, accounts payable, other liabilities and accruals — and reconcile each to the general ledger at each period close. • Establish and issue written financial statement close procedures requiring the periodic review, reconciliation and supervisory approval of subsidiary ledgers as a standing part of the close process. • Perform the year-end reconciliation of the grants assistance fund accounts to determine the grant funds returnable from the FSM State Governments, the amounts payable to the Trust Fund or to the states, and the corresponding receivable from DOI/OIA, with documented review and approval. • Review the classification of revenue postings in the grants assistance fund at each close to ensure miscellaneous revenue and other accounts are correctly stated. • Configure and use the vendor-level subsidiary ledgers system-generated in the new FMIS (FreeBalance), with transactions linked end-to-end from purchase requisition and purchase order through to cheque printing, from the FY2026 fiscal period.	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm
2024-003 (Repeat 2023-003)	**Unearned Revenue — Grants Assistance Fund** • Maintain the unearned (deferred) revenue subsidiary schedule for the Grants Assistance Fund throughout the fiscal year so that it is complete and readily available before the audit commences, rather than being compiled during the audit. • Apply the staff guidance issued on the correct journal voucher sequence — from receipt of the advance grant, through utilization and the recognition of expenditures and revenues, to the corresponding reduction of the deferred revenue ledger — and raise the journal vouchers on an ongoing basis. • Perform and document quarterly reconciliation of the unearned revenue schedule to the general ledger, with a final year-end reconciliation supported by expenditure reports confirming	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	the portion of the advance grant realized. • Adopt and consistently apply the recording template agreed with the auditors so that the schedule format remains stable from period to period. • Assign preparer and reviewer responsibility for the schedule, with sign-off evidencing supervisory review at each quarter.		
2024-004 (Repeat 2023-005)	**Travel Advances** • Prepare and maintain an aged listing of travel advances identifying each individual traveler, purpose and date of advance — rather than journal entry identifying numbers — updated and reviewed monthly. • Implement the directive issued to the Travel Section covering each element of the recommendation: strengthening internal controls over the administration of travel policies, maintaining the aged listing, and seeking reimbursement from travelers who do not adhere to the travel policy. • Offset long-outstanding travel advances against the traveler's payroll where proof of travel has not been submitted within the prescribed time frame, as allowed under Section 5.6.11 of the Financial Management Regulations. • Complete a review of the historical travel advance receivable balances and obtain the required approval to write off long-outstanding and uncollectible balances, so that a clean record is carried forward from FY2026 onwards. • Maintain the system-generated travel advance subsidiary ledger and aging schedule in the new FMIS (FreeBalance), enabling advances to be tracked by traveler, monitored against expense report submission, and aged appropriately.	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm
2024-005	**External Investment Pool (Trust Fund for the People of the FSM)** • Establish and issue formal written monitoring and reconciliation procedures over investment allocations in the external investment pool, assigning responsibility, frequency and review requirements. • Reconcile the FSM National Government's recorded investment balances to the Trust Fund	9/30/2027	Ms. Julyn Lawrence Email: julyn.lawrence@gov.fm Ms. Senny Phillip Assistant Secretary, Investment Email:

