



# FEDERATED STATES OF MICRONESIA

## Office of The National Public Auditor

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April 24, 2026

His Excellency President Wesley W. Simina  
Honorable Members of the 24th Congress  
Federated States of Micronesia

Dear Mr. President and Members of Congress:

We have audited the Schedule of Receipts and Disbursements of the Adaptation Fund (AF), enhancing the Climate Change Resilience of Vulnerable Island Communities in the Federated States of Micronesia (FSM) for the year ended December 31, 2024, and the related Notes. The Project is funded by the Secretariat of the Pacific Regional Environment Program (SPREP), administered by the Department of Finance and Administration (DoFA), and implemented by the Department of Environment, Climate Change and Emergency Management (DECEM).

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits set forth in the *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report thereon dated April 24, 2026.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which the Project's management is responsible.

### **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, AND THE GRANT AGREEMENT**

Our responsibilities under (1) generally accepted auditing standards, (2) the standards applicable to financial audits, contained in *Government Auditing Standards* issued by the Comptroller General of the United States (“generally accepted government auditing standards”)(generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the “Auditing Standards”), and (3) the financial covenants and other requirements of the grant agreement (the Grant Agreement) are described in our engagement letter dated November 12, 2025. As described in that letter, the objectives of the audit conducted in accordance with the Auditing Standards and the Grant Agreement are:

- To express an opinion on the fairness of the Project’s Schedule of Receipts and Disbursements for the year ended December 31, 2024, in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects; and

- To report on the Project’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters for the year ended December 31, 2024, based on an audit of the Schedule of Receipts and Disbursements conducted in accordance with generally accepted government auditing standards.

Our responsibilities under the Auditing Standards and the Grant Agreement include forming and expressing an opinion on whether the Schedule of Receipts and Disbursements, prepared under the oversight of management and the Office of the President, is presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the Schedule of Receipts and Disbursements does not relieve the Office of the President of its management responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Receipts and Disbursements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Schedule of Receipts and Disbursements, whether due to fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Project’s preparation and fair presentation of the Schedule of Receipts and Disbursements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Project’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project’s internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies that might be significant deficiencies or material weaknesses.

We also considered the Project’s internal control over compliance with requirements that could have a direct and material impact on the Project to determine our auditing procedures for expressing our opinion on compliance, testing, and reporting on internal control over compliance in accordance with the Grant Agreement. Our report, however, does not provide a legal determination of the Project’s compliance with those requirements.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Project’s significant accounting policies are set forth in the Summary of Significant Accounting Policies and Notes to the Project’s Schedule of Receipts and Disbursements for the year ended December 31, 2024.

## **ACCOUNTING ESTIMATES**

Accounting estimates are an integral part of the Schedule of Receipts and Disbursements prepared by management and are based on management’s current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended December 31, 2024, we were not aware of any significant changes in accounting estimates or in management’s judgments relating to such estimates.

## **AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS**

Our audit of the Schedule of Receipts and Disbursements was designed to obtain reasonable, rather than absolute, assurance about whether the Schedule of Receipts and Disbursements is free of material misstatements, whether caused by error or fraud.

During our audit, we identified a variance of \$313,359.82 between the opening balance in the General Ledger and the Schedule of Receipts and Disbursements. Management was unable to reconcile this variance, and no adjustment was made. As this misstatement is material, it resulted in a modified opinion on the Schedule of Receipts and Disbursements.

**DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to the Project’s Schedule of Receipts and Disbursements for the year ended December 31, 2024.

**OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS**

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the year ended December 31, 2024.

**SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

**OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT**

Throughout the year, routine discussions were held or were the subject of correspondence with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Office of the President.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

In our judgment, we received full cooperation from the Project management and staff and had unrestricted access to relevant information and personnel during the audit.

**MANAGEMENT’S REPRESENTATIONS**

We have made specific inquiries to the Project’s management regarding the representations set forth in the Schedule of Receipts and Disbursements. In addition, we have requested that management provide us with the written representations that the Project is required to provide to its independent auditors under generally accepted auditing standards. We have

attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated April 24, 2026, regarding the Project's internal control over financial reporting, its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters, based on the audit conducted in accordance with *Government Auditing Standards*.