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	Administrator's reports on at least a quarterly basis, with documented preparer and reviewer sign-off, so that balances are accurately recorded on an ongoing basis rather than at year-end only. • Establish a regular communication schedule with the Trust Fund Administrator to review and verify the method of allocating investments among pool participants and to resolve differences in reporting methods promptly as they arise. • Conclude the management-level discussion with the Trust Fund Administrator on the treatment and ownership of returned Compact funds currently recorded as part of the U.S. share of the pool and document the agreed position on interest sharing and ownership sharing. • Post any adjustments arising from the reconciliations and the agreed treatment to the ledgers in the period identified.		senny.phillip@gov.fm
2024-006	**Capital Assets** • Rebuild the Fixed Asset Register (FAR) with proper recording aligned to the Financial Management Regulations and reconcile the rebuilt register to the general ledger capital asset balances and to the prior year audited balances. • Complete the rebuild well ahead of the FY2025 audit so that a clean and accurate register is migrated into the fixed asset register module of the new FMIS (FreeBalance) and the system based FAR carries correct balances from the outset. • Conduct physical checks and counts of assets following the rebuild, so that adjustments — including deletions and other corrections — are identified and recorded for FY2025 and the correct schedule is carried forward. • Reconcile the FAR to the general ledger at least quarterly, ensuring additions, disposals, transfers and depreciation are recorded on a timely basis, with documented supervisory review. • Continue to provide advice, guidance and training to the Supply Team on the recording, tracking and reconciliation of capital assets.	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm Mr. Lester Sackryas Supply Manager Email: lester.sackryas@dofa.gov.fm
2024-007	**Preparation of Trial Balance** • Perform the walkthrough of the FY2024	9/30/2027	[To be assigned]

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	ending balances agreed with the auditors upon closing — a process not performed at the FY2023 closing — so that opening balance misalignments do not arise before the commencement of the FY2025 audit. • Institute a documented supervisory review of the trial balance before submission, using a review checklist covering unusual and abnormal account balances, accounting errors, inconsistencies, and the agreement of system-generated interfund due to and due from other funds accounts. • Reconcile the system-generated accounts, including the interfund accounts, at each period closing and align all accounts to their subsidiary ledgers before the trial balance is released. • Apply version control over the trial balance so that a single reviewed and approved version is submitted for audit, with any subsequent revision formally logged and explained. • Continue ongoing guidance and training for finance staff on GAAP and the applicable GASB standards, supported by the Internal Audit Advisor, to enhance staff competency and compliance with financial reporting requirements.		
2024-008	**Determining Fund Types for Reporting Pass-through Grants** • Complete the work of the taskforce established by Executive Order to determine the appropriate legal basis — whether through a bill or an existing provision of law — allowing the FSM National Government to record the FSM State Governments' shares of Compact drawdown wires in the National Government's books. • Continue the discussions with the U.S. Department of the Interior on the proposed treatment of booking all Compact funds, including pass-through amounts, in the National Government's books as revenues and expenditures. • Upon settlement of the legal framework, issue a written accounting policy on the determination of fund types and the reporting of pass-through grants, consistent with GASB Codification Section N50.128, and apply the treatment consistently from the effective	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	period. • Record pass-through amounts in the correct fund type and category at the time of transaction, so that audit adjusting journal entries are not required at year-end. • Provide training to accounting personnel on the agreed treatment and on the requirements of GASB Codification Section N50.128.		
2024-009	**Amounts Passed Through to Subrecipients** • Align the journal voucher sequences to the new treatment so that amounts provided to the FSM State Governments as subrecipients are recorded as expenditures in the period the disbursements are made, in accordance with the Uniform Guidance requirement. • Incorporate this requirement into the written staff guidance on journal voucher sequences referred to in the responses to Findings 2024-001, 2024-003 and 2024-008, and train Treasury and Foreign Grants Management staff on its consistent application. • Reconcile the amounts reported as passed through to subrecipients in the Schedule of Expenditures of Federal Awards to the accounting records at each reporting period, with documented review. • Configure the new FMIS (FreeBalance) to capture subrecipient disbursements distinctly so that pass-through amounts are system-identifiable for financial and federal reporting purposes.	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm
2024-010	**Cash Management — AL 15.875 (U.S. Department of the Interior)** • Develop, approve and issue a dedicated written cash management procedure specifically addressing the time elapsing between the receipt of infrastructure project funds and their disbursement, setting out the disbursement process and target timeframes consistent with Article IV, Section 5(b)(ii) of the Fiscal Procedures Agreement. • Maintain documentation of the date of receipt and the date of disbursement for each drawdown, so that compliance with the procedure and the minimization of elapsed time can be evidenced and monitored. • Institute periodic monitoring and reporting of elapsed time between receipt and disbursement, with exceptions escalated for	9/30/2027	Ms. Julyn Lawrence Email: julyn.lawrence@gov.fm Ms. Senny Phillip Assistant Secretary, Investment Email: senny.phillip@gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	management action. • Train Treasury staff and the authorized signatories in the wire-out approval process on the new procedure and the applicable FPA requirement. • Pursue resolution of the questioned costs of $1,643,137 through the audit resolution process with DOI/OIA. Management's position is that the condition is an internal control deficiency and that questioned costs of $0 are warranted under the definition in 2 CFR § 200.1, including paragraph (3)(i), as the FPA prescribes no day-count standard, all disbursements were made within the month of receipt through the required approval process, and the payments were eligible, fully supported and reasonable.		
2024-011 (Repeat 2023-007)	**Equipment and Real Property Management — AL 15.875 (U.S. Department of the Interior)** • Rebuild the Fixed Asset Register so that it captures the property record data elements required by Article VI, Section 1(f)(vi)(a) of the Fiscal Procedures Agreement — description, serial or other identification number, source of the property, title holder, acquisition date and cost, percentage of grant funds used in the purchase, and the location, use and condition of each asset. • Identify within the register the capital assets procured with federal funding under the program, so that assets attributable to the award can be readily determined and audit sample selection supported. • Maintain a schedule of disposals, including the date of disposal and the sale price of each asset disposed of, and produce it for audit. • Complete the rebuild well ahead of the FY2025 audit for migration into the fixed asset register module of the new FMIS (FreeBalance), with the funding source of each asset identified so the system-based register carries complete records from the outset. • Conduct physical checks and counts of assets following the rebuild, with adjustments including deletions and other corrections recorded for FY2025 and continue guidance to the Supply Team on the FPA property record requirements. • Pursue resolution of the questioned costs	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm Mr. Lester Sackryas Supply Manager Email: lester.sackryas@dofa.gov.fm

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	(undeterminable) through the audit resolution process with DOI/OIA on completion of the rebuilt register.		
2024-012 (Repeat 2023-011)	**Reporting — AL 15.875 (U.S. Department of the Interior)** • Establish a reporting calendar identifying each SF-425 due date, and issue a formal request and follow-up protocol to the FSM State Governments requiring submission of their quarterly reports sufficiently in advance of the consolidated due date. • Designate a responsible officer to compile the consolidated SF-425, reconcile it to the accounting records, and obtain documented supervisory review before submission to OIA by the applicable due date. • Where a state report remains outstanding at the due date, submit the SF-425 on the basis of the best available data by the due date and file a revised report upon receipt of the outstanding submission, documenting the communication with OIA. • Escalate persistent non-submission by a state to the Office of Compact Management and address it through the subrecipient agreement and the subrecipient monitoring framework being established under Finding 2024-013. • Maintain a file of all reports submitted together with the supporting reconciliations for grant oversight and audit purposes.	9/30/2027	Ms. Julyn Lawrence Email: julyn.lawrence@gov.fm Ms. Senny Phillip Assistant Secretary, Investment Email: senny.phillip@gov.fm
2024-013 (Repeat 2023-009)	**Subrecipient Monitoring — AL 15.875 (U.S. Department of the Interior)** • Establish and formally document the subrecipient monitoring framework, policies and procedures, aligned to the pass-through entity requirements of the Uniform Guidance and to the classification agreed with DOI, for implementation from the effective date agreed with DOI/OIA. • Update the annual subrecipient agreement transmitted to the FSM State Governments and signed by the President and the Governors as allottees, facilitated by the Office of Compact Management, to expressly incorporate the clauses required by the 2023 Amended Compact, the identification of the subaward, and acknowledgement of the requirements imposed on the sub-grantees. • Perform and document, prior to approval of	9/30/2027	Ms. Melynda Irons Acting Assistant Secretary, Treasury Email: melynda.irons@dofa.gov.fm Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm Ms. Julyn Lawrence Email: julyn.lawrence@gov.fm