In that report, we did not identify any matters we considered significant deficiencies under the standards established by the American Institute of Certified Public Accountants.

However, we identified the following control-related matters:

- The lack of a formal reconciliation process between the General Ledger and the Schedule of Receipts and Disbursements, resulting in an unreconciled opening balance; and
- Instances of incomplete or insufficient supporting documentation for project expenditures.

These matters have been communicated to management in a separate management letter. Other than the matters noted above, no additional issues were identified during our audit that required separate communication to management.

This report is intended solely for the information and use of the Project management, the Office of the President, Members of the 24<sup>th</sup> Congress, SPREP, DECEM, and others within the organization. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Sincerely,



Haser H. Hainrick  
National Public Auditor

cc: Acting Secretary, Department of Environment, Climate Change and Emergency Management



**DEPARTMENT OF ENVIRONMENT,  
CLIMATE CHANGE AND EMERGENCY MANAGEMENT**  
PO BOX PS-69  
Palikir, Pohnpei 96941 Phone: (691) 320-8815 Fax: (691) 320-8936

**WRITTEN REPRESENTATIONS**

April 24, 2026

Mr. Haser Hainrick  
Office of the National Public Auditor  
Palikir  
Pohnpei FSM 96941



Dear National Public Auditor:

This Representation Letter is provided in connection with your audit of the financial statements of the FSM Department of Environment, Climate Change, and Emergency Management (FSMDECEM) for the Adaptation Fund (AF) Enhancing the Climate.

Change Resilience of Vulnerable Island Communities in Federated States of Micronesia (the Project), which comprise the Schedule of Receipts and Disbursements for the year ended December 31, 2024, and the related notes to the financial statement, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm that we are responsible for the following:

- I. The fair presentation in the Schedule of Cash Receipts and Disbursements of the Project on a cash basis.
  2. The design and implementation of programs and controls to prevent and detect fraud.
  3. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a

substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

We confirm that, to the best of our knowledge and belief, the following representations were made to you during your audit.

1. The Schedule referred to above is fairly presented in conformity with the basis of accounting described in Note 2.
2. The Project has provided you with all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Project has made available to you all:
  - a) Financial records and related data
  - b) There have been no minutes of meetings of the Adaptation Fund (AF), Enhancing the Climate Change Resilience of Vulnerable Island Communities in FSM, or summaries of actions of recent meetings relating to the Project, or applicable resolutions supporting transactions underlying cash receipts and disbursements in the schedule.
4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. The Project has not performed a risk assessment, including the assessment of the risk that the financial statement may be materially misstated as a result of fraud. However, management has made available to you its understanding of the Project's fraud risks and does not believe the financial statement is materially misstated due to fraud.
6. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a) Management.
  - b) Employees who have significant roles in internal control; or
  - c) Others, when the fraud could have a material effect on the financial statement.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Project received in communications from employees, former employees, or others.
8. There are no:
  - a) Related-party transactions and related amounts receivable or payable, including sales, purchases, loan transfers, leasing arrangements, and guarantees.
  - b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements.
9. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the Schedule of Cash Receipts and Disbursements.
10. We acknowledge that we did not create a separate Project Account in United States Dollars to maintain the grant proceeds received for the Project. Except for this, the

Project has complied with all aspects of the contractual agreements that may affect the Schedule of Cash Receipts and Disbursements in the event of noncompliance.

11. There are no material transactions that have not been properly recorded in the accounting records underlying the Schedule of Cash Receipts and Disbursements.
12. We are not aware of any pending or threatened litigation, claims, or assessments whose effects should be considered when preparing the financial statement, and we have not consulted legal counsel concerning litigation, claims, or assessments.
13. No events have occurred after December 31, 2024, to the date the financial statement was available to be issued that require consideration as adjustments to, or disclosures in, the financial statement.



Micheal Yarofaitoar

Acting Secretary — Department of Environment, Climate Change and Emergency Management

Date: April 24<sup>th</sup> 2026