<table>
<tr><th>Finding Number</th><th>Corrective Action Plan</th><th>Anticipated Completion Date</th><th>Responsible Person (Contact Details)</th></tr>
<tr><td></td><td>each subaward, verification of the sub-grantee's awareness of the requirements imposed upon it and its ability to meet the financial management standards of the Fiscal Procedures Agreement.
• Perform and document an annual risk assessment of each subrecipient, together with the resulting monitoring activities, including review of the subrecipients' audit reports and follow-up on findings affecting the program.
• Maintain records of the date of receipt and date of disbursement of funds to the FSM State Governments, evidencing that disbursements are made within the month of receipt through the required wire-out approval process.
• Pursue resolution of the questioned costs of $94,422,154 through the audit resolution process with DOI/OIA. Management's position is that the conditions are internal control deficiencies arising from the absence of formally documented policies and procedures and that questioned costs of $0 are warranted under the definition in 2 CFR § 200.1, including paragraph (3)(i), as all samples were provided, vouched and cleared, and the amounts represent Compact sector grant allocations approved through JEMCO.</td><td></td><td>Ms. Senny Phillip
Assistant Secretary, Investment Email: senny.phillip@gov.fm</td></tr>
<tr><td>2024-014 (Repeat 2023-010)</td><td>Special Tests and Provisions — Annual Performance Reviews — AL 15.875 (U.S. Department of the Interior)
• Continue and complete the annual performance evaluations, commenced in 2025, for all personnel funded under the Education Sector Grant and the Supplemental Education Grant, and maintain the completed evaluations in the personnel files, available for grant oversight and audit purposes.
• Obtain and maintain a complete listing of all SEG and Education Sector funded personnel, reconciled to payroll, as the basis for scheduling the required evaluations.
• Establish written monitoring procedures, including a schedule of evaluations due and periodic status reporting, to ensure that funded personnel are evaluated on an annual basis.
• Assign a dedicated employee to monitor compliance with the requirement and perform the required procedures, in line with the auditors' recommendation.</td><td>9/30/2027</td><td>FSM Department of Education
[Contact details to be provided]</td></tr>
</table>

<table>
<tr><th>Finding Number</th><th>Corrective Action Plan</th><th>Anticipated Completion Date</th><th>Responsible Person (Contact Details)</th></tr>
<tr><td></td><td>Include the requirement in the compliance team’s periodic compliance checks and in the orientation of program and departmental staff.</td><td></td><td></td></tr>
<tr><td>2024-015 (Repeat 2023-017)</td><td>Equipment and Real Property Management — AL 93.323 (U.S. Department of Health and Human Services)
Rebuild the Fixed Asset Register so that it captures the property record data elements required by 2 CFR § 200.313(d)(1) — description, serial or other identification number, source of funding including the Federal award identification number, title holder, acquisition date and cost, percentage of Federal contribution, and the location, use and condition of each asset, together with any disposition data.
Complete the rebuild well ahead of the FY2025 audit for migration into the fixed asset register module of the new FMIS (FreeBalance), with the funding source of each asset identified.
Conduct physical checks and counts of assets following the rebuild, including locating and confirming the status and condition of the assets identified in this finding, so that adjustments — including deletions and other corrections — are recorded for FY2025 and appropriate action is taken on assets found to be missing, broken, or requiring repair or disposition.
Establish, issue and enforce a written policy with comprehensive procedures covering effective safeguards against loss, damage or theft of property, together with maintenance protocols to keep property in good condition, in line with 2 CFR §§ 200.313(d)(3) and (d)(4).
Continue advice, guidance and training to the Supply Team on the recording, tracking, reconciliation, safeguarding and maintenance of capital assets.
Pursue resolution of the questioned costs of $19,824 through the audit resolution process with the grantor agency upon completion of the physical verification.</td><td>9/30/2027</td><td>Ms. Melynda Irons
Acting Assistant Secretary, Treasury
Email: melynda.irons@dofa.gov.fm

Mr. Peni Tikoisireli
Financial Advisor
Email: peni.tikoisireli@dofa.gov.fm

Mr. Lester Sackryas
Supply Manager
Email: lester.sackryas@dofa.gov.fm</td></tr>
<tr><td>2024-016 (Repeat 2023-018)</td><td>Procurement, Suspension and Debarment — AL 93.323 (U.S. Department of Health and Human Services)
Formalize into established written policies and procedures the monitoring of the suspension and debarment status of vendors and</td><td>9/30/2027</td><td>Ms. Melynda Irons
Acting Assistant Secretary, Treasury
Email: melynda.irons@dofa.gov.fm</td></tr>
</table>

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact Details)
	contractors, designed on the verification methods provided in 2 CFR § 180.300 — checking SAM.gov, collecting a certification, or including a clause in the covered transaction. • Continue performing suspension and debarment verification checks prior to entering into covered transactions as part of the standard procurement checklist, and retain documentary evidence of each check in the procurement file. • Continue to guide and make aware the compliance team and all departments of the requirement, and include it in procurement staff training. • Perform periodic compliance testing of the checklist and the retained evidence, with exceptions reported to management for corrective action. • Pursue resolution of the questioned costs of $509,463 through the audit resolution process with the grantor agency. Management's position is that the condition is an internal control deficiency and that questioned costs of $0 are warranted under the definition in 2 CFR § 200.1, including paragraph (3)(i), as the entire population comprises allowable transactions and verification against the SAM.gov exclusions list confirmed that no vendor or contractor was suspended, debarred or otherwise excluded.	9/30/2027	Mr. Peni Tikoisireli Financial Advisor Email: peni.tikoisireli@dofa.gov.fm Mr. Happyman Makamure Email: happyman.makamure@dofa.gov.fm

Note: Responsible persons and contact details to be assigned by the Secretary of Finance and Administration. Draft for management review.

GOVERNMENT OF THE
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Secretary of Finance
&
Administration

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR § 200.511 (b)
Year Ended September 30, 2024

Finding Number	ALN Number	Requirement	Questioned Cost	Questioned Cost Resolved	Status	Remarks
2023-001 (Repeat 2022-001 and 2021-001)	N/A	Timely and Accurate Reconciliations	0	0	Partially Corrected	A new FMIS (FreeBalance) went live on 4 February 2026 with an integrated online bank reconciliation module; bank reconciliations are now performed daily and all transactions are posted on a timely basis within a fully integrated system. Remains partially corrected pending a full cycle of documented monthly GL to subsidiary ledger reconciliations, phased resolution of historical discrepancies, and periodic confirmation of due to/from balances with the four FSM State Governments.
2023-002	N/A	Non-cash Transactions – Construction-in-Progress	0	0	Fully Corrected	Resolved. In FY2024 all direct payments made by development partners to vendors were identified and recorded in the National Government ledgers on a timely basis, with none omitted. Foreign Grants Management staff and implementing departments have been formally instructed to promptly notify DOFA of any direct payments by grantors to vendors.
2023-003 (Repeat 2022-004)	N/A	Unearned Revenue – Grants Assistance Fund	0	0	Fully Corrected	Corrected during the FY2023 audit. Final unearned revenue schedules were prepared and fully aligned to the general ledger, and the FY2023 audit opinion was unmodified in this respect. A comprehensive workflow has been disseminated across the Budget, Treasury and Investment divisions and a dedicated deferred revenue schedule is maintained.
2023-004 (Repeat 2022-008)	N/A	Determining Fund Types for Reporting Pass-through Grants	0	0	Fully Corrected	The reclassification entry proposed by EY was processed and recorded in the FY2023 financial statements; pass-through amounts are now reported as revenues and

						expenditures of the primary government per GASB Codification N50.128, carried forward into FY2024. FSMNG has formally confirmed to DOI-OIA that subrecipient monitoring will be implemented effective 1 October 2027.
2023-005 (Repeat 2022-007)	N/A	Travel Advances	0	0	Ongoing	A travel advance aging listing was prepared and provided to the auditors during the FY2024 audit. Continued monitoring of the aging listing is required, with particular focus on timely liquidations. Reform of the travel regulations is being pursued to impose stricter sanctions for late submission of liquidation vouchers.
2023-006	15.875	Allowable Costs/Cost Principles	64,062	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the questioned costs can be resolved through the audit resolution process.
2023-007 (Repeat 2022-012)	15.875	Equipment and Real Property Management	Unable to determine	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the finding can be resolved through the audit resolution process.
2023-008 (Repeat 2022-010)	15.875	Procurement and Suspension and Debarment	6,767,555	0	Ongoing	Based on current progress with DOI on establishing the subrecipient monitoring framework, FSMNG expects to clear the questioned costs, as the full amount questioned relates to funds passed through to the State Governments. Suspension and debarment verification through SAM.gov is now standard practice, performed by FSMNG compliance officers since 2025. A review of all FY2024 vendors found none on the exclusion listings.
2023-009 (Repeat 2022-014)	15.875	Subrecipient Monitoring	72,071,497	0	Ongoing	Agreement has been reached with DOI on the new treatment and position, formalized through FSMNG's letter to DOI, with full implementation of the subrecipient monitoring framework agreed to take effect from 1 October 2027, a timeline proposed by DOI. The questioned costs represent formula-driven amounts passed through to the States rather than unallowable expenditures, and are expected to be resolved through the audit resolution process with DOI.

2023-010	15.875	Special Tests and Provisions – Annual Performance Reviews	0	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the files for the affected programs will be retrieved so the finding can be resolved through the audit resolution process.
2023-011 (Repeat 2022-011)	15.875	Reporting	0	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the files for the affected programs will be retrieved so the finding can be resolved through the audit resolution process.
2023-012	93.959	Allowable Costs/Cost Principles	56,808	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the questioned costs can be resolved through the audit resolution process.
2023-013	93.959	Cash Management	56,464	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the questioned costs can be resolved through the audit resolution process.
2023-014	93.959	Period of Performance	147,206	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the questioned costs can be resolved through the audit resolution process.
2023-015 (Repeat 2022-013)	93.959	Reporting	0	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the files for the affected programs will be retrieved so the finding can be resolved through the audit resolution process.

2023-016	93.959	Subrecipient Monitoring	639,897	0	Ongoing	The questioned costs represent amounts passed through to the State Governments rather than unallowable expenditures. Consistent with the subrecipient monitoring framework agreed with DOI to take effect from 1 October 2027, subrecipient monitoring procedures will cover all federal pass-through programs. The questioned costs are expected to be resolved through the audit resolution process with the grantor agency.
2023-017	93.323	Equipment and Real Property Management	Unable to determine	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the finding can be resolved through the audit resolution process.
2023-018	93.323	Procurement and Suspension and Debarment	394,309	0	Ongoing	Suspension and debarment verification through SAM.gov is now standard practice, performed by FSMNG compliance officers since 2025. A review of all FY2024 vendors found none on the exclusion listings. The questioned costs relate to payments to vendors, none of whom were on the exclusion listings, and are expected to be resolved through the audit resolution process.
2023-019	93.323	Reporting	0	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the files for the affected programs will be retrieved so the finding can be resolved through the audit resolution process.
2023-020	93.323	Cash Management	236,426	0	Ongoing	FSMNG is still working with the grantor agencies to close off this finding. Delays in pulling the supporting files have been the main driver, as the team has been fully utilized with the FY2024 Single Audit. Once the FY2024 audit is completed, the next priority is to retrieve the files for the affected programs so the questioned costs can be resolved through the audit resolution process.